STATE OF
NORTH CAROLINA

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011

BOARD OF DIRECTORS

CARL STEWART, JR., CHAIRMAN

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Directors, North Carolina State Ports Authority

We have completed a financial statement audit of the North Carolina State Ports Authority for the year ended June 30, 2011, 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, 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, 2011, 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, 2011, 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. 59, *Financial Instruments Omnibus,* during the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2011 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

September 26, 2011

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, 2011. 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 includes 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 and 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, 2011 to that of the prior year yields several significant changes.

Condensed Statement of Net Assets

(in thousands)	June 30, 2011	June 30, 2010	Change	% Change
Current Assets	$ 13,043	$ 14,416	$ (1,373)	-9.5%
Capital Assets	299,684	305,895	(6,211)	-2.0%
Other Noncurrent Assets	12,598	10,971	1,627	14.8%
Total Assets	325,325	331,282	(5,957)	-1.8%
Current Liabilities	6,519	5,599	920	16.4%
Noncurrent Liabilities	100,540	103,960	(3,420)	-3.3%
Total Liabilities	107,059	109,559	(2,500)	-2.3%
Net Assets	$ 218,266	$ 221,723	$ (3,457)	-1.6%

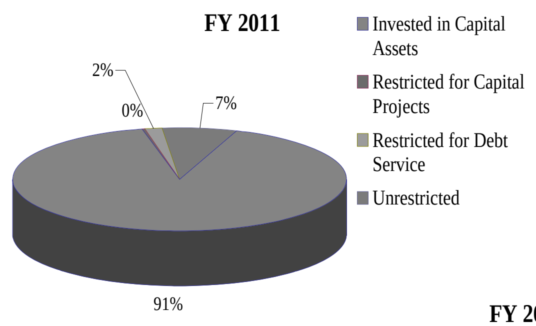
While from an overall perspective, total assets have decreased by 1.8%, or approximately $6 million year over year, activity effecting capital assets, long-term debt, and the investment portfolio, as well as continued improvements to operating levels have impacted the individual classifications of assets. The decline in current assets represents the largest relative classification change year over year and is driven by several largely unrelated factors. The decline in cash and cash equivalents relates principally to an increase in trade receivables which is in turn driven by increased business volumes and some modest increases in the Authority's time to collect. The decline in short-term investments is due to the composition of the investment portfolio, and more specifically maturity timings of individual investments. This decline is wholly offset by an increase in noncurrent investments with the consolidated portfolio actually increasing by $125,936. Changes in capital assets, representing the single largest dollar value change, are due to the routine annual depreciation of capital assets, partially offset by more modest additions from the Authority's capital improvement program. The reduction in long-term debt represents planned amortization of principal. 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.

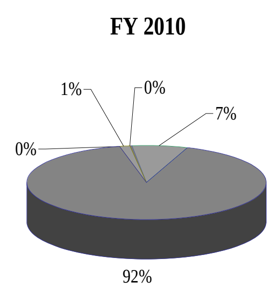
(in thousands)	June 30, 2011	June 30, 2010	Change	% Change
Current Assets:				
Cash and Cash Equilvalent	$ 2,392	$ 3,756	$ (1,364)	-36.32%
Short-Term Investments	1,801	3,237	(1,436)	-44.36%
Receivable, Net	5,929	4,922	1,007	20.46%
Capital Assets:				
Historical Cost	417,984	421,616	(3,632)	-0.86%
Accumulated Depreciation	(118,299)	(115,721)	(2,578)	2.23%
Noncurrent Assets:				
Investments	7,845	6,283	1,562	24.86%
Noncurrent Liabilities:				
Long-Term Debt	99,345	102,684	(3,339)	-3.25%

The Authority's net assets are divided into four major categories. The first, invested in capital assets net of related debt represents the Authority's equity position with regards to property, facilities, and equipment. The second category is restricted to expenditure for capital assets and related debt. The third category is restricted for debt service payments as required by bond indentures, for revolving debt payments used to finance equipment purchases, and other debt obligations. 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, 2011 and 2010, 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 scheduled debt reduction activities (*Restricted for Capital Projects*).

Net Assets



(in thousands)	2011
Invested in Capital Assets	$ 198,134
Restricted for Capital Projects	449
Restricted for Debt Service	4,062
Unrestricted	15,621
Net Assets	$ 218,266



	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

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, 2011 of $3,457,009, or approximately 1.6%. This decrease is principally a product of interest and fees paid on debt (nonoperating expenses), partially offset by a return to profitability at the operating level during the current year. The following table identifies variances between major financial categories for the fiscal years ending June 30, 2011 and 2010, respectfully.

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

(in thousands)	June 30, 2011	June 30, 2010	Change	% Change
Operating Revenues	$ 37,319	$ 33,318	$ 4,001	12.0%
Operating Expenses	37,059	35,404	1,655	4.7%
Operating Income (Loss)	260	(2,086)	2,346	112.5%
Nonoperating Revenues	71	177	(106)	-59.9%
Nonoperating Expenses	(4,211)	(4,246)	35	-0.8%
Other Revenues	423	425	(2)	-0.5%
Net Nonoperating Expenses	(3,717)	(3,644)	(73)	2.0%
Decrease in Net Assets	(3,457)	(5,730)	$ 2,273	-39.7%
Net Assets, Beginning of Period	221,723	227,453		
Net Assets, End of Period	$ 218,266	$ 221,723		

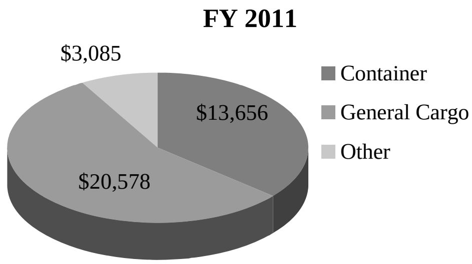
As reflected in the preceding table, the Authority has reversed its prior loss position at the operating level posting an operating income of $260,151. This reversal is a direct result of improved business volumes in both containerized as well as break-bulk activities. These increases are reflected in improved revenues across all facilities and operations and when consolidated represent a 12% increase in operating revenues year over year. 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.

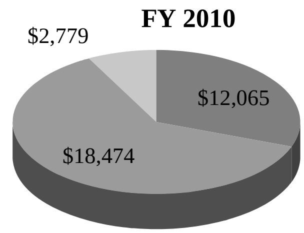
Operating and Other Revenues, by Major Source

(in thousands)	June 30, 2011	June 30, 2010	Change	% Change
Operating Revenues:				
Sales and Services, Net	$ 32,472	$ 28,862	$ 3,610	12.5%
Rental and Lease Earnings	4,847	4,456	391	8.8%
Total Operating Revenues	37,319	33,318	4,001	12.0%
Nonoperating Revenues:				
Investment Earnings	71	177	(106)	-59.9%
Other Nonoperating Revenues:				
State Capital Aid	4	192	(188)	-97.9%
Capital Grants	419	233	186	79.8%
Total Other Revenues	423	425	(2)	-0.5%
Total Revenues	$ 37,813	$ 33,920	$ 3,893	11.5%

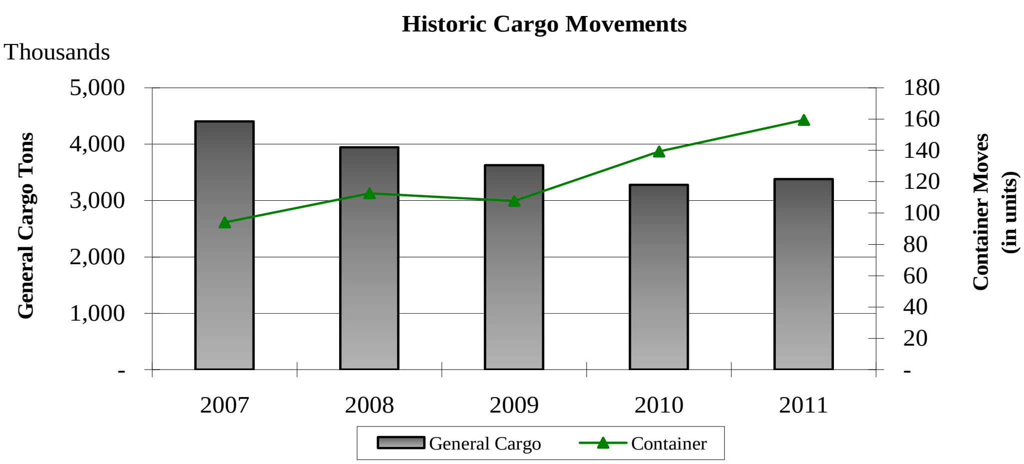
Operating Revenues by Activity and Facility

(in thousands)	June 30, 2011	June 30, 2010	Change	% Change
Port of Morehead City	$ 10,388	$ 9,537	$ 851	8.9%
Port of Wilmington	25,705	22,863	2,842	12.4%
Other Facilities	1,226	918	308	33.6%
Total Operating Revenues	$ 37,319	$ 33,318	$ 4,001	12.0%





Current reduced operating levels as compared to recent history 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 US and other world economies recover. Consistent with this thought, the Authority, as previously indicated, is experiencing a general recovery trend which is expected to continue into the following fiscal cycle. The following graph and table depict these current changes and general trends utilizing nonfinancial data and measurements.



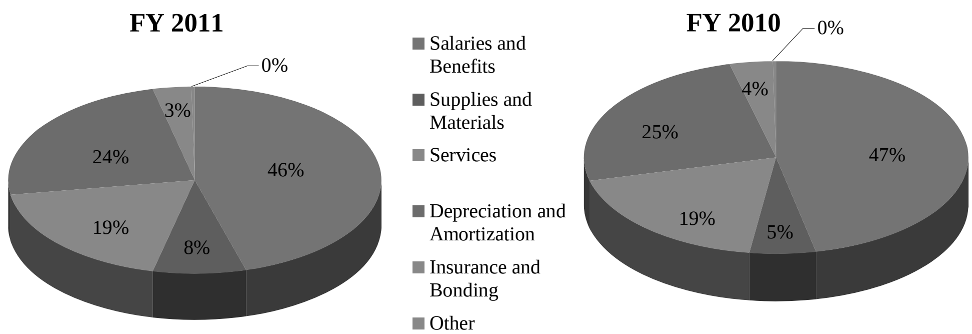
Summarized Cargo Movement (In Units)

	June 30, 2011	June 30, 2010	Change	% Change
Container Movement	159,439	139,326	20,113	14.4%
General Cargo Movement (Short Tons)	3,380,497	3,280,805	99,692	3.0%
Vessel Calls	1,125	1,029	96	9.3%
Rail Car Activity	7,770	7,321	449	6.1%

Given the very preliminary nature of recoveries in general cargo business volumes and the tentative nature of the global recovery, the Authority has continued to enforce cost containment measures where possible. These efforts have served to offset to a certain degree increases in variable costs associated with increased business volumes. The following table and graphs analyze operating expense by major category as well as providing a relative mix year over year.

Operating Expense by Major Category

(in thousands)	June 30, 2011	June 30, 2010	Change	% Change
Salaries and Benefits	$ 16,930	$ 16,523	$ 407	2.5%
Supplies and Materials	2,958	1,932	1,026	53.1%
Services	6,967	6,716	251	3.7%
Depreciation and Amortization	8,848	8,852	(4)	0.0%
Insurance and Bonding	1,204	1,282	(78)	-6.1%
Other	152	99	53	53.5%
Total Operating Expenses	$ 37,059	$ 35,404	$ 1,655	4.7%

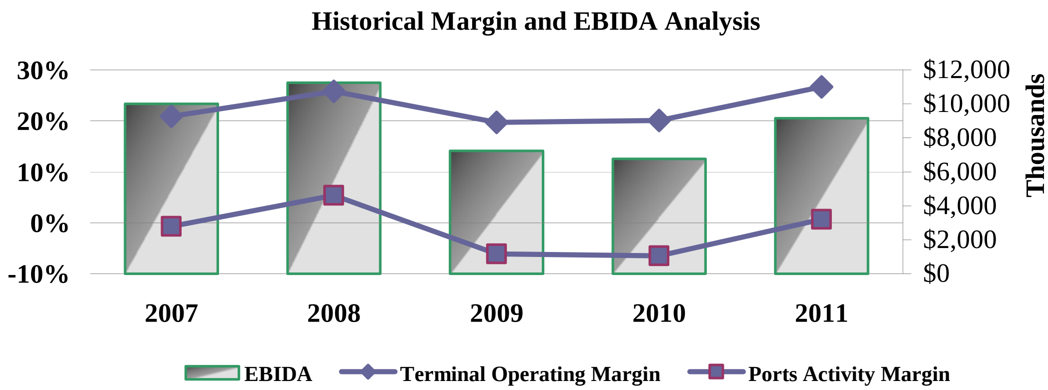


The increase in supplies and materials shown above was due primarily to the reclassification of fuel and oil expense from the services caption, combined with an increase in the cost of parts and maintenance materials. The increase in interest and fees on debt was due to the initiation of interest payments on the series 2010 revenue bonds.

Nonoperating and Other Expenses

(in thousands)	June 30, 2011	June 30, 2010	Change	% Change
Nonoperating Expenses:				
Interest and Fees on Debt	$ 4,133	$ 3,055	$ 1,078	35.3%
Casualty Losses	74	2	72	3600.0%
Other Nonoperating Expenses	3	97	(94)	-96.9%
Total Nonoperating Expenses	4,207	3,154	1,150	36.5%
Other Expenses:				
Capital Asset Impairment Loss		1,093	(1,093)	-100.0%
Total Other Expenses		1,093	(1,093)	-100.0%
Total Nonoperating and Other Expenses	$ 4,207	$ 4,247	$ (40)	-0.9%

The ultimate effect of increasing volumes, stable pricing, and continued spending restraint is an improvement in the Authority's marginal profitability and cash flow generation as derived from its operations. The following graph depicts this improvement by analyzing operating margins and earnings before interest, depreciation, and amortization (EBIDA). This trend is anticipated to continue through the following fiscal cycle.

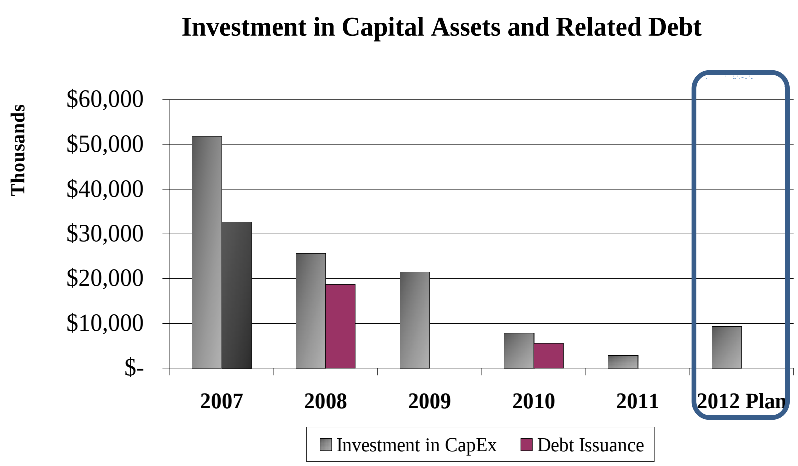


Given the anticipated global economic recovery over the next several years, the Authority's market share, market position, and long-term growth expectations are considered sustainable as that they are driven in a large part, both directly in the case of container volumes as well as indirectly for general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

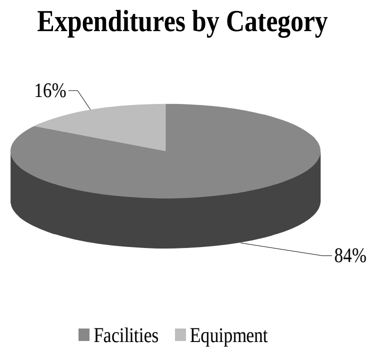
Capital Assets and Long-Term Debt

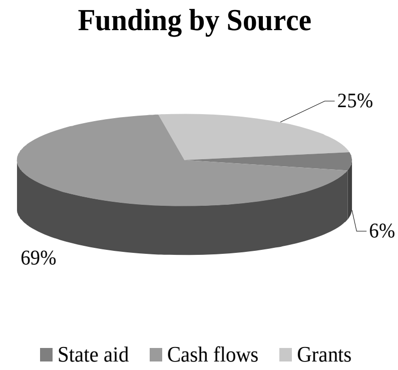
The origins of the Authority's current capital expansion program can be traced back to late fiscal 1995 and early 1996, at which point, the Authority undertook a significant and comprehensive strategic planning effort which, among other outputs, produced a long-term market plan and corresponding capital 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 $135 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 $180 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.



Capital investment for the upcoming fiscal year is anticipated to continue and remain consistent with recent fiscal cycles, and is projected at just over $9 million. This plan is reflective of the general uncertainly that continues to persist in the US economy and the effect it has on available funding sources. This should not be taken as an indication of the Authority's view of its long-term market opportunities except as to the timing of anticipated demand. 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 once again is not contemplated for FY 2012. Funding for outlying years 2013 to 2021 are anticipated to come from the same or similar sources as with planned 2012 expenditures including the resumption of debt issuance as the US economy stabilizes. Further details on the capital improvement program can be found in the Authority's 2012 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 2012 expenditures by category as well as anticipated funding by sources.

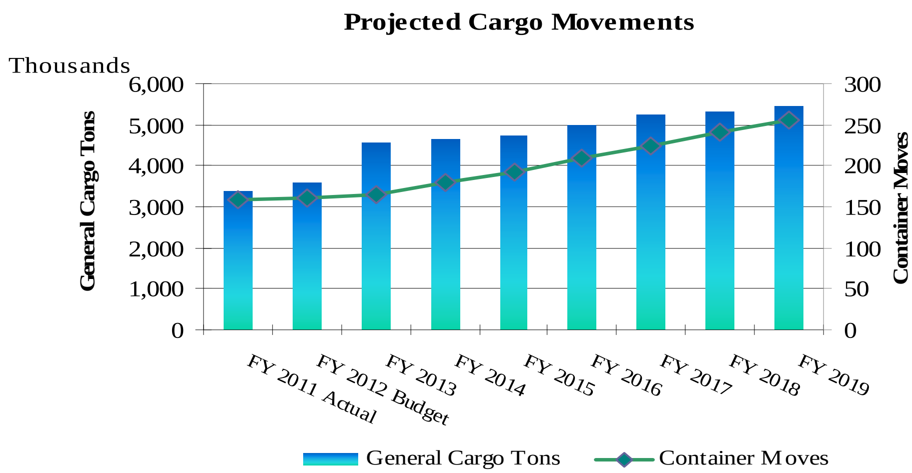




Economic Outlook

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 the global recovery, though tentative, clearly underway, trade volume growth is widely anticipated to return to traditional levels over the coming years. The Authority has experienced this recovery over the past several years through continuous expansion of container market share, early recoveries of bulk volumes in 2010, a resurgence of break-bulk volumes in 2011, and projected growth for the upcoming fiscal cycle 2012.

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 position of 1% 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 $1.74 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 $1.74 and $3.10 of available funds to pay 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, 2011 *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,391,587.50
Restricted Cash and Cash Equivalents		1,099,511.26
Short-Term Investments		1,800,742.04
Receivables, Net (Note 4)		5,929,087.20
Inventories		605,587.52
Prepaid Items		1,216,384.83
Total Current Assets		13,042,900.35
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,411,522.77
Investments		7,845,311.01
Deferred Outflow of Resources (Note 3)		228,764.72
Deferred Charges		1,112,381.49
Capital Assets - Nondepreciable (Note 5)		74,275,660.66
Capital Assets - Depreciable, Net (Note 5)		225,408,976.76
Total Noncurrent Assets		312,282,617.41
Total Assets		325,325,517.76
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		2,796,217.01
Due to Primary Government		12,330.20
Unearned Revenue		126,602.27
Interest Payable		879,867.62
Short-Term Debt (Note 7)		400,000.00
Long-Term Liabilities - Current Portion (Note 8)		2,304,210.44
Total Current Liabilities		6,519,227.54
Noncurrent Liabilities:		
Hedging Derivative Liability (Note 3)		228,764.72
Long-Term Liabilities (Note 8)		100,311,268.37
Total Noncurrent Liabilities		100,540,033.09
Total Liabilities		107,059,260.63
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		198,133,846.89
Restricted for:		
Expendable:		
Capital Projects		449,328.26
Debt Service		4,061,705.77
Unrestricted		15,621,376.21
Total Net Assets	$	218,266,257.13

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, 2011

Exhibit A-2

REVENUES		
Operating Revenues:		
Sales and Services, (Net of $48,549 Change in Allowance for Doubtful Accounts)	$	32,471,935.75
Rental and Lease Earnings		4,846,974.53
Total Operating Revenues		37,318,910.28
EXPENSES		
Operating Expenses:		
Salaries and Benefits		16,929,902.97
Supplies and Materials		2,958,026.69
Services		6,967,326.27
Depreciation/Amortization		8,847,646.05
Insurance and Bonding		1,203,973.01
Other		151,884.40
Total Operating Expenses		37,058,759.39
Operating Income		260,150.89
NONOPERATING REVENUES (EXPENSES)		
Investment Income (Net of Investment Expense of $36,420)		70,891.42
Interest and Fees on Debt		(4,133,309.73)
Casualty Losses		(74,427.35)
Other Nonoperating Expenses		(3,219.26)
Net Nonoperating Expenses		(4,140,064.92)
Loss Before Other Revenues		(3,879,914.03)
Capital Appropriations		4,200.00
Capital Grants		418,704.74
Decrease in Net Assets		(3,457,009.29)
NET ASSETS		
Net Assets - July 1, 2010		221,723,266.42
Net Assets - June 30, 2011	$	218,266,257.13

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, 2011

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 36,306,260.12
Payments to Employees and Fringe Benefits	(17,056,923.24)
Payments to Vendors and Suppliers	(11,027,787.12)
Net Cash Provided by Operating Activities	8,221,549.76
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Short-Term Debt	3,910,000.00
Principal Paid on Short-Term Debt	(3,510,000.00)
Net Cash Provided by Noncapital Financing Activities	400,000.00
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
State Capital Aid	4,200.00
Capital Grants	418,704.74
Proceeds from Capital Debt	500,000.00
Acquisition and Construction of Capital Assets	(2,849,110.42)
Principal Paid on Capital Debt and Leases	(3,706,769.76)
Interest and Fees Paid on Capital Debt and Leases	(3,909,095.40)
Net Cash Used by Capital Financing and Related Financing Activities	(9,542,070.84)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Earnings	141,927.48
Purchase of Investments and Related Fees	(207,253.33)
Net Cash Used by Investing Activities	(65,325.85)
Net Decrease in Cash and Cash Equivalents	(985,846.93)
Cash and Cash Equivalents - July 1, 2010	7,888,468.46
Cash and Cash Equivalents - June 30, 2011	$ 6,902,621.53

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	$	260,150.89
Adjustments to Reconcile Operating Gain to Net Cash Provided by Operating Activities:		
Depreciation/Amortization Expense		8,847,646.05
Casualty Loss		(74,427.35)
Changes in Assets and Liabilities:		
Receivables (Net)		(996,843.63)
Inventories		129,156.83
Prepaid Items		(99,737.56)
Accounts Payable and Accrued Liabilities		205,163.77
Due to Primary Government		(8,907.87)
Deferred Revenue		(15,806.53)
Compensated Absences		(24,844.84)
Net Cash Provided by Operating Activities	$	8,221,549.76

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	2,391,587.50
Restricted Cash and Cash Equivalents		1,099,511.26
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,411,522.77
Total Cash and Cash Equivalent Balances - June 30, 2011	$	6,902,621.53

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	$	(3,507.26)
Change in Fair Value of Investments		(81,317.18)

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 and appropriations. 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 appropriations that represent subsidies or gifts to the Authority, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $455,252.87 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 1.9 years as of June 30, 2011. 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, 2011 was $1,260.00. The carrying amount of the Authority's deposits not with the State Treasurer was $6,446,108.66 and the bank balance was $6,940,193.96. 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, 2011, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 5,940,193.78

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, 2011.

		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	$ 8,006,740.63	$ 314,215.12	$ 2,746,088.05	$ 458,833.90	$ 4,487,603.56
Money Market Funds	346,013.92	346,013.92			
Domestic Corporate Bonds	1,293,298.50	1,140,513.00	152,785.50		
Total Investments	$ 9,646,053.05	$ 1,800,742.04	$ 2,898,873.55	$ 458,833.90	$ 4,487,603.56

At June 30, 2011, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
U.S. Agencies	$ 8,006,740.63	$ 8,006,740.63
Money Market Funds	346,013.92	346,013.92
Domestic Corporate Bonds	1,293,298.50	1,293,298.50

Rating Agency: Moody's/Standard & Poors

At June 30, 2011, 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	$ 8,006,740.63
Domestic Corporate Bonds	1,293,298.50
Total	$ 9,300,039.13

NOTE 3 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2011 are as follows:

Type	Notional Amount	Change in Fair Value: Classification	Change in Fair Value: Increase (Decrease)	Fair Value at June 30, 2011: Classification	Fair Value at June 30, 2011: Asset (Liability)
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed Interest Rate Swap - Crane 11 Acquistion	$ 1,560,000	Deferred Inflow of Resources	$ (24,006.27)	Hedging Derivative Liability	$ (110,552.69)
Pay-Fixed Interest Rate Swap - Toplift Acquisition	1,707,075	Deferred Inflow of Resources	(40,601.81)	Hedging Derivative Liability	(118,212.03)
			$ (64,608.08)		$ (228,764.72)

Hedging derivative instruments held at June 30, 2011 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Fows	$ 1,560,000	02/07/05	02/07/20	Pay 4.35%, Receive 55% of USD Prime
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows	1,707,075	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, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Accounts	$ 5,323,888.30	$ 112,619.08	$ 5,211,269.22
Investment Earnings	36,962.02		36,962.02
Due from Others for Property Damage/Incidents	181,303.34		181,303.34
Due from Employees	414,677.67	15,916.31	398,761.36
Other	100,791.26		100,791.26
Total Current Receivables	$ 6,057,622.59	$ 128,535.39	$ 5,929,087.20

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 58,714,191.93	$ 0.00	$ 0.00	$ 58,714,191.93
Construction in Progress	14,063,498.36	1,428,945.21	270,958.91	15,221,484.66
Computer Software in Development	2,786.44	551,491.85	214,294.22	339,984.07
Total Capital Assets, Nondepreciable	72,780,476.73	1,980,437.06	485,253.13	74,275,660.66
Capital Assets, Depreciable:				
Buildings	90,245,617.94	89,054.29	278,088.57	90,056,583.66
Machinery and Equipment	69,850,890.82	200,027.52	4,075,505.82	65,975,412.52
General Infrastructure	185,937,115.82		757,155.59	185,179,960.23
Computer Software	2,801,665.75	214,294.22	520,172.29	2,495,787.68
Total Capital Assets, Depreciable	348,835,290.33	503,376.03	5,630,922.27	343,707,744.09
Less Accumulated Depreciation/Amortization for:				
Buildings	23,791,967.18	1,624,817.11	274,869.31	25,141,914.98
Machinery and Equipment	34,901,492.62	2,650,567.20	4,075,505.82	33,476,554.00
General Infrastructure	55,145,147.96	3,480,615.14	757,155.59	57,868,607.51
Computer Software	1,882,142.38	449,432.75	519,884.29	1,811,690.84
Total Accumulated Depreciation	115,720,750.14	8,205,432.20	5,627,415.01	118,298,767.33
Total Capital Assets, Depreciable, Net	233,114,540.19	(7,702,056.17)	3,507.26	225,408,976.76
Capital Assets, Net	$ 305,895,016.92	$ (5,721,619.11)	$ 488,760.39	$ 299,684,637.42

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, 2011 there is over $10.2 million recorded as Construction in Progress related to the development of the Terminal.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	$ 2,090,485.52
Accrued Payroll	705,731.49
Total Accounts Payable and Accrued Liabilities	$ 2,796,217.01

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, 2011, was as follows:

	Balance July 1, 2010	Draws	Repayments	Balance June 30, 2011
Line of Credit	$ 0.00	$ 3,910,000.00	$ 3,510,000.00	$ 400,000.00

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, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	$ 68,260,000.00	$ 0.00	$ 975,000.00	$ 67,285,000.00	$ 1,080,000.00
Add Premium	236,869.59		8,006.88	228,862.71	
Total Revenue Bonds Payable	68,496,869.59		983,006.88	67,513,862.71	1,080,000.00
Notes Payable	3,841,425.00		574,350.00	3,267,075.00	559,350.00
Revolving Lines of Credit	1,610,000.00	500,000.00	1,610,000.00	500,000.00	
Capital Leases Payable	30,809,265.70		539,412.88	30,269,852.82	566,057.36
Compensated Absences	1,089,533.12	911,135.54	935,980.38	1,064,688.28	98,803.08
Total Long-Term Liabilities	$ 105,847,093.41	$ 1,411,135.54	$ 4,642,750.14	$ 102,615,478.81	$ 2,304,210.44

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, 2011	Principal Outstanding June 30, 2011
Construct Bulk Grain Facility	2001	.25%-15%	09/2022	$ 11,000,000.00	$ 7,460,000.00	$ 3,540,000.00
Port Facilities Revenue Bond, Jr. Lien	2008	.25%-15%	06/2036	20,500,000.00	20,000.00	20,480,000.00
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	670,000.00	19,575,000.00
Total Revenue Bonds Payable (principal only)				$ 75,435,000.00	$ 8,150,000.00	
Plus Unamortized Premium						228,862.71
Total Revenue Bonds Payable						$ 67,513,862.71

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, 2011	Principal Outstanding June 30, 2011
Crane 11 Acquisition	SunTrust	4.35%	02/01/2020	$ 2,700,000.00	$ 1,140,000.00	$ 1,560,000.00
Container Handlers	BB&T	3.76%	12/01/2015	3,793,500.00	2,086,425.00	1,707,075.00
Total Notes Payable				$ 6,493,500.00	$ 3,226,425.00	$ 3,267,075.00

The above commercial debt is secured by the asset acquired.

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

	Beginning Balance July 1, 2010	Additions	Deletions	Ending Balance June 30, 2011
Credit Facility A	$ 1,610,000.00	$ 500,000.00	$ 1,610,000.00	$ 500,000.00

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, 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. On January 26, 2011, credit facilities B and D were retired. In addition, the borrowing limits on credit facilities A and C were reduced to $500,000 and $7,500,000, respectively. Credit Facility C did not have any indebtedness at June 30, 2011.

Credit Facility A - $500,000 revolving operating line of credit for working capital purposes and short-term financing of equipment purchases. Interest payable monthly; principal subject to borrowing base. Interest rate at June 30, 2011 was 2.75%.

E. **Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2011, are as follows:

	Annual Requirements					
	Revenue Bonds Payable		Notes Payable		Revolving Lines of Credit	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 1,080,000.00	$ 2,636,201.00	$ 559,350.00	$ 128,457.00	$ 0.00	$ 13,750.08
2013	1,100,000.00	2,600,679.50	559,350.00	106,364.00	500,000.00	13,750.08
2014	1,655,000.00	2,561,078.00	559,350.00	84,270.00		
2015	1,710,000.00	2,509,046.50	559,350.00	62,177.00		
2016	1,755,000.00	2,460,030.00	369,675.00	40,083.00		
2017-2021	9,690,000.00	11,416,312.50	660,000.00	53,831.00		
2022-2026	10,840,000.00	9,517,021.50				
2027-2031	12,930,000.00	7,310,331.00				
2032-2036	16,355,000.00	4,464,485.00				
2037-2041	10,170,000.00	1,335,529.00				
Total Requirements	$ 67,285,000.00	$ 46,810,714.00	$ 3,267,075.00	$ 475,182.00	$ 500,000.00	$ 27,500.16

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, 2011:

Fiscal Year	Amount
2012	$ 2,036,403.52
2013	2,036,403.52
2014	2,036,403.52
2015	2,036,403.52
2016	2,036,403.52
2017-2021	10,182,017.60
2022-2023	25,364,125.21
Total Minimum Lease Payments	45,728,160.41
Amount Representing Interest (4.88% Rate of Interest)	15,458,307.59
Present Value of Future Lease Payments	$ 30,269,852.82

Machinery and equipment acquired under capital lease amounted to $33,892,318.27 at June 30, 2011. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

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, 2011:

Fiscal Year	Amount
2012	$ 38,806.04
2013	21,243.68
Total Minimum Lease Payments	$ 60,049.72

Rental expense for all operating leases during the year was $47,944.76.

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, 2011:

Fiscal Year	Amount
2012	$ 4,314,390.55
2013	3,439,368.51
2014	3,043,493.61
2015	1,574,034.88
2016	812,419.39
2017 and thereafter	2,364,776.47
Total Future Rental Revenues	$ 15,548,483.41

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Authority had a total payroll of $12,940,995.15, of which $12,790,135.96 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $630,553.71 and $767,408.16, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $630,553.71, $456,391.15, and $455,651.03, 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 $97,787.32 for the year ended June 30, 2011.

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, 2011, were $47,976.61. The voluntary contributions by employees amounted to $105,906.00 for the year ended June 30, 2011.

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 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $626,716.67, $575,282.96, and $556,002.74, 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, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $66,508.71, $66,477.14, and $70,517.42, 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. The Authority has also purchased a clause to reduce the deductible related to airplane fuselage lifts at a cost of $1,100 per lift.

Authority employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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, 2011, were $51,974.34. The voluntary contributions by employees amounted to $33,319.06 for the year ended June 30, 2011.

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 $5,458,702 at June 30, 2011.

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 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2011, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 59 updates the disclosure and reporting requirements for certain financial instruments and external investment pools.

NOTE 16 - SUBSEQUENT EVENTS

Effective July 1, 2011 the Authority was legislatively realigned under the Department of Transportation from its previous association with the Department of Commerce. Prior to the passing of legislation, the Authority had contracted with a third party to deploy a new back office system. As of June 30, 2011, there is a total of $241,283.46 in project charges related to deploying the new back office system which are capitalized to computer software in development. Effective July 2011, the project with the third party was placed on hold and management is working with staff at the Department of Transportation, Office of State Controller, and the Office of State Budget and Management to develop processes to move to the State's SAP and BEACON systems for reporting.

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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, 2011, and have issued our report thereon dated September 26, 2011.

As discussed in Note 15 to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus,* during the year ended June 30, 2011.

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

September 26, 2011

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