

# STATE OF NORTH CAROLINA

**USS NORTH CAROLINA BATTLESHIP COMMISSION**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**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, 2013**

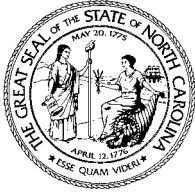
**BOARD OF COMMISSIONERS**

**SAMUEL O. SOUTHERN, CHAIRMAN**

**ADMINISTRATIVE OFFICERS**

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

**SUSAN W. KLUTTZ, 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 Pat McCrory, 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, 2013, 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 cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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# Office of the 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

### Report on the Financial Statements

We have audited the accompanying financial statements of the USS North Carolina Battleship Commission (the "Commission") and its discretely presented component unit, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Friends of the Battleship North Carolina, Inc., the Commission's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for that entity, is based solely on the report of the other auditors. 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 from material misstatement. The financial statements of the Friends of the Battleship North Carolina, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the USS North Carolina Battleship Commission, and its discretely presented component unit, as of September 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 1, the financial statements present only the Commission and its discretely presented component unit, Friends of the Battleship North Carolina, Inc., and do not purport to, and do not, present fairly the financial position of the State of North Carolina as of September 30, 2013, 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.

### Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2014 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

August 12, 2014

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## **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, 2013, with comparative data for the fiscal year ended September 30, 2012. 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 Position, Statement of Revenues, Expenses, and Changes in Net Position, 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 is on the Statement of Revenues, Expenses, and Changes in Net Position.

### **Financial Highlights**

For fiscal year 2013, the 210,969 visitors to the Battleship North Carolina Memorial (the "Battleship") reflected a 2.53% decrease in visitation over the previous year total of 216,438 visitors. During fiscal year 2013, the Battleship did not have programming events comparable to the magnitude of the prior year events.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table summarizes the major categories of assets, liabilities, and net position and their corresponding changes.

**Condensed Statement of Net Position**  
**For the Years Ended September 30, 2013 and 2012**  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$ 6,248.83	\$ 6,553.94	\$ (305.11)	-4.66%
Noncurrent Assets:				
Investments	893.08		893.08	100.00%
Capital Assets, Nondepreciable	483.25	475.12	8.13	1.71%
Capital Assets, Depreciable, Net	<u>2,422.16</u>	<u>2,504.72</u>	<u>(82.56)</u>	-3.30%
Total Assets	<u>10,047.32</u>	<u>9,533.78</u>	<u>513.54</u>	5.39%
Current Liabilities	229.13	202.17	26.96	13.34%
Noncurrent Liabilities	<u>103.79</u>	<u>79.88</u>	<u>23.91</u>	29.93%
Total Liabilities	<u>332.92</u>	<u>282.05</u>	<u>50.87</u>	18.04%
Net Position:				
Net Investment in Capital Assets	2,905.41	2,979.85	(74.44)	-2.50%
Restricted	86.14	52.01	34.13	65.62%
Unrestricted	<u>6,722.85</u>	<u>6,219.87</u>	<u>502.98</u>	8.09%
Total Net Position	<u>\$ 9,714.40</u>	<u>\$ 9,251.73</u>	<u>\$ 462.67</u>	5.00%

During fiscal year 2013, the Friends of the Battleship North Carolina, Inc. (the "Friends") continued the Generations Campaign. The Generations Campaign is a capital campaign effort to continue the mission of the Battleship as a living memorial to those who served their country. The Battleship serves as a center for education and inspiration to future generations of leaders. Gifts will be used to sustain its mission as a living classroom where history comes alive with a call to learn and to serve.

Generations Campaign gifts are received by the discretely presented component unit, the Friends. The Friends is a not-for-profit 501 (c) (3) charitable organization with the purpose of promoting and supporting the Battleship.

The 4.66% decrease in current assets was primarily caused by liquidation of the prior year current investment portfolio. Funds designated for the Overnight Camping Project were transferred to the State Treasurer Short-Term Investment Fund (STIF). The 100% increase in noncurrent investments was due to a transfer of excess funds from the liquidation of the prior year current investment portfolio.

The increase in total net position of 5.00% was attributable to increases of noncapital gifts directly related to expenses associated with the Generations Campaign; commission and miscellaneous revenues, prepaid rental and leased billboards. Compared to the prior year, the Commission decreased cash outlay for expenses associated with purchases for resale, legal fees, and programming events.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The 13.34% increase in current liabilities was primarily attributable to contracts associated with advertising, IT support, the Overnight Camping Project, security and lawn care services, utilities, credit card processing fees, miscellaneous service contracts, and an increase in unearned revenue.

### Capital Assets

As of September 30, 2013, the Battleship recorded \$5.10 million in gross capital assets, \$2.19 million in accumulated depreciation, and \$2.91 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, 2013 and 2012</b>				
(in thousands)				
	<b>2013</b>	<b>2012</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
Capital Assets				
Land	\$ 97.43	\$ 97.43	\$ 0.00	0.00%
Construction in Progress	385.82	377.70	8.12	2.15%
Buildings	1,114.82	1,114.82		
Machinery and Equipment	794.44	754.93	39.51	5.23%
Infrastructure	2,709.27	2,709.27		
Total	5,101.78	5,054.15	47.63	0.94%
Less: Accumulated Depreciation	2,196.38	2,074.30	122.08	5.89%
Capital Assets, Net	\$ 2,905.40	\$ 2,979.85	\$ (74.45)	-2.50%

The 2.15% increase in construction in progress was due to contracts associated with the Overnight Camping Project. The 5.23% increase in machinery and equipment was due to the purchase of a vehicle and HVAC equipment.

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

The Statement of Revenues, Expenses, and Changes in Net Position reflect an overall increase in net position for the fiscal year ending September 30, 2013. The following table identifies variances between the two fiscal years.

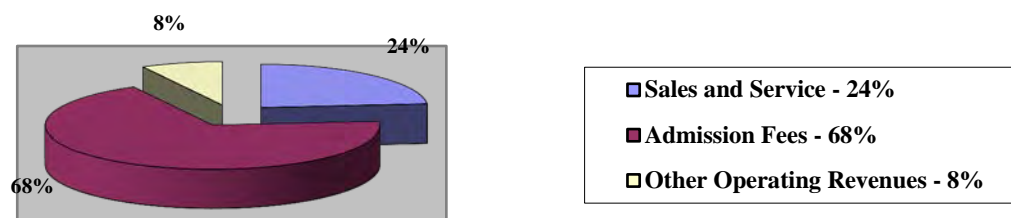
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Years Ended September 30, 2013 and 2012 (in thousands)

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Sales and Services	\$ 743.35	\$ 793.36	\$ (50.01)	-6.30%
Admission Fees	2,161.38	2,161.47	(0.09)	0.00%
Other Operating Revenues	247.53	285.73	(38.20)	-13.37%
<b>Total</b>	<u>3,152.26</u>	<u>3,240.56</u>	<u>(88.30)</u>	<u>-2.72%</u>
Less Operating Expenses	<u>3,208.52</u>	<u>3,336.44</u>	<u>(127.92)</u>	<u>-3.83%</u>
Net Operating Loss	<u>(56.26)</u>	<u>(95.88)</u>	<u>39.62</u>	<u>-41.32%</u>
Nonoperating Revenues:				
Investment Income, Net	164.40	301.43	(137.03)	-45.46%
Capital Gifts	40.00	26.56	13.44	50.60%
Noncapital Gifts	314.53	209.13	105.40	50.40%
<b>Total Revenues</b>	<u>3,671.19</u>	<u>3,777.68</u>	<u>(106.49)</u>	<u>-2.82%</u>
Increase in Net Position	462.67	441.24	21.43	-4.86%
Net Position, Beginning of Year	<u>9,251.73</u>	<u>8,810.49</u>	<u>441.24</u>	<u>5.01%</u>
Net Position, End of Year	<u>\$ 9,714.40</u>	<u>\$ 9,251.73</u>	<u>\$ 462.67</u>	<u>5.00%</u>

The overall decrease in operating revenue of 2.72% was due to a decrease in gift shop sales of 6.30%. The sale per visitor decrease was impacted by the reduction strategies used to promote and sell out-of-date merchandise to replenish the inventory with current merchandise. Admission fees for fiscal year 2013 were comparable with the prior year with no fluctuations.

During fiscal year 2013, operating revenues were impacted by a 13.37% decrease in miscellaneous revenue, rental, contract, and programming events.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2013 and 2012</b>				
<b>(in thousands)</b>				
	<b>2013</b>	<b>2012</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
Operating Expenses:				
Personal Services	\$ 1,462.90	\$ 1,432.16	\$ 30.74	2.15%
Supplies and Materials	77.62	90.69	(13.07)	-14.41%
Services	1,028.20	1,124.01	(95.81)	-8.52%
Rental/Lease	127.36	137.83	(10.47)	-7.60%
Cost of Goods Sold	287.47	340.03	(52.56)	-15.46%
Depreciation	122.07	119.29	2.78	2.33%
Insurance and Bonding	23.80	20.84	2.96	14.20%
Other Operating Expenses	79.10	71.59	7.51	10.49%
<b>Total</b>	<b>\$ 3,208.52</b>	<b>\$ 3,336.44</b>	<b>\$ (127.92)</b>	<b>-3.83%</b>

An increase of 2.15% for personal services was associated with payroll expenses paid by the Commission for position reclassification, retirement contributions, and medical insurance. In comparison to the prior year expenses for supplies and materials, a decrease of 14.41% was attributed to the 2012 purchase of signal flags for ceremonial events aboard the Battleship and purchase of video equipment to enhance the visitor experience.

The 8.52% decrease in services was the net effect of several factors. There was an increase in contracted services for testing of environmental issues related to oil removal and disposal, in conjunction with a decrease in expenses associated with programming events for Ghost Ship, advertising, miscellaneous contracts, maintenance for motor vehicles, security services, and legal fees associated with teak repairs, and miscellaneous freight charges.

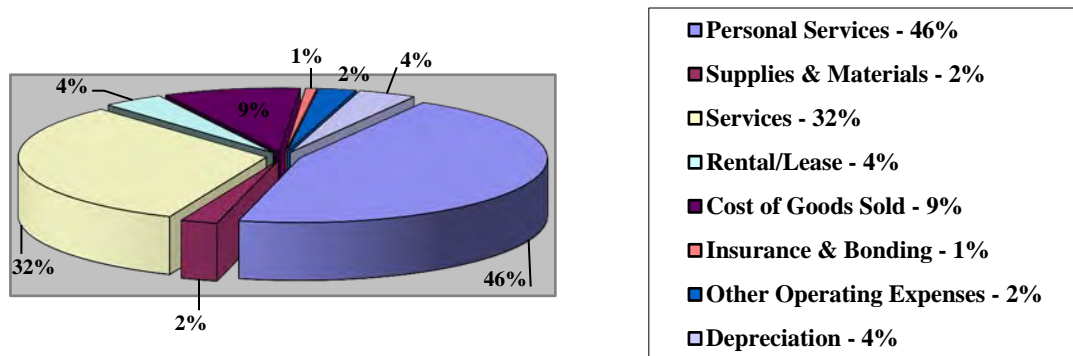
Rental/lease of billboards decreased due to non-renewal of contracts for a billboard located on the interstate. The billboard was not in the target market of the current marketing plan/mix to reach Battleship customers and was taken out of the budget.

Fiscal year ended September 30, 2013 resulted in approximately 5,400 fewer visitors at the Battleship. As a result, expenses associated with cost of goods sold were reduced.

The increase in insurance and bonding of 14.2% for fiscal year 2013 was due to the payment of a full year of coverage for environmental insurance which was initially purchased in fiscal year 2012. Other operating expenses increased by 10.49% because of expenses associated with e-commerce website development for online donations and gift shop sales.

## 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.

During fiscal year 2013, the Friends continued a multi-year fundraising project called the Generations Campaign. The Generations Campaign gifts will fund hull repairs and program upgrades to ensure the Battleship's ongoing memorial and educational roles that teach and instill pride in all who come aboard. The Battleship Commission is pursuing appropriations through the North Carolina General Assembly (under the Repair and Restoration budget) for hull repairs. In addition, the Friends are raising funds for hull repairs, memorializing and education through the Generations Campaign.

***USS North Carolina Battleship Commission***  
***Statement of Net Position***  
***September 30, 2013***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 5,378,569.93
Restricted Cash and Cash Equivalents	86,142.69
Receivables (Note 3)	336,852.28
Inventories	206,407.13
Prepaid Items	240,856.47
	<hr/>
Total Current Assets	6,248,828.50

Noncurrent Assets:

Investments	893,082.03
Capital Assets - Nondepreciable (Note 6)	483,246.53
Capital Assets - Depreciable, Net (Note 6)	2,422,162.34
	<hr/>
Total Noncurrent Assets	3,798,490.90

Total Assets	<hr/> <hr/> 10,047,319.40
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**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	<hr/> 0.00
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	195,236.28
Unearned Revenue	29,505.51
Long-Term Liabilities - Current Portion (Note 8)	4,392.01
	<hr/>
Total Current Liabilities	229,133.80

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	<hr/> 103,785.36
Total Noncurrent Liabilities	<hr/> 103,785.36
Total Liabilities	<hr/> <hr/> 332,919.16

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	<hr/> 0.00
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**NET POSITION**

Investment in Capital Assets	2,905,408.87
Restricted Expendable:	
Restoration Projects	86,142.69
Unrestricted	6,722,848.68
	<hr/>
Total Net Position	<hr/> <hr/> \$ 9,714,400.24

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 Position  
For the Fiscal Year Ended September 30, 2013***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Sales and Services	\$ 743,353.56
Admission Fees	2,161,381.50
Rentals	67,558.56
Commissions	101,327.45
Special Events	64,183.00
Miscellaneous	14,461.54
	<hr/>
Total Operating Revenues	3,152,265.61
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	1,462,903.31
Supplies and Materials	77,620.08
Services	1,028,201.92
Rental/Lease (Note 9)	127,363.23
Cost of Goods Sold	287,465.00
Depreciation	122,070.51
Insurance and Bonding	23,798.59
Other Operating Expenses	79,098.49
	<hr/>
Total Operating Expenses	3,208,521.13
	<hr/>
Operating Loss	(56,255.52)
	<hr/>

**NONOPERATING REVENUES**

Noncapital Gifts	314,525.25
Investment Income (Net of Investment Expense of \$11,063.74)	164,396.50
	<hr/>
Nonoperating Revenues	478,921.75
	<hr/>
Income Before Other Revenues	422,666.23
	<hr/>
Capital Gifts	40,003.04
	<hr/>
Increase in Net Position	462,669.27

**NET POSITION**

Net Position - October 1, 2012	9,251,730.97
	<hr/>
Net Position - September 30, 2013	\$ 9,714,400.24
	<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, 2013***

***Exhibit A-3***

***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 3,169,663.45
Payments to Employees and Fringe Benefits	(1,466,336.71)
Payments to Vendors and Suppliers	<u>(1,636,036.13)</u>
Net Cash Provided by Operating Activities	<u>67,290.61</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Noncapital Gifts	<u>281,306.25</u>
Net Cash Provided by Noncapital Activities	<u>281,306.25</u>

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

Capital Gifts	36,679.00
Acquisition and Construction of Capital Assets	<u>(47,633.81)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(10,954.81)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	2,389,088.10
Investment Income	55,347.22
Purchase of Investments and Related Fees	<u>(924,013.51)</u>
Net Cash Provided by Investing Activities	<u>1,520,421.81</u>
Net Increase in Cash and Cash Equivalents	1,858,063.86
Cash and Cash Equivalents - October 1, 2012	<u>3,606,648.76</u>
Cash and Cash Equivalents - September 30, 2013	<u><u>\$ 5,464,712.62</u></u>

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

Operating Loss	\$ (56,255.52)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	122,070.51
Changes in Assets and Liabilities:	
Receivables	10,520.05
Inventories	(7,376.73)
Prepaid Items	(52,533.07)
Accounts Payable and Accrued Liabilities	29,830.16
Unearned Revenue	6,877.79
Compensated Absences	<u>14,157.42</u>
Net Cash Provided by Operating Activities	<u><u>\$ 67,290.61</u></u>

***USS North Carolina Battleship Commission  
Statement of Cash Flows  
For the Fiscal Year Ended September 30, 2013***

***Exhibit A-3  
Page 2 of 2***

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:

Cash and Cash Equivalents	\$	5,378,569.93
Restricted Cash and Cash Equivalents		<u>86,142.69</u>

Total Cash and Cash Equivalents - September 30, 2013 \$ 5,464,712.62

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

Change in Fair Value of Investments	\$	121,712.68
Increase in Receivables Related to Nonoperating Income		36,543.04

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

***Friends of the Battleship North Carolina, Inc.***  
***Statement of Financial Position***  
***September 30, 2013***

***Exhibit B-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,377,940
Grant Receivable	6,553
Pledges Receivable	646,100
Other	5,343
	<hr/>
Total Current Assets	2,035,936

Noncurrent Assets:

Pledges Receivable - Noncurrent	756,800
	<hr/>
Total Noncurrent Assets	756,800
	<hr/>
Total Assets	\$ 2,792,736

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Battleship Payable	\$ 323,757
Unearned Revenue	58,802
	<hr/>
Total Liabilities	382,559

**NET ASSETS**

Unrestricted	22,947
Temporarily Restricted	2,387,230
	<hr/>
Total Net Assets	2,410,177
	<hr/>
Total Liabilities and Net Assets	\$ 2,792,736

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

***Friends of the Battleship North Carolina, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended September 30, 2013***

***Exhibit B-2***

**SUPPORT & REVENUE**

Contributions	\$	1,732,258
Membership Dues		18,825
Grants		16,535
Interest Income		857
Other Revenue		250

Total Support and Revenue 1,768,725

**OPERATING EXPENSES**

Program Services		17,396
Administrative		3,163
Fundraising		315,573

Total Expenses 336,132

**CHANGE IN NET ASSETS**

1,432,593

**NET ASSETS**

Beginning of Year 977,584

End of Year \$ 2,410,177

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, 2013**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The 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 all funds belonging to the Commission and its component unit. The Commission's discretely presented component unit is presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

**Discretely Presented Component Unit** – The Friends of the Battleship North Carolina, Inc. (the "Friends") is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the Commission. The Friends was organized under the laws of North Carolina for the purposes of promoting and supporting the Battleship North Carolina.

The Friends is a not-for-profit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Friends' financial information in the Commission's financial reporting entity for these differences.

During the fiscal year ended September 30, 2013, the Friends made in-kind donations of \$309,987 to the Commission. Donations included contributions from various vendors for reimbursement of grants for fire

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and safety, computer and audio visual equipment, exhibit material, restoration, and reimbursement for direct expenses related to the Generations Campaign. Complete financial statements for the Friends may be obtained by mailing a request to Friends of the Battleship North Carolina, Inc., P O Box 480, Wilmington, NC 28402, or by calling 910-251-5797.

- 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.

- 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 and investment income. 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, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 amounts due for commissions. Receivables also include amounts due from the related not-for-profit corporation in connection with reimbursement of allowable expenditures made pursuant to the Friends of the Battleship North Carolina, Inc. Generations Campaign memorandum of understanding. Receivables 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 the 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 75 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 Position** - The Commission's net position is classified as follows:

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

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

**Unrestricted Net Position** - Unrestricted net position includes 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 Position. Operating revenues and expenses generally result from providing services



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 non-operating revenues and expenses.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposits** - At September 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,555,937.94 which represents the Commission's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.6 years as of September 30, 2013. Assets and shares of the STIF 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) 707-0500.

Cash on hand at September 30, 2013 was \$26,560. The carrying amount of the Commission's deposits not with the State Treasurer was \$2,882,214.68 and the bank balance was \$2,873,164.67.

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 institutions at September 30, 2013, consisted of non-interest bearing checking accounts totaling \$39,866.86 and interest bearing totaling \$2,833,297.81. As of September 30, 2013, of the Commission's bank balance, \$2,623,164.67

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

was exposed to custodial credit risk as it was uninsured and uncollateralized.

- 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 represents the fair value of investments by type and investments subject to interest rate risk at September 30, 2013. 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.

Investment Type	Fair Value	Investment Maturities (in Years)		
		1 to 5	6 to 10	More than 10
<b>Debt Securities</b>				
Debt Mutual Funds	\$ 303,037.00	<u>\$ 75,904.00</u>	<u>\$ 196,919.00</u>	<u>\$ 30,214.00</u>
<b>Other Securities</b>				
International Mutual	242,707.00			
Equity Mutual Funds	322,919.03			
Real Estate Investment Trust	<u>24,419.00</u>			
<b>Total Investments</b>	<u>\$ 893,082.03</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. At September 30, 2013, 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	<u>\$ 303,037.00</u>	<u>\$ 142,744.00</u>	<u>\$ 23,759.00</u>	<u>\$ 33,162.00</u>	<u>\$ 48,706.00</u>	<u>\$ 50,896.00</u>	<u>\$ 3,770.00</u>

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

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

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**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the Commission as of September 30, 2013, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 26,560.00
Carrying Amount of Deposits with Private Financial Institutions	2,882,214.68
Deposits in the Short-Term Investment Fund	2,555,937.94
Investments	<u>893,082.03</u>
<b>Total Deposits and Investments</b>	<b><u><u>\$ 6,357,794.65</u></u></b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 5,378,569.93
Restricted Cash and Cash Equivalents	<u>86,142.69</u>
<b>Total Deposits</b>	<b><u>5,464,712.62</u></b>
Investments	
Noncurrent:	
Investments	<u>893,082.03</u>
<b>Total Deposits and Investments</b>	<b><u><u>\$ 6,357,794.65</u></u></b>

**NOTE 3 - RECEIVABLES**

Receivables at September 30, 2013, were as follows:

	<u>Amount</u>
<b>Current Receivables:</b>	
Commissions Revenue	\$ 13,095.28
Due from the Friends of the Battleship North Carolina, Inc.	<u>323,757.00</u>
<b>Total Current Receivables</b>	<b><u><u>\$ 336,852.28</u></u></b>

**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 2013 of \$3,360,316.83 yields a reserve requirement of \$1,680,158.42. For reporting purposes, this reserve is included in unrestricted net position. At year-end the value of the State Treasurer Investment Fund, described in

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2, exceeded the reserve requirement; therefore, the \$875,779.52 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 the replacement of the teak deck. Subsequent projects now completed included repairs to the hull and maintenance of the bow of the ship. Currently in design is the restoration of the main deck interior spaces for the Overnight Camping Project. 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, 2013, the Commission received donations in the amount of \$37,952.47.

At year end, these funds were on deposit with BB&T with an ending restricted balance of \$85,354.30.

### NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended September 30, 2013, is presented as follows:

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013
Capital Assets, Nondepreciable:				
Land	\$ 97,425.80	\$ 0.00	\$ 0.00	\$ 97,425.80
Construction in Progress	377,696.59	8,124.14		385,820.73
<b>Total Capital Assets, Nondepreciable</b>	<b>475,122.39</b>	<b>8,124.14</b>		<b>483,246.53</b>
Capital Assets, Depreciable:				
Buildings	1,114,823.35			1,114,823.35
Machinery and Equipment	754,935.30	39,509.67		794,444.97
General Infrastructure	2,709,269.37			2,709,269.37
<b>Total Capital Assets, Depreciable</b>	<b>4,579,028.02</b>	<b>39,509.67</b>		<b>4,618,537.69</b>
Less Accumulated Depreciation for:				
Buildings	841,425.78	31,852.08		873,277.86
Machinery and Equipment	435,343.26	32,151.87		467,495.13
General Infrastructure	797,535.80	58,066.56		855,602.36
<b>Total Accumulated Depreciation</b>	<b>2,074,304.84</b>	<b>122,070.51</b>		<b>2,196,375.35</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>2,504,723.18</b>	<b>(82,560.84)</b>		<b>2,422,162.34</b>
<b>Capital Assets, Net</b>	<b>\$ 2,979,845.57</b>	<b>\$ (74,436.70)</b>	<b>\$ 0.00</b>	<b>\$ 2,905,408.87</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2013, were as follows:

	Amount
Accounts Payable	\$ 155,817.80
Accrued Payroll	39,418.48
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 195,236.28</b>

### NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended September 30, 2013, is presented as follows:

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Current Portion
Compensated Absences	\$ 94,019.95	\$ 61,693.56	\$ 47,536.14	\$ 108,177.37	\$ 4,392.01

### NOTE 9 - OPERATING LEASE OBLIGATIONS

The Commission entered into operating leases for the postage machine. Future minimum lease payments under noncancelable operating leases consist of the following at September 30, 2013:

	Fiscal Year	Amount
	2014	\$ 1,788.00
	2015	1,788.00
	2016	1,788.00
<b>Total Minimum Lease Payments</b>		<b>\$ 5,364.00</b>

Rental expense for all operating leases during the year was \$127,363.23.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.68% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Commission had a total payroll of \$1,014,936.04, of which \$924,310.45 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$77,803.84 and \$55,458.63, respectively.

Required employer contribution rate for the period of July 1, 2013 through September 30, 2013 was 8.68%, for the period July 1, 2012 through June 30, 2013 was 8.33%, for the period of July 1, 2011 through June 30, 2012 was 7.44% and for the period of October 1, 2010 through June 30, 2011 was 3.57%. The employee contributions were 6% for all periods. The Commission made 100% of its annual required contributions for the years ended September 30, 2013, 2012, and 2011, which were \$77,917.55, \$69,801.97, and \$49,984.91, 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) 707-0500.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the period October 1, 2012 through June 30, 2013, the Commission contributed 5.3% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits and for the period July 1, 2013 through September 30, 2013, the Commission contributed 5.4%. For the period October 1, 2011 through June 30, 2012 the required contribution rate was 5.0%, for the period July 1, 2012 through September 30, 2012 was 5.3%, for the period October 1, 2010 through June 30, 2011 was 4.9%, and for the period July 1, 2011 through September 30, 2011 was 5.0%. The Commission made 100% of its annual required contributions to the Plan for the years ended September 30, 2013, 2012, and 2011, which were \$49,219.53, \$46,125.29, and \$44,296.13, 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) 707-0500.

- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2013, the Commission made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended September 30, 2013, and 2012, were .44% and .44%, respectively. The Commission made 100% of its annual required contributions to the DIPNC for the years ended September 30, 2013, 2012, and 2011, which were \$4,066.97, \$4,504.34, and \$4,676.95, 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 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 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.

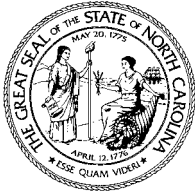
Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

### 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 \$87,750 and other miscellaneous contractual services were \$15,999.77 as of September 30, 2013.

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# Office of the State Auditor



**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, in accordance with the 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, the financial statements of the USS North Carolina Battleship Commission and its discretely presented component unit, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated August 12, 2014. Our report includes a reference to other auditors who audited the financial statements of the Friends of the Battleship North Carolina, Inc., as described in our report on the Commission's financial statements. The financial statements of the Friends of the Battleship North Carolina, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Friends of the Battleship North Carolina, Inc.

As discussed in Note 1, the financial statements present only the Commission and its discretely presented component unit, Friends of the Battleship North Carolina, Inc., and do not purport to, and do not, present fairly the financial position of the State of North Carolina as of September 30, 2013, 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.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

**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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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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

August 12, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
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Raleigh, North Carolina 27699-0601

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For additional information contact:

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