

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF U.S.S. NORTH CAROLINA BATTLESHIP COMMISSION

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED SEPTEMBER 30, 2000

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
U.S.S. NORTH CAROLINA BATTLESHIP COMMISSION
WILMINGTON, NORTH CAROLINA
FOR THE YEAR ENDED SEPTEMBER 30, 2000

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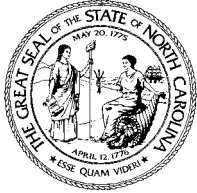
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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The U.S.S. North Carolina Battleship Commission

This report presents the results of our financial statement audit of the U.S.S. North Carolina Battleship Commission (the Commission) for the year ended September 30, 2000. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Commission 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 Commission 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 financial statements that relate solely to the U.S.S. North Carolina Battleship Commission. 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 financial statements that relate solely to the U.S.S. North Carolina Battleship Commission. A summary of our reporting objectives and audit results are:

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

Results - The accompanying 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.

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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 financial statements.

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

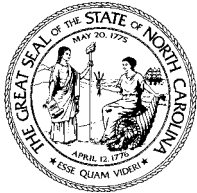
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

Captain David R. Scheu, USN (Ret), Director
U.S.S. North Carolina Battleship Commission
Wilmington, North Carolina

We have audited the accompanying Balance Sheet of the U.S.S. North Carolina Battleship Commission as of September 30, 2000 and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of September 30, 2000 and the results of its operations and cash flows 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 report dated July 13, 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. 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.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

July 13, 2001

U.S.S. North Carolina Battleship Commission
Balance Sheet
September 30, 2000

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,003,491.34
Investments	3,881,023.68
Accounts Receivable	2,454.17
Pledges Receivable	294,369.69
Inventories	235,417.25
Prepaid Expenses	95,313.89

Total Current Assets 5,512,070.02

Fixed Assets:

Land	97,425.80
Plant and Equipment	2,955,702.73
Construction in Progress	1,064,415.72

Total Fixed Assets 4,117,544.25
Less: Accumulated Depreciation (2,074,127.08)

Net Fixed Assets 2,043,417.17

Noncurrent Assets:

Pledges Receivable	<u>183,075.00</u>
--------------------	-------------------

Total Assets \$ 7,738,562.19

LIABILITIES AND FUND EQUITY

Current Liabilities:

Accounts Payable	\$ 31,314.63
Accrued Payroll	1,687.48
Accrued Vacation Leave	48,071.18
Deferred Revenue	4,217.00

Total Current Liabilities 85,290.29

Fund Equity:

Contributed Capital	512,934.07
Retained Earnings	<u>7,140,337.83</u>

Total Fund Equity 7,653,271.90

Total Liabilities and Fund Equity \$ 7,738,562.19

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

***U.S.S. North Carolina Battleship Commission
Statement of Revenues, Expenses, and
Changes in Retained Earnings
For the Year Ended September 30, 2000***

Exhibit B

Operating Revenues:	
Admissions	\$ 1,398,760.00
Net Sales	665,508.90
Other Income	31,239.63
	<hr/>
Total Operating Revenues	2,095,508.53
	<hr/>
Operating Expenses:	
Personal Services	897,007.04
Supplies and Materials	32,614.38
Purchases for Resale	320,251.15
Advertising	297,225.83
Repair and Maintenance	50,985.96
Utilities	96,395.31
Professional Fees	5,043.29
Printing	16,750.45
Equipment	5,780.88
Postage and Freight	20,360.93
Contract Services	210,557.62
Other Services	22,821.41
Travel	32,362.03
Depreciation	181,900.33
Arts & Artifacts	9,945.52
Insurance and Bonding	17,643.64
Other Expenses	63,946.25
	<hr/>
Total Operating Expenses	2,281,592.02
	<hr/>
Net Loss From Operations	(186,083.49)
	<hr/>
Non-Operating Items:	
Interest Income	182,676.69
Contributions	87,714.66
Net Gain on Sale of Investments	92,417.05
Net Increase in the Fair Value of Investments	45,564.72
Ship Restoration	(14,003.59)
	<hr/>
Total Non-Operating Income	394,369.53
	<hr/>
Net Gain	208,286.04
Retained Earnings October 1, 1999	6,932,051.79
	<hr/>
Retained Earnings September 30, 2000	\$ 7,140,337.83
	<hr/>

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

U.S.S. North Carolina Battleship Commission
Statement of Cash Flows
For the Year Ended September 30, 2000

Exhibit C

Cash Flows From Operating Activities:	
Net Loss from Operations	\$ (186,083.49)
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:	
Depreciation	181,900.33
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	1,154.73
Increase in Inventory	(1,505.20)
Decrease in Prepaid Items	797.76
Decrease in Accounts Payable	(513.00)
Decrease in Accrued Payroll	(26,033.12)
Decrease in Accrued Vacation Leave	(1,221.67)
Increase in Deferred Revenue	1,659.57
Total Cash Used For Operating Activities	(29,844.09)
Cash Provided From (Used For) Capital and Related Financing Activities:	
Acquisition of Fixed Assets	(15,730.67)
Construction in Progress	(286,133.88)
Contributions	72,614.66
Ship Restoration	(14,003.59)
Total Cash Used For Capital and Related Financing Activities	(243,253.48)
Cash Provided From (Used For) Investment Activities:	
Proceeds from Sale of Investments	5,301,231.43
Purchase of Investments	(5,177,536.75)
Interest Income	182,676.69
Total Cash Provided From Investment Activities	306,371.37
Net Increase in Cash and Cash Equivalents	33,273.80
Cash and Cash Equivalents September 30, 1999	970,217.54
Cash and Cash Equivalents September 30, 2000	\$ 1,003,491.34

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

U.S.S. NORTH CAROLINA BATTLESHIP COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. The accompanying financial statements present all funds for which the Commission's board of directors is accountable. The financial statements of the Commission are an integral part of the State's *Comprehensive Annual Financial Report*.
- B. Basis of Accounting** - 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 financial statements have been prepared in accordance with the accrual basis of accounting and include all funds administered by the Commission. The accrual basis of accounting recognizes revenue when earned and expense when the obligation is incurred.
- C. Cash and Cash Equivalents** - This account classification as presented on the balance sheet, includes petty cash, money market accounts and all bank accounts. Cash and cash equivalents as presented in the statement of cash flows includes cash as defined above.
- D. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, and certificates of deposit of the Commission. Except for money market funds and certificates of deposit not held by a governmental external investment pool and other asset holdings, these investments are reported at fair value for year-end financial reporting purposes. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices.
- Money market funds and certificates of deposit not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased, or at fair market value or appraised value at date of gift, if donated.
- E. Receivables** - The Commission considers its accounts and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- F. Inventories** - All inventories are valued at the lower of cost or market. Cost is computed by dividing the total cost of units available for sale by the number of units available for sale. This moving weighted average cost is then multiplied by the number of units in the ending inventory.
- G. Fixed Assets and Depreciation** - Fixed Assets are stated at cost or fair market value in case of gifts less accumulated depreciation. The Commission capitalizes fixed assets that have a value or cost in excess of \$500 at the date of acquisition and an expected useful life of one or more years. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their service lives, using the straight-line method.
- H. Donated Assets** - All donated assets are recorded at the fair market value at date of gift.
- I. Income Taxes** - The U.S.S. North Carolina Battleship Commission, an official agency of the State of North Carolina, qualifies as a tax exempt organization. Therefore, no provision for income taxes is reflected in the financial statements.
- J. 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 December 31 is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at September 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and September 30th.

Future sick leave benefits are not accrued. The accumulation of unused sick leave earned is unlimited, but the employee cannot be compensated for any unused sick leave upon termination of employment.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - At year end, cash on hand was \$7,410.00. The carrying amount (book balance) of the Commission's demand and time deposits was \$1,565,565.67 and the bank balance was \$1,603,446.18.

The bank balance of demand deposits with private financial institutions at September 30, 2000 was \$3,963.13. These deposits were covered by federal depository insurance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The bank balance of time deposits with private financial institutions at September 30, 2000 consisted of interest bearing checking accounts, certificates of deposit, and money market accounts totaling \$1,599,483.05. Of this amount, \$669,484.33 was covered by federal depository insurance, \$100,000.00 was covered by securities protection insurance, and \$829,998.72 was not insured or collateralized.

- B. Investments** - As outlined in its cash management plan the Commission is authorized to invest excess funds for the purposes of earning additional income.

The Commission's investments are categorized to give an indication of the level of risk assumed by the Commission. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the Commission's name.

A summary of the Commission's investments at September 30, 2000 is presented below:

	Fair Value			
	Risk Category			
	1	2	3	Total
Categorized Investments:				
U.S. Government Securities	\$ 0.00	\$ 0.00	\$ 858,292.23	\$ 858,292.23
Corporate Bonds			809,764.20	809,764.20
Corporate Common Stock			1,524,571.01	1,524,571.01
Total Categorized Investments	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 3,192,627.44</u>	\$ 3,192,627.44
Investments Not Categorized:				
Certificates of Deposit				569,484.33
Money Market Funds				118,911.91
Total Investments				<u>\$ 3,881,023.68</u>

The above certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RESERVE FUND

In accordance with North Carolina G.S. 143B-74.1 the Commission established, on January 6, 1984, a cash reserve fund for contingencies and emergencies beyond those occurring in the course of routine maintenance and operation. This reserve is equal to one-half of the authorized operating budget for that fiscal year.

Accordingly, 50% of the authorized normal operating budget for the fiscal year 2000 of \$2,238,037.66 yields a restricted reserve requirement of \$1,119,018.83. At year end, the value of the investment portfolio, described in Note 2, exceeded the restricted reserve requirement; therefore, the \$2,762,004.85 excess is considered available for operations and the restoration projects.

NOTE 4 - RESTORATION FUND

In 1998, the Commission undertook a capital campaign for the restoration of the U.S.S. Battleship North Carolina. In addition to funding three currently needed major restoration projects, another goal of the campaign was to establish a Restoration Fund from which future restoration projects could be funded. For the fiscal year ended September 30, 2000, the Battleship received pledges and donations in the amount of \$50,224.11. Because of the restricted-use nature of the Restoration Fund, the portfolio is managed as a separate account by Franklin Street Partners.

At year-end, the fair value of the Franklin Street Partners Restoration Fund segment of the portfolio, summarized in Note 2, was \$575,603.59.

NOTE 5 - INVENTORIES

Inventories at year end consisted of merchandise for resale. The Ship's Store and the concession inventories were valued at \$235,225.90 and \$191.35, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - CHANGES IN FIXED ASSETS

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

	Balance October 1, 1999	Additions	Deletions	Balance September 30, 2000
Land	\$ 97,425.80	\$ 0.00	\$ 0.00	\$ 97,425.80
Plant and Equipment	2,924,872.06	30,830.67		2,955,702.73
Construction in Progress	778,281.84	286,133.88		1,064,415.72
Total Fixed Assets	<u>\$ 3,800,579.70</u>	<u>\$ 316,964.55</u>	<u>\$ 0.00</u>	\$ 4,117,544.25
Less: Accumulated Depreciation				<u>2,074,127.08</u>
Net Fixed Assets				<u>\$ 2,043,417.17</u>

NOTE 7 - 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 of North Carolina (System), a multiple-employer, cost-sharing, defined benefit pension plan which is 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 1.80% for the period of October 1, 1999 through June 30, 2000 and 1.81% for the period of July 1, 2000 through September 30, 2000 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 8.15% of covered payroll for the period of October 1, 1999 through June 30, 2000 and 5.33% of covered payroll for the period of July 1, 2000 through September 30, 2000. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended September 30, 2000, the Commission had a total payroll of \$721,057.79, of which \$661,137.13 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$39,668.23 and \$48,812.00, respectively.

The Commission made one hundred percent of its annual required contributions to the retirement plan for the years ended September 30, 2000, 1999, and 1998 which were \$48,812.00, \$44,207.19, and \$43,708.98, 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/OSC> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plan - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan's participants. Voluntary contributions by employees amounted to \$10,530.59 for the year ended September 30, 2000.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The Commission participates in state administered programs which provide health care benefits to eligible former employees. Additional detailed information about these programs is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. For the period October 1, 1999 through June 30, 2000 contributions to the plan were not required. For the period July 1 through September 30, 2000 the Commission contributed 1.28% of covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended September 30, 2000, the Commission's total contribution to the Plan was \$2,301.58. The Commission assumes no liability for these health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Teacher's 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. For the fiscal year ended September 30, 2000, the Commission's total contribution to the DIPNC was \$3,437.91. 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*.

NOTE 9 - 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 an additional \$11,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the Commission directly to the state's agent of record.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses for all operations supported by the State's General Fund is provided at no cost to the Commission. Other operations not supported by the State's General Fund are charged for fire coverage. The Commission also purchased through the Fund extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft and "all risks" for buildings and contents. The Fund charges premiums for this coverage discounted from industry manual rates. The Fund generally insures fire losses up to \$1.1 million and extended coverage losses up to \$100,000 per building and \$500,000 per occurrence. All losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft that carries a \$1,000 per occurrence

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deductible. The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund. 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 State 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 incurring 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. The blanket honesty bond is handled by the State Department of Insurance with coverage of \$5,000,000 per occurrence and a \$10,000 deductible. As of January 6, 2000, the deductible increased to \$50,000.

Other coverage not handled by the State Department of Insurance is purchased through the State's agent of record.

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 to pay 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 State Controller.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - THE FRIENDS OF THE BATTLESHIP NORTH CAROLINA

The Friends of the Battleship North Carolina is a nonprofit organization that raises funds for providing additional resources to the U.S.S. North Carolina Battleship Commission. The records of the organization are maintained separately from the Commission. During the fiscal year ended September 30, 2000, the organization donated \$22,390.55 to the Commission.

NOTE 11 - PLEDGES RECEIVABLE

The Commission has pledges receivable in the amount of \$477,444.69. The pledges are receivable annually over varying time periods ranging from 1 to 3 years. In accordance with generally accepted accounting principles, the original amount pledged has been discounted based on a projected interest rate for the outstanding periods. Due to the nature of the donor organizations, the Commission considers these pledges to be collectible. Scheduled receipts and the discounted amount under these pledge commitments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2001	\$ 294,369.69
2002	109,175.00
2003	<u>73,900.00</u>
Total Pledge Receipts Expected	\$ 477,444.69
Discount Amount Representing Interest (4.5% Rate of Interest)	<u>10,928.87</u>
Present Value of Pledge Receipts Expected	<u>\$ 466,515.82</u>

NOTE 12 - FUND EQUITY

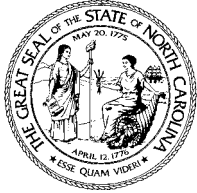
Changes in fund equity are summarized as follows:

Fund Equity at October 1, 1999	\$ 7,444,985.86
Net Gain for the Year	<u>208,286.04</u>
Fund Equity at September 30, 2000	<u>\$ 7,653,271.90</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

The total fund equity balance noted above includes contributed capital comprised of the following items:

Donation - Citizens of North Carolina	\$ 312,934.07
State Appropriated Capital Improvements	<u>200,000.00</u>
Total Contributed Capital	<u>\$ 512,934.07</u>



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

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

Captain David R. Scheu, USN (Ret), Director
U.S.S. North Carolina Battleship Commission
Wilmington, North Carolina

We have audited the financial statements of the U.S.S. North Carolina Battleship Commission as of and for the year ended September 30, 2000, and have issued our report thereon dated July 13, 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 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 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 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 financial statements being audited may occur and not be 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.

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

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees, the Department of Cultural Resources, management and staff of the Commission, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ralph Campbell, Jr.
State Auditor

July 13, 2001

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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