STATE OF NORTH CAROLINA

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

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

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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, 2010, 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

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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, 2010, 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, 2010, 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 16 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 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.

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, CPA
State Auditor

November 9, 2010

Overview of the Financial Statements and Financial Analysis

The annual financial statements of the North Carolina State Ports Authority (Authority) presents the results of the Authority's financial activities for the fiscal year ended June 30, 2010. Management's discussion and analysis (MD&A) should be read in conjunction with the financial statements and provides a general overview of the Authority's financial activity during the fiscal year. The financial statements include in addition to this MD&A, a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and accompanying Notes to the Financial Statements. Management, in addition to this analysis, is responsible for the preparation of the accompanying basic 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.

About the Authority

The North Carolina State Ports Authority was created by act of the North Carolina General Assembly (§ 143B-452) in 1945 as a political sub-division of the State of North Carolina for the purpose of engaging in promoting, developing, constructing, equipping, maintaining and operating the harbors and seaports within the State, or within the jurisdiction of the State (§ 143B-453). As a political sub-division of the State, the Authority has no stock or equity shareholders but rather is governed by an 11 member Board of Directors appointed by the Governor, Speaker of the House and President Pro Tempore of the Senate of North Carolina. Specific Authority operations include the deep water ports of Morehead City and Wilmington, the in-land terminal facilities located in Charlotte, NC and Greensboro, NC as well as a private boat marina located in Southport, NC. These facilities, with the exception of the private boat marina, handle both import and export containerized, breakbulk and bulk cargos.

Financial Highlights and Analysis

The Governmental Accounting Standards Board (GASB) established as an independent non-profit organization in 1984 is charged with establishing and maintaining accounting policy, procedure and disclosure standards as they pertain to State and local governments. These standards are most commonly referred to as generally accepted accounting principles or GAAP. Governmental GAAP accounting requires the application of the GASB Statement No. 34 reporting model whose intent is to make financial statements more useful to and easier to understand by oversight bodies, investors, creditors and citizens. This improvement in utility value is accomplished principally through the introduction of the MD&A and a reformatting and consolidation of the basic financial statements for the main type of governmental reporting fund types, general government and proprietary units. The Authority is classified as a propriety fund and is reported as a non-major component unit in the State's *Comprehensive Annual Financial Report*.

The accompanying basic financial statements have been prepared on an accrual basis of accounting, meaning that revenues are recognized when earned and expenses when incurred. Please refer to Note 1 in the Notes to the Financial Statements for additional details relating to accounting policy. 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, 2010 to that of the prior year yields several significant changes.

Condensed Statement of Net Assets

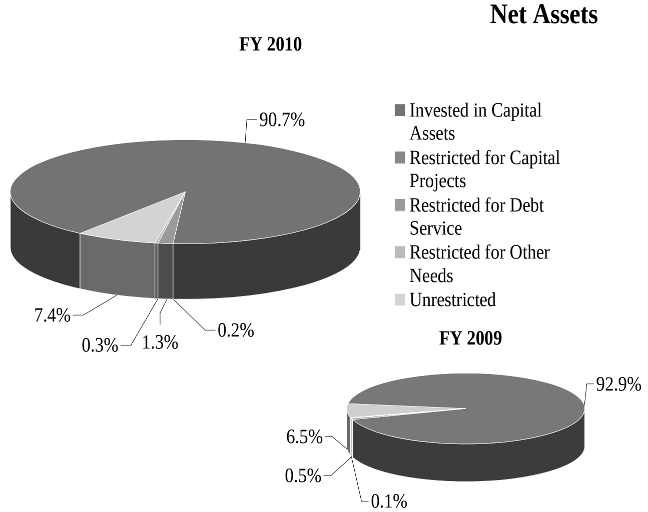
(in thousands)	June 30, 2010	June 30, 2009	Change	% Change
Current Assets	$ 14,416	$ 13,194	$ 1,222	9.3%
Capital Assets	305,895	308,383	(2,488)	-0.8%
Other Noncurrent Assets	10,971	7,233	3,738	51.7%
Total Assets	331,282	328,810	2,472	0.8%
Current Liabilities	5,599	7,981	(2,382)	-29.8%
Noncurrent Liabilities	103,960	93,376	10,584	11.3%
Total Liabilities	109,559	101,357	8,202	8.1%
Net Assets	$ 221,723	$ 227,453	$ (5,730)	-2.5%

While from an overall perspective, total assets have increased by a little less than a percentage point or approximately $2.5 million year over year, activity effecting capital assets and related debt financings as well as prepayment of insurance coverages have impacted the individual classifications of assets. Changes in capital assets include the write off of a number of impaired assets associated with the rehabilitation of the Authority's docks and wharfs, certain construction in progress items no longer considered viable projects and a number of equipment and facilities assets removed from operation totaling approximately $9 million. These reductions are partiality offset by additions, totaling $6.8 million, in the form of port expansion and rehabilitation programs as well as information technology projects. Changes to other noncurrent assets include the establishment of a debt service reserve fund (DSRF) and the deferral of issuance costs associated with revenues bonds issued in March of 2010. Proceeds of these bonds were used to finance current year capital costs associated with facility rehabilitation, prior period capital cost financed on a short-term basis as well as for the DSRF and issuance costs. These debt issuance activities offset by scheduled debt reductions account for the majority of the changes year over year in total liabilities amounting to $8.2 million or 8.1%. The following table provides selected financial information pertaining to changes in assets and liabilities. Please refer to the accompanying Notes to the Financial Statements for further details with respect to these and other changes.

(in thousands)	June 30, 2010	June 30, 2009	Change	% Change
Current Assets:				
Prepaid Items	$ 1,117	$ 196	$ 921	469.9%
Capital Assets				
Historical Cost	421,616	423,782	(2,166)	-0.5%
Accumulated Depreciation	(115,721)	(115,399)	(322)	0.3%
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	3,482	1,376	2,106	153.1%
Deferred Charges	912	625	287	45.9%
Current Liabilities				
Current Portion of Long-Term Debt	2,073	4,799	(2,726)	-56.8%
Noncurrent Liabilities				
Long-Term Debt	102,684	92,290	10,394	11.3%

The Authority's net assets are divided into five major categories. The first, invested in capital assets net of related debt, represents the Authority's equity position with regards to property, facilities and equipment. The second category is restricted to expenditure for capital projects and related debt. The third category is restricted for debt service payments as required by bond indentures and for revolving debt payments used to finance equipment purchases. The fourth category is restricted for funds accumulated for other debt obligations. The final category is that of unrestricted net assets 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, 2010 and 2009, respectively. Significant changes again, as noted above, relate to impacts from net reductions in the Authority's capital assets (*Invested in capital assets*) as well as debt issuance activities and in particular the creation of the 2010 revenue bond series DSRF (*Restricted for capital projects*).

Net Assets



(in thousands)	2010
Invested in Capital Assets	$ 201,137
Restricted for Capital Projects	490
Restricted for Debt Service	2,993
Restricted for Other Needs	650
Unrestricted	16,453
Net Assets	$ 221,723

	2009
Invested in Capital Assets	$ 211,294
Restricted for Capital Projects	1,108
Restricted for Other Needs	270
Unrestricted	14,781
Net Assets	$ 227,453

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an overall decrease in net assets for the current fiscal year ending June 30, 2010 of approximately 2.5%. This decrease is a product of the current period operating loss, increases in interest paid on capital related debt (nonoperating expenses) and a reduction in State and federal grant activity. The following table identifies variances between major financial categories for the fiscal years ending June 30, 2010 and 2009, respectfully.

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

(in thousands)	June 30, 2010	June 30, 2009	Change	% Change
Operating Revenues	$ 33,318	$ 34,559	$ (1,241)	-3.6%
Operating Expenses	35,404	36,646	(1,242)	-3.4%
Operating Income (Loss)	(2,086)	(2,087)	1	0.0%
Nonoperating Revenues	369	367	2	0.5%
Nonoperating Expenses	(4,246)	(3,257)	989	30.4%
Other Revenues	233	7,441	(7,208)	-96.9%
Net Nonoperating Revenues (Expenses)	(3,644)	4,551	(6,217)	-136.6%
Increase (Decrease) in Net Assets	(5,730)	2,464	$ (6,216)	-252.3%
Net Assets, Beginning of Period	227,453	224,989		
Net Assets, End of Period	$ 221,723	$ 227,453		

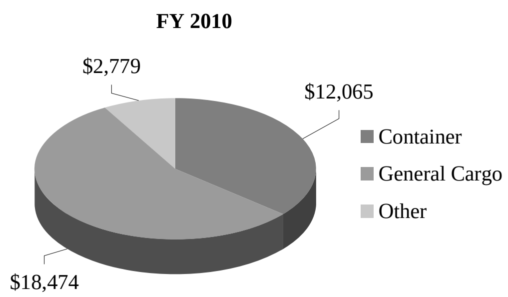
As reflected in the preceding table the Authority continued to operate in a loss position. This loss is a direct result of further reductions in general cargo volumes and corresponding operating revenues partially offset by significant improvements in business volumes and associated revenues from container operations. The loss of operating revenues (approximately 4%) was offset by reductions in operating expenses thereby holding the current year's loss to the same level as experienced in 2009. The reduction in operating expenses (approximately 3%) was driven by reductions in variable operating expenses and specific cost containment initiatives. The following table and graph shows the major sources of both operating and other revenues in detail as well as revenues by major operating activity and facility.

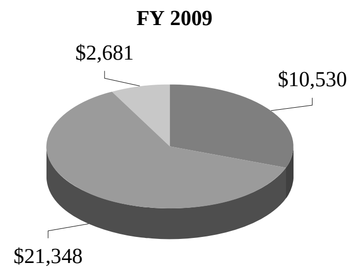
Operating and Other Revenues, by Major Source

(in thousands)	June 30, 2010	June 30, 2009	Change	% Change
Operating Revenues				
Sales and Services, Net	$ 28,862	$ 30,067	$ (1,205)	-4.0%
Rental and Lease Earnings	4,456	4,492	(36)	-0.8%
Total Operating Revenues	33,318	34,559	(1,241)	-3.6%
Nonoperating Revenues				
Investment Earnings	177	367	(190)	-51.8%
Other Nonoperating Revenues:				
State Capital Aid	192	6,735	(6,543)	-97.1%
Capital Grants	233	700	(467)	-66.7%
Other Nonoperating Revenue		6	(6)	-100.0%
Total Other Revenues	425	7,441	(7,016)	-94.3%
Total Revenues	$ 33,920	$ 42,367	$ (8,447)	-19.9%

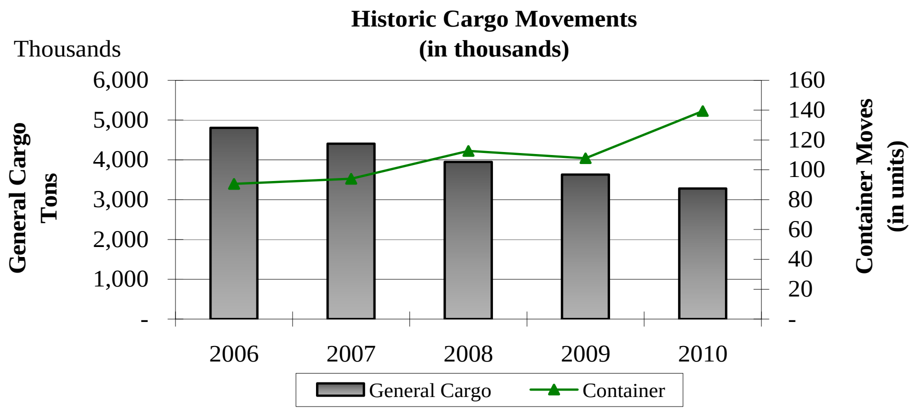
Operating Revenues by Activity and Facility

(in thousands)	June 30, 2010	June 30, 2009	Change	% Change
Port of Morehead City	$ 9,537	$ 8,454	$ 1,083	12.8%
Port of Wilmington	22,863	25,137	(2,274)	-9.0%
Other Facilities	918	968	(50)	-5.2%
Total Operating Revenues	$ 33,318	$ 34,559	$ (1,241)	-3.6%





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 continue over the near term while the United States and other world economies recover. Decreases in both lease revenues as well as investment income are also considered to be a result of general economic conditions. The following graph and table depict these changes and general trends utilizing nonfinancial data and measurements.



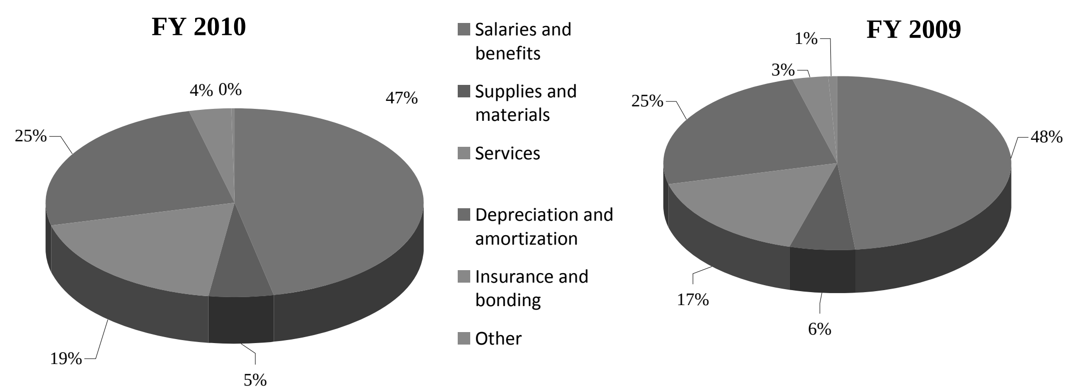
Summarized Cargo Movement (In Units)

	June 30, 2010	June 30, 2009	Change	% Change
Container Movement	139,326	107,775	31,551	29.3%
General Cargo Movement (Short Tons)	3,280,805	3,629,292	(348,487)	-9.6%
Vessel Calls	1,029	895	134	15.0%
Rail Car Activity	7,321	6,805	516	7.6%

As indicated previously, in light of continued declines in general cargo business volumes the Authority continued to enforce cost containment measures. These coupled with reductions in variable expense attributable to volume reductions produced a positive variance as compared to the prior year's operating results. In general all major expense categories reflect this reduction with the exceptions of services and insurance. Services increases relate to the Authority's need to address deferred maintenance as well as professional services associated with port facility expansion. Increase in insurance relates to general premium increases for property and casualty coverages. The following table and graphs analyzes operating expense by major category as well as providing a relative mix year over year.

Operating Expense by Major Category

(in thousands)	June 30, 2010	June 30, 2009	Change	% Change
Salaries and Benefits	$ 16,523	$ 17,666	$ (1,143)	-6.5%
Supplies and Materials	1,932	2,275	(343)	-15.1%
Services	6,716	6,093	623	10.2%
Depreciation and Amortization	8,852	9,079	(227)	-2.5%
Insurance and Bonding	1,282	1,215	67	5.5%
Other	99	318	(219)	-68.9%
Total Operating Revenues	$ 35,404	$ 36,646	$ (1,242)	-3.4%



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 as 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.

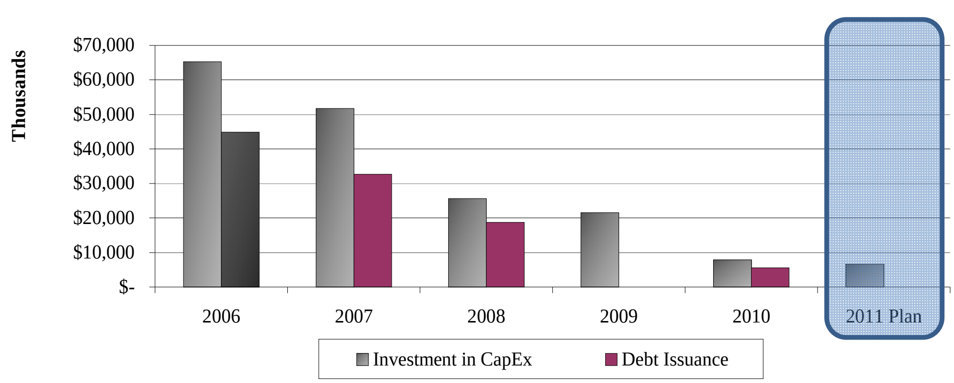
Given the anticipated global economic recovery over the next several years, the Authority's market share, market position and long-term growth expectations are considered sustainable as that they are driven in a large part, both directly in the case of container volumes as well as indirectly for general 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 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

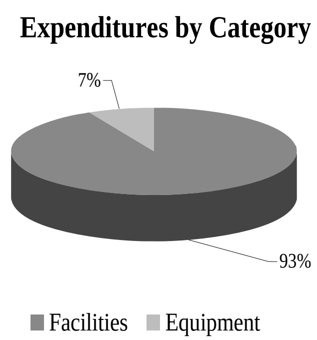
The origins of the Authority's current capital expansion program can be traced back to late fiscal 1995 and early 1996, at which point, the Authority undertook a significant and comprehensive strategic planning effort which among other outputs produced a long-term market plan and corresponding capital 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 $157 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.

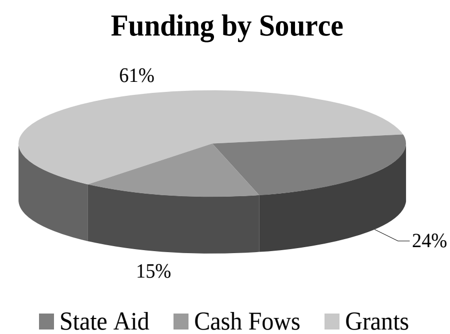
Since late 2005 the Authority has assertively worked to rehabilitate or otherwise expand its facilities, investing approximately $178 million in equipment and infrastructure. Highlights of these expenditures include the acquisition of new container cranes, construction of a new warehouse facility and the purchase of land for development of a new container facility. The following graph summarizes recent capital investment and related debt issuance.

Investment in Capital Assets and Related Debt



Capital investment for the upcoming fiscal year is projected to continue but function more in line with that of the preceding year coming in at approximately $6.7 million. This reduction as with the prior year is reflective of the general economy and the effect it has on available funding sources and should not be taken as an indication that the Authority's view of its long-term market opportunities have altered except as to timing. Funding for these expenditures will be accomplished, as in recent years, by a combination of State capital aid, Federal grants, and internal cash flows. Debt issuance is not contemplated for FY 2011. Funding for outlying years, 2012 to 2020 are anticipated to come from the same or similar sources as with planned 2011 expenditures including the resumption of debt issuance in the FY 2012 to 2013 time frame. Further details on the capital improvement program can be found in the Authority's 2011 Capital Budget document. For a copy of this document call the finance office at 910-434-6200. The following graphs provide a breakdown of planned FY 2011 expenditure by category as well as anticipated funding by sources.

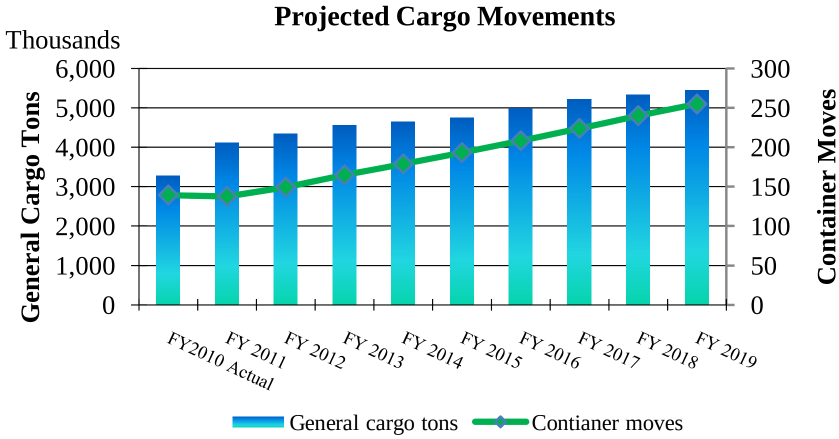




Economic Outlook

With the recent global economic downturn international trade has seen some of the deepest reductions ever posted. This, as indicated previously, has had notable effect on the Authority's general cargo volumes. However with global recovery, though tenuous, underway trade volume growth is widely anticipated to return to traditional levels over the next several years. As an early indicator of this recovery, first quarter 2011 cargo volumes handled through the Ports of Morehead City and Wilmington have improved considerably over the corresponding levels from 2009.

Specific market forecasts developed by the Authority's external feasibility consultants, outline this recovery through moderate growth for both of the Authority's existing deep-water facilities on the near-term and resumption of more traditional growth on the long-term. The following graph summarizes these projections 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 in the South Atlantic port peers group of 21% over the next 10 years. Further, based on current as well as anticipated financial performance, the Authority will have adequate cash flows from operations to meet all current obligations as well as debt service requirements. Projected Debt service coverage ratios for all debt guaranteed or collateralized by the Authority's revenue streams, run from a low of $1.48 to $1 to a high of $3.10 to $1 indicating that for every $1 of debt service (annual principle and interest payments) the Authority will have between $1.48 and $3.10 of available funds to pay to these obligations.

These levels should be sufficient to maintain the Authority's underlying credit ratings on the 2010 series ports revenue bonds. Those rating are A3 by Moody's and BBB+ by Fitch.

Contacting the Authority's Financial Management

If you have questions about these financial statements or need additional financial information, contact the Authority's Chief Financial Officer, 2202 Burnett Blvd, Wilmington, NC 28412.

North Carolina State Ports Authority
Statement of Net Assets
June 30, 2010 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,755,929.64
Restricted Cash and Cash Equivalents		650,279.14
Short-Term Investments		3,236,629.86
Receivables, Net (Note 4)		4,921,962.45
Inventories		734,744.35
Prepaid Items		1,116,647.27
Total Current Assets		14,416,192.71
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,482,259.68
Investments		6,283,487.04
Deferred Outflow of Resources		293,372.80
Deferred Charges		912,031.80
Capital Assets - Nondepreciable (Note 5)		72,780,476.73
Capital Assets - Depreciable, Net (Note 5)		233,114,540.19
Total Noncurrent Assets		316,866,168.24
Total Assets		331,282,360.95
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		2,591,053.24
Due to Primary Government		21,238.07
Unearned Revenue		142,408.80
Interest Payable		663,928.21
Long-Term Liabilities - Current Portion (Note 8)		2,180,646.07
Total Current Liabilities		5,599,274.39
Noncurrent Liabilities:		
Hedging Derivative Liability (Note 3)		293,372.80
Long-Term Liabilities (Note 8)		103,666,447.34
Total Noncurrent Liabilities		103,959,820.14
Total Liabilities		109,559,094.53
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		201,137,456.63
Restricted for:		
Expendable:		
Capital Projects		489,616.54
Debt Service		2,992,643.14
Other		650,279.14
Unrestricted		16,453,270.97
Total Net Assets	$	221,723,266.42

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, 2010 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Sales and Services, (Net of $376,686 change in allowance for doubtful accounts)	$	28,861,748.30
Rental and Lease Earnings		4,455,943.98
Total Operating Revenues		33,317,692.28
EXPENSES		
Operating Expenses:		
Salaries and Benefits		16,523,318.67
Supplies and Materials		1,932,011.00
Services		6,715,371.93
Depreciation/ Amortization		8,851,845.70
Insurance and Bonding		1,282,027.03
Other		99,354.04
Total Operating Expenses		35,403,928.37
Operating Loss		(2,086,236.09)
NONOPERATING REVENUES (EXPENSES)		
Investment Income (Net of Investment Expense of $12,006)		177,409.22
Interest and Fees on Debt		(3,054,637.51)
Casualty Losses		(2,047.25)
Other Nonoperating Expenses		(96,609.66)
Net Nonoperating Expenses		(2,975,885.20)
Loss Before Other Revenues, Expenses, Gains, or Losses		(5,062,121.29)
State Capital Aid		191,647.31
Capital Grants		233,503.85
Capital Asset Impairment Loss		(1,092,679.87)
Decrease in Net Assets		(5,729,650.00)
NET ASSETS		
Net Assets - July 1, 2009		227,452,916.42
Net Assets - June 30, 2010	$	221,723,266.42

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 Fiscal Year Ended June 30, 2010 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	35,058,850.38
Payments to Employees and Fringe Benefits		(16,518,838.59)
Payments to Vendors and Suppliers		(11,593,424.94)
Net Cash Provided by Operating Activities		6,946,586.85
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
State Capital Aid		191,647.31
Capital Grants		233,503.85
Proceeds from Capital Debt		53,049,903.72
Proceeds from Sale of Capital Assets		38,310.51
Acquisition and Construction of Capital Assets		(7,885,187.28)
Principal Paid on Capital Debt and Leases		(45,274,158.32)
Interest and Fees Paid on Capital Debt and Leases		(2,385,251.70)
Net Cash Used by Capital Financing and Related Financing Activities		(2,031,231.91)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		1,347,681.52
Investment Earnings		183,952.74
Purchase of Investments and Related Fees		(443,849.37)
Net Cash Provided by Investing Activities		1,087,784.89
Net Increase in Cash and Cash Equivalents		6,003,139.83
Cash and Cash Equivalents - July 1, 2009		1,885,328.63
Cash and Cash Equivalents - June 30, 2010	$	7,888,468.46
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$	(2,086,236.09)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation\Amortization Expense		8,851,845.70
Casualty Loss		(2,047.25)
Changes in Assets and Liabilities:		
Receivables (Net)		1,641,006.64
Inventories		(7,565.47)
Prepaid Items		(920,293.60)
Accounts Payable and Accrued Liabilities		(455,880.18)
Due to Primary Government		9,933.88
Deferred Charges		100,151.46
Compensated Absences		(184,328.24)
Net Cash Provided by Operating Activities	$	6,946,586.85

RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	3,755,929.64
Restricted Cash and Cash Equivalents		650,279.14
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,482,259.68
Total Cash and Cash Equivalent Balances - June 30, 2010	$	7,888,468.46
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Loss on Disposal of Capital Assets	$	(96,609.66)
Change in Fair Value of Investments		85,775.77

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (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 have been recorded for interest income and for amounts due from employees for salary advances. 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, bond issuance and underwriters fees, 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 of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. The Authority capitalizes intangible assets and internally generated software under these same provisions.

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, 3 to 40 years for equipment, and 3 to 5 years for computer software.

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.

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

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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $491,366.51 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 1.6 years as of June 30, 2010. 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.osc.nc.gov/ 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, 2010 was $1,260.00. The carrying amount of the Authority's deposits not with the State Treasurer was $7,395,841.95 and the bank balance was $7,446,615.08. 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, 2010, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 6,446,614.90

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. These bond proceeds and debt service funds are subject to the same investment risks noted below.

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, 2010.

		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	$ 7,078,016.63	$ 794,529.59	$ 1,712,698.18	$ 111,183.94	$ 4,459,604.92
Money Market Funds	2,442,100.27	2,442,100.27			
		$ 3,236,629.86	$ 1,712,698.18	$ 111,183.94	$ 4,459,604.92
Total Investments	$ 9,520,116.90				

At June 30, 2010, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
U.S. Agencies	$ 7,078,016.63	$ 7,078,016.63
Money Market Funds	2,442,100.27	2,442,100.27

Rating Agency: Moody's/Standard & Poors

At June 30, 2010, 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	$ 7,078,016.63

NOTE 3 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2010 are as follows:

		Change in Fair Value		Fair Value at June 30, 2010	
Type	Notional Amount	Classification	Increase (Decrease)	Classification	Asset (Liability)
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed Interest Rate Swap - Crane 11 Acquistion	$ 1,755,000	Deferred Inflow of Resources	$ (27,568.15)	Hedging Derivative Liability	$ (134,558.96)
Pay-Fixed Interest Rate Swap - Toplift Acquisition	2,086,425	Deferred Inflow of Resources	1,392.26	Hedging Derivative Liability	(158,813.84)
			$ (26,175.89)		$ (293,372.80)

Hedging derivative instruments held at June 30, 2010 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge changes in cash flows	$ 1,755,000	02/07/05	02/07/20	Pay 4.35%, Receive 55% of USD Prime
Pay-Fixed Interest Rate Swap	Hedge changes in cash flows	2,086,425	11/17/05	12/16/15	Pay 3.76%, Receive 72% of USD 30 day LIBOR

The fair value of the pay-fixed interest rate swaps were estimated by the Authority's financial advisors through a calculation of Mark-To-Market (MTM) estimates utilizing the construction of mid-market forward curves that once constructed generate a nominal amount for each of a transaction's expected future payments. Those payments are then discounted at the respective zero rate, with the sum of all discounted payments equaling the MTM estimate.

Risks

Interest Rate Risk: The Authority is exposed to interest rate risk on its pay-fixed interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Additionally, as the underlying variable rate index decreases, the Authority's net payment on the swap agreement increases.

Termination Risk: The Authority is exposed to termination risk as it or the counterparty may terminate the swap if the other fails to perform under the terms of the contract. If terminated, the underlying variable-rate debt's interest rate risk would no longer be effectively hedged. In addition, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the counterparty's fair value in the swap.

Rollover Risk: The Authority is exposed to rollover risk as the maturity dates for the hedged variable-rate crane 11 debt and the interest rate swap agreement are not the same with the underlying debt maturing on February 1, 2015 and the swap agreement maturing on February 7, 2020. Provisions have been made to review and renew the credit extension of the underlying debt through the maturity date of the swap agreement. However, this review will not occur until the current maturity date is reached and will be subject to a credit assessment at that point in time.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Accounts	$ 4,114,769.49	$ 64,070.07	$ 4,050,699.42
Investment Earnings	26,680.90		26,680.90
Due from Others for Property Damage/Incidents	332,882.28		332,882.28
Due from Employees	419,248.04	16,769.93	402,478.11
Other	109,221.74		109,221.74
Total Current Receivables	$ 5,002,802.45	$ 80,840.00	$ 4,921,962.45

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 58,692,269.87	$ 21,922.06	$ 0.00	$ 58,714,191.93
Construction in Progress	27,566,378.84	5,801,939.68	19,304,820.16	14,063,498.36
Computer Software in Development	228,335.01	404,588.92	630,137.49	2,786.44
Total Capital Assets, Nondepreciable	86,486,983.72	6,228,450.66	19,934,957.65	72,780,476.73
Capital Assets, Depreciable:				
Buildings	90,138,190.34	173,043.90	65,616.30	90,245,617.94
Machinery and Equipment	75,114,578.80	66,133.37	5,329,821.35	69,850,890.82
General Infrastructure	169,653,258.21	19,226,869.26	2,943,011.65	185,937,115.82
Computer Software	2,388,583.49	630,137.49	217,055.23	2,801,665.75
Total Capital Assets, Depreciable	337,294,610.84	20,096,184.02	8,555,504.53	348,835,290.33
Less Accumulated Depreciation/Amortization for:				
Buildings	22,200,947.99	1,656,635.49	65,616.30	23,791,967.18
Machinery and Equipment	37,099,453.84	2,687,943.84	4,885,905.06	34,901,492.62
General Infrastructure	54,619,234.23	3,178,460.15	2,652,546.42	55,145,147.96
Computer Software	1,479,176.47	611,488.45	208,522.54	1,882,142.38
Total Accumulated Depreciation	115,398,812.53	8,134,527.93	7,812,590.32	115,720,750.14
Total Capital Assets, Depreciable, Net	221,895,798.31	11,961,656.09	742,914.21	233,114,540.19
Capital Assets, Net	$ 308,382,782.03	$ 18,190,106.75	$ 20,677,871.86	$ 305,895,016.92

The Statement of Revenues, Expenses and Changes in Net Assets contains a nonoperating expense related to capital asset impairment losses of $1,092,679.87. Of this impairment, $604,144.99 was caused by the demolition or obsolescence of general infrastructure assets before the end of their estimated useful lives. This occurred when the new construction of Berth 8 was completed. In addition, $488,534.88 of the impairment was due to the write off in construction in progress of an obsolete Terminal Transportation and Demolition study that was abandoned.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Current Liabilities:	
Accounts Payable	$ 1,783,146.32
Accrued Payroll	807,906.92
Total Current Liabilities	$ 2,591,053.24

NOTE 7 - 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, 2010, was as follows:

	Balance July 1, 2009	Draws	Repayments	Balance June 30, 2010
Line of Credit	$ 0.00	$ 2,545,000.00	$ 2,545,000.00	$ 0.00

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	$ 24,630,000.00	$ 43,935,000.00	$ 305,000.00	$ 68,260,000.00	$ 975,000.00
Add Premium		239,538.55	2,668.96	236,869.59	
Total Revenue Bonds Payable	24,630,000.00	44,174,538.55	307,668.96	68,496,869.59	975,000.00
Notes Payable	8,400,775.00		4,559,350.00	3,841,425.00	559,350.00
Revolving Lines of Credit	32,734,634.83	8,875,365.17	40,000,000.00	1,610,000.00	
Capital Leases Payable	31,323,288.25		514,022.55	30,809,265.70	539,412.88
Compensated Absences	1,166,978.17	895,122.23	972,567.28	1,089,533.12	106,883.19
Total Long-Term Liabilities	$ 98,255,676.25	$ 53,945,025.95	$ 46,353,608.79	$ 105,847,093.41	$ 2,180,646.07

Additional information regarding capital lease obligations is included in Note 9.

B. Revenue Bonds Payable - The Authority was indebted for revenue 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, 2010	Principal Outstanding June 30, 2010
Construct Bulk Grain Facility	2001	.25%-15%	09/2022	$ 11,000,000.00	$ 7,165,000.00	$ 3,835,000.00
Port Facilities Revenue Bond, Jr. Lien	2008	.25%-15%	06/2036	20,500,000.00	10,000.00	20,490,000.00
Port Facilities Revenue Bond, Sr. Lien	2010-A	5.25%	02/2040	23,690,000.00		23,690,000.00
Port Facilities Revenue Bond, Sr. Lien	2010-B	3.0%-5.0%	02/2029	20,245,000.00		20,245,000.00
Total Revenue Bonds Payable (principal only)				$ 75,435,000.00	$ 7,175,000.00	
Plus Unamortized Premium						236,869.59
Total Revenue Bonds Payable						$ 68,496,869.59

The Authority issued revenue bonds on March 10, 2010 in the amount of $43.9 million to refinance short term debt and partially fund construction of Berth 8 at the Port of Wilmington. The bonds were sold at a premium in the amount of $239,539 to be amortized over the life of the 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, 2010	Principal Outstanding June 30, 2010
Crane 11 Acquisition	SunTrust	4.35%	02/01/2020	$ 2,700,000.00	$ 945,000.00	$ 1,755,000.00
Container Handlers	BB&T	3.76%	12/01/2015	3,793,500.00	1,707,075.00	2,086,425.00
Boykin Property	SunTrust	53% prime (1)	N/A	4,000,000.00	4,000,000.00	
Total Notes Payable				$ 10,493,500.00	$ 6,652,075.00	$ 3,841,425.00

(1) Interest rate is 53% of Bank's Prime floating rate or 78% of the 1-month LIBOR 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, 2009	Transfers	Additions	Deletions	Ending Balance June 30, 2010
Credit Facility A	$ 3,268,649.04	$ (2,321,148.63)	$ 662,499.59	$ 0.00	$ 1,610,000.00
Credit Facility C	26,245,757.83	5,541,376.59	8,212,865.58	40,000,000.00	
Credit Facility D	3,220,227.96	(3,220,227.96)			
	$ 32,734,634.83	$ 0.00	$ 8,875,365.17	$ 40,000,000.00	$ 1,610,000.00

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, 2010, 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, 2010.

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, 2010 was 2.75%.

E. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2010, are as follows:

	Annual Requirements					
	Revenue Bonds Payable		Notes Payable		Revolving Lines of Credit	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 975,000.00	$ 2,657,799.50	$ 559,350.00	$ 150,551.00	$ 0.00	$ 42,492.80
2012	1,080,000.00	2,636,201.00	559,350.00	128,457.00	1,610,000.00	42,492.80
2013	1,100,000.00	2,600,679.50	559,350.00	106,364.00		
2014	1,655,000.00	2,561,078.00	559,350.00	84,270.00		
2015	1,710,000.00	2,509,047.00	559,350.00	62,177.00		
2016-2020	9,365,000.00	11,727,152.00	1,044,675.00	93,914.00		
2021-2025	10,675,000.00	9,926,644.00				
2026-2030	12,340,000.00	7,791,247.00				
2031-2035	15,595,000.00	5,094,676.00				
2036-2040	13,765,000.00	1,963,989.00				
Total Requirements	$ 68,260,000.00	$ 49,468,513.00	$ 3,841,425.00	$ 625,733.00	$ 1,610,000.00	$ 84,985.60

NOTE 9 - 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, 2010:

Fiscal Year	Amount
2011	$ 2,036,403.52
2012	2,036,403.52
2013	2,036,403.52
2014	2,036,403.52
2015	2,036,403.52
2016-2020	10,182,017.60
2021-2025	27,400,528.73
Total Minimum Lease Payments	47,764,563.93
Amount Representing Interest (4.88% Rate of Interest)	16,955,298.23
Present Value of Future Lease Payments	$ 30,809,265.70

Machinery and equipment acquired under capital lease amounted to $31,140,174.75 at June 30, 2010.

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, 2010:

Fiscal Year	Amount
2011	$ 46,190.28
2012	28,351.71
2013	9,427.84
Total Minimum Lease Payments	$ 83,969.83

Rental expense for all operating leases during the year was $53,232.20.

NOTE 10 - 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, 2010:

Fiscal Year	Amount
2011	$ 4,209,816.16
2012	3,882,581.81
2013	3,524,295.17
2014	3,258,526.62
2015	3,259,764.07
2016 and thereafter	3,061,524.81
Total Future Rental Revenues	$ 21,196,508.64

NOTE 11 - 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Authority had a total payroll of $12,948,300.40, of which $12,784,065.84 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $456,391.15 and $767,043.95, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were $456,391.15, $455,651.03, and $425,254.11, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "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 $94,502.80 for the year ended June 30, 2010.

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, 2010, were $42,844.57. The voluntary contributions by employees amounted to $122,297.02 for the year ended June 30, 2010.

NOTE 12 - 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.

For the current fiscal year the Authority contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $575,282.96, $556,002.74, and $571,653.07, 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.osc.nc.gov/ 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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $66,477.14, $70,517.42, and $72,502.34, 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 13 - 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, 2010, were $52,019.37. The voluntary contributions by employees amounted to $34,361.19 for the year ended June 30, 2010.

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 14 - 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 $4,194,025 at June 30, 2010.

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 15 - 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, 2010.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.

NOTE 17 - SUBSEQUENT EVENTS

In July 2010, the officials of the North Carolina State Ports Authority made the decision to place plans for the North Carolina International Terminal on hold indefinitely. As of June 30, 2010 there is over $10.2 million recorded as Construction in Progress related to the development of the Terminal.

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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, 2010, and have issued our report thereon dated November 9, 2010.

As discussed in Note 16 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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

November 9, 2010

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