



STATE OF NORTH CAROLINA

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

NORTH CAROLINA STATE PORTS AUTHORITY

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF DIRECTORS

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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, 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, 2007, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the North Carolina State Ports Authority, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Ports Authority as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 2, 2008

NORTH CAROLINA STATE PORTS AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

Management's discussion and analysis (MD&A) provides an overview of the North Carolina State Ports Authority's (Authority's) financial activity during the fiscal year ended June 30, 2007. Management, in addition to this analysis, is responsible for the preparation of the accompanying financial statements. The basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows, plus Notes to the Financial Statements.

The MD&A is intended to aid the reader in interpreting the Authority's relative financial position as of the above referenced dates as well as gauging performance from one period to the next. Condensed key financial as well as nonfinancial information will be highlighted for the reader followed by a discussion of the Authority's current capital expansion program and economic outlook.

Financial Highlights and Analysis

Taken in whole, the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows are one measure of an organization's overall financial health and value. Individually, the Statement of Net Assets is a static view of financial value while the other two depict the movement of key elements from one period to the next, with a specific focus on the organization's net assets and cash and cash equivalents.

A comparison of net assets as of June 30, 2007 to that of the prior year yields several significant changes. The increases in current assets in general relate to increases in trade receivables and more specifically to revenue accruals associated with contractual volume guarantees. Overall liquidity has remained stable with the 2007 cash and cash equivalent levels comparable to those of the prior fiscal year. The increase in total capital assets relates to the Authority's continuing capital projects programs. A corresponding increase in noncurrent liabilities and decrease in other noncurrent assets is representative of the need to fund a significant portion of these programs through long-term debt issuance and State level appropriations, respectively. The increase in current liabilities is principally driven by two factors. This first and more significant relates to portions of a long-term credit facility which have been reclassified to current liabilities. The second factor involves accrued liabilities associated with payroll and the timing of the last pay cycle for fiscal 2007. Please refer to the accompanying Notes to the Financial Statements for further details with respect to these changes. The following table summarizes the major categories of net assets and their corresponding changes.

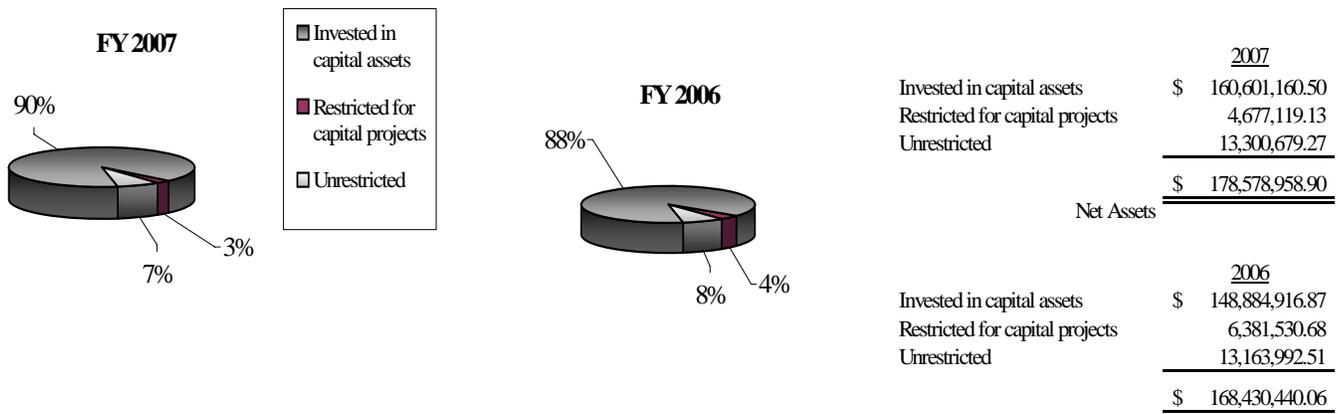
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	June 30, 2007	June 30, 2006	Change	% Change
Current Assets	\$ 20,545,216.24	\$ 18,933,616.32	\$ 1,611,599.92	8.5%
Capital Assets	243,781,498.31	202,165,022.38	41,616,475.93	20.6%
Other Noncurrent Assets	5,229,466.29	6,793,091.58	(1,563,625.29)	-23.0%
Total Assets	269,556,180.84	227,891,730.28	41,664,450.56	18.3%
Current Liabilities	38,382,137.55	7,958,800.62	30,423,336.93	382.3%
Noncurrent Liabilities	52,595,084.39	51,502,489.60	1,092,594.79	2.1%
Total Liabilities	90,977,221.94	59,461,290.22	31,515,931.72	53.0%
Net Assets	\$ 178,578,958.90	\$ 168,430,440.06	\$ 10,148,518.84	6.0%

The Authority's net assets are divided into three major categories. The first, invested in capital assets net of related debt, represents the Authority's equity position with regards to property, facilities and equipment. The second category is restricted to expenditure for capital assets and related debt. The final category is that of unrestricted which is available for any lawful purpose of the Authority. The following exhibit analyzes the Authority's net asset category mix for the periods ending June 30, 2007 and 2006, respectively. Significant changes relate to the expenditure of funds received from state and federal sources (decrease in "restricted for capital projects") for planned capital improvements (increase in "Invested in capital assets").

Net Assets



The Statement of Revenues, Expenses, and Changes in Net Assets reflects an overall increase in net assets for the current fiscal year ending June 30, 2007. This increase relates predominantly to State capital aid. Reduced marine terminal operating results coupled with certain one time nonoperating revenues (gain on sale of assets and Federal grant receipts) recognized in fiscal 2006 account for the majority of the variance between the two fiscal

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

years. The following table identifies variances between major financial categories for the fiscal years ending June 30, 2007 and 2006, respectfully.

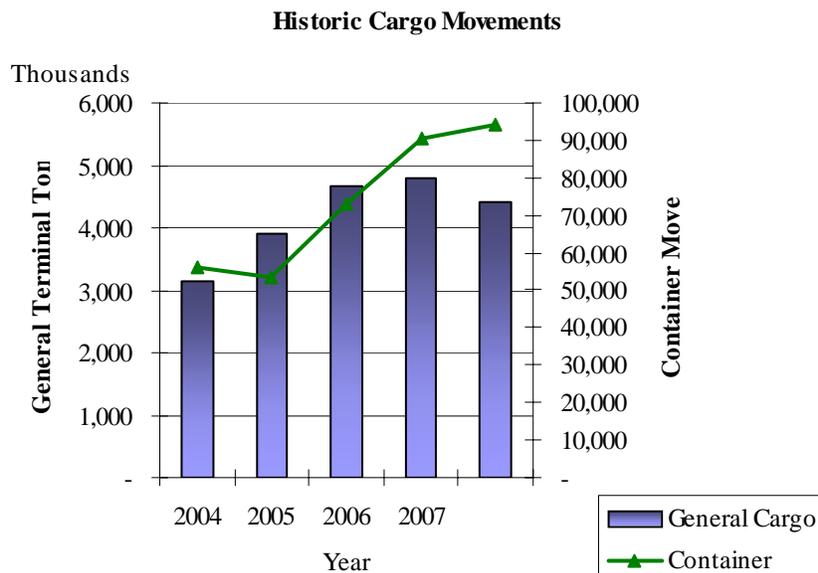
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2007	June 30, 2006	Change	% Change
Operating Revenues	\$ 39,202,165.55	\$ 40,797,894.52	\$ (1,595,728.97)	-3.9%
Operating Expenses	39,470,622.38	38,764,835.81	705,786.57	1.8%
Operating Income (Loss)	<u>(268,456.83)</u>	<u>2,033,058.71</u>	<u>(2,301,515.54)</u>	113.2%
Nonoperating Revenues	527,618.92	4,396,846.08	(3,869,227.16)	-88.0%
Nonoperating Expenses	(1,318,770.24)	(772,556.18)	(546,214.06)	70.7%
Other Revenues	<u>11,344,909.00</u>	<u>18,555,083.20</u>	<u>(7,210,174.20)</u>	-38.9%
Net Nonoperating Revenues	<u>10,553,757.68</u>	<u>22,179,373.10</u>	<u>(11,625,615.42)</u>	-52.4%
Increase in Net Assets	10,285,300.85	24,212,431.81	<u>\$ (13,927,130.96)</u>	-57.5%
Net Assets, Beginning of Period (Restated)	<u>168,293,658.05</u>	<u>144,081,226.24</u>		
Net Assets, End of Period	<u>\$ 178,578,958.90</u>	<u>\$ 168,293,658.05</u>		

Cargo movements for the current year show mixed results as compared to the prior year. Container movements continue to show improved performance posting a 3.9% gain over the prior fiscal year. This increase represents the third consecutive year of growth for container operations providing support for the ongoing expansion of container facilities at the Authority's Port of Wilmington. With respect to the general terminal, operations overall have posted an 8.3% decline in activity and thus ending a previous three year growth trend. Looking more closely at these activities, bulk commodities overall posted a modest increase of 1.2% while breakbulk commodities declined a more significant 27.1%. Two primary commodities account for the majority of reduced breakbulk volumes. The first decline is in forest products, which are handled at both of the Authority's deep-water facilities, and relates directly to the downturn in the domestic housing market. The second is a decline in natural rubber imports handled at the Authority's Port of Morehead City, which resulted from a labor dispute at a principle customer. Both of these commodities are expected to make a recovery in the upcoming fiscal year.

Despite the decline in current year general terminal operations, the Authority has successfully achieved significant growth over the past 5 years posting compound annual growth factors of 11% and 7% for container and general cargo respectfully. The graph below outlines this growth trend.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



These increases are considered sustainable on a long-term basis given that they are driven in a large part, both directly in the case of container volumes as well as indirectly for general terminal activities, by the following domestic port operating conditions. The first being continued growth in US East Coast cargo volumes associated with both general increases in world trade and the repositioning of certain cargo volumes from the west coast relating to congestion, capacity and operational limitations in those facilities. Second, the growing congestion in competing east coast ports to the north and south and a declining capacity/facilities offerings for bulk and break bulk commodities. The following table analyzes several nonfinancial measures relating to these marine activities and cargo movement.

Summarized Cargo Movement (In Units)

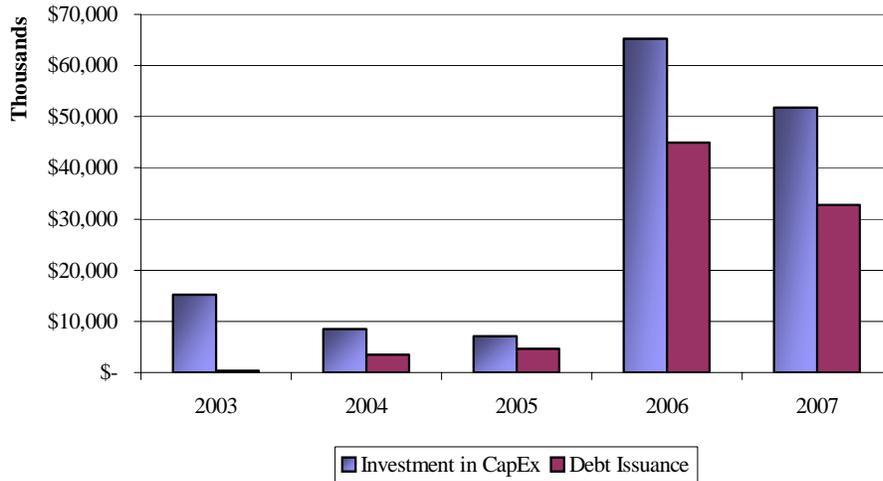
	June 30, 2007	June 30, 2006	Change	% Change
Container Movement	94,103	90,565	3,538	3.9%
General Cargo Movement (Short Tons)	4,404,767	4,804,301	(399,534)	-8.3%
Vessel Calls	970	1,013	(43)	-4.2%
Rail Car Activity	10,857	11,130	(273)	-2.5%

Consistent with cargo movements and related terminal activities, operating revenues have posted a modest decrease of 3.9% as compared to the prior year. This decrease is comprised in large part by the decline in break bulk activities previously identified partially offset by continued increases in container volumes. During the same time period in question, operating expenses have increased by 1.8%, which was driven primarily by labor related costs. The

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

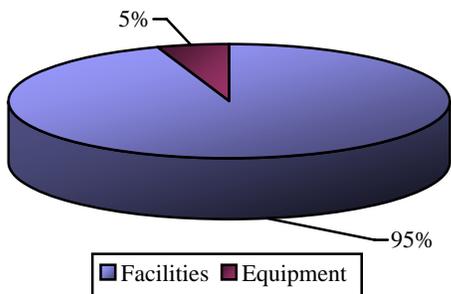
container facility. The following graph summarizes recent capital investment and related debt issuance.

Investment in Capital Assets and Related Debt

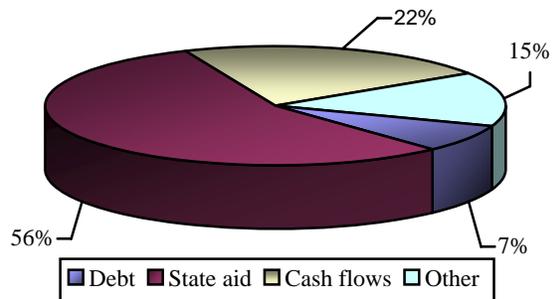


Capital investment for the upcoming fiscal year is projected to slow somewhat in pace coming in at approximately \$27 million. Funding for these expenditures will be accomplished, as in recent years, by a combination of State capital aid, debt issuance, and internal cash flows. Funding for outlying years, 2009 to 2018 are anticipated to come from the same or similar sources as with planned 2008 expenditures. Further details on the capital improvement program can be found the Authority's 2008 Capital Budget document. For a copy of this document call the Finance office at 910-343-6200. The following graphs provide a breakdown of planned FY 2008 expenditure by category as well as anticipated funding by sources.

Expenditures by Category



Funding by Source



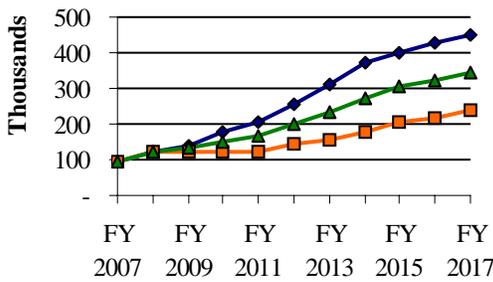
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Outlook

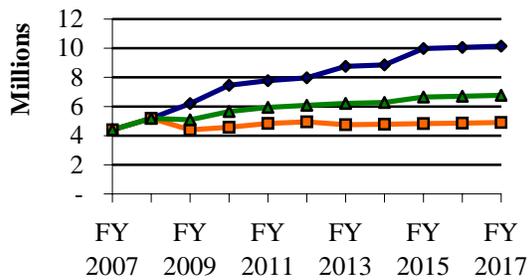
The downturn in general cargo volumes experienced during the current fiscal cycle are expected to reverse over the coming fiscal periods initially through a concentration of market share in certain key commodities and then on a more long term basis through a return of more traditional economic expansion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

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

10 Year Container Movement Forecast (Revenue Moves)



10 Year General Cargo Movement Forecast (Short Tons)



As a result of these growth projections, the Authority is anticipating that utilization at its existing facilities will improve thus raising operating marginal profitability from its current loss position of -1% to levels more comparable in the South Atlantic port peers group of 22% over the next 10 years. Low double-digit operating returns are anticipated as early as 2010.

Looking beyond the internally developed 10 year forecast for container operations at the Port of Wilmington, the consensus among industry experts is that anticipated East Coast capacity shortfalls will be significant and occurring as soon as the calendar year 2012 in certain regions. This consensus outlook was the motivating factor behind the Authority’s acquisition of properties for the construction of a third deep-water terminal facility. The future North Carolina International Terminal (NCIT) will position the State to capture a significant portion of this projected market growth thus providing substantial increases in the Ports economic impacts. It is estimated that the combined capital projects, on existing facilities, will double

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

the Authority's statewide economic impact of 85,000 jobs and nearly \$300 million in tax revenues already attributable to activities at the North Carolina State Ports Authority. The addition of the future NCIT facility in all likelihood would produce upwards to a five-fold increase over these current impacts.

North Carolina State Ports Authority
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 40,814.43
Restricted Cash and Cash Equivalents	255,796.72
Short-Term Investments	9,677,408.09
Restricted Short-Term Investments	1,146,156.20
Receivables, Net (Note 3)	8,034,521.35
Inventories	810,417.84
Prepaid Items	580,101.61

Total Current Assets	20,545,216.24
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,421,287.65
Deferred Charges	808,178.64
Capital Assets - Nondepreciable, (Note 4)	73,547,226.38
Capital Assets - Depreciable, Net (Note 4)	170,234,271.93

Total Noncurrent Assets	249,010,964.60
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Total Assets	269,556,180.84
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	6,420,323.02
Due to Primary Government	26,328.39
Unearned Revenue	197,186.89
Interest Payable	14,890.64
Long-Term Liabilities - Current Portion (Note 7)	31,723,408.61

Total Current Liabilities	38,382,137.55
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	52,595,084.39
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Total Noncurrent Liabilities	52,595,084.39
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Total Liabilities	90,977,221.94
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	160,601,160.50
Restricted / Expendable - Capital Projects	4,677,119.13
Unrestricted	13,300,679.27

Total Net Assets	\$ 178,578,958.90
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The accompanying notes to the financial statements are an integral part of this statement.

***North Carolina State Ports Authority
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues:

Sales and Services, (net of \$14,247.26 change in allowance for doubtful accounts)	\$ 34,739,534.85
Rental and Lease Earnings	4,462,630.70
	<hr/>
Total Operating Revenues	39,202,165.55

EXPENSES

Operating Expenses:

Salaries and Benefits	19,233,375.10
Supplies and Materials	2,076,889.56
Services	6,945,948.38
Depreciation/Amortization	9,788,911.88
Insurance and Bonding	1,075,147.78
Other	350,349.68
	<hr/>
Total Operating Expenses	39,470,622.38

Operating Loss	<hr/> <u>(268,456.83)</u>
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NONOPERATING REVENUES (EXPENSES)

Investment Earnings	527,618.92
Interest and Fees on Capital Asset-Related Debt	(1,297,721.25)
Other Nonoperating Expenses, Net	(21,048.99)
	<hr/>
Total Nonoperating Expenses	(791,151.32)

Loss Before Other Revenues	(1,059,608.15)
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State Capital Aid	11,200,000.00
Capital Grants	144,909.00
	<hr/>

Increase in Net Assets	10,285,300.85
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NET ASSETS

Net Assets July 1, 2006, as Restated (Note 15)	<hr/> 168,293,658.05
Net Assets - June 30, 2007	<hr/> <u>\$ 178,578,958.90</u>

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

***North Carolina State Ports Authority
Statement of Cash Flows
For the Year Ended June 30, 2007***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 37,483,506.86
Payments to Employees and Fringe Benefits	(18,506,496.93)
Payments to Vendors and Suppliers	<u>(9,775,005.30)</u>
Net Cash Provided by Operating Activities	<u>9,202,004.63</u>

**CASH FLOWS FROM CAPITAL FINANCING
AND RELATED FINANCING ACTIVITIES**

State Capital Appropriations	11,200,000.00
Capital Grants	144,909.00
Proceeds from Capital Debt	38,078,783.94
Proceeds from Sale of Capital Assets	45,139.55
Acquisition and Construction of Capital Assets	(51,739,469.01)
Principal Paid on Capital Debt and Leases	(8,178,551.64)
Interest and Fees Paid on Capital Debt	<u>(1,442,123.89)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(11,891,312.05)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,092,560.38
Investment Earnings	526,894.49
Purchase of Investments and Related Fees	<u>(972,380.99)</u>
Net Cash Used by Investing Activities	<u>647,073.88</u>

Net Decrease in Cash and Cash Equivalents	(2,042,233.54)
Cash and Cash Equivalents - July 1, 2006	<u>6,760,132.34</u>

Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 4,717,898.80</u></u>
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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Loss	\$ (268,456.83)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	9,788,911.88
Changes in Assets and Liabilities:	
Receivables (Net)	(1,908,325.83)
Inventories	46,739.06
Prepaid Items	(223,351.19)
Accounts Payable and Accrued Liabilities	1,578,906.45
Due to Primary Government	26,328.39
Deferred Charges	189,667.14
Compensated Absences	<u>(28,414.44)</u>

Net Cash Provided by Operating Activities	<u><u>\$ 9,202,004.63</u></u>
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North Carolina State Ports Authority
Statement of Cash Flows
Year Ended June 30, 2007

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 40,814.43
Restricted Cash and Cash Equivalents	255,796.72
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>4,421,287.65</u>
Total Cash and Cash Equivalent Balances - June 30, 2007	<u><u>\$ 4,717,898.80</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	\$ 164,217.00
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The accompanying notes to the financial statements are an integral part of this statement.

NORTH CAROLINA STATE PORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina State Ports Authority is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the Authority's Board of Directors is financially accountable.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the full scope of the Authority's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the Authority have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations and certain grants. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** – This classification includes money market funds, certificates of deposit, and government securities held by the Authority. Except for money market funds and certificates of deposit, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment earnings.
- Money market funds and certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. Receivables** – Receivables consist of charges to customers for services and environment clean up, contract guarantees and use of facilities provided. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, are valued at the lower of cost or market on a moving weighted average cost basis, which approximates cost on a first-in, first-out (FIFO) basis.
- H. Deferred Charges** – Deferred charges are comprised of prepayments of maintenance contracts for dredging and crane relocation expenses to be written off in future periods.
- I. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Authority capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 20 to 50 years for buildings, 50 years for wharves, and 3 to 25 years for equipment.

- J. Restricted Assets** – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. These assets are also classified as noncurrent since they cannot be used for current operations. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- K. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, revolving credit lines, and compensated absences that will not be paid within the next fiscal year.
- L. Compensated Absences** - The Authority's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

There is no liability for unpaid accumulated sick leave because the Authority has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- M. Net Assets** – The Authority's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the Authority's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from sales and services, rental and lease earnings, sale of surplus property, and interest income.

Restricted and unrestricted resources are tracked separately. When both restricted and unrestricted funds are available for expenditure, the decision for funding is determined by management on case-by-case basis.

- N. Revenue and Expense Recognition** – The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as sales and services and rental and lease earnings. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the Authority, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,399,413.40 which represents the Authority's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2007 was \$1,260.00. The carrying amount of the Authority's deposits not with the State Treasurer, including certificates of deposit, was \$1,463,381.60 and the bank balance was \$1,842,718.10. 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, 2007, the Authority's bank balance was exposed to custodial credit risk as follows

Uninsured and Uncollateralized	<u>\$ 459,361.22</u>
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- B. Investments** - The Authority is authorized to invest its excess funds in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper, and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

before the date funds are expected to be required for expenditure or withdrawal.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the Authority's investments. Interest rate risk is defined by GASB Statement No.40 as the risk a government may face should interest rate variances affect the fair value of investments. The Authority does not have a formal investment policy that addresses interest rate risk.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 1,848,938.00	\$ 1,298,740.50	\$ 550,197.50	\$ 0.00	\$ 0.00
U.S. Agencies	4,817,381.50	647,597.50	1,305,224.08	536,791.84	2,327,768.08
Money Market Funds	3,011,088.59	3,011,088.59			
		<u>\$ 4,957,426.59</u>	<u>\$ 1,855,421.58</u>	<u>\$ 536,791.84</u>	<u>\$ 2,327,768.08</u>
Other Securities					
Certificates of Deposit	<u>1,146,156.20</u>				
Total Investments	<u>\$ 10,823,564.29</u>				

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

Credit Risk: The Authority has a formal Reserve Investment 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 rating of no less than A-1, P-1 by a nationally recognized rating agency; asset backed securities that bear a rating of no less than AAA by a nationally recognized rating agency; and corporate bonds and notes that bear a rating of no less than AAA by a nationally recognized rating agency.

In addition to the interest rate risk disclosed above, the Authority's investments include investments with fair values highly sensitive to interest rate changes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, the Authority's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
U.S. Agencies	\$ 4,817,381.50	\$ 4,817,381.50
Money Market Funds	3,011,088.59	3,011,088.59
	\$ 7,828,470.09	\$ 7,828,470.09

Rating Agency: Moody's / Standard & Poors

Custodial Credit Risk: For an investment, 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, 2007, the Authority's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in Authority's Name
U.S. Agencies	\$ 4,817,381.50

Concentration of Credit Risk: The Authority places no limit on the amount that may be invested in any one issuer. More than 5% of the investments are in U.S. Agencies. These investments are 45% of the Authority's total investments.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Accounts	\$ 6,823,309.46	\$ 14,247.26	\$ 6,809,062.20
Other	1,167,436.10		1,167,436.10
Investment Earnings	58,023.05		58,023.05
	\$ 8,048,768.61	\$ 14,247.26	\$ 8,034,521.35
Total Current Receivables			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 57,525,021.19	\$ 77,496.21	\$ 0.00	\$ 57,602,517.40
Construction in Progress	31,590,799.32	42,285,174.63	57,931,264.97	15,944,708.98
Total Capital Assets, Nondepreciable	89,115,820.51	42,362,670.84	57,931,264.97	73,547,226.38
Capital Assets, Depreciable:				
Buildings	73,301,799.91	4,536,519.12	1,179,265.92	76,659,053.11
Machinery and Equipment	40,598,908.54	35,442,046.67	759,425.74	75,281,529.47
General Infrastructure	142,031,799.11	26,714,497.35	37,151.13	168,709,145.33
Total Capital Assets, Depreciable	255,932,507.56	66,693,063.14	1,975,842.79	320,649,727.91
Less Accumulated Depreciation/Amortization for:				
Buildings	32,114,428.93	2,223,063.52	70,659.47	34,266,832.98
Machinery and Equipment	37,484,225.40	2,183,116.21	1,218,875.86	38,448,465.75
General Infrastructure	73,284,651.36	4,892,457.32	476,951.43	77,700,157.25
Total Accumulated Depreciation	142,883,305.69	9,298,637.05	1,766,486.76	150,415,455.98
Total Capital Assets, Depreciable, Net	113,049,201.87	57,394,426.09	209,356.03	170,234,271.93
Capital Assets, Net	\$ 202,165,022.38	\$ 99,757,096.93	\$ 58,140,621.00	\$ 243,781,498.31

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 5,483,081.50
Accrued Payroll	937,241.52
Total Accounts Payable and Accrued Liabilities	\$ 6,420,323.02

NOTE 6 - SHORT-TERM DEBT – LINE OF CREDIT

The Authority uses revolving lines of credit to finance capital purchases. These lines of credit were necessary to maintain current cash flows.

Short-term debt activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Draws	Repayments	Balance June 30, 2007
Line of Credit	\$ 900,000.00	\$ 4,385,000.00	\$ 5,285,000.00	\$ 0.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Bonds Payable	\$ 40,795,000.00	\$ 0.00	\$ 870,000.00	\$ 39,925,000.00	\$ 870,000.00
Notes Payable	11,585,105.51		1,036,095.96	10,549,009.55	1,132,510.08
Revolving Lines of Credit		33,693,783.94	987,455.68	32,706,328.26	29,642,252.01
Compensated Absences	1,166,569.63	918,773.96	947,188.40	1,138,155.19	78,646.52
Total Long-Term Liabilities	\$ 53,546,675.14	\$ 34,612,557.90	\$ 3,840,740.04	\$ 84,318,493.00	\$ 31,723,408.61

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2007	Principal Outstanding June 30, 2007
Construct Bulk Grain Facility	2001	1.1%-15%	09/2022	\$ 11,000,000.00	\$ 6,280,000.00	\$ 4,720,000.00
Port Facilities Revenue Bonds	2006	4%	06/2036	35,780,000.00	575,000.00	35,205,000.00
Total Bonds Payable						\$ 39,925,000.00

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2007	Principal Outstanding June 30, 2007
Real Estate Acquisition	First Citizens	2.97%	11/2007	\$ 746,508.32	\$ 714,592.52	\$ 31,915.80
Tow Tugs and Trailers	BB&T	3.46%	11/2008	171,403.30	127,256.07	44,147.23
AS 400 System Upgrade	SunTrust	2.55%	8/2006	93,000.00	93,000.00	
IT Equipment	SunTrust	3.43%	2/2007	105,506.27	105,506.27	
Gantry Crane	RBC Centura	2.77%	8/2008	500,000.00	381,275.14	118,724.86
Crane 11 Acquisition	SunTrust	4.35%	2/2020	2,700,000.00	405,000.00	2,295,000.00
MTC Purchase	First Citizens	3.48%	8/2012	300,000.00	38,586.73	261,413.27
Container Handler/Top Picks	BB&T	3.76%	12/2015	3,793,500.00	569,025.00	3,224,475.00
Forklift Acquisition	SunTrust	2.81%	12/2010	800,000.00	226,666.61	573,333.39
Boykin Property	SunTrust	53% Prime		4,000,000.00		4,000,000.00
Total Notes Payable				\$ 13,209,917.89	\$ 2,660,908.34	\$ 10,549,009.55

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	Beginning Balance July 1, 2006	Transfers	Additions	Deletions	Ending Balance June 30, 2007
Credit Facility A	\$ 0.00	\$ (4,524,702.99)	\$ 7,783,345.77	\$ 194,566.53	\$ 3,064,076.25
Credit Facility C		4,524,702.99	25,910,438.17	792,889.15	29,642,252.01
	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 33,693,783.94</u>	<u>\$ 987,455.68</u>	<u>\$ 32,706,328.26</u>

On August 31, 2006, the Authority entered into a Credit and Participation Agreement with Branch Banking and Trust Company and SunTrust Bank which established three separate credit facilities. These commercial facilities have a three year term expiring June 30, 2009, with a variable rate index based on 78% of the 30 day LIBOR plus appropriate spread and repayment terms as outline below.

- (a) **Credit Facility A** - \$5,000,000 revolving operating line of credit for working capital purposes and short-term financing of equipment purposes. Interest payable monthly; principal subject to borrowing base. Interest rate June 30, 2007 is 6.82%.
- (b) **Credit Facility C** - \$40,000,000 revolving bridge financing to provide short-term bridge loan financing for other capital improvements of the Authority. Interest payable monthly and principal due upon issuance of bonds, currently planned to occur in April 2008. Interest rate at June 30, 2007 is 4.7996%.

E. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2007, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Notes Payable		Revolving Credit	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 875,000.00	\$ 1,594,222.91	\$ 1,132,267.87	\$ 404,809.44	\$ 29,642,252.01	\$ 1,351,826.59
2009	910,000.00	1,553,701.96	982,468.59	366,184.24	3,064,076.25	182,328.24
2010	935,000.00	1,519,560.46	962,106.97	329,828.89		
2011	965,000.00	1,481,828.46	896,928.46	293,193.62		
2012	995,000.00	1,445,314.57	805,134.67	258,885.03		
2013-2017	5,535,000.00	6,579,131.59	3,275,102.99	784,597.93		
2018-2022	6,605,000.00	5,381,771.12	1,495,000.00	192,758.42		
2023-2027	6,785,000.00	4,013,720.66	1,000,000.00			
2028-2032	8,210,000.00	2,556,152.15				
2033-2036	8,110,000.00	748,458.48				
Total Requirements	<u>\$ 39,925,000.00</u>	<u>\$ 26,873,862.36</u>	<u>\$ 10,549,009.55</u>	<u>\$ 2,630,257.57</u>	<u>\$ 32,706,328.26</u>	<u>\$ 1,534,154.83</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

The Authority entered into operating leases for machinery and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 52,934.11
2009	45,959.80
2010	29,195.32
2011	4,631.44
Total Minimum Lease Payments	<u>\$ 132,720.67</u>

Rental expense for all operating leases during the year was \$41,935.00.

NOTE 9 - FUTURE RENTAL REVENUES

The Authority leases certain land and facilities to others. These leases are accounted for as operating leases; revenues are recorded when earned, and depreciation is provided, where appropriate, on leased facilities. Minimum future revenues under noncancelable agreements treated as operating leases as of June 30, 2007 are presented as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 3,994,159.60
2009	3,318,960.24
2010	2,836,471.02
2011	1,001,697.68
2012	1,007,820.43
2013 and Thereafter	7,897,963.12
Total Minimum Lease Payments	<u>\$ 20,057,072.09</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the Authority had a total payroll of \$15,021,340.11, of which \$14,844,406.44 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$890,664.39 and \$394,861.21, respectively. The Authority made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$394,861.21, \$340,354.38, and \$294,567.31, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Authority. The voluntary contributions by employees amounted to \$68,538.00 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the Authority except for a 5% employer contribution for the Authority's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of Authority law enforcement officers for the year ended June 30, 2007, were \$46,726.74. The voluntary contributions by employees amounted to \$93,189.26 for the year ended June 30, 2007.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The Authority participates in State-administered programs that provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The Authority contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2007, the Authority's total contribution to the Plan was \$564,087.44. 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*.
- B. Disability Income -** The Authority participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The Authority contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Optional Retirement Program to the DIPNC. For the year ended June 30, 2007, the Authority's total contribution to the DIPNC was \$77,190.91. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The Authority pays the premium, based on a composite rate, directly to the private insurer.

The Authority is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the Authority for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible.

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 occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence and out-of-State are \$1,000,000 per claim and \$5,000,000 per occurrence. The Authority pays premiums to the North Carolina Department of Insurance for the coverage.

The Authority is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Authority is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Authority purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

Authority employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Authority's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Authority is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Authority is self-insured for workers' compensation.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year. Additional, term life insurance (accidental death and disability benefits) is provided through a private insurance company. The benefit is equal to one and one-half times the employee's annual salary and is effective for all full-time employees. Employees may purchase additional coverage through payroll deduction and have the option to convert the terms offered by the provider to maintain the policy at their own cost upon termination of employment. Total employer contributions on behalf of Authority employees for the year ended June 30, 2007, were \$79,847.06. The voluntary contributions by employees amounted to \$33,142.47 for the year ended June 30, 2007.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The Authority has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$5,391,366.00 at June 30, 2007.



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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 Trustees
North Carolina State Ports Authority
Wilmington, North Carolina

We have audited the financial statements of North Carolina State Ports Authority, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated April 2, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 2, 2008

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