



# STATE OF NORTH CAROLINA

**NORTH CAROLINA TURNPIKE AUTHORITY**

**RALEIGH, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**NORTH CAROLINA TURNPIKE AUTHORITY**

**RALEIGH, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

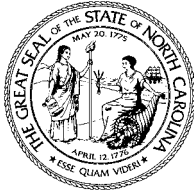
**FOR THE YEAR ENDED JUNE 30, 2008**

**CHAIRMAN OF THE BOARD OF DIRECTORS**

**EUGENE A. CONTI**

**ADMINISTRATIVE OFFICER**

**DAVID JOYNER, EXECUTIVE DIRECTOR**



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue  
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, 2008, 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 disclosed certain deficiencies that are detailed in the Audit Findings and Responses section of this report. The Authority's response is included following the finding.

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

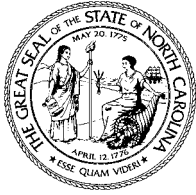
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2008, 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, 2008, 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.

As discussed in Note 11 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

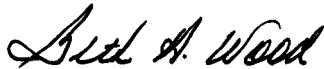
In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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.

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.



Beth A. Wood, CPA  
State Auditor

June 12, 2009

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

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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, 2008. 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 (NCDOT) 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 2008 were limited to salaries, personnel and consultant service contract payments, Board member per-diem, travel and other general operating expenditures.

Major accomplishments for the North Carolina Turnpike Authority (NCTA) for fiscal year 2008 included the following:

- Received a commitment of \$99 million in gap funding from the General Assembly for four turnpike projects including the Triangle Expressway, the Monroe Connector/Bypass, the Mid-Currituck Bridge, and the Garden Parkway.
- Worked in close cooperation with the General Assembly to successfully enact toll enforcement legislation critical to obtaining private financing.
- Advanced North Carolina's first modern turnpike project, the Triangle Expressway, by securing an investment-grade credit rating, completing a complex federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan application, and receiving design-build bids that were \$62 million below the engineering estimates.
- Conducted a first-of-its-kind demonstration of video tolling technology with manufacturers from around the world to ensure that the Turnpike Authority will employ the latest and most advanced video imaging capabilities.
- Hosted an international industry forum with investors and contractors interested in partnering with the Turnpike Authority to design, build, finance, operate and maintain the Mid-Currituck Bridge project as a joint public-private partnership venture.

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

- Founded the Alliance for Toll Interoperability, a coalition of more than 30 state and regional turnpike authorities to establish interoperable technology that will facilitate toll collections from customers in different states.
- Advanced the use of an innovative, “coordination-based” environmental review process outlined in the Federal Highway Administration’s SAFETEA-LU, Section 6002, to move projects more efficiently and expeditiously through the environmental approval process.

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 2008, the Turnpike Authority ended with positive net assets. This is the result of reclassifying project expenditures to capital assets nondepreciable so that they can be capitalized when projects are completed.

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

	June 30, 2008	June 30, 2007	Change
Current Assets	\$ 304,716.23	\$ 260,462.56	\$ 44,253.67
Capital Assets	27,192,856.38	12,472,512.67	14,720,343.71
Total Assets	27,497,572.61	12,732,975.23	14,764,597.38
Current Liabilities	2,907,803.49	3,480,894.75	(573,091.26)
Noncurrent Liabilities	11,275,170.36	7,613,638.71	3,661,531.65
Total Liabilities	14,182,973.85	11,094,533.46	3,088,440.39
Invested In Capital Assets	27,192,856.38	12,472,512.67	14,720,343.71
Unrestricted	(13,878,257.62)	(10,834,070.90)	(3,044,186.72)
Net Assets	\$ 13,314,598.76	\$ 1,638,441.77	\$ 11,676,156.99



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

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### **Current Assets**

There was no significant change in current assets.

### **Noncurrent Assets**

**Capital Assets Nondepreciable** – The increase is due to an increase in engineering and design contracts expenses related to toll road projects. Since these projects are incomplete, they are recorded in the Construction in Progress account.

**Capital Assets Depreciable** – Includes equipment and are stated at historical cost less any associated depreciation. The increase is due to the continued acquisition of office and computer equipment during the year.

### **Current Liabilities**

Current liabilities include accounts payable and current portion of compensated absences. The decrease is the result of a decrease in accounts payable for the current year. The Authority paid their obligations in a timelier manner and therefore had fewer payables to record at year-end.

### **Noncurrent Liabilities**

Noncurrent liabilities include funds advanced to the Turnpike Authority from the Highway Trust Fund to cover the administrative expenditures of the Authority and it also includes the noncurrent portion of compensated absences. The increase is attributable to the large increase in the advance from the Highway Trust Fund.

### **Net Assets**

Net Assets represent the residual interest in the Authority's assets after all liabilities are deducted. For reporting purposes they are divided into two categories: invested in capital assets and unrestricted net assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	June 30, 2008	June 30, 2007	Change
Operating Revenues	\$ 0.00	\$ 0.00	\$ 0.00
Operating Expenses			
Personal Services	2,635,938.10	1,528,799.38	1,107,138.72
Supplies and Materials	32,888.39	51,078.73	(18,190.34)
Contracted Personal Services	1,426,363.09	1,288,341.93	138,021.16
Travel	75,111.56	45,196.93	29,914.63
Advertising	66,802.52	27,697.93	39,104.59
Utilities	51,194.62	34,399.94	16,794.68
Dues, Subscription and Fees	13,488.07	1,825.00	11,663.07
Other Services	427,223.62	82,336.98	344,886.64
Capital Outlay	125,032.62	162,130.34	(37,097.72)
Rental Expense	160,518.63	152,017.07	8,501.56
Depreciation	7,738.01	3,483.07	4,254.94
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	5,022,299.23	3,377,307.30	1,644,991.93
Operating Loss	(5,022,299.23)	(3,377,307.30)	(1,644,991.93)
Nonoperating and Other Revenue	16,698,456.22	6,531,409.26	10,167,046.96
	<hr/>	<hr/>	<hr/>
Change In Net Assets	11,676,156.99	3,154,101.96	8,522,055.03
	<hr/>	<hr/>	<hr/>
Net Assets - July 1	1,638,441.77	(1,515,660.19)	3,154,101.96
	<hr/>	<hr/>	<hr/>
Net Assets - June 30	\$ 13,314,598.76	\$ 1,638,441.77	\$ 11,676,156.99
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

### **Operating Expenses**

Operating expenses are expenses used to acquire or produce goods and services to carry out the mission of the Authority. The increase in personal services from the prior year is the direct result of an increase in the number of permanent full-time staff employed by the Authority. As the Turnpike Authority continues to expand, it will become necessary to hire additional personnel to handle the operations of the Authority. Other services increased from the prior year due to an increase in indirect costs and a transfer of expenditures from a Highway Fund project to a Turnpike Authority project. Other expense accounts such as utilities and rental expense increased due to expansion of the NCTA office.

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

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### **Nonoperating and Other Revenue**

Nonoperating revenues are revenues received for which goods and services are not provided. They include investment income. Capital grants received from the Federal Highway Administration and the North Carolina Department of Transportation for their participation in the initial construction of toll highways and in preliminary studies to determine the feasibility of a toll facility are presented separately after nonoperating revenue. This amount increased because of an increase in project expenditures.

### **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.

***North Carolina Turnpike Authority  
Statement of Net Assets  
For the Fiscal Year Ended June 30, 2008***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 184,909.23
Intergovernmental Receivable	119,807.00
	<hr/>
Total Current Assets	304,716.23

Noncurrent Assets:

Capital Assets - Nondepreciable (Note 3)	27,140,809.08
Capital Assets - Depreciable, Net (Note 3)	52,047.30
	<hr/>
Total Noncurrent Assets	27,192,856.38
	<hr/>
Total Assets	27,497,572.61

**LIABILITIES**

Current Liabilities:

Accounts Payable	2,900,252.79
Long-Term Liabilities - Current Portion (Note 4)	7,550.70
	<hr/>
Total Current Liabilities	2,907,803.49

Noncurrent Liabilities:

Long-Term Liabilities - Noncurrent Portion (Note 4)	95,179.77
Advance from Primary Government (Note 5)	11,179,990.59
	<hr/>
Total Noncurrent Liabilities	11,275,170.36
	<hr/>
Total Liabilities	14,182,973.85

**NET ASSETS**

Invested in Capital Assets	27,192,856.38
Unrestricted (deficit)	(13,878,257.62)
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Total Net Assets	<u>\$ 13,314,598.76</u>
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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, 2008***

***Exhibit A-2***

**REVENUES**

Operating Revenues	\$ 0.00
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**EXPENSES**

Operating Expenses:	
Personal Services	2,635,938.10
Supplies and Materials	32,888.39
Contracted Personal Services	1,426,363.09
Travel	75,111.56
Advertising	66,802.52
Utilities	51,194.62
Dues and Subscription Fees	13,488.07
Other Services	427,223.62
Capital Outlay	125,032.62
Rental Expense	160,518.63
Depreciation	7,738.01
	<hr/>
Total Operating Expenses	5,022,299.23
	<hr/>
Operating Loss	(5,022,299.23)

**NONOPERATING REVENUES**

Investment Income	25,828.64
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Nonoperating Revenues	25,828.64
	<hr/>
Income Before Other Revenues	(4,996,470.59)
Capital Grants	16,672,627.58
	<hr/>
Increase in Net Assets	11,676,156.99

**NET ASSETS**

Net Assets, July 1, 2007	1,638,441.77
	<hr/>
Net Assets, June 30, 2008	\$ 13,314,598.76
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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, 2008***

***Exhibit A-3***

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to Employees and Fringe Benefits	\$ (2,596,781.63)
Payments to Vendor and Suppliers	<u>(2,713,525.45)</u>
Net Cash Used by Operating Activities	<u>(5,310,307.08)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Advance from Primary Government (Highway Trust Fund)	<u>3,623,568.48</u>
Cash Provided by Noncapital Financing Activities	<u>3,623,568.48</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and Construction of Capital Assets	(14,967,463.95)
Capital Grants	<u>16,604,486.58</u>
Net Cash Used by Capital and Related Financing Activities	<u>1,637,022.63</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	<u>25,828.64</u>
Cash Provided by Investing Activities	<u>25,828.64</u>
Net Decrease in Cash and Cash Equivalents	(23,887.33)
Cash and Cash Equivalents, July 1, 2007	<u>208,796.56</u>
Cash and Cash Equivalents, June 30, 2008	<u><u>\$ 184,909.23</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (5,022,299.23)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	7,738.01
Changes in Assets and Liabilities:	
Accounts Payable	(334,902.33)
Compensated Absences	<u>39,156.47</u>
Net Cash Used by Operating Activities	<u><u>\$ (5,310,307.08)</u></u>

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, 2008**

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**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 (GAAP), 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 Tempore and two by the Speaker of the House. The remaining five are appointed by the Governor, and include the Secretary of Transportation.
- 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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority 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 FINANCIAL STATEMENTS (CONTINUED)

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- D. Basis of Accounting** – The financial statements of the Authority 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- E. Cash and Cash Equivalents** – This classification includes deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. 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, 2008 is the result of a timing difference between when the expenses are recorded and when the corresponding checks are written.
- F. Receivables** – Receivables consist of amounts due from the Federal Highway Administration in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measureable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied.
- G. Capital Assets – Nondepreciable** - Includes consultant contract expenditures and contracted personal service expenditures that are charged to specific projects. These costs, currently recorded as construction in progress, will be capitalized when projects are complete.
- H. Capital Assets – Depreciable** - Capital Assets are stated at the cost at date of acquisition or fair value at date of donation in the case of gifts. Assets that have a value or cost in excess of \$5,000 at the date of acquisition and expected useful life of more than one year are capitalized.
- Depreciation is calculated using the straight-line method over the estimated useful life of 5 years for the office and computer equipment.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities includes the advance from the Highway Trust Fund and compensated absences that will not be paid within the next fiscal year.
- J. 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

**K. 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** – Since there are no current toll collections and the Authority is incurring expenses in excess of the capital grants received, the Turnpike Authority has ended the fiscal year with deficit unrestricted net assets.

**L. Revenue and Expense Recognition** – The Turnpike Authority classifies its revenue as nonoperating and its expenses as operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. 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 Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenue from non-exchange transactions that represent funds received from the Federal Highway Administration and are classified as Capital Grants as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 2 - DEPOSITS

At June 30, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$184,909.23, 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 2.9 years as of June 30, 2008. 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.

### NOTE 3 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2008 is presented as follows.

	July 1, 2007	Increases	June 30, 2008
Capital Assets, Nondepreciable			
Construction in Progress	\$ 12,437,000.36	\$ 14,703,808.72	\$ 27,140,809.08
<b>Total Capital Assets, Nondepreciable</b>	<b>12,437,000.36</b>	<b>14,703,808.72</b>	<b>27,140,809.08</b>
Capital Assets, Depreciable			
Machinery and Equipment	40,054.67	24,273.00	64,327.67
Less Accumulated Depreciation for:			
Machinery and Equipment	4,542.36	7,738.01	12,280.37
<b>Total Capital Assets, Depreciable, Net</b>	<b>35,512.31</b>	<b>16,534.99</b>	<b>52,047.30</b>
<b>Capital Assets, Net</b>	<b>\$ 12,472,512.67</b>	<b>\$ 14,720,343.71</b>	<b>\$ 27,192,856.38</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 4      LONG-TERM LIABILITIES**

The following is a summary of changes in the Authority's long-term liabilities as of June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due in Less</u> <u>Than One Year</u>
Compensated Absences	\$ 63,574.00	\$ 66,119.77	\$ 26,963.30	\$ 102,730.47	\$ 7,550.70

**NOTE 5      –      ADVANCE FROM PRIMARY GOVERNMENT**

The following is a summary of changes in the Authority's Advance from Primary Government as of June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2008</u>
Advance from Highway Trust Fund	\$ 7,556,422.11	\$ 3,623,568.48	\$ 11,179,990.59

Pursuant to G.S. 136-176(b), operation and project development costs for the North Carolina 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)

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### NOTE 6 – LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 177,284.39
2010	184,483.16
2011	189,728.72
2012	194,974.18
Total Minimum Lease Payments	<u>\$ 746,470.45</u>

Rental expense for all operating leases during the year was \$127,677.34

### NOTE 7 – PENSION PLANS

**A. Retirement Plans** – 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 cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers’ and State Employees’ Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2008, these rates were set at 3.05% of covered payroll for the employers and 6% of covered payroll for members.

For the current fiscal year, the Authority had a total payroll of \$1,432,012.73, of which \$1,191,596.37 was covered under the Teachers’ and State Employees’ Retirement System. Total employee and employer contributions for pension benefits for the year were \$71,495.78 and \$36,343.69 respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006 were 2.66% and 2.34% respectively, while employee contributions were 6% each year. The Authority made 100% of its annual contributions for the years ended June 30, 2008, 2007 and 2006, which were \$36,343.69, \$21,752.75 and \$3,678.08, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$2,625.00 for the year ended June 30, 2008.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$5,710.00 for the year ended June 30, 2008.

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS

- A. Health Benefits** – The Authority participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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 System. Coverage eligibility varies depending on years of contributory

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on these contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the Authority contributed 4.1% of covered payroll under the Teachers' and State Employees' Retirement System to the fund. Required contribution rates for the years ended June 30, 2007 and 2006, were 3.8% and 3.8%, respectively. The Authority made 100% of its annual contributions to the Plan for the years ended June 30, 2008, 2007 and 2006, which were \$48,855.45, \$31,075.36 and \$5,975.95, respectively. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. 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.

- B. Disability Income** – The Authority participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the Authority made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007 and 2006, were .52% and .52%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$6,196.30, \$4,252.42 and \$817.35, respectively. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC of North Carolina is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 9 – 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 (NCDOT) for risks of loss. 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 \$1,000,000 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 previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

The Authority is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence, with a \$75,000 deductible and 10% participation in each loss above the deductible. 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 (Plan), a component unit 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 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.

### NOTE 10 - COMMITMENTS

The Authority has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments for engineering and design contracts were \$4,349,056.04 at June 30, 2008.



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 11 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

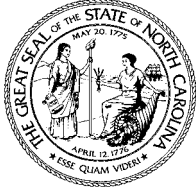
GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

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Beth A. Wood, CPA  
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 Directors  
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, 2008, and have issued our report thereon dated June 12, 2009.

As discussed in Note 11 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's

**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)**

---

ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

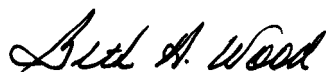
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

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 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*.

The Authority's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the Authority the Board of Directors, others within the entity, 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.



Beth A. Wood, CPA  
State Auditor

June 12, 2009

## **AUDIT FINDINGS AND RESPONSES**

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### **Matters Related to Financial Reporting**

The following finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

#### DEFICIENCIES IN FINANCIAL REPORTING

The Authority's financial statements contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to the readers.

Currently, the Authority uses the services of Department of Transportation (DOT) staff to perform some year-end procedures. Some of the misstatements that occurred were the result of unclear responsibility between the two organizations for certain aspects of the financial reporting process. Misstatements noted during our audit included:

- a. A prior year accrual entry was not properly reversed. As a result, the financial statements erroneously included a net asset restatement of \$1,724,715, and contracted personal services and capital outlay were overstated by \$214,550 and \$1,510,165, respectively.
- b. The accounts payable account was understated by \$500,000. The Authority identified a transaction that should be accrued as a liability but did not realize that DOT did not make the manual adjustment to record it.
- c. One accrual entry was coded and posted to the wrong accounts. This error caused travel to be overstated by \$87,638, contracted personal services to be understated by \$63,281, capital outlay to be understated by \$23,919, and other accounts to be understated by \$438.
- d. Consultant contract expenditures were not properly capitalized. This resulted in an overstatement of contracted personal services by \$444,736, an understatement of capital outlay by \$399,059, and an understatement of nondepreciable capital assets of \$45,677.
- e. The Authority's ending balance for compensated absences was understated by \$72,291.
- f. The statement of cash flows contained several errors. The preparer used unaudited prior year financial statement amounts when calculating differences between current and prior year balances, which impacted the determination of the amounts reported for several line items on the statement.

The Authority's transactions are initially accounted for in its SAP accounting system and then transferred to the North Carolina Accounting System (NCAS), which is used as the basis for the financial statements. However, the Authority did not reconcile data in the two systems, and as a result, expenditures totaling \$11,931 were omitted from the NCAS and the financial statements.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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*Recommendation:* The Authority should place greater emphasis on the year-end financial reporting process and implement effective internal control procedures to ensure the completeness and accuracy of the financial statements. The Authority should review the accruals prepared by DOT to ensure that they agree with the supporting documentation and to ensure that all accruals are recorded. A reconciliation should be performed to determine that all Authority transactions are included in the NCAS and ultimately the financial statements.

*Authority's Response:* The North Carolina Turnpike Authority has completed its review of the audit findings outlined in your letter of May 21, 2009, and we agree with the recommendation made by your office. During the audit review meeting on May 29, 2009, representatives of the State Auditor's Office and the Turnpike Authority agreed that the audit findings would not have an adverse affect on the final audit opinion to be issued by the State Auditor. Our response to the audit findings are outlined below.

Each item of financial deficiency noted in the letter was discussed at length when discovered during the audit. Explanations and documentation of the processes followed by the Turnpike Authority were provided to your office from the Office of State Controller (OSC) and the North Carolina Department of Transportation (NCDOT). Since the May 29th meeting, our financial staff has conducted phone meetings with the Offices of State Auditor and Controller, as well as with accounting staff at NCDOT, to review and address the audit findings.

As was discussed during the audit, the Turnpike Authority works diligently to accurately account for its operations as an administrative arm of NCDOT. Since the Turnpike Authority and NCDOT share an accounting system (SAP), process improvements to avoid similar errors in the future must involve both the Turnpike Authority and NCDOT. Working together, NCDOT and the Turnpike Authority have identified the following work flow process improvements which we will implement:

- Correcting user rights within SAP to allow for a more effective review of journal entries for accuracy and content;
- Establishing a clear understanding of accounts payable cut-off posting policies for year-end accrual purposes within the SAP accounting system;
- Accounting for adjustments and reconciling differences between audited financial statements and the CAFR; and
- Continuing to improve policies and procedures to ensure that all financial statements are presented error free.

## ORDERING INFORMATION

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