



# STATE OF NORTH CAROLINA

**USS NORTH CAROLINA BATTLESHIP COMMISSION**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**USS NORTH CAROLINA BATTLESHIP COMMISSION**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**BOARD OF COMMISSIONERS**

**MICHAEL S. FOX, CHAIRMAN**

**ADMINISTRATIVE OFFICERS**

**CAPTAIN TERRY A. BRAGG, USN (RET), EXECUTIVE DIRECTOR**

**LINDA A. CARLISLE, SECRETARY, DEPARTMENT OF CULTURAL RESOURCES**



**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 Eaves Perdue, Governor  
The General Assembly of North Carolina  
Board of Commissioners, USS North Carolina Battleship Commission

We have completed a financial statement audit of the USS North Carolina Battleship Commission for the year ended September 30, 2009, 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 a certain deficiency that is detailed in the Audit Findings and Responses section of this report. The Commission'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.

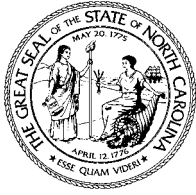
A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS	
Exhibits	
A    Statement of Net Assets .....	7
B    Statement of Revenues, Expenses, and Changes in Net Assets .....	8
C    Statement of Cash Flows .....	9
Notes to the Financial Statements .....	11
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> .....	25
AUDIT FINDINGS AND RESPONSES .....	29
ORDERING INFORMATION .....	31



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**INDEPENDENT AUDITOR'S REPORT**

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Board of Commissioners  
USS North Carolina Battleship Commission  
Wilmington, North Carolina

We have audited the accompanying basic financial statements of the USS North Carolina Battleship Commission (the "Commission"), for the year ended September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

As discussed in Note 1, the financial statements present only the USS North Carolina Battleship Commission and do not purport to, and do not, present fairly the financial position of the State of North Carolina as of September 30, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USS North Carolina Battleship Commission as of September 30, 2009, 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.

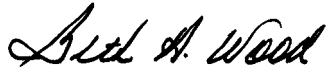
As discussed in Note 14 to the financial statements, the Commission implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended September 30, 2009.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2010 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

May 25, 2010

**USS NORTH CAROLINA BATTLESHIP COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of the financial report presents Management's Discussion and Analysis and provides an overview of the financial activities of the USS North Carolina Battleship Commission (the "Commission") for the fiscal year ended September 30, 2009. Since management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the Commission's financial statements and notes to the financial statements. The basic financial statements include a Statement of Nets Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements. Responsibility for the completeness and fairness of this information rests with the Commission.

While the financial statements reflect on the Commission as a whole, the Commission is an enterprise, non-appropriated fund activity of the State of North Carolina that is required by general statute to be self-sufficient for its annual operations. Funding for the annual operation of the Commission is met primarily from revenues generated through admissions to tour the ship and gift shop sales, hence a principal focus on the Statement of Revenues, Expenses, and Change in Net Assets.

**Financial Highlights**

For fiscal year 2009, the 206,965 visitors to the Battleship reflected an 8.24% increase in paid visitation over the previous year. Unusually good weather with no hurricanes and relatively stable, although moderate, gasoline prices during the year were considered contributory to the visitation increase. The following table summarizes the major categories of net assets and their corresponding changes.

**Condensed Statement of Net Assets**

	<u>As of 09/30/09</u> <u>(in thousands)</u>	<u>As of 09/30/08</u> <u>As restated</u> <u>(in thousands)</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>(Change)</u>
Current Assets	\$ 2,447.97	\$ 1,489.87	\$ 958.10	64.31%
Noncurrent Assets				
Unrestricted and Restricted Investments	4,830.70	5,260.84	(430.14)	-8.18%
Capital Assets, Nondepreciable	420.53	629.64	(209.11)	-33.21%
Capital Assets, Depreciable, Net	<u>2,336.95</u>	<u>2,445.39</u>	<u>(108.44)</u>	-4.43%
Total Assets	<u>10,036.15</u>	<u>9,825.74</u>	<u>210.41</u>	2.14%
Current Liabilities	239.19	115.86	123.33	106.45%
Noncurrent Liabilities	<u>72.45</u>	<u>86.65</u>	<u>(14.20)</u>	-16.39%
Total Liabilities	<u>311.64</u>	<u>202.51</u>	<u>109.13</u>	53.89%
Net Assets				
Invested in Capital Assets	2,757.48	3,075.08	(317.60)	-10.33%
Restricted	2,231.00	2,404.90	(173.90)	-7.23%
Unrestricted	<u>4,736.03</u>	<u>4,143.30</u>	<u>592.73</u>	14.31%
Total Net Assets	<u>\$ 9,724.51</u>	<u>\$ 9,623.28</u>	<u>\$ 101.23</u>	1.05%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The 64.31% increase in current assets was primarily due to the transfer of \$499,525 from noncurrent investments to current cash and cash equivalents. This amount was transferred to cash and cash equivalents in order to promote capital preservation, and to minimize exposure to risks associated with investments. The additional \$218,035 in operating revenues also attributed to the increase in current assets. The increase in current liabilities is primarily due to the accrual of a \$91,000 charge related to a marine hull survey that was necessary to assess the scope of the upcoming hull repairs.

As of September 30, 2009, the Battleship had recorded \$4.53 million in gross capital assets, \$1.77 million in accumulated depreciation, and \$2.76 million in invested in capital assets. The following table depicts the changes in the two years presented.

<b>Capital Assets, Net</b>				
<b>For the Years Ended September 30, 2009 and 2008</b>				
(in thousands)				
	<b>2009</b>	<b>2008</b> <b>(as restated)</b>	<b>Increase</b> <b>(Decrease)</b>	<b>Percent</b> <b>Change</b>
Capital Assets				
Land	\$ 97.43	\$ 97.43	\$ 0.00	0.00
CIP	323.10	532.22	(209.12)	(39.29)
Buildings	1,114.82	1,114.82		0.00
Machinery and Equipment	683.85	931.68	(247.83)	(26.60)
Infrastructure	2,310.11	2,310.11		
Total	4,529.31	4,986.26	(456.95)	(9.16)
Less: Accumulated Depreciation	1,771.83	1,911.17	(139.34)	(7.29)
Net Capital Assets	\$ 2,757.48	\$ 3,075.09	\$ (317.61)	(10.33)

The 39.29% decrease in construction in progress was due to the net effect of recording the \$532,219 impairment loss related to the abandonment of the Phase III overnight camping project, offset by the \$323,106 in additions to construction in progress pertaining to marine hull surveys, engineering studies, permits, and design work. The Phase III project as initially designed was permanently cancelled because of unforeseen difficulties in meeting specified requirements. The additions to construction in progress were related to the hull repair and newly redesigned overnight camping projects. The decrease in machinery and equipment and accumulated depreciation was due to the removal of fully depreciated assets from the fixed asset subsidiary ledger that were no longer in use. The 2008 balances of depreciable capital assets have been restated due to the extension of useful lives of capital assets, as seen in note 15 in the Notes to the Financial Statements.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an overall increase in net assets for the current fiscal year ending September 30, 2009. This change relates primarily to the increase in operating revenues which was caused by increased visitation, gift shop sales, and event revenues, as well as the improved performance of the Commission's investment portfolio. The improved performance of the investment portfolio was caused by the Commission taking a more conservative investment strategy, in combination with overall improved market conditions as compared to the previous fiscal year.

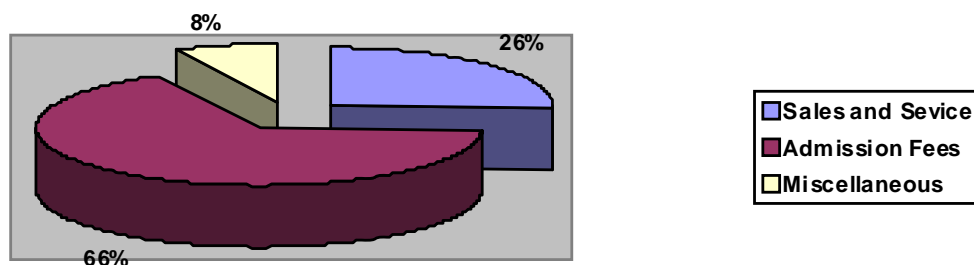


## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table identifies variances between the two fiscal years.

<b>Operating Revenue</b>				
<b>For the Years Ended September 30, 2009 and 2008</b>				
<b>(in thousands)</b>				
	<b>2009</b>	<b>2008</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
Operating Revenue				
Sales and Services	\$ 818.70	\$ 772.48	\$ 46.22	5.98
Admission Fees	2,120.01	1,950.16	169.85	8.71
Miscellaneous	240.88	238.91	1.97	0.82
Total	3,179.59	2,961.55	218.04	7.36
Less Operating Expenses	2,675.25	2,686.83	(11.58)	(0.43)
Net Operating Income	504.34	274.72	229.62	83.58
Nonoperating Revenues (Expenses)				
Capital Gifts	56.43	43.79	12.64	28.87
Investment Income (Loss)	72.68	(479.90)	552.58	(115.14)
Loss on Impairment	(532.22)	0.00	(532.22)	
Total	(403.11)	(436.11)	33.00	(7.57)
Increase (Decrease) in Net Assets	101.23	(161.39)	262.62	(162.72)
Net Assets, Beginning of Year (as Restated)	9,623.28	9,784.67	(161.39)	(1.65)
Net Assets, End of Year	\$ 9,724.51	\$ 9,623.28	\$ 101.23	1.05

Operating revenues are primarily related to funds received from visitation, gift shop sales, events, and programs. The following is a graphic illustration of operating revenues by source as described above.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The following table identifies variances between the two fiscal years for the components of operating expenses.

	<b>Operating Expenses</b>			
	<b>For the Years Ended September 30, 2009 and 2008</b>			
	<b>(in thousands)</b>			
	<b>2009</b>	<b>2008</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
Operating Expense				
Personal Services	\$ 1,322.45	\$ 1,250.12	\$ 72.33	5.79
Supplies and Materials	89.16	68.78	20.38	29.63
Services	644.20	692.32	(48.12)	(6.95)
Rental/Lease	106.98	101.37	5.61	5.53
Cost of Goods Sold	258.29	269.12	(10.83)	(4.02)
Insurance and Bonding	19.47	18.61	0.86	4.62
Other	126.21	171.63	(45.42)	(26.46)
Depreciation	108.49	114.88	(6.39)	(5.56)
Total	<u>\$ 2,675.25</u>	<u>\$ 2,686.83</u>	<u>\$ (11.58)</u>	(0.43)

The 5.79% increase in personal services was primarily due to salary adjustments, the addition of a Maintenance Supervisor position, and the increased contract price of inmate labor. Additionally, during the transition to the new Executive Director, the Battleship Commission authorized the employment of two Executive Directors for a period of six months for training purposes. The 29.63% increase in supplies and materials was due to the purchase of software upgrades for the Macola and Counterpoint systems. Rental and lease expenses showed a 5.53% increase due to the increased cost of billboard and equipment rental contracts. Other operating expenses decreased 26.46% due to expenditures made in the prior year for special events, exhibits, and software support.

### Financial Outlook

As it has for virtually all businesses, the state of the economy requires a more conservative approach to revenue projections and a more stringent control of discretionary expenditures. With tourists opting for shorter duration vacations closer to home, the Commission's marketing focus has shifted more towards advertising in-state and in neighboring states.

In the longer term, the Commission has begun discussions of the need for a dry-docking of the Battleship for underwater hull maintenance and preservation. Funding for this capital project will require a commitment from the North Carolina General Assembly, as well as from other sources.

***USS North Carolina Battleship Commission***  
***Statement of Net Assets***  
***September 30, 2009***

***Exhibit A***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,784,277.69
Restricted Cash and Cash Equivalents	121,413.62
Receivables	15,559.52
Inventories	391,296.56
Prepaid Items	135,426.57
	<hr/>
Total Current Assets	2,447,973.96

Noncurrent Assets:

Investments	2,695,143.71
Restricted Investments	2,135,556.18
Capital Assets - Nondepreciable (Note 5)	420,531.56
Capital Assets - Depreciable, Net (Note 5)	2,336,952.04
	<hr/>
Total Noncurrent Assets	7,588,183.49

Total Assets	<hr/> <hr/> 10,036,157.45
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	195,889.09
Funds Held for Others	25,973.50
Unearned Revenue	6,004.00
Long-Term Liabilities - Current Portion (Note 7)	11,327.28
	<hr/>
Total Current Liabilities	239,193.87

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<hr/> 72,454.33
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Total Liabilities	<hr/> <hr/> 311,648.20
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**NET ASSETS**

Invested in Capital Assets	2,757,483.60
Restricted Expendable:	
Restoration Projects	2,230,996.30
Unrestricted	4,736,029.35
	<hr/>
Total Net Assets	<hr/> <hr/> <hr/> \$ 9,724,509.25

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

***USS North Carolina Battleship Commission  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended September 30, 2009***

***Exhibit B***

**REVENUES**

Operating Revenues:	
Sales and Services	\$ 818,699.55
Admission Fees	2,120,010.00
Miscellaneous	240,876.03
	<hr/>
Total Operating Revenues	3,179,585.58
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	1,322,450.84
Supplies and Materials	89,157.18
Services	644,202.82
Rental/Lease (Note 8)	106,981.05
Cost of Goods Sold	258,289.59
Depreciation	108,487.35
Insurance and Bonding	19,473.75
Other Operating Expenses	126,208.93
	<hr/>
Total Operating Expenses	2,675,251.51
	<hr/>
Operating Income	504,334.07
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

Investment Income (Net of Investment Expense of \$22,444.32)	72,678.98
	<hr/>
Nonoperating Revenues	72,678.98
	<hr/>
Income Before Other Revenues and Losses	577,013.05
	<hr/>
Capital Gifts	56,435.08
Capital Asset Impairment Loss	(532,219.18)
	<hr/>
Increase in Net Assets	101,228.95

**NET ASSETS**

Net Assets - October 1, 2008, as Restated (Note 15)	9,623,280.30
	<hr/>
Net Assets - September 30, 2009	\$ 9,724,509.25
	<hr/> <hr/>

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

***USS North Carolina Battleship Commission***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended September 30, 2009***

***Exhibit C***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers	\$ 3,182,550.60
Payments to Employees and Fringe Benefits	(1,338,851.39)
Payments to Vendors and Suppliers	(1,383,697.00)
	<hr/>
Net Cash Provided by Operating Activities	460,002.21
	<hr/>

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

Capital Gifts	56,435.08
Acquisition and Construction of Capital Assets	(232,105.76)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(175,670.68)
	<hr/>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	446,474.47
Investment Earnings	56,347.69
	<hr/>
Cash Provided by Investing Activities	502,822.16
	<hr/>
Net Increase in Cash and Cash Equivalents	787,153.69
Cash and Cash Equivalents - October 1, 2008	1,118,537.62
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Cash and Cash Equivalents - September 30, 2009	\$ 1,905,691.31
	<hr/> <hr/>

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 504,334.07
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	108,487.35
Changes in Assets and Liabilities:	
Receivables	3,586.02
Inventories	(108,312.43)
Accounts Payable and Accrued Liabilities	10,882.56
Prepaid Items	(40,254.95)
Unearned Revenue	(621.00)
Compensated Absences	(18,099.41)
	<hr/>
Net Cash Provided by Operating Activities	\$ 460,002.21
	<hr/> <hr/>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,784,277.69
Restricted Cash and Cash Equivalents	121,413.62
	<hr/>
Total Cash and Cash Equivalents - September 30, 2009	\$ 1,905,691.31
	<hr/> <hr/>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through the Assumption of a Liability	\$ 91,000.00
Change in Fair Value of Investments	17,010.74

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

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**USS NORTH CAROLINA BATTLESHIP COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The USS North Carolina Battleship Commission (the "Commission") is a part of the State of North Carolina and is not a separate legal or reporting entity. The Commission's accounts and transactions are included in the State of North Carolina's *Comprehensive Annual Financial Report* as an enterprise fund. The accompanying financial statements present only those accounts and transactions associated with the operation of the Commission.
- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, the full scope of the Commission'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 Commission does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the Commission have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Commission receives (or gives) value without directly giving (or receiving) equal value in exchange include donations. Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.

Money market funds not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** - Receivables consist of charges for sales and services, amounts due for commissions, and various charges from vendors. Receivables of the Commission are considered fully collectable; accordingly, no allowance for doubtful accounts is required.

- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the average cost method.

- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The Commission capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for general infrastructure, 25 to 35 years for buildings, and 3 to 50 years for equipment.

The Commission does not capitalize the Battleship exhibit or its art and artifact collections. These collections adhere to the Commission's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The Commission's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at calendar year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at September 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and September 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.

There is no liability for unpaid accumulated sick leave because the Commission has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- L. Net Assets** - The Commission's net assets are classified as follows:

**Invested in Capital Assets** - This represents the Commission's total investment in capital assets.

**Restricted Net Assets – Expendable** - Expendable restricted net assets include resources for which the Commission is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Assets** - Unrestricted net assets include resources derived from admission fees, sales and services, unrestricted gifts, royalties, and interest income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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When both restricted and unrestricted funds are available for expenditure, the decision for funding is internally generated by management of the Commission.

- M. Revenue and Expense Recognition** - The Commission classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. Operating revenues include all charges to customers. Operating expenses are all expense transactions incurred other than those related to capital and noncapital 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. Revenues from nonexchange transactions and gifts to the Commission, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$20,560.00, and deposits in private financial institutions with a carrying value of \$1,885,131.31 and a bank balance of \$1,917,262.36.

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The bank balance of demand deposits with the private financial institution at September 30, 2009, consisted of non-interest bearing checking accounts totaling \$1,917,262.36. As of September 30, 2009, the Commission's bank balance, \$1,917,262.36, participated in the bank program which provided depositors with unlimited coverage for noninterest-bearing transaction accounts at participating FDIC-insured institutions.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at September 30, 2009, for the Commission's investments. Interest rate risk is defined by GASB

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Commission does not have a formal investment policy that addresses interest rate risk.

### Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
<b>Debt Securities</b>					
U.S. Treasuries	\$ 99,997.80	\$ 99,997.80	\$ 0.00	\$ 0.00	\$ 0.00
U.S. Agencies	5,189.07		5,189.07		
Mortgage Pass Throughs	311,349.99	3,097.45	270,628.71	37,623.83	
Collateralized Mortgage Obligations	22,385.31	743.59	21,641.72		
State and Local Government	28,209.04	5,385.84	14,474.43	8,348.77	
Asset-Backed Securities	60,604.07	60,604.07			
Mutual Bond Funds	151,750.75	6,464.58	54,311.59	79,289.76	11,684.81
Money Market Mutual Funds	2,230,241.87	2,230,241.87			
Domestic Corporate Bonds	207,850.71	4,381.75	31,377.76	140,384.61	31,706.59
Foreign Corporate Bonds	12,266.89			8,595.57	3,671.32
Foreign Government Bonds	3,688.20		2,544.08	1,144.12	
		<u>\$ 2,410,916.95</u>	<u>\$ 400,167.36</u>	<u>\$ 275,386.66</u>	<u>\$ 47,062.72</u>
<b>Other Securities</b>					
Global Equity Funds	1,606,339.94				
Natural Resource Funds	90,826.25				
<b>Total Investments</b>	<u>\$ 4,830,699.89</u>				

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission does not have a formal policy that addresses credit risk. As of September 30, 2009, the Commission's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB Ba	B	CCC Caa	Unrated
U. S. Agencies	\$ 5,189.07	\$ 5,189.07	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Mortgage Pass Throughs	311,349.99	311,349.99							
Collateralized Mortgage Obligations	22,385.31	15,680.02	6,705.29						
State and Local Government	28,209.04		15,887.30	5,385.84	6,935.90				
Asset-Backed Securities	60,604.07	60,604.07							
Mutual Bond Funds	151,750.74	11,804.80	4,798.37	19,662.01	32,921.10	27,696.38	26,765.05	5,395.41	22,707.62
Money Market Mutual Funds	2,645.74	2,645.74							
Domestic Corporate Bonds	207,850.71	10,947.49	78,102.61	105,154.13	13,646.48				
Foreign Corporate Bonds	12,266.89			12,266.89					
Foreign Government Bonds	3,688.20	2,438.78	1,249.42						
<b>Total</b>	<u>\$ 805,939.76</u>	<u>\$ 420,659.96</u>	<u>\$ 106,742.99</u>	<u>\$ 142,468.87</u>	<u>\$ 53,503.48</u>	<u>\$ 27,696.38</u>	<u>\$ 26,765.05</u>	<u>\$ 5,395.41</u>	<u>\$ 22,707.62</u>

Rating Agency: Moody's/S&P/Fitch

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

have a formal policy for custodial credit risk. The Commission's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
U.S. Treasuries	\$ 99,997.80
U.S. Agencies	5,189.07
Mortgage Pass Throughs	311,349.99
Collateralized Mortgage Obligations	22,385.31
State and Local Governments	28,209.04
Asset-Backed Securities	60,604.07
Domestic Corporate Bonds	207,850.71
Foreign Corporate Bonds	12,266.89
Foreign Government Bonds	3,688.20
Total	\$ 751,541.08

A reconciliation of deposits and investments for the Commission to the basic financial statements at September 30, 2009 is as follows:

Cash on Hand	\$ 20,560.00
Carrying Amount of Deposits with Private Financial Institutions	1,885,131.31
Other Investments	4,830,699.89
Total Deposits and Investments	\$ 6,736,391.20
Current:	
Cash and Cash Equivalents	\$ 1,784,277.69
Restricted Cash and Cash Equivalents	121,413.62
Noncurrent:	
Investments	2,695,143.71
Restricted Investments	2,135,556.18
Total	\$ 6,736,391.20

### NOTE 3 - RESERVE FUND

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

Accordingly, 50% of the authorized normal operating budget for fiscal year 2009 of \$2,831,760.00 yields a reserve requirement of \$1,415,880.00. For reporting purposes, this reserve is included in unrestricted net assets. At year-end the value of the investment portfolio, described in Note 2, exceeded

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the reserve requirement; therefore, the \$3,414,819.88 excess is considered available for operations and restoration projects.

### NOTE 4 - RESTORATION FUND

In 1998, the Commission undertook a capital campaign for the restoration of the Battleship North Carolina. The first project completed was replacement of the teak deck. Currently in design is restoration of the main deck interior spaces including a major HVAC package. Funds in excess of those needed for these projects are held in the Restoration Fund to fund future restoration projects. While the capital campaign has ended, contributions continue to be made to the fund. For the fiscal year ended September 30, 2009, the Commission received donations in the amount of \$56,435.08. Because of the restricted-use nature of the Restoration Fund, the long term portion of the portfolio is managed as a separate account by Franklin Street Partners.

At year-end, the fair value of the Franklin Street Partners Restoration Fund segment of the portfolio, summarized in Note 2, was \$2,135,556.18.

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended September 30, 2009, is presented as follows:

	Balance October 1, 2008 (as restated)	Increases	Decreases	Balance September 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 97,425.80	\$ 0.00	\$ 0.00	\$ 97,425.80
Construction in Progress	532,219.18	323,105.76	532,219.18	323,105.76
<b>Total Capital Assets, Nondepreciable</b>	<b>629,644.98</b>	<b>323,105.76</b>	<b>532,219.18</b>	<b>420,531.56</b>
Capital Assets, Depreciable:				
Buildings	1,114,823.35			1,114,823.35
Machinery and Equipment	931,679.68		247,826.99	683,852.69
General Infrastructure	2,310,109.37			2,310,109.37
<b>Total Capital Assets, Depreciable</b>	<b>4,356,612.40</b>		<b>247,826.99</b>	<b>4,108,785.41</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	714,017.46	31,852.08		745,869.54
Machinery and Equipment	614,589.10	23,890.83	247,826.99	390,652.94
General Infrastructure	582,566.45	52,744.44		635,310.89
<b>Total Accumulated Depreciation</b>	<b>1,911,173.01</b>	<b>108,487.35</b>	<b>247,826.99</b>	<b>1,771,833.37</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>2,445,439.39</b>	<b>(108,487.35)</b>		<b>2,336,952.04</b>
<b>Capital Assets, Net</b>	<b>\$ 3,075,084.37</b>	<b>\$ 214,618.41</b>	<b>\$ 532,219.18</b>	<b>\$ 2,757,483.60</b>

The Statement of Revenues, Expenses, and Changes in Net Assets contains a nonoperating expense related to a capital asset impairment loss of \$532,219.18. This amount can also be seen above as a decrease in the construction in progress caption. This impairment was caused by the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

permanent cancellation of construction on the Phase III overnight camping project as it was initially designed. The project in its initial scope encountered unforeseen difficulties meeting specified requirements, and when reevaluated during the current fiscal year, a more cost efficient alternative was discovered. Due to the potential cost savings, it was decided that the project in its initial design would be cancelled. Because the initial project was cancelled in its entirety, the value of the capitalized costs has been reduced to zero. The project is currently being redesigned, and will now be pursued in the aft berthing compartment of the ship.

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 171,662.87
Accrued Payroll	24,226.22
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 195,889.09</b>

### NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended September 30, 2009, is presented as follows:

	Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009	Current Portion
Compensated Absences	\$ 101,881.02	\$ 30,708.55	\$ 48,807.96	\$ 83,781.61	\$ 11,327.28

### NOTE 8 - OPERATING LEASE OBLIGATIONS

The Commission entered into operating leases for billboards and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at September 30, 2009:

Fiscal Year	Amount
2010	\$ 99,631.00
2011	4,044.00
Total Minimum Lease Payments	\$ 103,675.00

Rental expense for all operating leases during the year was \$106,981.05.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 9 - 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 (System). The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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 period October 1, 2008, through June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members. The system was funded by employer and member contributions of 3.57% and 6%, respectively, of covered payroll for the period July 1, 2009, through September 30, 2009.

For the current fiscal year, the Commission had a total payroll of \$976,352.12, of which \$902,050.36 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$30,781.24 and \$54,123.02, respectively.

Required employer contribution rates for the years ended September 30, 2008 and 2007, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The Commission made 100% of its annual required contributions for the years ended September 30, 2009, 2008, and 2007, which were \$30,781.24, \$26,830.07, and \$21,460.63, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans** - 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).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$4,561.00 for the year ended September 30, 2009.

### NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The Commission participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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 those 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 period October 1, 2008 through June 30, 2009, the Commission contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits and for the period July 1, 2009 through September 30, 2009, the Commission contributed 4.5%. The required contribution rate for the year ended September 30, 2008, was 4.1%. For the period October 1, 2006 through June 30, 2007, the required contribution rate was 3.8%, and for the period July 1, 2007 through September 30, 2007 the Commission contributed 4.1%. The Commission made 100% of its annual required contributions to the Plan for the years ended September 30, 2009, 2008, and 2007,



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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which were \$37,883.78, \$35,172.91, and \$30,156.30, respectively. The Commission 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The Commission 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 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 September 30, 2009, the Commission 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 September 30, 2008, and 2007, were .52% and .52%, respectively. The Commission made 100% of its annual required contributions to the DIPNC for the years ended September 30, 2009, 2008, and 2007, which were \$4,690.66, \$4,460.95, and \$4,046.65, respectively. The Commission assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 11 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The Commission pays the premium, based on a composite rate, directly to the private insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all state-owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses for all operations supported by the State's General Fund is provided at no cost to the Commission. Other operations not supported by the State's General Fund are charged for fire coverage. The Commission also purchased through the Fund, extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risks" for buildings and contents. The Fund charges premiums for this coverage discounted from industry manual rates. The Fund insures fire losses up to \$2,500,000 per occurrence. All losses covered by the Fund are subject to a \$5,000 per occurrence deductible except for theft, which carries a \$1,000 per occurrence deductible. The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The Commission pays premiums to the North Carolina Department of Insurance for the coverage.

The Commission is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Commission is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

Commission employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims. The Plan is funded by employer and employee contributions.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Commission's primary responsibility is to arrange for and provide the necessary treatment for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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work related injury. The Commission is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Commission retains the risk for workers' compensation.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan 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 12 - COMMITMENTS**

The Commission has outstanding commitments on construction contracts totaling \$150,750.00 as of September 30, 2009. These commitments were for the design phase of the capital improvement project for the Battleship. As of May 7, 2010, this contract was amended and increased the commitments to a total of \$423,051.

### **NOTE 13 - THE FRIENDS OF THE BATTLESHIP NORTH CAROLINA**

The Friends of the Battleship North Carolina, Inc. is a nonprofit organization that raises funds to provide additional resources to the USS North Carolina Battleship Commission and is not included in the reporting entity. During the fiscal year ended September 30, 2009, the organization made in-kind donations of \$12,888.59 to the Commission.

### **NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended September 30, 2009, the Commission implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations.*

*GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments.*

GASB Statement No. 49, requires reporting pollution remediation obligations, which are obligations to address current or potential detrimental effects of

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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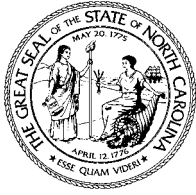
existing pollution, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost by requiring the reporting of land and other real estate held as investments at fair value.

### NOTE 15 - NET ASSET RESTATEMENTS

As of October 1, 2008, net assets as previously reported was restated as follows:

	<u>Amount</u>
October 1, 2008 Net Assets as Previously Reported	\$ 8,883,110.84
Restatements:	
Correct Prior Year Error Regarding Useful Lives of Capital Assets	718,423.18
Correct Prior Year Errors in Capital Assets	<u>21,746.28</u>
October 1, 2008 Net Assets as Restated	<u>\$ 9,623,280.30</u>



**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**

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Board of Commissioners  
USS North Carolina Battleship Commission  
Wilmington, North Carolina

We have audited the financial statements of USS North Carolina Battleship Commission, as of and for the year ended September 30, 2009, and have issued our report thereon dated May 25, 2010. As discussed in Note 1, the financial statements present only the USS North Carolina Battleship Commission and do not purport to, and do not, present fairly the financial position of the State of North Carolina as of September 30, 2009, the changes in its financial position, or, where applicable, 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 14 to the financial statements, the Commission implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended September 30, 2009.

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 Commission'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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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

**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 (CONTINUED)**

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internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 Commission's 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 Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiency described in the finding 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 Commission'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 that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Commission'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 Commission's response and, accordingly, we express no opinion on it.

**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)**

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This report is intended solely for the information and use of management of the Commission, the Board of Commissioners, the Department of Cultural Resources, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

*Beth A. Wood*

Beth A. Wood, CPA  
State Auditor

May 25, 2010

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## AUDIT FINDINGS AND RESPONSES

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

The following audit finding was identified during the current audit and describe conditions that represent significant deficiencies in internal control. A similar finding was also reported in the prior year.

#### DEFICIENCIES IN FINANCIAL REPORTING

The Commission's financial statements contained misstatements that were corrected as a result of our audit. These misstatements indicate that the Commission's internal control over financial reporting was not effective, and without the corrections, the financial statements could have been misleading to readers. Misstatements included:

- The Commission included in its financial statements an impaired capital asset with a carrying value of \$532,219 that should have been written off during the year. GASB Statement No. 42 requires that an assessment be made to determine if a capital asset's service utility has declined significantly and unexpectedly, and if so, the value reduced accordingly.
- The Commission failed to accrue a liability that was incurred during the audit period. This resulted in an understatement of accounts payable and nondepreciable capital assets of \$91,000.
- The Commission capitalized software and related costs that should have been expensed in the current and prior years according to the Office of State Controller policy. This resulted in an overstatement of depreciable capital assets totaling \$64,078 and a \$35,157 understatement of the supplies and materials expense account.
- The Commission omitted cash held in one of its checking accounts from the financial statements. This resulted in an understatement of restricted cash and cash equivalents and funds held for others of \$25,974.

A similar finding was also reported in the prior year.

*Recommendation:* The Commission should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure complete and accurate financial statements.

*Agency Response:* The following written response is provided:

- The Commission has determined that due to the change in scope and design of the capital asset's service utility, that the impaired capital asset with a carrying value of \$532,219 had no useful value to the project.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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- The Commission agrees that due to an accounting oversight during the accrual process at year-end resulted in an understatement of accounts payable and nondepreciable capital assets of \$91,000.
- The Commission agrees that capitalized software and related costs should have been expensed in the current and prior years according to the Office of State Controller policy. This inturn resulted in an overstatement of depreciable capital assets totaling \$64,078 and a \$35,157 understatement of the supplies and materials expense account.
- The Commission agrees that an omission of cash held in one of its checking accounts resulted in an understatement of restricted cash and cash equivalents and funds held for others of \$25,974.

## ORDERING INFORMATION

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