STATE OF
NORTH CAROLINA

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

BOARD OF DIRECTORS

CARL STEWART, JR., CHAIRMAN

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2008, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a certain deficiency that is detailed in the Audit Findings and Responses section of this report.

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.

Beth A. Wood

Beth A. Wood, CPA,
State Auditor

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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, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, 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, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement 50, *Pension* Disclosures, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2009, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

January 14, 2009

Overview of the Financial Statements and Financial Analysis

Management's discussion and analysis (MD&A) provides an overview of the North Carolina State Ports Authority's (Authority's) financial activity during the fiscal year ended June 30, 2008. Management, in addition to this analysis, is responsible for the preparation of the accompanying financial statements. The basic financial statements 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 date 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.

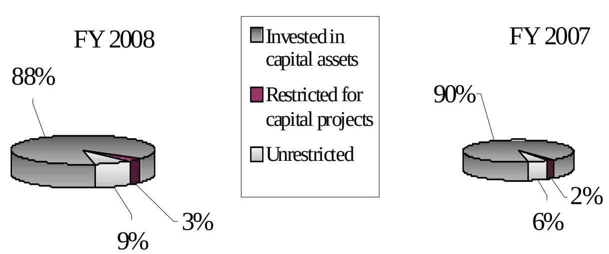
A comparison of net assets as of June 30, 2008 to that of the prior year yields several significant changes. Overall liquidity has increased significantly with the 2008 cash and cash equivalent levels increasing $6.3 million in comparison to those of the prior fiscal year. This increase is primarily attributable to State Appropriated cash balances associated with capital improvement projects. The decrease in trade accounts receivable year over year relates to increased collection efforts and the collection of several large minimum contract volume guarantees, which accrue over multiple fiscal years. The increase in total capital assets relates in general to the Authority's continuing capital projects program and specifically to the conversion of a previously leased warehouse to owned. Changes in liability levels as compared to those of the prior year can be traced to several key elements. The first and most significant pertains to the warehouse acquisition previously identified and associated debt financing. Other elements include reductions in trade payables associated with equipment purchases from prior year and the payoff of certain commercial term debt obligations. 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, 2008	June 30, 2007 (Restated)	Change	% Change
Current Assets	$ 15,124,779.57	$ 20,545,216.24	$ (5,420,436.67)	-26.4%
Capital Assets (Restated)	295,681,684.69	279,147,503.58	16,534,181.11	5.9%
Other Noncurrent Assets	16,016,545.38	5,229,466.29	10,787,079.09	206.3%
Total Assets	326,823,009.64	304,922,186.11	21,900,823.53	7.2%
Current Liabilities	23,038,927.88	38,382,137.55	(15,343,209.67)	-40.0%
Noncurrent Liabilities	78,795,557.36	52,595,084.39	26,200,472.97	49.8%
Total Liabilities	101,834,485.24	90,977,221.94	10,857,263.30	11.9%
Net Assets	$ 224,988,524.40	$ 213,944,964.17	$ 11,043,560.23	5.2%

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. A recalculation of capital asset lives took place in 2008 resulting in a restatement of net assets in the amount of $35.4 million reducing accumulated depreciation and thus increasing the 2008 net capital assets. This correction was made due to errors occurring in the establishment of useful lives of capital assets when the new reporting model was implemented. 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, 2008 and 2007, respectively. Significant changes relate to the expenditure of funds received from State and federal sources (increase in "restricted for capital projects") for planned capital improvements (increase in "Invested in capital assets").

Net Assets



	2008
Invested in capital assets	$ 197,837,641.26
Restricted for capital projects	7,790,785.00
Unrestricted	19,360,098.14
Net Assets	$ 224,988,524.40

	2007
Invested in capital assets (Restated)	$ 195,967,165.77
Restricted for capital projects	4,677,119.13
Unrestricted	13,300,679.27
	$ 213,944,964.17

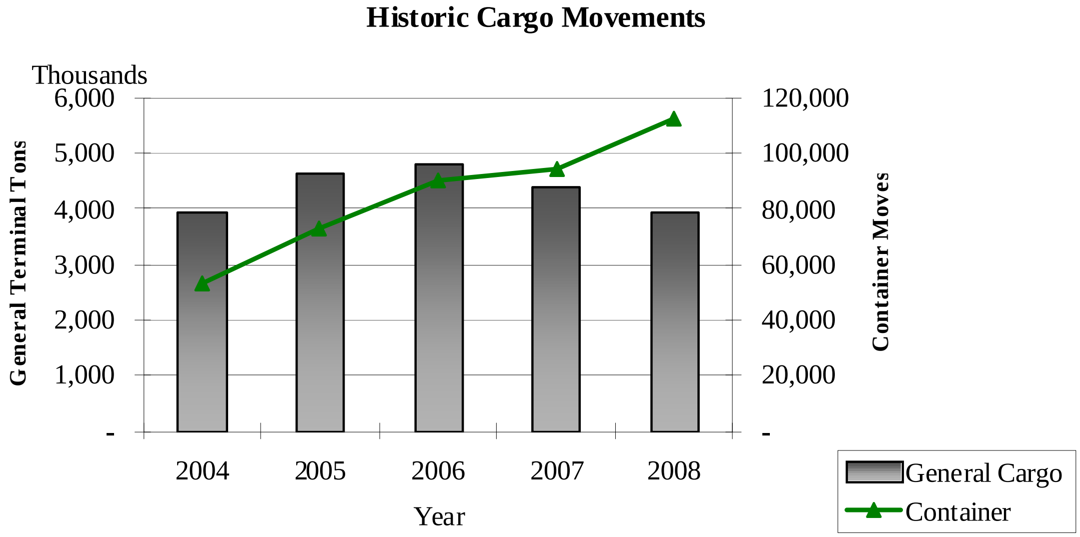
The Statement of Revenues, Expenses, and Changes in Net Assets reflect an overall increase in net assets for the current fiscal year ending June 30, 2008. This increase relates predominantly to a reduction in depreciation expense but is offset by reductions in State capital aid and an increase in interest and fees on capital asset-related debt. The following table identifies variances between major financial categories for the fiscal years ending June 30, 2008 and 2007, respectfully.

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

	June 30, 2008	June 30, 2007	Change	% Change
Operating Revenues	$ 39,730,685.56	$ 39,202,165.55	$ 528,520.01	1.3%
Operating Expenses:				
Salaries and Benefits	17,850,808.01	19,233,375.10	(1,382,567.09)	-7.2%
Supplies and Materials	2,255,456.02	2,076,889.56	178,566.46	8.6%
Services	7,487,517.55	6,945,948.38	541,569.17	7.8%
Depreciation/Amortization	8,481,553.58	9,788,911.88	(1,307,358.30)	-13.4%
Insurance and Bonding	1,219,613.69	1,075,147.78	144,465.91	13.4%
Other	378,031.23	350,349.68	27,681.55	7.9%
Operating Expenses	37,672,980.08	39,470,622.38	(1,797,642.30)	-4.6%
Operating Income (Loss)	2,057,705.48	(268,456.83)	2,326,162.31	866.5%
Nonoperating Revenues	568,811.22	527,618.92	41,192.30	7.8%
Nonoperating Expenses	(2,157,050.99)	(1,318,770.24)	(838,280.75)	63.6%
Other Revenues	10,574,094.52	11,344,909.00	(770,814.48)	-6.8%
Net Nonoperating Revenues	8,985,854.75	10,553,757.68	(1,567,902.93)	-14.9%
Increase in Net Assets	11,043,560.23	10,285,300.85	$ 758,259.38	7.4%
Net Assets, Beginning of Period	213,944,964.17	168,293,658.05		
Restatement		35,366,005.27		
Net Assets, End of Period	$ 224,988,524.40	$ 213,944,964.17		

Container movements continue to show improved performance posting a 20% gain over the prior fiscal year. This increase represents the fifth consecutive year of growth for container operations providing support for the ongoing expansion of container facilities at the Authority's Port of Wilmington. With respect to the general terminal, operations overall have posted a 10% decline in activity compared to 8% in the prior fiscal year. Two primary commodities account for the majority of reduced breakbulk volumes. Forest products and metal products, which are handled at both of the Authority's deep-water facilities, relate directly to downturns in the domestic market.

Despite the decline in current year general terminal operations, the Authority has successfully achieved significant growth over the past 5 years posting compound annual growth factors of 16% for container and maintaining its overall market position for general cargo. The graph below outlines this trend.



These volume levels and associated growth trends are considered sustainable on the long-term (with returning growth indicators in general terminal operations) given that they are driven in a large part, both directly in the case of container volumes as well as indirectly for general terminal activities, by the following domestic port operating conditions. The first being continued long-term growth outlook for 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, capacity and operational limitations in those facilities. Second, the growing congestion in competing east coast ports to the north and south and a declining capacity/facilities offerings for bulk and break bulk commodities. The following table analyzes several nonfinancial measures relating to these marine activities and cargo movement.

Summarized Cargo Movement (In Units)

	June 30, 2008	June 30, 2007	Change	% Change
Container Movement	112,609	94,103	18,506	19.7%
General Cargo Movement (Short Tons)	3,947,744	4,404,767	(457,023)	-10.4%
Vessel Calls	877	970	(93)	-9.6%
Rail Car Activity	6,495	10,857	(4,362)	-40.2%

Breaking with current year cargo movement and related terminal activity trends, operating revenues have posted a modest increase of 1.3% as compared to the prior year. This increase is comprised in large part by increased rental rates, service pricing and most importantly contractual minimum volume guarantees associated with certain key general cargo commodities. During the same time period in question, operating expenses have remained relatively stable decreasing 4.6%, which was driven primarily by decreased salaries and benefits and depreciation\amortization charges. The following table shows the major sources of both operating and nonoperating revenues in detail.

Operating, Nonoperating and Other Revenues, by Major Source

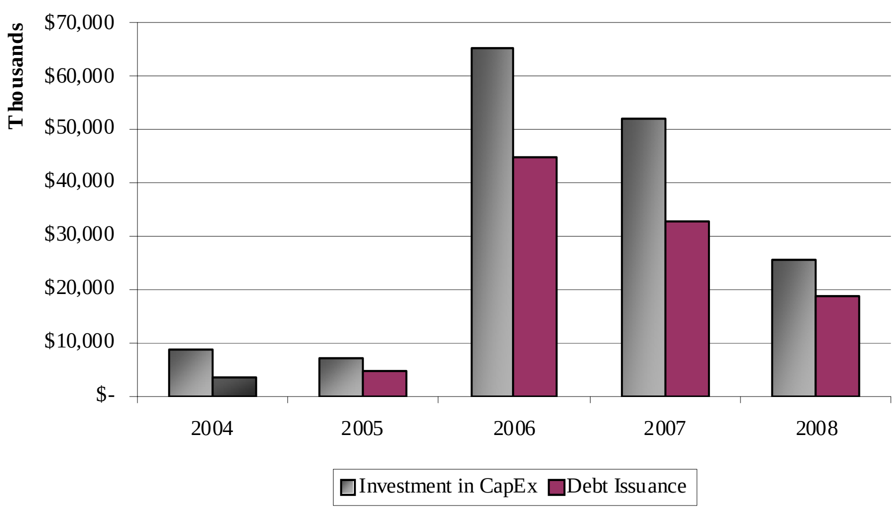
	June 30, 2008	June 30, 2007	Change	% Change
Operating Revenues:				
Sales and Services, Net	$ 35,007,018.95	$ 34,739,534.85	$ 267,484.10	0.8%
Rental and Lease Earnings	4,723,666.61	4,462,630.70	261,035.91	5.8%
Total Operating Revenues	39,730,685.56	39,202,165.55	528,520.01	1.3%
Nonoperating Revenues:				
Investment Earnings	568,811.22	527,618.92	41,192.30	7.8%
Other Revenues:				
State Capital Aid	10,000,000.00	11,200,000.00	(1,200,000.00)	-10.7%
Capital Grants	574,094.52	144,909.00	429,185.52	296.2%
Total Other Revenues	10,574,094.52	11,344,909.00	(770,814.48)	-6.8%
Total Revenues	$ 50,873,591.30	$ 51,074,693.47	$ (201,102.17)	-0.4%

Capital Assets and Long-Term Debt

The origins of the Authority's current capital expansion program can be traced back to late fiscal year 1995, early 1996, at which point, the Authority undertook a significant and comprehensive strategic planning effort which among other outputs produced a long-term market plan and corresponding capital infrastructure program. This program was based on a number of motivating factors including the need to address an aging infrastructure system, seek and secure new business development opportunities, and explore general economic growth opportunities. A center point in this capital investment program, completed in late 2004, was the $330 million Wilmington Harbor Deepening project. This project which was funded, outside of the Authority, through a joint State and Federal matching program has increased the navigable depth in the Cape Fear River to 42 feet.

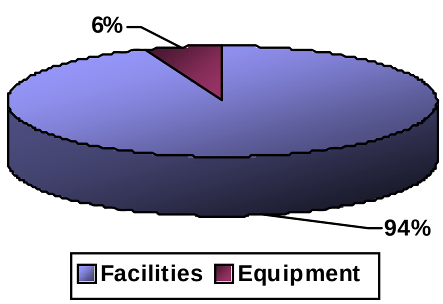
In keeping with the established planning process, the Authority updated its Strategic Plan during 2006 identifying a number of port terminal infrastructure items that either needed refurbishment or expansion. As a result of this update, Authority's management identified approximately $300 million in capital expenditures that would be required over the following 10 years. These expenditures included acquisitions of equipment and land as well as the construction of new facilities and the rehabilitation of existing facilities and infrastructure at both deep-water 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. To date, approximately 48% of plan costs have been incurred. Highlights of these expenditures include the acquisition of new container cranes, construction of a new warehouse facility and the purchase of land for development of a new container facility. The following graph summarizes recent capital investment and related debt issuance.

Investment in Capital Assets and Related Debt

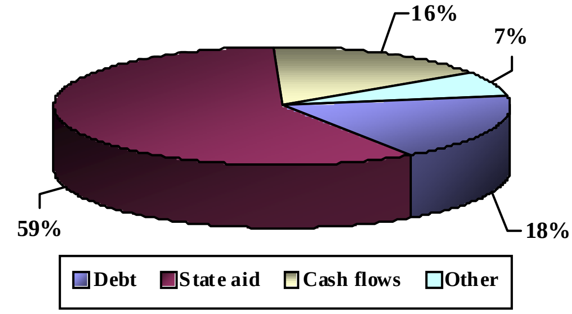


Capital investment for the upcoming fiscal year is projected to continue the somewhat slowed pace experienced in 2008 coming in at approximately $33.9 million. Funding for these expenditures will be accomplished, as in recent years, by a combination of State capital aid, debt issuance, and internal cash flows. Funding for outlying years, 2010 to 2019 are anticipated to come from the same or similar sources as with planned 2009 expenditures. Further details on the capital improvement program can be found in the Authority's 2009 Capital Budget document. For a copy of this document call the Finance office at 910-343-6200. The following graphs provide a breakdown of planned FY 2009 expenditure by category as well as anticipated funding by sources.

Expenditures by Category



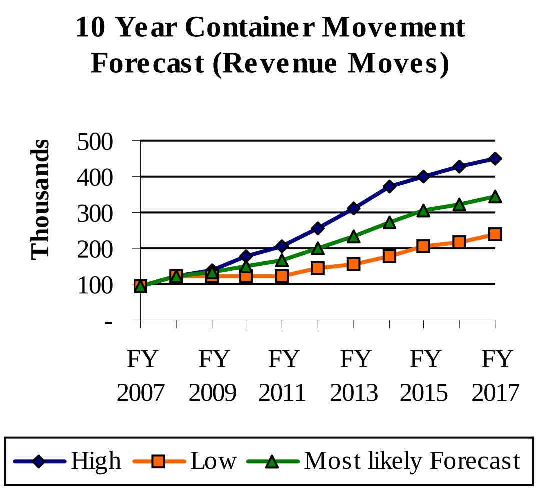
Funding by Source

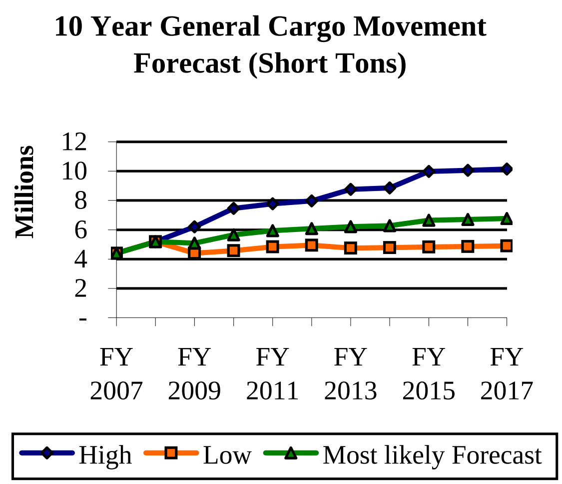


Economic Outlook

The downturn in general cargo volumes experienced during the current fiscal cycle are expected to reverse over the coming fiscal periods initially through continued concentration of market share in certain key commodities and then on a more long term basis through a return of more traditional economic expansion levels in the North Carolina and regional US markets. These expectations are supported by numerous externally produced forecasts predicting the return of overall US East Coast market expansion in the range of 4% to 8%. With respect to container volumes the Authority expects to see further improvements driven by continued US and world economic expansion and the ever mounting pressures to divert cargos from the US West Coast to the East Coast seeking reliable congestion free access gateways. These factors continue to indicate a significant growth opportunity for the North Carolina State Ports Authority as well as the East Coast in general.

Internally developed market forecasts outline robust opportunities for both of the Authority's existing deep-water facilities ranging from compound annual growth factors at a low of 3% to a high of 15%. The following graphs summarize these projections in the form of high, low and most likely case for both container and general cargo activities.





As a result of these growth projections, the Authority is anticipating that utilization at its existing facilities will improve thus raising operating marginal profitability from its current position of 5% to levels more comparable in the South Atlantic port peers group of 22% over the next 10 years. Low double-digit operating returns are anticipated as early as 2010.

Looking beyond the internally developed 10 year forecast for container operations at the Port of Wilmington, the consensus among industry experts is that anticipated East Coast capacity shortfalls will be significant and occurring as soon as the calendar year 2017 in certain port regions. This consensus outlook continues as a motivating factor behind the Authority's acquisition of properties and plans for construction of a third deep-water terminal facility. The future North Carolina International Terminal (NCIT) 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 statewide economic impact of 85,000 jobs and nearly $300 million in tax revenues already attributable to activities at the North Carolina State Ports Authority. The addition of the future NCIT facility in all likelihood would produce upwards to a five-fold increase over these current impacts.

North Carolina State Ports Authority
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 651,599.12
Restricted Cash and Cash Equivalents	260,297.67
Short-Term Investments	5,167,083.31
Restricted Short-Term Investments	1,149,793.34
Receivables, Net (Note 3)	6,645,261.37
Inventories	872,032.27
Prepaid Items	378,712.49
Total Current Assets	15,124,779.57
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	10,152,645.68
Investments	5,017,892.94
Deferred Charges	846,006.76
Capital Assets - Nondepreciable, (Note 4)	76,451,357.69
Capital Assets - Depreciable, Net (Note 4)	219,230,327.00
Total Noncurrent Assets	311,698,230.07
Total Assets	326,823,009.64
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	2,412,250.05
Due to Primary Government	23,907.17
Unearned Revenue	342,649.95
Interest Payable	6,272.37
Long-Term Liabilities - Current Portion (Note 7)	20,253,848.34
Total Current Liabilities	23,038,927.88
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	78,795,557.36
Total Noncurrent Liabilities	78,795,557.36
Total Liabilities	101,834,485.24
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	197,837,641.26
Restricted for Expendable Capital Projects	7,790,785.00
Unrestricted	19,360,098.14
Total Net Assets	$ 224,988,524.40

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, 2008 *Exhibit A-2*

REVENUES		
Operating Revenues:		
Sales and Services, (net of $70,464.10 change in allowance for doubtful accounts)	$	35,007,018.95
Rental and Lease Earnings		4,723,666.61
Total Operating Revenues		39,730,685.56
EXPENSES		
Operating Expenses:		
Salaries and Benefits		17,850,808.01
Supplies and Materials		2,255,456.02
Services		7,487,517.55
Depreciation/Amortization		8,481,553.58
Insurance and Bonding		1,219,613.69
Other		378,031.23
Total Operating Expenses		37,672,980.08
Operating Income		2,057,705.48
NONOPERATING REVENUES (EXPENSES)		
State Capital Aid		10,000,000.00
Investment Earnings		568,811.22
Capital Grants		574,094.52
Interest and Fees on Capital Asset-Related Debt		(2,033,720.50)
Net Other Nonoperating Expenses		(123,330.49)
Net Nonoperating Revenues		8,985,854.75
Increase in Net Assets		11,043,560.23
NET ASSETS		
Net Assets July 1, 2007, as Restated (Note 16)		213,944,964.17
Net Assets - June 30, 2008	$	224,988,524.40

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, 2008 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 41,247,700.00
Payments to Employees and Fringe Benefits	(18,646,435.82)
Payments to Vendors and Suppliers	(13,892,899.72)
Net Cash Provided by Operating Activities	8,708,364.46
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
State Capital Aid	10,000,000.00
Capital Grants	574,094.52
Proceeds from Capital Debt	56,110,710.45
Proceeds from Sale of Capital Assets	10,575.69
Acquisition and Construction of Capital Assets	(25,643,133.21)
Principal Paid on Capital Debt and Leases	(41,447,004.83)
Interest and Fees Paid on Capital Debt and Leases	(2,042,338.77)
Net Cash Used by Capital Financing and Related Financing Activities	(2,437,096.15)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	580,000.00
Investment Earnings	586,580.66
Purchase of Investments and Related Fees	(1,091,205.30)
Net Cash Provided by Investing Activities	75,375.36
Net Increase in Cash and Cash Equivalents	6,346,643.67
Cash and Cash Equivalents - July 1, 2007	4,717,898.80
Cash and Cash Equivalents - June 30, 2008	$ 11,064,542.47
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	$ 2,057,705.48
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation\Amortization Expense	8,481,553.58
Changes in Assets and Liabilities:	
Receivables (Net)	1,371,551.38
Inventories	(61,614.43)
Prepaid Items	201,389.12
Accounts Payable and Accrued Liabilities	(3,552,469.59)
Due to Primary Government	(2,421.22)
Deferred Charges	145,463.06
Compensated Absences	67,207.08
Net Cash Provided by Operating Activities	$ 8,708,364.46

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	651,599.12
Restricted Cash and Cash Equivalents		260,297.67
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		10,152,645.68
Total Cash and Cash Equivalent Balances - June 30, 2008	$	11,064,542.47

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	$	455,664.22

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. Related foundations and similar nonprofit corporations for which the Authority is not financially accountable or for which the nature of their relationship is not considered significant to the Authority are not part of the accompanying financial statements.

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 (BTA) 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, regardless of the timing of the cash flows.

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

F. **Receivables** - Receivables consist of charges to customers for services and environmental cleanup, contract guarantees and use of facilities provided. Receivables are recorded net of estimated uncollectible amounts. Receivables also consist of amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied.

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. **Deferred Charges** - Deferred charges are comprised of prepayments of maintenance contracts for dredging and crane relocation expenses to be written off in future periods.

I. 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 estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 60 years for general infrastructure, 8 to 75 years for buildings, and 3 to 40 years for equipment.

J. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

K. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, capital lease obligations, revolving credit lines, and compensated absences that will not be paid within the next fiscal year.

L. 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at 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.

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.

M. 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 are tracked 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.

N. 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $10,049,112.74 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 2.9 years as of June 30, 2008. 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, 2008 was $1,260.00. The carrying amount of the Authority's deposits not with the State Treasurer was $1,014,169.73 and the bank balance was $1,373,846.35. 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, 2008, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 1,169,411.80

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.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the Authority may face should interest rate variances affect the fair value of investments. The Authority does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has a formal 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 credit 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.

Custodial Credit Risk: 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.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Authority does not have a formal policy for concentration of credit risk.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008.

	Fair Value	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 256,817.50	$ 0.00	$ 256,817.50	$ 0.00	$ 0.00
U.S. Agencies	6,137,738.80	1,376,663.36	745,065.87	222,082.00	3,793,927.57
Money Market Funds	4,940,213.29	4,940,213.29			
		$ 6,316,876.65	$ 1,001,883.37	$ 222,082.00	$ 3,793,927.57
Total Investments	$ 11,334,769.59				

At June 30, 2008, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	Unrated
U.S. Agencies	$ 6,137,738.80	$ 4,987,945.46	1,149,793.34
Money Market Funds	4,940,213.29	4,940,213.29	
	$ 11,077,952.09	$ 9,928,158.75	1,149,793.34

Rating Agency: Moody's / Standard & Poors

At June 30, 2008, the Authority's 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	$ 4,987,945.46

Concentration of Credit Risk: The Authority places no limit on the amount that may invest in any one issuer. More than 5% of the investments are in U.S. Agencies. These investments are 56% of the Authority's total investments.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Accounts	$ 4,930,261.05	$ 84,711.36	$ 4,845,549.69
Other	1,759,397.23		1,759,397.23
Investment Earnings	40,314.45		40,314.45
Total Current Receivables	$ 6,729,972.73	$ 84,711.36	$ 6,645,261.37

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 57,602,517.40	$ 1,032,981.44	$ 0.00	$ 58,635,498.84
Construction in Progress	15,944,708.98	7,506,439.08	5,635,289.21	17,815,858.85
Total Capital Assets, Nondepreciable	73,547,226.38	8,539,420.52	5,635,289.21	76,451,357.69
Capital Assets, Depreciable:				
Buildings	76,659,053.11	18,719,772.10	1,940,175.18	93,438,650.03
Machinery and Equipment	75,281,529.47	2,245,915.21	331,184.41	77,196,260.27
General Infrastructure	168,709,145.33	1,326,735.86	438,799.17	169,597,082.02
Total Capital Assets, Depreciable	320,649,727.91	22,292,423.17	2,710,158.76	340,231,992.32
Less Accumulated Depreciation/Amortization for:				
Buildings	24,364,971.76	1,990,061.14	1,738,673.21	24,616,359.69
Machinery and Equipment	32,477,094.90	3,192,910.44	381,915.15	35,288,090.19
General Infrastructure	58,207,384.05	2,889,831.39		61,097,215.44
Total Accumulated Depreciation	115,049,450.71	8,072,802.97	2,120,588.36	121,001,665.32
Total Capital Assets, Depreciable, Net	205,600,277.20	14,219,620.20	589,570.40	219,230,327.00
Capital Assets, Net	$ 279,147,503.58	$ 22,759,040.72	$ 6,224,859.61	$ 295,681,684.69

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 2,337,843.42
Accrued Payroll	74,406.63
Total Accounts Payable and Accrued Liabilities	$ 2,412,250.05

NOTE 6 - SHORT-TERM DEBT – LINE 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, 2008, was as follows:

	Balance July 1, 2007	Draws	Repayments	Balance June 30, 2008
Line of Credit	$ 0.00	$ 5,563,500.00	$ 5,563,500.00	$ 0.00

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, 2008, is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Bonds Payable	$ 39,925,000.00	$ 0.00	$ 875,000.00	$ 39,050,000.00	$ 910,000.00
Notes Payable	10,549,009.55		1,588,884.55	8,960,125.00	759,350.00
Capital Leases Payable		31,906,000.00		31,906,000.00	582,711.75
Revolving Lines of Credit	32,706,328.26	18,641,210.45	33,419,620.28	17,927,918.43	17,927,918.43
Compensated Absences	1,138,155.19	984,415.64	917,208.56	1,205,362.27	73,868.16
Total Long-Term Liabilities	$ 84,318,493.00	$ 51,531,626.09	$ 36,800,713.39	$ 99,049,405.70	$ 20,253,848.34

Additional information regarding capital lease obligations is included in Note 8.

On April 24, 2008 the Authority entered into a capital lease arrangement as described in Note 8 below thereby reducing $31,831,094 in debt related to the revolving line of credit. The refunding was undertaken to make available additional credit line proceeds.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2008	Principal Outstanding June 30, 2008
Construct Bulk Grain Facility	2001	1.1% - 15%	09/2022	11,000,000.00	6,575,000.00	4,425,000.00
Port Facilities Revenue Bonds	2006	4%	06/2036	35,780,000.00	1,155,000.00	34,625,000.00
Total Bonds Payable				$ 46,780,000.00	$ 7,730,000.00	$ 39,050,000.00

The Authority has pledged future revenues, net of specific operating expenses against the above revenue bonds.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2008	Principal Outstanding June 30, 2008
Crane 11 Acquisition	SunTrust	4.35%	02/01/2020	$ 2,700,000.00	$ 585,000.00	$ 2,115,000.00
Container Handler/Top Picks	BB&T	3.76%	12/01/2015	3,793,500.00	948,375.00	2,845,125.00
Boykin Property	SunTrust	53% Prime	n\a	4,000,000.00		4,000,000.00
Total Notes Payable				$ 10,493,500.00	$ 1,533,375.00	$ 8,960,125.00

The above commercial debt is secured by the asset acquired and the Authority has not pledged future revenues for repayment.

D. **Revolving Credit Lines** - The Authority was indebted for revolving lines of credit as shown in the following table:

	Beginning Balance July 1, 2007	Transfers	Additions	Deletions	Ending Balance June 30, 2008
Credit Facility A	$ 3,064,076.25	$ (529,557.83)	$ 124,130.62	$ 1,000,000.00	$ 1,658,649.04
Credit Facility C	29,642,252.01	529,557.83	17,987,522.00	31,890,062.45	16,269,269.39
	$ 32,706,328.26	$ 0.00	$ 18,111,652.62	$ 32,890,062.45	$ 17,927,918.43

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. These commercial facilities have a three year term expiring June 30, 2009, with a variable rate index based on 78% of the 30 day LIBOR plus appropriate spread and repayment terms as outline below. Credit Facility B did not have any indebtedness at June 30, 2008. The Authority has pledged future revenues, net of specific operating expenses against the above revolving lines of credit.

(a) **Credit Facility A** - $5,000,000 revolving operating line of credit for working capital purposes and short-term financing of equipment purposes. Interest payable monthly; principal subject to borrowing base. Interest rate at June 30, 2008 is 3.96%.

(b) **Credit Facility C** - $40,000,000 revolving bridge financing to provide short-term bridge loan financing for other capital improvements of the Authority. Interest payable monthly and principal due upon issuance of bonds, currently planned to occur in January 2009. Interest rate at June 30, 2008 is 2.57%.

E. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2008, are as follows:

	Annual Requirements					
	Revenue Bonds Payable		Notes Payable		Revolving Credit	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 910,000.00	$ 1,553,701.96	$ 759,350.00	$ 364,597.68	$ 17,927,918.43	$ 484,718.64
2010	935,000.00	1,519,560.46	759,350.00	334,854.71		
2011	965,000.00	1,481,828.46	759,350.00	304,601.04		
2012	995,000.00	1,445,314.57	759,350.00	273,817.16		
2013	1,035,000.00	1,400,316.19	759,350.00	242,482.78		
2014-2018	5,730,000.00	6,357,965.52	2,848,375.00	774,778.80		
2019-2023	6,850,000.00	5,114,953.53	1,315,000.00	396,780.81		
2024-2028	6,800,000.00	3,740,403.93	1,000,000.00	85,636.01		
2029-2033	8,605,000.00	2,221,936.46				
2034-2036	6,225,000.00	443,658.37				
Total Requirements	$ 39,050,000.00	$ 25,279,639.45	$ 8,960,125.00	$ 2,777,548.99	$ 17,927,918.43	$ 484,718.64

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to container cranes are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 2,036,403.52
2010	2,036,403.52
2011	2,036,403.52
2012	2,036,403.52
2013	2,036,403.52
2014-2018	10,182,017.60
2019-2023	31,473,335.77
Total Minimum Lease Payments	51,837,370.97
Amount Representing Interest (4.88% Rate of Interest)	(19,931,370.97)
Present Value of Future Lease Payments	$ 31,906,000.00

B. 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, 2008:

Fiscal Year	Amount
2009	$ 21,034.32
2010	3,371.44
Total Minimum Lease Payments	$ 24,405.76

Rental expense for all operating leases during the year was $39,695.76.

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, 2008 are presented as follows:

Fiscal Year	Amount
2009	$ 3,958,375.00
2010	2,929,158.61
2011	2,596,195.43
2012	2,416,388.15
2013	2,195,465.97
2014 and Thereafter	9,972,541.72
Total Future Rental Revenues	$ 24,068,124.88

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Authority had a total payroll of $14,112,358.39, of which $13,942,757.83 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $425,254.11 and $836,565.47, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $425,254.11, $394,861.21, and $340,354.38, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "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 $102,456.48 for the year ended June 30, 2008.

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, 2008, were $42,656.45. The voluntary contributions by employees amounted to $100,707.55 for the year ended June 30, 2008.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the Authority contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $571,653.07, $564,087.44, and $552,712.24, respectively. 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*. 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.

B. Disability Income - The Authority participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the Authority made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $72,502.34, $77,190.91, and $75,634.31, respectively. 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 $1,000,000 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 the Authority for 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, except theft losses are subject to a $1,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $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 $75,000 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 term life insurance (accidental death and disability benefits) is provided through a private insurance company. The benefit is equal to one and one-half times the employee's annual salary and is effective for all full-time employees.

Employees may purchase additional coverage through payroll deduction and have the option to convert the terms offered by the provider to maintain the policy at their own cost upon termination of employment. Total employer contributions on behalf of Authority employees for the year ended June 30, 2008, were $61,098.38. The voluntary contributions by employees amounted to $35,298.80 for the year ended June 30, 2008.

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 $6,248,123 at June 30, 2008.

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 - THE NORTH CAROLINA STATE PORTS AUTHORITY FOUNDATION, INC.

There is a separately incorporated nonprofit foundation associated with the Authority. This foundation is the North Carolina State Ports Authority

Foundation, Inc. This organization serves as a fundraising arm of the Authority through which individuals, corporations, and other organizations support Authority initiatives. The Authority's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundation. There was no support provided to the Authority for the year ended June 30, 2008.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

GASB Statement No. 50, *Pension Disclosures.*

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No, 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 16 - NET ASSET RESTATEMENT

Capital Assets were restated in order to correct an accounting error due to the recalculation of the useful lives of previously fully depreciated capital assets. As of July 1, 2007, net assets as previously reported, was restated as follows:

	Amount
July 1, 2007 Net Assets as Previously Reported	$ 178,578,958.90
Restatements:	
Prior Period Adjustment - Capital Assets	35,366,005.27
July 1, 2007 Net Assets as Restated	$ 213,944,964.17

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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, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, and have issued our report thereon dated January 14, 2009.

As discussed in Note 15 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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)

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

January 14, 2009

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

ESTIMATED USEFUL LIVES OF CAPITAL ASSETS NOT RE-EVALUATED

Prior to our audit, the Authority had not compared the estimated useful lives of its capital assets with actual experience. At our request, Authority personnel performed such an evaluation, and determined that the useful lives of most assets had been underestimated, resulting in an overstatement of accumulated depreciation of $38.4 million. This adjustment reduced the accumulated depreciation originally recorded by 24%.

When the Authority implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, it used asset lives suggested by the Office of the State Controller but had not adjusted those lives based on actual experience. A periodic review of useful lives is necessary to ensure that costs are allocated based on actual use of the assets.

This finding has been resolved. The Authority posted the $38.4 million adjustment to its accounting records. In addition, the Authority has established and implemented procedures to ensure that the useful lives of capital asset classes are periodically re-evaluated.

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