



Fiscal Year 2010-2011 Annual Report

As required by General Statute 1588.5

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To: Fiscal Research Division, NC General Assembly
kristinw@ncleg.net
NC Department of Commerce
monique.johnson@nccommerce.com
rharris@nccommerce.com
Office of State Budget and Management
Jennifer.wimmer@osbm.nc.gov
Jennifer.hoffmann@osbm.nc.gov
Joint Legislative Commission on Governmental Operations
govops@ncleg.net
Joint Legislative Economic Development Oversight Committee
wilkinsla@ncleg.net

From: North Carolina's Eastern Region
3802 Highway 58 North
Kinston, NC 28504
252-522-2400

FY 2010-2011 ANNUAL REPORT

According to the *Economic Development Directory*, there are more than 2,000 economic development agencies in the United States. This statistic alone defends the conclusion that North Carolina's Eastern Region must take **bold** steps to distinguish itself as a premiere economic development organization for the 13-county region encompassing Carteret, Craven, Duplin, Edgecombe, Greene, Jones, Lenoir, Nash, Onslow, Pamlico, Pitt, Wayne and Wilson counties. Just as the thirteen counties are distinct and diversified, NCER has taken a diversified and multi-pronged approach to accomplish this goal.

First, the Region aggressively targets existing and emerging industry clusters. Building on an industry cluster analysis completed in 2005, NCER has reached out to business leaders to develop active support for marketing and recruitment among Advanced Manufacturing, Defense/Aerospace, Life Sciences, Logistics, Marine Trades, Tourism and Retiree Attraction, and Value-Added Agriculture.

In the next few pages, you will read examples of how NCER is building industry relationships, creating workforce infrastructure, and developing a regional consensus that will establish a platform for growth into the new decade.

No longer willing to accept the "status quo," the economic developers, business and industry professionals, and education and workforce proponents have agreed to step up to the plate to lead, follow, and support the ever-expanding outreach of North Carolina's Eastern Region.

NCER MARKETING TO THE WORLD

The World Wide Web, providing immediate access to global markets, offers new opportunities to business and industry, as well as the occasional online shopper. Cottage industries that formerly relied solely on local and word-of-mouth trade, can now reach vendors, suppliers, and buyers out their backdoor and across the globe.

NCER has made a concerted effort to be the source-of-choice for information on these expanding and often untapped markets. To do so, the Region has positioned itself as a ready partner to local, regional, state, and federal agencies.

Whether it is helping to man the North Carolina booth at an international trade show, meeting with celebrity-worthy site consultants, or engaging decision-makers at target industry conferences, NCER strives to make the most of every opportunity to market the Eastern Region and North Carolina.

• MARKETING IN THE 21ST CENTURY

While working with an award winning agency to produce eye-catching and informative marketing materials and an innovative and interactive website is an

essential marketing strategy, it is not nearly enough for today's economic development organization.

By partnering with the US and Foreign Commercial Service International Trade Administration of the US Department of Commerce, the Eastern Region has become a link for companies in the 13-county region to business and industry throughout the world. The Region provides office space, administrative support services, and industry contacts to assist USDC personnel in providing a central presence in the region for export-ready firms.

Participation in the annual SEUS/Japan Conference takes advantage of established relationships with key Asian business leaders, consultants, and diplomats. In FY 2010/2011, the conference was held in Nashville, TN.

Export University 101, US Small Business Administration, Raleigh, NC provides local companies with the information they need to compete in the world marketplace.

- **DEFENSE AND AEROSPACE**

- Feet on the ground at the Farnborough International Air Show provided face-to-face meetings with aerospace and defense industry leaders. Providing team support to the North Carolina Department of Commerce Pavilion, NCER staff partnered with the North Carolina Global TransPark Authority to highlight the ever-growing presence of defense and aerospace industry in the Eastern Region.
- NCER provided financial support for a local developer to attend the National Business Aviation Association Conference, Atlanta, GA
- NCER partnered with the Piedmont Triad Regional Partnership to attend the Speed New Regional and Business Aviation Suppliers Conference in Phoenix, AZ to market our regional assets.
- Aviation Week A&D Programs and Supply Chain Conference, Phoenix, AZ provided an opportunity to market the region's assets to Tier 1 to Tier 5 suppliers.
- Aviation Week Defense Technology and Requirements Conference, Washington, DC was an opportunity to learn about upcoming requirements and network with senior executives and military defense leaders.
- Speed News Commercial Aviation Industry Supplier Conference, Beverly Hills, CA provided an opportunity to market the region's assets to supply chain executives.
- NC Aerospace Executive Forum, Monroe, NC facilitated partnering and coordination of marketing opportunities.

- Paris Air Show, Le Bourget, France allowed face-to-face meetings with leaders in commercial, defense, and supply chain sectors.
- **LIFE SCIENCES**
 - Held simultaneously with the Speed News Aero Conference, connections with Europe's "Bio Valley" companies that was furthered through NCER participation in the 2010 EuroBiotech Conference in Krakow, Poland.
 - NCER piggy-backed onto the EuroBiotech conference to convene meetings with its Global Innovation Network (GIN) partners, including representatives of the Jagiellonian University Center of Innovation in Poland and the Bioaratech Region in Spain.
 - Marketing and business recruitment opportunities in Life Sciences sector included:
 - BioProcess International, Providence, RI
 - World Trade Group Bio-Manufacturing Summit, San Diego, CA
 - NC Bio Center European Mission, Italy, Germany, Switzerland, Sweden
 - World Trade Group Global Pharma Manufacturing Summit, Meadowlands, NJ
 - BIO International Conference, Washington, DC
- **ADVANCED MANUFACTURING AND LOGISTICS**
 - NCSU Engineering Extension Service "Manufacturing Makes it Real", New Bern, NC
 - International Asset Management Council, Hot Springs, VA allowed for face-to-face meetings with senior corporate asset managers and expansion executives.
 - American Manufacturing Strategies Summit, Chicago, IL provided face-to-face opportunities with manufacturing prospects.
- **TOURISM**
 - NC Coast Host Member and Participant
 - NCER Tourism Mini-Summit, Wallace, NC
- **VALUE-ADDED AGRICULTURE**
 - AgBiotech Opportunities for Farmers and Growers, Plymouth, NC

- **CONSULTANT EVENTS**

- Though the Internet has taken the place of traditional site consultant “first-look” inquiries, the importance of close relationships with site selection consultants cannot be discounted. To help establish those contacts and strengthen connections, NCER participated in several Consultant Events in FY 10/11:
 - International Consuls Event in Atlanta, GA
 - Site Consultant Luncheon in New York, NY
 - FONC Site Consultants Experience in Pinehurst, NC
 - CoreNet Global, Phoenix, AZ
 - Business Facilities LiveXchange, New Orleans, LA
 - CoreNet Global, Chicago, IL

NCER BUILDING ALLIANCES

In addition to optimizing NCER’s presence at select marketing venues, the region has taken a pro-active role in promoting specific industry clusters by partnering with various organizations to build alliances that prepare the region for the ever-evolving workforce needs.

LIFE SCIENCE

With a grant commitment from the NC Biotechnology Center, NCER coordinated the development of a Marine Biotechnology Center of Innovation business plan. In FY 2010/2011, NCER was granted additional funds to “stand-up” the MBCOI. An Executive Director will be hired within the next thirty days. Working with the MBCOI Board of Directors, the Executive Director will establish an office for the MBCOI, solicit commitments for support funding, and develop a plan of action for the organization.

BioEast Alliance is a five-county sub-region consisting of Edgecombe, Nash, Pitt, Wayne and Wilson counties. Home to approximately 20 life science companies with 5,000+ employees, the Alliance partnered with NCBC’s Eastern Office to develop and implement a strategic plan and conduct a labor market survey. The study, which concluded that the region could provide a qualified workforce for life science projects, has provided valuable support for project inquiries.

WORKFORCE INNOVATION NETWORK (WIN)

In its third year of funding for the Eastern Region Workforce Innovation Network (WIN), NCER has awarded \$700,000 to Community Colleges and Workforce Development Boards in the region to accelerate and broaden the use of WorkKeys and Career Readiness Certificates. Focusing on target industries of Defense/Aerospace, Advanced Manufacturing, Life Sciences, Marine Trades and Construction, the region has seen a 45% increase in CRC’s awarded and a 40% increase in jobs profiled. Many counties in

the region now lead the state in people attaining a CRC.

NCER continues to focus on STEM (Science, Technology, Engineering and Math) education and in FY 2010/2011, it secured \$350,000 in funding from the Golden LEAF Foundation and \$82,000 in local funding to support the work of local teams to create hands-on stationary labs to stimulate interest in STEM careers. Four labs have been created in Craven, Jones, Lenoir, and Wayne counties.

INCEPTION MICRO ANGEL FUND (IMAF-EAST)

Begun in Fiscal Year 2008-2009, NCER earmarked funding to support a seed capital early stage venture fund to encourage entrepreneurial development. Keyed to the level of private investor contributions, NCER has provided \$277,500 to IMAF-East, which is combined with \$570,000 received from individual investors.

The IMAF-East review board selected nine of the 124 business proposals it received in 2009 for investor review. Of those nine, four were recommended for investor vote. In 2010, 112 new business proposals were presented for consideration and five were recommended for initial funding.

TOURISM ADVISORY GROUP (TAG)

NCER hosted its fourth annual Tourism Mini Summit in FY 2010/2011, covering such topics as sustainable tourism, agri-tourism, the 150th anniversary of the Civil War, familiarization tours in eastern NC, and New Bern's 300th anniversary.

The Golden LEAF Foundation provided funds to assist three of the State's regional partnerships (NCER, the Northeast Commission, and the Southeast Commission) to conduct a feasibility study for a National Heritage Area designation for the 40-county area. Asset identification has been completed, public hearings held, and final submission of the project request to Congressional leaders has been concluded. A decision on Federal approval is forthcoming.

MILITARY GROWTH TASK FORCE (MGTF)

Rapid and extensive growth resulting from the US Marine Corps "Grow the Force" initiative has resulted in fundamental changes to large parts of North Carolina's Eastern Region. Because the increase in military population is a catalyst for all other growth, the Military Growth Task Force was created by NCER to focus on the impact of the increase in military service members in the region. Members of the Task Force represent Carteret, Craven, Duplin, Jones, Onslow, Pamlico and Wayne counties in the NCER region, Pender County in the Southeast Region, and USMC appointees.

Funded by county and private resources, an NCER financial commitment of \$100,000, and more than \$3.2 million in Department of Defense, Office of Economic Adjustment

funds through FY 2010/2011, a Regional Growth Management Plan (RGMP) was developed and initiated.

Among those initiatives, the MGTF has:

- Funded a publicity campaign for Operation Complete Count, ensuring military service members and their families were counted in the census
- Identified medical, health, and social services shortages, including low TRICARE reimbursement rates
- Partnered with ECU to address healthcare shortage issues
- Provided increased media exposure to increase community knowledge and input on military impact issues
- Identified traffic congestion around entrances to military bases and along major feeder roads which will result in a Transit Demand Management Study to recommend collaborative solutions
- Developed a military housing options study to accommodate the anticipated housing shortage in the region
- Funded a military growth addendum to the City of Jacksonville's Parks and Recreation master plan update, with consideration given to a significant increase in military personnel

Collaborating with the NC Department of Agriculture and Consumer Services and the Biofuels Center of North Carolina, the first phase of "Project Eastern Gain" was implemented through the efforts of the MGTF. Project Eastern Gain is an initiative to provide locally produced and manufactured biofuels for regional consumption. Five local farmers in two counties planted approximately 25 acres to test the viability of canola.

VALUE-ADDED AGRICULTURE

Partnering with the Mount Olive College Lois Britt AgriBusiness Center, NCER received a \$100,000 NC Department of Agriculture--Agricultural Development and Farmland Preservation (ADFP) Trust Fund Grant. The objective of the grant was to 1) recognize the value of Voluntary Agriculture Districts and County Agriculture Protection Plans to the future of economic development and compatible land uses and 2) to ensure the protection of the two primary economic engines in the State -- agriculture and the military.

Furthering the outreach, NCER received a \$50,000 grant from the Biofuels Center of North Carolina to assess the availability of woody biomass in the region and determine a minimum of two sites, based on biomass densities and specific infrastructure needs, to help North Carolina market these sites to prospective biofuels companies.

DEFENSE/AEROSPACE

Recognizing Defense/Aerospace as an emerging and significant business cluster in the Eastern Region, NCER established a Defense/Aerospace Advisory Committee to:

- Address workforce and education demands to satisfy the needs of existing companies and to attract new companies
- Formulate networks of collaboration among government, industry and academia to facilitate the sharing of resources and expertise
- Develop infrastructure, strategies for entrepreneurship, business incentives, and access to capital to expand the supply chain and create a climate conducive to the development of the Defense/Aerospace industry

Members of the DAAC include representatives from NCER staff and Board, Spirit Aerosystems, the Global TransPark, East Carolina University, the Military Growth Task Force, AAR Cargo Systems, Honeywell International, Eaton's Hydraulic Group, Fleet Readiness Center East, Spatial Integrated Systems, Coastal Carolina Regional Airport, local and State economic developers, Workforce Development Boards, and the Eastern Carolina Council of Governments.

With funding supplied by NCER, the DAAC established an AS9100 Grant to assist small and minority owned businesses with the cost to gain certification required on bids for many aerospace and defense contracts.

ADVERTISEMENTS

NCER continued its marketing efforts through regional, state, and nationwide advertising efforts.

Print Media:

- Business North Carolina
- Journal Communications
- Southern Living
- Speed News
- Flight Global
- ECU Fan Fantasy - Tourism Campaign
- Our State Magazine

Display Media:

- Clear Channel Airports - RDU

Web-based Marketing

- Flight Global - Partnered with the North Carolina Global TransPark Authority, Wayne County, Greene County, Nash County and Edgecombe County

PROSPECT RECRUITMENT EFFORTS

NCER staff, assisted by local economic developers, conducted prospect recruitment missions to companies in Arizona, Louisiana, Illinois, and New York. In addition, NCER marketed the region at events such as the Paris Air Show and the World Trade Group Global Pharma Manufacturing Summit.

See the attached quarterly “Dashboard” reports for further details on recruitment and financial assistance efforts.

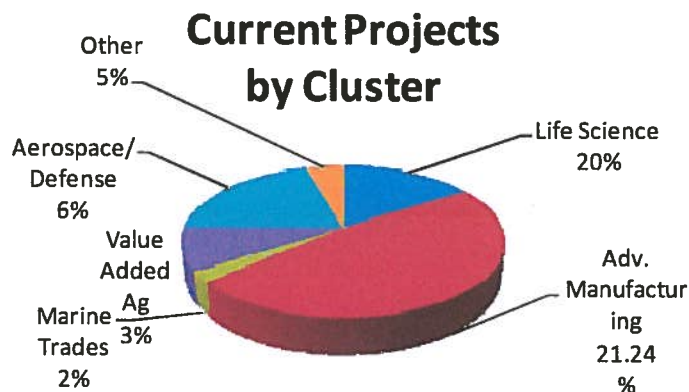


NORTH CAROLINA'S EASTERN REGION

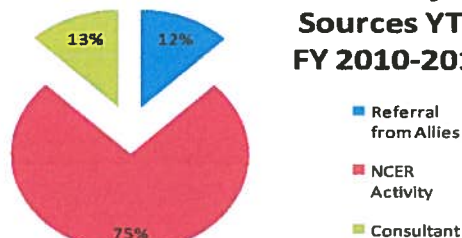
Activity Report: 3rd Quarter 2010

Projects

New Projects Qtr. July-Sept 2010	8
New Projects YTD FY 10/11	8
Current Active Projects	43

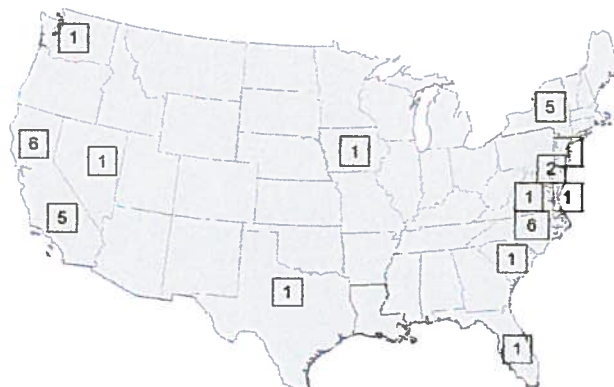


New Project Sources YTD FY 2010-2011



Current Project Source by Geography FY 2010-2011

Canada (2)
China (2)
Europe (6)
Unknown (1)



Marketing

Media Placements	5
Research Requests	5
Articles Published/Releases on Wire	1
Marketing Trips and Events	5
NCEast.org Website Visits	5,623

Prospect Missions & Events FY 10/11

Other Events & Missions:

Poland (2)
Belgium (1)
United Kingdom (1)





NORTH CAROLINA'S EASTERN REGION

Activity Report: 3rd Quarter 2010

Regional Activities

Workforce Development Meetings	5
Chambers of Commerce	3
Educational Partners (STEM, Community College University)	8
BioEast Alliance	3
Defense Aerospace Advisory Committee	1
Presentations	3
EDAG/Prospect Recruitment Teams	2
Tourism Advisory Group/ Heritage Committee Meetings	2

Grants Approved

Grant Type:	Amount:	Grantee:	Project:
Flex Cap Local	\$20,000.00	Pitt County	Village of Yesteryear
Flex Cap Local	\$20,000.00	Edgecombe County	Project Crate
Flex Cap Regional	\$30,000.00	Craven County	Hatteras / CABO Yachts
President's Discretionary	\$2,000.00	NCBC Regional Office	Initiative

IMAF East Investments to Date (CY 2010)-Total Investment to Date: \$470K (\$45K AO):

1/26/2010	Optiva Medical	\$100,000.00
2/9/2010	Cope	\$100,000.00
6/23/2010	Chesson Labs	\$90,000.000 (\$15K AO)
7/29/2010	Securus	\$50,000.00
10/14/2010	Applied Cath Tech	\$130,000.00 (\$30K AO)

Key Announcements 3rd Q. 2010

Company Name:	County:	Jobs:	Investment:
Spirit AeroSystems (ground breaking)	Lenoir	1,000	\$5.75M
Hatteras/CABO Yachts	Craven	350	\$4.7M
Methane Power/Progress Energy	Wayne	500	\$900M

Cluster Development

Value-Added Agriculture: Entered into MOU with Biofuels Center of NC for Eastern Gain Initiative to advance development of liquid biofuels production in ENC; inaugurated Farmland Protection Plan initiative beginning with Onslow, Jones, Lenoir, and Greene Counties supported by \$100,000 grant from NCDA to support military training mission and promote value-added agriculture; attended world congress on Industrial Biotechnology and Bioprocessing in Washington, DC generating several biofuels/biochemical project leads.

Defense/Aerospace: Teamed with NCDOC at Farnborough Air Show; DAAC Strategic Planning meeting; hosted Fuel the Force BioFuels Forum; attended Coastal Wind Forum; represented NCER at F-35 Basing Environmental Impact Hearings.

Life Sciences: European mission to Poland (to promote GIN and set objectives, attend Central EuroBiotech conference, and meet with clients) and to Belgium to call on life science client; received verbal notice of tentative approval of \$250,000 to support creation of Marine Biotechnology COI.

Other: Attended IAMC to network with leading US corporation real estate managers and location consultants; Representative attended CoreNet Global Summit in AZ.



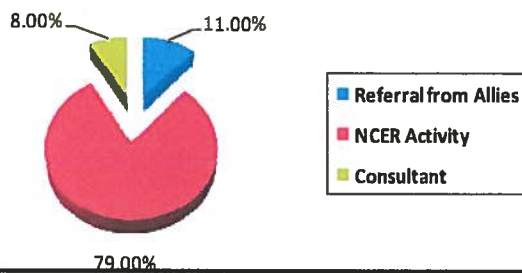
NORTH CAROLINA'S EASTERN REGION

Activity Report: 4th Quarter 2010

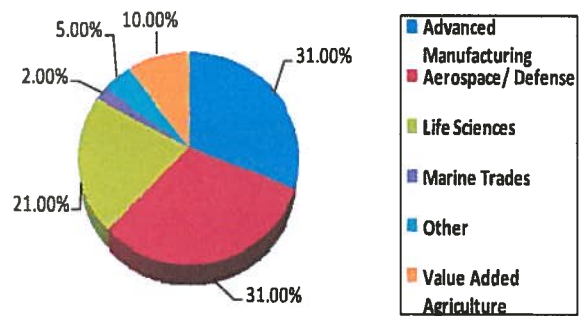
Projects

Leads & New Projects Oct-Dec 2010	8
New Projects YTD FY 10/11	13
Current Active Projects	38

New Project Sources YTD 2010-11



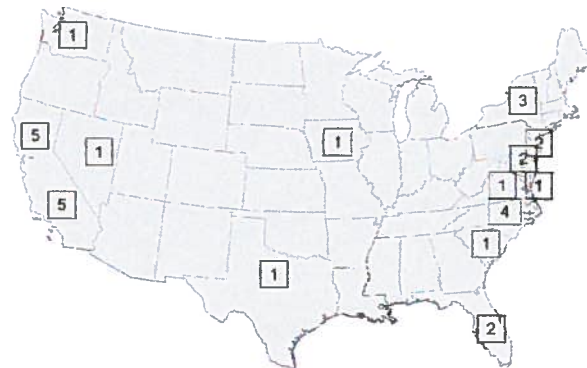
Current Projects by Cluster



Prospect Missions & Events



Current Project Source by Geography



US (30) - Canada (2) - Europe (2) - Unknown (4)

Marketing

Media Placements	3
Research Requests	12
Articles Published/Releases on Wire	1
Marketing Trips and Events	4
NCEast.org Unique Website Visitors	3,317



NORTH CAROLINA'S EASTERN REGION

Activity Report: 4th Quarter 2010

Regional Activities

Workforce Development Meetings	3
Chambers of Commerce	3
Educational Partners (STEM, Community College University)	15
Presentations	9
Other Cluster Meetings	12
Tourism Advisory Group/ Heritage Committee Meetings	5

Grants Approved

Grant Type:	Amount:	Grantee:	Project:
Flex Cap Regional	\$25,000.00	Craven County	Highway 17 Association

Key Announcements 4th Q. 2010

Company Name:	County:	Jobs:	Investment:
Precision Hydraulic Cylinders, Inc.	Duplin	89	\$3.4M
FCA	Edgecombe	40	\$500,000

Workforce Development

Workkeys/CRC Workforce Initiative- 6 profiles in Bio/Life science and Advanced Manufacturing in region in 4th quarter. With funds provided by NCER, region now has 22 participating high schools in CRC program with more scheduled for next quarter. 1,278 high school students received CRCs with assistance of NCER in 4th quarter, and a total of 2,173 individuals in the region were awarded CRCs; submitted two workforce development-related grants.

Cluster Development

Value-Added Agriculture: Signed MOU with Biofuels Center on 'Eastern Gain' to house Biofuels Center of NC employee at NCER to develop liquid biofuels production in ENC in support our value added ag initiative and military installations ; submitted two grant applications for biofuels-related projects; met with two biofuels clients..

Defense/Aerospace: Attended Aviation Week Conference in Phoenix, AZ.

Other: Attended American Manufacturers Conference in Chicago, IL; attended Business Facilities Live Xchange Conference in New Orleans, LA; attended SEUS-Japan conference in Nashville, TN. Signed contracts with Journal Communication for NCER Economic Development Review publication, Clear Channel for RDU terminal advertising, and Flight Global website.



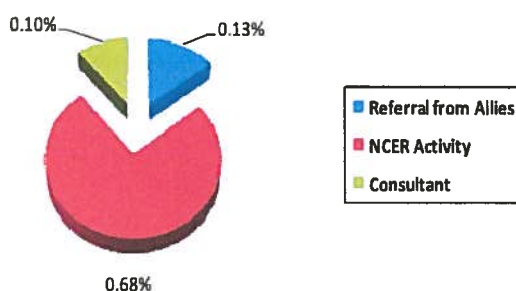
NORTH CAROLINA'S EASTERN REGION

Activity Report: 1st Quarter 2011

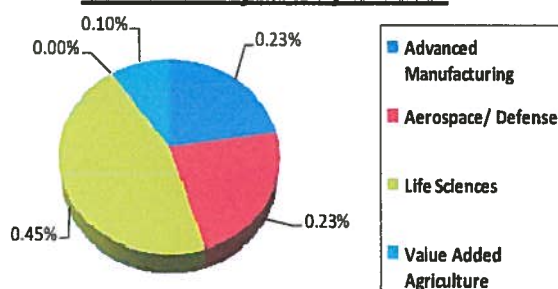
Projects

Leads & New Projects 1st Q. 2011	16
New Projects Fiscal YTD 10/11	20
Current Active Projects	31
Client Visits	3

New Project Sources YTD 2010-11



Current Projects by Cluster

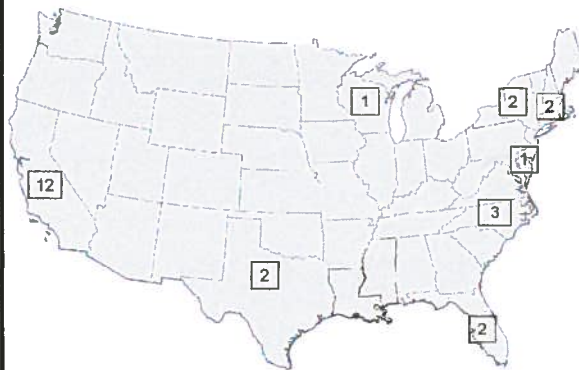


Prospect Missions & Events



International Prospecting Missions to Italy, Switzerland and Germany

Current Project Source by Geography



US (25) - Canada (2) - Europe (4)

Marketing

Media Placements	6
News Releases Issued	5
Marketing Trips and Events	7
NCEast.org Unique Website Visitors	3,589



NORTH CAROLINA'S EASTERN REGION

Activity Report: 1st Quarter 2011

Regional Activities

Workforce Development Meetings	2
Chambers of Commerce	3
Educational Partners (STEM, Community College University)	5
Presentations	2
Other Cluster Meetings	15
Tourism Advisory Group (TAG)/ Heritage Committee Meetings	4
Economic Development Advisory Group (EDAG)	1

Grants Approved

Grant Type:	Amount:	Grantee:	Project:
Flex Cap Regional	\$50,000	Lenoir County	Project Holly-Wood
Flex Cap Local	\$10,000	Pamlico County	Project Star

Key Announcements 1st Q. 2011

Company Name:	County:	Jobs:	Investment:
QVC	Edgecombe	200	\$71M
Keihin Carolina Systems Technology	Edgecombe	50	\$13M
West Pharmaceutical Services	Lenoir	—	\$29M

Workforce Development

Workkeys/CRC Workforce Initiative- 3 profiles in Bio/Life Science, 4 in Advanced Manufacturing, 2 in Value Added Agriculture . With funds provided by NCER, region now has 25 participating high schools in CRC program with more scheduled for next quarter. Over 2,000 people in the region took CRCs last quarter and received a certification.

Cluster Development Highlights

Travel & Tourism: Held 3rd Annual Tourism Mini-Summit in Wallace, NC at River Landing Country Club along with Duplin Co. Tourism. Topics included ecotourism, the Tri-Regional Heritage Tourism Project, sports marketing, film development, retiree attraction. Two familiarization tours and a wine tasting were held in conjunction with the main event. NCER's travel and tourism website (www.visitnceast.org) is being redesigned in partnership with the NC Dept of Cultural Resources to be more itinerary-based and target geo, eco and heritage tourists; estimated to launch early June 2011. First set of public meetings were held in NCER, NCSE and NCNE to educate public on Tri-Regional Heritage Tourism Project seeking to achieve National Heritage Area Designation.

Defense/Aerospace: NCER, along with NC GTP and several other regional partners, launched a micro-site on the Flight Global website as part of the site's Vertical Search component in an effort to ramp-up defense/aerospace marketing. The largest aviation web portal in the world, the Flight Global website receives over 7 million page views per month, which come from over 1.2 million unique users globally.

Other: NCER participated in prospect call mission to Europe as part of life sciences client development program with NC Biotechnology Center that will focus on Europe's BioValley (region straddling Rhine River starting in Basel, Switzerland and running north into Germany and France). Delegation attended BioEurope in Milan, MedTech in Stuttgart, and made several individual client calls in Germany and Switzerland, resulting in over a dozen company and institutional contacts. One client has already visited NCER and many more are expected over the coming months.



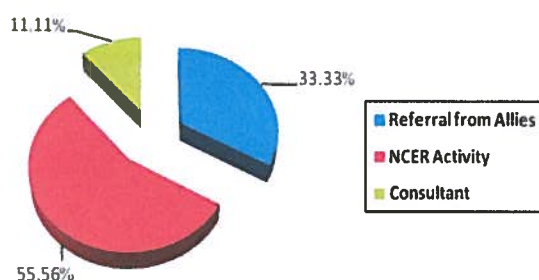
NORTH CAROLINA'S EASTERN REGION

Activity Report: 2nd Quarter 2011

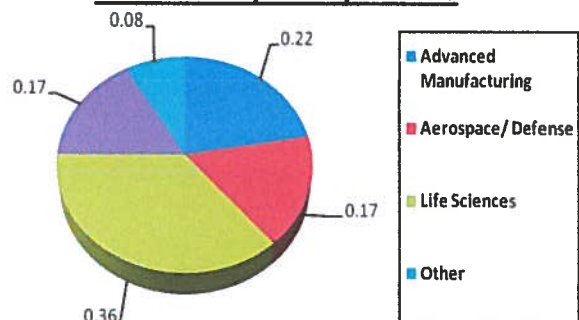
Projects

Leads & New Projects 2nd Q. 2011	29
New Projects Fiscal YTD 10/11	28
Current Active Projects	36
Client Visits	1

New Project Sources YTD 2010-11



Current Projects by Cluster

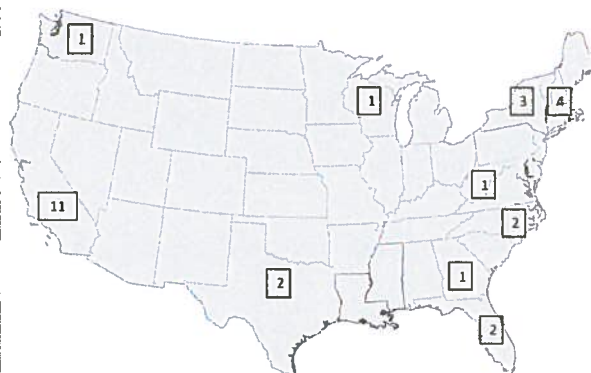


Prospect Missions & Events (YTD 2011)



International Prospecting Missions to Italy and Paris

Current Project Source by Geography



US (28) - Canada (2) - Europe (5)

Marketing

Media Placements	2
News Releases Issued	1
Marketing Trips and Events	7
NCEast.org Unique Website Visitors	*****



NORTH CAROLINA'S EASTERN REGION

Activity Report: 2nd Quarter 2011

Regional Activities

Workforce Development Meetings	4
Chambers of Commerce	2
Educational Partners (STEM, Community College University)	6
Presentations	2
Other Cluster Meetings	12
Tourism Advisory Group (TAG)/ Heritage Committee Meetings	3
Economic Development Advisory Group (EDAG)	1

Grants Approved

Grant Type:	Amount:	Grantee:	Project:
AS9100 Grants (2)	\$4,400	Two Regional Machining Companies	
Flex Cap Local	\$20,000	Duplin County	Project Wilbur

Company Name:	County:	Jobs:	Investment:
Roberts Company	Pitt	29	\$3.25M
Pioneer Hybrid	Lenoir	20	\$2.5M
Superior Essex	Edgecombe	116	\$58M

Key Announcements 1st Q. 2011

Workforce Development

Workkeys/CRC Workforce Initiative- 3 profiles in Bio/Life Science, 4 in Advanced Manufacturing, 2 in Value Added Agriculture . With funds provided by NCER, region now has 25 participating high schools in CRC program with more scheduled for next quarter. Over 2,000 people in the region took CRCs last quarter and received a certification.

Cluster Development Highlights

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**NORTH CAROLINA'S EASTERN REGION DEVELOPMENT
COMMISSION**
KINSTON, NORTH CAROLINA

FINANCIAL AND COMPLIANCE REPORTS

JUNE 30, 2011

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Members
North Carolina's Eastern Region Development Commission
Kinston, North Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Carolina's Eastern Region Development Commission as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Carolina's Eastern Region Development Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Carolina's Eastern Region Development Commission as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reported dated September 30, 2011 on our consideration of the North Carolina's Eastern Region Development Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the North Carolina's Eastern Region Development Commission. The combining and individual fund statements, budgetary schedules, other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements, budgetary schedules, other schedules and the accompanying schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Pittard Perry & Crone, Inc.
La Grange, North Carolina
September 30, 2011

North Carolina's Eastern Region Development Commission, North Carolina
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

As management of the North Carolina's Eastern Region Development Commission, we offer readers of the North Carolina's Eastern Region Development Commission's financial statements this narrative overview and analysis of the financial activities of the North Carolina's Eastern Region Development Commission for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Commission's financial statements, which follow this narrative.

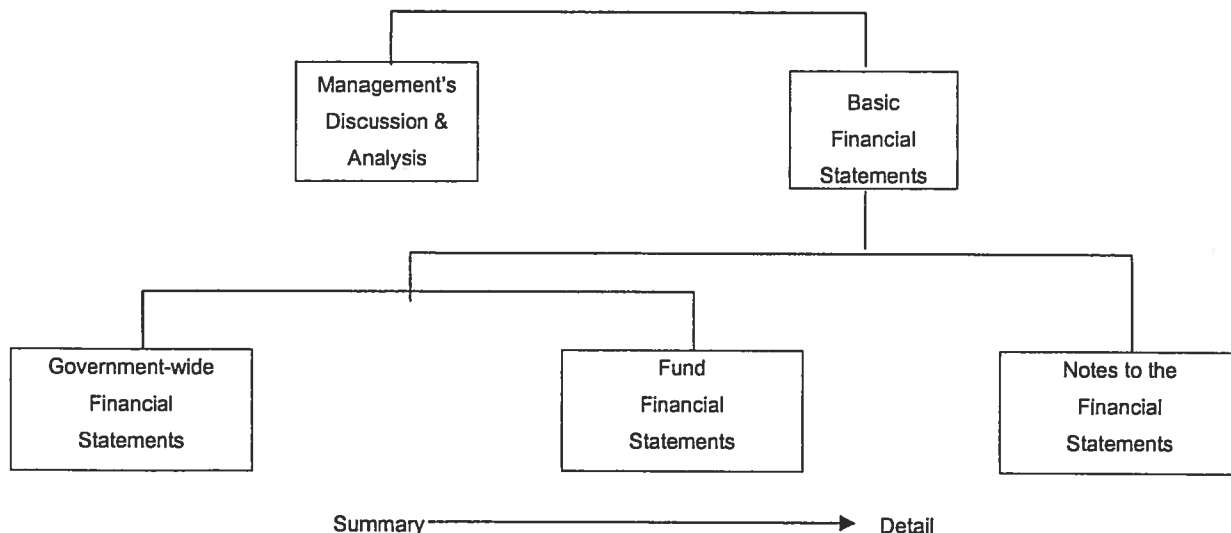
Financial Highlights

- The assets of the North Carolina's Eastern Region Development Commission exceeded its liabilities at the close of the fiscal year by \$5,604,243. (net assets).
- The government's total net assets decreased by \$811,556, resulting primarily from current fiscal year expenditures exceeding revenues.
- As of close of the current fiscal year, the North Carolina's Eastern Region Development Commission's general fund reported ending fund balances of \$5,231,464 a decrease of \$1,179,908 in comparison with the prior year. Approximately 71% of this total amount, or \$3,730,625, is available for spending at the government's discretion (unassigned fund balance). At the end of the current fiscal year, this unassigned fund balance is 159% of total general fund expenditures for the fiscal year.
- The North Carolina's Eastern Region Development Commission's total debt consists of accrued vacation pay of \$63,753, which increased by \$12,134 (23%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the North Carolina's Eastern Region Development Commission's basic financial statements. The Commission's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Commission through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the North Carolina's Eastern Region Development Commission.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Commission's financial status.

The next statements (Exhibits C through F) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Commission's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statement; 2) the budgetary comparison statements; and 3) the fiduciary fund statements.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, the supplementary information is provided to show details about the Military Growth Task Force.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Commission's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short- and long-term information about the Commission's financial status as a whole.

The two government-wide statements report the Commission's net assets and how they have changed. Net assets are the difference between the Commission's total assets and total liabilities. Measuring net assets is one way to gauge the Commission's financial condition.

The fund statements show the Commission's governmental activities and include most of the Commission's basic services such as administration, economic development, and marketing. Investment earnings and state grant funds finance most of these activities.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Commission's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The North Carolina's Eastern Region Development Commission, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Requirements of the Commission's budget ordinance. All of the funds of the North Carolina's Eastern Region Development Commission can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Commission's basic services are accounted for in governmental funds. The funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Commission's programs. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the funds financial statements.

The North Carolina's Eastern Region Development Commission adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Commission, the management of the Commission, and the decisions of the Board about services to provide and how to pay for them. It also authorizes the

Commission to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Commission complied with the budget ordinance and whether or not the Commission succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the budgetary basis of accounting and the actual resources and charges.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. North Carolina's Eastern Region Development Commission has one fiduciary fund which is used to account for the uses of the special \$5 license fee enacted by the member counties.

Military Growth Task Force – This fund is a special revenue fund, with a project budget, which was established to account for federal grant funds from the Department of Defense to help prepare member counties for the military growth which will take place in the next five years.

Notes to the Financial Statement – The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 17 to 27 of this report.

Government-Wide Financial Analysis

North Carolina's Eastern Region Development Commission's Net Assets

Figure 2

	Governmental Activities	
	2011	2010
Current and other assets	\$ 5,772,396	\$ 6,503,694
Capital assets	13,277	2,800
Total assets	5,785,673	6,506,494
Long-term liabilities	63,753	51,619
Other liabilities	117,677	39,076
Total liabilities	181,430	90,695
Net assets:		
Invested in capital assets, net of related debt	13,277	2,800
Restricted	222,675	162,500
Unrestricted	5,368,291	6,250,499
Total net assets	\$ 5,604,243	\$ 6,415,799

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the North Carolina's Eastern Region Development Commission exceed liabilities by \$5,604,243 as of June 30, 2011. The largest portion, 96%, reflects the Commission's unrestricted net assets available for future operating needs. The restricted portion totaling \$227,675, or 4% of the total, represents resources that are subject to restrictions on how they may be used.

North Carolina's Eastern Region Development Commission Changes in Net Assets

Figure 3

	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Operating grants & contributions	\$ 1,925,061	\$ 1,366,157
General revenues:		
Investment earnings	417,729	568,448
Other	28,978	65,568
Total revenues	<u>2,371,768</u>	<u>2,000,173</u>
Expenses		
Economic and physical development	<u>3,183,324</u>	<u>2,790,266</u>
Change in net assets	(811,556)	(790,093)
Net assets, July 1	<u>6,415,799</u>	<u>7,205,892</u>
Net assets, June 30	<u>\$ 5,604,243</u>	<u>\$ 6,415,799</u>

Governmental activities:

Revenues for general governmental functions amounted to \$2,371,268 for the fiscal year ended June 30, 2011. Revenues from various sources and increases and decreases in relation to prior year's revenues are shown in the following table:

Revenue Source	% of Total	Amount	Increase (Decrease) From 2010
Federal, State, and local grants	81.18	\$1,925,061	\$ 558,904
Investment earnings	17.60	417,229	(150,219)
Miscellaneous	1.22	28,978	(36,590)
Total	<u>100.00</u>	<u>\$2,371,268</u>	<u>\$ 372,095</u>

Expenditures for economic development purposes total \$3,566,167. Increases and decreases in relation to prior year's expenditures by major functions of the Commission are shown in the following table:

Functions of Expenditures	% of Total	Amount	Increase (Decrease) From 2010
Economic Development:			
Administration	59.53	\$ 2,123,016	\$ 594,298
Information system	.73	26,147	(930)
Grants to member governments	20.86	743,979	197,106
Military Growth project	-	-	(297,347)
Capital outlay	.06	1,946	(679)
Marketing	18.82	671,079	305,486
Total	<u>100.00</u>	<u>\$ 3,566,167</u>	<u>\$ 797,934</u>

Governmental activities decreased the Commission's net assets by \$811,556, or 12.6%.

Financial Analysis of the Commission's Funds

As noted earlier, the North Carolina's Eastern Region Development Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the North Carolina's Eastern Region Development Commission's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the North Carolina's Eastern Region Development Commission's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the integral operating fund of the North Carolina's Eastern Region Development Commission. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,730,625, while total fund balance was \$5,231,464. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 159% of total General Fund expenditures, while total fund balance represents 221% of that same amount.

General Fund Budgetary Highlights: During the fiscal year, the Commission revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that became necessary to maintain/increase services.

Revenues were less than the budgeted amounts due to a decrease in investment earnings and expenditures were less than budgeted, primarily in county grants.

Capital Asset and Debt Administration

Capital Assets: The North Carolina's Eastern Region Development Commission's investments in capital assets for its governmental activities as of June 30, 2011 are \$13,277 (net of accumulated depreciation). These assets include office furniture and fixtures and technology equipment.

There was one capital asset transaction during the year of \$13,300 for a new computer server.

Additional information on the Commission's capital assets can be found in Note 4 of the Basic Financial Statements.

Long-term Debt: As of June 30, 2011 the North Carolina's Eastern Region Development Commission had total debt outstanding of \$63,753, consisting entirely of accrued vacation pay.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities: Revenues for general operations are anticipated to decrease in fiscal year 2012 due to a decrease in interest rates and State funding. The State funding allocation is determined by dividing each county's enterprise factor as calculated under G.S. 105-129.3 by the sum of the enterprise factors for eligible counties and multiplying the resulting percentage by the amount of the appropriation. In fiscal year 2011, the North Carolina's Eastern Region Development Commission had six counties classified as Tier 1, five classified as Tier 2, and two classified as Tier 3, according to the NC Department of Commerce Article 3J Tax Credits. In fiscal year 2010, six of the Commission's counties were classified as Tier 1, five as Tier 2, and two as Tier 3. The allocation for

FY 10/11 was \$498,990. For FY 11/12, the allocation has been decreased to \$400,000, for a decrease of \$98,990.

The budgeted expenditures in the General Fund are expected to decrease for FY 11/12 to \$2,846,104, down 13.21% from FY10/11's budgeted \$3,758,980 expenditures. Most of the reduction in expenditures are within the grant funds.

Requests for Information

This report is designed to provide an overview of the Commission's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Commission Administrator, North Carolina's Eastern Region Development Commission, Kinston, North Carolina.

North Carolina's Eastern Region Development Commission

STATEMENT OF NET ASSETS

June 30, 2011

EXHIBIT A

ASSETS

Cash, cash equivalents and investments	\$ 5,029,038
Accounts receivable	100,678
Note receivable	385,000
Prepaid expenses	35,005
Capital assets, net of depreciation	13,277
Restricted cash and cash equivalents	<u>222,675</u>

Total assets	<u>5,785,673</u>
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LIABILITIES

Accounts payable and accrued liabilities	117,677
Long-term liabilities, due in more than one year	<u>63,753</u>
Total liabilities	<u>181,430</u>

NET ASSETS

Invested in capital assets, net of related debt	13,277
Restricted for Grants	222,675
Unrestricted	<u>5,368,291</u>
Total net assets	<u>\$ 5,604,243</u>

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

North Carolina's Eastern Region Development Commission
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

EXHIBIT B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net Expense and Changes in Net Assets</u>
Governmental Activities:			
Economic and physical development	\$ 3,183,324	\$ 1,925,061	\$ (1,258,263)
		General Revenues:	
		Investment earnings, unrestricted	417,729
		Miscellaneous, unrestricted	<u>28,978</u>
		Total general revenues	<u>446,707</u>
		Changes in net assets	(811,556)
		Net assets, beginning	<u>6,415,799</u>
		Net assets, ending	<u>\$ 5,604,243</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011

EXHIBIT C

	<u>Major</u>	<u>Major</u>	
	General	Military	Total
ASSETS	Fund	Growth Task Force	Governmental Funds
Assets:			
Cash, cash equivalents and investments	\$ 4,999,611	\$ 29,427	\$ 5,029,038
Restricted cash	222,675	-	222,675
Interest receivable	35,910	-	35,910
Prepaid expenses	26,062	8,943	35,005
Due from other funds	28,961	-	28,961
Accounts receivable	17,964	46,804	64,768
Notes receivable	<u>385,000</u>	<u>-</u>	<u>385,000</u>
Total assets	<u>\$ 5,716,183</u>	<u>\$ 85,174</u>	<u>\$ 5,801,357</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 99,719	\$ 17,958	\$ 117,677
Due to other funds	-	28,961	28,961
Deferred revenue	<u>385,000</u>	<u>-</u>	<u>385,000</u>
Total liabilities	484,719	46,919	531,638
Fund balances:			
Restricted:			
Stabilization by State Statute	108,897	38,255	147,152
Committed:			
Economic Development	222,675	-	222,675
Assigned:			
Subsequent years expenditures	1,169,267	-	1,169,267
Unassigned	<u>3,730,625</u>	<u>-</u>	<u>3,730,625</u>
Total fund balances	<u>5,231,464</u>	<u>38,255</u>	<u>5,269,719</u>
Total liabilities and fund balances	<u>\$ 5,716,183</u>	<u>\$ 85,174</u>	<u>\$ 5,801,357</u>

Amounts reported for governmental activities in the statement of net assets (Exhibit A) are different because:

Total fund balances above	\$ 5,269,719
Other long-term assets (notes receivable) are not available to pay for current-period expenditures and therefore are deferred in the funds.	385,000
Capital assets used in governmental activities are not financial resource and therefore are not reported in the funds.	13,277
Liability for compensated absences is not due and payable in the current period and therefore is not reported in the funds.	<u>(63,753)</u>
Net assets of governmental activities	<u>\$ 5,604,243</u>

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

North Carolina's Eastern Region Development Commission
**STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS**
 For the Fiscal Year Ended June 30, 2011

EXHIBIT D
 Page 1 of 2

	<u>Major</u>	<u>Major</u>	
	General	Military	Total
	<u>Fund</u>	<u>Growth</u>	<u>Governmental</u>
		<u>Task Force</u>	<u>Funds</u>
REVENUES			
Tax refunds	\$ 4,897	\$ -	\$ 4,897
Interest	417,229	-	417,229
State grants	523,990	-	523,990
NC Biotechnology Center	16,254	-	16,254
Biz Boost Grant	60,000	-	60,000
Bio-fuels Center	40,000	-	40,000
Golden leaf grant	115,000	-	115,000
Federal grant	-	1,169,817	1,169,817
Miscellaneous	<u>4,056</u>	<u>20,025</u>	<u>24,081</u>
Total revenues	1,181,426	1,189,842	2,371,268
EXPENDITURES			
Current:			
Economic development administration	918,183	1,204,833	2,123,016
Economic development information system	26,147	-	26,147
Economic development grants	743,979	-	743,979
Marketing	671,079	-	671,079
Capital outlay	<u>1,946</u>	<u>-</u>	<u>1,946</u>
Total expenditures	<u>2,361,334</u>	<u>1,204,833</u>	<u>3,566,167</u>
Net change in fund balance	(1,179,908)	(14,991)	(1,194,899)
FUND BALANCE, beginning of year	<u>6,411,372</u>	<u>53,246</u>	<u>6,464,618</u>
FUND BALANCE, end of year	<u>\$ 5,231,464</u>	<u>\$ 38,255</u>	<u>\$ 5,269,719</u>

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

North Carolina's Eastern Region Development Commission
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

EXHIBIT D

Page 2 of 2

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (1,194,899)
--	----------------

The loaning of funds creates a current expense to governmental funds, while the repayment of the funds loaned creates current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of notes receivable.	385,000
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	10,477
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	<u>(12,134)</u>
Total changes in net assets of governmental activities	<u>\$ (811,556)</u>

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

North Carolina's Eastern Region Development Commission
**STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND**

For The Fiscal Year Ended June 30, 2011

EXHIBIT E

	Original	Final		Variance
	Budget	Budget	Actual	With Final Positive (Negative)
REVENUES				
Tax refunds	\$ -	\$ -	\$ 4,897	\$ 4,897
Interest	599,258	529,258	417,229	(112,029)
State appropriation	475,000	498,990	498,990	-
NC Department of Agriculture	-	-	25,000	25,000
NC Biotechnology Center	-	-	16,254	16,254
Center of Innovation Grant	27,238	27,238	-	(27,238)
Biz Boost Grant	60,000	60,000	60,000	-
Farmland protection grant	100,000	100,000	-	(100,000)
Bio-fuels Center	-	90,000	40,000	(50,000)
Golden leaf grant	-	417,252	115,000	(302,252)
Rural Center work ready	-	210,000	-	(210,000)
Miscellaneous	-	-	4,056	4,056
Total revenues	<u>1,261,496</u>	<u>1,932,738</u>	<u>1,181,426</u>	<u>(751,312)</u>
EXPENDITURES				
Economic development administration:				
Personnel	791,093	767,892	652,279	115,613
Legal and accounting	105,600	80,000	75,459	4,541
Office expenditures	115,502	111,758	103,485	8,273
Board expenditures	16,163	16,163	12,180	3,983
Insurance and bonding	5,000	5,000	3,538	1,462
Rent expenditures	62,400	62,400	59,422	2,978
Miscellaneous	9,891	13,501	11,820	1,681
	<u>1,105,649</u>	<u>1,056,714</u>	<u>918,183</u>	<u>138,531</u>
Economic development information system	<u>33,600</u>	<u>30,750</u>	<u>26,147</u>	<u>4,603</u>
Marketing and economic development:				
County grants, economic development	1,404,401	1,969,188	743,979	1,225,209
Advertising, promotion and other	521,222	700,072	671,079	28,993
	<u>1,925,623</u>	<u>2,669,260</u>	<u>1,415,058</u>	<u>1,254,202</u>
Capital outlay	<u>5,256</u>	<u>2,256</u>	<u>1,946</u>	<u>310</u>
Total expenditures	<u>3,070,128</u>	<u>3,758,980</u>	<u>2,361,334</u>	<u>1,397,646</u>
Revenues over (under) expenditures	(1,808,632)	(1,826,242)	(1,179,908)	646,334
Appropriated fund balance	<u>1,808,632</u>	<u>1,826,242</u>	<u>-</u>	<u>(1,826,242)</u>
Revenues and appropriated fund				
balance over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(1,179,908)</u>	<u>\$ (1,179,908)</u>
FUND BALANCE, beginning of year			<u>6,411,372</u>	
FUND BALANCE, end of year			<u>\$ 5,231,464</u>	

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

North Carolina's Eastern Region Development Commission
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
For the Fiscal Year Ended June 30, 2011

EXHIBIT F

ASSETS

Assets:

Cash, cash equivalents and investments	\$ 15,182,204
Loans receivable	<u>7,174,771</u>

Total assets	<u><u>\$ 22,356,975</u></u>
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LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued liabilities	\$ 13,008
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Net assets:

Held for member governments	<u>22,343,967</u>
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Total liabilities and fund balances	<u><u>\$ 22,356,975</u></u>
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The accompanying notes are an integral part of these financial statements.

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 1. Summary of Significant Accounting Policies

The financial statements of the North Carolina's Eastern Region Development Commission (the Commission) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting entity

The North Carolina's Eastern Region Development Commission is a corporate body created on October 18, 1993 by North Carolina General Statute 158-31. Its purpose is to allow counties which have the potential to derive direct economic benefits from the North Carolina Global TransPark to create a special economic development district known as the North Carolina's Eastern Region. The Commission's primary responsibility is to promote and encourage economic development within the territorial jurisdiction of the Region by fostering development projects to provide land, buildings, facilities, programs, information and data systems, and infrastructure /requirements for business and industry in North Carolina's Eastern Region.

The Commission is governed by 19 voting members, consisting of one member from each of the thirteen participating counties, two members appointed by the Governor, two members appointed by the President Pro Tempore of the NC Senate, and two members appointed by the Speaker of the NC House of Representatives. The participating counties include Carteret, Craven, Duplin, Edgecombe, Greene, Jones, Lenoir, Nash, Onslow, Pamlico, Pitt, Wayne, and Wilson.

A county may withdraw by resolution of its board of commissioners, becoming effective at the end of the fiscal year in which it is adopted. Withdrawal does not entitle a county to early distribution of its interest in the region's assets, but it retains its rights to future distributions.

Determination as to whether an entity is a component unit of another primary government or whether it has component units that should be included in its own financial statements is determined based on the existence of financial accountability relationships under GAAP by applying Governmental Accounting Standards Board Statement No. 14. The Commission is not a component unit of a separate entity, nor does it have any component units.

Basis of Presentation, Basis of Accounting

Basis of Presentation:

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the Commission). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities.

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Commission's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental fund reporting. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Commission reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Commission. The General Fund accounts for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are investment earnings and State grants. The primary expenditures are for economic development activities.

Military Growth Task Force. This fund is used to account for grant funds from the Department of Defense that are restricted for the use of preparing for military growth within six of the thirteen participating counties.(Carteret, Craven, Onslow, Duplin, Pamlico, and Jones) and Pender County which is actually in the Southeastern Region.

Fiduciary funds:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. The agency fund shown in the exhibits accounts for assets of which the principal is earmarked for member governments and may not be spent by the Commission.

Measurement Focus, Basis of Accounting:

In accordance with North Carolina General Statutes, all funds of the Commission are maintained during the year using the modified accrual basis of accounting.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and are reported using the accrual basis of accounting. The agency fund has no measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. The Commission considers all revenues available if they are collected within 60 days after year-end.

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Budgetary Data

Budgets are adopted as required by State statute. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Military Growth Task Force. All budgets are prepared using the modified accrual basis of accounting. Expenditures cannot legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. During the year, several amendments to the original budget were approved by the Board, the effects of which were not material. A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of the budget procedures are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30 - Each department head will transmit to the budget officer the budget request and revenue estimates for their department for the budget year.

June 1 - The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time.

July 1 - The budget ordinance shall be adopted by the governing board.

Assets, Liabilities, and Fund Equity

Cash, cash equivalents and investments:

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are stated at cost since the Commission's investments do not fall under the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

State law [G.S. 159-30(c)] authorizes the Commission to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public Authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; the State Treasurer's Investment Fund and the North Carolina Capital Management Trust, an SEC registered mutual fund.

Restricted assets:

Money for grants to member counties that were approved by the Board at June 30, 2011 but had not been disbursed are classified as restricted cash.

Capital assets:

Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Capital assets of the Commission are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Furniture and fixtures	10
Vehicles	5
Technology equipment	5

Compensated absences:

The vacation policy of the Commission is limited to an accumulation of 240 hours with such leave being fully vested when earned. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. The current portion of the accumulated vacation pay is not considered to be material and, therefore, no provision for this has been made in the accompanying financial statements.

The sick leave policies of the Commission provide for an unlimited accumulation of earned sick leave. Sick leave does not vest but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Commission does not have any obligation for accumulated sick leave until it is actually taken, no accruals for sick leave have been made.

Net Assets/Fund Balances

Net Assets

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statute.

Fund Balances:

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Commission does not have any nonspendable fund balance.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Committed Fund Balance – The portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Commission's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Committed for Economic Development – The portion of fund balance reserved for grants to member counties authorized at June 30, 2011, but not yet expended.

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Assigned Fund Balance – The portion of fund balance that the Commission intends to use for specific purposes.

Subsequent years' expenditures – The portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

Unassigned Fund Balance – The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

Note 2. Cash, Cash Equivalents and Investments

Petty cash:

At June 30, 2011, the Commission had petty cash funds on hand totaling \$200.

Deposits:

All deposits of the Commission are made in board-designated official depositories and are secured as required by State law. The Commission may designate as an official depository any bank or savings and loan association whose principle office is located in North Carolina. Also, the Commission may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. The Commission also has money credited in its name with the State Treasurer and may issue State warrants against these funds.

All the deposits of the Commission are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Commission's agent in the Commission's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Commission, these deposits are considered to be held by the Commission's agent in the Commission's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits.

The State Treasurer does not confirm this information with the Commission or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Commission under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Commission has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Commission complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Commission's deposits had a carrying amount of \$225,128 and a bank balance of \$227,848. Of these balances, \$227,848 was covered by federal depository insurance.

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 2. Cash, Cash Equivalents and Investments (continued)

Investments:

At June 30, 2011, the Commission's investments consisted of participation in the State Treasurer's Investment Fund (STIF) and First Citizens Bank. The STIF Trust Account holds the funds available for loans to the member counties. The STIF Operating Account holds funds available to the Commission for normal operating costs. The STIF accounts are exempt from risk categorization because the Commission does not own any identifiable securities, but is an owner of a percentage of the funds. The invested amount of the STIF Trust and Operating Accounts were \$15,182,204 and \$77, respectively.

The First Citizens account consists of investments with NC Capital Management Trust. These investments are stated at market value. At June 30, 2011, these investments were valued at \$5,026,308.

The investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
NC Capital Management Trust – Cash	\$ 5,026,308	N/A	AAAm
State Treasurer's Investment Fund	15,182,281	N/A	Unrated
	<u>\$ 20,208,589</u>		

Interest Rate Risk The Commission has no formal policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Commission's internal investment policy limits at least half of the Commission's investment portfolio to maturities of less than twelve months. Also, the Commission's internal management requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

Credit risk The Commission has no formal policy regarding credit risk, but has internal management procedures that limits the Commission's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Commission's investment in NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard and Poor's as of June 30, 2011. The State Treasurer's Investment Fund is unrated since the Commission does not own any identifiable securities.

Note 3. Receivables

Receivables at June 30, 2011 consist of the following:

Accounts receivable	\$ 17,964
Interest	<u>35,910</u>
	53,874
 Military Growth Task Force:	
Accounts receivable	<u>46,804</u>
Total	<u><u>\$ 100,678</u></u>

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

Governmental Activities:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Furniture and fixtures	\$ 21,311	\$ -	\$ -	\$ 21,311
Technology equipment	40,575	13,300	4,585	49,290
Total	61,886	13,300	4,585	70,601
Less accumulated depreciation for:				
Furniture and fixtures	21,311	2,823	-	24,134
Technology equipment	37,775	-	4,585	33,190
Total	59,086	2,823	4,585	57,324
Total capital assets being depreciated, net	<u>\$ 2,800</u>			<u>\$ 13,277</u>

Depreciation expense was charged to functions/programs of the primary government as follows:
Economic and physical development \$ 2,823

Note 5. Local Governmental Employees' Retirement System

The Commission contributes to the statewide Local Government Employees' Retirement System (LGERS), a cost sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the Authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Plan members are required to contribute 6% of their annual covered salary. The Commission is required to contribute an actuarially determined rate. The Commission's current contribution rate is 8.16% of annual covered payroll. The contribution requirements for members and of the Commission are established and may be amended by the North Carolina General Assembly. The Commission's contributions to LGERS for the year ended June 30, 2011, 2010, and 2009 were \$71,267, \$48,427, and \$40,247, respectively. The contributions made by the Commission equaled the required contributions for each year.

Note 6. Other Employment Benefits

The Commission has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 6. Other Employment Benefits (continued)

beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Commission has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Commission considers these contributions to be immaterial.

Note 7. Long-Term Obligation Activity

The following is a summary of changes in the Commission's long-term obligations for the fiscal year ended June 30, 2011:

	Balance			Balance	Current
	July 1, 2010	Increases	Decreases	June 30, 2011	Portion of
					Balance
Governmental activities:					
Compensated absences	\$ 51,619	\$ 12,134	\$ -	\$ 63,753	\$ -

Note 8. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial coverage for these risks of loss. There have been no significant reductions in insurance coverage from the previous year and there have been no material claims filed or settled that have exceeded coverage in any of the past three fiscal years. The Commission does not carry flood insurance.

In accordance with G.S. 159-29, the Commission's employees that have access to \$100 or more at any given time of the Commission's funds are performance bonded through a commercial surety bond. All employees are insured under a blanket bond of \$50,000. On June 30, 2011, the chief financial officer was not individually bonded. A \$50,000 commercial surety bond was taken out for the chief financial officer on September 7, 2011.

Note 9. Operating Lease Commitments

The Commission conducts its operations in leased facilities under a ten-year noncancelable operating lease expiring December 31, 2011. At the end of the initial lease term, the lease may be renewed at the then fair rental value for four additional terms of five years each.

The minimum rental commitments under operating leases are as follows:

2011	\$ 38,400
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North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 10. Notes Receivable

On April 15, 2011, Edgecombe County entered into a GAP loan with the Commission for \$385,000. The loan will mature in future years ending June 30 as follows:

	Principal	Interest	Total
2012	\$ 34,405	\$ 11,557	\$ 45,962
2013	33,986	11,976	45,962
2014	35,186	10,776	45,962
2015	36,428	9,534	45,962
2016	37,715	8,247	45,962
2017-2021	207,280	20,299	227,578
	<u>\$ 385,000</u>	<u>\$ 72,389</u>	<u>\$ 457,389</u>

The long-term notes receivable related to the twenty-one trust fund loans will mature in future years ending June 30 as follows:

	Principal	Interest	Total
2012	\$ 917,277	\$ 242,651	\$ 1,159,928
2013	709,364	216,018	925,382
2014	3,317,116	153,278	3,470,394
2015	560,481	74,653	635,134
2016	370,564	56,718	427,282
2017-2021	1,050,784	139,383	1,190,167
2022-2023	249,185	10,664	259,849
	<u>\$ 7,174,771</u>	<u>\$ 893,365</u>	<u>\$ 8,068,136</u>

The above notes receivable represent funds that are disbursed to each member county for the sole purpose of economic development and infrastructure construction related thereto.

Note 11. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2011, consist of the following:

Due to the General Fund for payroll taxes and retirement paid from the operating bank account for the Military Growth Task Force	<u>\$ 28,961</u>
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The interfund balances resulted from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 12. Agency Fund

The enabling legislation of the Commission outlines the method of allocation and required usage of agency funds. The fund consists of an initial State appropriation of \$7.5 million and 85% of the quarterly distributions of the \$5 motor vehicle license fees collected by the North Carolina Department of Transportation. The motor vehicle tax was adopted by the legislature and the participating counties and was collected for a period of 5 years ending June 30, 1999. The principal balance of the agency funds are nonexpendable and will revolve as loans that are made to member counties and repaid to the Commission. Interest on the trust is allocated directly to the general fund under the terms of the fund agreement.

The following reflects activity in the fund for the year ended June 30, 2011:

County	Balance June 30, 2010	Loans Made	Principal Repayments	Balance June 30, 2011
Carteret	\$ 1,705,420	\$ -	\$ -	\$ 1,705,420
Craven	2,093,240	-	-	2,093,240
Duplin	1,013,973	-	38,294	1,052,267
Edgecombe	961,908	990,000	71,050	42,958
Greene	316,103	-	220,439	536,542
Jones	529,049	-	14,773	543,822
Lenoir	171,426	-	-	171,426
Nash	1,231,624	-	286,092	1,517,716
Onslow	519,984	-	217,548	737,532
Pamlico	788,067	-	-	788,067
Pitt	2,146,330	-	147,522	2,293,852
Wayne	2,454,788	-	-	2,454,788
Wilson	1,089,821	-	141,685	1,231,506
Total	<u>\$ 15,021,733</u>	<u>\$ 990,000</u>	<u>\$ 1,137,403</u>	<u>\$ 15,169,136</u>
			Interest earnings due to general fund	<u>13,068</u>
			Total agency fund cash, cash equivalents and investments	<u>\$ 15,182,204</u>

Beginning and ending balances do not include loan balances outstanding.

Note 13. Related Party Transactions

Global TransPark Authority

The Global TransPark Authority is an independent state agency created by the General Assembly with the statutory responsibility to plan, develop and operate the Global TransPark. Although not directly connected with the development of the Global TransPark itself, the Commission supports economic development initiatives in the member counties to accommodate business drawn to the region by the Global TransPark. Beginning in January 2002, the office space occupied by the Commission is rented from the Authority at a monthly rate of \$7.50 per square foot.

Member Counties

As disclosed in Note 1, each member county appoints 1 member of the board. Transactions with the member counties for the year ended June 30, 2011 consisted of the loans and loan repayments totaling \$990,000 and \$1,137,403, respectively, disclosed in Note 12, and various grant disbursements paid from the general fund.

North Carolina's Eastern Region Development Commission
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

Note 14. Commitments, Contingencies, and Subsequent Events

Environmental planning activities:

In an agreement between the Commission and the North Carolina Air Cargo Airport Commission dated March 4, 1994, the Commission has committed to providing \$1,000,000 over a period of ten years (beginning July 1, 1995 and terminating June 30, 2005) to carry out and implement certain environmental planning activities provided for in the agreement. As of June 30, 2011, \$1,000,000 has been appropriated and \$540,138 has been expended for environmental activities. The Commission continues to support activities regarding environmental issues in the thirteen county region, but no longer provides funds for an Environmental Grant program.

Other Grant Commitments:

The following grants were approved by the Commission as of June 30, 2011, and are expected to be disbursed during the fiscal year ended June 30, 2012:

Flex Cap Local Grants

Duplin County	\$ 40,000
Edgecombe County	40,000
Nash County	20,000
Pamlico County	7,425
Pitt County	20,000
	<u>\$ 127,425</u>

Flex Cap Regional Grants

Craven County	\$ 30,000
Greene County	12,500
Lenoir County	50,000
	<u>\$ 92,500</u>

President's Discretionary Fund Grants

NCEDA	\$ 250
Pamlico County	2,500
	<u>\$ 2,750</u>

SUPPLEMENTARY INFORMATION

North Carolina's Eastern Region Development Commission
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 MILITARY GROWTH TASK FORCE**

From Inception and For the Fiscal Year Ended June 30, 2011

Statement 1

Page 1 of 2

	Project	Actual		Total to	Variance
	Authorization	Prior Years	Current Year	Date	Positive (Negative)
REVENUES					
Restricted intergovernmental:					
Federal grant	\$ 3,073,914	\$ 2,047,715	\$ 1,169,817	\$ 3,217,532	\$ 143,618
Contributions	<u>73,320</u>	<u>150,100</u>	<u>20,025</u>	<u>170,125</u>	<u>96,805</u>
Total revenues	3,147,234	2,197,815	1,189,842	3,387,657	240,423
EXPENDITURES					
Economic development administration:					
Salaries	722,183	493,300	384,644	877,943	(155,760)
Fringe benefits	172,435	112,609	100,533	213,142	(40,707)
Postage	1,814	1,141	362	1,503	311
Telephone	31,779	21,342	10,797	32,139	(360)
Travel	54,255	44,213	32,582	76,795	(22,540)
Office supplies	20,556	13,585	12,651	26,236	(5,680)
Software & support services	28,613	29,864	6,601	36,465	(7,852)
Advertising	3,000	-	3,135	3,135	(135)
Printing & graphics	11,000	2,027	9,261	11,288	(288)
Insurance	3,814	3,189	-	3,189	625
Professional services	6,086	3,600	6,323	9,923	(3,837)
Off Base Meetings	42,900	40,800	1,000	41,800	1,100
Public outreach	95,650	92,151	-	92,151	3,499
Website development	7,500	7,500	-	7,500	-
Equipment rental/maintenance	10,308	8,211	462	8,673	1,635
Office equipment	2,507	2,420	217	2,637	(130)
Office furnishings	17,799	17,548	1,368	18,916	(1,117)
Plan IT East	-	-	1,198	1,198	(1,198)
Task #2 - Medical/health	102,000	-	110,000	110,000	(8,000)
Task #4 - Transit options	125,000	-	120,500	120,500	4,500
Task #6 - Communications	125,000	7,500	37,885	45,385	79,615
Task #7 - Military housing	101,000	-	107,800	107,800	(6,800)
Task #9 - Recreation/parks	41,500	40,000	-	40,000	1,500
Regional planner	2,000	-	1,650	1,650	350
Project manager FF4F	70,000	-	70,017	70,017	(17)
Consultant support	95,000	-	108,589	108,589	(13,589)
Biodiesel plant operation consultant	5,000	-	5,000	5,000	-
Convention space	2,800	-	3,802	3,802	(1,002)
RPP briefings	800	-	800	800	-
Two day off-site for RPP	7,500	-	7,500	7,500	-
Meeting planning & agenda	16,800	-	16,795	16,795	5
Rent expenditures	<u>69,238</u>	<u>47,672</u>	<u>43,362</u>	<u>91,034</u>	<u>(21,796)</u>
Total administration	<u>1,995,837</u>	<u>988,672</u>	<u>1,204,833</u>	<u>2,193,506</u>	<u>(197,668)</u>

North Carolina's Eastern Region Development Commission
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 MILITARY GROWTH TASK FORCE**

From Inception and For the Fiscal Year Ended June 30, 2011

Statement 1

Page 2 of 2

			<u>Actual</u>		Variance
	Project	Prior	Current	Total to	With Final
	<u>Authorization</u>	<u>Years</u>	<u>Year</u>	<u>Date</u>	<u>Positive</u>
					<u>(Negative)</u>
Economic development grant:					
ECC interagency	\$ 256,397	\$ 259,897	\$ -	\$ 259,897	\$ (3,500)
Land US compatibility	175,900	174,900	-	174,900	1,000
Workforce	126,500	125,500	-	125,500	1,000
Housing	85,700	84,700	-	84,700	1,000
Infrastructure	121,500	120,500	-	120,500	1,000
Schools	85,700	84,700	-	84,700	1,000
Transportation	85,200	84,200	-	84,200	1,000
Medical/Social services	98,800	97,800	-	97,800	1,000
Public safety	98,800	97,800	-	97,800	1,000
Quality of life	85,700	84,700	-	84,700	1,000
RGMP report	31,200	41,200	-	41,200	(10,000)
Total grant	<u>1,251,397</u>	<u>1,255,897</u>	<u>-</u>	<u>1,255,897</u>	<u>(4,500)</u>
Total expenditures	<u>3,247,234</u>	<u>2,244,569</u>	<u>1,204,833</u>	<u>3,449,402</u>	<u>(202,168)</u>
Revenues over (under) expenditures	(100,000)	(46,754)	(14,991)	(61,745)	38,255
OTHER FINANCING SOURCES					
Transfer from general fund	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
Revenues and other financing					
sources over (under) expenditures	<u>\$ -</u>	<u>\$ 53,246</u>	<u>(14,991)</u>	<u>\$ 38,255</u>	<u>\$ 38,255</u>
FUND BALANCE, beginning of year			<u>53,246</u>		
FUND BALANCE, end of year			<u>\$ 38,255</u>		

COMPLIANCE SECTION

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

To the Members
North Carolina's Eastern Region Development Commission
Kinston, North Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information for the North Carolina's Eastern Region Development Commission, as of and for the year ended June 30, 2011, which collectively comprises the North Carolina's Eastern Region Development Commission's basic financial statements, and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Carolina's Eastern Region Development Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 North Carolina's Eastern Region Development Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the North Carolina's Eastern Region Development Commission, in a separate letter dated September 30, 2011.

This report is intended solely for the information and use of management, others within the entity, the budget and finance committee, members of the Board, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pittard Perry & Crone, Inc.

La Grange, North Carolina

September 30, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT
IMPLEMENTATION ACT**

To the Members
North Carolina's Eastern Region Development Commission
Kinston, North Carolina

Compliance

We have audited the compliance of North Carolina's Eastern Region Development Commission with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the North Carolina's Eastern Region Development Commission's major federal programs for the year ended June 30, 2011. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control

over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, members of the Board, federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pittard Perry & Crone, Inc.

La Grange, North Carolina
September 30, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR
STATE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133
AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Members
North Carolina's Eastern Region Development Commission
Kinston, North Carolina

Compliance

We have audited the compliance of North Carolina's Eastern Region Development Commission with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on its major State program for the year ended June 30, 2011. The Commission's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State program is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major State program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major State program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, the budget and finance committee, members of the Board, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pittard Perry & Crone, Inc.

La Grange, North Carolina
September 30, 2011

North Carolina's Eastern Region Development Commission
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

-- Material weaknesses identified? ☐ yes ☒ no
-- Significant deficiencies conditions identified
that are not considered to be
material weaknesses ☐ yes ☒ none reported

Noncompliance material to financial
statements noted ☐ yes ☒ no

Federal Awards

Internal control over major Federal program:

-- Material weaknesses identified? ☐ yes ☒ no
-- Significant deficiencies identified
that are not considered to be
material weaknesses ☐ yes ☒ none reported

Noncompliance material to Federal award noted ☐ yes ☒ no

Type of auditor's report issued on compliance for major Federal program: Unqualified.

Any audit findings disclosed that are required to be
reported in accordance with the Section 510(a) of
Circular A-133 ☐ yes ☒ no

Identification of major Federal programs:

CFDA Number Name of Federal Program or Cluster

12.607 Community Economic Adjustment Assistance for
Establishment, Expansion, Realignment, or
Closure of a Military Installation

Dollar threshold used to distinguish
between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

North Carolina's Eastern Region Development Commission
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011

Section I. Summary of Auditor's Results (Continued)

State Awards

Internal control over major State program:

-- Material weaknesses identified? ☐ yes ☒ no
-- Significant deficiencies identified
that are not considered to be
material weaknesses ☐ yes ☒ none reported

Noncompliance material to State award noted ☐ yes ☒ no

Type of auditor's report issued on compliance for major State program: Unqualified.

Any audit findings disclosed that are required to be
reported in accordance with the State Single Audit
Implementation Act ☐ yes ☒ no

Identification of major State program:

Name of State Program or Cluster

State Appropriation

North Carolina's Eastern Region Development Commission
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011

Section II – Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

North Carolina's Eastern Region Development Commission
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2011

Section II – Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

North Carolina's Eastern Region Development Commission
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2011

No findings reported in the prior year.

North Carolina's Eastern Region Development Commission
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2011

	Federal CFDA Number	Federal Expenditures	State Expenditures	Local Expenditures
FEDERAL AWARDS				
<u>U.S. Department of Defense</u>				
Passed-through the Office of Economic Adjustment:				
Community Economic Adjustment Assistance for				
Establishment, Expansion, Realignment, or				
Closure of a Military Installation	12.607	\$ 1,169,817	\$ -	\$ 35,016

STATE AWARDS

N.C. Department of Commerce				
Continuation Budget Operations Appropriations Act				
State Appropriation (Note 2)*	n/a	-	498,990	705,599

	Loan Balance Outstanding at June 30, 2010	Loans Made	Principal Repayments	Loan Balance Outstanding at June 30, 2011
Duplin	\$ 397,584	\$ -	\$ 38,294	\$ 359,290
Edgecombe	561,813	990,000	71,049	1,480,764
Greene	547,662	-	220,438	327,224
Jones	222,186	-	14,773	207,413
Lenoir	1,450,100	-	-	1,450,100
Nash	916,093	-	286,093	630,000
Onslow	2,097,638	-	217,549	1,880,089
Pitt	396,313	-	147,522	248,791
Wilson	732,785	-	141,685	591,100
Total	\$ 7,322,174	\$ 990,000	\$ 1,137,403	\$ 7,174,771

* Denotes major State program

North Carolina's Eastern Region Development Commission
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2011

- Note 1. The accompanying schedule of expenditures of Federal and State awards includes the federal and State grant activity of North Carolina's Eastern Region Development Commission and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
- Note 2. The State Appropriation can only be utilized for operating and marketing purposes and cannot be used for infrastructure purposes, per the oral opinion of the State Attorney General's Office.
- Note 3. The nonexpendable trust fund from which these loans are made is funded by the \$7.5 million State Appropriation received in fiscal year 1994-1995 under the Capital Appropriations Act and 85% of the quarterly distributions of the \$5 motor vehicle license fees collected by the North Carolina Department of Transportation. Unloaned funds in the amount of \$15,038,814 are currently invested in the State Treasurer's Investment Fund.