South Carolina State Ports Authority

Financial Statements and
Required Supplemental Information
June 30, 2013 and 2012

South Carolina State Ports Authority
Index
June 30, 2013 and 2012

Independent Auditor's Report

To the Board of Directors
South Carolina State Ports Authority

We have audited the accompanying financial statements of the South Carolina State Ports Authority (the "Ports Authority"), a component unit of the State of South Carolina, which comprise the statements of net position as June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 our 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, we consider internal control relevant to the Port 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 Port 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.

PricewaterhouseCoopers LLP, 320 East Main Street, Suite 420, Spartanburg, SC 29302
T: (864) 577 8810, F: (864) 577 8811, www.pwc.com/us

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina State Ports Authority at June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements of the Ports Authority are intended to present the financial position, changes in financial position and cash flows of the State of South Carolina that are attributable to transactions of the Ports Authority. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2013 and 2012, and the changes in financial position or its cash flows for the years then ended in conformity with principles generally accepted in the United States of America.

Other Matter

The accompanying management's discussion and analysis on pages 3 through 15 and the required supplemental information on pages 50 through 54 are required by accounting principles generally accepted in the United States of America 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 audits 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.

PricewaterhouseCoopers LLP

October 15, 2013

Required Supplementary Information

Annual Financial Report

The annual financial report of the South Carolina State Ports Authority ("Ports Authority") provides an overview of the Ports Authority's financial activities for the fiscal years ended June 30, 2013 and 2012. The financial statements include the independent auditor's opinion, statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and the accompanying explanatory notes. Management's discussion and analysis should be read in conjunction with the financial statements and notes.

Management's Discussion and Analysis

The South Carolina State Ports Authority was created in 1942 by Act Number 626 of the South Carolina General Assembly for the general purposes of developing and improving the harbors and seaports of Charleston, Georgetown and Beaufort for the handling of waterborne commerce, and to foster and stimulate the shipment of freight and commerce through these ports. The Ports Authority has no stockholders or equity holders and is directed by a governing board, whose members are appointed by the Governor of South Carolina for five-year terms. The Board consists of nine voting members and the Secretaries of Transportation and Commerce as additional ex officio, nonvoting members. The Ports Authority owns and is responsible for the operation of six ocean terminals at the ports of Charleston and Georgetown. These facilities primarily handle import and export containerized breakbulk and bulk cargoes.

2009 Legislation

During the 2009 session, the South Carolina General Assembly enacted legislation ("Act No. 73") affecting, among other things, the disposition of certain of the Ports Authority's real property assets.

Act No. 73 directs the sale of real property owned by the Ports Authority at Port Royal, Daniel Island and Thomas Island and imposes time deadlines for the completion of such sales. Management does not believe that the sale of the assets in question would have a material impact on the Ports Authority's operations or financial position. However, the Ports Authority must balance compliance with the deadlines imposed by Act. No. 73 with certain limitations upon the disposition of real property contained in the Ports Authority's Master Bond Resolution. Legal counsel for the Ports Authority and the State Budget and Control Board have reviewed options for a course of action to ensure compliance with both Act No. 73 and the Ports Authority's Master Bond Resolution, regarding disposition of its real property.

Act No. 73 required a sale of the Port Royal property by December 31, 2009, barring which the Port Royal property was to be transferred to the State Budget and Control Board, which agency would assume the Ports Authority's fiduciary duties to its bondholders relating to the disposition of real property. The sale of the Port Royal property is still pending at June 30, 2013. The State Budget and Control Board is using the Ports Authority as its agent for the sale of the property.

Act No. 73 also requires that the Daniel Island and Thomas Island properties be subject to a contract of sale by December 31, 2012, such sale to be completed by December 31, 2013, barring which such properties are also to be transferred to the State Budget and Control Board. The requirement to sell the property has been extended to June 30, 2014.

Act No. 73 also imposes obligations on the Ports Authority to take all action necessary to expeditiously develop a port in Jasper County. The Ports Authority and the Georgia Ports Authority, pursuant to an Intergovernmental Agreement, have joined in a council known as the Joint Project Office to study and plan for a potential terminal. Other than funding certain studies, no action has been required of the Ports Authority to date under this provision. The impact of this provision on the Ports Authority's operations and financial position cannot be ascertained at this time, but the cost of such project could be material.

Recent Economic Events

In fiscal year 2013, the Ports Authority continued to experience the stabilization and recovery in volumes that began in fiscal year 2011. While the macro-economic recovery, and more specifically the recovery in waterborne commerce, is predicted to be gradual over the next several years, the Port Authority's pier container volume as expressed in twenty-foot-equivalent units (TEUs) grew substantially at a rate of 8.9% over fiscal year 2012, while breakbulk pier tons experienced substantial growth achieving a 14.6% increase over fiscal year 2012.

As volumes rebound and while the Ports Authority continues to exceed the required debt service ratio, net revenues for debt service decreased by 4.9% in fiscal year 2013. This decrease was driven largely by increases in operating expenses. Additionally, a one-time non-operating expense in the amount of $2.2 million was recorded for the condemnation of leasehold rights to secure part of the land footprint for the new South Carolina inland port. Also, in fiscal year 2013, the Ports Authority paid economic development grants to two counties in South Carolina in the total amount of approximately $9.1 million. The Ports Authority continues to monitor the global economy and shipping trends and projects increases in volumes and net revenues for fiscal year 2014.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the Ports Authority, including written, as outlined above, or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, which address activities, events or developments that the Ports Authority expects or anticipates will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions.

Financial Position

The Ports Authority's performance measures during fiscal years ended June 30 are as follows:

(in thousands)	**2013**	**2012**	**2011**
Total operating revenues	$ 140,388	$ 130,948	$ 124,649
Total TEUs (equivalent number of 20' container units)	1,560	1,432	1,384
Breakbulk pier tonnage	1,618	1,412	992

A total of 1,839, 1,745 and 1,695 vessels (excluding barges) docked during the years ended June 30, 2013, 2012 and 2011, respectively. The Ports Authority provided services to 17 out of the top 20 largest container ship lines based on US containerized import and export cargo volumes for the first six months of calendar year 2013 as reported in *The Journal of Commerce/PIERS* U.S Global Container Report.

Required Financial Statements

The financial statements of the Ports Authority report information about the Ports Authority using accounting principles generally accepted in the United States of America. These statements offer short and long-term financial information about its activities.

The statements of net position include all of the Ports Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Ports Authority's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Ports Authority and assessing the liquidity and financial flexibility of the Ports Authority.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Ports Authority's operations and can be used to determine whether the Ports Authority has successfully recovered all its costs through its customer contracts, tariff and other charges, as well as its profitability, and creditworthiness.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Ports Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was it used for, and what was the change in cash balance during the reporting period.

Analysis of Overall Financial Position and Results of Operations

One of the most important questions asked about the Ports Authority's financial statements is "Is the Ports Authority as a whole, better off or worse off as a result of the year's activities?" The statements of net position and the statements of revenues, expenses and changes in net position report information about the Ports Authority's activities in a way that will help answer this question. One can think of the Ports Authority's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Ports Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, world events, regulation and new or changed government legislation.

Statements of Net Position (Balance Sheets)

The statement of net position serves as a useful indicator of the Ports Authority's financial position. It distinguishes assets and liabilities as to their expected use for current operations or internally designated use for capital projects. The Ports Authority's assets exceeded liabilities by $706.6 million and $699.3 million at June 30, 2013 and 2012, respectively, a $7.3 million increase from June 30, 2012. A condensed summary of the Ports Authority's balance sheet and resulting net assets at June 30 is shown below:

(in thousands of dollars)	2013	2012	2011
Assets			
Current assets	$ 86,576	$ 154,138	$ 144,940
Internally designated assets	137,787	103,058	121,342
Held by trustee for debt service	15,642	15,451	15,919
Held by third party for capital projects	-	1,000	1,175
Other assets, net of depreciation	697,617	641,468	619,323
Total assets	$ 937,622	$ 915,115	$ 902,699
Liabilities			
Current liabilities	$ 47,703	$ 38,669	$ 43,485
Long-term obligations	183,369	177,174	177,517
Total liabilities	231,072	215,843	221,002
Net Position			
Invested in capital assets, net of debt	504,276	471,360	490,660
Restricted for debt service, net of debt	9,009	8,818	9,287
Restricted for capital projects	-	1,000	1,175
Restricted for federal grant purposes	-	-	515
Unrestricted	193,265	218,094	180,060
Total net position	706,550	699,272	681,697
Total liabilities and net position	$ 937,622	$ 915,115	$ 902,699

The largest portion of the Ports Authority's net position each year (71.4%, 67.4% and 72.0% at June 30, 2013, 2012 and 2011, respectively) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related debt outstanding used to acquire those capital assets. The Ports Authority uses these capital assets to provide services to major steamship lines and their agents for movement of maritime cargo; consequently, these assets are not available for future spending. Although the Ports Authority's investment in capital assets reported is shown net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves generally are not sold to liquidate liabilities.

An additional portion of the Ports Authority's net position (1.3%, 1.4% and 1.6% at June 30, 2013, 2012 and 2011, respectively) represents resources that are subject to external restrictions. The remaining unrestricted net assets (27.4%, 31.2% and 26.4% at June 30, 2013, 2012 and 2011, respectively) may be used to meet any of the Ports Authority's ongoing obligations as defined by the revenue bond covenants.

Statements of Revenues, Expenses and Changes in Net Position

A condensed comparative summary of the Ports Authority's revenues, expenses and changes in net position for the years ended June 30 is shown below:

(in thousands of dollars)	2013	2012	2011
Operating revenues	$ 140,388	$ 130,948	$ 124,649
Operating expenses	124,061	123,674	108,006
Operating earnings	16,327	7,274	16,643
Nonoperating income (expense), net	1,727	5,219	2,613
Contribution to State of South Carolina	(1,000)	(1,000)	(1,000)
Contribution to Berkeley County, South Carolina	(8,000)	-	-
Contribution to Aiken County, South Carolina	(1,093)	-	-
Capital contributions of land	-	-	1,057
Capital grants from the federal government	1,517	6,082	1,918
Condemnation of leasehold rights	(2,200)	-	-
Increase in net position	$ 7,278	$ 17,575	$ 21,231

Operating revenues increased 7.3% from $130.9 million to $140.4 million during 2013. The increase can be attributed to a 8.3% increase in container volume throughput or a 8.9% increase expressed in twenty-foot-equivalent units (TEU) and a 14.6% increase in breakbulk pier tons. This recovery created volume that increased revenues for most port services that include wharfage, storage, dockage, terminal security surcharge, handling, rail drayage, container and chassis services, demurrage and throughput fees. These revenue increases were partially offset by decreases in container handler rental, and by sales incentives provided to customers.

Operating revenues increased 5.1% from $124.6 million to $130.9 million during 2012. The increase can be attributed to a 2.4% increase in container volume throughput or a 3.5% increase expressed in twenty-foot-equivalent units (TEU) and a 42.4% increase in breakbulk pier tons. This recovery created volume that increased revenues for wharfage, dockage, handling, container and chassis services and throughput fees. In addition, a substantial increase in revenue was achieved with increased cruise ship passenger embark, disembark and vehicle storage fees earned. The increase in throughput fees reflects the increased container unit fees associated with the Ports Authority's new single gate operation placed into service during January 2011. As a result of the adoption of a single gate operation and related change in structure of customer contract rates, both the revenues and expenses in the container business segment have increased. The used of land and equipment continue as in the past, just different revenue and expense accounts are impacted.

The following table breaks down operating revenues by location for each fiscal year ended June 30:

(in thousands of dollars)	2013	2012	2011
Operating revenues			
Charleston	$ 138,558	$ 129,145	$ 122,757
Georgetown	1,255	1,127	1,108
Port Royal	12	11	11
Other	563	665	773
Total operating revenues	$ 140,388	$ 130,948	$ 124,649

The following table breaks down operating expenses for each fiscal year ended June 30:

(in thousands of dollars)	2013	2012	2011
Operating expenses (gains)			
Direct operating expenses	$ 75,625	$ 71,567	$ 59,856
Administrative expense	23,440	21,140	19,316
Depreciation expense	28,702	30,967	28,834
Gain on storm damage net of insurance proceeds	(3,706)	-	-
Total operating expenses	$ 124,061	$ 123,674	$ 108,006

Direct operating expenses for fiscal year 2013 increased by 5.7% from $71.5 million in 2012 to $75.6 million. The increase is primarily due to more overtime hours due to more vessel calls on weekends, performance incentive payments, electricity for refrigerated containers and motor carrier rail dray. This increase was offset by the decline in berth maintenance dredging costs and charges to other outside services experienced in the prior years from the one-time relocation cost of $4.1 million for two dockside cranes from one terminal site to another. Administrative expenses for fiscal year 2013 increased 10.9% from $21.1 million in 2012 to $23.4 million in 2013. This increase was primarily due to new hiring, performance incentive payments, increased retirement benefits and legal fees. This increase was offset by a reduction in bad debt expense as a result of improved collection efforts related to customer receivables. The Ports Authority placed less assets into service during 2013, resulting in a decrease in depreciation expense in fiscal year 2013. The Ports Authority recognized a gain of $3.7 million from storm damage repair costs net of insurance recovery for four dockside cranes that were damaged in a wind storm during fiscal year 2013.

Direct operating expenses for fiscal year 2012 increased by 19.6% from $59.9 million in 2011 to $71.6 million. The increase is primarily due to new gate labor costs from the private stevedoring company partnered with the Ports Authority for its new single gate operation placed into service during January 2011, the one-time relocation cost of $4.1 million for two dockside cranes from one terminal site to another, increased overtime, fuel costs and retirement benefits. The increase was partially offset by decreased amounts for repairs and maintenance of miscellaneous crane equipment and performance incentive payments. Administrative expenses for fiscal year 2012 increased 9.4% from $19.3 million in 2011 to $21.1 million in 2012. This increase was primarily due to the write off of project costs incurred for the development of a new terminal operating system of $.970 million that was determined to be impaired, new hiring, increase in retirement benefits and use of other professional services. Many other smaller administrative expense accounts increased contributing to the 7.4% increase from 2011. The Ports Authority placed more assets into service during 2012, and retired some older assets that resulted in an increase in depreciation expense in fiscal year 2012.

For 2013, operating earnings increased by 125.0% or $9.1 million for the reasons stated above. For 2012, operating earnings decreased by 56.3% or $9.4 million for the reasons stated above.

Nonoperating income (expense), decreased from a net income of $5.2 million in 2012 to net income of $1.7 million in 2013. This decrease is due principally to the impact of the prior year collection of an easement fee in connection with a city drainage project of $1.6 million, reduction in the amount of federal grant funds passed through for recipients in heavy duty diesel engine replacement programs, decreased earnings on investments, and a decrease in the fair market value of interest rate exchange agreements entered into during prior years. The decrease was offset partially due to less interest expense required to be capitalized for assets under construction.

Nonoperating income (expense), increased from a net income of $2.6 million in 2011 to net income of $5.2 million in 2012. This increase is due principally to the collection of an easement fee in connection with a city drainage project of $1.6 million, increased amounts of dredge site disposal fees collected, increased earning on investments, and an increase in the fair market value of interest rate exchange agreements entered into during prior years. The prior year expense recognition of unamortized bonds issue costs and prior year write off of security project costs also impacted the net increase between years.

The Ports Authority made contributions to the State of South Carolina for the Cooper River Bridge during the years ended June 30, 2013, 2012 and 2011, as more fully described in Note 12 – Other Matters. In addition, the Ports Authority contributed $8.0 million to help fund the construction of the interchange leading to the site that houses a major distribution center in Berkeley County. Approximately $1.1 million was contributed to Aiken County for water and sewer infrastructure improvements to support the expansion of a major manufacturing facility. These payments have been treated as nonoperating contributions to the state and county governments in South Carolina and therefore have reduced the Ports Authority's net position. These contributions are not treated as a capital asset of the Ports Authority and future payments are not recorded as a liability.

The Ports Authority incurred a $2.2 million expense to settle the condemnation of leasehold rights on their property located in Spartanburg County in preparation for construction of its new inland port.

During the years ended June 30, 2013, 2012 and 2011, the Ports Authority earned approximately $1.7 million, $6.1 million and $1.9 million, respectively, in federal grant money to be used for security related capital expenditures and to aid in the reduction of emissions from heavy duty diesel engines.

In summary, net position during fiscal years 2013, 2012 and 2011 increased $7.3 million, $17.6 million and $21.2 million, respectively.

Statements of Cash Flows

The following shows a summary of the major sources and uses of cash and cash equivalents. Cash equivalents include highly liquid investments generally with a remaining maturity at time of purchase of three months or less. A condensed comparative summary of the statements of cash flows for the years ended June 30 is shown below:

(in thousands of dollars)	**2013**	**2012**	**2011**
Cash flow from operating activities	$ 41,786	$ 40,038	$ 44,131
Cash flow from investing activities	4,212	4,859	1,288
Cash flow from noncapital financing activities	(12,293)	-	-
Cash flow from capital and related financing activities	(74,604)	(54,421)	28,320
Change in cash and cash equivalents	(40,899)	(9,524)	73,739
Cash and cash equivalents			
Beginning of year	227,989	237,513	163,774
End of year	$ 187,090	$ 227,989	$ 237,513

The Ports Authority's available cash and cash equivalents decreased from $227.9 million in 2012 to $187.0 million in 2013. Cash flows from operating activities increased from $40.0 in 2012 to $41.8 in 2013, this change is not substantial; however, the increase can be attributed to improved cash collection efforts related to customer balances offset by slight increases in payments to suppliers and employees. Cash flows from investing activities decreased from $4.9 million in 2012 to $4.2 million in 2013. This decrease is primarily related to a decrease in investment income during 2013 as a result of low interest rates and declining investment balances for the Ports Authority as substantial cash is being spent on capital activities. Cash flows from noncapital financing activities were $12.3 million in 2013. This increase is related to the grant monies provided to Berkeley and Aiken counties during 2013 for infrastructure improvements. These infrastructure improvements are not the assets of the Ports Authority, and therefore these payments are classified as noncapital financing activities. Cash flows from capital and related financing activities increased from $54.4 million in 2012 to $74.6 million in 2013 as a result of increased capital spending related to various construction projects. The most significant projects include the continuation of site development work for the new container terminal located on the former Navy Base as well as the inland Port facility located in Spartanburg County. In 2011, the cash flows from capital and related financing activities included a cash payment of $85.6 million for the partial redemption of the Series 1998 revenue bonds and the issuance of the Series 2010 bonds for $170 million.

Capital Acquisitions and Construction Activities

During the fiscal year ended June 30, 2013, the Ports Authority purchased and constructed approximately $87.4 million in new capital assets. The major capital assets under design and construction were the continuation of site development work at the future container terminal located at the old Charleston Navy Base, and the construction of a new inland port facility in Spartanburg County, construction of a 100,000 square foot warehouse at Columbus Street terminal, and feasibility work for the post 45' harbor deepening initiative. Approximately $3.0 million of fixed assets (at cost) were written off or disposed of during 2013.

During the fiscal year ended June 30, 2012, the Ports Authority purchased and constructed approximately $54.2 million in new capital assets. The major capital assets under design and construction were the continuation of site development work at the future container terminal located at the old Charleston Navy Base, completion of the raise and pave project at the Columbus Street Terminal, construction of a 100,000 square foot warehouse at Columbus Street terminal, and feasibility work for the post 45' harbor deepening initiative. Approximately $1.6 million of fixed assets (at cost) were written off or disposed of during 2012.

On June 20, 2011, the Ports Authority agreed to provide $9.5 million to the U.S. Army Corps of Engineers to continue with a study for the proposed Charleston Harbor post 45 ft. deepening project. Through fiscal year 2013, the Ports Authority made advance payments of $4.97 million of its required 50% share for the Army Corps study with the additional $4.53 million to follow as required. The deepening study is expected to be complete by September 2015. The Army Corps has estimated that construction of the project will take approximately three years to complete and will cost approximately $300 million. During fiscal year 2012, the SC General Assembly appropriated $300 million to the Harbor Deepening Reserve Fund to cover all costs associated with the deepening of the Charleston harbor; representing $180 million for the state cost share and an additional $120 million if the federal share is not available when construction begins.

Capital asset acquisitions are capitalized at cost. Acquisitions were funded primarily with the issuance of tax-exempt revenue bonds and port revenues. The Ports Authority had construction commitments of approximately $45.2 million at June 30, 2013. Additional information on the Ports Authority's capital assets and commitments can be found in Note 3 – Property and Equipment and Note 6 – Commitments in the notes to the financial statements.

Capital Improvement Plan
The Ports Authority strategically evaluates the need for capital improvements based on a demand driven strategy that balances the deployment of capital resources with projected cash flows. Intermediate and long range capital investment plans are prepared based on market demand, timing, costs, permitting, financing capabilities and other factors. These plans are periodically updated to reflect changing events. Generally, the Ports Authority funds capital projects from a combination of operating cash flows and the issuance of revenue bonds.

Improvements to Existing Facilities
Over the next ten years the Ports Authority plans to spend approximately $688 million on improvements to its existing marine terminal facilities and the South Carolina inland port. These projects represent infrastructure improvements and equipment acquisitions required to maintain and enhance the operational efficiency and capability of the Ports Authority's facilities to meet customer demand. The two-year plan for existing terminal upgrades contemplates approximately $189 million in capital spending. The near-term projects include the purchase of two replacement container cranes, the completion of the South Carolina Inland Port in Greer, South Carolina, paving upgrades, wharf structural improvements, and retrofitting an existing warehouse for a new cruise ship terminal.

South Carolina Inland Port
The Ports Authority is currently constructing the South Carolina Inland Port in Greer, SC. The Greer terminal will be an intermodal rail facility to transfer import and export containers and cargo via rail which will span more than 200 miles. The Inland Port, providing overnight double-stack rail service, will improve the efficiency of international freight movements between the Port, the upstate manufacturing region, and neighboring states, thus promoting economic development in the State of South Carolina. By utilizing the rail line, importers and exporters can maximize tonnage moved per gallon of fuel, which will provide both environmental benefits and costs savings. The inland port is estimated to begin operation in October 2013. As of June 30, 2013, the Ports Authority has invested approximately $13,886,000 in capital expenditures related to this new facility.

New Terminal Expansion – Navy Base Project
In May 2007, the Ports Authority received permits to begin construction of a 286 acre container terminal facility on a portion of the former Charleston Naval Base on the west bank of the Cooper River in North Charleston, SC. This facility is planned to be constructed in at least three phases. The first phase consists of two marine berths, 171 improved acres and necessary equipment. The cost of this first phase is currently estimated to be approximately $778 million and is subject to revision based on the timing of construction and other factors which could result in a significant increase in total project costs. The remaining phases will be developed over many years on a demand driven basis.

As of June 30, 2013, the Ports Authority has spent approximately $127 million on construction, permitting, consulting and engineering costs related to the first phase of the new terminal. The Ports Authority is in process of moving 1.75 million cubic yards of dredge material from Daniel Island to the future terminal site for approximately $46 million. This contract is in progress and the estimated completion date is third quarter fiscal year 2014. In fiscal year 2011, the Ports Authority completed the construction of a containment wall that will allow for the consolidation of the upland and marine fill in area and will facilitate the construction of the dock and wharf portions of the project.

In addition to the marine terminal, an access road project is planned to facilitate the movement of traffic to and from the new terminal. This access road will be constructed by the South Carolina Department of Transportation ("SCDOT"). Right-of-way acquisition by SCDOT is proceeding. The current estimated cost of the road is $282 million, of which approximately $70 million will be paid for by the Ports Authority. Based on this estimate, the State of South Carolina has committed the remainder of the necessary funds for the access road project. The Ports Authority's share ($70 million) is included in the total $778 million first phase cost estimate for the new facility, noted above. The access road must be constructed in order for the Ports Authority to comply with permit conditions for the new marine terminal facility.

The initial portion of the first phase of construction for the new terminal involves three critical-path projects: the construction of the containment wall, the construction of the access road by SCDOT, and the fill and consolidation of the land at the site. The Ports Authority continues to move forward with these critical-path projects based on its current financial capabilities and funding committed by the State of South Carolina for the access road. The Ports Authority's portion of costs associated with these critical path projects is approximately $295 million. After completion of these critical-path projects, the dock and wharf construction, paving, and equipping the terminal will follow to complete the first phase of construction. These projects are estimated to cost approximately $424 million. All other projects related to the first phase are preliminary and supporting in nature and are estimated to cost $59 million.

The Ports Authority routinely updates its financial forecasts, including its plans for new terminal construction and other capital projects. Through this effort the Ports Authority has considered a variety of market, competitive, regulatory and technical factors that directly affect the construction of the new terminal. These forecasts include a range of pier container growth assumptions and are primarily influenced by the rate of economic growth, recovery in world trade and the Ports Authority's projected market share of container volumes to be received as a result of the completion of the Panama Canal. The Ports Authority intends to schedule expenditures on the new terminal so as to ensure its availability to meet increased demand as such demand materializes. The Ports Authority's current forecast indicates that demand on the high end would dictate completion of the first phase in fiscal year 2020, the median range would target completion between fiscal years 2020 and 2024, and the low range indicates completion beyond fiscal 2024. Management expects that existing terminal capacities can accommodate the high end projected container forecast through 2020. Management believes that the new terminal will be completed and operational at whatever date in the years set forth above is justified by demand.

The Ports Authority plans to continuously monitor economic factors and prudently manage its debt against realistic growth and associated cash flow expectations.

Contributions for Economic Development Projects

In February 2010, the Ports Authority made a cash payment of $7 million to Berkeley County, South Carolina to help fund the construction of a highway interchange to support business development in South Carolina and increase cargo shipments through South Carolina Ports. In August 2012, the Ports Authority made an additional payment to Berkeley County in the amount of $8 million as further support for the construction of the interchange.

On October 26, 2011 the Ports Authority entered into a grant agreement with Bridgestone Americas to contribute $2.5 million toward publicly-owned off-site water and wastewater system improvements related to its Aiken County facility, to be owned and maintained by a governmental entity of the State. The incentive will be made available on a reimbursement basis once a Performance Agreement with the South Carolina Coordinating Council for Economic Development (CCED) has been executed and an intergovernmental agreement between the Ports Authority and Aiken County has been executed. The Performance Agreement between Bridgestone and the CCED is in place and the agreement between the Ports Authority and Aiken County has been executed. As of June 30, 2013, $1.1 million was paid and in September 2013, an additional $1.1 million was paid under this agreement.

On November 1, 2011 the Ports Authority entered into an agreement with Continental Tire to contribute $5 million toward publicly-owned infrastructure at its Sumter County facility. The incentive will be made available for reimbursement once a Performance Agreement with the South Carolina Coordinating Council for Economic Development (CCED) has been executed and an intergovernmental agreement between the Ports Authority and Sumter County has been executed. The Performance Agreement between Continental and the CCED is in place and the agreement between the Ports Authority and Sumter County has been executed. As of June 30, 2013, there has been no cash payment; however, in September 2013 the Ports Authority paid $485,000 under this agreement.

Legal

In August 2010, all pending legal proceedings brought by environmental opponents to the new CNB Container terminal were settled by agreement between the parties. A late administrative environmental justice complaint letter filed by a local neighborhood association was resolved through an informal resolution process. In July 2011, the City of North Charleston filed suits in federal and state courts, alleging that plans by S.C. Public Railways for an intermodal rail yard violated a memorandum of understanding (MOU) with the Ports Authority, though Public Railways was not a party to the MOU. The complaints generally alleged that the Public Railways plan is a breach of the MOU by the Ports Authority, and violates the Ports Authority permit for construction of the terminal. On preliminary motion, the federal case was dismissed by the district court on April 27, 2012. The State case was dismissed on February 14, 2013, upon settlement between the parties. Both matters are now ended.

In August 2011, the Ports Authority intervened in a lawsuit brought against a passenger cruise line by an environmental group and local Charleston, SC neighborhood organizations, claiming that the cruise operation violates certain ordinances and environmental statutes. In 2012, the case was assumed by the South Carolina Supreme Court, where it is now pending. In June, 2013, the Court dismissed environmental claims and certain claims based on local ordinance. A ruling on remaining claims is expected within the current fiscal year. The effect of this case on the financial position of the Ports Authority related to cruise cannot be determined at this time.

In January 2013, the Ports Authority intervened in a federal case brought by preservation and environmental groups against the United State Army Corps of Engineers, to challenge issuance of authority for the Ports Authority to drive pilings under a building on Union Pier Terminal in renovating the building to accommodate passenger vessels. On September 19, 2013, the federal district court remanded the permit to the Corps for further review and action. Appeal of this administrative review ruling is likely, which will extend the time before the renovation work can begin. In February 2013, the same cruise terminal opponents and others filed an administrative action challenging the State permit issued for the piling work at Union Pier. A final hearing on the merits is scheduled for February 2014. The Ports Authority intends to vigorously defend the permits. The effect of these administrative permit cases on the financial position of the Ports Authority related to cruise cannot be determined at this time.

In 2013, a suit by a lessee of property in Port Royal resulted in a verdict against the Ports Authority in the amount of $1.4 million, alleging that a parking lot parcel was within the lease, but was not owned by the Ports Authority. The Ports Authority denies that the parcel was within the lease. An appeal is likely, with the Ports Authority continuing a vigorous defense.

In October 2012, a contractor filed an arbitration claiming extra compensation was due on a contract to move two container cranes, seeking from the Ports Authority and/or its independent engineer the amount of approximately $1.9 million. The Ports Authority intends to vigorously defend the case, along with the engineer with which the Ports Authority contracted for assembling the project documents and contract administration. Also, the contractor is seeking to recover $744,000, which the Ports Authority has withheld as liquidated damages for delayed performance. In addition the Ports Authority seeks to recover unpaid dockage by the contractor on a separate maritime contract. The case is expected to be arbitrated to conclusion in the third quarter of the fiscal year.

Liquidity Outlook
We believe that, based on current and anticipated financial performance, cash flows from operations will be adequate to meet anticipated requirements for capital projects as well as scheduled interest and principal payments for the coming year.

Our strategy for growth includes terminal expansion and new port facilities in the near future. We believe that cash on hand, investments and cash generated from operations will enable us to support our strategy. We have plans to seek additional financing through the issuance of future revenue bonds. We believe we have excess borrowing capacity beyond our current obligations, however there can be no assurance that such financing would be available or, if so, at terms that are acceptable to us.

We are exposed to various market risks. Market risk is the potential loss arising from adverse changes in market prices and rates. Additionally, we are exposed to various market risks associated with interest rate exchange agreements which are more fully discussed in Note 7.

In addition, we are exposed to risks associated with our investment balances. Our cash held by third party banks are considered public funds and therefore the amounts are fully collateralized. However, the majority of our investment balances are held in the cash management pool with the State of South Carolina Treasurer's office. This pool is invested in bank certificates of deposit, commercial paper and other nonguaranteed investments which in the past have experienced a very low default rate. The Treasurer's office has calculated the fair market value of the securities in the pool and has reported to us the unrealized market gain or loss at year end. If the calculation results in a market value less than our cost basis, we reflect that loss in the financial statements, but do not recognize any unrealized gains. Although the market adjustment might involve a loss, the Treasurer's office has not adjusted our cost basis in the cash management pool. We have always been able to withdraw our principal plus average accrued interest, dividends and realized gains and losses from the pool. Additional risks associated with credit, custodial credit and interest rate risk related to our cash and investment balances are more fully discussed in Note 1.

Long–Term Debt
Series 1998
During fiscal year 1999, the Ports Authority issued Series 1998 bonds to provide funds to finance the expansion and improvement of the Ports Authority's facilities. The bonds, issued at a premium of approximately $1.1 million, consist of serial bonds totaling $70.9 million maturing July 1, 2018 and term bonds of $54.1 million maturing on July 1, 2026. The bond premium was amortized using the effective interest method over 28 years, the life of the bonds. During the years ended June 30, 2013, 2012 and 2011, the Ports Authority made principal payments on the bonds of $4.35 million, $4.1 million, and $3.9 million, respectively. On November 22, 2010, the Ports Authority redeemed approximately $85.6 million of the Series 1998 bonds that were callable through a cash payment. As a part of this transaction the Ports Authority also recognized to income the unamortized bonds issue premiums and wrote off the bond issue costs, due to redemption of the majority of the Series 1998 revenue bonds.

Series 2010

Funding for capital projects was obtained from the issuance of tax-exempt debt totaling $170 million on December 7, 2010. The bonds, issued at a premium of approximately $2.6 million, consist of serial bonds totaling $81 million, maturing between July 1, 2013 and 2025, term bonds totaling $10.7 million maturing on July 1, 2028 and term bonds of $78.3 million maturing on July 1, 2040. The bond premium is amortized using the effective interest method over 30 years, the life of the bonds. During the year no principal payment was due or paid.

Other Liabilities

As of June 30, 2013 and 2012, the Ports Authority recorded a current liability of approximately $8 million and $7.7 million, respectively, equal to the final project costs on the 45 ft. Charleston Harbor deepening project. On December 19, 2012, the Ports Authority entered into a promissory note agreement with a bank for $25,000,000. That promissory note was replaced with a $30,000,000 on June 20, 2013. Principal and interest are payable monthly and interest is based on a rate of 2.56% per annum. The first principal payment is due January 30, 2014. The loan matures on December 30, 2022. Proceeds from this note are to be used for the development and construction of the South Carolina inland port located in Greer, SC. As of June 30, 2013, the Ports Authority had amounts outstanding under this loan agreement of $10,342,000.

Bond Insurance and Credit Rating

The Ports Authority purchased bond insurance for the Series 1998 bonds to underwrite the payment of principal and interest. As a result, the Series 1998 revenue bond issue received AAA ratings from both Moody's and Standard and Poor's. In fiscal year 2011, the Ports Authority issued Series 2010 revenue bonds. These bonds are rated A1 by Moody's and A+ by Standard and Poor's. During fiscal year 2013, both rating agencies reaffirmed their ratings.

Contacting the Ports Authority's Financial Management

If you have questions about this report or need additional financial information, contact the Ports Authority's Chief Financial Officer, P.O. Box 22287, Charleston, SC 29413-2287 USA.

South Carolina State Ports Authority
Statements of Net Position
June 30, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Assets		
Current assets		
Cash	$ 3,885	$ 5,633
Investments	45,418	119,298
Accounts receivable		
Trade, net of allowance for doubtful accounts of $1,100 in 2013 and $1,500 in 2012	20,073	15,795
Other	6,493	2,751
Inventories	6,504	6,243
Prepaid and other current assets	4,203	4,418
Total current assets	86,576	154,138
Noncurrent assets and investments		
Investments internally designated for capital acquisitions	137,787	103,058
Investments held by trustee for debt service	15,642	15,451
Investment held by third party for capital projects	-	1,000
Property and equipment, net	693,792	637,558
Unamortized bond issue costs	1,372	1,422
Intangible assets and goodwill, net	2,453	2,488
Total assets	$ 937,622	$ 915,115
Liabilities and Net Position		
Current liabilities		
Current maturities on long-term debt	$ 5,237	$ 4,957
Accounts payable	6,805	4,203
Accounts payable, construction	8,865	4,661
Retainage payable on construction contracts	4,663	3,773
Accrued interest payable	4,432	4,545
Accrued employee compensation and payroll, related withholdings and liabilities	5,766	4,364
Interest rate exchange agreements	2,306	2,916
Postretirement obligation, current portion	1,633	1,522
Harbor deepening obligation	7,996	7,728
Total current liabilities	47,703	38,669
Postretirement obligation, long-term	5,985	4,767
Long-term debt, net of current maturities	177,384	172,407
Total liabilities	231,072	215,843
Net investment in capital assets	504,276	471,360
Restricted		
For debt service, net of related debt	9,009	8,818
For capital projects	-	1,000
Unrestricted	193,265	218,094
Total net position	706,550	699,272
Total liabilities and net position	$ 937,622	$ 915,115

The accompanying notes are an integral part of these financial statements.

South Carolina State Ports Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Operating revenues	$ 140,388	$ 130,948
Operating expenses (gains)		
Direct operating expense	75,625	71,567
Administrative expense	23,440	21,140
Depreciation expense	28,702	30,967
Gain on storm damage net of insurance recovery	(3,706)	-
Total operating expenses	124,061	123,674
Operating earnings	16,327	7,274
Nonoperating revenues (expenses)		
Interest income	3,283	4,745
Other income (expense), net	(480)	343
Gain on sale of property and equipment, net	62	53
Interest expense	(1,748)	(610)
Unrealized gain on interest rate exchange agreements	610	688
Contribution to State of South Carolina for Cooper River Bridge	(1,000)	(1,000)
Contribution to Berkeley County for highway interchange	(8,000)	-
Contribution to Aiken County for infrastructure improvements	(1,093)	-
	(8,366)	4,219
Excess revenues over expenses before capital contributions and special items	7,961	11,493
Capital grants from federal government	1,517	6,082
Condemnation of leasehold rights	(2,200)	-
Increase in net position	7,278	17,575
Total net position		
Beginning of year	699,272	681,697
End of year	$ 706,550	$ 699,272

The accompanying notes are an integral part of these financial statements.

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

(in thousands of dollars)	2013	2012
Cash flows from operating activities		
Cash received from customers	$ 139,340	$ 134,525
Cash paid to suppliers	(55,986)	(54,489)
Cash paid for employees	(41,568)	(39,998)
Net cash provided by operating activities	41,786	40,038
Cash flows from investing activities		
Proceeds from sale of investments	14,167	9,462
Purchases of investments	(13,358)	(8,819)
Interest received on investments	3,803	4,616
Payment to support bi-port development	(400)	(400)
Net cash provided by investing activities	4,212	4,859
Cash flows from noncapital financing activities		
Contribution to State of South Carolina for Cooper River Bridge	(1,000)	-
Contribution to Berkeley County for highway interchange	(8,000)	-
Contribution to Aiken County for infrastructure improvements	(1,093)	-
Payment for condemnation of leasehold rights	(2,200)	-
Net cash used in noncapital financing activities	(12,293)	-
Cash flows from capital and related financing activities		
Acquisition and construction of property and equipment	(82,012)	(52,876)
Cash received from insurance proceeds	1,000	-
Proceeds from sale of property and equipment	62	54
Principal paid on revenue bonds	(4,350)	(4,125)
Proceeds from note payable	10,342	-
Principal paid on other debt	(607)	(353)
Interest paid on revenue bonds, net of amounts capitalized	(1,949)	(1,449)
Interest paid on other debt	(40)	(8)
Contribution to State of South Carolina for Cooper River Bridge	-	(1,000)
Capital grants received	3,161	5,336
Capital grant money returned	(211)	-
Net cash used in capital and related financing activities	(74,604)	(54,421)
Net decrease in cash and cash equivalents	(40,899)	(9,524)
Cash and cash equivalents		
Beginning of year	227,989	237,513
End of year	$ 187,090	$ 227,989
Reconciliation of cash and cash equivalents to the statements of net position		
Cash	$ 3,885	$ 5,633
Investments	45,418	119,298
Investments internally designated for capital acquisitions	137,787	103,058
Total cash and cash equivalents	$ 187,090	$ 227,989

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

(in thousands of dollars)	2013	2012
Reconciliation of operating earnings to net cash provided by operating activities		
Operating earnings	$ 16,327	$ 7,274
Adjustments to reconcile operating earnings to net cash provided by operating activities		
Depreciation	28,702	30,967
Provision for doubtful accounts	(217)	381
Other expense (income), net	(80)	848
Amortization	85	35
Gain on storm damage net of insurance proceeds	(3,706)	-
Changes in operating assets and liabilities		
Accounts receivable	(4,061)	620
Inventories	(261)	(164)
Prepaid and other current assets	(336)	(400)
Accounts payable and other liabilities	2,602	87
Payroll related liabilities	1,402	(727)
Postretirement liability	1,329	1,117
Net cash provided by operating activities	$ 41,786	$ 40,038

Noncash Investing, Capital and Related Financing Activities

The following are noncash investing capital and related financing activities as of and for the year ended June 30:

(in thousands of dollars)	2013	2012
Accounts payable associated with the purchase of property and equipment	$ 21,524	$ 16,162
Impairment loss related to storm damage	(2,438)	-
Receivable for insurance proceeds	5,144	-
Unrealized gain on interest rate swap	610	688

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

The South Carolina State Ports Authority ("Ports Authority") was created in 1942 by Act Number 626 of the South Carolina General Assembly for the general purposes of developing and improving the harbors and seaports of Charleston, Georgetown and Beaufort for the handling of waterborne commerce, and to foster and stimulate the shipment of freight and commerce through these ports. The Ports Authority owns and is responsible for the operation of six ocean terminals at the ports of Charleston and Georgetown. These facilities handle import and export containerized and breakbulk and bulk cargoes.

The Ports Authority operates as a self-supporting governmental enterprise and uses the accrual basis of accounting applicable to governmental enterprise funds. Effective July 1, 2012, the Ports Authority adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Standard replaces GASB Statement No. 20, which allowed the Ports Authority to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict or contradict GASB pronouncements. The application of GASB Statement No. 62 has been applied to both years presented in these financial statements. The Ports Authority has no stockholders or equity holders and is directed by a governing board whose members are appointed by the Governor of South Carolina for five-year terms. Effective June 29, 2009, the South Carolina General Assembly enacted legislation (Act No. 73) affecting the governance structure of the Ports Authority. In addition to the nine voting members of the Board of Directors appointed by the Governor, the Act requires an additional two nonvoting board members including the Secretary of Transportation and the Secretary of Commerce. The Ports Authority's financial statements are included in the State of South Carolina general purpose financial statements as a discretely presented component unit.

All activities of the Ports Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Ports Authority is determined by its measurement focus. The transactions of the Ports Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the balance sheet. Net assets are segregated into: net investment in capital assets; restricted; and unrestricted components. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.

- Restricted – This component of net assets consists of external constraints placed on net position use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position – This component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets”.

New Accounting Pronouncements
The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, in December 2010. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The Statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue, and how to record any obligations of the transferor to the operator. The Statement also provides guidance for governments that are operators in an SCA. The Ports Authority has adopted the provisions of this Statement as of and for the year ended June 30, 2013. They have concluded this statement has no impact to the financial statements for the years presented.

The GASB issued Statement No. 61. *The Financial Reporting Entity Omnibus—an amendment of GASB Statements No. 14 and No. 34,* in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Also, additional reporting guidance is provided for blending a component unit if the primary government is a business-type entity that uses a single column presentation for financial reporting. The Ports Authority has adopted the provisions of this Statement as of and for the year ended June 30, 2013. They have concluded this Statement has no impact to the financial statements for the years presented.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in December 2010. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions and AICPA Accounting Research Bulletins issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this

Statement. The Ports Authority has adopted the provisions of this Statement as of and for the year ended June 30, 2013 and retroactively to all years presented. They have determined this Statement does not have a significant impact to the financial statements for the years presented.

The GASB issued Statement No. 63, *Identifying Deferred Outflows and Deferred Inflows of Resources*, in July 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Ports Authority adopted the provisions of this Standard retroactive to July 1, 2011. This statement amends the net asset reporting requirements in Statement No. 34 by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Conforming changes have been made retroactively to all years presented.

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in March of 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Ports Authority is currently evaluating the impact, if any, that this Statement will have on its financial statements.

Cash, Investments and Pooled Investments

The Ports Authority maintains cash, investments and pooled investments for operations, debt service and capital improvements. Funds are deposited in banks, money market accounts, and pooled investment funds maintained with the State Treasurer. Cash, investments and pooled investments used for operations are included on the balance sheet as “cash” and “investments”. Investments maintained in accordance with revenue bond debt service requirements are included on the statement of net position as “held by trustee for debt service.” Cash, investments and pooled investments earmarked by the board of trustees for capital expansion are included on the statement of net position as “internally designated for capital acquisitions.” Amounts invested with the State Treasurer are part of an internal investment pool. The pool operates as a demand deposit account and amounts invested in the pool are classified as cash and cash equivalents for purposes of the statement of cash flows. Other amounts including cash and funds internally designated for capital acquisitions are highly-liquid investments with a maturity of three-months or less, and are considered cash and cash equivalents for purposes of the statements of cash flows. Investments with maturities less than one year at time of purchase are recorded at amortized cost, which approximates fair value.

Credit Risk, Custodial Credit Risk, and Interest Rate Risk

The Ports Authority has investments held by a trustee to meet its debt service requirements, investments with third party banks, and investments with the State Treasurer as part of an internal investment pool as noted above.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Ports Authority. The investments held by a trustee include U.S. government agency securities, which receive credit ratings from organizations such as Moody’s Investors Service and Standard & Poor’s. These rating agencies assign ratings to the securities by assessing the likelihood of issuer default; however, government obligations typically are not considered as having significant credit risk. The funds held by trustee received credit ratings from Moody's Investors Service of Aaa and Standard & Poor's of AAAm as of June 30, 2013 and 2012. The investments held with third party banks include money market funds and interest bearing accounts with credit ratings from Moody's of P-1 and Standard & Poor's of A-1 as of June 30, 2013 and 2012. The money invested with the State Treasurer in the cash management pool is not rated by an outside agency; however, it is the policy of the State to invest in only the highest investment grade securities including those rated at least A by the two leading national rating services.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Ports Authority will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investments with third party banks and investments held by a trustee are not registered in the name of the Ports Authority. Investments held with third party banks are invested primarily in money market funds and interest bearing accounts, which totaled approximately $5,913,000 and $6,450,000 as of June 30, 2013 and 2012, respectively. Investments held by a trustee are invested in government agency securities, which totaled $15,642,000 and $15,451,000 as of June 30, 2013 and 2012, respectively. Investments with third party banks and investments held by a trustee are fully collateralized as of June 30, 2013 and 2012 with securities maintained by an outside party. All other investments are held in a pool established by the State Treasurer and are not collateralized.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Port Authority's investments in a single issuer. The Ports Authority does not have any individual investments that represent 5% or more of the Ports Authority's investments at June 30, 2013 and 2012. The investments held by the State Treasurer are invested in various short term investments of which no single investment is greater than 5%.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Ports Authority minimizes its interest rate risk by investing in primarily short-term securities. Interest rate risk associated with the investments at the State Treasurer, are managed by asset allocation policies and by additional constraints controlling risk exposure.

Investments and their relative maturities are as follows at June 30:

(in thousands of dollars)

		Value	
Investment Type	**Maturity**	**2013**	**2012**
Money market funds	Less than one year	$ 5,913	$ 6,450
U.S. government agency securities	Less than one year	15,642	15,451

Investments in the state investment pool include obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit and collateralized repurchase agreements. The maturity dates of these investments range from less than one year to thirty years.

Inventories
Inventories consist principally of maintenance parts and supplies valued at the lower of average cost or market.

Property and Equipment

Property and equipment constructed or purchased is stated at cost. Contributed property and equipment is recorded at estimated fair value on the date received. Interest is capitalized on major long-term construction projects and is depreciated over the useful life of the related asset.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	3 to 50 years
Buildings and structures	5 to 50 years
Railroad tracks	20 to 25 years
Terminal equipment	5 to 25 years
Furniture and fixtures	3 to 20 years

Intangible Assets and Goodwill

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes specific guidance for the amortization of intangible assets, including determining the useful life of intangibles that are limited by legal or contractual provisions.

Intangible assets represent identifiable intangible assets including customer contracts and customer relationships. Amortization of intangible assets with definite useful lives is computed using an accelerated method based on the estimated useful lives of the related assets. The Ports Authority reviews the carrying value of intangibles for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

When a business is acquired, the excess of consideration paid over net assets acquired is recorded as goodwill. The Ports Authority tests goodwill for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Derivative Instruments and Hedging Activities

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, provides guidance on recognition, measurement and disclosure of derivative instruments entered into by governmental entities.

The Ports Authority has entered into interest rate swap agreements with a bank to fix the rate of interest on long term debt. Interest rate swaps are considered derivatives and are carried on the balance sheet at fair value. The Ports Authority does not enter into financial instruments for trading or speculative purposes. Changes in the fair value of the interest rate swap agreements are presented in the statement of revenues, expenses and changes in net position.

Operating Revenues and Expenses
The statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing commerce through the ports. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to support commerce, other than financing costs.

Contributions
From time to time, the Ports Authority receives contributions from the State of South Carolina or the federal government. Revenues from contributions are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources
When the Ports Authority has both restricted and unrestricted resources available to finance a particular program, it is the Ports Authority's policy to use restricted resources before unrestricted resources.

Deferred Financing Costs
Deferred financing costs are amortized over the term of the related debt obligations using the effective interest method and are presented as a component of other income (expense), net on the statement of revenues, expenses and changes in net position.

Premiums on Long-Term Debt
Premiums on long-term debt are amortized as a component of interest expense over the term of the related debt obligations using the effective interest method.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Risk Management
The Ports Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees and natural disasters. The Ports Authority has obtained commercial insurance to cover the risk of these losses, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

Concentration of Credit Risk

The Ports Authority provides services and facilities usage for companies located throughout the world. During the years ended June 30, 2013 and 2012, three customers accounted for the following revenue and accounts receivable percentages:

	2013		2012	
	Revenue	Accounts Receivable	Revenue	Accounts Receivable
Customer 1	11 %	8 %	11 %	9 %
Customer 2	15	18	15	18
Customer 3	8	14	9	18
	34 %	40 %	35 %	45 %

The Ports Authority generally provides credit to its customers. The Ports Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Ports Authority maintains reserves for potential credit losses.

Annual Leave Policy

Employees earn vacation at rates of 12 to 25 days per year and may accumulate up to a maximum of 45 days, depending on their length of employment and type of employment contract. Upon termination, employees are paid for any unused accumulated vacation. The liability for annual leave is accrued at its accumulated value in the accompanying financial statements. The liability is $2,296,000 and $2,181,000 as of June 30, 2013 and 2012, respectively.

Unemployment Compensation

The Ports Authority is liable under the South Carolina Employment Security Law for unemployment compensation to its employees. The Ports Authority has elected to reimburse the Department of Employment and Workforce for benefits paid by the Department in connection with claims. The Ports Authority records a liability for estimated future unemployment compensation claims.

Related Party Transactions

The Ports Authority conducts certain business transactions with the State of South Carolina and other entities affiliated with the State of South Carolina. Transactions with related parties are carried out in commercial terms and conditions and at market prices.

2. Cash, Investments and Pooled Investments

The Ports Authority's total cash and investments at June 30, 2013 and 2012 are approximately $202,732,000 and $244,440,000, respectively. Periodically, cash on deposit in federally insured institutions exceeds the limit on insured deposits and may not be specifically collateralized. The Ports Authority has not experienced any such losses in its cash or investment accounts. The Ports Authority believes it is not exposed to any significant credit risk regarding cash and investments at June 30, 2013 and 2012.

The bond trustees invest in government agency securities and repurchase agreements collateralized by U.S. government securities. These investments are carried at cost plus accrued interest, which approximates market value.

The Ports Authority purchases participation units in the State Treasurer's fund. Funds deposited with the State Treasurer as part of an internal investment pool are invested in U.S. government obligations, federal agency securities, obligations of domestic corporations, certificates of deposit and collateralized repurchase agreements. The pool operates like a demand deposit account and includes primarily short term investments. The investments are carried at cost plus accrued interest, dividends and realized gains and losses, which approximates fair market value.

At June 30, the Ports Authority had bank balances as follows:

(in thousands of dollars)	**2013**	**2012**
Insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name	$ 9,260	$ 9,405
Carrying value of cash	3,885	5,633

Investments at June 30 consist of the following:

(in thousands of dollars)	**2013**	**2012**
Investment in state cash management pool	$ 177,292	$ 216,906
Funds deposited with third party banks	5,913	6,450
U.S. government agency securities, held by trustee	15,642	15,451
	198,847	238,807
Less: Amounts currently available for operating funds	45,418	119,298
Amounts held by trustee	15,642	15,451
Amounts restricted for capital projects	-	1,000
Internally designated investments	$ 137,787	$ 103,058

The carrying values of cash and investments are included in the balance sheets as follows:

(in thousands of dollars)	**2013**	**2012**
Carrying value		
Cash	$ 3,885	$ 5,633
Investments	198,847	238,807
	$ 202,732	$ 244,440
Included in the following balance sheets captions		
Cash	$ 3,885	$ 5,633
Investments, current assets	45,418	119,298
Internally designated for capital acquisitions	137,787	103,058
Held by trustee for debt service	15,642	15,451
Held by third party for capital projects	-	1,000
	$ 202,732	$ 244,440

Investments internally designated for capital acquisitions are included in the following funds at June 30:

(in thousands of dollars)	**2013**	**2012**
Capital Improvement Fund		
Cash	$ -	$ 1,127
Funds invested	117,870	75,217
	117,870	76,344
Depreciation Fund		
Cash	14	470
Funds invested	18,002	13,067
	18,016	13,537
Construction Fund		
Cash	-	-
Funds invested	-	11,309
	-	11,309
Other - State Port Construction Fund		
Cash	132	132
Funds invested	1,769	1,736
	1,901	1,868
	$ 137,787	$ 103,058

In connection with outstanding revenue bonds, (1) the Ports Authority's net revenues (defined as the portion of revenues remaining after providing for the proper operation and maintenance of facilities) are pledged for payment of bond principal and interest, (2) a statutory lien on the Ports Authority's facilities exists and (3) the Ports Authority is required to maintain Revenue Bond Debt Service Funds; Revenue Bond Debt Service Reserve Funds; an Operations and Maintenance Fund; a Construction Fund (until funds are exhausted) and a Capital Improvement Fund (for improvement of Ports Authority facilities); and a Depreciation Fund (for operating equipment).

General provisions regarding these Funds are as follows:

The assets of the Revenue Bond Debt Service Funds and Revenue Bond Debt Service Reserve Funds are to be used for the redemption of bonds and payment of interest on the bonds. Additions to the Revenue Bond Debt Service Funds are required from operating funds in amounts equal to the annual principal and interest payments. Additions to the Reserve Funds are required from operating funds when the Reserve Fund's assets are less than the sum of the largest annual interest payment for each issue of revenue bonds outstanding. When the assets of the Reserve Fund exceed the requirements, the Ports Authority is permitted to use the Reserve Fund investment income for principal and interest payments and thereby reduce the amount of operating funds required to be transferred to the Debt Service Fund. Moneys in the Debt Service Reserve Funds can be invested and reinvested in investments collateralized by U.S. government or agency obligations, with maturities consistent with the need for moneys in the funds. The Reserve Fund Requirement applicable to the Series 1998 Bonds was funded through the purchase of a debt service reserve insurance policy.

The Construction Fund was established with the proceeds from the 2010 revenue bonds. This fund was used as needed to pay the costs of facilities improvements and equipment for which the bonds were established. Maturities of investments in the Construction Fund were limited to be consistent with the anticipated need for money from the Construction Fund.

The assets of the State Port Construction Fund are unexpended contributions to the Fund and net harbormaster fees required to be transferred to the Fund. The assets are internally restricted for improvements and expansion of the Ports Authority's facilities.

3. Property and Equipment

Property and equipment consist of the following amounts:

(in thousands of dollars)	Balance at June 30, 2012	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2013
Land	$ 196,964	$ 268	$ -	$ -	$ 197,232
Land improvements	256,142	-	-	19,479	275,621
Land held for sale	2,674	-	-	-	2,674
Buildings and structures	327,177	6,159	(2,438)	6,919	337,817
Railroad tracks	8,859	-	-	10	8,869
Terminal equipment	133,099	-	(566)	3,600	136,133
Furniture and fixtures	24,106	-	-	553	24,659
Capital projects in progress	157,216	80,947	-	(30,561)	207,602
	1,106,237	87,374	(3,004)	-	1,190,607
Less: Accumulated depreciation	468,679	28,702	(566)	-	496,815
Property and equipment, net	$ 637,558	$ 58,672	$ (2,438)	$ -	$ 693,792

(in thousands of dollars)	Balance at June 30, 2011	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2012
Land	$ 196,964	$ -	$ -	$ -	$ 196,964
Land improvements	230,426	-	-	25,716	256,142
Land held for sale	2,666	8	-	-	2,674
Buildings and structures	324,356	-	(118)	2,939	327,177
Railroad tracks	7,660	-	-	1,199	8,859
Terminal equipment	125,635	266	(549)	7,747	133,099
Furniture and fixtures	24,037	-	-	69	24,106
Capital projects in progress	141,907	53,948	(969)	(37,670)	157,216
	1,053,651	54,222	(1,636)	-	1,106,237
Less: Accumulated depreciation	438,378	30,967	(666)	-	468,679
Property and equipment, net	$ 615,273	$ 23,255	$ (970)	$ -	$ 637,558

In July of 2012, the Ports Authority experienced a significant storm with hurricane like winds that damaged four cranes located at the Wando Welch Terminal. The significant damage to the cranes caused them to be inoperable for up to nine months. In accordance with GASB 42, *Impairment of Capital Assets and Insurance Recoveries*, the Ports Authority recorded an impairment loss related to the cranes of approximately $2,438,000. The damage to the cranes is fully recoverable through insurance. As of June 30, 2013, the Ports Authority has recognized approximately $6,144,000 in insurance recovery proceeds to offset the cost of the crane reconstruction.

On June 28, 2012, the Ports Authority entered into a service agreement with a third party for the use of a crane barge. The third party will supply and furnish all necessary management, maintenance, insurance and labor to safely lift and load heavy cargo utilizing the crane barge. The Ports Authority has agreed to pay $2,500,000 towards the construction of the crane barge. In exchange, the crane barge will be dedicated for use by the Ports Authority and its customers for a period of 20 years. However, the third party will have the right to employ the barge for its own purposes on other jobs, on the condition that the jobs are not in direct competition with the Ports Authority. In addition, the third party will pay a license fee to the Ports Authority equal to a percentage of gross revenue for every lift the crane barge performs for parties that are not customers of the Ports Authority. The license fee will equal 30% of gross revenue for the years 1 through 10 of the agreement, 15% of gross revenue for the years 11 to 15 and 5% of gross revenue for the years 16 through 20. As of June 30, 2013 the crane barge is currently under construction and not in operation, therefore the Ports Authority has not recognized any license revenue. As of June 30, 2013, the Ports Authority has paid $1,822,000 towards the cost of construction of the crane barge.

Leases

During the years ended June 30, 2013 and 2012, the Ports Authority leased container handlers and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately $1,391,000 and $1,238,000, respectively.

4. Intangible Assets and Goodwill

The intangible assets and goodwill consist of the following at June 30:

(in thousands of dollars)	2013	2012
Intangible assets subject to amortization		
Customer contracts, amortized over two years	$ 47	$ 47
Customer relationships, amortized over eighteen years	645	645
Other	184	184
	876	876
Less: Accumulated amortization	(613)	(578)
Intangible assets subject to amortization, net	263	298
Goodwill, not subject to amortization	2,190	2,190
	$ 2,453	$ 2,488

The intangible assets are amortized using a method based on the estimated useful lives of the assets. Amortization expense for the next five years and thereafter is as follows:

(in thousands of dollars)	
2014	$ 35
2015	35
2016	35
2017	35
2018	35
Thereafter	88
	$ 263

5. Long-Term Debt

Borrowings and payments on long-term debt are as follows:

(in thousands of dollars)	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion
Revenue bonds – Series 1998	$ 4,350	$ -	$ (4,350)	$ -	$ -
Revenue bonds – Series 2010	170,000	-	-	170,000	4,660
Notes payable	607	10,342	(607)	10,342	577
	174,957	10,342	(4,957)	180,342	5,237
Plus: Unamortized premium	2,407	-	(128)	2,279	-
	$ 177,364	$ 10,342	$ (5,085)	$ 182,621	$ 5,237

(in thousands of dollars)	June 30, 2011	Additions	Reductions	June 30, 2012	Current Portion
Revenue bonds – Series 1998	$ 8,475	$ -	$ (4,125)	$ 4,350	$ 4,350
Revenue bonds – Series 2010	170,000	-	-	170,000	-
Notes payable	960	-	(353)	607	607
	179,435	-	(4,478)	174,957	4,957
Plus: Unamortized premium	2,559	-	(152)	2,407	-
	$ 181,994	$ -	$ (4,630)	$ 177,364	$ 4,957

Series 1998
During fiscal year 1999, the Ports Authority issued Series 1998 bonds to provide funds to finance the expansion and improvement of the Ports Authority's facilities. The bonds, issued at a premium of approximately $1,105,000, consist of serial bonds totaling $70,865,000 maturing July 1, 2018 and term bonds of $54,135,000 maturing on July 1, 2026. The bond premium was amortized using the effective interest method over the life of the bonds and has been fully amortized. Interest was payable each January 1 and July 1 at fixed rates ranging from 3.8% to 5.5%.

During the years ended June 30, 2013 and 2012, the Ports Authority made principal payments on the Series 1998 bonds of $4,350,000 and $4,125,000, respectively.

The Series 1998 Bonds maturing on July 1, 2018 and thereafter were subject to optional redemption prior to maturity at the option of the Ports Authority, on or after July 1, 2008. The redemption prices as a percentage of principal amounts are as follows (plus interest accrued to date):

Redemption Date (Inclusive)	Redemption Price
July 1, 2012 to June 30, 2013	100.0 %
July 1, 2013 to June 30, 2014	100.0 %
July 1, 2014 and thereafter	100.0 %

On November 22, 2010, the Ports Authority redeemed $85,570,000 of the callable Series 1998 Revenue bonds through the issuance of a cash payment from the Ports Authority's cash and investment reserves. As of June 30, 2012, outstanding balances under the Series 1998 bonds total $4,350,000 due July 1, 2012. On July 1, 2012, all the remaining Series 1998 bonds were retired.

Series 2010
On December 7, 2010, the Ports Authority issued $170,000,000 of Series 2010 bonds having stated interest rates ranging from 4.0% to 5.5% payable annually on each January 1 and July 1. Net proceeds of $171,597,000 were received to (i) pay or reimburse the Ports Authority for costs associated with the expansion and improvement of the Authority's facilities, including the reimbursement to the Ports Authority of certain costs previously incurred and certain capital expenditures as included in the Port Authority's capital budget for fiscal years 2011 through 2013 in the amount of $164,594,000, (ii) $6,632,000 to fund the debt service reserve fund and (iii) $371,000 to pay certain costs and expenses related to the issuance of the Series 2010 bonds. The bonds, issued at a premium of approximately $2,595,000, consist of serial bonds totaling

$80,955,000 maturing between July 1, 2013 and 2025, term bonds totaling $10,700,000 maturing on July 1, 2028 and term bonds of $78,345,000 maturing on July 1, 2040. The bond premium is amortized using the effective interest method over 30 years, the life of the bonds. Unamortized bond issuance costs associated with the Series 2010 bonds were approximately $2,279,000 and $2,407,000 at June 30, 2013 and 2012, respectively.

Optional Redemption
The Series 2010 Bonds maturing on or after July 1, 2021, shall be subject to redemption prior to maturity, at the option of the Ports Authority, on and after July 1, 2020, in whole or in part, at any time in any order of maturity selected by the Ports Authority, at the principal amount of the Series 2010 Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption
The Series 2010 Bonds shall be subject to mandatory sinking fund redemption, by lot in such manner as the trustee shall deem fair and appropriate for random selection, prior to maturity, commencing July 1, 2026 and commencing July 1, 2028, and on each July 1 thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium, in the principal amounts as indicated below.

(in thousands of dollars)

2028 Term Bond	**Amount**
Year	
2026	$ 3,990
2027	4,215
2028	2,495

(in thousands of dollars)

2040 Term Bond	**Amount**
Year	
2028	$ 1,955
2029	4,690
2030	4,945
2031	5,210
2032	5,495
2033	5,790
2034	6,100
2035	6,430
2036	6,775
2037	7,140
2038	7,525
2039	7,930
2040	8,360

Promissory Note

On December 19, 2012, the Ports Authority entered into a promissory note agreement with a bank for $25,000,000. The promissory note was increased to $30,000,000 on June 20, 2013. Principal and interest are payable monthly, interest is based on a rate of 2.56% per annum. The first principal payment is due January 30, 2014. The loan matures on December 19, 2022. Proceeds from this note are to be used for the development and construction of the South Carolina inland port located in Greer, SC. As of June 30, 2013, the Ports Authority had amounts outstanding under this loan agreement of $10,342,000.

Maturities of long-term debt are summarized as follows:

	Revenue Bonds		Other Long-Term Debt	
(in thousands of dollars)	**Principal**	**Interest**	**Principal**	**Interest**
2014	$ 4,660	$ 8,511	$ 577	$ 629
2015	4,845	8,317	1,175	750
2016	5,035	8,116	1,204	721
2017	5,270	7,852	1,237	687
2018	5,535	7,575	1,270	655
2019–2023	32,090	33,170	4,879	2,070
2024–2028	31,725	24,114	-	-
Thereafter	80,840	28,561	-	-
	$ 170,000	$ 126,216	$ 10,342	$ 5,512

The components of interest expense for the years ended June 30, 2013 and 2012 are as follows:

(in thousands of dollars)	**2013**	**2012**
Interest expense on long-term debt	$ 8,879	$ 9,062
Amortization of premiums on long-term debt	(128)	(153)
Capitalized interest expense	(7,003)	(8,299)
	$ 1,748	$ 610

The Ports Authority capitalizes interest costs, net of interest income, in connection with the construction of various Port facilities, these costs are netted against interest expense on the statement of revenues, expenses and changes in net position.

6. Commitments

Construction

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately $45,172,000 and $63,525,000 at June 30, 2013 and 2012, respectively.

Harbor Deepening

The Federal Water Resources Development Act of 1986 authorized the deepening of the Charleston Harbor to a depth of 40 feet and the project was completed in 1994. The Federal government and the State of South Carolina provided all of the funding for this $125 million project.

An Army Corps of Engineers study of the Charleston harbor completed in 1996 concluded that a further deepening of Charleston Harbor would lower transportation costs. Based on the 1996 study, Congress approved a channel depth of 45 feet.

The Ports Authority and the Army Corp. of Engineers (Federal entity) entered into a cooperation agreement to further deepen the Charleston Harbor to its present depth of 45 feet. The agreement was entered into on June 5, 1998.

In May 2013, the Army Corps of Engineers determined the total final cost of this deepening project to be approximately $136.2 million. The final cost sharing from federal sources is approximately $88.5 million and the local share approximately $47.7 million. Of this local share, the Ports Authority has paid a total of approximately $39.7 million utilizing $31.7 million from the State of South Carolina's funding sources provided for this project. The remaining portion of the local share of $8.0 million is the legal obligation of the Ports Authority and is reflected as a currently liability as of June 30, 2013. As of June 30, 2012 $7.7 million was accrued as a current liability.

On June 20, 2011, the Ports Authority agreed to provide $9.5 million to the U.S. Army Corps of Engineers to continue with a study for the proposed Charleston Harbor post 45 ft. deepening project. Through fiscal year 2013, the Ports Authority made advance payments of $4.97 million of its required 50% share for the Army Corps study with the additional $4.53 million to follow as required. The deepening study is expected to be complete by September 2015. The Army Corps has estimated that construction of the project will take approximately three years to complete and will cost approximately $300 million. During fiscal year 2012, the SC General Assembly appropriated $300 million to the Harbor Deepening Reserve Fund to cover all costs associated with the deepening of the Charleston harbor; representing $180 million for the state cost share and an additional $120 million if the federal share is not available when construction begins.

BMW Land
In 1994, the Ports Authority purchased certain land in Greer, South Carolina, for a cost of approximately $37 million. The purchase was funded by $5 million from the Ports Authority and the balance from the State of South Carolina and related entities. The land purchase was the result of a State effort that resulted in Bavarian Motor Works ("BMW") locating an automobile manufacturing facility in South Carolina. The Ports Authority entered into a lease of the aforementioned land and land improvements with BMW under a lease agreement that covers a 30-year period. BMW leases the land for $1 per year with an option to acquire the property at the end of the lease term for a price equal to the Ports Authority's original cost. BMW was required to build an automobile production facility on the property. If BMW should discontinue operations of the facility, BMW is required to purchase the site from the Ports Authority at original cost. BMW can also elect to purchase all or part of the land at any time during the lease term at original cost.

From 1994 through June 30, 2013, the Ports Authority has been granted approximately $16.9 million in land for use by BMW and the Department of Transportation, which carries the same provisions as the land under lease mentioned above.

The Ports Authority and BMW have entered into a Service Agreement establishing a unit fee per each vehicle handled and stored by the Ports Authority. The term of the Service Agreement ends September 30, 2014.

South Carolina Inland Port

The Ports Authority is currently constructing the South Carolina Inland Port in Greer, SC. The Greer terminal will be an intermodal rail facility to transfer import and export containers and cargo via rail which will span more than 200 miles. The Inland Port, providing overnight double-stack rail service, will improve the efficiency of international freight movements between the Port, the upstate manufacturing region, and neighboring states, thus promoting economic development in the State of South Carolina. By utilizing the rail line, importers and exporters can maximize tonnage moved per gallon of fuel, which will provide both environmental benefits and costs savings. The inland port is estimated to begin operation in October 2013. As of June 30, 2013, the Ports Authority has invested approximately $13,886,000 in capital expenditures related to this new facility.

New Terminal Expansion – Navy Base Project

In May 2007, the Ports Authority received permits to begin construction of a 286 acre container terminal facility on a portion of the former Charleston Naval Base on the west bank of the Cooper River in North Charleston, SC. This facility is planned to be constructed in at least three phases. The first phase consists of two marine berths, 171 improved acres and necessary equipment. The cost of this first phase is currently estimated to be approximately $778 million and is subject to revision based on the timing of construction and other factors which could result in a significant increase in total project costs. The remaining phases will be developed over many years on a demand driven basis.

As of June 30, 2013, the Ports Authority has spent approximately $127 million on construction, permitting, consulting and engineering costs related to the first phase of the new terminal.

In addition to the marine terminal, an access road project is planned to facilitate the movement of traffic to and from the new terminal. This access road will be constructed by the South Carolina Department of Transportation (“SCDOT”). The current estimated cost of the road is $282 million, of which approximately $70 million will be paid for by the Ports Authority. The access road must be constructed in order for the Ports Authority to comply with permit conditions for the new marine terminal facility.

The initial portion of the first phase of construction for the new terminal involves three critical-path projects: the construction of the containment wall, the construction of the access road by SCDOT, and the fill and consolidation of the land at the site. The Ports Authority continues to move forward with these critical-path projects based on its current financial capabilities and funding committed by the State of South Carolina for the access road. The Ports Authority’s portion of costs associated with these critical path projects is approximately $295 million. After completion of these critical-path projects, the dock and wharf construction, paving, and equipping the terminal will follow to complete the first phase of construction. These projects are estimated to cost approximately $424 million. All other projects related to the first phase are preliminary and supporting in nature and are estimated to cost $59 million.

The Ports Authority routinely updates its financial forecasts, including its plans for new terminal construction and other capital projects. The Ports Authority’s current forecast indicates that demand on the high end would dictate completion of the first phase in fiscal year 2020, the median range would target completion between fiscal years 2020 and 2024, and the low range indicates completion beyond fiscal 2024. The Ports Authority plans to continuously monitor economic factors and prudently manage its debt against realistic growth and associated cash flow expectations.

7. Interest Rate Exchange Agreements

On July 1, 2008, the Ports Authority adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement provides guidance on recognition, measurement and disclosure of derivative instruments entered into by governmental entities.

On June 30, 2013, the Ports Authority had the following derivative instruments outstanding:

Item	Type	Objective	Current Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Rating
A	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	$ 25,762,500	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	Aa2/AA Aa2/AA
B	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	60,112,500	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	A1/A
C	Received Fixed-Pay Floating	Hedge of changes in cash flows on the Series 1998 bonds	85,875,000	7/1/2008	7/1/2026	Pay SIFMA Receive 3.508%	A1/A

As of June 30, 2013 and 2012, the Ports Authority determined that none of its interest rate swaps meet the criteria under GASB 53 for effectiveness; therefore, all three of the Port Authority's interest rate swap contracts are classified as investment derivatives per guidance included in GASB No. 53. Changes in the fair value of the interest rate swap contracts are included in nonoperating income (expense) on the statement of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012. The Ports Authority anticipates holding the interest rate exchange contracts through maturity.

The fair values of the interest rate swaps were estimated using the zero-coupon method of bootstrapping the yield curve. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps.

Changes in fair value at June 30, 2013 and 2012 are as follows:

	Derivative	2013	2012	Change in Fair Value
Item A	Pay Fixed Receive Floating	$ (3,352,000)	$ (4,850,000)	$ 1,498,000
Item B	Pay Fixed Receive Floating	(7,810,000)	(11,317,000)	3,507,000
Item C	Receive Fixed Pay Floating	8,856,000	13,251,000	(4,395,000)
		$ (2,306,000)	$ (2,916,000)	$ 610,000

Changes in fair value at June 30, 2012 and 2011 are as follows:

	Derivative	2012	2011	Change in Fair Value
Item A	Pay Fixed Receive Floating	$ (4,850,000)	$ (3,069,000)	$ (1,781,000)
Item B	Pay Fixed Receive Floating	(11,317,000)	(7,161,000)	(4,156,000)
Item C	Receive Fixed Pay Floating	13,251,000	6,626,000	6,625,000
		$ (2,916,000)	$ (3,604,000)	$ 688,000

Credit Risk
The Ports Authority is exposed to actual credit risk on investment derivatives that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Ports Authority's policy to require collateral posting provisions in its nonexchange traded derivatives. Those terms require the full collateralization of the fair value of derivative instruments in asset positions (net of any netting provisions) should the counterparty's rating fall below Baa2 or BBB. In addition, each credit support annex requires collateral posting at various rating levels with threshold amounts. Collateral generally consists of cash, U.S. Government securities and U.S. Agency securities. As of June 30, 2013 no collateral has been posted by any counterparty under any derivatives contracts.

Interest Rate Risk
The Ports Authority is exposed to interest rate risk on its interest rate derivatives. On its pay variable, receive fixed swap, SIFMA increases the Ports Authority's net payment on the swap increases. Alternatively, on its pay fixed, receive floating swaps, 1 Month LIBOR decreases the Ports Authority's net payment on the swap increases. The variable cash flows on the swaps are structured with different indices (pay SIFMA and receive 70% of 1 Month LIBOR). While there is an expectation that these two indices will offset based on a historical relationship between these two indices, there can be no assurances that the future results will be similar to past results.

Termination Risk
The Ports Authority or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the terms of the contracts provide for Additional Termination Events in the event that the ratings of either the counterparty or the ratings of the Ports Authority are downgraded below Baa3 or BBB (in the case of Item A) and Baa2 or BBB (in the case of Items B and C).

Foreign Currency Risk
None of the Ports Authority's derivative instruments are denominated in a foreign currency and; therefore, are not subject to foreign currency risk.

Commitments
All of the Ports Authority's derivative instruments contain provisions that require the Ports Authority to post collateral in the event of credit rating downgrades, subject to certain threshold amounts and minimum transfer amounts. If the rating of the Ports Authority drops to BBB or Baa2 and below, the Ports Authority must fully collateralize the fair value of the derivative. The collateral posted has to be in the form of cash, U.S. Government Securities or Agency securities in the amount of the fair value of the derivative instruments in liability positions net of the effect of applicable netting arrangements, and subject to certain thresholds at various ratings levels. As of June 30, 2013 and 2012, the Ports Authority currently has a credit rating of A1 by Moody's and A+ by Standard & Poor's and no collateral has been posted under any derivative instruments.

8. Retirement Plans

Regular employees of the Ports Authority are eligible to choose between two of the plans offered by the South Carolina Retirement System. They can choose to participate in the traditional South Carolina Retirement System's plan (SCRS), a defined benefit plan, or alternatively, the State Optional Retirement Plan (State ORP), a defined contribution plan. The majority of the Authority employees have chosen the SCRS (the State ORP has only been available since July 1, 2002). A few police officers previously retired from the State or a county or local government who participated in the South Carolina Retirement System's Police Officers Retirement System (PORS) and now work for the Ports Authority, contribute to the PORS. The wages covered under SCRS, including PORS, for the years ended June 30, 2013 and 2012 were approximately $30,664,000 and $29,095,000, respectively. The wages covered under State ORP for the years ended June 30, 2013 and 2012 were approximately $1,445,000 and $1,074,000, respectively. Noncovered wages for the years ended June 30, 2013 and 2012 were approximately $563,000 and $1,571,000, respectively.

Under SCRS, benefits are fully vested after five years of earned service. Employees who retire at or after age 65 or have 28 years of service are entitled to full retirement benefits, payable monthly for life, equal to 1.82% of average final compensation times years of credited service. Final average compensation is the employee's average salary over the twelve highest consecutive quarters. An employee may choose early retirement at age 60 with five years earned service with benefits permanently reduced 5% for each year of age less than 65, or at age 55 with 25 years of service credit with benefits permanently reduced 4% for each year of service credit less than 28. SCRS also provides death and disability benefits. Benefits are established by state statute.

Under State ORP there is no minimum age or years of service requirement for retirement. Employees become eligible to receive distributions when employment terminates or upon reaching age 59-1/2. Employees may leave their balance on deposit to accumulate earnings tax-deferred until they elect to receive them. The amount of State ORP benefit is based on the total accumulated in the employee's account(s) and payment method chosen. The benefit is affected by performance of the investments chosen by the employee and the amount of time invested.

Eligible employees may retire from the Authority and participate in the Teacher and Employee Retention Incentive (TERI) Program. These employees retire under the eligibility rules described above and return to work for a period not to exceed five years. Their deferred retirement benefits are placed in their individual retirement payroll account while they continue to work for the Authority. At the end of the TERI period, the former employee will receive the accumulated retirement benefits in a lump sum and their monthly annuity directly. TERI participants do not earn new SCRS service credits, but do have to contribute into the SCRS as described below. Due to legislation enacted in 2012, the TERI program is discontinued as of June 30, 2018.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for the plan. By law, employee contribution requirements during fiscal year ended June 30, 2013 were 7.0% of the employee's salary. Actuarially determined employer contribution rates for SCRS, State ORP, and TERI expressed as a percentage of compensation during fiscal year ended June 30, 2013 were 10.45%. The total employer contributions paid to the South Carolina Retirement System for the years ended June 30, 2013 and 2012 were approximately $3,333,000 and $2,825,000 from the Ports Authority and approximately $2,141,000 and $1,891,000 from employees, respectively. Employer contributions paid to State ORP vendors for the years ended June 30, 2013 and 2012 were approximately $72,000 and $54,000 from the Ports Authority and approximately $101,000 and $70,000 from employees, respectively.

The South Carolina Retirement System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for SCRS. The report may be obtained by writing to: The South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960, or at www.retirement.sc.gov.

The “accrued liability” is a standardized disclosure measure of the actuarial present value of the projected benefits of each individual allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The actuarial valuation method is based on a projected benefit entry age normal cost and an open-end unfunded actuarial accrued liability. The actuarial interest rate assumption is 7.5% per annum, compounded annually. The measure is intended to help users assess SCRS’s funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. SCRS does not make separate measurements of assets and benefits payable for individual employers. The unfunded accrued liability at July 1, 2012, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately $13,917 billion and an estimated liquidation period of 30 years. The ten-year historical trend information showing SCRS’s progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2012 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

Deferred Compensation Plans

During the year ended June 30, 2012, the Ports Authority established a 401(a) defined contribution plan and a 415(m) government excess plan on behalf of certain executives at the Ports Authority. The Ports Authority makes payments into the plans over a period of five years and the participants in the plan become fully vested at the end of the five year period. The assets of the plans remain the assets of the Ports Authority throughout the duration of the five years. Compensation expense is recognized for payments made to the plans. As of June 30, 2013, contributions to the plan were approximately $538,000.

9. Other Post-Employment Benefits (“OPEB”)

Effective July 1, 2007, the Ports Authority adopted GASB No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement requires governmental entities to recognize and match post-employment benefit costs with related services received and also provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

The Ports Authority provides post-employment health care benefits including group healthcare, dental and vision to eligible employees who retire from the Ports Authority. The Plan consists of hospital benefits, major medical benefits, a prescription drug program, dental and vision care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, Ports Authority coverage is secondary.

From March 1, 2005 to January 1, 2011, these benefits were offered through private insurance carriers and the Ports Authority paid a share of the costs for the retiree’s health and dental plans, but did not contribute toward the cost of the vision plan.

During that time period, to be eligible for retiree group health and/or dental insurance coverage, employees were required retire (based on the rules of the South Carolina Retirement System) meeting one or more of the rules below:

- Due to years of service with the Ports Authority.
- Due to age (minimum service requirements must also be met).
- On approved disability through the South Carolina Retirement System (minimum service requirements must also be met).

To be eligible for Ports Authority Funded Insurance (employer paid a share of premium):

- Employee must retire, leave active employment with the Ports Authority, and have fifteen (15) or more years of earned retirement service credit with the Ports Authority (the last five (5) years must be consecutive and the employee must have been actively working in a full-time nontemporary position).

To be eligible for Nonfunded Insurance (retiree pays full premium):

- Employee must retire, leave active employment with the Ports Authority, and have at least ten (10) but less than fifteen (15) years of earned service credit with the Ports Authority (the last five (5) years must be consecutive and the employee must have been actively working in a full-time nontemporary position).

Retirees may cover eligible spouse and dependents under the plan in which the retiree is enrolled.

Effective January 1, 2011, the Ports Authority moved from the use of private insurance carriers to the plan offered by the South Carolina Employee Insurance Program. Therefore, the following amendments to the plan went into effect.

- Any employee retiring with at least five (5) years of earned service who qualifies for a retirement benefit under the normal retirement provision is permitted to elect continued medical/prescription, dental and vision coverage.
- Any normal retiree with less than five (5) years of earned service may not continue medical/prescription, dental or vision coverage.
- To continue coverage, a normal retiree with at least five (5) but less than ten (10) years of earned service is required to pay the nonfunded premium for the plan.
- A normal retiree with at least ten (10) years of earned service is required to pay only the funded premium for the plan.

Members hired after May 2, 2008 have a tiered eligibility formula to determine the retiree paid premium during retirement:

Service at Retirement	Premium for Coverage
5–15 years and age 60 years and older or approved for disability	Nonfunded premium
15–24 years and age 60 years and older or approved for disability	Partially funded premium
>=25 years and 28 years SCRS service credit	Funded premium

Eligibility requirements are determined by and are subject to change made by the South Carolina Public Employee Benefit Authority.

The South Carolina Public Employee Benefit Authority Employee Insurance Program (EIP) provides detailed eligibility and funding requirements for retiree insurance. Detailed plan information can be found at www.eip.sc.gov (Retirement Information).

Eligible retired employees participating in OPEB insurance programs pay their premiums directly to EIP. The Ports Authority paid the employer's portion of premiums directly to the EIP in the amount of approximately $1,240,000 and $1,175,000 for fiscal years 2013 and 2012, respectively.

Employees included in the actuarial valuation include retirees, survivors and active employees who are eligible to participate in the Plan upon retirement. Expenses for OPEB premiums are recognized monthly and financed on a pay-as-you-go basis. The total OPEB premiums paid were approximately $1,728,000 and $1,603,000 for fiscal years ended June 30, 2013 and 2012, respectively. For fiscal years 2013 and 2012, the Ports Authority paid approximately 71.8% and 73.3% and the retirees were responsible for funding approximately 28.2% and 26.7%, respectively.

The Ports Authority accrued during fiscal year 2013 and 2012, $1,329,000 and $1,118,000, respectively, in retiree healthcare expense.

The OPEB plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact: South Carolina State Ports Authority, Human Resources Department, 176 Concord Street, Charleston, SC 29401.

Annual Required Contribution

The Port Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The table below illustrates the determination of the annual required contribution ("ARC") and the end of year obligation as of June 30:

(in thousands of dollars)	2013	2012
Net OPEB obligation, beginning of year	$ 6,289	$ 5,172
Annual required contribution (ARC)	2,848	2,535
Interest and ARC adjustment	21	17
Annual OPEB cost	2,869	2,552
Employer contributions	(1,540)	(1,435)
Net OPEB obligation, end of year	$ 7,618	$ 6,289
Less current portion	(1,633)	(1,522)
Net OPEB obligation, long term	$ 5,985	$ 4,767

Actual contributions paid in fiscal year 2013 and 2012 include the following at June 30:

(in thousands of dollars)	2013	2012
Employer and participant contributions	$ 1,728	$ 1,603
Implicit subsidy payments on behalf of active employees	300	260
Participant contributions	(488)	(428)
Total employer contributions including interest	$ 1,540	$ 1,435

Employer contributed 53.7% and 56.2% of annual OPEB cost during fiscal year 2013 and 2012, respectively.

Schedule of Employer Contributions

The Port Authority's annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the years ended June 30, 2013 and the two preceding fiscal years are presented below.

(in thousands of dollars)	Annual Required Contributions	Actual Contributions	Percentage Contributed
Fiscal Year Ended			
June 30, 2013	$ 2,848	$ 1,540	54.1 %
June 30, 2012	2,535	1,435	56.6 %
June 30, 2011	2,447	1,122	45.9 %

The ARC of $2,848,000 and $2,535,000 for fiscal year 2013 and 2012, respectively, is based on the assumption that there is no funding in a segregated qualified trust.

Schedule of Funding Progress

The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

(in thousands of dollars)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)/(c)]
Fiscal Year Ended						
June 30, 2013	$ -	$ 38,208	$ 38,208	0 %	$ 26,419	145 %
June 30, 2012	-	33,201	33,201	0 %	24,849	133 %
June 30, 2011	-	31,958	31,958	0 %	24,849	129 %

Schedule of Percentage of OPEB Cost Contributed

(in thousands of dollars)	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended			
June 30, 2013	$ 2,869	53.7 %	$ 7,618
June 30, 2012	2,552	56.2 %	6,289
June 30, 2011	2,460	47.6 %	5,172

Summary of Key Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the ARC for the Port Authority's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the Ports Authority and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Port Authority and the Port Authority's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Valuation year	July 1, 2012 – June 30, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	30 years open, level percent of active member payroll
Asset valuation method	N/A

	2013	2012
Actuarial assumptions		
Discount rate	4.5%	4.5%
Projected payroll growth rate	3.0%	3.0%
Heath care cost trend rate for medical and prescription drugs	7.25%	7.25%

(7.25% in 2013, decreasing by one-fourth percentage point per year to an ultimate rate of 4.5% in fiscal year 2024 and after).

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the Authority's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liability for benefits.

10. Facilitating Agreements

The Ports Authority has entered into agreements to provide future port services with tenants whereby it assigns certain land areas and certain of its facilities for their use for terms ranging from one month to twenty two years. These agreements are accounted for as operating leases; revenue for port services provided and for facilities used is recorded as operating revenue when earned.

Effective January 18, 2011, the Ports Authority assumed management and operation of all container storage yards and leads all customer service functions in both the yard and the lanes. This change modified many customer contracts and eliminated the Ports Authority from providing physical facilities under operating leases to many customers. Therefore, the minimum future operating revenue and rentals, excluding contracts that do not have minimum volume guarantees, have declined significantly in fiscal year 2012 from that of the prior year.

The approximate total cost and related accumulated depreciation of facilities assigned to others at June 30 were:

(in thousands of dollars)	2013	2012
Cost	$ 13,702	$ 11,415
Accumulated depreciation	8,576	7,837

Minimum future operating revenue and rentals, excluding contracts that do not have minimum volume guarantees, to be received under noncancelable agreements as of June 30, 2013 were:

(in thousands of dollars)

2014	$	1,524
2015		1,321
2016		903
2017		709
2018		525
Thereafter		4,418
	$	9,400

11. Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, investments, accounts and retainage payable, credit agreement and other debt approximate fair value. The fair values of long-term debt were estimated using discounted cash flows based on current rates available to the Ports Authority for similar borrowing arrangements and the market rate of comparable traded debt. The fair market value at June 30, 2013 and 2012 was approximately $183,289,000 and $197,266,000, respectively.

12. Other Matters

Cooper River Bridge

In 1998, the Ports Authority consulted with its external bond counsel concerning a request that the Ports Authority contribute to the cost of a new bridge over the Cooper River at the Port of Charleston. By its opinion dated June 3, 1998, its external counsel noted that no argument had been advanced that the bridge would be a “Port Facility” within the meaning of the Ports Authority Master Bond Resolution, and stated: “Under the circumstances, in our opinion, it is highly doubtful that the Ports Authority has the legal right to divert a portion of its Revenues to a project outside of any port facility, such as the Cooper River Bridge.” On April 13, 2001, the legal counsel for the revenue bond underwriter advised the Ports Authority to a similar effect.

On March 13, 2002, the Ports Authority Board resolved to make a contribution to the bridge on the condition that a study be conducted demonstrating that the bridge would constitute a “Port Facility”. At its meeting held on June 18, 2002, the Ports Authority Board received studies conducted by Norbridge, Inc., Moffatt & Nichol, and HNTB that led the Board to conclude that the future benefit to the Ports Authority that would be derived from the bridge height and width increase would constitute a Port Facility and resolved to make the contribution described below.

The Ports Authority Board contributed $5 million in fiscal year 2002, $8 million during fiscal year 2003 and $7 million during fiscal year 2004 toward the construction of the new Cooper River Bridge. Additionally, the Ports Authority will pay $1,000,000 per year beginning in fiscal year 2004 for 25 years for a total of $45 million. These payments have been treated as nonoperating expenses to the State of South Carolina and, therefore, have reduced the Ports Authority’s net assets.

On June 24, 2005, the Ports Authority and the State of South Carolina finalized an agreement regarding the remaining contributions to the Cooper River Bridge. The agreement stated that each contribution is a separate nonexchange transaction and the Ports Authority has only the obligation to pay the $1,000,000 annual amount at any given time for the remaining 25 years. Payments to the State of South Carolina totaled $1,000,000 in each fiscal year 2013 and 2012.

Jasper County
The Ports Authority entered into a joint government organizational agreement with the State of Georgia for the formation of a bi-port facility to be operated jointly between the Ports Authority and the State of Georgia. The legal and operational structure of the potential bi-port facility is not known at this time. The Ports Authority contributed $400,000 in cash to the joint organization in 2013 and 2012. The cash contribution has been used by the joint organization to support the initial planning associated with a bi-port facility. Total expenses recognized by the Ports Authority related to initial planning costs were approximately $395,000 and $312,000 for the years ended June 30, 2013 and 2012, respectively.

Federal Grant Agreements
The Ports Authority has been awarded grants from the Department of Homeland Security, Office of State and Local Government Coordination and Preparedness and the Department of Transportation, Maritime Administration ("DOT") (as an agent of the Transportation Security Administration) for approximately $26.2 million to be used for port security. As of June 30, 2013 and 2012, the Ports Authority has expended approximately $1,578,000 and $5,927,000, respectively, related to these grant agreements.

The Ports Authority has been awarded grants from the Environmental Protection Agency's National Clean Diesel Funding Assistance Program for approximately $2,735,000. As of June 30, 2013 and 2012, the Ports Authority has expended approximately $150,000 and $155,000, respectively, related to these grants.

In March 2013, the Ports Authority determined certain federal funds had been drawn in excess of the allowable expenditures per the grant agreement. As a result, the Ports Authority returned approximately $211,000, including interest, to the federal government during the year ended June 30, 2013.

Closure of Port Royal Terminal
Effective December 31, 2006, the Ports Authority discontinued operations and closed the Port Royal terminal located in Port Royal, SC. The State of South Carolina has mandated the closure of this terminal so that the land can be developed to generate future revenues for the State of South Carolina. The Ports Authority had lease contracts with several major tenants at the Port Royal facility. Certain lease termination costs have been incurred in order to terminate the leases and prepare the land for sale. Based on current estimates, the Ports Authority has determined that termination costs can be fully recovered from the future sale of the land. The Ports Authority is actively marketing the property at this point of time. As of June 30, 2013 and 2012, the Port Royal land is classified as held for sale.

2009 Legislation
Effective June 29, 2009, the South Carolina General Assembly enacted legislation (Act No. 73) affecting, among other things, the disposition of the Ports Authority's real property assets.

Act No. 73 directs the sale of real property owned by the Ports Authority at Port Royal, Daniel Island and Thomas Island and imposes time deadlines for the completion of such sales. Management does not believe that the sale of the assets in question would have a material impact on the Ports Authority's operations or financial position. However, the Ports Authority must balance compliance with the deadlines imposed by Act No. 73 with certain limitations upon the disposition of real property contained in the Ports Authority's Master Bond Resolution. In particular, Act No. 73 required a sale of the Port Royal property by December 31, 2009, barring which the Port Royal property was to be transferred to the State Budget and Control Board, which agency would assume the Ports Authority's fiduciary duties to its bondholders relating to the disposition of real property. The Port Royal sale is still pending at June 30, 2013. Act No. 73 also requires that the Daniel Island and Thomas Island properties be subject to a contract of sale completed by June 30, 2014, barring which such properties are also to be transferred to the State Budget and Control Board. Legal counsel for the Ports Authority and the State Budget and Control Board have reviewed options for a course of action to ensure compliance with both Act No. 73 and the Ports Authority's Master Bond Resolution, regarding disposition of its real property.

Act No. 73 also imposes obligations on the Ports Authority to take all action necessary to expeditiously develop a port in Jasper County. The Ports Authority and the Georgia Ports Authority, pursuant to an intergovernmental Agreement, have joined in a council known as the Joint Project Office to study and plan for a potential terminal. Other than funding certain studies, no action has been required of the Ports Authority to date under this provision. The impact of this provision on the Ports Authority's operations and financial position cannot be ascertained at this time, but the cost of such project could be material.

13. Litigation

In the ordinary course of business, the Ports Authority becomes involved in litigation, claims and administrative proceedings. Certain litigation, claims and proceedings were pending at June 30, 2013, and management intends to vigorously defend the Ports Authority in such matters. While the ultimate results cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial position of the Ports Authority.

The Ports Authority has intervened in a lawsuit brought against a passenger cruise line by an environmental group and local Charleston, SC neighborhood organizations, claiming that the cruise operation violates certain ordinances and environmental statutes. The effect of this case on the financial position of the Ports Authority related to cruise cannot be determined at this time.

In January 2013, the Ports Authority intervened in a federal case brought by preservation and environmental groups against the United State Army Corps of Engineers, to challenge issuance of authority for the Ports Authority to drive pilings under a building on Union Pier Terminal in renovating the building to accommodate passenger vessels. On September 19, 2013, the federal district court remanded the permit to the Corps for further review and action. Appeal of this administrative review ruling is under consideration, which will extend the time before the renovation work can begin. In February 2013, the same cruise terminal opponents and others filed an administrative action challenging the State permit issued for the piling work at Union Pier. A final hearing on the merits is scheduled for February 2014. The Ports Authority intends to defend issuance of the permit. The effect of these administrative permit cases on the financial position of the Ports Authority related to cruise cannot be determined at this time.

In fiscal year 2013, the Ports Authority was served with a suit in Charleston County Court of Common Pleas, brought by the City of North Charleston against the South Carolina Department of Commerce, S.C. Public Railways, the State of South Carolina and the State Ports Authority. The suit sought to stop construction of an intermodal rail facility in the City of North Charleston planned by S.C. Public Railways, claiming that the project violates a Memorandum of Understanding ("MOU") between the City and the Ports Authority only, and claims the MOU binds all other State agencies. The case is now ended.

In 2013, suit by a lessee of property in Port Royal resulted in a verdict against the Ports Authority in the amount of $1.4 million, alleging that a parking lot parcel was within the lease, but was not owned by the Ports Authority. The Ports Authority denies that the parcel was within the lease. An appeal is likely, with the Ports Authority continuing a vigorous defense.

In October 2012, a contractor filed an arbitration claiming extra compensation was due on a contract to move two container cranes, seeking from the Ports Authority and/or its independent engineer the amount of approximately $1.9 million. The Ports Authority intends to vigorously defend the case, along with the engineer with which the Ports Authority contracted for assembling the project documents and contract administration. Also, the contractor is seeking to recover $744,000, which the Ports Authority has withheld as liquidated damages for delayed performance. In addition, the Ports Authority seeks to recover unpaid dockage by the contractor on a separate maritime contract. The case is expected to be arbitrated to conclusion in the third quarter of the fiscal year.

14. Payments to Berkeley County and Aiken County

In August 2012, the Ports Authority made a cash payment of $8,000,000 to Berkeley County, South Carolina to help fund the construction of a highway interchange to support business development in South Carolina and increase cargo shipments through South Carolina Ports. The cash payment is reflected as a contribution and presented as a nonoperating expense as of June 30, 2013.

In May 2013, the Ports Authority agreed to a cash payment of $1,093,000 to Aiken County, South Carolina to fund off-site water and waste water system improvements to support future business development in Aiken County, that ultimately will benefit water bourne commerce in the State of South Carolina. The cash payment is reflected as a contribution and is presented as a nonoperating expense as of June 30, 2013.

15. Special Item

In May of 2013, the Ports Authority condemned certain leasehold rights related to an existing ground lease with a third party. The condemnation action was to obtain the rights to land that ultimately will be used for the South Carolina inland port located in Greer, SC. The cost to exit the lease agreement and to purchase the rights to the land was approximately $2,200,000. This transaction was within the control of management; however, it is considered a special non-operating transaction due to its unusual and infrequent nature.

Required Supplemental Information

Effective July 1, 2007, the Ports Authority adopted GASB No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement requires governmental entities to recognize and match post-employment benefit costs with related services received and also provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

The Ports Authority provides post-employment health care benefits including group healthcare, dental and vision to all employees who retire from the Ports Authority. The Plan consists of hospital benefits, major medical benefits, a prescription drug program, dental and vision care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, Ports Authority coverage is secondary.

From March 1, 2005 to January 1, 2011, these benefits were offered through private insurance carriers and the Ports Authority paid a share of the costs for the retiree's health and dental plans, but did not contribute toward the cost of the vision plan.

During that time period, to be eligible for retiree group health and/or dental insurance coverage, employees were required to retire (based on the rules of the South Carolina Retirement System) meeting one or more of the rules below:

- Due to years of service with the Ports Authority.
- Due to age (minimum service requirements must also be met).
- On approved disability through the South Carolina Retirement System (minimum service requirements must also be met).

To be eligible for Ports Authority Funded Insurance (employer paid a share of premium):

- Employee must retire, leave active employment with the Ports Authority, and have fifteen (15) or more years of earned retirement service credit with the Ports Authority (the last five (5) years must be consecutive and the employee must have been actively working in a full-time nontemporary position).

To be eligible for Nonfunded Insurance (retiree pays full premium):

- Employee must retire, leave active employment with the Ports Authority, and have at least ten (10) but less than fifteen (15) years of earned service credit with the Ports Authority (the last five (5) years must be consecutive and the employee must have been actively working in a full-time nontemporary position).

Retirees may cover eligible spouse and dependents under the plan in which the retiree is enrolled.

Effective January 1, 2011, the Ports Authority moved from the use of private insurance carriers to the plan offered by the South Carolina Employee Insurance Program. Therefore, the following amendments to the plan went into effect.

- Any employee retiring with at least five (5) years of earned service who qualifies for a retirement benefit under the normal retirement provision is permitted to elect continued medical/prescription, vision and dental coverage.

- Any normal retiree with less than five (5) years of earned service may not continue medical/prescription, vision or dental coverage.

- To continue coverage, a normal retiree with at least five (5) but less than ten (10) years of earned service is required to pay the nonfunded premium for the plan.

- A normal retiree with at least ten (10) years of earned service is required to pay only the funded premium for the plan.

Members hired after May 2, 2008 have a tiered eligibility formula to determine the retiree paid premium during retirement:

Service at Retirement	Premium for Coverage
5–15 years and age 60 years and older or approved for disability	Nonfunded premium
15–24 years and age 60 years and older or approved for disability	Partially funded premium
>=25 years and 28 years SCRS service credit	Funded premium

Eligibility requirements are determined by and are subject to change made by the South Carolina Public Employee Benefit Authority.

The South Carolina Public Employee Benefit Authority Employee Insurance Program (EIP) division provides detailed eligibility and funding requirements for retiree insurance. Detailed plan information can be found at www.eip.sc.gov.

Eligible retired employees participating in OPEB insurance programs pay their premiums directly to EIP. The Ports Authority paid the employer's portion of premiums directly to the EIP in the amount of approximately $1,240,000 and $1,175,000 for fiscal years 2013 and 2012, respectively.

Employees included in the actuarial valuation include retirees, survivors and active employees who are eligible to participate in the Plan upon retirement. Expenses for OPEB premiums are recognized monthly and financed on a pay-as-you-go basis. The total OPEB premiums paid were approximately $1,728,000 and $1,603,000 for fiscal years ended June 30, 2013 and 2012, respectively. For fiscal years 2013 and 2012, the Ports Authority paid approximately 71.8% and 73.3% and the retirees were responsible for funding approximately 28.2% and 26.7%, respectively.

The Ports Authority accrued during fiscal year 2013 and 2012, $1,329,000 and $1,118,000, respectively, in retiree healthcare expense.

The OPEB plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact: South Carolina State Ports Authority, Human Resources Department, 176 Concord Street, Charleston, SC 29401.

Annual Required Contribution

The Port Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The table below illustrates the determination of the annual required contribution ("ARC") and the end of year obligation as of June 30:

(in thousands of dollars)	2013	2012
Net OPEB obligation, beginning of year	$ 6,289	$ 5,172
Annual required contribution (ARC)	2,848	2,535
Interest and ARC adjustment	21	17
Annual OPEB cost	2,869	2,552
Employer contributions	(1,540)	(1,435)
Net OPEB obligation, end of year	7,618	6,289
Less current portion	(1,633)	(1,522)
Net OPEB obligation, long term	$ 5,985	$ 4,767

Actual contributions paid in fiscal year 2013 and 2012 include the following at June 30:

(in thousands of dollars)	2013	2012
Employer and participant contributions	$ 1,728	$ 1,603
Implicit subsidy payments on behalf of active employees	300	260
Participant contributions	(488)	(428)
Total employer contributions including interest	$ 1,540	$ 1,435

Employer contributed 53.7% and 56.2% of annual OPEB cost during fiscal year 2013 and 2012, respectively.

Schedule of Employer Contributions

The Port Authority's annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the years ended June 30, 2013 and the two preceding fiscal years are presented below.

(in thousands of dollars)	Annual Required Contributions	Actual Contributions	Percentage Contributed
Fiscal Year Ended			
June 30, 2013	$ 2,848	$ 1,540	54.1 %
June 30, 2012	2,535	1,435	56.6 %
June 30, 2011	2,447	1,122	45.9 %

The ARC of $2,848,000 and $2,535,000 for fiscal year 2013 and 2012, respectively, is based on the assumption that there is no funding in a segregated qualified trust.

South Carolina State Ports Authority
Required Supplemental Information
June 30, 2013 and 2012

Schedule of Funding Progress
The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

(in thousands of dollars)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)/(c)]
Fiscal Year Ended						
June 30, 2013	$ -	$ 38,208	38,208	0 %	$ 26,419	145 %
June 30, 2012	-	33,201	33,201	0 %	24,849	133 %
June 30, 2011	-	31,958	31,958	0 %	24,849	129 %

Schedule of Percentage of OPEB Cost Contributed

(in thousands of dollars)	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended			
June 30, 2013	$ 2,869	53.7 %	$ 7,618
June 30, 2012	2,552	56.2 %	6,289
June 30, 2011	2,460	47.6 %	5,172

Summary of Key Actuarial Methods and Assumptions
The Projected Unit Credit actuarial cost method is used to calculate the ARC for the Port Authority's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the Ports Authority and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Port Authority and the Port Authority's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Valuation year	July 1, 2012 – June 30, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	30 years open, level percent of active member payroll
Asset valuation method	N/A

	2013	2012
Actuarial assumptions		
Discount rate	4.5%	4.5%
Projected payroll growth rate	3.0%	3.0%
Heath care cost trend rate for		
medical and prescription drugs	7.25%	7.25%

(7.25% in 2013, decreasing by one-fourth percentage point per year to an ultimate rate of 4.5% in fiscal year 2024 and after).

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the Authority's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liability for benefits.