



STATE OF NORTH CAROLINA

NORTH CAROLINA TURNPIKE AUTHORITY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

NORTH CAROLINA TURNPIKE AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

CHAIRMAN OF THE BOARD OF DIRECTORS

LYNDO TIPPETT

ADMINISTRATIVE OFFICER

DAVID JOYNER, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina Turnpike Authority for the year ended June 30, 2006, 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.

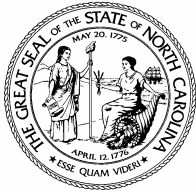
Leslie W. Merritt, Jr.

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

June 26, 2007

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
A-1 Statement of Net Assets	10
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	11
A-3 Statement of Cash Flows	12
Notes to the Financial Statements	13
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>	21
ORDERING INFORMATION	23



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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, 2006, 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, 2006, 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 19, 2007, 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 19, 2007

NORTH CAROLINA TURNPIKE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the North Carolina Turnpike Authority's activities during the fiscal year ended June 30, 2006. 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 2006 were limited to salaries, personnel and consultant service contract payments, Board member per-diem, travel and other general operating expenses.

Major accomplishments for the North Carolina Turnpike Authority (NCTA) for fiscal year 2006 included the following:

- A Chief Financial Officer was hired to lead and coordinate the accounting and financial responsibilities of the Turnpike Authority.
- The NCTA personnel staff increased to a total of ten employees.
- The NCTA offices were relocated from the North Carolina Department of Transportation building to a permanent residence located at 5400 Glenwood Avenue.
- The NCTA contracted the services of various highly skilled transportation, planning, and engineering consultants, as well as traffic and revenue, financial and bond counsel consultants to assist in the core operations.
- A nationally recognized environmental attorney was retained by the NCTA to help develop strategies for utilizing new opportunities for the NEPA (National Environmental Policy Act) process established under Section 6002 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).
- Project timelines, project cost estimates, NEPA process, and financing strategies were established, as well as gap funding identified and traffic and revenue feasibility studies completed for three major on-going projects; Triangle Expressway, Gaston Garden Parkway and the Monroe Connector Bypass.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Currently, the Turnpike Authority has no direct appropriations or revenue collections from the General Assembly. Funding for administrative expenses 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 North Carolina 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, Expenses, and Changes in Net Assets

For fiscal year 2006, the Turnpike Authority ended with negative net assets. This is the result of no revenue collection with all funding coming from the Highway Trust Fund advance.

Condensed Statement of Net Assets

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Change</u>
Current Assets	\$ 139,859.44	\$ 0.00	\$ 139,859.44
Capital Assets	20,683.78		20,683.78
Total Assets	<u>160,543.22</u>		<u>160,543.22</u>
Current Liabilities	563,582.19	6,181.24	557,400.95
Noncurrent Liabilities	<u>3,647,141.98</u>	<u>57,970.10</u>	<u>3,589,171.88</u>
Total Liabilities	4,210,724.17	64,151.34	4,146,572.83
Net Assets	<u>\$ (4,050,180.95)</u>	<u>\$ (64,151.34)</u>	<u>\$ (3,986,029.61)</u>

Current Assets

Cash and Cash Equivalents – Includes cash on deposit with the State Treasurer in an interest bearing account. The cash balance is due to a timing difference between the funding of the expenses by the Highway Trust Fund and the corresponding cash movement when the checks for goods or services are actually produced. The cash balance as of June 30, 2006, is result of a timing difference between the expense entry and when the checks are actually cut. The Highway Trust Fund is advancing the Turnpike Authority funding/cash for administrative expenses. The transfer is made mostly based on expenses recorded during that time. There is a time lag due to processing procedures between when these expenses are recorded and when payment is approved and the corresponding check produced. This results in a residual cash balance on the deposit with the State Treasurer.

Capital Assets

The increase in Capital Assets is due to the acquisition of office and computer equipment during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current Liabilities

The large increase is a direct result of an increase in expenses for contracted personnel services by the Turnpike Authority. These contracts were for preliminary engineering and feasibility studies for future toll roads.

Noncurrent Liabilities

This is attributable to the large increase in the advance from the Highway Trust Fund.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Change</u>
Operating Revenues	\$ 0.00	\$ 0.00	\$ 0.00
Operating Expenses	<u>3,986,157.00</u>	<u>58,086.04</u>	<u>3,928,070.96</u>
Operating (Loss)	<u>(3,986,157.00)</u>	<u>(58,086.04)</u>	<u>(3,928,070.96)</u>
Nonoperating Revenue	<u>127.39</u>		<u>127.39</u>
Decrease In Net Assets	<u>(3,986,029.61)</u>	<u>(58,086.04)</u>	<u>(3,927,943.57)</u>
Net Assets - July 1	<u>(64,151.34)</u>	<u>(6,065.30)</u>	<u>(58,086.04)</u>
Net Assets - June 30	<u><u>\$ (4,050,180.95)</u></u>	<u><u>\$ (64,151.34)</u></u>	<u><u>\$ (3,986,029.61)</u></u>

Operating Expenses

The large increase in operating expenses is a result of personnel and consultant service contracts being utilized, the hiring of additional NCTA employees, and the relocation and establishment of a permanent NCTA office residency.

Economic Outlook

As interest and expectations continue to increase for the North Carolina Turnpike Authority to provide congestion relief to the most heavily traveled areas of North Carolina by the means of toll road projects and to deliver these projects years or even decades sooner than would be possible through traditional methods, so too will the need to expand and develop the Turnpike Authority's operations to efficiently and effectively manage these projects. The following are a brief project description, estimated project cost, and timeline of each of the three major on-going projects.

Triangle Expressway

Project Description

The proposed 18.9 mile Triangle Expressway is comprised of three sections:

- Triangle Parkway will extend from NC 147 at I-40 south 3.4 miles, terminating at the interchange with I-540.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

- I-540P is the portion of I-540 that extends from NC 54 to NC 55. This 2.8-mile segment is currently under construction by the North Carolina Department of Transportation. As approved by the General Assembly in August 2006, including this section in the expressway system will enable the Triangle Parkway and Western Wake Parkway to function together as a contiguous toll facility.
- Western Wake Parkway will connect with I-540P and will extend from a northern junction with NC 55 near Research Triangle Park to a southern junction with the NC 55 Bypass near Holly Springs, a distance of 12.7 miles.

The Triangle Expressway will eventually connect with the Southern and Eastern Wake Expressways which are currently in the project planning phase and are proposed by the Capital Area Metropolitan Planning Organization for further studies as toll facilities. These two expressways would extend the Triangle Expressway system 27.3 miles from NC 55 (Holly Springs Bypass) to I-40 south of Raleigh and further to US 64 (Knightdale Bypass) and complete the outer loop. The entire system will provide an attractive alternative for motorists wishing to avoid the increasingly congested sections of I-40 and I-440.

Financial Feasibility Analysis

The NCTA has completed a preliminary financial feasibility analysis of the Triangle Expressway which incorporates:

- Preliminary traffic and revenue reports prepared by Wilbur Smith Associates, NCTA’s traffic and revenue consultant. (The Triangle Parkway report was completed in March 2006, and the Western Wake and Southern Wake report was completed in June 2006. Both reports are posted at www.ncturnpike.org.)
- Project costs estimated by Howard, Needles, Tammen and Bergendoff, NCTA’s general engineering consultant.
- Preliminary financial plan developed by Public Financial Management, Inc., NCTA’s financial advisor.

*Triangle Expressway
Estimated Project Costs
(\$ millions)*

<u>Cost Component</u>	<u>Triangle Parkway</u>	<u>Western Wake</u>	<u>Total Cost</u>
Construction	\$ 114.2	\$ 404.1	\$ 518.3
Right-of-Way	20.4	128.1	148.5
Utility Relocation	5.2	2.7	7.9
Permits and Mitigation	0.8	3.1	3.9
Engineering and Design	8.4	32.2	40.6
Inspection and Testing	6.7	23.0	29.7
Total for Project	155.7	593.2	748.9
Cost of I-540P			108.7
Total Including I-540			<u>\$ 857.6</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Project Timeline

Based on this timeline, the NCTA will open the first sections of the Triangle Expressway to traffic in December 2010, and the Western Wake sections will be open by October 2011.

Gaston Garden Parkway

Project Description

The Gaston Garden Parkway is a new roadway from I-85 west of Gastonia to I-485 in Mecklenburg County, a distance of approximately 21.5 miles. Major bridges over the Catawba and South Fork Rivers are included in the project estimates.

After reviewing the initial financial projections for the entire project length, the NCTA staff asked the project engineers, traffic and revenue consultants, and financial analysts to rework the cost and traffic estimates into three scenarios described below.

- Scenario A extends approximately 5.7 miles from I-485 near Charlotte Douglas International Airport to NC 279.
- Scenario B extends approximately 14.1 miles from I-485 near Charlotte Douglas International Airport to US 321.
- Scenario C (the full project) extends approximately 21.5 miles from I-485 near Charlotte Douglas International Airport to I-85.

Financial Feasibility Analysis

Projected Costs

The following table shows the project cost by scenario. Note that Scenario B includes Scenario A and its associated costs. Scenario C includes both Scenarios A and B and their associated costs.

Estimated Project Costs (\$ millions)

<u>Cost Component</u>	<u>Scenario A</u>	<u>Scenario B</u>	<u>Scenario C</u>
Construction	\$ 270.7	\$ 496.0	\$ 826.1
Right-of-Way	85.9	164.2	266.0
Utility Relocation	1.9	8.4	14.5
Permits and Mitigation	4.1	7.1	10.2
Engineering and Design	21.0	38.8	64.5
Inspection and Testing	15.0	27.5	38.2
Total by Scenario	<u>\$ 398.6</u>	<u>\$ 742.0</u>	<u>\$ 1,219.5</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financing Gap Estimate

As noted previously, by “value engineering” the project, the NCTA was able to structure a project that is substantially more feasible to be built in phases from east to west.

Project Timeline

May	2007	Receive Preliminary Engineering and Impact Evaluations.
February	2008	Issue Draft Environmental Impact Statement.
July	2009	Issue Final Environmental Impact Statement.
January	2010	Issue Record of Decision.
May	2010	Award Construction Contract.

Monroe Connector & Bypass

Project Description

The Mecklenburg-Union Metropolitan Planning Organization recently requested that the NCTA plan and construct the Monroe Connector and the Monroe Bypass projects as a single project. The combined NEPA study will encompass a 21.1 mile corridor from I-485 near Matthews in Mecklenburg County to US 74 west of Marshville in Union County.

While the two projects are combined for NEPA studies, the NCTA analyzed the two projects separately as well as combined for financial feasibility. The preliminary traffic and revenue study and the preliminary financial analysis were completed in October 2006. Two scenarios were analyzed in the studies:

- Scenario 1 assumes the Monroe Connector is a toll facility and the Monroe Bypass is a toll-free facility.
- Scenario 2 assumes both the Monroe Connector and the Monroe Bypass are toll facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Financial Feasibility Analysis

Projected Costs

The following table shows the project costs for the Monroe Connector, the Monroe Bypass, and the combined project.

Monroe Connector and Bypass

Estimated Project Costs

(\$ millions)

<u>Cost Element</u>	<u>Connector</u>	<u>By-Pass</u>	<u>Combined</u>
Construction	\$ 282.2	\$ 161.7	\$ 443.9
Right-of-Way	40.6	0.0	40.6
Utility Relocation	1.6	4.9	6.5
Permits and Mitigation	4.2	4.1	8.3
Engineering and Design	22.8	2.6	25.4
Inspection and Testing	18.6	9.5	28.1
Total by Section	<u>\$ 370.0</u>	<u>\$ 182.8</u>	<u>\$ 552.8</u>

Financing Gap Estimate

The Connector and Bypass have designated TIP (Transportation Improvement Program) funds; therefore, the NCTA conducted the financial assessments and gap analyses both with and without the TIP funds. The following table shows the results of these analyses.

Monroe Connector and Bypass

Projected Gap With and Without TIP Funds

(\$ millions)

	<u>Scenario 1 Connector</u>	<u>Scenario 2 Connector and By-Pass</u>
<u>Without TIP Funds</u>		
One-time Payment	\$ 99.7	\$ 150.5
Annual Revenue Supplement	\$ 5.0	\$ 10.5
<u>With TIP Funds</u>		
One-time Payment	\$ 14.1	\$ 0.0
Annual Revenue Supplement	\$ 1.0	\$ 0.0
TIP Funds	\$ 90.2	\$ 186.6

North Carolina Turnpike Authority
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2) \$ 139,859.44

Noncurrent Assets:

Capital Assets - Depreciable, Net (Note 3) 20,683.78

Total Assets 160,543.22

LIABILITIES

Current Liabilities:

Accounts Payable 560,915.19

Long-Term Liabilities - Current Portion (Note 4) 2,667.00

Total Current Liabilities 563,582.19

Noncurrent Liabilities:

Long-Term Liabilities (Note 4) 3,647,141.98

Total Liabilities 4,210,724.17

NET ASSETS

Invested in Capital Assets 20,683.78

Unrestricted (deficit) (4,070,864.73)

Total (deficit) Net Assets (Note 5) \$ (4,050,180.95)

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, 2006***

Exhibit A-2

REVENUES

Operating Revenues \$ 0.00

EXPENSES

Operating Expenses:	
Personal Services	221,074.82
Supplies and Materials	16,121.81
Contracted Personal Services	3,479,178.58
Travel	32,436.92
Advertising	3,689.34
Utilities	16,079.82
Dues and Subscription Fees	1,700.00
Other Services	2,794.96
Capital Outlay	161,204.46
Rent	50,817.00
Depreciation	<u>1,059.29</u>
Total Operating Expenses	<u>3,986,157.00</u>
Operating Loss	<u>(3,986,157.00)</u>

NONOPERATING REVENUES

Investment Income	<u>127.39</u>
Net Nonoperating Revenues	<u>127.39</u>
Decrease in Net Assets	<u>(3,986,029.61)</u>

NET ASSETS

Net Assets (deficit) July 1, 2005	<u>(64,151.34)</u>
Net Assets (deficit) June 30, 2006	<u><u>\$ (4,050,180.95)</u></u>

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, 2006***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Payments to Employees/Board Members	\$ (225,553.74)
Contracted Personal Services	(2,918,263.39)
Payments to Vendors and Suppliers	(258,588.63)
	<hr/>
Cash Used by Operating Activities	(3,402,405.76)
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Advance from Primary Government (Highway Trust Fund)	3,563,880.88
	<hr/>
Cash Provided by Noncapital Financing Activities	3,563,880.88
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets	(21,743.07)
	<hr/>
Cash Used by Capital and Related Financing Activities	(21,743.07)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	127.39
	<hr/>
Cash Provided by Investing Activities	127.39
	<hr/>

Net Increase in Cash and Cash Equivalents	139,859.44
Cash and Cash Equivalents, July 1, 2005	0.00
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 139,859.44
	<hr/> <hr/>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (3,986,157.00)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,059.29
Changes in Assets and Liabilities:	
Accounts Payable	554,733.95
Compensated Absences	27,958.00
	<hr/>
Net Cash Used by Operating Activities	\$ (3,402,405.76)
	<hr/> <hr/>

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

NORTH CAROLINA TURNPIKE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 for administrative purposes only, 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 advanced from the Highway Trust Fund and will be repaid after 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 is 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- E. Cash and Cash Equivalents** – This classification includes deposits held by the State Treasurer in the short-term investment fund. The funds on deposit with the State Treasurer are an advance from the Highway Trust fund and are available on demand for payment of the Authority's expenses. The cash balance as of June 30, 2006, is the result of a timing difference between when the expenses are recorded and when the corresponding checks are written.
- F. Capital Assets** – Capital Assets are recorded according to cost at date of acquisition or fair value at date of donation in the case of gifts. Assets with an initial cost of greater than or equal to \$5,000 and an estimated useful life of two or more years are capitalized.

Depreciation is calculated using the straight-line method over the estimated useful life of 5 years for the office and computer equipment.

- G. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities includes the Advance from the Highway Trust Fund and compensated absences that are not expected to be repaid within the next fiscal year.
- H. Compensated Absences** – The Authority'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 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly to all Authority full-time permanent employees effected by this legislation. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method.

The Authority has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination or retirement.

However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

I. Expense Recognition – The Authority classifies its expenses as operating or nonoperating 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*.

J. Net Assets – The Authority’s net assets are classified as follows:

Invested in Capital Assets – This represents the Authority’s total investment in capital assets.

Unrestricted Net Assets – Unrestricted net assets currently include resources derived from investment income. Since there are no current toll collections, the Turnpike Authority has ended the fiscal year with deficit unrestricted net assets.

NOTE 2 - DEPOSITS

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$139,859.44, which represents the Authority’s equity position in the State Treasurer’s Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer’s Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer’s Investment Pool (which includes the State Treasurer’s Short-Term Investment Fund) 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.ncosc.net/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - CAPITAL ASSETS

The following is a summary of changes in Capital Assets – Depreciable as of June 30, 2006.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Capital Assets, Depreciable				
Office Equipment	\$ 0.00	\$ 21,743.07	\$ 0.00	\$ 21,743.07
Less Accumulated Depreciation for:				
Office Equipment		(1,059.29)		(1,059.29)
Total Capital Assets, Net	<u>\$ 0.00</u>	<u>\$ 20,683.78</u>	<u>\$ 0.00</u>	<u>\$ 20,683.78</u>

NOTE 4 - LONG-TERM LIABILITIES

The following is a summary of changes in the Authority’s long-term obligations as of June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>
Advance from Primary Government:					
Highway Trust Fund	\$ 57,970.10	\$ 3,563,880.88	\$ 0.00	\$ 3,621,850.98	\$ 0.00
Compensated Absences	0.00	32,460.00	4,502.00	27,958.00	2,667.00
Total Long-Term Liabilities	<u>\$ 57,970.10</u>	<u>\$ 3,596,340.88</u>	<u>\$ 4,502.00</u>	<u>\$ 3,649,808.98</u>	<u>\$ 2,667.00</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - DEFICITS IN NET ASSETS

All administrative 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 2006 with deficit net assets of \$4,050,180.95.

NOTE 6 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 121,920.00
2008	125,984.00
2009	130,048.00
2009	<u>134,112.00</u>
Total Minimum Lease Payments	<u><u>\$ 512,064.00</u></u>

Rental expense for all operating leases during the year was \$50,817.00.

NOTE 7 - RISK MANAGEMENT

The Authority 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. The Authority carries insurance through the North Carolina Department of Transportation for risks of loss. There have been no significant reductions in insurance coverage in the prior 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 \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by NCDOT directly to the insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft losses that carry a \$1,000 per occurrence deductible. There have been no significant reductions in insurance coverage from the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

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

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State with a limit of \$5,000,000 per occurrence, subject to a \$50,000 deductible and a 10% participation in each loss above the deductible. The coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. In addition, the NCDOT has a separate public employee dishonesty and faithful performance policy with a limit of \$1,000,000.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a Pension and Other Employee Benefit Trust Fund of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor.

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 Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority is self-insured for workers' compensation.

Term life insurance of \$25,000 to \$50,000 is provided to eligible employees. This self-insured death benefit program is administered by the Department of the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - PENSION PLAN

Teachers' and State Employees' Retirement Plans – The Authority contributes to the statewide Teachers' and State Employees' Retirement System (TSERS), a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The TSERS is included in the *Comprehensive Annual Financial Report* (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained in writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699-1410, or by calling (919) 981-5454.

Plan members are required to contribute six percent of their annual covered salary, and the Authority is required to contribute an actuarially determined rate. The current rate is 2.34% of covered payroll. The contribution requirements of the plan members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's first contribution to TSERS for the fiscal year ending June 30, 2006, was \$3,678.08.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

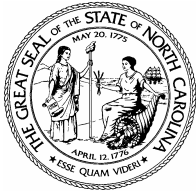
Health Care for Long-Term Disability Beneficiaries and Retirees – The Authority participates in state administered programs that provide post employment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement Fund.

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. For the fiscal year ended June 30, 2006, the Authority contributed 3.8% of covered payroll to the Comprehensive Major Medical Plan, or \$5,972.95. The Authority assumes no liability for these health care benefits provided by the programs other than its contribution. Additional detailed information about these programs is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

Disability Income – The Authority participates in the Disability Income Plan of North Carolina (DIPNC). Established by chapter 135, Article 6, of the

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

General Statutes, the DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The Authority contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the Plan. For the year ended June 30, 2006, the Authority's total contribution to the Plan was \$817.35. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the Disability Income Plan of North Carolina is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.



STATE OF NORTH CAROLINA
Office of the State Auditor

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**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, 2006, and have issued our report thereon dated June 19, 2007.

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
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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, management, the Governor, the State Controller, and the General Assembly 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 19, 2007

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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:

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