

# STATE OF NORTH CAROLINA

**USS NORTH CAROLINA BATTLESHIP COMMISSION**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**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, 2011**

**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 E. 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, 2011, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink 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 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") as of and for the year ended September 30, 2011, 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, 2011, 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 the USS North Carolina Battleship Commission as of September 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

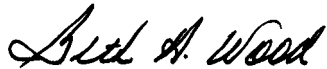
In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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

March 29, 2012

**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, 2011, with comparative data for the fiscal year ended September 30, 2010. 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 basic financial statements and notes to the financial statements. The basic financial statements include a Statement of Net 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 2011, the 193,150 visitors to the Battleship reflected a 7.58% decrease in visitation over the previous year total of 208,994 visitors. Adverse weather and a poor economy contributed to the decrease in visitation. The following table summarizes the major categories of assets, liabilities, and net assets and their corresponding changes.

**Condensed Statement of Net Assets  
For the Years Ended September 30, 2011 and 2010  
(in thousands)**

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent (Change)</u>
Current Assets	\$ 6,177.68	\$ 4,734.17	\$ 1,443.51	30.49%
Noncurrent Assets:				
Investments		2,935.16	(2,935.16)	-100.00%
Capital Assets, Nondepreciable	835.59	426.11	409.48	96.10%
Capital Assets, Depreciable, Net	<u>2,185.88</u>	<u>2,261.02</u>	<u>(75.14)</u>	-3.32%
Total Assets	<u>9,199.15</u>	<u>10,356.46</u>	<u>(1,157.31)</u>	-11.17%
Current Liabilities	305.37	207.26	98.11	47.34%
Noncurrent Liabilities	<u>83.29</u>	<u>82.06</u>	<u>1.23</u>	1.50%
Total Liabilities	<u>388.66</u>	<u>289.32</u>	<u>99.34</u>	34.34%
Net Assets:				
Invested in Capital Assets	3,021.48	2,687.12	334.36	12.44%
Restricted	325.56	1,932.72	(1,607.16)	-83.16%
Unrestricted	<u>5,463.45</u>	<u>5,447.30</u>	<u>16.15</u>	0.30%
Total Net Assets	<u>\$ 8,810.49</u>	<u>\$ 10,067.14</u>	<u>\$ (1,256.65)</u>	-12.48%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the year ended September 30, 2011, total assets decreased 11.17%. The 30.49% increase in current assets was primarily caused by a reclassification of the Commission's noncurrent investment portfolio to current restricted investments since these funds are planned to be used during the upcoming year. The overall decrease in investments was due to payments made for the hull repair in the amount of \$1.4 million. The 96.10% increase in nondepreciable capital assets was due to the addition of the cofferdam in the amount of \$399,340 used for the hull repair and construction expenses associated with the overnight camping project in the amount of \$10,139.82. The 47.34% increase in current liabilities was primarily due to an increase in accounts payables for services related to the ship's hull repair project.

### Capital Assets

As of September 30, 2011, the Battleship had recorded \$4.98 million in gross capital assets, \$1.96 million in accumulated depreciation, and \$3.02 million in net 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, 2011 and 2010</b>				
<b>(in thousands)</b>				
	<b>2011</b>	<b>2010</b>	<b>Increase</b>	<b>Percent Change</b>
Capital Assets				
Land	\$ 97.43	\$ 97.43	\$ 0.00	0.00%
Construction in Progress	738.16	328.68	409.48	124.58%
Buildings	1,114.82	1,114.82		
Machinery and Equipment	715.97	693.09	22.88	3.30%
Infrastructure	2,310.11	2,310.11		
Total	4,976.49	4,544.13	432.36	9.51%
Less: Accumulated Depreciation	1,955.01	1,857.00	98.01	5.28%
Capital Assets, Net	\$ 3,021.48	\$ 2,687.13	\$ 334.35	12.44%

The 124.58% increase in construction in progress was due to \$409,479.82 in current year additions to the hull repair and overnight camping projects.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The Statement of Revenues, Expenses, and Changes in Net Assets reflect an overall decrease in net assets for the fiscal year ending September 30, 2011. The following table identifies variances between the two fiscal years.

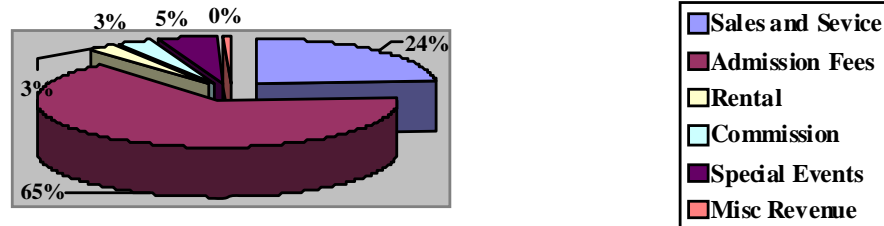
**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended September 30, 2011 and 2010**  
(in thousands)

	2011	As Restated 2010	Increase (Decrease)	Percent Change
Operating Revenues:				
Sales and Services	\$ 723.10	\$ 788.47	\$ (65.37)	-8.29%
Admission Fees	1,964.42	2,129.47	(165.05)	-7.75%
Rentals	77.04	72.21	4.83	6.69%
Commissions	89.33	89.34	(0.01)	-0.01%
Special Events	165.50	125.39	40.11	31.99%
Miscellaneous	14.86	44.94	(30.08)	-66.93%
Total	3,034.25	3,249.82	(215.57)	-6.63%
Less Operating Expenses	4,485.06	3,088.82	1,396.24	45.20%
Net Operating Income	(1,450.81)	161.00	(1,611.81)	-1001.12%
Nonoperating Revenues:				
Investment Income, Net	30.08	314.01	(283.93)	-90.42%
Capital Gifts	164.09	57.11	106.98	187.32%
Total	194.17	371.12	(176.95)	47.68%
Increase (Decrease) in Net Assets	(1,256.64)	532.12	(1,788.76)	-336.16%
Net Assets, Beginning of Year	10,067.13	9,535.01	532.12	5.58%
Net Assets, End of Year	\$ 8,810.49	\$ 10,067.13	\$ (1,256.64)	-12.48%

Total operating revenues decreased 6.63%, primarily due to a decline in visitation which resulted in an 8.29% decrease in sales and services and 7.75% decrease in admission fees, somewhat offset by a 6.69% increase in rental income. The Commission restated the 2010 miscellaneous revenue of \$269,696.90 to provide comparability to the current year revenues received for special events, commissions, and miscellaneous revenue. Investment income decreased by 90.42% due to the transfer of funds from the restoration and reserve investment accounts held by Franklin Street Partners to cash for payment of the hull repair project, combined with fluctuations in the fair market value of the Commission's investment portfolio.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.



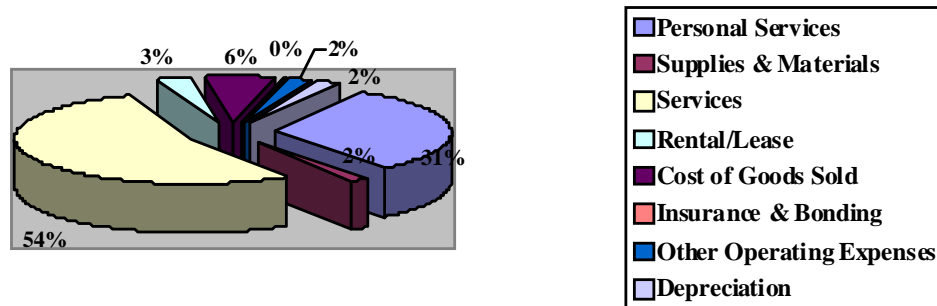
The following table identifies variances between the two fiscal years for the components of operating expenses.

<b>Operating Expenses</b>				
<b>For the Years Ended September 30, 2011 and 2010</b>				
(in thousands)				
	2011	2010	Increase (Decrease)	Percent Change
Operating Expense				
Personal Services	\$ 1,388.50	\$ 1,384.35	\$ 4.15	0.30%
Supplies and Materials	83.15	72.89	10.26	14.08%
Services	2,374.29	937.94	1,436.35	153.14%
Rental/Lease	152.92	143.28	9.64	6.73%
Cost of Goods Sold	285.77	313.12	(27.35)	-8.73%
Depreciation	98.01	110.23	(12.22)	-11.09%
Insurance and Bonding	19.24	18.93	0.31	1.64%
Other Operating Expenses	83.18	108.08	(24.90)	-23.04%
Total	\$ 4,485.06	\$ 3,088.82	\$ 1,396.24	45.20%

The .30% increase in personal services was primarily due to increases in retirement contribution and medical insurance expenses made by the Commission for employees. The 153.14% increase in services is due to increased spending related to the hull repair and maintenance of the bow of the ship in the amount of \$1,295,960.79. Rental/Lease expenses showed a 6.73% increase due to the increased cost of billboard rental contracts. The 8.73% reduction in cost of goods sold is due to the decrease in visitation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The following is a graphic illustration of operating expenses by source as described above.



### 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 major in-place hull repair of the Battleship for underwater hull maintenance and preservation. Funding for this capital project will require a major fundraising capital campaign and may also 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, 2011***

***Exhibit A***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 2,239,770.22
Restricted Cash and Cash Equivalents	329,840.91
Short-Term Investments	2,928,749.07
Receivables (Note 3)	152,057.39
Inventories	236,409.89
Prepaid Items	290,850.18
	<hr/>
Total Current Assets	6,177,677.66
	<hr/>

Noncurrent Assets:

Capital Assets - Nondepreciable (Note 6)	835,586.57
Capital Assets - Depreciable, Net (Note 6)	2,185,893.95
	<hr/>
Total Noncurrent Assets	3,021,480.52
	<hr/>
Total Assets	9,199,158.18
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	280,269.04
Unearned Revenue	15,643.00
Long-Term Liabilities - Current Portion (Note 8)	9,461.01
	<hr/>
Total Current Liabilities	305,373.05
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	83,294.03
	<hr/>
Total Noncurrent Liabilities	83,294.03
	<hr/>
Total Liabilities	388,667.08
	<hr/>

**NET ASSETS**

Invested in Capital Assets	3,021,480.52
Restricted Expendable:	
Restoration Projects	325,563.57
Unrestricted	5,463,447.01
	<hr/>
Total Net Assets	\$ 8,810,491.10
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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, 2011***

***Exhibit B***

**REVENUES**

Operating Revenues:	
Sales and Services	\$ 723,095.90
Admission Fees	1,964,418.00
Rentals	77,035.50
Commissions	89,332.26
Special Events	165,499.17
Miscellaneous	14,865.47
	<hr/>
Total Operating Revenues	3,034,246.30
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	1,388,497.91
Supplies and Materials	83,157.09
Services	2,374,290.26
Rental/Lease (Note 9)	152,921.95
Cost of Goods Sold	285,772.80
Depreciation	98,006.90
Insurance and Bonding	19,239.10
Other Operating Expenses	83,183.80
	<hr/>
Total Operating Expenses	4,485,069.81
	<hr/>
Operating Loss	(1,450,823.51)
	<hr/>

**NONOPERATING REVENUES**

Investment Income (Net of Investment Expense of \$20,878.86)	30,082.07
	<hr/>
Nonoperating Revenues	30,082.07
	<hr/>
Loss Before Other Revenues	(1,420,741.44)
	<hr/>
Capital Gifts	164,094.65
	<hr/>
Decrease in Net Assets	(1,256,646.79)
	<hr/>

**NET ASSETS**

Net Assets - October 1, 2010	10,067,137.89
	<hr/>
Net Assets - September 30, 2011	\$ 8,810,491.10
	<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, 2011***

***Exhibit C***

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from Customers	\$ 3,057,625.17
Payments to Employees and Fringe Benefits	(1,384,080.19)
Payments to Vendors and Suppliers	<u>(2,909,708.59)</u>
Net Cash Used by Operating Activities	<u>(1,236,163.61)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES</b>	
Capital Gifts	52,038.43
Acquisition and Construction of Capital Assets	<u>(432,365.67)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(380,327.24)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	1,946,041.90
Investment Income	83,261.92
Purchase of Investments and Related Fees	<u>(83,261.92)</u>
Net Cash Provided by Investing Activities	<u>1,946,041.90</u>
Net Increase in Cash and Cash Equivalents	329,551.05
Cash and Cash Equivalents - October 1, 2010	<u>2,240,060.08</u>
Cash and Cash Equivalents - September 30, 2011	<u><u>\$ 2,569,611.13</u></u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (1,450,823.51)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	98,006.90
Changes in Assets and Liabilities:	
Receivables	14,313.87
Inventories	32,510.22
Prepaid Items	(29,515.33)
Accounts Payable and Accrued Liabilities	162,131.69
Unearned Revenue	9,065.00
Funds Held for Others	(74,861.54)
Compensated Absences	<u>3,009.09</u>
Net Cash Used by Operating Activities	<u><u>\$ (1,236,163.61)</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 2,239,770.22
Restricted Cash and Cash Equivalents	<u>329,840.91</u>
Total Cash and Cash Equivalents - September 30, 2011	<u><u>\$ 2,569,611.13</u></u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>	
Change in Fair Value of Investments	\$ (32,300.99)
Increase in Receivables Related to Nonoperating Income	112,056.22

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

**USS NORTH CAROLINA BATTLESHIP COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

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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, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts 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 accounts 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 also include amounts due from the related nonprofit foundation in connection with reimbursement of allowable expenditures made pursuant to the Friends of the Battleship Capital Campaign memorandum of understanding. 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. Interest costs incurred are capitalized during the period of construction.

The Commission capitalizes assets that have a value or cost of \$5,000 or greater 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 30 to 50 years for general infrastructure, 35 years for buildings, and 10 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 resources restricted 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 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:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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.

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** - At September 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$468,853.89 which represents the Commission's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 years as of September 30, 2011. Assets and shares of the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$26,560.00, and deposits not with the State Treasurer with a carrying value of \$2,074,197.24 and a bank balance of \$2,147,356.87.

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, 2011, consisted of non-interest bearing checking accounts totaling \$2,147,356.87. As of September 30, 2011, the Commission's bank balance of \$2,147,356.87, participated in a 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 purpose 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, 2011, for the Commission's investments. Interest rate risk is defined by GASB 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 policy that addresses interest rate risk.

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<b>Investment Type</b>					
Debt Securities					
Debt Mutual Funds	\$ 98,290.59	\$ 0.00	\$ 0.00	\$ 98,290.59	\$ 0.00
Money Market Mutual Funds	1,138,124.09	1,138,124.09			
Pooled Debt Funds	578,977.27	31,056.34	42,844.32	185,261.15	319,815.46
		<u>\$ 1,169,180.43</u>	<u>\$ 42,844.32</u>	<u>\$ 283,551.74</u>	<u>\$ 319,815.46</u>
Other Securities					
Equity Mutual Funds	<u>1,113,357.12</u>				
Total Investments	<u>\$ 2,928,749.07</u>				

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*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. At September 30, 2011, investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 98,290.59	\$ 2,358.98	\$ 16,709.40	\$ 8,944.44	\$ 3,027.35	\$ 60,881.19	\$ 6,369.23
Money Market Mutual Funds	1,138,124.09		1,138,124.09				
Pooled Debt Funds	578,977.27	282,164.57	136,146.51	51,970.16	51,327.49	18,594.43	38,774.11

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

A reconciliation of deposits and investments for the Commission to the basic financial statements at September 30, 2011 is as follows:

Cash on Hand	\$ 26,560.00
Carrying Amount of Deposits with Private Financial Institutions	2,074,197.24
Deposits in the Short-Term Investment Fund	468,853.89
Other Investments	<u>2,928,749.07</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 5,498,360.20</u></b>
<b>Current:</b>	
Cash and Cash Equivalents	\$ 2,239,770.22
Restricted Cash and Cash Equivalents	329,840.91
Short-Term Investments	<u>2,928,749.07</u>
<b>Total</b>	<b><u>\$ 5,498,360.20</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - RECEIVABLES

Receivables at September 30, 2011, were as follows:

	<u>Amount</u>
<b>Current Receivables:</b>	
Accounts	\$ 25,614.53
Commission Revenue	14,386.64
Due from the Friends of the Battleship, Inc.	<u>112,056.22</u>
<b>Total Current Receivables</b>	<u><u>\$ 152,057.39</u></u>

### NOTE 4 - 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 2011 of \$3,039,216.73 yields a reserve requirement of \$1,519,608.37. 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 the reserve requirement; therefore, the \$1,409,140.71 excess is considered available for operations and restoration projects.

### NOTE 5 - 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 and the second project, nearing completion, included repairs to the hull of the ship. Currently in design is the 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, 2011, the Commission received donations in the amount of \$49,756.81.

At year end, these funds were on deposit with the North Carolina State Treasurer Short-Term Investment Fund with an ending restricted balance of \$303,381.88.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended September 30, 2011, is presented as follows:

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 97,425.80	\$ 0.00	\$ 0.00	\$ 97,425.80
Construction in Progress	328,680.95	409,479.82		738,160.77
<b>Total Capital Assets, Nondepreciable</b>	<b>426,106.75</b>	<b>409,479.82</b>		<b>835,586.57</b>
Capital Assets, Depreciable:				
Buildings	1,114,823.35			1,114,823.35
Machinery and Equipment	693,086.30	22,885.85		715,972.15
General Infrastructure	2,310,109.37			2,310,109.37
<b>Total Capital Assets, Depreciable</b>	<b>4,118,019.02</b>	<b>22,885.85</b>		<b>4,140,904.87</b>
Less Accumulated Depreciation for:				
Buildings	777,721.62	31,852.08		809,573.70
Machinery and Equipment	391,227.07	13,410.38		404,637.45
General Infrastructure	688,055.33	52,744.44		740,799.77
<b>Total Accumulated Depreciation</b>	<b>1,857,004.02</b>	<b>98,006.90</b>		<b>1,955,010.92</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>2,261,015.00</b>	<b>(75,121.05)</b>		<b>2,185,893.95</b>
<b>Capital Assets, Net</b>	<b>\$ 2,687,121.75</b>	<b>\$ 334,358.77</b>	<b>\$ 0.00</b>	<b>\$ 3,021,480.52</b>

### NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 234,952.77
Accrued Payroll	45,316.27
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 280,269.04</b>

### NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended September 30, 2011, is presented as follows:

	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Current Portion
Compensated Absences	\$ 89,745.95	\$ 68,043.88	\$ 65,034.79	\$ 92,755.04	\$ 9,461.01

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 9 - OPERATING LEASE OBLIGATIONS

The Commission entered into operating leases for billboards. Future minimum lease payments under noncancelable operating leases consist of the following at September 30, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	<u>\$ 10,152.00</u>

Rental expense for all operating leases during the year was \$152,921.95.

### NOTE 10 - 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 year ended September 30, 2011, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Commission had a total payroll of \$991,161.55, of which \$899,413.83 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$49,984.91 and \$53,964.83, respectively.

The required employer contribution rate for the period of July 1, 2011 through September 30, 2011 was 7.44%, for the period July 1, 2010 through June 30, 2011 was 4.93%, for the period July 1, 2009 through June 30, 2010 was 3.57%, and for the period October 1, 2008 through June 30, 2009 was 3.36%. The employee contribution rate for all periods was 6%. The Commission made 100% of its annual required

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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contributions for the years ended September 30, 2011, 2010, and 2009, which were \$49,984.91, \$31,074.15, and \$30,781.24, respectively.

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

- B. Supplemental Retirement Income Plan** - 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. The voluntary contributions by employees amounted to \$4,622.00 for the year ended September 30, 2011.

### NOTE 11 - 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

For the period October 1, 2010 through June 30, 2011, the Commission contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits and for the period July 1, 2011 through September 30, 2011, the Commission contributed 5.0%. For the period October 1, 2008 through June 30, 2009 the required contribution rate was 4.1%, for the period July 1, 2009 through June 30, 2010 was 4.5%, and for the period July 1, 2010 through September 30, 2010 was 4.9%. The Commission made 100% of its annual required contributions to the plan for the years ended September 30, 2011, 2010 and 2009, which were \$44,296.13, \$41,887.50, and \$37,883.78, 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.osc.nc.gov/> and clicking on "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 by the General Assembly. For the fiscal year ended September 30, 2011, the Commission made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended September 30, 2010, and 2009, were .52% and .52%, respectively. The Commission made 100% of its annual required contributions to the DIPNC for the years ended September 30, 2011, 2010, and 2009, which were \$4,676.95, \$4,735.11, and \$4,690.66, respectively. The

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The risk of tort claims of up to \$1,000,000 per claimant is 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 Commission is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. 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 the industry manual rates. 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 Commission 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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\$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 discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

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 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 13 - COMMITMENTS**

The Commission has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$379,919.00 and on other purchases were \$340,443.00 at September 30, 2011.

### **NOTE 14 - THE FRIENDS OF THE BATTLESHIP NORTH CAROLINA**

The Friends of the Battleship North Carolina, Inc. is a legally separate not-for-profit corporation 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, 2011, the organization made in-kind donations of \$2,519.49 to the Commission.

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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### **NOTE 15 - USS GRAVELY (DDG 107)**

The USS Gravelly (DDG 107) Commissioning Committee (the “Committee”) was formed at the request of the Secretary of the Navy to support the commissioning of the USS Gravelly in Wilmington, North Carolina on November 20, 2010. The Committee’s responsibilities included planning and executing a program of events during the 12-day period the ship was in Wilmington. These funds were administered by the Battleship Commission on behalf of the Committee.

The Committee raised a total of \$180,375.00 during 2011 and 2010 in the amount of \$104,775.00 and \$75,600.00 respectively. The Committee expended donations to fund costs of crew and public transportation, traditional gifts to the crew, promotional services, and community events. All funds have been disbursed by the Committee as of September 30, 2011.



**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 the USS North Carolina Battleship Commission, as of and for the year ended September 30, 2011, and have issued our report thereon dated March 29, 2012.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

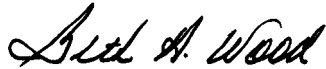
**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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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*.

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, CPA  
State Auditor

March 29, 2012

## **ORDERING INFORMATION**

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

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