



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
NORTH CAROLINA PORTS RAILWAY COMMISSION
WILMINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

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, 2002

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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
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, 2002. 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. As described in the Independent Auditor's Report on the Consolidated Financial Statements, the accompanying supplementary information is not audited.

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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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 THE CONSOLIDATED
FINANCIAL STATEMENTS**

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

We have audited the accompanying Consolidated Statement of Net Assets of the North Carolina Ports Railway Commission and its subsidiary, a component unit of the State of North Carolina, as of June 30, 2002 and the related Consolidated Statements of Revenues, Expenses, and Changes in Net Assets 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, 2002, 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.

The accompanying consolidated financial statements have been prepared assuming that the Commission will continue as a going concern. As discussed in Note 13 to the consolidated financial statements, the Board of Directors have recommended the legislative abolishment of the Commission and the transfer of assets to the North Carolina State Ports Authority. These factors raise substantial doubt about the Commission's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

As discussed in Note 14 to the consolidated financial statements, the Commission implemented GASB Statement No. 34, - *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* during the year ended June 30, 2002.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2002 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 7, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the North Carolina Ports Railway Commission provides this *Management's Discussion and Analysis* for readers of the Commission's consolidated financial statements. This narrative overview and analysis of the financial activities of the Commission is for the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the additional information that is furnished in Commission's financial statements which follow.

OVERVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic consolidated financial statements. The basic consolidated financial statements include four components: 1) Consolidated Statement of Net Assets, 2) Consolidated Statement of Changes in Revenues, Expenses, and Changes in Net Assets, 3) Consolidated Statement of Cash Flows, and 4) Notes to the Consolidated Financial Statements.

OVERALL FINANCIAL ANALYSIS

Consolidated Net Assets

The Commission's consolidated net assets totaled \$1,673,546.57 at June 30, 2002, compared to \$1,718,398.84 at June 30, 2001. The largest portion of the Commission's consolidated net assets reflects its investment in capital assets such as land, buildings, locomotives and equipment, and infrastructure, less accumulated depreciation. The Commission uses these capital assets to service its customers; consequentially, these assets are not available for future spending. The remaining balance of consolidated unrestricted net assets may be used to meet the Commission's ongoing obligations. Internally imposed designations of resources are not presented as restricted net assets.

Changes in Consolidated Net Assets

The Commission's consolidated net assets decreased by \$44,852.27 or 3%. Approximately 98% of the Commission's consolidated total revenue was generated through switching and easement charges in Wilmington and Morehead City. The majority of the consolidated expenses were for salary and related items, purchase of supplies and materials, and contracted services and repairs.

CAPITAL ASSET ADMINISTRATION

The Commission's investment in capital assets as of June 30, 2002 amounts to \$6,363,336.48, net of accumulated depreciation of \$5,344,447.83, leaving a net book value of \$1,018,888.65. This investment in capital assets includes land, buildings, locomotives and equipment and infrastructure. Infrastructure assets are items that are normally immovable and of value only

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

to the Commission, such as track, bridges, trestles, culverts, and similar items. Additional information on the Commission's capital assets can be found in Note 11 of the notes to the consolidated financial statements of this report.

ECONOMIC FACTORS AND POTENTIALLY SIGNIFICANT ITEMS

During the year ended June 30, 2002, total operating revenues decreased by \$88,674.68 or 14% in comparison to the year ended June 30, 2001. This decrease was attributable to an overall declining economy and is expected to turnaround in the succeeding year. Operating expenses decreased by \$195,477.50 or 24% in the year ended June 30, 2002 when compared to June 30, 2001. This decrease was attributable to elevated expenses in the prior year to rebuild tracks at Radio Island. The above operating activities and a decrease in nonoperating revenue resulted in a Cash and Cash Equivalent decrease of \$85,386.04 or 12% from \$728,356.63 to \$642,970.59.

During the year ended June 30, 2002, the Board of Directors voted 3 to 2 to recommend the legislative abolishment of the Commission and the transfer of assets to the North Carolina State Ports Authority. Currently, this recommendation is before the House of Representatives Rules Committee. Additional information can be found in Note 13 to the consolidated financial statements of this report.

North Carolina Ports Railway Commission
Consolidated Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 642,970.59
Accounts Receivable	19,111.79
Prepaid Items	26,550.07

Total Current Assets 688,632.45

Noncurrent Assets:

Capital Assets, net (Note 11)	1,018,888.65
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Total Assets 1,707,521.10

LIABILITIES

Current Liabilities:

Accounts Payable	10,652.97
Accrued Vacation Leave	23,321.56

Total Current Liabilities 33,974.53

NET ASSETS

Invested in Capital Assets	1,018,888.65
Unrestricted	654,657.92

Total Net Assets \$ 1,673,546.57

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 Net Assets
For the Year Ended June 30, 2002

Exhibit B

Operating Revenues:		
Rental and Lease Earnings	\$	538,640.02
Miscellaneous		10,264.19
Total Operating Revenues		548,904.21
Operating Expenses:		
Personal Services		304,797.79
Supplies and Materials		107,174.87
Services		113,040.84
Depreciation		64,735.57
Insurance and Bonding		38,999.54
Other		379.55
Total Operating Expenses		629,128.16
Net Loss From Operations		(80,223.95)
Nonoperating Revenues:		
Investment Earnings		35,371.68
Decrease in Net Assets		(44,852.27)
Net Assets July 1, 2001		1,718,398.84
Net Assets June 30, 2002	\$	1,673,546.57

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, 2002

Exhibit C

Cash Flows Provided From (Used For) Operating Activities:

Receipts from Customers	\$ 558,494.63
Payments to Vendors and Suppliers	(287,387.44)
Payments to Employees	(301,551.05)
Other Receipts	10,264.19

Net Cash Flows Used For Operating Activities

\$ (20,179.67)

Cash Used For Capital and Related Financing Activities:

Acquisition of Capital Assets	(94,398.05)
Principal Payments on Capital Leases	(6,180.00)

Net Cash Used For Capital and Related Financing Activities

(100,578.05)

Cash Provided From Investment Activities:

Investment Earnings	35,371.68
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Net Decrease in Cash and Cash Equivalents

(85,386.04)

Cash and Cash Equivalents at July 1, 2001

728,356.63

Cash and Cash Equivalents at June 30, 2002

\$ 642,970.59

**Reconciliation of Net Operating Income to Net Cash
Used for Operating Activities:**

Operating Loss	\$ (80,223.95)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	64,735.57
Increase (Decrease) in Assets:	
Receivables	19,854.61
Prepaid Items	(21,631.03)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Liabilities	(6,161.61)
Accrued Vacation Leave	3,246.74

Net Cash Used for Operating Activities

\$ (20,179.67)

Reconciliation of Cash and Cash Equivalent Balances:

Current Assets	
Cash and Cash Equivalents	<u>\$ 642,970.59</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, 2002

NOTE 1 - 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 is accountable. The accompanying consolidated financial statements include the accounts of the North Carolina Ports Railway Commission 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 accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* effective for the Commission's year ended June 30, 2002, the full scope of the Commission's activities is considered to be a single business-type activity (BTA).
- C. Basis of Accounting** - The financial statements of the Commission have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Commission does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** - This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes cash on deposit with private bank accounts and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool).
- E. Receivables** - Accounts receivable are shown at book value with no provision for doubtful accounts considered necessary.
- F. Capital Assets and Depreciation** - Capital 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 using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for track, buildings, trestles and culverts, and 5 to 25 years for locomotives and equipment.
- G. Compensated Absences** - 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.
- H. Net Assets** – The Commission's net assets are classified as follows:
- Invested in Capital Assets** – This represents the Commission's total investment in capital assets.
- Unrestricted Net Assets** – Unrestricted net assets include resources derived from rental and lease earnings, miscellaneous other revenue, and interest income.
- Revenue and Expense Recognition** – The Commission presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the Commission. Operating revenues include all charges to customers. Revenues from nonexchange transactions such as investment income are considered nonoperating since these are either investing, capital or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities.

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). At the recommendation of the Commission's Board of Directors, the BMRI resumed operations effective January 1, 2002.

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 BMRI have been limited to switching revenue from occasional movements of fertilizer, fish meal and fish oil.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 \$642,970.59 and the bank balance was \$655,379.75.

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

	Book Balance	Bank Balance
	<hr/>	<hr/>
Cash on Deposit with State Treasurer	\$ 615,494.75	\$ 616,694.75
Cash on Deposit with Private Financial Institutions	<hr/>	<hr/>
	27,475.84	38,685.00
	<hr/>	<hr/>
	\$ 642,970.59	\$ 655,379.75
	<hr/>	<hr/>

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, 2002 was covered by federal depository insurance.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

After five years of creditable service, members of the Teachers' and State Employees' Retirement System 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.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contributions rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the Commission had a total payroll of \$221,548.36, of which \$180,990.57 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$10,859.43 and \$3,565.51, respectively. The Commission made one hundred percent of its annual required contributions to the retirement plan for the years ended June 30, 2002, 2001, and 2000, which were \$3,565.51, \$9,470.06, and \$11,788.35, 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.

- B. Railroad Retirement System** - 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 to finance railroad retirement benefit payments over social

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

security levels. Contributions are limited to maximum compensation bases. For the period July 1, 2001 through December 31, 2001, the rate was 4.9% and 16.1% for employees and employers, respectively and the compensation base for contributions was limited to \$80,400.00 and \$59,700.00 for Tier I and Tier II, respectively. For the period January 1, 2002 through June 30, 2002, the rate was 4.9% and 15.6% for employees and employers, respectively and the compensation base for contributions was limited to \$84,900.00 and \$63,000.00 for Tier I and Tier II, respectively. For the year ended June 30, 2002, total employee and employer contributions for Tier I and Tier II benefits were \$26,124.84 and \$48,278.69, 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, 2001 through December 31, 2001, the rate was 2.44% of the first \$1,050.00 earned per month per employee. For the period January 1, 2002 through June 30, 2002 the rate was 12% of the first \$1,100.00 earned per month per employee. Total employer contributions for the year were \$7,107.08.

The Supplemental Annuity work-hour tax is funded by taxes paid solely by railroad employers. The tax was funded by employer contributions of \$0.26 for each employee work-hour for the period July 1, 2001 through December 31, 2001. The Railroad Retirement and Survivors' Improvement Act of 2001 repealed the Supplemental Annuity work-hour tax effective January 1, 2002. For the year ended June 30, 2002 total employer contributions were \$1,701.96.

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 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the Commission's total contribution to the Plan was \$4,253.28. The Commission assumes no liability for retiree

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, 2002, the Commission's total contribution to the DIPNC was \$941.15. 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 8 - OPERATING LEASES OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 6,485.56
2004	100.00
2005	100.00
2006	100.00
	<u>\$ 6,785.56</u>

Rental expense for all operating leases during the year was \$6,435.56.

NOTE 9 - 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 of these matters, will not have a material adverse effect on the financial position of the Commission.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - 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 state-administered insurance programs, purchase of commercial insurance, and self retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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 public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The Commission pays the premium, based on a composite rate, directly to the private insurer.

The Commission is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible. The Commission also purchased through the Fund extended coverage for buildings and contents.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-state are \$500,000 per claimant and \$5,000,000 per occurrence. The Commission pays premiums to the Department of Insurance for the coverage.

The Commission is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Coverage limit is \$5,000,000 per occurrence with 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 \$926,500 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 (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health care coverage through HMO plans.

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 11 - CAPITAL ASSETS

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

	Beginning Balance	Adjustments	Increases	Decreases	Ending Balances
Capital Assets, Non-Depreciable:					
Land	\$ 524,650.00	\$	\$	\$	\$ 524,650.00
Capital Assets, Depreciable:					
Buildings	256,122.40				256,122.40
Locomotives and Equipment	1,217,676.03		24,921.60		1,242,597.63
General Infrastructure		4,270,490.00	69,476.45		4,339,966.45
Totals	1,473,798.43	4,270,490.00	94,398.05		5,838,686.48
Less Accumulated Depreciation for:					
Buildings	(50,990.46)		(9,576.24)		(60,566.70)
Locomotives and Equipment	(958,231.80)		(54,869.84)		(1,013,101.64)
General Infrastructure		(4,270,490.00)	(289.49)		(4,270,779.49)
Totals	(1,009,222.26)	(4,270,490.00)	(64,735.57)		(5,344,447.83)
Total Capital Assets, Depreciable, Net	464,576.17		29,662.48		494,238.65
Capital Assets, net	\$ 989,226.17	\$ 0.00	\$ 29,662.48	\$ 0.00	\$ 1,018,888.65

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OPERATING EXPENSES BY FUNCTION

The Commission's operating expenses by functional classification are presented as follows:

Personal Services:		
Salaries	\$ 224,795.13	
Salary Related Items	80,002.66	
Total Personal Services		\$ 304,797.79
Supplies and Materials:		
Supplies, Parts, and Materials	\$ 102,067.71	
Radio Island Expenses	470.88	
Office Supplies	4,636.28	
Total Supplies and Materials		107,174.87
Services:		
Postage	\$ 614.95	
Communications	4,973.07	
Dues and Subscriptions	3,578.85	
Travel	12,494.09	
Rental Expense	19,447.49	
Utilities	2,998.76	
Maintenance	8,867.41	
Current Repairs and Services	21,481.18	
Board Member Expense	1,215.23	
Professional Fees	32,345.82	
Business Promotion	1,050.56	
Training	3,653.53	
Computer Software	319.90	
Total Services		113,040.84
Depreciation		64,735.57
Insurance		38,999.54
Other Expenses:		
Licenses and Permits	300.00	
Taxes	55.00	
Bank Fees	24.55	
Total Other Expenses		379.55
Total Operating Expenses		<u>\$ 629,128.16</u>

NOTE 13- GOING CONCERN

During the prior fiscal year, outside consultants were engaged to explore the advantages and disadvantages of feasible alternatives to the current organizational structure of the Commission. The results of the study emphasized that the most favorable option was to abolish the Commission, transfer its assets and rights to the North Carolina State Ports Authority, and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)

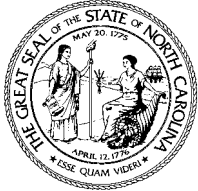
contract rail operations through the BMRI. During the October 12, 2001 Board of Directors' meeting, the Board voted 3 to 2 in favor of recommending to the Governor for the Commission to be abolished. Currently, the recommendation is before the House of Representatives Rules Committee and the results are pending.

NOTE 14- ACCOUNTING CHANGES

Effective July 1, 2001, the Commission implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant accounting changes in order to comply with the new requirements include classifying assets and liabilities as current or noncurrent and the capitalization of certain infrastructure assets previously expensed.

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) was received for \$465,000.00. If accepted by the Department of Administration and/or the Council of State, 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, 2002.



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
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, 2002, and have issued our report thereon dated August 7, 2002.

As discussed in Note 14 to the financial statements, the Commission implemented GASB Statement No. 34, - *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* during the year ended June 30, 2002.

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

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
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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 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 7, 2002

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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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Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. William H. Kincheloe	Chairman, North Carolina Ports Railway Commission
Mr. William C. Taylor	General Manager, North Carolina Ports Railway Commission

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Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N.C. House Speaker Pro-Tem
Director, Fiscal Research Division

September 13, 2002

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