STATE OF
NORTH CAROLINA

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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, 2009

BOARD OF DIRECTORS

CARL STEWART, JR., CHAIRMAN

ADMINISTRATIVE OFFICERS

TOM EAGAR, CHIEF EXECUTIVE OFFICER

JEFF STRADER, CPA, CHIEF FINANCIAL OFFICER

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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, 2009, 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, 2009, 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2010 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, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

February 4, 2010

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, 2009. 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.

As summarized in the following table by major category, a comparison of net assets as of June 30, 2009 to that of the prior year yields several significant changes.

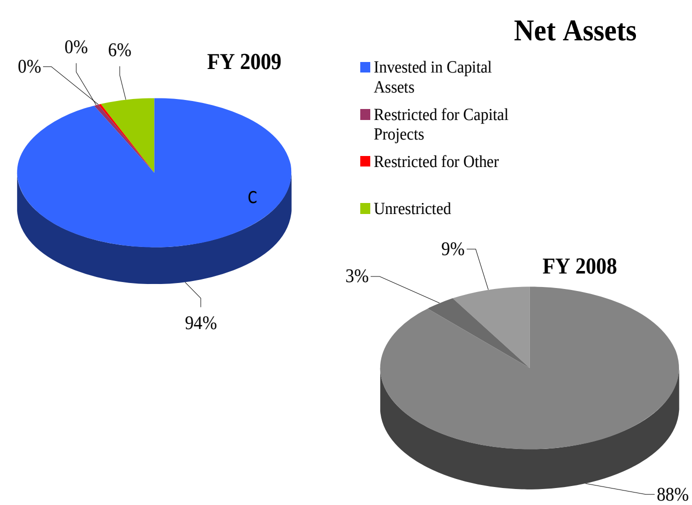
Condensed Statement of Net Assets

	June 30, 2009	June 30, 2008	Change	% Change
Current Assets	$ 13,194,361.23	$ 15,124,779.57	$ (1,930,418.34)	-12.8%
Capital Assets	308,382,782.03	295,681,684.69	12,701,097.34	4.3%
Other Noncurrent Assets	7,233,278.40	16,016,545.38	(8,783,266.98)	-54.8%
Total Assets	328,810,421.66	326,823,009.64	1,987,412.02	0.6%
Current Liabilities	7,981,184.38	23,038,927.88	(15,057,743.50)	-65.4%
Noncurrent Liabilities	93,376,320.86	78,795,557.36	14,580,763.50	18.5%
Total Liabilities	101,357,505.24	101,834,485.24	(476,980.00)	-0.5%
Net Assets	$ 227,452,916.42	$ 224,988,524.40	$ 2,464,392.02	1.1%

While from an overall perspective total assets have increased by a little less than a percentage point year over year, the detailed classification make-up has seen considerable movement. Major category changes were driven primarily by two factors with the first being the

Authority's on-going capital expansion program. The single most significant element of the capital program for 2009 was berth reconstruction at the Port of Wilmington. Funding for these activities came principally from state capital aid approved by the North Carolina General Assembly. This factor accounts for the majority of change in both capital assets and other noncurrent assets where unexpended capital appropriations are presented. The overall decline in liquidity as noted in the Statement of Cash Flows is also reflective of the Authority's capital program and the associative expenditure of appropriated funds. The second noted factor affecting total assets, and more specifically current assets, was a restructuring of existing long-term debt which resulted in the elimination of a debt service reserve requirements. These freed up funds were then applied to reduce the resulting restructured debt. Similar to total assets, total liabilities changed very little from year to year. However, there was significant movement in classification shifting from current to long-term as a result of renewal/extensions of both capital and operating lines of credit. Please refer to the accompanying Notes to the Financial Statements for further details with respect to these and other changes.

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, restricted for capital projects, 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, 2009 and 2008, respectively. Significant changes relate to the expenditure of funds received from state and federal sources, debt issuance, or from the Authority's internal cash flows for planned capital improvements (increase in "Invested in capital assets").



	2009
Invested in Capital Assets	$ 211,294,083.95
Restricted for Capital Projects	1,107,823.59
Restricted for Other	270,460.06
Unrestricted	14,780,548.82
Net Assets	$ 227,452,916.42

	2008
Invested in Capital Assets	$ 197,837,641.26
Restricted for Capital Projects	7,790,785.00
Unrestricted	19,360,098.14
	$ 224,988,524.40

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, 2009 of approximately 1%. This increase relates predominantly to State and federal capital aid (other Revenues) offset partially by a current period operating loss and interest paid on capital debt (nonoperating expenses). The following table identifies variances between major financial categories for the fiscal years ending June 30, 2009 and 2008.

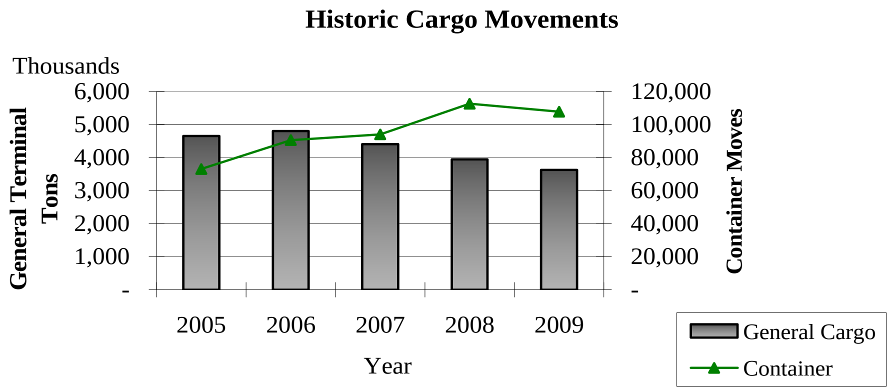
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2009	June 30, 2008	Change	% Change
Operating Revenues	$ 34,559,180.14	$ 39,730,685.56	$ (5,171,505.42)	-13.0%
Operating Expenses:				
Salaries and Benefits	17,666,137.81	17,850,808.01	(184,670.20)	-1.0%
Supplies and Materials	2,274,992.61	2,255,456.02	19,536.59	0.9%
Services	6,092,833.24	7,487,517.55	(1,394,684.31)	-18.6%
Depreciation/Amortization	9,078,777.68	8,481,553.58	597,224.10	7.0%
Insurance and Bonding	1,215,023.71	1,219,613.69	(4,589.98)	-0.4%
Other	318,299.86	378,031.23	(59,731.37)	-15.8%
Total Operating Expenses	36,646,064.91	37,672,980.08	(1,026,915.17)	-2.7%
Operating Income (Loss)	(2,086,884.77)	2,057,705.48	(4,144,590.25)	201.4%
Nonoperating Revenues	366,649.50	568,811.22	(202,161.72)	-35.5%
Nonoperating Expenses	(3,257,186.46)	(2,157,050.99)	(1,100,135.47)	51.0%
Other Revenues	7,441,813.75	10,574,094.52	(3,132,280.77)	-29.6%
Net Nonoperating Revenues	4,551,276.79	8,985,854.75	(4,434,577.96)	-49.4%
Increase in Net Assets	2,464,392.02	11,043,560.23		-77.7%
Net Assets, Beginning of Period	$ 224,988,524.40	$ 213,944,964.17	$ (8,579,168.21)	
Net Assets, End of Period	$ 227,452,916.42	$ 224,988,524.40		

As reflected in the preceding table, the Authority moved from an operating profit position in 2008 to that of a loss for 2009. This loss is a direct result of reduced cargo volumes and corresponding operating revenues associated with both container and general terminal operations, then offset to a small degree by reductions in operating expenses. The reduction in operating expenses of approximately 3% was driven by reductions in variable operating expenses and specific cost containment initiatives. The following table shows the major sources of both operating and nonoperating revenues in detail.

	June 30, 2009	June 30, 2008	Change	% Change
Operating Revenues:				
Sales and Services, Net	$ 30,067,432.70	$ 35,007,018.95	$ (4,939,586.25)	-14.1%
Rental and Lease Earnings	4,491,747.44	4,723,666.61	(231,919.17)	-4.9%
Total Operating Revenues	34,559,180.14	39,730,685.56	(5,171,505.42)	-13.0%
Nonoperating Revenues:				
Investment Earnings	366,649.50	568,811.22	(202,161.72)	-35.5%
Other Revenues:				
State Capital Aid	6,734,590.59	10,000,000.00	(3,265,409.41)	-32.7%
Capital Grants	700,518.00	574,094.52	126,423.48	22.0%
Other Nonoperating Revenues	6,705.16		6,705.16	-
Total Other Revenues	7,441,813.75	10,574,094.52	(3,334,442.49)	-31.5%
Total Revenues	$ 42,367,643.39	$ 50,873,591.30	$ (8,708,109.63)	-17.1%

Current reduced operating levels are viewed to be a product of the general global economic downturn, and while not considered permanent in their nature, are expected to persist over the near term while the US and other world economies recover. Decreases in both lease revenues, as well as investment income are also considered to be as a result of general economic conditions. The following graph and table depict these changes and general trends utilizing nonfinancial data and measurements.



Summarized Cargo Movement (In Units)

	June 30, 2009	June 30, 2008	Change	% Change
Container Movement	107,775	112,615	(4,840)	-4.3%
General Cargo Movement (Short Tons)	3,629,292	3,947,744	(318,452)	-8.1%
Vessel Calls	895	877	18	2.1%
Rail Car Activity	6,805	6,495	310	4.8%

While these reductions in operating levels have produced a significant financial impact to the Authority on a current year basis, taken in comparison to the industry on a whole, they represent losses on the lower end of the spectrum as many of the Authority's competitors have posted double-digit cargo volume losses.

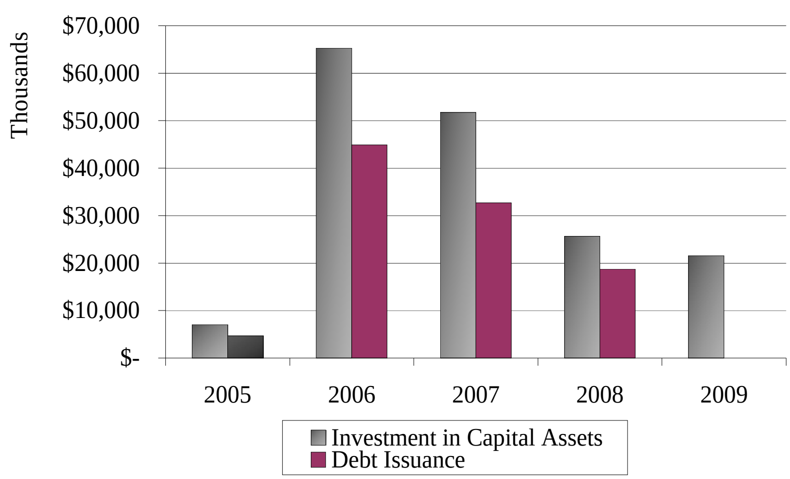
Given the anticipated global economic recovery over the next several years, the Authority's market share, market position, and long-term growth expectations are considered sustainable as they are driven in a large part, both directly in the case of container volumes, as well as indirectly for general terminal activities, by two domestic port operating conditions. The first condition relates to the 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. The second condition relates to the growing allocation of resources to container operations in competing East Coast ports to the north and south, and the declining capacity/facilities offerings for bulk and break bulk commodities.

Capital Assets and Long-Term Debt

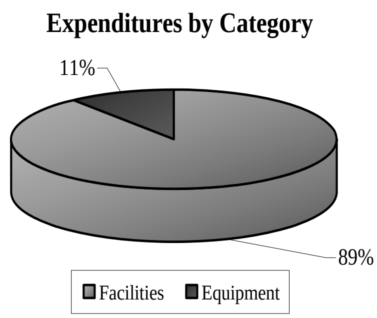
The origins of the Authority's current capital expansion program can be traced back to late fiscal 1995 and early 1996, at which point, the Authority undertook a significant and comprehensive strategic planning effort which among other outputs produced a long-term market plan and corresponding capital 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. In keeping with the established planning process, the Authority continually updates its strategic business plan along with long-range market, financial, and corresponding capital infrastructure plans. Terminal improvements and equipment needs are identified and programmed to meet anticipated market growth requirements. Market growth expectations are adjusted for both long-term as well as short-term economic impacts associated with disruptions such as recessions. As a result of the most recent update, the Authority's management identified approximately $160 million in capital expenditures that would be required over the following 10 years. These expenditures included acquisitions of equipment and the construction of new and the rehabilitation of existing facilities and infrastructure at both deep-water terminals in Wilmington and Morehead City.

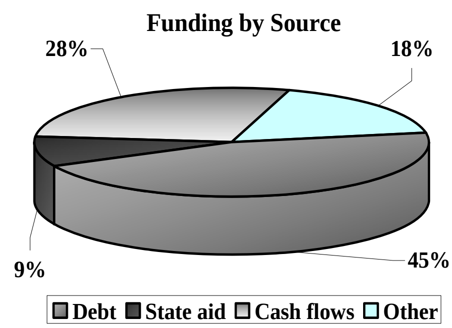
Since late 2005 the Authority has assertively worked to rehabilitate or otherwise expand its facilities, investing approximately $170 million in equipment and infrastructure. Highlights of these expenditures include the acquisition of new container cranes, construction of a new warehouse facility, and the purchase of land for development of a new container facility. The following graph summarizes recent capital investment and related debt issuance.

Annual
Investment in Capital Assets and Related Debt



Capital investment for the upcoming fiscal year is projected to continue at a more reduced pace than previously experienced and is approximated at $11.4 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 2011 to 2019 are anticipated to come from the same or similar sources as with planned 2010 expenditures. Further details on the capital improvement program can be found in the Authority's 2010 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 2010 expenditure by category as well as anticipated funding by sources.





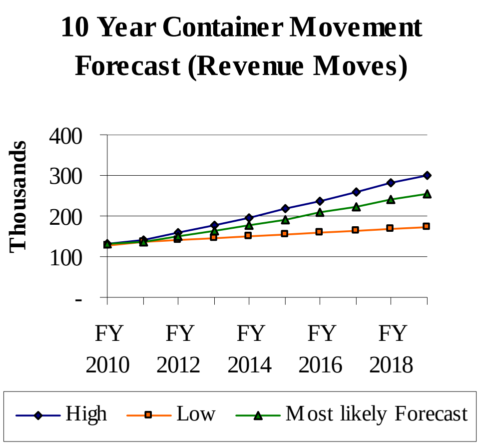
As indicated above, the Authority intends to fund approximately $5.2 million of the planned 2010 capital expenditures from debt issuance. In addition to this new money issue, the Authority anticipates refinancing approximately $35 million currently financed on bond anticipation lines of credit or other short-term commercial debt instruments utilizing long-term revenue bonds. Total debt levels are projected to be approximately $100 million by the close of 2010 with an "all in" projected debt service coverage ratio of $1.73 to $1.00, and debt to equity ratio of $0.44 to $1.00.

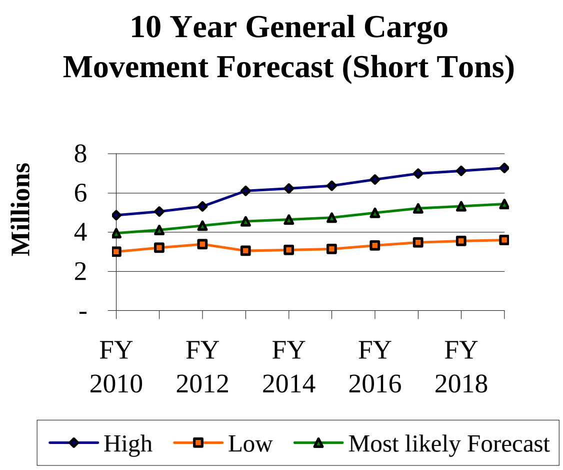
Economic Outlook

With the current global economic downturn, international trade has seen some of the deepest reductions ever posted. This, as previously indicated, has had a notable effect on the Authority's general cargo and container volumes. However global recovery and the resumption of trade growth are widely anticipated to occur over the next several years. As an early indicator of that recovery, first quarter 2010 container volumes handled through the Port of Wilmington have seen improved performance, net of new services added in 2009.

While losses in general cargo volumes experienced during the preceding and current fiscal cycles are significant, a reversal is expected. This reversal is expected over the near term 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 3% to 4%. 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 post recovery growth opportunity for the North Carolina State Ports Authority, as well as the East Coast in general.

Consistent with wider macro economic analysis, specific market forecasts developed by the Authority's external feasibility consultants outline moderate growth opportunities for both of the Authority's existing deep-water facilities on the near-term, and resumption of more traditional growth on the long-term. These growth rates range from compound annual growth factors at a low of 1%, to a high of 6%. 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 profitability from its current loss position of -6%, to profit levels more comparable to the South Atlantic port peers group of 21% over the next 10 years.

Looking beyond the 10 year forecast for container operations at the Port of Wilmington, the consensus among industry experts is that there will be substantial container market opportunities occurring on the East Coast 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 will position the State to capture a significant portion of this projected market opportunity, thus providing substantial increases in the Ports economic impacts through the creation of new jobs, support of existing jobs, and the generation of state and local taxes.

North Carolina State Ports Authority
Statement of Net Assets
June 30, 2009 *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	508,694.04
Restricted Cash and Cash Equivalents		268,811.00
Short-Term Investments		4,922,161.97
Restricted Short-Term Investments		1,649.06
Receivables, Net (Note 3)		6,569,512.61
Inventories		727,178.88
Prepaid Items		196,353.67
Total Current Assets		13,194,361.23
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,107,823.59
Investments		5,500,138.02
Deferred Charges		625,316.79
Capital Assets - Nondepreciable, (Note 4)		86,486,983.72
Capital Assets - Depreciable, Net (Note 4)		221,895,798.31
Total Noncurrent Assets		315,616,060.43
Total Assets		328,810,421.66
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		3,046,933.42
Due to Primary Government		11,304.19
Unearned Revenue		42,257.34
Interest Payable		1,334.04
Short-Term Debt (Note 6)		0.00
Long-Term Liabilities - Current Portion (Note 7)		4,879,355.39
Total Current Liabilities		7,981,184.38
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		93,376,320.86
Total Noncurrent Liabilities		93,376,320.86
Total Liabilities		101,357,505.24
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		211,294,083.95
Restricted for:		
Expendable:		
Capital Projects		1,107,823.59
Other		270,460.06
Unrestricted		14,780,548.82
Total Net Assets	$	227,452,916.42

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, 2009 *Exhibit A-2*

REVENUES	
Operating Revenues:	
Sales and Services, (net of $356,044.32 change in allowance for doubtful accounts)	$ 30,067,432.70
Rental and Lease Earnings	4,491,747.44
Total Operating Revenues	34,559,180.14
EXPENSES	
Operating Expenses:	
Salaries and Benefits	17,666,137.81
Supplies and Materials	2,274,992.61
Services	6,092,833.24
Depreciation/Amortization	9,078,777.68
Insurance and Bonding	1,215,023.71
Other	318,299.86
Total Operating Expenses	36,646,064.91
Operating Loss	(2,086,884.77)
NONOPERATING REVENUES (EXPENSES)	
State Capital Aid	6,734,590.59
Investment Income (Net of Investment Expense of $14,360.62)	366,649.50
Capital Grants	700,518.00
Interest and Fees on Capital Asset-Related Debt	(2,880,545.53)
Other Nonoperating Revenues	6,705.16
Casualty Losses	(376,640.93)
Net Nonoperating Revenues	4,551,276.79
Increase in Net Assets	2,464,392.02
NET ASSETS	
Net Assets July 1, 2008	224,988,524.40
Net Assets - June 30, 2009	$ 227,452,916.42

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, 2009 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 34,327,446.26
Payments to Employees and Fringe Benefits	(17,159,829.94)
Payments to Vendors and Suppliers	(9,873,189.72)
Net Cash Provided by Operating Activities	7,294,426.60
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
State Capital Aid	6,734,590.59
Capital Grants	700,518.00
Proceeds from Capital Debt	41,996,716.40
Proceeds from Sale of Capital Assets	12,554.35
Acquisition and Construction of Capital Assets	(21,565,034.24)
Principal Paid on Capital Debt and Leases	(42,752,061.75)
Interest and Fees Paid on Capital Debt and Leases	(2,885,483.86)
Net Cash Used by Capital Financing and Related Financing Activities	(17,758,200.51)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,454,991.58
Investment Earnings	373,739.53
Purchase of Investments and Related Fees	(544,171.04)
Net Cash Provided by Investing Activities	1,284,560.07
Net Decrease in Cash and Cash Equivalents	(9,179,213.84)
Cash and Cash Equivalents - July 1, 2008	11,064,542.47
Cash and Cash Equivalents - June 30, 2009	$ 1,885,328.63
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	$ (2,086,884.77)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation\Amortization Expense	9,078,777.68
Casualty Loss	(376,640.93)
Changes in Assets and Liabilities:	
Receivables (Net)	68,658.73
Inventories	144,853.39
Prepaid Items	182,358.82
Accounts Payable and Accrued Liabilities	634,683.37
Due to Primary Government	(12,602.98)
Deferred Charges	(300,392.61)
Compensated Absences	(38,384.10)
Net Cash Provided by Operating Activities	$ 7,294,426.60

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	508,694.04
Restricted Cash and Cash Equivalents		268,811.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,107,823.59
Total Cash and Cash Equivalent Balances - June 30, 2009	$	1,885,328.63

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Gain on Sale of Capital Assets	$	6,705.16

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

[This Page Left Blank Intentionally]

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 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 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 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, contract guarantees, use of facilities, and environmental cleanup. Receivables are recorded net of estimated uncollectible amounts.

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 capital aid 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $1,107,823.41 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 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was $1,260.00. The carrying amount of the Authority's deposits not with the State Treasurer was $776,245.22 and the bank balance was $809,478.86. 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, 2009, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 263,476.61

B. Investments - The Authority invests 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 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009.

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Agencies	$ 5,752,334.58	$ 252,196.56	$ 807,302.64	$ 116,957.25	$ 4,575,878.13
Money Market Funds	4,671,614.47	4,671,614.47			
		$ 4,923,811.03	$ 807,302.64	$ 116,957.25	$ 4,575,878.13
Total Investments	$ 10,423,949.05				

At June 30, 2009, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	Unrated
U.S. Agencies	$ 5,752,334.58	$ 5,750,685.52	$ 1,649.06
Money Market Funds	4,671,614.47	4,671,614.47	
	$ 10,423,949.05	$ 10,422,299.99	$ 1,649.06

Rating Agency: Moody's/Standard & Poors

At June 30, 2009, 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	$ 2,752,334.58

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Accounts	$ 5,852,119.38	$ 440,755.68	$ 5,411,363.70
Investment Earnings	33,224.42		33,224.42
Due from Others for Property Damages	584,761.34		584,761.34
Due from Employees	434,352.71	17,374.11	416,978.60
Other	123,184.55		123,184.55
Total Current Receivables	$ 7,027,642.40	$ 458,129.79	$ 6,569,512.61

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	$ 58,635,498.84	$ 56,771.03	$ 0.00	$ 58,692,269.87
Construction in Progress	17,815,858.85	20,534,370.56	10,555,515.56	27,794,713.85
Total Capital Assets, Nondepreciable	76,451,357.69	20,591,141.59	10,555,515.56	86,486,983.72
Capital Assets, Depreciable:				
Buildings	93,438,650.03	754,222.74	4,054,682.43	90,138,190.34
Machinery and Equipment	77,196,260.27	706,466.98	399,564.96	77,503,162.29
General Infrastructure	169,597,082.02	9,529,269.66	9,473,093.47	169,653,258.21
Total Capital Assets, Depreciable	340,231,992.32	10,989,959.38	13,927,340.86	337,294,610.84
Less Accumulated Depreciation/Amortization for:				
Buildings	24,616,359.69	1,639,270.73	4,054,682.43	22,200,947.99
Machinery and Equipment	35,288,090.19	3,690,105.08	399,564.96	38,578,630.31
General Infrastructure	61,097,215.44	2,989,263.07	9,467,244.28	54,619,234.23
Total Accumulated Depreciation	121,001,665.32	8,318,638.88	13,921,491.67	115,398,812.53
Total Capital Assets, Depreciable, Net	219,230,327.00	2,671,320.50	5,849.19	221,895,798.31
Capital Assets, Net	$ 295,681,684.69	$ 23,262,462.09	$ 10,561,364.75	$ 308,382,782.03

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	$ 2,427,834.82
Accrued Payroll	619,098.60
Total Accounts Payable and Accrued Liabilities	$ 3,046,933.42

NOTE 6 - SHORT-TERM DEBT - LINE OF CREDIT

The Authority uses a revolving line of credit to supplement its working capital on a short-term basis. This line of credit was periodically necessary to maintain an appropriate level of current cash flows.

Short-term debt activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Draws	Repayments	Balance June 30, 2009
Line of Credit	$ 0.00	$ 6,690,000.00	$ 6,690,000.00	$ 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, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds Payable	$ 39,050,000.00	$ 20,500,000.00	$ 34,920,000.00	$ 24,630,000.00	$ 305,000.00
Notes Payable	8,960,125.00		559,350.00	8,400,775.00	759,350.00
Revolving Lines of Credit	17,927,918.43	14,806,716.40		32,734,634.83	3,220,227.96
Capital Leases Payable	31,906,000.00		582,711.75	31,323,288.25	514,022.55
Compensated Absences	1,205,362.27	959,627.61	998,011.71	1,166,978.17	80,754.88
Total Long-Term Liabilities	$ 99,049,405.70	$ 36,266,344.01	$ 37,060,073.46	$ 98,255,676.25	$ 4,879,355.39

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

On November 13, 2008 the Authority called the 2006 series Port Facilities Revenue Bonds, as described in paragraph F, retiring all outstanding principle through the issuance of junior lien port revenue bonds and revolving lines of credit. The refunding was undertaken to reduce financing costs and improved debt capacity at the senior lien level.

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 39,994.00	Principal Outstanding 39,994.00
Construct Bulk Grain Facility	2001	.25% - 15%	09/2022	$ 11,000,000.00	$ 6,870,000.00	$ 4,130,000.00
Port Facilities Revenue Bonds	2006	.25% - 15%	06/2036	34,625,000.00	34,625,000.00	
Port Facilities Revenue Bonds, Jr. Lien	2008	.25% - 15%	06/2036	20,500,000.00		20,500,000.00
Total Bonds Payable				$ 66,125,000.00	$ 41,495,000.00	$ 24,630,000.00

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, 2009	Principal Outstanding June 30, 2009
Crane 11 Acquisition	SunTrust	4.35%	02/01/2020	$ 2,700,000.00	$ 765,000.00	$ 1,935,000.00
Container Handlers	BB&T	3.76%	12/01/2015	3,793,500.00	1,327,725.00	2,465,775.00
Boykin Property	SunTrust	53% Prime (1)	n\a	4,000,000.00		4,000,000.00
Total Notes Payable				$ 10,493,500.00	$ 2,092,725.00	$ 8,400,775.00

(1) Interest rate is 53% of Bank's Prime floating rate or 78% of the 1-Month LIBOR rate plus 60 basis points

The above commercial debt is secured by the asset acquired.

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

	Beginning Balance July 1, 2008	Transfers	Additions	Deletions	Ending Balance June 30, 2009
Credit Facility A	$ 1,658,649.04	$ 0.00	$ 1,610,000.00	$ 0.00	$ 3,268,649.04
Credit Facility C	16,269,269.39		9,976,488.44		26,245,757.83
Credit Facility D			3,220,227.96		3,220,227.96
	$ 17,927,918.43	$ 0.00	$ 14,806,716.40	$ 0.00	$ 32,734,634.83

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, B and C. On November 13, 2008, a fourth credit facility, D, was established. On June 30, 2009, two of the credit facilities (A, and C) were extended and subsequently renewed on a three year term expiring July 1, 2012, with a variable rate index based on 78% of the 30 day LIBOR plus appropriate spread and repayment terms as outlined below. Credit Facility B did not have any indebtedness at June 30, 2009.

(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, 2009 was 1.81%.

(b) **Credit Facility C** - $28,779,772.04 revolving bridge financing to provide short-term bridge loan financing for other capital improvements of the Authority. Interest payable monthly and principal due upon execution of long term financing, currently planned to occur in February 2010. Interest rate at June 30, 2009 was 0.89%.

(c) **Credit Facility D** - $3,220,227.96 one time draw financing facility to provide short-term bridge loan financing for the Alternative Minimum Tax portion of the refunded 2006 Port Facilities Revenue Bonds. Interest payable monthly and principal due upon execution of long term financing, currently planned to occur in February 2010. Interest rate at June 30, 2009 was 0.89%.

E. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009, are as follows:

	Annual Requirements					
	Revenue Bonds Payable		Notes Payable		Revolving Credit	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 305,000.00	$ 484,424.48	$ 759,350.00	$ 241,544.39	$ 3,220,227.96	$ 811,818.93
2011	305,000.00	477,781.37	4,359,350.00	216,535.93		731,957.28
2012	305,000.00	471,138.26	559,350.00	191,477.26		731,957.28
2013	305,000.00	464,495.16	559,350.00	166,367.52	29,514,406.87	731,957.28
2014	835,000.00	457,852.05	559,350.00	141,205.82		
2015-2019	4,525,000.00	2,028,412.07	1,469,025.00	154,133.37		
2020-2024	4,955,000.00	1,547,140.55	135,000.00	1,957.48		
2025-2029	4,675,000.00	1,086,404.75				
2030-2034	5,755,000.00	597,128.50				
2035-2038	2,665,000.00	77,476.79				
Total Requirements	$ 24,630,000.00	$ 7,692,253.98	$ 8,400,775.00	$ 1,113,221.77	$ 32,734,634.83	$ 3,007,690.77

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

On November 13, 2008 the Authority issued $20,500,000 in Junior Lien Ports Facilities Revenue refunding bonds with an average interest rate of 0.90%. The bonds were issued in conjunction with advances on revolving credit lines, which totaled $13,196,716.44 (Credit Facilities C and D), for a current refunding of $34,625,000 of outstanding 2006 Port Facilities Revenue Bonds with an interest rate of 0.90%. As a component of the refunding, $1,308,405.91 was released from the debt service reserve fund and other project accounts and then applied to cost of issuance or to reduce overall refunding debt advances. The primary purposes of the refunding was to reduce reoccurring fees, eliminate restrictive "adds bonds" tests, eliminate the debt service reserve fund and to increase senior lien debt capacity thereby improving the Authority's debt structuring and thus resulting in a lower cost of borrowing for this issue and future senior lien debt issuances. Net present value of the economic gain is approximately $1,036,000.

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, 2009:

Fiscal Year	Amount
2010	$ 2,036,403.52
2011	2,036,403.52
2012	2,036,403.52
2013	2,036,403.52
2014	2,036,403.52
2015-2019	10,182,017.60
2020-2024	28,905,545.79
Total Minimum Lease Payments	49,269,580.99
Amount Representing Interest (4.88% Rate of Interest)	(17,946,292.74)
Present Value of Future Lease Payments	$ 31,323,288.25

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, 2009:

Fiscal Year	Amount
2010	$ 56,810.16
2011	40,966.92
2012	16,345.95
Total Minimum Lease Payments	$ 114,123.03

Rental expense for all operating leases during the year was $56,427.89.

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 on leased facilities. Future minimum revenues under noncancelable agreements treated as operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	$ 3,903,259.79
2011	3,582,442.49
2012	3,301,002.52
2013	2,929,408.89
2014	2,669,065.12
2015 and thereafter	2,669,069.83
Total Future Rental Revenues	$ 19,054,248.64

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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Authority had a total payroll of $13,787,210.29, of which $13,561,042.54 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $455,651.03 and $813,662.55, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were $455,651.03, $425,254.11, and $394,861.21, 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 "Proceed directly to OSC's index page," then "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 $95,381.20 for the year ended June 30, 2009.

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 the Authority's law enforcement officers for the year ended June 30, 2009, were $47,782.20. The voluntary contributions by employees amounted to $133,612.00 for the year ended June 30, 2009.

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 *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable 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, 2008, and 2007, were 4.1% and 3.8%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were $556,002.74, $571,653.07, and $564,087.44, 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 "Proceed directly to OSC's index page," then "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, 2009, 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, 2008, and 2007, were .52% and .52%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were $70,517.42, $72,502.34, and $77,190.91, 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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The 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 $5,000 per occurrence deductible. However, in order to reduce its premiums the Authority has established higher deductibles for losses associated with buildings and supporting infrastructure of $100,000 and $250,000 on equipment.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The 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. The private insurance company pays 90% of each loss less a $75,000 deductible.

The Authority purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Authority carries terminal operator's legal liability coverage from a private insurer at a premium of .265% for every dollar of operating revenue, not including rental and lease earnings. The Authority has also elected to pay an additional 5% of the total premium for terrorism coverage.

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 retains the risk for workers' compensation.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year. Additional 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, 2009, were $56,484.60. The voluntary contributions by employees amounted to $34,109.72 for the year ended June 30, 2009.

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 $9,764,046 at June 30, 2009.

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, 2009.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the Authority implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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, 2009, and have issued our report thereon dated February 4, 2010.

As discussed in Note 15 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, during the year ended June 30, 2009.

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.

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.

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 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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

February 4, 2010

ORDERING INFORMATION

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

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647