



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF NORTH CAROLINA TURNPIKE AUTHORITY

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

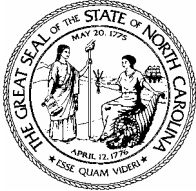
STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF  
NORTH CAROLINA TURNPIKE AUTHORITY  
RALEIGH, NORTH CAROLINA  
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)  
FOR THE YEAR ENDED JUNE 30, 2005**

**CHAIRMAN OF THE BOARD OF DIRECTORS**

**LYNDO TIPPETT**

**DAVID JOYNER, EXECUTIVE DIRECTOR**



Leslie W. Merritt, Jr., CPA, CFP  
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.ncauditor.net>

---

**AUDITOR'S TRANSMITTAL**

---

The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, North Carolina Turnpike Authority

We have completed a financial statement audit of North Carolina Turnpike Authority for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

*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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

# TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
FINANCIAL STATEMENTS	
A-1 Statement of Net Assets .....	5
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	6
A-3 Statement of Cash Flows .....	7
Notes to the Financial Statements .....	9
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	11
ORDERING INFORMATION .....	13



Leslie W. Merritt, Jr., CPA, CFP  
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.ncauditor.net>

---

**INDEPENDENT AUDITOR'S REPORT**

---

Board of Directors  
North Carolina Turnpike Authority  
Raleigh, North Carolina

We have audited the accompanying basic financial statements of North Carolina Turnpike Authority, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority'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 the 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 North Carolina Turnpike Authority as of June 30, 2005, and the changes in its financial position and its 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 June 2, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 2, 2006

## **NORTH CAROLINA TURNPIKE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The Management's Discussion and Analysis provides an overview of the North Carolina Turnpike Authority's activities during the fiscal year ended June 30, 2005. The discussion and analysis also includes condensed financial information comparing the current year to the prior year.

### **Overview of the Financial Statements**

The North Carolina Turnpike Authority is a public agency of the State of North Carolina located within the Department of Transportation and is a component unit of the State. As such, the Authority is included in the State of North Carolina Comprehensive Annual Financial Report. The accompanying statements were prepared in accordance with accounting principles generally accepted in the United States of America to represent the Authority's financial position separate from the State of North Carolina.

### **Financial Highlights and Analysis**

Although the North Carolina Turnpike Authority was created in October 2002, financial activity started late in fiscal year 2004. Activities for fiscal year 2004 and 2005 were limited to personal service contract payments, Board member per-diem, travel and other general operating expenditures.

Currently, the Turnpike Authority has no direct appropriations or revenue collections from the General Assembly. Funding for administrative expenditures is being advanced as needed from the Highway Trust Fund Administration line item to be repaid by the Turnpike Authority from revenue collections. Interest will begin to accrue on the advance one year after the Authority begins collecting tolls on a completed Turnpike project at a rate equal to the State Treasurer's average annual yield on its investment of Highway Trust Fund pursuant to

G.S. 147-6.1. Turnpike project funding may come from a combination of debt and Department of Transportation, Federal Highway Administration, and public private partnership participation as authorized in G.S.136-89.189 and G.S.136-89.191.

### **Net Assets and Revenues, Expenditures, and Changes In Net Assets**

For fiscal years 2004 and 2005, the Turnpike Authority ended with negative net assets. This is the result of no revenue collection or bond issuance with all funding coming from the Highway Trust Fund advance. The Turnpike Authority was created in 2002 with financial activity beginning in 2004 for initial start up.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

---

### **Condensed Statement of Net Assets**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Change</u>
Current Assets	\$ 0.00	\$ 0.00	\$ 0.00
Current Liabilities	6,181.24		6,181.24
Noncurrent Liabilities	57,970.10	6,065.30	51,904.80
Total Liabilities	<u>64,151.34</u>	<u>6,065.30</u>	<u>58,086.04</u>
<b>Net Assets</b>	<u>\$ (64,151.34)</u>	<u>\$ (6,065.30)</u>	<u>\$ (58,086.04)</u>

### **Condensed Statement of Revenues, Expenditures, and Changes in Net Assets**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Change</u>
Operating Revenues	\$ 0.00	\$ 0.00	\$ 0.00
Operating Expenditures	<u>58,086.04</u>	<u>6,065.30</u>	<u>52,020.74</u>
Operating Income (Loss)	<u>(58,086.04)</u>	<u>(6,065.30)</u>	<u>(52,020.74)</u>
Decrease In Net Assets	<u>(58,086.04)</u>	<u>(6,065.30)</u>	<u>(52,020.74)</u>
Net Assets - July 1	(6,065.30)		(6,065.30)
Net Assets - June 30	<u>\$ (64,151.34)</u>	<u>\$ (6,065.30)</u>	<u>\$ (58,086.04)</u>



***North Carolina Turnpike Authority***  
***Statement of Net Assets***  
***June 30, 2005***

***Exhibit A-1***

---

<b>ASSETS</b>	
Current Assets	\$ 0.00
Noncurrent Assets	0.00
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	6,181.24
Noncurrent Liabilities:	
Long-Term Liabilities (Note 2)	<u>57,970.10</u>
Total Liabilities	<u>64,151.34</u>
<b>NET ASSETS</b>	
Unrestricted (deficit)	<u>(64,151.34)</u>
Total (deficit) Net Assets (Note 3)	<u><u>\$ (64,151.34)</u></u>

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

***North Carolina Turnpike Authority  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005***

***Exhibit A-2***

**REVENUES**

Operating Revenues	\$ 0.00
--------------------	---------

**EXPENSES**

Operating Expenses:	
Personal Services	532.00
Supplies and Materials	152.60
Contracted Personal Services	39,536.92
Travel	9,454.15
Advertising	6,810.37
Dues and Subscription Fees	1,600.00
	<hr/>
Total Operating Expenses	58,086.04
	<hr/>
Operating (Loss)	(58,086.04)
	<hr/>
Increase (Decrease) in Net Assets	(58,086.04)

**NET ASSETS**

Net Assets (deficit) July 1, 2004	<hr/> (6,065.30)
Net Assets (deficit) June 30, 2005	<hr/> <hr/> \$ (64,151.34)

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

***North Carolina Turnpike Authority  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Payments to Employees/Board Members	(9,986.15)
Contracted Personal Services	(33,355.68)
Payments to Vendors and Suppliers	(8,562.97)
	<hr/>
Net Cash Provided (Used) by Operating Activities	(51,904.80)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Advance from Primary Government (Highway Trust Fund)	51,904.80
	<hr/>
Net Cash Provided by Noncapital Financing Activities	51,904.80

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Net Cash Provided (Used) by Capital and Related Financing Activities	0.00
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	0.00
Cash and Cash Equivalents, July 1, 2004	0.00
	<hr/>
Cash and Cash Equivalents, June 30, 2005	<u>\$ 0.00</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES**

Operating (Loss)	\$ (58,086.04)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Accounts Payable and Accrued Liabilities	6,181.24
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (51,904.80)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 0
Restricted Cash and Cash Equivalents	
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	
	<hr/>
Total Cash and Cash Equivalents - June 30, 2005	<u>\$ 0</u>

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

[ This Page Left Blank Intentionally ]

**NORTH CAROLINA TURNPIKE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** – The North Carolina Turnpike Authority was established by G.S. 136 Article 6H on October 3, 2002. The Authority is a component unit of the State of North Carolina located within the Department of Transportation, but exercises its powers independent of the Department. Currently, the Authority is authorized to construct, operate and maintain up to nine toll roads in the state.
- B. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina Turnpike Authority is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report. The Authority is governed by a nine member Board of Directors; two members are appointed by the Senate Pro-Tem and two by the Speaker of the House. The remaining five are appointed by the Governor, and include the Secretary of Transportation. Currently, all funding for the Turnpike Authority is being advanced from the Highway Trust Fund to be repaid once revenue collection begins.
- C. 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). The full scope of the Authority's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.
- D. Basis of Accounting** – The Turnpike Authority is accounted for as a proprietary fund type using 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 Fund Accounting, the Authority does not apply 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 FINANCIAL STATEMENTS (CONCLUDED)**

---

**E. Noncurrent Long-Term Liabilities** – Non-current long-term liabilities includes the Advance from the Highway Trust Fund that is not expected to be paid within the next fiscal year.

**F. Expense Recognition** – The Authority classifies its expenses as operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

**NOTE 2 - LONG-TERM DEBT**

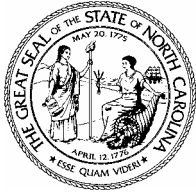
The following is a summary of changes in the Authority’s long-term obligations as of June 30, 2005:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>June 30, 2005</u>	<u>Due in Less Than One Year</u>
Advance from the Highway Trust Fund	<u>\$ 6,065.30</u>	<u>\$ 51,904.80</u>	<u>\$ 57,970.10</u>	<u>\$ 0.00</u>

Pursuant to G.S. 136-176(b), operation and project development costs for the Turnpike Authority are eligible for funding from the Highway Trust Fund Administration Funds. These funds are considered an Advance from Primary Government and are to be repaid from toll revenue as soon as possible. Beginning one year after the Authority begins collecting tolls on a completed Turnpike Project, interest shall accrue on any unpaid balance owed to the Highway Trust Fund at a rate equal to the State Treasurer’s average annual yield on its investment of Highway Trust Fund funds pursuant to G.S. 147-6.1.

**NOTE 3 - DEFICITS IN NET ASSETS**

All funding for the Turnpike Authority is advanced from the Highway Trust Fund. Due to this and no current toll collections, the Turnpike Fund has ended fiscal year 2005 with deficit net assets of \$64,151.34.



STATE OF NORTH CAROLINA  
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP  
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.ncauditor.net>

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

---

Board of Trustees  
North Carolina Turnpike Authority  
Raleigh, North Carolina

We have audited the financial statements of North Carolina Turnpike Authority, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated June 2, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of

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

---

our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, 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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 2, 2006



## **ORDERING INFORMATION**

---

Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647