

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF NORTH CAROLINA PORTS RAILWAY COMMISSION

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
NORTH CAROLINA PORTS RAILWAY COMMISSION
WILMINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

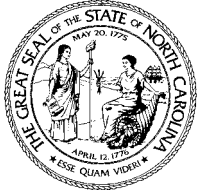
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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, North Carolina Ports Railway Commission

This report presents the results of our financial statement audit of the North Carolina Ports Railway Commission and its subsidiary, a component unit of the State of North Carolina, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the North Carolina Ports Railway Commission and its subsidiary are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the North Carolina Ports Railway Commission and its subsidiary were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying consolidated financial statements that relate solely to the North Carolina Ports Railway Commission and its subsidiary. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying consolidated financial statements that relate solely to the North Carolina Ports Railway Commission and its subsidiary. A summary of our reporting objective and audit results are:

- 1. Objective** - Express an opinion on the accompanying consolidated financial statements.

Results - The accompanying consolidated financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Commission's ability to record, process, summarize, and report financial data in the consolidated financial statements.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

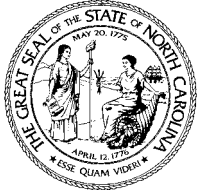
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Board of Directors
North Carolina Ports Railway Commission
Wilmington, North Carolina

We have audited the accompanying Consolidated Balance Sheet of the North Carolina Ports Railway Commission and its subsidiary, a component unit of the State of North Carolina, as of June 30, 2001 and the related Consolidated Statements of Revenues, Expenses, and Changes in Retained Earnings and Cash Flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the North Carolina Ports Railway Commission and its subsidiary as of June 30, 2001, and the consolidated results of their operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the consolidated financial statements, the Commission changed its accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001.

**INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED
FINANCIAL STATEMENTS (CONCLUDED)**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2001 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the Independent Auditor's Report on the Consolidated Financial Statements in considering the results of our audit.



Ralph Campbell, Jr.
State Auditor

August 30, 2001

***North Carolina Ports Railway Commission
Consolidated Balance Sheet
June 30, 2001***

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	728,356.63
Accounts Receivable		38,966.40
Refundable Deposits		450.00
Prepaid Expenses		4,469.04
		<u>4,469.04</u>

Total Current Assets \$ 772,242.07

Fixed Assets:

Land and Land Improvements	\$	524,650.00
Buildings		256,122.40
Locomotives and Other Equipment		1,217,676.03
		<u>1,217,676.03</u>

Less: Accumulated Depreciation	\$	1,998,448.43
		<u>(1,009,222.26)</u>

Net Fixed Assets 989,226.17

Total Assets \$ 1,761,468.24

LIABILITIES AND EQUITY

Liabilities:

Accounts Payable	\$	16,724.58
Sales Tax Payable		90.00
Capital Leases Payable		6,180.00
Annual Leave Payable		20,074.82
		<u>20,074.82</u>

\$ 43,069.40

Equity:

Contributed Capital	\$	49,982.86
Retained Earnings		1,668,415.98
		<u>1,668,415.98</u>

Total Equity 1,718,398.84

Total Liabilities and Equity \$ 1,761,468.24

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

***North Carolina Ports Railway Commission
Consolidated Statement of Revenues, Expenses,
and Changes in Retained Earnings
For the Year Ended June 30, 2001***

Exhibit B

Operating Revenues:		
Lease Income	\$ 595,870.19	
Rental Income	9,185.00	
Miscellaneous Revenue	<u>32,523.70</u>	
Total Operating Revenues		\$ <u>637,578.89</u>
Operating Expenses:		
Personal Services	\$ 317,883.80	
Supplies and Materials	296,947.09	
Services	82,077.20	
Depreciation/Amortization	101,500.30	
Insurance and Bonding	25,542.27	
Other Expense	<u>655.00</u>	
Total Operating Expenses		<u>824,605.66</u>
Net Loss From Operations		(187,026.77)
Non-Operating Income:		
Interest Income	\$ 45,013.54	
Net Gain on Sale of Fixed Assets	<u>7,045.00</u>	
Total Non-Operating Income		<u>52,058.54</u>
Net Loss		(134,968.23)
Retained Earnings July 1, 2000		<u>1,803,384.21</u>
Retained Earnings June 30, 2001		<u>\$ <u>1,668,415.98</u></u>

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

***North Carolina Ports Railway Commission
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2001***

Exhibit C

Cash Flows Provided From (Used For) Operating Activities:		
Operating Loss	\$	(187,026.77)
Adjustments to Reconcile Net Loss to Net Cash Used For Operating Activities:		
Depreciation		101,500.30
Changes in Assets and Liabilities:		
Decrease in Receivables		4,316.17
Decrease in Prepaid Items		86.27
Increase in Accounts Payable		16,724.58
Increase in Lease Payable		6,180.00
Increase in Annual Leave Payable		645.55
Increase in Sales Tax Payable		90.00
		<hr/>
Total Cash Used For Operating Activities	\$	(57,483.90)
Cash Provided From (Used For) Capital and Related Activities:		
Capital Expenditures for Fixed Assets	\$	(149,507.75)
Proceeds From Sale of Fixed Assets		12,500.00
		<hr/>
Total Cash Used For Capital and Related Activities		(137,007.75)
Cash Provided From Investment Activities:		
Interest Income		45,013.54
		<hr/>
Net Decrease in Cash		(149,478.11)
Cash and Cash Equivalents at July 1, 2000		877,834.74
		<hr/>
Cash and Cash Equivalents at June 30, 2001	\$	<u>728,356.63</u>

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

NORTH CAROLINA PORTS RAILWAY COMMISSION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The accompanying consolidated financial statements include the accounts of the North Carolina Ports Railway Commission (the Beaufort and Morehead Railway) and its wholly-owned subsidiary, Beaufort & Morehead Railway, Inc. (BMRI). All significant intercompany accounts and transactions have been eliminated. The operations of the Commission (including BMRI) are included as a component unit of the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Basis of Presentation** - The Commission is accounted for as a proprietary fund type (enterprise fund) in conformity with the accounting and reporting requirements of the Governmental Accounting Standards Board. The accompanying consolidated financial statements have been prepared in accordance with the accrual basis of accounting and include all funds administered by the Commission.
- C. Cash and Cash Equivalents** - In addition to cash on deposit with private bank accounts, this classification includes short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool).
- D. Receivables** - Accounts receivable are shown at book value with no provision for doubtful accounts considered necessary.
- E. Fixed Assets and Depreciation** - Fixed assets are stated at cost at the date of acquisition. The Commission capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.
- F. Vacation and Sick Leave** - The Commission's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 2 - CREATION OF THE COMMISSION

The Commission was created by General Statute 143B-469 of the 1979 Session of the North Carolina General Assembly. In part, the Commission was authorized to operate, maintain and control all railway equipment and railway operations transferred to it by the North Carolina State Ports Authority. Administrative operations began in August 1980 and actual railway operations began January 12, 1981 with contributed capital of \$49,982.86.

NOTE 3 - OPERATIONS OF BMRI

During August 1995, the Commission purchased all of the outstanding stock of the Beaufort and Morehead Railway, Inc (BMRI). Effective December 31, 1999, the BMRI ceased operations and the Commission assumed all assets and liabilities and began operating as the Beaufort and Morehead Railway (BMR).

NOTE 4 - SOURCES OF REVENUE

The Commission leases its rail operations in Wilmington to Wilmington Terminal Railroad, LP and its rail operations in Morehead City to Carolina Rail Services, LP. Under these lease agreements, the Commission leases its trackage and operational rights to perform rail transportation services. In addition, the Commission leases a portion of its equipment (e.g. locomotives) to these companies. Under the terms of these leases, the Commission retains ownership of all assets. The basic term of the two lease agreements is 5 years with various options to terminate or renew the agreements indefinitely beyond that term.

Current operations of the BMR have been limited to switching revenue from occasional movements of fertilizer, fish meal and fish oil. Additional miscellaneous revenues have been generated from the sale of spare materials.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - DEPOSITS

All funds of the Commission are deposited in board-designated official depositories. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Cash and Investment Pool. Also, the Commission may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, the carrying amount of cash on deposit was \$728,356.63 and the bank balance was \$748,781.27.

Cash on deposit at year-end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 707,387.71	\$ 704,456.58
Cash on Deposit with Private Financial Institutions	<u>20,968.92</u>	<u>44,324.69</u>
	<u>\$ 728,356.63</u>	<u>\$ 748,781.27</u>

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These moneys are invested in accordance with G.S. § 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

All of the cash on deposit with private financial institutions at June 30, 2001 was covered by federal depository insurance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - PENSION PLANS

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

After five years of creditable service, employees qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service, reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service.

The funding policy for the Teachers' and State Employees' Retirement System provides for periodic employer and member contributions at actuarially determined rates that expressed as percentages of annual covered payroll are sufficient to accumulate assets needed to pay benefits when due. The system is funded by member contributions of 6% of compensation and by employer contributions of 5.33% of covered payroll for the year ended June 30, 2001. Benefit and contribution provisions are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

For the year ended June 30, 2001, the Commission had a total payroll of \$238,631.48, of which \$177,674.60 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$10,660.48 and \$9,470.06, respectively. The Commission made one hundred percent of its annual required contributions to the retirement plan for the years ended June 30, 2001, 2000, and 1999, which were \$9,470.06, \$11,788.35, and \$9,372.81, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- B. Railroad Retirement System** - During 1999, the Commission petitioned and was granted the authority to operate as a railroad under the Surface Transportation Board. Effective January 1, 2000 the BMRI was essentially dissolved and the Commission began operations under the name of the Beaufort and Morehead Railway.

Each employee, as a condition of employment, is a member of the Railroad Retirement System. Tier I tax, the railroad equivalent of social security, is composed of three tax components: Old Age and Survivors (OASI), Disability (DI), and Health Insurance (HI) or Medicare. Both employee and employer contributions are calculated at the same rate, currently 7.65%. Tier II tax is the railroad equivalent of a private pension. Both employee and employer pay an additional tax, 4.9% and 16.1%, respectively to finance railroad retirement benefit payments over social security levels. Both Tier I and Tier II contributions are limited to maximum compensation bases. For the period July 1, 2000 through December 31, 2000, the compensation base for contributions was limited to \$76,200.00 and \$56,700.00 for Tier I and Tier II, respectively. For the period January 1, 2001 through June 30, 2001, the compensation base for contributions was limited to \$80,400.00 and \$59,700.00 for Tier I and Tier II, respectively. For the year ended June 30, 2001, total employee and employer contributions for Tier I and Tier II benefits were \$28,585.35 and \$53,201.23, respectively.

The Railroad Unemployment Insurance Act (RUIA) is financed by taxes paid solely by railroad employers and is currently based on taxable earnings of employees. For the period July 1, 2000 through December 31, 2000, the rate was 1.67% of the first \$1,005.00 earned per month per employee. For the period January 1, 2001 through June 30, 2001 the rate was 2.44% of the first \$1,050.00 earned per month per employee. Total employer contributions for the year were \$2,179.74.

The Supplemental Annuity work-hour tax is funded by taxes paid solely by railroad employers. The tax was funded by employer contributions of \$0.265 for each employee work-hour for the period July 1, 2000 through December 31, 2000 and \$0.26 for each employee work-hour for the period January 1, 2001 through June 30, 2001. For the year ended June 30, 2001 total employer contributions were \$4,231.49.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The Commission participates in state administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina, and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The Commission contributed 1.28% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2001, the Commission's total contribution to the Plan was \$2,274.24. The Commission assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long Term Disability -** The Commission participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. The Plan provides disability income to eligible participants. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The Commission contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2001, the Commission's total contribution to the DIPNC was \$923.91. The Commission assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - CAPITAL LEASES

Future minimum lease payments under capital lease obligations consist of the following at June 30, 2001:

<u>Fiscal Year</u>	<u>Amount</u>
2002	<u>\$ 6,180.00</u>

Leased assets amounted to \$21,746.30 at June 30, 2001.

NOTE 9 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2001:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 6,485.56
2003	6,485.56
2004	100.00
2005	100.00
2006	100.00
	<u>\$ 13,271.12</u>

Rental expense for all operating leases during the year was \$10,279.82.

NOTE 10 - PENDING LITIGATION AND OTHER CONTINGENCIES

The Commission is subject to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of such matters, no provision for any liability has been made in the consolidated financial statements. Commission management is of the opinion that the liability, if any, for any matter which it is a party of, will not have a material adverse effect on the financial position of the Commission.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in various state-administered risk pools, purchase of commercial insurance, and self retention of certain risks.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess liability coverage up to \$11,000,000 public officers' and employees' via contract with a private insurance company. The premium, based on a composite rate, is paid by the Commission directly to the insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Commission also purchased through the Fund extended coverage and other property coverage such as vandalism, theft and "all risks" for buildings and contents.

Losses covered by the Fund are subject to a \$500 per occurrence deductible except theft losses carry a \$1,000 per occurrence deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

All State-owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rating plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses occurring in-state are \$500,000 per claimant and \$5,000,000 per occurrence. The Commission is charged premiums to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

The Commission is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible.

Other coverage not handled by the North Carolina Department of Insurance is purchased through the State's insurance agent of record. Insurance purchased in this manner includes coverage of \$851,500 with a \$5,000 per occurrence deductible for losses incurred to rolling stock (locomotives and switchers).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 12 - CHANGES IN FIXED ASSETS

A summary of changes in the fixed assets is presented as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land and Land Improvements	\$ 524,650.00	\$ 0.00	\$ 0.00	\$ 524,650.00
Buildings	153,860.95	102,261.45		256,122.40
Locomotives and Other Equipment	1,225,684.73	47,246.30	55,255.00	1,217,676.03
Construction in Progress		102,261.45	102,261.45	
Total Fixed Assets	<u>\$ 1,904,195.68</u>	<u>\$ 251,769.20</u>	<u>\$ 157,516.45</u>	\$ 1,998,448.43
Less: Accumulated Depreciation				<u>1,009,222.26</u>
Net Fixed Assets				<u>\$ 989,226.17</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - FUNCTIONAL BREAKDOWN OF EXPENSES

Personal Services:		
Salaries	\$ 239,277.03	
Salary Related Items	78,606.77	
Total Personal Services		\$ 317,883.80
Supplies and Materials:		
Supplies, Parts, and Materials	\$ 163,853.88	
Radio Island Expenses	126,433.54	
Office Supplies	6,659.67	
Total Supplies and Materials		296,947.09
Services:		
Postage	\$ 614.66	
Communications	4,747.71	
Dues and Subscriptions	3,274.33	
Travel	14,060.87	
Rental Expense	19,946.13	
Utilities	2,107.78	
Maintenance	4,256.08	
Current Repairs and Services	13,864.52	
Board Member Expense	2,347.25	
Professional Fees	10,426.28	
Business Promotion	1,736.76	
Training	4,694.83	
Total Services		82,077.20
Depreciation/Amortization		101,500.30
Insurance		25,542.27
Other Expenses:		
Licenses and Permits	\$ 600.00	
Taxes	55.00	
Total Other Expenses		655.00
Total Operating Expenses		<u>\$ 824,605.66</u>

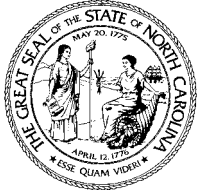
NOTE 14 - ACCOUNTING CHANGES

The Commission deposits certain funds with the State Treasurer's Cash and Investment Pool, which participates in securities lending activities. In prior years it was the State's policy to allocate the risk associated with these transactions to each component unit. For the year ending June 30, 2001, the State changed its policy, as a result of discussion with the GASB technical staff, to report the associated risk as part of the State of North Carolina's fiduciary funds rather than to allocate the risk to component units. The effect of this change removes from the Commission issued consolidated financial statements the assets and liabilities associated with the State Treasurer's security lending program. This change does not affect the Commission's beginning retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - SUBSEQUENT EVENTS

An offer to purchase 4.45 acres (including a small parcel of land owned by the North Carolina Department of Transportation) has been received for \$465,000.00. A deposit in the amount of \$23,500.00 was received by the State Property Office on April 11, 2001 and is awaiting acceptance by the Department of Administration and/or the Council of State. If accepted, the Commission will receive a total of \$425,025.00. The value of the land as recorded by the Commission totaled \$329,780.00 at June 30, 2001.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
North Carolina Ports Railway Commission
Wilmington, North Carolina

We have audited the consolidated financial statements of the North Carolina Ports Railway Commission and its subsidiary, a component unit of the State of North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated August 30, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the Commission's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of consolidated 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS* (CONCLUDED)**

detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and staff of the Commission, the Governor, the State Controller, the General Assembly, and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

August 30, 2001

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