

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the North Carolina State Ports Authority, a component unit of the State of North Carolina, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the North Carolina State Ports Authority are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the North Carolina State Ports Authority were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements and supplementary information that relate solely to the North Carolina State Ports Authority. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements and supplementary information that relate solely to the North Carolina State Ports Authority. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information that relate solely to the North Carolina State Ports Authority.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. The accompanying supplementary information presents information that is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the North Carolina State Ports Authority's ability to record, process, summarize, and report financial data in the financial statements.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein 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.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Mr. Erik Stromberg, Executive Director
North Carolina State Ports Authority
Wilmington, North Carolina

We have audited the accompanying Balance Sheet of the North Carolina State Ports Authority (the Authority), a component unit of the State of North Carolina, as of June 30, 2001 and the related Statement of Income and Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Schedules 1, 2 and 3 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2001 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Ralph Campbell, Jr.
State Auditor

September 14, 2001

North Carolina State Ports Authority
Balance Sheet
June 30, 2001

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	(91,251.73)
Investments		22,044,174.66
Accounts Receivable		4,311,451.10
Interest Receivable		207,372.97
Inventory of Materials and Supplies		977,237.74
Prepaid Items		<u>1,477,480.02</u>

Total Current Assets \$ 28,926,464.76

Restricted Assets:

Wood Chip Facilities:		
Cash and Cash Equivalents	\$	167,304.95
Investments - Bond Redemption Fund		<u>244,771.18</u>

Total 412,076.13

Bulk Handling Facility - Revenue Fund:

Cash and Cash Equivalents		431,116.02
Investments		764,606.25
Accounts Receivable		770,593.22
Interest Receivable		1,551.58
Prepaid Items		<u>150,607.32</u>

Total 2,118,474.39

Bulk Handling Facility - Bond Service and Reserve Fund:

Investments		1,375,242.30
Interest Receivable		<u>3,929.09</u>

Total 1,379,171.39

Unexpended State Appropriation
for Capital Improvements

6,502,989.72

Total Restricted Assets 10,412,711.63

Property:

Plant and Equipment		205,876,572.15
Accumulated Depreciation		(109,055,428.15)
Construction in Progress		8,827,140.93
Land		<u>19,795,450.66</u>

Net Property 125,443,735.59

Other Assets:

Deferred Dredging Costs		<u>186,836.35</u>
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Total Assets \$ 164,969,748.33

North Carolina State Ports Authority
Balance Sheet
June 30, 2001

Exhibit A
Page 2

LIABILITIES AND FUND EQUITY

Current Liabilities (Payable From Current Assets):

Accounts Payable	\$ 1,349,173.75
Accrued Payroll	156,114.34
Accrued Vacation Leave	987,362.76
Notes Payable - Current Portion	<u>67,672.32</u>

Total Current Liabilities (Payable From Current Assets) \$ 2,560,323.17

Current Liabilities (Payable From Restricted Assets):

Accounts Payable and Accrued Liabilities	288,691.31
Interest Payable	52,108.81
Deferred Revenue - Bulk Handling Facility	58,520.83
Deferred Revenue - Wood Chip Facility	560,728.81
Bonds Payable January 1, 2002 - Bulk Handling Facility	625,000.00
Bonds Payable January 1, 2002 - Wood Chip Facilities	<u>565,000.00</u>

Total Current Liabilities (Payable From Restricted Assets) 2,150,049.76

Long-Term Debt:

Notes Payable	483,871.64
Bonds Payable (Payable From Current Assets)	8,455,000.00
Bonds Payable (Payable From Restricted Assets)	<u>985,000.00</u>

Total Long-Term Debt 9,923,871.64

Total Liabilities 14,634,244.57

Fund Equity:

Contributed Capital	136,522,415.32
Retained Earnings:	
Reserved for Revenue Bond Debt Retirement	1,745,589.00
Accumulated Surplus	<u>12,067,499.44</u>

Total Retained Earnings 13,813,088.44

Total Fund Equity 150,335,503.76

Total Liabilities and Fund Equity \$ 164,969,748.33

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

***North Carolina State Ports Authority
Statement of Income and Retained Earnings
For the Year Ended June 30, 2001***

Exhibit B

Operating Revenues:		
Operations	\$ 23,863,886.44	
Rentals	<u>3,638,409.51</u>	
Total Operating Revenues		\$ 27,502,295.95
Operating Expenses Before Depreciation:		
Operations	9,070,875.76	
Maintenance	6,118,113.38	
Port Administrative	2,852,406.64	
General Administrative	<u>4,977,543.90</u>	
Total Operating Expenses		<u>23,018,939.68</u>
Operating Income Before Depreciation		4,483,356.27
Depreciation Expense		<u>7,496,918.67</u>
Net Loss From Operations		(3,013,562.40)
Non-Operating Items:		
Interest Income	1,525,630.37	
Interest Expense	(487,215.35)	
Net Increase in the Fair Value of Investments	59,308.53	
Gain on Property Disposals	<u>2,918.25</u>	
Total Non-Operating Items		<u>1,100,641.80</u>
Net Loss		(1,912,920.60)
Retained Earnings July 1, 2000		<u>15,726,009.04</u>
Retained Earnings June 30, 2001		<u><u>\$ 13,813,088.44</u></u>

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

***North Carolina State Ports Authority
Statement of Cash Flows
For the Year Ended June 30, 2001***

Exhibit C

Cash Flows From Operating Activities:	
Net Loss from Operations	\$ (3,013,562.40)
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:	
Depreciation	7,496,918.67
Amortization of Dredging Costs and Crane Relocation	267,133.87
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(421,101.66)
Increase in Inventory	(191,015.31)
Increase in Prepaid Items	(1,116,589.56)
Increase in Accounts Payable	286,857.42
Decrease in Deferred Revenue	(62,249.10)
Decrease in Accrued Payroll	(11,919.13)
Increase in Accrued Vacation Leave Payable	65,267.48
	<u>3,299,740.28</u>
Total Cash Provided From Operating Activities	<u>3,299,740.28</u>
Cash Used For NonCapital Financing Activities:	
Operating Transfers Out	<u>(3,000,000.00)</u>
Cash Provided From (Used For) Capital Financing Activities:	
Operating Transfers In	6,000,000.00
Acquisition of Fixed Assets	(14,193,571.51)
Proceeds from Sale of Fixed Assets	21,472.76
Repayment of Bond Principal	(1,130,000.00)
Repayment of Note Principal	(63,345.57)
Interest Payments on Bonds and Notes	(462,463.66)
	<u>(9,827,907.98)</u>
Total Cash Used For Capital Financing Activities	<u>(9,827,907.98)</u>
Cash Provided From (Used For) Investment Activities:	
Proceeds from the Sale/Maturities of Non-State Treasurer Investments	43,615,772.66
Purchase of Non-State Treasurer Investments	(42,737,187.26)
Investment Income	1,376,907.16
	<u>2,255,492.56</u>
Total Cash Provided From Investing Activities	<u>2,255,492.56</u>
Net Decrease in Cash and Cash Equivalents	<u>(7,272,675.14)</u>
Cash and Cash Equivalents at July 1, 2000	<u>14,282,834.10</u>
Cash and Cash Equivalents at June 30, 2001	<u>\$ 7,010,158.96</u>

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

NORTH CAROLINA STATE PORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SUMMARY OF 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, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina State Ports Authority is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the Authority's Board of Directors is financially accountable.

- B. Basis of Accounting** - The Authority is accounted for as a proprietary fund type (enterprise fund) in conformity with the accounting and reporting requirements of the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared in accordance with the accrual basis of accounting. Revenues are reported in the accounting period when they are earned and become measurable and expenditures are reported in the accounting period when materials or services are received or when incurred, if measurable.
- C. Cash and Cash Equivalents** - This account classification includes cash on deposit with the State Treasurer, private bank accounts and petty cash. Cash and cash equivalents as presented in the statement of cash flows includes cash as defined above.
- D. Investments** - This classification includes money market funds, repurchase agreements, certificates of deposit and governmental securities. Except for money market funds and certificates of deposit, these investments are reported at fair value for year-end financial reporting purposes. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. The increase (decrease) in fair value during the year is reported as "Net Increase (Decrease) in the Fair Value of Investments."

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments are summarized in Schedule 3. Restricted investments are managed by The Bank of New York as trustee of the Bulk Handling Facility and by Wells Fargo Bank Minnesota, NA FKA as trustee of the Wood Chip Facilities.

- E. Receivables and Allowance for Doubtful Accounts** - Receivables are shown in the accompanying financial statements net of allowances for doubtful accounts of \$18,608.21 and are considered to be collectible at June 30, 2001.
- F. Inventories** - Inventories held by the Authority are stated on a moving weighted average cost basis which approximates cost on a first-in, first-out (FIFO) basis.
- G. Property and Depreciation** - Property constructed or purchased is stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows: buildings 20-50 years; wharves 50 years; improvements other than buildings 10-25 years; machinery and equipment 4-25 years.
- H. Vacation and Sick Leave** - The Authority's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

The Authority has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Deposits include cash and cash equivalents, certificates of deposit and unexpended state appropriations totaling \$16,308,348.96. At year-end, cash on hand was \$1,810.00. The Authority's unexpended state appropriations with the State Treasurer's Cash and Investment Pool was \$6,502,989.72.

It is the State Treasurer's policy and practice for his deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for his investments to be held by the State's agent in the State's name. The carrying amount of the Authority's deposits not with the State Treasurer was \$9,805,359.24 and the bank balance was \$10,833,609.17. Of the bank balance, \$727,459.88 was covered by federal depository insurance and \$10,106,149.29 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c) and 147-69.2 authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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.state.nc.us/OSC> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by the financial institution's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the Authority's name.

A summary of the Authority's investments at June 30, 2001 is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
Investments Categorized:				
U.S. Government Securities	\$ 0.00	\$ 0.00	\$ 11,201,758.58	\$ 11,201,758.58
Repurchase Agreements			1,989,849.98	1,989,849.98
Total Investments Categorized	\$ 0.00	\$ 0.00	\$ 13,191,608.56	\$ 13,191,608.56
Investments Not Categorized:				
Certificates of Deposit				9,300,000.00
Money Market Funds				1,937,185.83
Total Investments				\$ 24,428,794.39

The above certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

Derivative and Similar Transactions - A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets, reference rates, or indexes of asset values. These instruments may include forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters and caps/floors/collars. During the year the Authority did not invest in derivative investments but did invest in transactions similar to a derivative instrument. Investment transactions similar to a derivative may include securitized assets, such as mortgage-backed securities and other asset backed securities. As required by generally accepted accounting principles, the nature of derivative or similar transactions entered into by the Authority, and the reasons for entering into those transactions follow:

Mortgage-Backed Securities - The Authority invests in mortgage-backed securities issued by government sponsored enterprises including the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA). The Authority invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The values of mortgage-backed securities are generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. These securities may include mortgage pass-through securities and collateralized mortgage obligations (CMOs). Mortgage pass-through securities pay the holder of the security the principal and interest amounts received from the underlying pool of mortgages as these amounts are collected from the mortgage holders. In a CMO, the cash flows from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches.) A holder of the CMO security thus chooses the class of security that best meet its risk and return objectives. Both pass-through securities and CMOs are subject to significant market risk due to fluctuations in interest rates, prepayment rates and various liquidity factors related to their specific markets.

The mortgage pass-through securities issued by FNMA and FHLMC are classified by the Authority as U.S. government securities. These securities are collateralized by underlying pools of mortgages primarily issued by FNMA and FHLMC which guarantee full and timely payment of principal and interest.

The CMOs held by the Authority include mortgage backed securities also issued by FNMA and FHLMC. In addition, non-traditional mortgage pass-through securities, such as “interest-only strips” and “principal-only strips”, if held by the Authority, are classified as CMOs. The Authority did not hold any non-traditional pass-through securities during the year.

As of June 30, 2001, the Authority was holding \$5,653,642.00 in mortgage-backed securities valued at fair (market) value representing approximately 23.14% of its total investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - CHANGES IN FIXED ASSETS

A schedule of changes in fixed assets is presented as follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
Plant and Equipment:				
Buildings & Wharves	\$ 111,084,707.54	\$ 460,321.07	\$ 0.00	\$ 111,545,028.61
Other Structures and Improvements	39,732,071.74			39,732,071.74
Machinery & Equipment	52,042,805.11	2,685,259.07	128,592.38	54,599,471.80
Construction in Progress	4,424,158.61	4,793,009.10	390,026.78	8,827,140.93
Land	<u>12,811,551.26</u>	<u>6,983,899.40</u>		<u>19,795,450.66</u>
Total Fixed Assets	<u>\$ 220,095,294.26</u>	<u>\$ 14,922,488.64</u>	<u>\$ 518,619.16</u>	\$ 234,499,163.74
Less: Accumulated Depreciation				<u>109,055,428.15</u>
Net Fixed Assets				<u>\$ 125,443,735.59</u>

Included in the total property is \$17,260,958.29 which represents property covered by the Bulk Handling Trust Agreement. The related accumulated depreciation for this property is \$14,778,837.61.

NOTE 4 - FUTURE RENTAL REVENUE

The Authority leases to others certain land areas and facilities. These leases are accounted for as operating leases; revenues are recorded when earned and depreciation is provided, where appropriate, on leased facilities. Minimum future revenues to be received under non-cancelable agreements treated as operating leases as of June 30, 2001 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 2,024,698.34
2003	855,592.18
2004	439,478.52
2005	290,793.00
2006	290,793.00
2007 and thereafter	<u>2,829,565.50</u>
	<u>\$ 6,730,920.54</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - LONG-TERM OBLIGATIONS

A summary of changes in the long-term obligations (principal only) is presented as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Notes Payable:				
5.98% Interest Rate	\$ 614,889.53	\$ 0.00	\$ 63,345.57	\$ 551,543.96
Revenue Bonds Payable:				
Bulk Handling Facility:				
3.75% maturing serially January 1, 2001 through January 1, 2006	1,850,000.00		470,000.00	1,380,000.00
4.125% maturing serially January 1, 2001 through January 1, 2006	325,000.00		95,000.00	230,000.00
Wood Chip Facility:				
Exempt Facility – Variable Rate December 1, 2001 through January 1, 2016 (4%)	4,285,000.00		265,000.00	4,020,000.00
Docks and Wharves – Variable Rate January 1, 2001 through January 1, 2016 (3 1/2%)	5,300,000.00		300,000.00	5,000,000.00
Total	12,374,889.53		1,193,345.57	11,181,543.96
Less: Current Maturities	1,193,753.61		63,918.71	1,257,672.32
Net Long-Term Obligations	<u>\$ 11,181,135.92</u>	<u>\$ 0.00</u>	<u>\$ 1,257,264.28</u>	<u>\$ 9,923,871.64</u>

The notes payable are unsecured. In order to secure the performance and observance of all trust agreements relating to the Bulk Handling Facility's revenue bonds, all rents, fees and other revenues of the Facility (\$5,394,592.60 for the year ended June 30, 2001) have been pledged to the trustee. Also, all facilities use fee revenues of the Wood Chip Facilities have been pledged to the trustee (\$855,927.69 at June 30, 2001).

All Bulk Handling Facility funds from all sources are administered by the trustee. These revenue bonds do not constitute a debt of the State or any political subdivision thereof nor against the Authority's general terminal operations, and are payable only from the Bulk Handling Facility Revenue Fund. Bond principal payments are due annually on January 1, and interest payments are due semi-annually on January 1 and July 1. The Authority is currently in compliance with scheduled principal and interest payments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Wood Chip Facilities were financed by the Exempt Facility Revenue Bonds (Series 1995) and the Docks and Wharves Facility Revenue Bonds (Series 1996) and are administered by the trustee. The revenue bonds do not constitute a debt to the State or any political subdivision thereof. Bond principal payments are due annually for the Exempt Facility Revenue Bonds and the Docks and Wharves Facility Revenue Bonds on January 1 and December 1, respectively. Interest payments are due quarterly on the Exempt Facility Revenue Bonds and monthly on the Docks and Wharves Facility Revenue Bonds.

Aggregate annual requirements for principal and interest payments on long-term debt outstanding at June 30, 2001 are presented in Schedule 2.

NOTE 6 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2001:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 24,759.00
2003	<u>143.00</u>
Total Minimum Lease Payments	<u>\$ 24,902.00</u>

Rental expenses for all operating leases during the year was \$19,269.00.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

A. Commitments – At June 30, 2001, the Authority has committed \$9,758,649.49 in contractual obligations for the purchase or expansion of facilities and equipment.

B. Pending Litigation and Other Contingencies – The Authority is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. Authority management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the Authority.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance, purchase of commercial insurance and self retention of certain risks.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$11,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the Authority directly to the State's agent of record.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund. The Authority also purchased through the Fund extended coverage and other property coverage such as limited business interruption for the Bulk Handling Facility. Losses covered by the Fund are subject to a \$500 per occurrence deductible except theft losses carry a \$1,000 per occurrence deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The Authority is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible.

Other coverage not handled by the North Carolina Department of Insurance is purchased through the State's agent of record.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority is self-insured for workers' compensation except for a separate policy that covers Bulk Handling Facility employees.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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 9 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer. After five years of creditable service, employees qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The funding policy for the Teachers' and State Employees' Retirement System provides for periodic employer and member contributions at actuarially determined rates that expressed as percentages of annual covered payroll are sufficient to accumulate assets needed to pay benefits when due. The system is funded by member contributions of 6% of compensation and by employer contributions of 5.33% of covered payroll for the year ended June 30, 2001. Benefit and contribution provisions are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

For the year ended June 30, 2001, the Authority had a total payroll of \$11,781,034.80 of which \$11,185,197.43 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$671,111.85 and \$596,171.02, respectively. The Authority made one hundred percent of its annual required contributions to the retirement plan for the years ended June 30, 2001, 2000, and 1999, which were \$596,171.02, \$902,857.64 and \$797,257.48, respectively.

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

- B. Deferred Compensation and Supplemental Retirement Income Plan - IRC Section 457 Plan** - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, and retirement or due to financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$100,220.70 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the Authority except for a 5% employer contribution for the Authority's law enforcement officers which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of Authority law enforcement officers for the year ended June 30, 2001 were \$19,106.36. The voluntary contributions by employees amounted to \$107,077.00 for the year ended June 30, 2001.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The Authority participates in state administered programs which provide postemployment health care 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 Employee's Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The Authority contributed 1.28% of the covered payroll under the Teachers' and State Employees Retirement System for these health care benefits. For the fiscal year ended June 30, 2001, the Authority's total contribution to the Plan was \$143,170.53. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The Authority participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. The Plan provides disability income to eligible participants. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The Authority contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

the fiscal year ended June 30, 2001, the Authority's total contribution to the DIPNC was \$58,163.03. The Authority assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 11 - FUND EQUITY

Changes in fund equity are summarized as follows:

Fund Equity at July 1, 2000	\$ 149,248,424.36
Reversions to State's General Fund – Budget Shortfall (From Contributed Capital)	(3,000,000.00)
Net Loss for the Year	(1,912,920.60)
State Appropriations - Fiscal Year End June 30, 2001	<u>6,000,000.00</u>
Fund Equity at June 30, 2001	<u>\$ 150,335,503.76</u>

The total fund equity balance noted above includes contributed capital comprised of the following items:

1951 Bond Issue	\$ 7,390,000.00
Donation – Humble Oil Company – Southport	5,000.00
State Appropriated Capital Improvements 1957-2001	126,501,924.32
1975 Phosphoric Acid Facility	2,638,676.00
Transfer to the Office of State Controller - Workers' Compensation Fund Start Up Costs	<u>(13,185.00)</u>
Total Contributed Capital	<u>\$ 136,522,415.32</u>

NOTE 12 - SUBSEQUENT EVENTS

On September 19, 2001, the Authority sold \$11,000,000 in Revenue Bonds, Series A and B for \$5,900,000 and \$5,100,000, respectively. The bonds were issued to provide funds to pay for the cost of the construction of an animal feed facility.

North Carolina State Ports Authority
Consolidated Schedule of Operations
For the Year Ended June 30, 2001

Schedule 1

	Wilmington	Morehead City	Bulk Handling Facility	Southport	Totals
Operating Revenues:					
Operations	\$ 14,874,305.46	\$ 4,392,320.37	\$ 4,597,260.61	\$ 0.00	\$ 23,863,886.44
Rentals	1,568,595.18	1,235,962.80	671,651.88	162,199.65	3,638,409.51
Total Operating Revenues	\$ 16,442,900.64	\$ 5,628,283.17	\$ 5,268,912.49	\$ 162,199.65	\$ 27,502,295.95
Operating Expenses Before Depreciation:					
Operations	\$ 5,616,498.55	\$ 1,673,222.39	\$ 1,781,154.82	\$ 0.00	\$ 9,070,875.76
Maintenance	4,125,088.11	989,351.57	998,694.50	4,979.20	6,118,113.38
Port Administrative	1,623,449.18	573,758.95	655,198.51		2,852,406.64
General Administrative	3,297,075.18	783,270.30	897,198.42		4,977,543.90
Total Operating Expenses	\$ 14,662,111.02	\$ 4,019,603.21	\$ 4,332,246.25	\$ 4,979.20	\$ 23,018,939.68
Operating Income Before Depreciation	\$ 1,780,789.62	\$ 1,608,679.96	\$ 936,666.24	\$ 157,220.45	\$ 4,483,356.27
Depreciation Expense	4,861,724.19	2,174,127.37	447,727.40	13,339.71	7,496,918.67
Net Income (Loss) From Operations	\$ (3,080,934.57)	\$ (565,447.41)	\$ 488,938.84	\$ 143,880.74	\$ (3,013,562.40)
Non-Operating Items:					
Interest Income	\$ 918,049.21	\$ 481,901.05	\$ 125,680.11	\$ 0.00	\$ 1,525,630.37
Interest Expense	(212,800.96)	(202,976.89)	(71,437.50)		(487,215.35)
Net Decrease in the Fair Value of Investments	(39,220.73)	(20,087.80)			(59,308.53)
Gain on Property Disposals	2,930.95	(12.70)			2,918.25
Total Non-Operating Items	\$ 668,958.47	\$ 258,823.66	\$ 54,242.61	\$ 0.00	\$ 982,024.74
Net Gain (Loss)	\$ (2,411,976.10)	\$ (306,623.75)	\$ 543,181.45	\$ 143,880.74	\$ (2,031,537.66)

*North Carolina State Ports Authority
Schedule of Long-Term Debt Requirements
June 30, 2001*

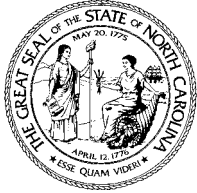
Schedule 2

Fiscal Year	REVENUE BONDS								
	NOTES PAYABLE		BULK HANDLING FACILITY		EXEMPT FACILITY		DOCKS AND WHARVES FACILITY		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$ 67,672.32	\$ 31,267.68	\$ 625,000.00	\$ 59,906.25	\$ 265,000.00	\$ 154,616.67	\$ 300,000.00	\$ 169,750.00	\$ 1,673,212.92
2003	71,831.90	27,108.10	575,000.00	37,425.00	265,000.00	144,016.66	300,000.00	159,250.00	1,579,631.66
2004	76,247.17	22,692.83	175,000.00	15,506.25	265,000.00	133,416.67	300,000.00	148,750.00	1,136,612.92
2005	80,933.81	18,006.19	165,000.00	8,850.00	265,000.00	122,816.67	300,000.00	138,250.00	1,098,856.67
2006	85,908.54	13,031.46	70,000.00	2,625.00	265,000.00	112,216.66	300,000.00	127,750.00	976,531.66
2007	91,189.05	7,750.95			265,000.00	101,616.67	300,000.00	117,250.00	882,806.67
2008	77,761.17	2,189.41			265,000.00	91,016.67	300,000.00	106,750.00	842,717.25
2009					265,000.00	80,416.66	300,000.00	96,250.00	741,666.66
2010					265,000.00	69,816.67	300,000.00	85,750.00	720,566.67
2011					265,000.00	59,216.67	300,000.00	75,250.00	699,466.67
2012					265,000.00	48,616.66	400,000.00	63,000.00	776,616.66
2013					265,000.00	38,016.67	400,000.00	49,000.00	752,016.67
2014					265,000.00	27,416.67	400,000.00	35,000.00	727,416.67
2015					265,000.00	16,816.66	400,000.00	21,000.00	702,816.66
2016					310,000.00	5,166.67	400,000.00	7,000.00	722,166.67
	<u>\$ 551,543.96</u>	<u>\$ 122,046.62</u>	<u>\$ 1,610,000.00</u>	<u>\$ 124,312.50</u>	<u>\$ 4,020,000.00</u>	<u>\$ 1,205,200.00</u>	<u>\$ 5,000,000.00</u>	<u>\$ 1,400,000.00</u>	<u>\$ 14,033,103.08</u>

North Carolina State Ports Authority
Schedule of Investments
June 30, 2001

Schedule 3

	<u>Par Value</u>	<u>Cost</u>	<u>Fair Value</u>
Unrestricted Investments:			
Certificates of Deposit	\$ 9,300,000.00	\$ 9,300,000.00	\$ 9,300,000.00
Federal Home Loan Bank	4,300,000.00	4,300,000.00	4,302,407.40
Federal Farm Credit Bank	1,000,000.00	1,000,000.00	1,000,938.00
Federal National Mortgage Association	1,900,000.00	1,900,000.00	1,903,562.50
Federal Home Loan Mortgage Corporation	3,750,000.00	3,750,000.00	3,750,079.50
Repurchase Agreements	1,787,187.26	1,787,187.26	1,787,187.26
Total Unrestricted Investments	\$ 22,037,187.26	\$ 22,037,187.26	\$ 22,044,174.66
Restricted Investments:			
Bank of New York Treasury Portfolio (Bonds)	\$ 1,937,185.83	\$ 1,937,185.83	\$ 1,937,185.83
Repurchase Agreements	202,662.72	202,662.72	202,662.72
Federal Government Demand Notes	244,771.18	244,771.18	244,771.18
Total Restricted Investments	2,384,619.73	2,384,619.73	2,384,619.73
Total All Investments	\$ 24,421,806.99	\$ 24,421,806.99	\$ 24,428,794.39



Ralph Campbell, Jr.
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mr. Erik Stromberg, Executive Director
North Carolina State Ports Authority
Wilmington, North Carolina

We have audited the financial statements of the North Carolina State Ports Authority, a component unit of the State of North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 14, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
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employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and staff of the Authority, the Governor, the State Controller, the Department of Commerce, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

September 14, 2001

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