STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF DIRECTORS

CARL STEWART, JR., CHAIRMAN

ADMINISTRATIVE OFFICERS

TOM EAGAR, CHIEF EXECUTIVE OFFICER

JEFFREY L. STRADER, CPA, CHIEF FINANCIAL OFFICER

STATE OF NORTH CAROLINA

Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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

We have completed a financial statement audit of the North Carolina State Ports Authority for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 9, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Carolina State Ports Authority
Wilmington, North Carolina

We have audited the accompanying basic 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, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Ports Authority as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 9, 2007

Overview of the Financial Statements and Financial Analysis

This discussion and analysis (MD&A) provides an overview of the Authority's financial activities during the fiscal years ending June 30, 2006, and 2005, respectfully. Management, in addition to this analysis, is responsible for the preparation of the accompanying financial statements. The basic financial statements here include a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows, plus Notes to the Financial Statements.

The MD&A is intended to aid the reader in interpreting the Authority's relative financial position as of the above referenced dates as well as gauging performance from one period to the next. Condensed key financial as well as nonfinancial information will be highlighted for the reader followed by a discussion of the Authority's current capital expansion program and economic outlook.

Financial Highlights and Analysis

Taken in whole, the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows are one measure of an organization's overall financial health and value. Individually, the Statement of Net Assets is a static view of financial value while the other two depict the movement of key elements from one period to the next, with a specific focus on the organization's net assets and cash and cash equivalents.

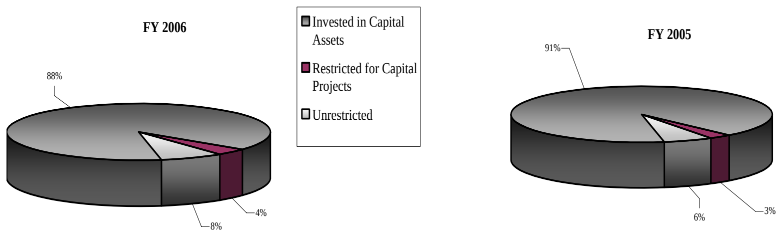
A comparison of net assets as of June 30, 2006, to that of the prior year yields several significant changes. The increases in current assets and other noncurrent assets reflect increases in the Authority's liquidity position. In the case of noncurrent assets, appropriations due from the State represent the largest component of increase and in the case of current assets, the increase relates to growth in the Authority's investments reserve. The increase in total capital assets relates to the Authority's continuing facilities refurbishment and expansion programs. A corresponding increase in noncurrent liabilities is representative of the need to fund a significant portion of these programs through long-term debt issuance. The increase in current liabilities has two primary components. The first is in accounts payable, which is driven by increases in operating activities. The second relates to increases in the current portion of long-term debt, which is again a factor of expansion and refurbishment programs. Please refer to the accompanying Notes to the Financial Statements for further details with respect to these changes. The following table summarizes the major categories of net assets and their corresponding changes.

Condensed Statement of Net Assets

	June 30, 2006	June 30, 2005	Change	% Change
Current Assets	$ 18,933,616.32	$ 14,357,605.78	$ 4,576,010.54	31.9%
Capital Assets	202,165,022.38	145,570,405.40	56,594,616.98	38.9%
Other Noncurrent Assets	6,793,091.58	3,757,409.52	3,035,682.06	80.8%
Total Assets	227,891,730.28	163,685,420.70	64,206,309.58	39.2%
Current Liabilities	7,958,800.62	6,183,939.32	1,774,861.30	28.7%
Noncurrent Liabilities	51,502,489.60	13,283,473.13	38,219,016.47	287.7%
Total Liabilities	59,461,290.22	19,467,412.45	39,993,877.77	205.4%
Net Assets	$ 168,430,440.06	$ 144,218,008.25	$ 24,212,431.81	16.8%

The Authority's net assets are divided into three major categories. The first, invested in capital assets net of related debt, represents the Authority's equity position with regards to property, facilities and equipment. The second category is restricted to expenditure for capital assets and related debt. The final category is that of unrestricted which is available for any lawful purpose of the Authority. The following exhibit analyzes the Authority's net asset category mix for the periods ending June 30, 2006, and 2005 respectively. Significant changes again relate to funds received from State and federal sources for planned capital improvements and increase in the investment reserve.

Net Assets



		2006
Invested in Capital Assets	$	148,884,916.87
Restricted for Capital Projects		6,381,530.68
Unrestricted		13,163,992.51
	$	168,430,440.06
		2005
Invested in Capital Assets	$	131,448,508.09
Restricted for Capital Projects		3,867,435.96
Unrestricted		8,902,064.20
	$	144,218,008.25

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an overall increase in net assets for the current fiscal year ending June 30, 2006. This increase relates predominantly to increased marine terminal activity resulting in a significant increase in operating income from FY 2005 to FY 2006. This coupled with increases in funding received from State and federal sources for planned capital improvements reported as nonoperating revenues account for the majority of the differences between the two years. The following table identifies variances between major financial categories for the fiscal years ending June 30, 2006, and 2005 respectfully.

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

	June 30, 2006	June 30, 2005	Change	% Change
Operating Revenues	$ 40,797,894.52	$ 35,016,111.18	$ 5,781,783.34	16.5%
Operating Expenses	38,764,835.81	37,342,220.70	1,422,615.11	3.8%
Operating Income (Loss)	2,033,058.71	(2,326,109.52)	4,359,168.23	187.4%
Nonoperating Revenues	22,179,373.10	5,818,587.10	16,360,786.00	281.2%
Increase in Net Assets	24,212,431.81	3,492,477.58	$ 20,719,954.23	593.3%
Net Assets, Beginning of Period	144,218,008.25	140,725,530.67		
Net Assets, End of Period	$ 168,430,440.06	$ 144,218,008.25		

Increased cargo movements were posted for all major marine activities at both the Ports of Morehead City and Wilmington with the exception of rail car activity. This represents the third year of sustained growth in general cargo movements; 24.5%, FY 2003 to FY 2004; 18.8%, FY 2004 to FY 2005, and 3.2%, FY 2005 to FY 2006. Container volumes have increased for the second consecutive year at a double-digit rate; 36.5%, FY 2004 to FY 2005 and 32.3%, FY 2005 to FY 2006. Collectively, these increases related to 53% of the increases in general terminal cargo activities and a 72% increase in container activities over the three-year period, FY 2003 to FY 2006. These increases continue to be driven by growth in US East Coast cargo volumes associated with both general increases in world trade and the repositioning of certain cargo volumes from the west coast relating to congestion in those facilities coupled along with corresponding congestion in competing east coast ports to the north and south as well as a declining US East Coast capacity/facilities for bulk and break-bulk commodities. The following table analyzes several nonfinancial measures relating to these marine activities and cargo movement.

Summarized Cargo Movement

	June 30, 2006	June 30, 2005	Change	% Change
Container Movement (Units)	96,628	73,060	23,568	32.3 %
General Cargo Movement (Short Tons)	4,804,301	4,653,765	150,536	3.2 %
Vessel Calls	1,013	881	132	15.0 %
Rail Car Activity	11,130	12,893	(1,763)	(13.7) %

Consistent with increased cargo movement and other terminal activities, operating revenues have posted an increase of 16.5% over that of the prior year. Correspondingly, operating expenses have increased but at a substantially lower rate of 3.8% over the same time frame.

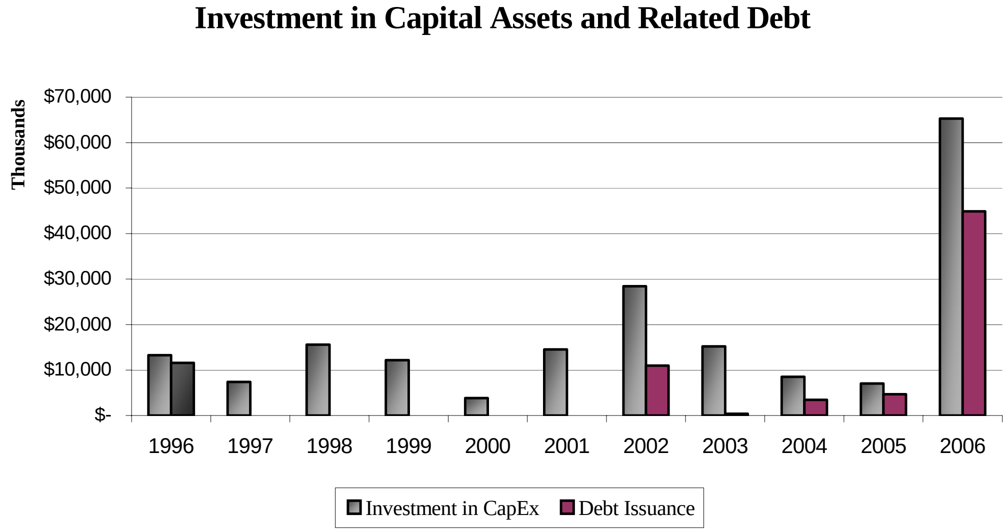
This lesser increase in operating expense is representative of the consumption of current available operating capacities. The following table shows the major sources of both operating and nonoperating revenues in detail.

Operating and Nonoperating Revenues, by Major Source

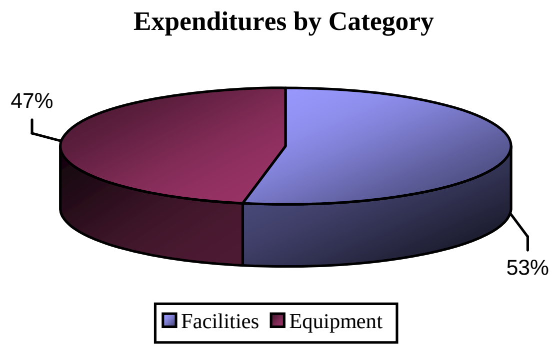
	June 30, 2006	June 30, 2005	Change	% Change
Operating Revenues				
Sales and Services, Net	$ 36,305,249.47	$ 31,174,317.85	$ 5,130,931.62	16.46 %
Rental and Lease Earnings	4,492,645.05	3,841,793.33	650,851.72	16.94 %
Total Operating Revenues	40,797,894.52	35,016,111.18	5,781,783.34	16.51 %
Nonoperating Revenues				
Investment Earnings	330,636.32	101,965.56	228,670.76	224.26 %
State Capital Aid	12,590,598.00	4,968,570.00	7,622,028.00	153.40 %
Capital Grants	5,964,485.20	578,526.20	5,385,959.00	930.98 %
Capital Gifts		6,581,452.43	(6,581,452.43)	(100.00) %
Other Nonoperating Revenues, Net	4,066,209.76	609,282.55	3,456,927.21	567.38 %
Total Nonoperating Revenues	22,951,929.28	12,839,796.74	10,112,132.54	78.76 %
Total Revenues	$ 63,749,823.80	$ 47,855,907.92	$ 15,893,915.88	33.21 %

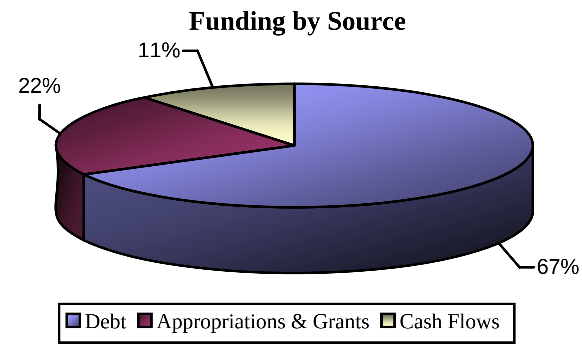
Capital Assets and Long-Term Debt

Beginning late fiscal year 1995 and early 1996, the Authority implemented an aggressive capital investment program. This program was based on a number of motivating factors including the need to address an aging infrastructure system, seek new business development ventures, and explore general growth opportunities. Central to this investment program is the Wilmington Harbor Deepening project, which is funded through a State and federal matching program. During 2006, the Authority updated its Strategic Plan identifying port terminal infrastructure that either needed refurbishment or expansion. As a result of this update, Authority's management identified approximately $300 million in capital expenditures that will be required over the next 10 years. Subsequently, the Authority's Board of Directors approved these expenditures in concept. These expenditures include acquisitions of equipment and land as well as the construction of new facilities and the rehabilitation of existing facilities and infrastructure at both terminals in Wilmington and Morehead City. The driving force behind this capital program is the Authority's expectation of market growth, which will be more fully described later in this discussion. The following graph summarizes recent capital investment and related debt issuance.



Capital investment for the upcoming fiscal year is projected at approximately $64 million, which will be funded by a combination of federal grants, State Appropriations, debt issuance, and internal cash flows. Funding for outlying years, 2008 to 2018 are anticipated to come from the same or similar sources as with planned 2007 expenditures. The following graphs provide a breakdown of planned FY 2007 expenditure by category as well as anticipated funding by sources.





Economic Outlook

The completion of all portions of the Wilmington Harbor Deepening Project through to the turning basin last fiscal year coupled with other strategic business initiatives have as previously indicated, prompted a continued increase in operating revenues, thus improving the Authority's operating results and cash flows. Also as discussed, the Authority experienced a 17% increase in operating revenues during the current fiscal period, which was driven largely by increases in cargo volumes and only secondarily by pricing increases. This further improvement in operating performance combined with ever mounting pressures to divert cargos from the US West Coast to the East Coast as well as general growth in international trade has prompted the Authority to continue engagement in more exhaustive long-range market forecasting. These results consistently indicate a significant growth opportunity for the North Carolina Ports as well as the East Coast in general. As a result of this growth projection, the Authority is anticipating that its existing capacity will be fully utilized inside the next two years prompting the Authority to develop expansion plans outlined above in order to better utilize the State's deep-water facilities. Forecasted growth and anticipated significant East Coast shortfalls in capacity as soon as the calendar year 2012 have prompted the Authority's acquisition of properties for the addition of a third deep-water terminal facility. The future North Carolina International Port (NCIP) will position the State to capture a significant portion of this projected market growth thus providing substantial increases in the Ports economic impacts. It is estimated that the combined capital projects, on existing facilities, will double the Authority's State-wide economic impact of 85,000 jobs and nearly $300 million in tax revenues already attributable to activities at the State Ports. The addition of the future NCIP facility in all likelihood would produce upwards to a five-fold increase over these current impacts. With the up-coming fiscal year, operating results are anticipated to produce a positive bottom line. This improvement is predicted to continue over the next ten years. The following table summarizes these results.

Projected Average Annual Growth Over 10-Year Time Period		High	Low
Revenues from Container Operations		22%	16%
Revenues from Bulk & Breakbulk Operations		8%	2%
Container Movement	Moves	17%	14%
Bulk & Break-bulk Movement	Short Tons	8%	3%

Expansion requirements will continue to place pressures on the Authority's cash reserves as well as operating performance, but the above outlined growth rates are anticipated to improve operating results from an operating profit of 5.0% for fiscal year 2006 to a profit of 18.5% in 2016, which is more in line with the Authority's peer competing port group.

North Carolina State Ports Authority
Statement of Net Assets
June 30, 2006 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	378,601.66
Restricted Cash and Cash Equivalents		271,892.57
Short-Term Investments		9,830,743.68
Restricted Short-Term Investments		1,113,000.00
Receivables (Note 3)		6,125,471.09
Inventories		857,156.90
Prepaid Items		356,750.42
Total Current Assets		18,933,616.32
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,109,638.11
Deferred Charges		683,453.47
Capital Assets - Nondepreciable, (Note 4)		89,115,820.51
Capital Assets - Depreciable, Net (Note 4)		113,049,201.87
Total Noncurrent Assets		208,958,113.96
Total Assets		227,891,730.28
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		4,847,802.05
Deferred Revenue		7,519.75
Interest Payable		159,293.28
Short-Term Debt (Note 6)		900,000.00
Long-Term Liabilities - Current Portion (Note 7)		2,044,185.54
Total Current Liabilities		7,958,800.62
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		51,502,489.60
Total Noncurrent Liabilities		51,502,489.60
Total Liabilities		59,461,290.22
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		148,884,916.87
Restricted for Expendable Capital Projects		6,381,530.68
Unrestricted		13,163,992.51
Total Net Assets	$	168,430,440.06

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

North Carolina State Ports Authority
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2006 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Sales and Services, Net	$	36,305,249.47
Rental and Lease Earnings		4,492,645.05
Total Operating Revenues		40,797,894.52
EXPENSES		
Operating Expenses:		
Salaries and Benefits		19,172,153.47
Supplies and Materials		2,040,266.56
Services		6,957,357.01
Depreciation/Amortization		8,905,991.10
Insurance and Bonding		1,102,115.33
Other		586,952.34
Total Operating Expenses		38,764,835.81
Operating Income		2,033,058.71
NONOPERATING REVENUES (EXPENSES)		
State Capital Aid		12,590,598.00
Investment Earnings		330,636.32
Capital Grants		5,964,485.20
Interest and Fees on Capital Asset-Related Debt		(772,556.18)
Gain on Sale of Property and Equipment		4,054,651.76
Other Nonoperating Revenues, Net		11,558.00
Net Nonoperating Revenues		22,179,373.10
Increase in Net Assets		24,212,431.81
NET ASSETS		
Net Assets - July 1, 2005		144,218,008.25
Net Assets - June 30, 2006	$	168,430,440.06

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, 2006 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 40,497,345.61
Payments to Employees and Fringe Benefits	(19,054,842.83)
Payments to Vendors and Suppliers	(8,852,598.54)
Payments for Insurance and Bonding	(1,102,115.33)
Net Cash Provided by Operating Activities	11,487,788.91
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	12,590,598.00
Capital Grants	5,964,485.20
Proceeds from Capital Debt	44,873,500.00
Proceeds from Sale of Capital Assets	3,946,571.21
Acquisition and Construction of Capital Assets	(65,287,141.48)
Principal Paid on Capital Debt and Leases	(5,715,291.80)
Interest and Fees Paid on Capital Debt and Leases	(629,634.60)
Net Cash Used by Capital Financing and Related Financing Activities	(4,256,913.47)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	6,410,062.34
Investment Income	307,760.82
Purchase of Investments and Related Fees	(11,106,486.71)
Net Cash Used by Investing Activities	(4,388,663.55)
Net Decrease in Cash and Cash Equivalents	2,842,211.89
Cash and Cash Equivalents - July 1, 2005	3,917,920.45
Cash and Cash Equivalents - June 30, 2006	$ 6,760,132.34
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	$ 2,033,058.71
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation/Amortization Expense	8,905,991.10
Casualty Loss	11,558.00
Changes in Assets and Liabilities:	
Receivables (Net)	(258,500.15)
Inventories	(5,164.18)
Prepaid Items	108,097.54
Accounts Payable and Accrued Liabilities	643,050.94
Deferred Revenue	(42,048.76)
Compensated Absences	91,745.71
Net Cash Provided by Operating Activities	$ 11,487,788.91

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	378,601.66
Restricted Cash and Cash Equivalents		271,892.57
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,109,638.11
Total Cash and Cash Equivalent Balances - June 30, 2006	$	6,760,132.34

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	44,873,500.00
Increase in Receivables Related to Nonoperating Income		3,119,014.41

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

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, 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 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 Authority's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. Basis of Accounting – The financial statements of the Authority have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations and certain grants. Revenues are recognized, net of estimated uncollectible amounts, 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, savings accounts, money market accounts, cash on deposit with fiscal agents, 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 – This classification includes money market funds, certificates of deposit, and government securities held by the Authority. Except for money market funds and certificates of deposit, investments are accounted for at fair value, as determined by quoted market prices, or amounts determined by management if quoted market prices are not available. The net increase in the fair value of investments is recognized as a component of investment income.

Money market funds and certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. Receivables – Receivables consist of charges to customers for services and use of facilities provided, as well as amounts due from the federal government. The Authority's policy is to record receivables net of estimated uncollectible amounts. At June 30, 2006, management reviewed the outstanding receivables and determined that no accounts met the criteria to be classified as doubtful.

G. Inventories – Inventories, consisting of expendable supplies, are valued at the lower of cost or market on a moving weighted average cost basis, which approximates cost on a first-in, first-out (FIFO) basis.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 20 to 50 years for buildings, 50 years for wharves, 10 to 25 years for improvements other than buildings, and 3 to 25 years for machinery and equipment.

I. **Restricted Assets –** Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

J. **Noncurrent Long-Term Liabilities –** Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts. The Authority amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Issuance costs are expensed.

K. **Compensated Absences –** The Authority's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

L. **Net Assets –** The Authority's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the Authority's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

Unrestricted Net Assets – Unrestricted net assets include resources derived from sales and services, rental and lease earnings, sale of surplus property and interest income.

Restricted and unrestricted resources, and the use of those resources, are accounted for separately. When both restricted and unrestricted funds are available for expenditure, the decision for funding is determined by management on a case-by-case basis.

M. Revenue and Expense Recognition – The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as sales and services and rental and lease earnings. 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 State appropriations that represent subsidies or gifts to the Authority, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits – Unless specifically exempt, the Authority is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer.

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $6,129.104.39 which represents the Authority's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2006, was $1,260.00. The carrying amount of the Authority's deposits not with the State Treasurer, including certificates of deposit, was $1,742,767.95 and the bank balance was $3,127,234.68. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2006, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 1,799,010.64

B. Investments – The Authority is authorized to invest its excess funds in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, 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; time deposits of specified institutions; prime quality commercial paper, and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

Non-Pooled Investments – The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, for the Authority's non-pooled investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Authority does not have a formal investment policy that addresses interest rate risk.

Non-Pooled Investments

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 5,276,954.60	$ 3,147,267.60	$ 2,129,687.00	$ 0.00	$ 0.00
U.S. Agencies	2,980,489.16	542,334.04	1,206,447.28	116,296.98	1,115,410.86
		$ 3,689,601.64	$ 3,336,134.28	$ 116,296.98	$ 1,115,410.86
Other Securities					
Money Market Funds	1,573,299.92				
Certificates of Deposit	1,113,000.00				
Total Non-Pooled Investments	$ 10,943,743.68				

Certificates of deposit reported as investments are also a component of the certificates of deposit totals reported in the deposits section of this note.

Credit Risk: The Authority has a formal Reserve Investment Policy that addresses credit risk. The policy limits investments to: obligations of the United States, or obligations backed by the full faith and credit by the U.S. government; government agencies; repurchase agreements with regard to securities guaranteed by the U.S. government; obligations of the State of North Carolina; time deposits of banks with a physical presence in North Carolina for the purpose of receiving commercial or retail deposits, not to exceed $100,000 per deposit (must be FDIC insured); prime quality commercial paper with a rating of no less than A-1, P-1 by a nationally recognized rating agency; asset backed securities that bear a rating of no less than AAA by a nationally recognized rating agency; and corporate bonds and notes that bear a rating of no less than AAA by a nationally recognized rating agency.

As of June 30, 2006, the Authority's non-pooled investments were rated as follows:

	Fair Value	AAA Aaa
U.S. Agencies	$ 2,980,489.16	$ 2,980,489.16

Rating Agency: Moody's/Standard & Poors

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy for custodial credit risk. At June 30, 2006 the Authority's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Couterparty's Trust Dept. or Agent not in Authority's Name
U. S. Agencies	$ 2,980,489.16

Concentration of Credit Risk: The Authority places no limit on the amount that may be invested in any one issuer. More than 15% of the Authority's non-pooled investments are in U. S. Treasuries and Government Securities. These investments are 48% and 27%, respectively, of Authority's non-pooled investments.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Amount
Current Receivables:	
Accounts	$ 6,068,172.47
Investment Earnings	57,298.62
Total Current Receivables	$ 6,125,471.09

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	$ 21,043,219.10	$ 36,481,802.09	$ 0.00	$ 57,525,021.19
Construction in Progress	8,329,158.92	24,400,258.35	1,138,617.95	31,590,799.32
Total Capital Assets, Nondepreciable	29,372,378.02	60,882,060.44	1,138,617.95	89,115,820.51
Capital Assets, Depreciable:				
Buildings	73,221,707.89	132,094.43	52,002.41	73,301,799.91
Machinery and Equipment	36,198,694.66	5,289,242.02	889,028.14	40,598,908.54
General Infrastructure	142,180,740.06	194,792.18	343,733.13	142,031,799.11
Total Capital Assets, Depreciable	251,601,142.61	5,616,128.63	1,284,763.68	255,932,507.56
Less Accumulated Depreciation for:				
Buildings	28,698,905.01	3,424,240.07	8,716.15	32,114,428.93
Machinery and Equipment	34,527,798.55	3,758,312.27	801,885.42	37,484,225.40
General Infrastructure	72,176,411.67	1,169,252.71	61,013.02	73,284,651.36
Total Accumulated Depreciation	135,403,115.23	8,351,805.05	871,614.59	142,883,305.69
Total Capital Assets, Depreciable, Net	116,198,027.38	(2,735,676.42)	413,149.09	113,049,201.87
Capital Assets, Net	$ 145,570,405.40	$ 58,146,384.02	$ 1,551,767.04	$ 202,165,022.38

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	$ 4,665,853.14
Accrued Payroll	181,948.91
Total Accounts Payable and Accrued Liabilities	$ 4,847,802.05

NOTE 6 - SHORT-TERM DEBT – LINES OF CREDIT

The Authority uses revolving lines of credit to finance capital purchases. These lines of credit were necessary to maintain current cash flows.

Short-term debt activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Draws	Repayments	Balance June 30, 2006
Lines of Credit	$ 700,000.00	$ 7,325,000.00	$ 7,125,000.00	$ 900,000.00

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities – A summary of changes in the long-term liabilities for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Bonds Payable	$ 9,900,000.00	$ 35,780,000.00	$ 4,885,000.00	$ 40,795,000.00	$ 870,000.00
Notes Payable	3,521,897.31	8,893,500.00	830,291.80	11,585,105.51	1,120,523.33
Compensated Absences	1,074,823.92	965,993.39	874,247.68	1,166,569.63	53,662.21
Total Long-Term Liabilities	$ 14,496,721.23	$ 45,639,493.39	$ 6,589,539.48	$ 53,546,675.14	$ 2,044,185.54

B. Bonds Payable – The Authority was indebted for bonds payable for the purposes shown in the following table:

Purpose	Series	Rate/ Ranges	Maturity Date	Amount of Issue	Paid Through June 30, 2006	Outstanding June 30, 2006
Construct Bulk Grain Facility	2001	1.1% - 15%	9/2022	$ 11,000,000.00	$ 5,985,000.00	$ 5,015,000.00
Port Facilities Revenue Bonds	2006	4%	6/2036	35,780,000.00		35,780,000.00
Total Bonds Payable						$ 40,795,000.00

C. Annual Requirements – The annual requirements to pay principal and interest on the long-term obligations at June 30, 2006, are as follows:

	Annual Requirements			
	Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2007	$ 870,000.00	$ 1,476,091.36	$ 1,120,523.33	$ 440,194.67
2008	875,000.00	1,594,222.91	1,132,232.76	396,288.65
2009	910,000.00	1,553,701.96	996,516.46	357,295.10
2010	935,000.00	1,519,560.46	962,106.97	320,555.42
2011	965,000.00	1,481,828.46	881,821.68	283,519.24
2012-2016	5,345,000.00	6,799,527.75	3,700,237.66	890,954.68
2017-2021	6,370,000.00	5,636,773.02	1,675,000.00	217,879.67
2022-2026	6,780,000.00	4,288,004.30	1,116,666.65	
2027-2031	7,835,000.00	2,872,556.41		
2032-2036	9,910,000.00	1,127,487.09		
Total Requirements	$ 40,795,000.00	$ 28,349,753.72	$ 11,585,105.51	$ 2,906,687.43

D. **Notes Payable** – The Authority was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2006	Principal Outstanding June 30, 2006
Real Estate Acquisition	First Citizens	2.97%	11/2007	$ 746,508.32	$ 614,221.61	$ 132,286.71
Forklift Acquisition	BB&T	2.96%	2/2006	147,604.65	147,604.65	
Forklift Acquisition	Suntrust	2.34%	5/2006	235,000.00	235,000.00	
Tow Tugs and Trailers	BB&T	3.46%	11/2008	171,403.30	89,833.64	81,569.66
AS 400 System Upgrade	Suntrust	2.55%	8/2006	93,000.00	76,615.00	16,385.00
IT Equipment	Suntrust	3.43%	2/2007	105,506.27	81,799.05	23,707.22
Gantry Crane	RBC Centura	2.77%	8/2008	500,000.00	267,668.10	232,331.90
Crane 11 Acquisition	Suntrust	4.35%	2/2020	2,700,000.00	225,000.00	2,475,000.00
MTC Purchase	First Citizens	3.48%	8/2012	300,000.00		300,000.00
Container Handler/Top Picks	BB&T	3.76%	12/2015	3,793,500.00	189,675.00	3,603,825.00
Forklift Acquisition	Suntrust	2.81%	12/2010	800,000.00	79,999.98	720,000.02
Boykin Property	Suntrust	5.5% prime		4,000,000.00		4,000,000.00
Total Notes Payable				$ 13,592,522.54	$ 2,007,417.03	$ 11,585,105.51

E. **Bond Defeasance** – The Authority has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On April 5, 2006, the Authority issued $35,870,000 in Port Facilities Revenue Bonds refunding Series 2001B Exempt Facility Revenue Bonds (Bulk Grain Facility bonds) in the outstanding amount of $4,335,000. The Authority's current outstanding balance of the Series 2001B bonds was retired in order to relinquish the lien established against net revenues.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The Authority entered into operating leases for machinery and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Amount
2007	$ 53,738.11
2008	39,323.80
2009	22,559.32
2010	3,371.44
Total Minimum Lease Payments	$ 118,992.67

Rental expense for all operating leases during the year was $45,808.72.

NOTE 9 - FUTURE RENTAL REVENUES

The Authority leases certain land and facilities to others. 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 under noncancelable agreements treated as operating leases as of June 30, 2006, are presented as follows:

Fiscal Year	Amount
2007	$ 3,541,611.69
2008	3,092,105.12
2009	2,839,816.74
2010	2,587,193.02
2011	2,401,943.02
2012 and Thereafter	5,751,462.56
Total Future Rental Revenues	$ 20,214,132.15

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.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the Authority had a total payroll of $14,603,068.25, of which $14,545,058.98 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $872,703.54 and $340,354.38, respectively. The Authority made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were $340,354.38, $294,567.31, and $27,190.85, 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.state.nc.us/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to $69,857.36 for the year ended June 30, 2006.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program 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, 2006, were $44,426.01. The voluntary contributions by employees amounted to $73,994.99 for the year ended June 30, 2006.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees – The Authority participates in State-administered programs that provide 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. 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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the Authority's total contribution to the Plan was $552,712.24. 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. 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 the year ended June 30, 2006, the Authority's total contribution to the DIPNC was $75,634.31. 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 12 - RISK MANAGEMENT

The Authority 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.

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The Authority pays the premium, based on a composite rate, directly to the private insurer.

The Authority 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. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $500 per occurrence deductible.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-State are $500,000 per claim and $5,000,000 per occurrence and out-of-State are $1,000,000 per claim and $5,000,000 per occurrence. The Authority pays premiums to the North Carolina Department of Insurance for the coverage.

The Authority 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 Authority is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence with a $50,000 deductible and a 10% participation in each loss above the deductible.

The Authority purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

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

The 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 Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority is self-insured 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 AND CONTINGENCIES

A. Commitments – The Authority has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $15,414,981.00 at June 30, 2006.

B. Pending Litigation and Claims – The Authority is a party to 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.

NOTE 14 - SUBSEQUENT EVENTS

On August 31, 2006, the Authority entered into a Credit and Participation Agreement with Branch Banking and Trust Company and SunTrust Bank which established three separate credit facilities:

(a) Credit Facility A – $5,000,000 revolving operating line of credit for working capital purposes and short-term financing of equipment purposes;

(b) Credit Facility B – $15,000,000 revolving credit facility for equipment purchases, and;

(c) Credit Facility C – $40,000,000 revolving bridge financing to provide short-term bridge loan financing other capital improvements of the Authority.

The Authority's outstanding withdrawals totaled $1,562,556.67 for Credit Facility A and $9,814,486.49 for Credit Facility C as of January 31, 2007.

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

Board of Directors
North Carolina 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, 2006, and have issued our report thereon dated March 9, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of

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)

our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, the Board of Directors, management of the Authority, the Governor, the State Controller, and the General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 9, 2007

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