STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR’S TRANSMITTAL

The Honorable Pat McCrory, 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, 2016, 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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State Auditor

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Ports Authority (Authority), a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

September 28, 2016

Management's Discussion and Analysis

NORTH CAROLINA STATE PORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

The annual financial statements of the North Carolina State Ports Authority (Authority) present the results of the Authority's financial activities for the fiscal year ended June 30, 2016. 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 Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and accompanying Notes to the Financial Statements. Management is responsible for the preparation of the MD&A and 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.

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes information related to the Authority's participation in the Teachers' and State Employees' Retirement System.

About the Authority

The North Carolina State Ports Authority was created by act of the North Carolina General Assembly (§136-260) in 1945 as a political subdivision 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 (§136-261). As a political subdivision 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, and the inland terminal facilities located in Charlotte, NC and Greensboro, NC. These facilities handle both import and export containerized, break bulk, and bulk cargos.

Financial Highlights and Analysis

The Governmental Accounting Standards Board (GASB), established as an independent nonprofit 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 (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 discretely presented component unit 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 policies. Taken as a whole, the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows are one measure of an organization's overall financial health and value. Individually, the Statement of Net Position 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 Authority's net position and cash and cash equivalents.

The following table provides a summarized Statement of Net Position as of June 30, 2016 with comparative figures for the prior period:

Condensed Statement of Net Position

(in thousands)	June 30, 2016	June 30, 2015	Change	% Change
Current Assets	$ 20,626	$ 21,176	$ (550)	(2.6) %
Capital Assets	281,547	271,435	10,112	3.7 %
Other Noncurrent Assets	39,520	14,101	25,419	180.3 %
Total Assets	341,693	306,712	34,981	11.4 %
Total Deferred Outflows of Resources	1,211	1,269	(58)	(4.6) %
Other Current Liabilities	5,863	5,144	719	14.0 %
Other Noncurrent Liabilities	954	1,170	(216)	(18.5) %
Long-Term Liabilities	91,381	92,801	(1,420)	(1.5) %
Total Liabilities	98,198	99,115	(917)	(0.9) %
Total Deferred Inflows of Resources	699	3,481	(2,782)	(79.9) %
Net Position	$ 244,007	$ 205,385	$ 38,622	18.8 %

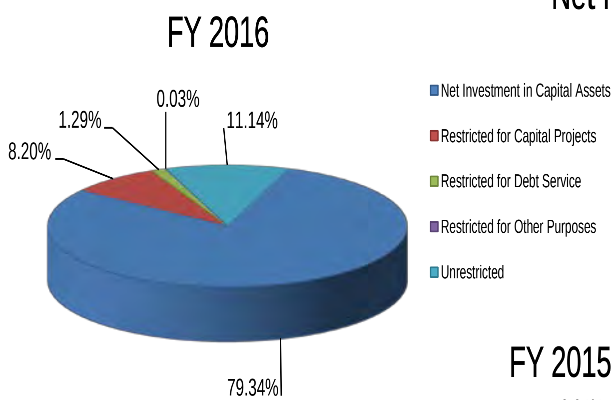
The change in other noncurrent assets, representing the single largest dollar value change in assets, is a result of the influx of $35 million in state capital appropriations during the period for capital expansion and improvements. Approximately $15 million of these appropriations were spent towards capital projects during the period, with the remainder expected to be utilized in the following fiscal year. The increase in capital assets is due to additions to berth infrastructure and turning basin expansion as part of the capital plan, offset by continued depreciation charges. The reduction in long-term liabilities and deferred inflows represents the payment of principal on outstanding debt, offset by an increase in the Authority's net pension liability as determined by the plan actuary. The following table provides selected financial information pertaining to changes from the prior period. Please refer to the accompanying Notes to the Financial Statements for further details with respect to these and other changes.

(in thousands)	June 30, 2016	June 30, 2015	Change	% Change
Current Assets:				
Cash and Cash Equivalents	$ 9,812	$ 11,613	$ (1,801)	(15.5) %
Short-Term Investments		1,763	(1,763)	
Receivable, Net	8,430	5,400	3,030	56.1 %
Capital Assets:				
Historical Cost	431,184	420,802	10,382	0.0
Accumulated Depreciation	(149,638)	(149,368)	(270)	0.0
Noncurrent Assets:				
Investments	15,029	10,171	4,858	47.1 %
Restricted Investments	19,909		19,909	
Restricted Due from Primary Government	96	68	28	72.1 %
Noncurrent Liabilities:				
Long-Term Liabilities	88,670	89,789	(1,119)	(1.2) %

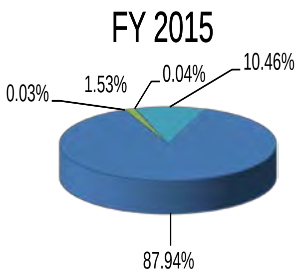
The decrease in current cash is largely due to a $3.1 million expense incurred for dredging of the Morehead City channel that was funded with current operating cash. The increase in restricted investments represents the unspent portion of the $35 million state capital appropriation received by the Authority during the period. The increase in receivables is a result of increased revenues during the final months of the fiscal year. At year-end, 78% of outstanding trade receivables were due less than 30 days. This increase is further explained in that the prior period balance of receivables was lower than that of other recent periods.

The Authority's net position is divided into five categories. The first, net investment in capital assets, represents the Authority's equity position with regards to property, facilities, and equipment. The second category is restricted by external funding sources to expenditure for capital projects. The third category is restricted for debt service payments as required by debt agreements. The fourth category is restricted for use by other third parties. 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 position category mix for the periods ended June 30, 2016 and 2015, respectively. Significant changes, as noted above, are the result of increases to capital assets as the Authority invests in its' infrastructure and capital expansion program (Net Investment in Capital Assets), and the influx of $35 million in state capital appropriations (Restricted for Capital Projects).

Net Position



(in thousands)		2016
Net Investment in Capital Assets	$	193,613
Restricted for Capital Projects		20,005
Restricted for Debt Service		3,141
Restricted for Other Purposes		75
Unrestricted		27,173
Total Net Position	$	244,007



		2015
Net Investment in Capital Assets	$	180,636
Restricted for Capital Projects		58
Restricted for Debt Service		3,139
Restricted for Other Purposes		75
Unrestricted		21,477
Total Net Position	$	205,385

The Statement of Revenues, Expenses, and Changes in Net Position reflects an overall increase in net position for the current fiscal year ended June 30, 2016 of $38.6 million. This increase is principally a product of the recognition of $35 million in state capital appropriations, increased revenue generation from cargo movement, and a nonrecurring gain on the sale of capital assets. The following table identifies variances between major financial categories for the fiscal years ended June 30, 2016 and 2015, respectfully.

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

(in thousands)	June 30, 2016	June 30, 2015	Change	% Change
Operating Revenues	$ 46,505	$ 43,789	$ 2,716	6.2 %
Operating Expenses	42,263	37,032	5,231	14.1 %
Operating Income	4,242	6,757	(2,515)	(37.2) %
Nonoperating Revenues (Expenses):				
Investment Income, Net	179	72	107	148.6 %
Interest and Fees on Debt	(3,668)	(3,689)	(21)	(0.6) %
Gain on Sale of Capital Assets	5,120		5,120	
Loss on Disposal of Capital Assets	(3,230)		(3,230)	
Other Nonoperating Revenues (Expenses)	(39)	28	(67)	(239.3) %
Net Nonoperating Expenses	(1,638)	(3,589)	(1,951)	(54.4) %
Other Revenues:				
State Capital Aid	186	74	112	151.4 %
State Capital Appropriations	35,000		35,000	
Capital Grants	832	239	593	248.1 %
Total Revenues	87,822	44,202	43,620	98.7 %
Total Expenses	(49,200)	(40,721)	8,479	20.8 %
Increase in Net Position	38,622	3,481	$ 35,141	1009.5 %
Net Position, Beginning of Period	205,385	205,795		
Restatement		(3,891)		
Net Position, End of Period	$ 244,007	$ 205,385		

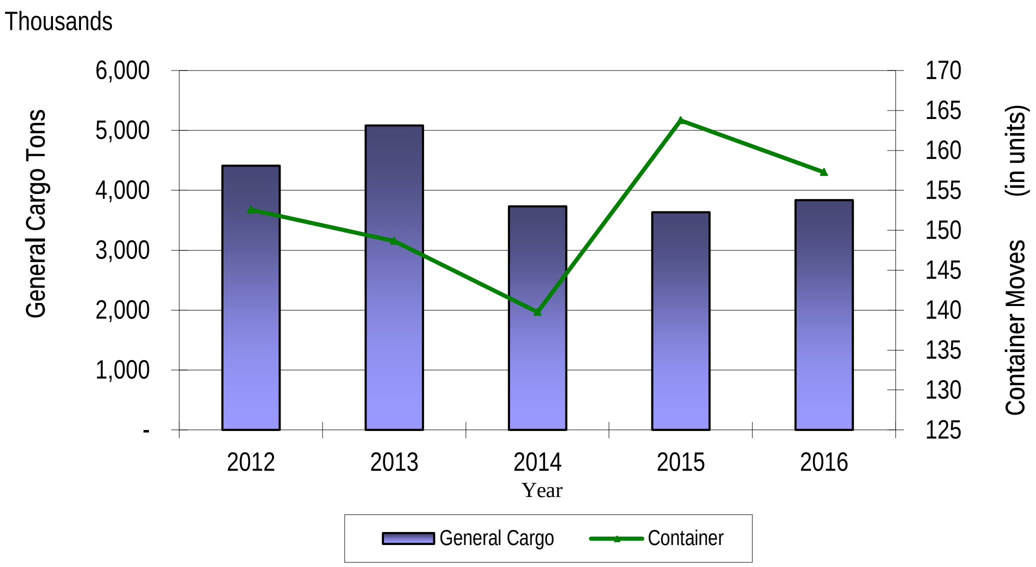
As reflected in the preceding table, the Authority posted an operating profit of $4.2 million as the result of an increase in overall revenue and an increase in total operating expenses. Total revenues increased significantly (98.7%) as a result of receiving $35 in state capital appropriations, recognition of a $5.12 million gain on the sale of the Southport Marina property, and increases in handled tonnage in the general terminal bulk categories. The Authority also received significantly more capital grant funds during the current fiscal year due to the receipt of Department of Transportation Rail grants and other private grant awards. The 20.8% increase in total expenses is due to $3.1 million in nonrecurring dredging expenses related to federal harbor dredging at Morehead City, increased terminal maintenance expense, and a $3.23 million loss on the disposal of capital assets that had reached the end of their useful lives. The following tables show the major sources of both operating and other revenues in detail.

Revenues, by Major Source

(in thousands)	June 30, 2016	June 30, 2015	Change	% Change
Operating Revenues:				
Sales and Services, Net	$ 42,090	$ 39,297	$ 2,793	7.1 %
Rental and Lease Earnings	4,415	4,492	(77)	(1.7) %
Total Operating Revenues	46,505	43,789	2,716	6.2 %
Nonoperating Revenues:				
Investment Earnings, Net	179	72	107	148.6 %
Gain on Sale of Capital Assets	5,120		5,120	
Other		28	(28)	
Total Nonoperating Revenues	5,299	100	5,199	5,199.0 %
Other Nonoperating Revenues:				
State Capital Aid	186	74	112	151.4 %
State Capital Appropriations	35,000		35,000	
Capital Grants	832	239	593	248.1 %
Total Other Nonoperating Revenues	36,018	313	35,705	11,407.3 %
Total Revenues	$ 87,822	$ 44,202	$ 43,620	98.7 %

The increased operating levels as compared to the prior year are viewed to be a product of both the global economy and commodities markets, as well as an overall trend in the diversion of cargo from the West Coast to the East Coast. The Authority, as previously indicated, has been experiencing a general recovery trend which is expected to continue in the following fiscal cycle. The following graph and table depict these current changes and general trends utilizing nonfinancial data and measurements.

Historic Cargo Movements



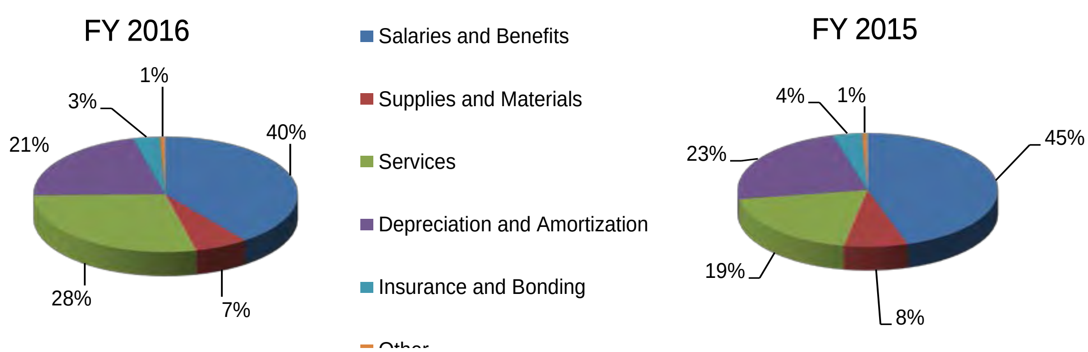
Summarized Cargo Movement (In Units)

	June 30, 2016	June 30, 2015	Change	% Change
Container Movement	157,249	163,743	(6,494)	(4.0) %
General Cargo Movement (Short Tons)	3,835,383	3,633,312	202,071	5.6 %
Vessel Calls	994	947	47	5.0 %
Rail Car Activity	20,211	17,063	3,148	18.4 %

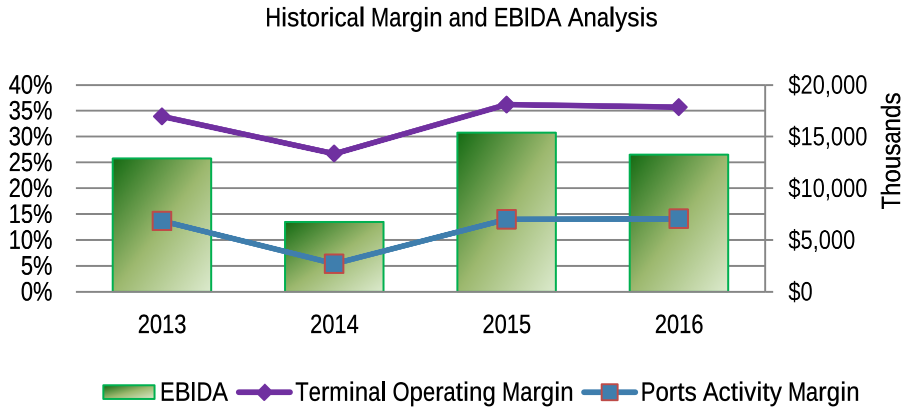
The Authority has continued to enforce cost containment measures where possible. As noted previously, the current year reflects an increase in operating expense, driven by the nonrecurring contribution towards the federal government obligation for dredging in the Morehead City channel and an increase in terminal maintenance expense for general repair and renovations to the Authority's assets and infrastructure. 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, 2016	June 30, 2015	Change	% Change
Salaries and Benefits	$ 16,765	$ 16,655	$ 110	0.7 %
Supplies and Materials	2,764	2,938	(174)	(5.9) %
Services	12,040	7,211	4,829	67.0 %
Depreciation and Amortization	9,022	8,631	391	4.5 %
Insurance and Bonding	1,399	1,348	51	3.8 %
Other	273	249	24	9.6 %
Total Operating Expenses	$ 42,263	$ 37,032	$ 5,231	14.1 %



The ultimate effect of rising breakbulk and bulk volumes, stable pricing, offset by an overall increase in operating expenses is a slight decrease in the Authority's marginal profitability and cash flow generation as derived from its operations. The following graph depicts this trend by analyzing operating margins and earnings before interest, depreciation, and amortization (EBIDA). Relatively flat or slightly improving margins and earnings are anticipated to continue to improve over the following fiscal cycle.



Given the continued global economic recovery expected over the next several years, the Authority's market share, market position, and long-term growth expectations are considered sustainable as they are driven in a large part, both in the case of container volumes as well as 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, increases in the North-South container trade and transshipment opportunities. Third, the growing allocation of resources to container operations in competing east coast ports to the north and south, and the resulting decline in capacity/facilities offerings for bulk and break bulk commodities.

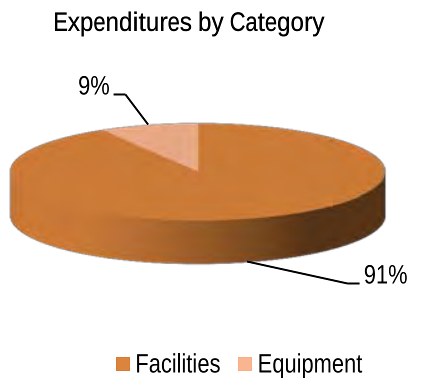
Capital Assets and Long-Term Debt

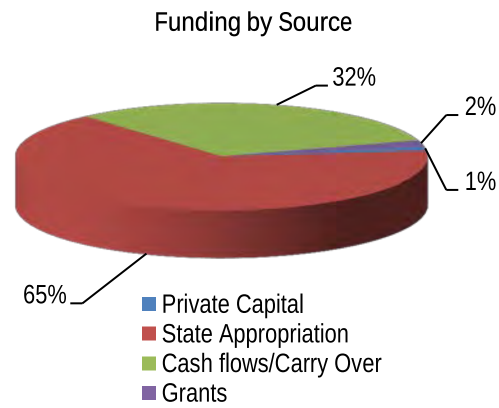
The origins of the Authority's current capital expansion program can be traced back to late fiscal year 1995 and early 1996, at which point, the Authority undertook a significant and comprehensive strategic planning effort which, among other outputs, produced a long-term market plan and corresponding 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. These expenditures are focused on the expansion or otherwise maintenance of the existing deep-water marine terminals in Wilmington and Morehead City and include acquisitions of equipment and the rehabilitation of existing facilities and infrastructure.

Since late fiscal year 2005 the Authority has assertively worked to rehabilitate or otherwise expand its facilities, investing approximately $221.5 million in equipment and infrastructure. Highlights of these expenditures include the acquisition of new container cranes and construction of a new warehouse facility. As previously mentioned, during the current fiscal year, the Authority received $35 million in appropriations from the State of North Carolina to fund infrastructure improvements and expansion. The Authority undertook a large project to expand the turning basin in the mouth of the Cape Fear River to allow access of the post-panamax larger sized vessels. The Authority is on schedule to have that project complete by late August 2016.

During the fiscal year $2.9 million was transferred out of construction in progress and computer software in development to depreciable capital assets, related mostly to enhancing our aging infrastructure system and updating Information Technology systems. The following graph summarizes recent capital investment and related debt issuance.

Capital investment for the upcoming fiscal year is anticipated to increase significantly in projects related to berth structure improvement and rail infrastructure, and is projected at approximately $47 million. Funding for these expenditures will be accomplished, as in recent years, by a combination of state and federal grants, private capital, reserves, and internal cash flows. In addition, the State of North Carolina has budgeted another $35 million in appropriation to the Authority for fiscal year 2017. Further details on the capital improvement program can be found in the Authority's 2017 Capital Budget document. A copy of this document can be obtained by contacting the Authority's Finance Office at (910) 343-6201. The following graphs provide a breakdown of planned fiscal year 2017 expenditures by category as well as anticipated funding by sources.





Economic Outlook

With recent global economic downturns, international trade has seen some of the deepest reductions ever posted. This, as indicated previously, has had notable effect on the Authority's cargo volumes. However the global recovery is clearly underway and coupled with improvements in key sectors of North Carolina's economy, trade volume is widely anticipated to return to and ultimately exceed traditional levels in the coming years. The Authority has experienced this recovery over the past several years through expansion and stabilization of container market share, recoveries of bulk volumes in 2010 and 2013-2016, a resurgence of break bulk volumes in 2013, and projected growth in cargo trends for the upcoming fiscal cycle 2017.

Changes in container services and carrier alliances is assumed to have a net negative impact to revenues in fiscal year 2017 through the transition period. The Authority's plan reflects an 8.5% decrease in container activity driven by volatility with Asian carriers, mitigated in part by full year operation of a new service that commenced in May 2016. Planned completion of the bulk wood pellet facility in Wilmington along with increased wood pulp activity is expected to drive an overall 21% increase in handled tonnage through the Wilmington and Morehead City locations. As a result of these growth projections, the Authority is anticipating that utilization at its existing facilities will improve, thus raising operating profitability. 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. The Authority's all-in debt service coverage for budgeted fiscal year 2017 is $2.01 to $1.00, which is well within the stipulated debt covenant requirements and sufficient to maintain its current credit ratings.

Contacting the Authority's Financial Management

If you have questions about these financial statements or need additional financial information, contact the Authority's Finance Office, 2202 Burnett Blvd., Wilmington, NC 28412, at (910) 343-6201.

FINANCIAL STATEMENTS

North Carolina State Ports Authority
Statement of Net Position
June 30, 2016

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	9,812,149.39
Restricted Cash and Cash Equivalents		253,507.17
Receivables, Net (Note 3)		8,430,140.19
Due from Primary Government		20,875.13
Inventories		716,636.44
Prepaid Items		1,393,266.74
Total Current Assets		20,626,575.06
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,962,771.22
Restricted Due from Primary Government		96,039.13
Investments		15,028,938.49
Restricted Investments		19,908,536.58
Unamortized Charges		1,523,914.00
Capital Assets - Nondepreciable (Note 4)		76,852,086.64
Capital Assets - Depreciable, Net (Note 4)		204,694,549.55
Total Noncurrent Assets		321,066,835.61
Total Assets		341,693,410.67
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		1,211,203.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		3,974,897.95
Due to Primary Government		18,478.71
Unearned Revenue		259,316.42
Interest Payable		1,278,242.35
Advance from Primary Government - Current Portion (Note 9)		332,169.18
Long-Term Liabilities - Current Portion (Note 6)		2,710,506.97
Total Current Liabilities		8,573,611.58
Noncurrent Liabilities:		
Advance from Primary Government - Noncurrent Portion (Note 9)		953,894.54
Long-Term Liabilities, Net (Note 6)		88,670,277.56
Total Noncurrent Liabilities		89,624,172.10
Total Liabilities		98,197,783.68
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		699,479.00

NET POSITION	
Net Investment in Capital Assets	193,613,469.64
Restricted for:	
Expendable:	
Capital Projects	20,004,575.71
Debt Service	3,141,278.39
Other	75,000.00
Unrestricted	27,173,027.25
Total Net Position	$ 244,007,350.99

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 Position
For the Fiscal Year Ended June 30, 2016 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Sales and Services, (Net of $7,020.95 in Allowance for Doubtful Accounts)	$ 42,089,755.16
Rental and Lease Earnings	4,414,988.00
Total Operating Revenues	46,504,743.16
EXPENSES	
Operating Expenses:	
Salaries and Benefits	16,764,984.13
Supplies and Materials	2,764,310.58
Services	12,040,269.66
Insurance and Bonding	1,399,327.18
Other Operating Expenses	272,432.28
Depreciation/Amortization	9,021,339.76
Total Operating Expenses	42,262,663.59
Operating Income	4,242,079.57
NONOPERATING REVENUES (EXPENSES)	
Investment Income (Net of Investment Expense of $33,699.71)	178,714.30
Interest and Fees on Debt	(3,668,290.37)
Gain on Sale of Capital Assets	5,120,132.69
Loss on Disposal of Capital Assets	(3,229,614.66)
Other Nonoperating Expenses	(39,387.81)
Net Nonoperating Expenses	(1,638,445.85)
Income Before Other Revenues	2,603,633.72
State Capital Appropriations	35,000,000.00
State Capital Aid	185,820.14
Capital Grants	832,426.05
Increase in Net Position	38,621,879.91
NET POSITION	
Net Position - July 1, 2015	205,385,471.08
Net Position - June 30, 2016	$ 244,007,350.99

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, 2016

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 43,301,436.48
Payments to Employees and Fringe Benefits	(17,367,269.04)
Payments to Vendors and Suppliers	(16,529,669.96)
Net Cash Provided by Operating Activities	9,404,497.48
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Principal Paid on Noncapital Debt	(153,747.99)
Interest and Fees Paid on Noncapital Debt	(51,442.55)
Cash Used by Noncapital Financing Activities	(205,190.54)
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	35,000,000.00
State Capital Aid	185,820.14
Capital Grants	804,562.21
Proceeds from Sale of Capital Assets	5,328,200.00
Acquisition and Construction of Capital Assets	(22,402,310.84)
Principal Paid on Capital Debt and Leases	(3,479,144.67)
Interest and Fees Paid on Capital Debt and Leases	(3,637,691.79)
Net Cash Provided by Capital Financing and Related Financing Activities	11,799,435.05
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	205,504.63
Purchase of Investments and Related Fees	(23,003,753.74)
Net Cash Used by Investing Activities	(22,798,249.11)
Net Decrease in Cash and Cash Equivalents	(1,799,507.12)
Cash and Cash Equivalents - July 1, 2015	14,827,934.90
Cash and Cash Equivalents - June 30, 2016	$ 13,028,427.78

North Carolina State Ports Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	$	4,242,079.57
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation/Amortization Expense		9,021,339.76
Pension Expense		314,109.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		(3,033,430.96)
Inventories		13,479.85
Prepaid Items		22,849.97
Accounts Payable and Accrued Liabilities		728,601.90
Due to Primary Government		(623,783.94)
Due from Primary Government		(20,875.13)
Unearned Revenue		(149,000.59)
Deferred Outflows for Contributions Subsequent to the Measurement Date		(1,127,510.00)
Compensated Absences		16,638.05
Net Cash Provided by Operating Activities	$	9,404,497.48

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	9,812,149.39
Restricted Cash and Cash Equivalents		253,507.17
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,962,771.22
Total Cash and Cash Equivalents - June 30, 2016	$	13,028,427.78

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	(23,770.56)
Amortization of Bond Premiums		8,006.88
Assets Acquired through the Assumption of a Liability		1,050,873.85
Loss on Disposal of Capital Assets		(3,229,614.66)

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

NOTES TO THE FINANCIAL STATEMENTS

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. The North Carolina State Ports Authority (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 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 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.

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, include state appropriations, certain grants, and investment income. 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 (STIF). The STIF, 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** – To the extent available, investments are recorded at fair market value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair market value measurement of investments is disclosed in Note 3. 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, and use of facilities. 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. **Prepaid Items** - Prepaid items consist of prepayments for insurance, subscriptions, and maintenance contracts.

I. **Unamortized Charges** - Unamortized charges are comprised of prepayments of maintenance contracts for dredging that will be incurred in future periods. These charges are amortized over a period of two to three years using the straight-line method.

J. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	8-75 years
Machinery & Equipment	3-40 years
General Infrastructure	10-60 years
Computer Software	3-5 years

K. **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 for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, and resources restricted for use by other external parties.

L. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

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

The net pension liability represents the Authority's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report.* This liability represents the Authority's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the Authority's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

M. 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.

N. Net Position - The Authority's net position is classified as follows:

Net Investment in Capital Assets - This represents the Authority's total investment in capital assets, net of outstanding liabilities 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 Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

Restricted Net Position - **Expendable** - Expendable restricted net position includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes 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.

O. 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 Position. 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.

Cash on hand at June 30, 2016 was $960.00. The carrying amount of the Authority's deposits not with the State Treasurer was $13,001,120.60 and the bank balance was $15,412,490.90. 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, 2016, the Authority's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 14,029,848.04

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; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; 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.

At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $26,347.18 which represents the Authority's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF 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 STIF) 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2016.

		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	$ 13,406,420.07	$ 2,077,951.95	$ 7,478,070.60	$ 328,483.29	$ 3,521,914.23
Money Market Mutual Funds	21,531,055.00	21,531,055.00			
Total Investments	$ 34,937,475.07	$ 23,609,006.95	$ 7,478,070.60	$ 328,483.29	$ 3,521,914.23

At June 30, 2016, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
U.S. Agencies	$ 13,406,420.07	$ 13,406,420.07
Money Market Mutual Funds	21,531,055.00	21,531,055.00
Totals	$ 34,937,475.07	$ 34,937,475.07

Rating Agency: Moody's

At June 30, 2016, 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	$ 13,406,420.07

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Authority's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the Authority's investments within the fair value hierarchy at June 30, 2016:

	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
U.S. Agencies	$ 13,406,420.07	$ 13,406,420.07	$ 0.00	$ 0.00
Money Market Mutual Funds	21,531,055.00	21,531,055.00		
Total Debt Securities	34,937,475.07	34,937,475.07		
Other Securities				
Short-term Investment Fund	26,347.18		26,347.18	
Total Investments Measured at Fair Value	$ 34,963,822.25	$ 34,937,475.07	$ 26,347.18	$ 0.00

Debt Securities - Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Short-Term Investment Fund (STIF) – Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Receivables:			
Due from Customers	$ 8,184,956.05	$ 7,020.95	$ 8,177,935.10
Investment Earnings	39,649.04		39,649.04
Due from Employees	189,651.64	15,916.31	173,735.33
Other	38,820.72		38,820.72
Total Receivables	$ 8,453,077.45	$ 22,937.26	$ 8,430,140.19

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 58,703,691.93	$ 50,764.82	$ 19,049.80	$ 58,735,406.95
Construction in Progress	1,769,926.03	19,071,872.97	2,743,979.31	18,097,819.69
Computer Software in Development	233,400.00	18,860.00	233,400.00	18,860.00
Total Capital Assets, Nondepreciable	60,707,017.96	19,141,497.79	2,996,429.11	76,852,086.64
Capital Assets, Depreciable:				
Buildings	85,222,972.49	30,443.14	162,903.12	85,090,512.51
Machinery and Equipment	78,691,605.37	2,861,430.06	7,479,657.14	74,073,378.29
General Infrastructure	191,049,272.57	2,588,957.18	2,067,151.26	191,571,078.49
Computer Software	5,132,076.65	171,919.22	1,706,569.72	3,597,426.15
Total Capital Assets, Depreciable	360,095,927.08	5,652,749.60	11,416,281.24	354,332,395.44
Less Accumulated Depreciation for:				
Buildings	29,650,593.10	1,571,615.57	109,359.20	31,112,849.47
Machinery and Equipment	37,370,152.43	2,474,782.28	5,275,802.47	34,569,132.24
General Infrastructure	78,974,157.06	3,647,386.30	905,917.68	81,715,625.68
Computer Software	3,373,306.66	573,501.56	1,706,569.72	2,240,238.50
Total Accumulated Depreciation	149,368,209.25	8,267,285.71	7,997,649.07	149,637,845.89
Total Capital Assets, Depreciable, Net	210,727,717.83	(2,614,536.11)	3,418,632.17	204,694,549.55
Capital Assets, Net	$ 271,434,735.79	$ 16,526,961.68	$ 6,415,061.28	$ 281,546,636.19

During the year ended June 30, 2016, the Authority incurred $3,616,847.82 in interest costs related to the acquisition and construction of capital assets that was charged to interest and fees on debt.

The Authority has pledged land with a carrying value of $30,738,105.56 as security for the Port Facilities Subordinated Revenue Refunding Bond, Series 2014. Additional information regarding the Series 2014 bond can be found in Note 7.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Accounts Payable	$ 2,678,387.37
Accrued Payroll	682,976.55
Contract Retainage	613,534.03
Total Accounts Payable and Accrued Liabilities	$ 3,974,897.95

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Revenue Bonds Payable	$ 61,740,000.00	$ 0.00	$ 1,755,000.00	$ 59,985,000.00	$ 1,810,000.00
Plus: Unamortized Premium	196,835.19		8,006.88	188,828.31	
Total Revenue Bonds Payable	61,936,835.19		1,763,006.88	60,173,828.31	1,810,000.00
Net Pension Liability	963,753.00	2,042,738.00		3,006,491.00	
Notes Payable	1,029,675.00		1,029,675.00		
Capital Leases Payable	27,832,267.00		686,462.79	27,145,804.21	720,370.87
Compensated Absences	1,038,022.96	881,630.74	864,992.69	1,054,661.01	180,136.10
Total Long-Term Liabilities	$ 92,800,553.15	$ 2,924,368.74	$ 4,344,137.36	$ 91,380,784.53	$ 2,710,506.97

Additional information regarding capital lease obligations is included in Note 8.
Additional information regarding the net pension liability is included in Note 11.

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

Purpose	Series	Rate/ Ranges	Maturity Date	Amount of Issue	Paid Through June 30, 2016	Outstanding June 30, 2016
Construct Bulk Grain Facility	2001	.25%-15%	09/2022	$ 11,000,000.00	$ 8,935,000.00	$ 2,065,000.00
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	4,795,000.00	15,450,000.00
Port Facilities Senior Lien Revenue Refunding Bond	2013	Variable[1]	02/2036	10,000,000.00	210,000.00	9,790,000.00
Port Facilities Subordinated Revenue Refunding Bond	2014	Variable[2]	02/2029	9,750,000.00	760,000.00	8,990,000.00
Total Revenue Bonds Payable (principal only)				$ 74,685,000.00	$ 14,700,000.00	
Plus Unamortized Premium						188,828.31
Total Revenue Bonds Payable, Net						$ 60,173,828.31

[1] Variable rate calculated monthly as .72% per annum + 68%(1-month LIBOR)
[2] Variable rate calculated monthly as .70% per annum + 68%(1-month LIBOR)

C. Demand Bonds - Included in bonds payable are two variable rate demand bond issues. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the Authority's remarketing or paying agents.

With regards to the following demand bonds, the Authority has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt. The bonds are subject to purchase on demand with 180 days prior written notice on any date specified in such notice occurring on or after 7 years of the date of issuance.

North Carolina State Ports Authority - Port Facilities Senior Lien Revenue Refunding Bond, Series 2013 (Series 2013): On December 20, 2013, the Authority issued a tax-exempt variable rate Series 2013 demand bond in the amount of $10,000,000 that has a final maturity date of February 1, 2036. The bond was initially issued as one fully registered bond without coupons in the aggregate principal amount of $10,000,000 and may not be exchanged for any denomination other than the outstanding principal amount thereof. This bond is a special obligation of the Authority secured by a senior lien upon and pledge of the Net Receipts of the Authority and on parity with all other parity indebtedness. The proceeds of this bond issue were used to refund the outstanding Port Facilities Subordinate Revenue Bonds Series 2008 and pay the costs of expenses incurred in connection with the sale and issuance of the Series 2013 Bond. The bond is not subject to a parity or special reserve account requirement. The bond is subject to purchase on demand with 180 days prior written notice on any date specified in such notice occurring on or after 7 years of the date of issuance beginning December 20, 2020.

North Carolina State Ports Authority - Port Facilities Subordinated Revenue Refunding Bond, Series 2014 (Series 2014): On January 23, 2014, the Authority issued a tax-exempt variable rate Series 2014 demand bond in the amount of $9,750,000 that has a final maturity date of February 1, 2029. The bond was initially issued as one fully registered bond without coupons in the aggregate principal amount of $9,750,000 and may not be exchanged for any denomination other than the outstanding principal amount thereof. The bond issue is not subject to a parity or special reserve account requirement. This bond is a special obligation of the Authority secured by a junior lien upon and pledge of the Net Receipts of the Authority. As additional security for these bonds, the Authority executed and delivered a deed of trust on the site of the NCIT Project to secure the Authority's obligations. The proceeds of this bond issue were used to refund the outstanding Port Facilities Subordinate Revenue Bonds Series 2008 and pay the costs of expenses incurred in connection with the sale and issuance of the Series 2014 Bond. The bond is subject to purchase on demand with 180 days prior written notice on any date specified in such notice occurring on or after 7 years of the date of issuance beginning January 23, 2021.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Crane 11 Acquisition	SunTrust	4.35%	3/7/2020[1]	$ 2,700,000.00	$ 2,700,000.00	$ 0.00
Container Handlers	BB&T	3.76%	12/16/2015	3,793,500.00	3,793,500.00	
Total Notes Payable				$ 6,493,500.00	$ 6,493,500.00	$ 0.00

[1] During the year ended June 30, 2016, the Authority disposed of crane 11 as it had reached the end of its useful life. Because this asset was pledged as security for the SunTrust note payable shown above, the Authority paid the remaining balance in full in advance of its scheduled maturity.

E. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2016, are as follows:

	Annual Requirements	
	Revenue Bonds Payable	
Fiscal Year	Principal	Interest
2017	$ 1,810,000.00	$ 2,196,986.08
2018	1,865,000.00	2,146,048.59
2019	1,935,000.00	2,090,372.36
2020	2,000,000.00	2,031,622.76
2021	2,080,000.00	1,966,803.08
2022-2026	10,840,000.00	8,731,004.36
2027-2031	12,930,000.00	6,769,628.50
2032-2036	16,355,000.00	4,222,422.11
2037-2041	10,170,000.00	1,335,528.54
Total Requirements	$ 59,985,000.00	$ 31,490,416.38

NOTE 8 - 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, 2016:

Fiscal Year	Amount
2017	$ 2,036,403.52
2018	2,036,403.52
2019	2,036,403.52
2020	2,036,403.52
2021	2,036,403.52
2022-2023	25,364,125.21
Total Minimum Lease Payments	35,546,142.81
Amount Representing Interest (4.88% Rate of Interest)	8,400,338.60
Present Value of Future Lease Payments	$ 27,145,804.21

Machinery and equipment acquired under capital lease amounted to $33,892,318.27 at June 30, 2016.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $7,836,035.06 at June 30, 2016.

NOTE 9 - ADVANCE FROM PRIMARY GOVERNMENT

The Authority entered into an inter-agency agreement with the North Carolina Department of Transportation (NCDOT) in May 2011 to repair and strengthen the bascule span of NCDOT Railroad Bridge R-110, which crosses the Newport River and enables rail access to Radio Island. The agreement committed the Authority to fund 35% cost sharing repayable over ten years at 4% interest. The payments are unsecured and uncollateralized. Future minimum payments under the agreement consist of the following at June 30, 2016:

	Annual Requirements Advance from Primary Government	
Fiscal Year	Principal	Interest
2017	$ 332,169.18	$ 96,371.98
2018	176,114.80	38,155.78
2019	183,159.39	31,111.19
2020	190,485.77	23,784.81
2021	198,105.20	16,165.38
2022	206,029.38	8,241.18
Total Requirements	$ 1,286,063.72	$ 213,830.32

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, 2016:

Fiscal Year	Amount
2017	$ 4,032,003.04
2018	2,870,101.51
2019	2,547,289.07
2020	2,200,002.21
2021	279,258.35
2022 and thereafter	941,634.06
Total Future Rental Revenues	$ 12,870,288.24

NOTE 11 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Authority's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The Authority's contributions to the pension plan were $1,127,509.65, and employee contributions were $739,416.16 for the year ended June 30, 2016.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the Authority reported a liability of $3,006,491.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The Authority's proportion of the net pension liability was based on the present value of future salaries for the Authority relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the

Authority's proportion was 0.0816%, which was a decrease of 0.0006% from its proportion measured as of June 30, 2014.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 9,048,388.00	$ 3,006,491.00	$ (2,121,592.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the Authority recognized pension expense of $314,109.00. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 341,838.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		325,728.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	83,693.00	31,913.00
Contributions Subsequent to the Measurement Date	1,127,510.00	
Total	$ 1,211,203.00	$ 699,479.00

The amount of $1,211,203.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That Will be Recognized in Pension Expense

Fiscal year ended June 30:	Amount
2017	$ (370,307.00)
2018	(370,307.00)
2019	(364,251.00)
2020	489,079.00
Total	$ (615,786.00)

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 (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 TSERS 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 established by the General Assembly.

For the current fiscal year the Authority contributed 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $690,121.75, 668,174.24, and $635,756.42, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 TSERS. 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, 2016, the Authority made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $50,526.77, 49,900.08, and $51,802.37, 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.

A. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is 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.

3. Employee Dishonesty and Computer Fraud

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. Universities are 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 $100,000 deductible.

4. Statewide Workers' Compensation Program

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.

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.

5. Other Insurance Held by the Authority

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 if using Authority equipment, or $850 per lift if using the ship's equipment.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The Authority has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were $12,723,216 at June 30, 2016.

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, 2016, the Authority implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

REQUIRED SUPPLEMENTARY INFORMATION

North Carolina State Ports Authority
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years *Exhibit B-1*

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.0816%	0.0822%	0.0814%
Proportionate Share of TSERS Collective Net Pension Liability	$ 3,006,491.00	$ 963,753.00	$ 4,940,641.00
Covered-Employee Payroll	$ 12,323,602.73	$ 11,773,267.03	$ 12,205,517.53
Net Pension Liability as a Percentage of Covered-Employee Payroll	24.40%	8.10%	40.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

North Carolina State Ports Authority
Required Supplementary Information
Schedule of Authority Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years *Exhibit B-2*

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 1,127,509.65	$ 1,113,623.73	$ 1,023,096.90	$ 1,016,719.61	$ 952,502.43
Contributions in Relation to the Contractually Determined Contribution	1,127,509.65	1,113,623.73	1,023,096.90	1,016,719.61	952,502.43
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 12,323,602.73	$ 12,170,751.14	$ 11,773,267.03	$ 12,205,517.53	$ 12,802,452.07
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 630,553.71	$ 456,391.15	$ 455,651.03	$ 425,254.11	$ 394,861.21
Contributions in Relation to the Contractually Determined Contribution	630,553.71	456,391.15	455,651.03	425,254.11	394,861.21
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 12,790,135.96	$ 12,784,065.84	$ 13,561,042.54	$ 13,942,757.83	$ 14,844,406.44
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

North Carolina State Ports Authority
Notes to Required Supplementary Information
Schedule of Authority Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

INDEPENDENT AUDITOR'S REPORT

Beth A. Wood, CPA
State Auditor

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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, in accordance with the 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, the financial statements of the North Carolina State Ports Authority (Authority), a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

September 28, 2016

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NCOSA
The Taxpayers' Watchdog

This audit required 368 hours at an approximate cost of $37,904.