South Carolina State Ports Authority

Financial Statements and
Required Supplemental Information
June 30, 2016 and 2015

South Carolina State Ports Authority
Index
June 30, 2016 and 2015

Independent Auditor's Report

To the Board of Directors and Management of
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 of June 30, 2016 and 2015, 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 Ports 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 Ports Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina State Ports Authority as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

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, 2016 and 2015, 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. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 3 through 17 and the required supplemental information on pages 65 through 70 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
Spartanburg, South Carolina
October 27, 2016

Required Supplementary Information

Annual Financial Report

The annual financial report of the South Carolina State Ports Authority ("Ports Authority" or the "Authority") provides an overview of the Ports Authority's financial activities for the fiscal years ended June 30, 2016 and 2015. The financial statements include the independent auditor's report, 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, as well as an inland port facility in Greer. These facilities primarily handle import and export containerized breakbulk and bulk cargoes.

Sale of Certain Properties

2009 Act No. 73 included a new statutory provision, Section 54-3-700 of the South Carolina Code of Laws, which required a sale of the Authority's property in Port Royal, S.C., by December 31, 2009, barring which the Port Royal property was to be transferred to the State Budget and Control Board, (South Carolina Department of Administration effective July 1, 2015), which agency would assume the Ports Authority's fiduciary duties to its bondholders relating to the disposition of real property. The statute was amended to provide for sale within the discretion of the State Ports Authority, and that the terms of sale should not extend past June 30, 2015, unless a valid contract existed as of July 1, or a bona fide offer was received within 90 days before June 30, then the date for closing the transaction was extended through December 31, 2015. As the property failed to close by December 31, 2015, per the statute, the property was transferred to the General Services Division of the State Department of Administration for sale at public auction, with General Services Division of the State Department of Administration serving as fiduciary to the State Ports Authority and its bondholders. The Ports Authority and General Services may accept a price greater than or equal to eighty percent of appraised value, with proceeds to the Ports Authority, less costs of sale. Sale must comply with all state laws and procedures. All Port Royal assets have been transferred to the General Services Division of the State Department of Administration as of June 30, 2016.

2009 Act No. 73 also requires that the Daniel Island and Thomas (St. 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 as a fiduciary to the Ports Authority and its bondholders. The requirement to sell the property has been extended to June 30, 2017. In addition, a requirement was added that the State Ports Authority shall transfer fifty acres of its real property on Daniel Island to the Department of Parks, Recreation, and Tourism, which shall ensure, in the manner it deems appropriate, that the property is used for public recreation activities. This transfer was completed in fiscal 2016 by way of an executed long-term lease agreement. If the State Ports Authority has not completed the sale of its remaining real property on Daniel Island and Thomas (St. Thomas) Island, except for the dredge disposal cells that are needed in connection with the construction of the Hugh K. Leatherman Sr. terminal on the Charleston Naval Complex and for harbor deepening and for channel and berth maintenance, by June 30, 2017, the Authority must transfer the property to the State Department of Administration (successor to the State Budget and Control Board) as fiduciary to the Ports Authority and its bondholders. The Authority shall sell the real property under terms and conditions it considers most advantageous to the Authority and the State of South Carolina, and the price must be equal to or greater than at least one of two required independent appraisals.

2009 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.

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.

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)	**2016**	**2015**	**2014**
Total operating revenues	$ 211,166	$ 196,759	$ 164,143
Total TEUs (equivalent number of 20' container units)	1,943	1,916	1,685
Breakbulk pier tonnage	1,151	1,421	1,316

A total of 1,900, 1,896 and 1,830 vessels (excluding barges) docked during the years ended June 30, 2016, 2015 and 2014, respectively. The Ports Authority provided services to the top 13 largest container ship lines based on US containerized import and export cargo volumes as of June 30, 2016, as reported in *the Alphaliner Top 100 Report*.

Required Financial Statements
The financial statements of the Ports Authority are prepared 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 statement of cash flows provides 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 during the reporting period.

Adoption of GASB Statement No. 72
In February 2015, GASB approved Statement No. 72, *Fair Value Measurement and Application,* which establishes guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques used to determine fair value. The Statement is effective for financial statements for reporting periods beginning after June 15, 2015. In the period this Statement is first applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods should be restated. However, if restatement of the financial statements for all prior periods is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated (generally the current period) and an explanation for not restating prior periods should be given. Because of the immaterial nature of the cumulative effect on the financial statements as a whole, the Ports Authority did not adjust prior periods and the cumulative effect of application is included in the current period.

Analysis of Overall Financial Position and Results of Operations

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 and deferred outflows exceeded liabilities and deferred inflows by $742.5 million, $678.8 million and $716.8 million at June 30, 2016, 2015 and 2014, respectively. A condensed summary of the Ports Authority's balance sheet and resulting net position at June 30 is shown below:

(in thousands of dollars)	**2016**	**2015**	**2014**
Assets			
Current assets	$ 253,772	$ 250,683	$ 125,837
Internally designated assets	247,539	63,200	68,786
Held by trustee for debt service	36,196	15,827	15,733
Property and equipment, net	846,394	751,871	745,701
Other assets	9,093	2,383	2,417
Total assets	1,392,994	1,083,964	958,474
Deferred Outflows of Resources	8,412	6,003	-
Total assets and deferred outflows of resources	$ 1,401,406	$ 1,089,967	$ 958,474
Liabilities			
Current liabilities	$ 64,721	$ 40,606	$ 43,494
Long-term obligations	594,032	365,093	198,150
Total liabilities	658,753	405,699	241,644
Deferred Inflows of Resources	144	5,470	-
Net Position			
Invested in capital assets, net of debt	485,494	453,477	544,688
Restricted for debt service, net of debt	16,672	9,194	9,100
Unrestricted	240,343	216,127	163,042
Total net position	742,509	678,798	716,830
Total liabilities, deferred inflows of resources and net position	$ 1,401,406	$ 1,089,967	$ 958,474

Total assets and deferred outflows of resources increased 28.5% or $311 million from $1,090 million to $1,401 million during 2016. A substantial portion of this increase is a result of the issuance of the Series 2015 revenue bonds that carry a par amount of $294 million. These bonds were issued to fund the purchase and construction of capital assets.

Deferred Outflows of Resources increased approximately $2.4 million during the year to recognize the Ports Authority's allocated share of difference between actual and expected pension experience, the net difference between projected and actual investment earnings, changes in proportionate share and the Ports Authority's actual pension plan contributions made during 2016 that were paid subsequent to the pension plans' measurement date of June 30, 2015.

Total liabilities increased 62.3% or $253 million from $406 million to $659 million during 2016. The change was principally due to $294 million of Series 2015 bonds issued.

The Ports Authority also recognized $144 thousand during 2016 of deferred inflows of resources for the allocated share of the difference between actual and expected pension experience and changes in proportionate share.

Total assets and deferred outflows of resources increased 13.8% or $132 million from $958 million to $1,090 million during 2015. A substantial portion of this increase, $124 million, was in current assets in the form of increased amounts of cash, trade accounts receivable and investments from increased operating income (discussed in more detail below) over the prior year. Total assets increased for new equipment purchased and construction projects placed in service during the year.

Deferred Outflows of Resources increased approximately $6.0 million during the prior year to recognize the first year application of GASB 68, *Accounting and Financial Reporting for Pension Plans*. Two components that make up the deferred outflows are the Ports Authority's allocated share of difference between actual and expected pension experience and the Ports Authority's actual pension plan contributions made during 2015 that were paid subsequent to the pension plans' measurement date of June 30, 2014.

Total liabilities increased 68.0% or $164 million from $242 million to $406 million during 2015. The change was principally due to the first year application of GASB 68, *Accounting and Financial Reporting for Pension Plans*, which required the first time recognition of $63.9 million the Ports Authority's allocated share of net pension liability in 2015 while no amount was required to be reported 2014. Liabilities also increased substantially from borrowings of approximately $102.7 million on bank lines of credit for capital project spending.

The Ports Authority also recognized $5.5 million during 2015 of deferred inflows of resources from the first year application of GASB 68*, Accounting and Financial Reporting for Pension Plans*. The amount of deferred inflows is the Ports Authority's allocated share of the net difference between projected and actual earnings on pension plan investments.

The largest portion of the Ports Authority's net position each year (65.4%, 66.8% and 76% at June 30, 2016, 2015 and 2014, 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 (2.2%, 1.4% and 1.3% at June 30, 2016, 2015 and 2014, respectively) represents resources that are subject to external restrictions. The remaining unrestricted net position (32.4%, 31.8% and 22.7% at June 30, 2016, 2015 and 2014, 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)	2016	2015	2014
Operating revenues	$ 211,166	$ 196,759	$ 164,143
Operating expenses	172,465	166,045	149,850
Operating earnings	38,701	30,714	14,293
Nonoperating income (expense), net	17	(3,232)	1,314
Contribution to State of South Carolina	(1,000)	(1,000)	(1,000)
Contribution to Aiken County, South Carolina	-	(74)	(1,315)
Contribution to Sumter County, South Carolina	(1,383)	(425)	(2,886)
Capital grants from the federal government	5,156	361	143
Contribution from State of South Carolina	7,185	6,050	-
Contribution from Spartanburg County, South Carolina	15,035	281	-
Contribution from Norfolk Southern Railway Company	-	1,134	1,103
Increase in net position	$ 63,711	$ 33,809	$ 11,652

Operating revenues increased 7.3% from $196.8 million to $211.2 million during 2016. The increase is attributable to both rate and volume increases across several key areas. In Charleston, gains were realized primarily in the container and cruise business segments. While total container volumes remained flat as a result of overall leveling in international trade, the Authority achieved a slight increase ending the year with 1,943,170 twenty-foot equivalent units (TEUs), a 1.4% increase year over year. The revenue increases within this segment are a result of new contracts with moderate price increases that were negotiated during fiscal 2015 and fully realized during fiscal 2016. Additionally, the rapid rail program within this segment realized increases with total containerized rail volume in and out of Charleston at 23% versus 20% in fiscal 2015. The cruise business segment experienced moderate revenue increases as a result of a 12.3% increase in passengers. In Greer, the SC Inland Port has continued strong growth since inception of operations in November 2013. In fiscal 2016, the Inland Port achieved 91,698 rail moves, a 57% volume increase over the previous year, contributing $3.7 million in additional operating revenues.

Operating revenues increased 19.9% from $164.1 million to $196.8 million during 2015. The increase can be attributed to a 14.5% increase in container volume throughput or a 13.7% increase expressed in twenty-foot-equivalent units (TEU) and a 14.2% increase in Charleston breakbulk net tonnage. The gains in volume created increased revenues for most port services. During fiscal year 2015, the Authority embarked upon creating a simplified ocean carrier contract for its Container Business Segment customers. At the close of the year, most carriers had converted to this new format which has resulted in simplified terms, increased transparency and moderate price increases. In addition to volume gains in Charleston, the new South Carolina Inland Port in Greer realized substantial revenue growth of $3.7 million during fiscal year 2015 over the prior year as a result of increased volume and a full year of operations.

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

(in thousands of dollars)	2016	2015	2014
Operating revenues			
Charleston	$ 198,869	$ 188,459	$ 159,709
Georgetown	936	1,282	1,399
Greer	9,301	5,617	1,898
Other	2,060	1,401	1,137
Total operating revenues	$ 211,166	$ 196,759	$ 164,143

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

(in thousands of dollars)	2016	2015	2014
Operating expenses (gains)			
Direct operating expenses	$ 117,476	$ 106,100	$ 91,622
Administrative expense	28,920	26,313	26,163
Depreciation expense	33,687	33,753	32,415
Gain on property damage, net of insurance proceeds	(7,618)	(121)	(350)
Total operating expenses	$ 172,465	$ 166,045	$ 149,850

Direct operating expenses for fiscal year 2016 increased by 10.4% from $106 million in 2015 to $117 million in 2016. The increases are primarily a result of operating changes, volume gains and several nonrecurring events. The Authority extended terminal operating hours to accommodate higher volumes during fiscal 2015 and the full-year impact of this change was realized during fiscal 2016. Increased volumes in overall rail connectivity, both at the Inland Port in Greer and within Charleston's rapid rail program, also resulted in higher levels of direct operating expense. In addition to operating changes and volume growth, the Ports Authority initiated a retirement incentive plan that will span fiscal years 2016 and 2017. The impact resulted in incremental expense in 2016 and will carry over into fiscal 2017. One last notable event that was complete in fiscal 2016 is the crane relocation, moving three ship-to-shore cranes from Wando Welch Terminal to the North Charleston Terminal. This move totaled an additional $3 million in fiscal 2016 and is a nonrecurring operating expense.

Administrative expenses for fiscal year 2016 increased by 9.9% from $26.3 million in 2015 to $28.9 million in 2016. This was primarily due to the second-year application of GASB 68, *Accounting and Financial Reporting for Pension Plans,* resulting in an increase of the Ports Authority's allocable share of pension costs. See Note 9 – Retirement Plans for additional information on GASB 68. Additionally, the Authority increased its advertising dollars in fiscal year 2016 with a state-wide public awareness campaign highlighting the recent publication of the economic impact study.

Depreciation expense remained relatively flat year over year with a 0.2% decline in fiscal year 2016.

A gain related to insurance recovery on property damage was recorded in fiscal year 2016 in the amount of $7.6 million. The majority of the total gain in 2016 relates to a prior year incident at Veterans Terminal.

Direct operating expenses for fiscal year 2015 increased by 15.9% from $91.6 million in 2014 to $106 million in 2015. The primary driver of the increase can be attributed to volume gains in the Container Business Segment thereby resulting in longer operating hours and vessel hours worked. Mid fiscal year the Authority extended its normal operating hours in the Container Business Segment to incorporate an additional hour each weekday as well as eight hours on Saturdays. During the second half of the fiscal year the process of moving three ship-to-shore cranes from Wando Welch Terminal to North Charleston Terminal commenced resulting in $3.7 million in expense with more to follow in fiscal year 2016 when the move is complete. The Inland Port also experienced increased expenses resulting from a full year of operations and higher volumes. Other increases included increased participation in the Authority's rapid rail program, increased repair and maintenance, increased dredging, and increased electricity costs. On the positive side, damage claims were significantly down from the previous year and – although volumes and consumption grew – overall fuel expense remained flat as a result of lower unitized prices.

Non-operating income (expense) increased from a 2015 expense of ($3.2) million to $0.01 million of income in 2016. This was primarily due to interest income from funds held with the SC State Treasurer.

Non-operating income (expense), decreased from income of $1.3 million in 2014 to expense of ($3.2) million in 2015. This decrease is due principally to a donation to the Low Country Land Trust. The donation was reimbursed by the State of South Carolina and shown as a contribution on the Statement of Revenues, Expenses, and Changes in Net Position. Additionally, the Ports Authority share of its investment in bi-state development in Jasper County increased in fiscal year 2015. Also, interest expense increased due to new loan proceeds and reduced interest capitalization requirements. These increases were partially offset due to the sale of a parcel of land, increased interest earned on investments, and an unrealized gain on interest rate exchange agreements.

The Ports Authority made contributions to the State of South Carolina for the Cooper River Bridge during the years ended June 30, 2016, 2015 and 2014, as more fully described in Note 13 – Other Matters. In the years ended June 30, 2016, 2015 and 2014, the Ports Authority contributed approximately $0 million, $0.07 million and $1.3 million, respectively, to Aiken County for water and sewer infrastructure improvements to support the expansion of a major manufacturing facility. During the years ended June 30, 2016, 2015 and 2014, approximately $1.4 million, $0.4 million, and $2.9 million, respectively, was contributed to Sumter County for water and sewer infrastructure to support the construction of a major manufacturing facility. These payments have been treated as non-operating 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.

For fiscal years ending June 30, 2016 and 2015, approximately $15.0 million and $0.3 million, respectively was received from Spartanburg County as reimbursement for construction of facilities for use by BMW. This is further described in Note 7 – Commitments. Approximately $1.1 million was received from Norfolk Southern Railway Company for construction of the Inland Port in each year ended June 30, 2015 and 2014; however no money was received in fiscal year 2016. Additionally, for the year ended June 30, 2016, $7.2 million was received from the State of South Carolina as reimbursement for harbor deepening studies as well as bi-state development. For the year ended June 30, 2015, $6.1 million was received from the State of South Carolina in order to reimburse the Ports Authority for its contributions toward the Low Country Land Trust and bi-state development.

During the years ended June 30, 2016, 2015 and 2014, the Ports Authority earned approximately $5.2 million, $0.4 million and $0.1 million, respectively, in federal grant money to be used for wharf repairs and improvements at the Wando Welch Terminal as well as security related capital expenditures.

Net position during fiscal years 2016, 2015, and 2014 increased $63.7 million, $33.8 million and $11.7 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)	**2016**	**2015**	**2014**
Cash flow from operating activities	$ 64,681	$ 66,834	$ 43,882
Cash flow (used in) from investing activities	(14,846)	1,296	1,983
Cash flow used in noncapital financing activities	(1,383)	(553)	(5,097)
Cash flow from (used in) capital and related financing activities	100,947	46,522	(72,056)
Change in cash and cash equivalents	149,399	114,099	(31,288)
Cash and cash equivalents			
Beginning of year	269,901	155,802	187,090
End of year	$ 419,300	$ 269,901	$ 155,802

The Ports Authority's available cash and cash equivalents increased from $270.0 million in 2015 to $419.3 million in 2016. Cash flows from operating activities decreased from $66.8 million in 2015 to $64.7 million in 2016. The decrease can be attributed to higher operating costs for both employees and suppliers. Cash flows from (used in) investing activities decreased from $1.3 million in 2015 to $(14.8) million in 2016. This decrease is primarily related to investment purchases made during 2016. Net cash used in noncapital financing activities increased from $0.6 million in 2015 to $1.4 million in 2016. This increase is related to the increase in grant monies provided to Sumter Counties during 2016 for infrastructure improvements. These infrastructure improvements are not the assets of the Ports Authority, and therefore these payments are classified as noncapital financing activities. Net cash from capital and related financing activities increased from $46.5 million in 2015 to $100.9 million in 2016 as a result of debt and insurance proceeds received during the current year offset by an increase in capital asset acquisitions and principal paid on debt.

The Ports Authority's available cash and cash equivalents increased from $155.8 million in 2014 to $270.0 million in 2015. Cash flows from operating activities increased from $43.9 million in 2014 to $66.8 million in 2015. The increase can be attributed to improved operating profitability. Cash flows from investing activities decreased from $2.0 million in 2014 to $1.3 million in 2015. This change is due to an increase in payments to support bi-state development. Net cash used in noncapital financing activities decreased from $5.1 million in 2014 to $0.6 million in 2015. This decrease is related to the reduction in grant monies provided to Aiken and Sumter Counties during 2015 for infrastructure improvements. These infrastructure improvements are not the assets of the Ports Authority, and therefore these payments are classified as noncapital financing activities. Net cash used in capital and related financing activities increased from ($72.1) million in 2014 to net cash from capital and related financing activities of $46.5 million in 2015 as a result of debt proceeds used for current and prior year spending on construction projects. Additionally, there was less construction project spending in fiscal year 2015 than in fiscal year 2014.

Capital Acquisitions and Construction Activities
During the fiscal year ended June 30, 2016, the Ports Authority purchased and constructed approximately $140.6 million in new capital assets, marking the highest level of capital spending in the Authority's history. The major capital assets under design and construction are site development at the future Hugh K. Leatherman Sr. Terminal; wharf strengthening at the Wando Welch Terminal, construction of a site operations center in Greer, South Carolina to be leased by BMW, and completion of an off-site cold storage facility in North Charleston. Approximately $32.1 million of fixed assets (at cost) were written off, reclassified, or disposed of during 2016. The net book value of disposals was approximately $12.4 million.

During the fiscal year ended June 30, 2015, the Ports Authority purchased and constructed approximately $47.7 million in new capital assets. The major capital assets under design and construction were the expansion of an off-site cold storage facility in North Charleston, upgrades to the existing terminal operating system, wharf improvements and repairs, and the acquisition of container handling equipment including container handlers and payments on two ship-to-shore cranes for the Wando Welch Terminal. In addition, development work for the future container terminal at the former Charleston Navy Base continued. Approximately $6.7 million of fixed assets (at cost) were written off, reclassified, or disposed of during 2015. The net book value of disposals was approximately $52,000.

Capital asset acquisitions are capitalized at cost. Acquisitions were funded primarily with the issuance of tax-exempt revenue bonds, bank notes and port revenues. The Ports Authority had construction commitments of approximately $231.5 million and non-construction commitments for property, plant and equipment of approximately $7.7 million at June 30, 2016. Additional information on the Ports Authority's capital assets and commitments can be found in Note 4 – Property and Equipment and Note 7 – Commitments in the notes to the financial statements.

Capital Improvement Plan and Forecasting
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, the issuance of revenue bonds and privately placed bank debt. 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 Expansion.

Improvements to Existing Terminal Facilities
Over the next ten years the Ports Authority plans to spend approximately $589 million on improvements to its existing terminal facilities. 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 $270 million in capital spending. The near-term projects include wharf upgrades and improvements, paving upgrades, the purchase of four ship-to-shore container cranes and raising of four existing ship-to-shore cranes, the purchase and upgrades of container handling equipment, and refrigerated infrastructure improvements.

Harbor Deepening
In September 2015, the United States Army Corps of Engineers (USACE) issued a Chief's report recommending the Charleston Harbor be deepened to 52 feet with a projected all-in cost of $532 million and projected completion by the end of 2019. This report is a result of a feasibility study that began in 2011 and was part of a 50/50 cost share with the federal government. In September 2015, the project moved into the Preconstruction Engineering and Design (PED) phase which is projected to last 18 to 24 months. In tandem with the PED phase, a version of the Water Resource Development Act Bill will be voted on by Congress in September 2016. The passing of this bill would authorize the project to move forward and allow it to be eligible for appropriations. The overall project will be complete on a cost share basis with the federal government. It is anticipated that the Ports Authority's total share of the project will be $353 million and the federal share will be $179 million. During fiscal year 2012, the SC General Assembly appropriated $300 million along with interest earned to the Harbor Deepening Reserve Fund to cover costs associated with the deepening of the Charleston harbor. Management believes this appropriation and previously allocated funds will cover the local share. The Authority is in the process of seeking the remaining $179 million from the federal government. As of June 30, 2016 the Authority has spent $7.1 million on the feasibility phase, $1.5 million on the PED phase and $9.7 million in mitigation. The PED and mitigation spending was reimbursed by the SC General Assembly appropriation.

New Terminal Expansion – Hugh K. Leatherman, Sr. Terminal
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 will be constructed in phases. The first phase will consist of one to two marine berths, required container yard support areas and necessary equipment. The cost for the first phase is currently estimated to be approximately $782 million and is subject to revision based on the timing of construction and customer demand. The remaining phases will be developed on a demand driven basis.

The initial portion of the first phase of construction for the new terminal involves engineering, design, and permitting costs as well as three critical-path projects. The critical-path includes construction of the containment wall, the fill and consolidation of the land at the site, and construction of an access road leading to the terminal. 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. As of June 30, 2016, the Ports Authority has spent approximately $203 million on construction, permitting, consulting and engineering costs related to the first phase of the new terminal. The remaining costs associated with these critical path projects are approximately $239 million, a portion of which the Authority expects to recover as reimbursement for cost overruns. 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. The additional cost of these projects is estimated to be $340 million.

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 and median range would dictate completion of the first phase in fiscal year 2020 and the low range indicates completion beyond fiscal 2020. Management expects that existing terminal capacities can accommodate the high end projected container forecast through 2020. Management believes that the new terminal will be complete 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

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 under a Performance Agreement between Aiken County, Bridgestone Americas and the South Carolina Coordinating Council for Economic Development (CCED). 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, 2016, $2.5 million was paid under this agreement with no payments made during fiscal year 2016.

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 under a Performance Agreement between Sumter County, Continental Tire and the South Carolina Coordinating Council for Economic Development (CCED). 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, 2016, the Ports Authority has paid $4.7 million under this agreement with payments of $1.4 million during fiscal year 2016.

Legal

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 (the "Corps"), 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. The permit application is now under review by the Corps of Engineers on remand. There may be another challenge to the Corps' action on the permit application, whether it decides to re-issue or not. The Authority intends to continue pursuing the federal permit and to continue any legal actions necessary to perfect the final permit.

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. The South Carolina Administrative Law Court granted summary judgment in favor of the Ports Authority, and dismissed the challenge on April 21, 2014. The case is now on appeal, briefing is completed, and at this time, arguments are scheduled for November 2016, with a decision likely in late 2016 or early 2017. That decision may be further appealed to the State Supreme Court. 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.

On October 14, 2012, a portion of the quay wall at Veterans' Terminal (VT) in North Charleston, failed, sending quantities of gravel, certain equipment, and miscellaneous structural materials into the Cooper River. This area is under lease from the Charleston Naval Complex Redevelopment Authority, a state agency. The failure was apparently due to overloading of the quay wall by Atlantic Coast Materials, LLC (ACM), and a user of the facility that deposited stone in proximity to the wall. Appropriate State and Federal regulatory authorities were timely notified. The State Ports Authority is required to remove the material in the river and rebuild the quay wall facility. At this time, the regulatory process must be completed before obtaining permits to allow reconstruction contracts to be bid. Until contracts are let and the project is completed, there is no final determination of costs or financial impact. The regulatory process has been extended by required consultation procedures with National Marine Fisheries Service and the U.S. Army Corps of Engineers, who are studying potential environmental impacts and restrictions on the remedial work. Commencement of construction is estimated as the third quarter of fiscal year 2017. A preliminary estimate of project costs is approximately $28 million. Property insurance will cover a portion of the costs, but will not cover a significant portion of the loss which is excluded under a pollution exclusion clause. This amount has not been determined at this time.

On October 10, 2014, ACM filed suit against the Ports Authority, alleging various tort and contract claims, and seeking damages for lost material and equipment, estimated at approximately $2 million. The Ports Authority thereafter has served its suit by way of counterclaim against ACM to recover damages estimated at approximately $40 million, which is in excess of ACM's insurance coverage. The case was removed to the State Business Court for Charleston County, and is in discovery stage at this time, with mediation ongoing. Recovery may be affected by insurance coverage, though it is too early in the discovery phase to estimate recovery.

A claim relating to the quay wall failure and remediation costs has also been asserted by the Ports Authority against the United States Navy for indemnity under Section 330 of the National defense Authorization Act of 1993 (P.L. 102-484), as amended by P.L. 103-160. The claim is related only to oil pollution left by the United States Navy in an underground pipe near the damaged area, which had not been designated as an area of concern, nor disclosed presence of oil, which should have been cleaned out and removed by the Government. Small amounts of oil were released in an investigatory excavation before being sealed off and recovered. The presence of the oil has caused increased costs of remediation, in an amount which cannot be accurately determined until the contract for remedial work has been completed and costs tallied. Department of Defense is defending the 330 indemnity claim and has sought additional information. Under the indemnity claim, the Government would likely be responsible only for the remediation costs related to the oil, which is excluded from insurance coverage by the Ports Authority's property insurance policy.

Construction of the Hugh K. Leatherman, Sr. Terminal was delayed by discovery of issues associated with the design and administration of the project that have required re-engineering of the containment wall structures. An excess cost statement has been delivered to responsible parties to discuss and determine opportunities for recovery of the additional construction costs caused by design and project management issues. Discussions of the costs and responsibility are in process and will likely occur in the near future, and it is too early in the process to assess the likelihood of resolution or the amount of resolution. Remediation work and construction is continuing.

In October, 2002 the Authority and the City of North Charleston (City) entered into a Memorandum of Understanding (MOU) related to certain issues concerning the development of the Hugh K. Leatherman, Sr. Terminal located at the former Charleston Navy Base Facility. One requirement of the MOU is for the City and the Ports Authority (Authority) to approach the S C General Assembly for the funding of certain infrastructure which is desired by the City. The City has communicated to the Authority that it believes this infrastructure is required prior to the opening of the terminal. While the Authority disagrees with the City on this point, it plans to fully comply with all applicable terms of the MOU. At this time, no measurable impact of the City's position can reasonably be made.

Liquidity Outlook

We believe that, based on current and anticipated financial performance, cash flows from operations and proceeds from the Series 2015 Revenue Bonds 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 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 8.

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 2015

Funding for capital projects was obtained from the issuance of tax-exempt debt totaling $294 million on November 4, 2015. The bonds, issued at a premium of approximately $20.2 million, consist of serial bonds maturing between July 1, 2026 and 2055. The bond premium is amortized using the effective interest method over 40 years, the life of the bonds. There was no principal paid during the year.

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 approximately $5.0 million in principal was paid.

Other Liabilities

As of June 30, 2016 and 2015, the Ports Authority recorded a liability of approximately $4.3 million and $4.4 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 million. That promissory note was replaced with a $30 million note 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 was due January 30, 2014. The loan matures on December 30, 2022. Proceeds from this note were used for the development and construction of the South Carolina Inland Port located in Greer, SC. As of June 30, 2016, the Ports Authority had amounts outstanding under this loan agreement of approximately $27.1 million.

During August 2014, the Authority entered into an agreement with a bank for a line of credit in the amount of $200 million. The line of credit was used to meet short term funding needs for capital projects. During August 2014, the Authority made its first draw on the line of credit in the amount of approximately $80.43 million. The interest rate adjusts monthly and is tied to 67% of the sum of the 30 day LIBOR rate plus a negotiated fixed spread. The agreement requires interest only payments until it matures in August 2016 when the entire principal balance outstanding is due. With bond proceeds, the principal amount of $108.1 million was paid in full in November 2015. As of June 30, 2015, the Ports Authority had amounts outstanding under this loan agreement of approximately $100.43 million.

During January 2015, the Ports Authority entered into a promissory note agreement with a bank for $14 million. Interest is payable monthly for twelve months and then, semi-annually beginning July 29, 2016. The interest rate per annum is based on the 90-day published LIBOR plus 0.85%, with a floor of 1.25%. The first principal payment is due January 2017. Principal payments are to be made annually in equal amounts with all outstanding principal and interest due January 2025. Proceeds from this note were used for the development and construction of a cold storage facility located in North Charleston, SC. As of June 30, 2016 and 2015, the Ports Authority had amounts outstanding under this loan agreement of $14 million and $2.3 million, respectively.

Correction of Previously Issued Information

Certain prior year numbers presented in the fiscal year 2016 Management Discussion & Analysis and Audited Financial Statements have been revised to reflect the proper treatment of feasibility costs related to the post 45 harbor deepening. Please see footnote 2 for further explanation.

Credit Rating

The Ports Authority's Senior Revenue Bonds, Series 2015 and Series 2010, are rated by Moody's and Standard and Poor's, A1 and A+, respectively.

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, 2016 and 2015

(in thousands of dollars)	**2016**	**2015**
Assets		
Current assets		
Cash	$ 7,484	$ 8,282
Investments	164,277	198,419
Accounts receivable		
Trade, net of allowance for doubtful accounts of $ 1,250 in 2016 and $1,400 in 2015	27,333	29,649
Other receivables	40,879	1,087
Inventories, net	7,423	7,218
Prepaid and other current assets	4,513	4,232
Interest rate exchange agreements	1,863	1,796
Total current assets	253,772	250,683
Noncurrent assets and investments		
Investments internally designated for capital acquisitions	247,539	63,200
Investments held by trustee for debt service	36,196	15,827
Property and equipment, net	846,394	751,871
Intangible assets and goodwill, net	8,532	2,383
Other receivables	561	-
Total assets	1,392,994	1,083,964
Deferred Outflows of Resources		
Defined benefit plans	8,412	6,003
Total assets and deferred outflows of resources	$ 1,401,406	$ 1,089,967
Liabilities		
Current liabilities		
Current maturities on long-term debt	$ 7,078	$ 6,249
Accounts payable	10,113	10,066
Accounts payable, construction	15,522	5,226
Retainage payable on construction contracts	7,987	1,876
Accrued interest payable	11,564	4,281
Accrued employee compensation and payroll, related withholdings and liabilities	7,734	8,399
Interest rate exchange agreements	2,948	2,770
Postretirement obligation, current portion	1,669	1,636
Harbor deepening obligation, current portion	106	103
Total current liabilities	64,721	40,606
Postretirement obligation, long-term	10,112	8,699
Net pension liability	74,296	64,821
Harbor deepening obligation, long-term	4,219	4,326
Long-term debt, net of current maturities	505,405	287,247
Total liabilities	658,753	405,699
Deferred Inflows of Resources		
Defined benefit plans	144	5,470
Net Position		
Net investment in capital assets	485,494	453,477
Restricted		
For debt service, net of related debt	16,672	9,194
Unrestricted	240,343	216,127
Total net position	742,509	678,798
Total liabilities, deferred inflows and net position	$ 1,401,406	$ 1,089,967

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, 2016 and 2015

(in thousands of dollars)	2016	2015
Operating revenues	$ 211,166	$ 196,759
Operating expenses (gains)		
Direct operating expense	117,476	106,100
Administrative expense	28,920	26,313
Depreciation expense	33,687	33,753
Gain on property damage, including insurance recovery	(7,618)	(121)
Total operating expenses	172,465	166,045
Operating earnings	38,701	30,714
Nonoperating revenues (expenses)		
Interest income	5,452	2,520
Other expense, net	(2,330)	(6,135)
Gain (loss) on sale of property and equipment, net	(951)	2,650
Interest expense	(2,043)	(3,163)
Unrealized (loss) gain on interest rate exchange agreements	(111)	896
Contribution to the State of SC for Cooper River Bridge	(1,000)	(1,000)
Contribution to Aiken County for infrastructure improvements	-	(74)
Contribution to Sumter County for infrastructure improvements	(1,383)	(425)
Contribution from the State of SC for Jasper Ocean Terminal	1,000	1,050
Contribution from the State of SC for Land Trust	-	5,000
	(1,366)	1,319
Excess revenues over expenses before capital contributions and special items	37,335	32,033
Contribution from the State of SC for Harbor Deepening	6,185	-
Capital grants from the federal government	5,156	361
Contribution from Spartanburg County for BMW facility	15,035	281
Contribution from Norfolk Southern Railway Company	-	1,134
Increase in net position	63,711	33,809
Total net position		
Beginning of year	678,798	708,899
Adoption of GASB 68	-	(63,910)
End of year	$ 742,509	$ 678,798

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

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

(in thousands of dollars)	2016	2015
Cash flows from operating activities		
Cash received from customers	$ 208,516	$ 199,735
Cash paid to suppliers	(86,122)	(80,612)
Cash paid for employees	(57,713)	(52,289)
Net cash provided by operating activities	64,681	66,834
Cash flows from investing activities		
Proceeds from sale of investments	15,577	13,259
Purchases of investments	(35,563)	(13,352)
Interest received on investments	6,140	2,439
Payment to support bi-state development	(1,000)	(1,050)
Net cash provided by (used in) investing activities	(14,846)	1,296
Cash flows from noncapital financing activities		
Contribution to the State of SC for Cooper River Bridge	(1,000)	(1,000)
Contribution to Aiken County for infrastructure improvements	-	(74)
Contribution to Sumter County for infrastructure improvements	(1,383)	(529)
Payment to Lowcountry Open Land Trust for Land Trust	-	(5,000)
Contribution from the State of SC for Land Trust	-	5,000
Contribution from the State of SC for Jasper Ocean Terminal	1,000	1,050
Net cash used in noncapital financing activities	(1,383)	(553)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(114,291)	(51,361)
Cash received from insurance proceeds	7,618	101
Proceeds from sale of property and equipment	717	3,069
Cash paid for demolition of cranes	(988)	-
Contribution from the State of South Carolina for harbor deepening	1,300	-
Proceeds from revenue bonds	312,443	-
Principal paid on revenue bonds	(5,035)	(4,845)
Proceeds from notes payable	19,385	102,707
Principal paid on harbor deepening	(104)	-
Principal paid on other debt	(109,306)	(1,188)
Interest paid on revenue bonds	(10,565)	(2,375)
Interest paid on harbor deepening obligation	(133)	(136)
Interest paid on other debt	(830)	(817)
Contribution from Spartanburg County	143	-
Contribution from Norfolk Southern Railway Company for Inland Port	-	1,134
Capital grants	593	233
Cash flow provided by capital and related financing activities	100,947	46,522
Net increase in cash and cash equivalents	149,399	114,099
Cash and cash equivalents		
Beginning of year	269,901	155,802
End of year	$ 419,300	$ 269,901
Reconciliation of cash to financial statements		
Cash	$ 7,484	$ 8,282
Investments	164,277	198,419
Investments internally designated for capital acquisitions	247,539	63,200
Total cash and cash equivalents	$ 419,300	$ 269,901

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

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

(in thousands of dollars)	**2016**	**2015**
Reconciliation of operating earnings to net cash provided by operating activities		
Operating earnings	$ 38,701	$ 30,714
Adjustments to reconcile operating earnings to net cash provided by operating activities		
Depreciation	33,687	33,753
Provision for doubtful accounts	(144)	155
Other expense (income), net	568	(85)
Amortization	36	34
Demolition costs	-	(366)
Gain on property damage, net of insurance proceeds	(7,618)	(121)
Changes in operating assets and liabilities		
Accounts receivable	(2,631)	(3,763)
Inventories	(205)	(500)
Prepaid and other current assets	(281)	1,204
Accounts payable and other liabilities	47	2,945
Payroll related liabilities	(665)	1,094
Post retirement liability	1,446	1,392
Pension liability	1,740	378
Net cash provided by operating activities	$ 64,681	$ 66,834

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)	**2016**	**2015**
Property and equipment included in accounts payable	$ 27,938	$ 11,531
Unrealized (loss) gain on interest rate swap	(111)	896
Unrealized gain on investments	383	-
Port Royal property transfer included in other receivables	11,611	-
Contributions in other receivables	24,815	475
Interest income included in interest receivable	1,075	387

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, as well as an inland port facility in Greer. 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. 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 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 position is 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

In February 2015, GASB approved Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. In the period this Statement is first applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods should be restated. However, if restatement of the financial statements for all prior periods is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated (generally the current period) and an explanation for not restating prior periods should be given. This Statement has been adopted for the fiscal year ending June 30, 2016 with the cumulative effect of application presented in the current period due to its immaterial nature.

The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*, in June 2015. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67 and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015 and will have no impact on the financial statements of the Ports Authority.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in June 2015. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for fiscal years beginning after June 15, 2017. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* which is effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement was adopted this year and has no impact on the financial statements of the Ports Authority.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is effective for reporting periods beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirement for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that not have the characteristics described above. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

In March 2016, GASB issues Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measures as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Ports Authority is currently evaluating the impact 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 committed by the Board of Directors 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, 2016 and 2015. The investments held with third party banks include money market funds, US Government securities, and interest bearing accounts with credit ratings from Moody’s of AAA and P-1 and Standard & Poor’s of AA+ and A-1 as of June 30, 2016 and 2015, respectively. 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, US Government securities, and interest bearing accounts, which totaled approximately $13,996,000 and $13,649,000 as of June 30, 2016 and 2015, respectively. Investments held by a trustee are invested in government agency securities, which totaled $36,196,000 and $15,827,000 as of June 30, 2016 and 2015, respectively. Investments with third party banks and investments held by a trustee are fully collateralized as of June 30, 2016 and 2015 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 Ports 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, 2016 and 2015. 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**	**2016**	**2015**
Money market funds	Less than one year	$ 16,961	$ 13,649
U.S. government agency securities	Less than one year	7,712	15,827
U.S. government agency securities	One to five years	16,735	-

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. Inventory is evaluated for obsolescence on an annual basis and adjusted accordingly.

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	5 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	5 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, customer relationships, and harbor deepening. 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.

Under GASB Statement No. 69, for acquisitions occurring after December 15, 2013 in which the consideration provided exceeds the net position acquired, the Ports Authority will report the difference as a deferred outflow of resources. The deferred outflow of resources will be attributed to future periods in a systematic and rational manner, based on professional judgment, considering the relevant circumstances of the acquisition. The Ports Authority will periodically review and revise its estimate of the attribution period in reporting periods subsequent to the acquisition.

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 non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing commerce through the ports. Revenue from exchange transactions is recognized at the time the transaction is completed. Non-exchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating 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.

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, 2016 and 2015, three customers accounted for the following revenue and accounts receivable percentages:

	2016		2015	
	Revenue	**Accounts Receivable**	**Revenue**	**Accounts Receivable**
Customer 1	23 %	20 %	23 %	24 %
Customer 2	16	20	18	21
Customer 3	11	13	10	13
	50 %	53 %	51 %	58 %

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, up to their respective maximum. The liability for annual leave is accrued at its accumulated value in the accompanying financial statements. The liability is $2,914,000 and $2,739,000 as of June 30, 2016 and 2015, 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.

Pensions
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Ports Authority and additions and deductions to/from the Ports Authority's fiduciary net position have been determined on the same basis as they are reported by the South Carolina Retirement Systems administered by the South Carolina Public Employees Benefit Authority (PEBA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Correction of Previously Issued Financial Information

During the year ended June 30, 2016, a correction was identified for the treatment of costs incurred related to the harbor deepening feasibility study. The Ports Authority determined that it had incorrectly applied the accounting guidance in GASB 51, *Accounting and Financial Reporting for Intangible Assets,* by including all feasibility costs as an asset rather than expensing as incurred, resulting in an overstatement of assets and increase in net position in the periods that were impacted.

The Ports Authority evaluated the materiality of the error from qualitative and quantitative perspectives, and concluded the error was not material to its previously issued annual financial statements. The cumulative amounts of the corrections were approximately $8.6 million, of which approximately $5.3 million was attributable to the fiscal year ended June 30, 2012. The cumulative amount of the prior period revisions would have been material to our current Statement of Revenues, Expenses and Changes in Net Position had we made the correction in the current period, and accordingly we revised our previously issued financial statements to correct these errors.

The following tables present the effect of the correction for the harbor deepening feasibility costs, as well as other immaterial adjustments, on the previously reported balance sheet as of June 30, 2015 and the statement of revenues, expenses and changes in net position and the statement of cash flows for the year ended June 30, 2015:

(in thousands of dollars)	2015 As Reported	Adjustment	2015 As Revised
Assets			
Noncurrent assets and investments			
Property and equipment, net	$ 760,164	$ (8,293)	$ 751,871
Total assets	1,092,257	(8,293)	1,083,964
Total assets and deferred outflows of resources	$ 1,098,260	$ (8,293)	$ 1,089,967
Liabilities and Net Position			
Current liabilities			
Accounts payable	$ 10,256	$ (190)	$ 10,066
Total current liabilities	40,796	(190)	40,606
Total liabilities	405,889	(190)	405,699
Net Position			
Net investment in capital assets	461,770	(8,293)	453,477
Unrestricted	215,937	190	216,127
Total net position	686,901	(8,103)	678,798
Total liabilities, deferred inflows and net position	$ 1,098,260	$ (8,293)	$ 1,089,967

(in thousands of dollars)	2015 As Reported	Adjustment	2015 As Revised
Operating expenses (gains)			
Direct operating expense	$ 106,290	$ (190)	$ 106,100
Depreciation expense	33,854	(101)	33,753
Total operating expenses	166,336	(291)	166,045
Operating earnings	30,423	291	30,714
Nonoperating revenues (expenses)			
Other expense, net	(5,792)	(343)	(6,135)
Interest expense	(3,043)	(120)	(3,163)
Total nonoperating revenues (expenses)	1,782	(463)	1,319
Excess revenues over expenses before capital contributions and special items	32,205	(172)	32,033
Increase in net position	33,981	(172)	33,809
Total net position			
End of year	$ 686,901	$ (8,103)	$ 678,798

(in thousands of dollars)	2015 As Reported	Adjustment	2015 As Revised
Cash flows from operating activities			
Cash paid to suppliers	$ (80,269)	$ (343)	$ (80,612)
Net cash provided by operating activities	67,177	(343)	66,834
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(52,064)	703	(51,361)
Interest paid on revenue bonds	(2,015)	(360)	(2,375)
Net cash provided by capital and related financing activities	46,179	343	46,522
Reconciliation of operating earnings to net cash provided by operating activities			
Operating earnings	$ 30,423	$ 291	$ 30,714
Adjustments to reconcile operating earnings to net cash provided by operating activities, net of acquisitions			
Depreciation	33,854	(101)	33,753
Other expense (income), net	258	(343)	(85)
Accounts payable and other liabilities	3,135	(190)	2,945
Net cash provided by operating activities	$ 67,177	$ (343)	$ 66,834

3. Cash, Investments and Pooled Investments

The Ports Authority's total cash and investments at June 30, 2016 and 2015 are approximately $455.5 million and $285.7 million, 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, 2016 and 2015.

The bond trustees invest in government agency securities and repurchase agreements collateralized by U.S. government securities. These investments are carried at their estimated fair values.

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, and 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. The fair market value of these investments at June 30, 2016 and 2015 are approximately $411 million and $258 million, respectively.

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

(in thousands of dollars)	2016	2015
Insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name	$ 13,996	$ 15,213
Carrying value of cash	7,484	8,282

Investments at June 30 consist of the following:

(in thousands of dollars)	**2016**	**2015**
Investment in state cash management pool	$ 403,384	$ 253,171
Funds deposited with third party banks	8,432	8,448
U.S. government agency securities, held by trustee	36,196	15,827
	448,012	277,446
Less: Amounts currently available for operating funds	164,277	198,419
Amounts held by trustee	36,196	15,827
Internally designated investments	$ 247,539	$ 63,200

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

(in thousands of dollars)	**2016**	**2015**
Carrying value		
Cash	$ 7,484	$ 8,282
Investments	448,012	277,446
	$ 455,496	$ 285,728
Included in the following balance sheets captions		
Cash	$ 7,484	$ 8,282
Investments, current assets	164,277	198,419
Investments internally designated for capital acquisitions	247,539	63,200
Investments held by trustee for debt service	36,196	15,827
	$ 455,496	$ 285,728

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

(in thousands of dollars)	2016	2015
Capital Improvement Fund		
Funds invested	$ 79,146	$ 47,822
	79,146	47,822
Depreciation Fund		
Cash	18	18
Funds invested	13,703	13,415
	13,721	13,433
Construction Fund		
Funds invested	152,704	-
	152,704	-
Other - State Port Construction Fund		
Cash	132	132
Funds invested	1,836	1,813
	1,968	1,945
	$ 247,539	$ 63,200

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 Funds exceed the requirements, the Ports Authority is permitted to use the Reserve Funds investment income for principal and interest payments and thereby reduce the amount of operating funds required to be transferred to the Debt Service Funds. 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 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.

Fair Value Guidance

Investments held by the Ports Authority are accounted for under GASB 72, *Fair Value Measurement and Application* and are carried at their estimated fair market value. This Statement requires the Ports Authority to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

The Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs.

The cost, gross unrealized gain, gross unrealized loss, and fair values of fixed maturity securities at June 30, 2016 is as follows:

	June 30, 2016			
Type of Investment	**Cost**	**Unrealized Gain**	**Unrealized Loss**	**Fair Market Value**
US Treasury Securities	$ 20,352,933	$ 464,551	$ -	$ 20,817,484
Gov't Sponsored Securities	3,710,451	32,095	(113,852)	3,628,694
	$ 24,063,384	$ 496,646	$ (113,852)	$ 24,446,178

The following table provides the hierarchy information about the Ports Authority's financial assets measured at fair value on a recurring basis at June 30, 2016:

	June 30, 2016			
Type of Investment	**Level 1**	**Level 2**	**Level 3**	**Total**
US Treasury Securities	$ 20,817,484	$ -	$ -	$ 20,817,484
Gov't Sponsored Securities	-	3,628,694	-	3,628,694
	$ 20,817,484	$ 3,628,694	$ -	$ 24,446,178

4. Property and Equipment

Property and equipment consist of the following amounts:

(in thousands of dollars)	Balance at June 30, 2015	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2016
Land	$ 203,281	$ 143	$ (675)	$ (136)	$ 202,613
Land improvements	314,742	-	(334)	13,508	327,916
Land held for sale	2,674	-	(2,674)	-	-
Buildings and structures	339,214	-	(16,421)	12,571	335,364
Buildings and structures held for sale	1,140	-	-	(1,140)	-
Railroad tracks	16,962	-	-	28	16,990
Terminal equipment	146,945	-	(3,105)	11,694	155,534
Furniture and fixtures	27,220	-	(1)	2,084	29,303
Capital projects in progress	249,411	140,459	(8,931)	(38,609)	342,330
	1,301,589	140,602	(32,141)	-	1,410,050
Less: Accumulated depreciation	549,718	33,687	(19,749)	-	563,656
Property and equipment, net	$ 751,871	$ 106,915	$ (12,392)	$ -	$ 846,394

(in thousands of dollars)	Balance at June 30, 2014	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2015
Land	$ 201,675	$ -	$ (1)	$ 1,607	$ 203,281
Land improvements	309,021	-	-	5,721	314,742
Land held for sale	2,674	-	-	-	2,674
Buildings and structures	339,654	-	(2,261)	1,821	339,214
Buildings and structures held for sale	1,140	-	-	-	1,140
Railroad tracks	16,826	-	-	136	16,962
Terminal equipment	141,368	71	(4,470)	9,976	146,945
Furniture and fixtures	29,117	-	-	(1,897)	27,220
Capital projects in progress	219,180	47,595	-	(17,364)	249,411
	1,260,655	47,666	(6,732)	-	1,301,589
Less: Accumulated depreciation	522,645	33,753	(6,680)	-	549,718
Property and equipment, net	$ 738,010	$ 13,913	$ (52)	$ -	$ 751,871

Leases

During the years ended June 30, 2016 and 2015, the Ports Authority leased yard trucks and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately $2,317,000 and $1,853,000, respectively.

During the years ended June 30, 2016 and 2015, the Ports Authority leased office and warehouse space as well as land under operating leases, incurring expenses of approximately $902,000 and $839,000, respectively.

During the years ended June 30, 2016 and 2015, the Ports Authority leased software for a billing platform, incurring expenses of approximately $104,000 and $42,000, respectively.

5. Intangible Assets and Goodwill

Intangible assets and goodwill consist of the following at June 30:

(in thousands of dollars)	2016	2015
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	(719)	(683)
Intangible assets subject to amortization, net	157	193
Harbor deepening, project in process	6,185	-
Goodwill	2,190	2,190
	$ 8,532	$ 2,383

The intangible assets are amortized using a method based on the estimated useful lives of the assets. The harbor deepening intangible asset will be amortized or evaluated for impairment in the future, whichever is deemed appropriate. Amortization expense for the next five years and thereafter is as follows:

(in thousands of dollars)	
2017	$ 35
2018	35
2019	35
2020	25
2021	20
2022	7
	$ 157

6. Long-Term Debt

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

(in thousands of dollars)	June 30, 2015	Additions	Reductions	June 30, 2016	Current Portion
Revenue bonds – Series 2010	$ 160,495	$ -	$ (5,035)	$ 155,460	$ 5,270
Revenue bonds – Series 2015	-	294,025	-	294,025	-
Notes payable	130,977	19,385	(109,306)	41,056	1,808
	291,472	313,410	(114,341)	490,541	7,078
Plus: Unamortized premium	2,024	20,235	(317)	21,942	-
	$ 293,496	$ 333,645	$ (114,658)	$ 512,483	$ 7,078

(in thousands of dollars)	June 30, 2014	Additions	Reductions	June 30, 2015	Current Portion
Revenue bonds – Series 2010	$ 165,340	$ -	$ (4,845)	$ 160,495	$ 5,035
Notes payable	29,458	102,707	(1,188)	130,977	1,214
	194,798	102,707	(6,033)	291,472	6,249
Plus: Unamortized premium	2,151	-	(127)	2,024	-
	$ 196,949	$ 102,707	$ (6,160)	$ 293,496	$ 6,249

Series 2015

On November 4, 2015, the Ports Authority issued $294,025,000 of Series 2015 bonds having stated interest rates ranging from 3.5% to 5.25% payable annually on each January 1 and July 1. Net proceeds of $314,260,000 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 Ports Authority's capital budget for fiscal years 2016 through 2018 in the amount of $300,000,000, (ii) $12,443,000 to fund the debt service reserve fund and (iii) $1,817,000 to pay certain costs and expenses related to the issuance of the Series 2015 bonds. The bonds, issued at a premium of approximately $20,235,000, consist of term bonds maturing between July 1, 2026 and 2055. The bond premium is amortized using the effective interest method over 40 years, the life of the bonds. Bond issuance costs were expensed in the period incurred.

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 were expensed in the period incurred.

In connection with both the 2015 and 2010 Series 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). The Ports Authority is in compliance with these covenants as of June 30, 2016 and 2015.

Optional Redemption

The Series 2015 and 2010 Bonds maturing on or after July 1, 2026 and 2021, respectively, shall be subject to redemption prior to maturity, at the option of the Ports Authority, on and after July 1, 2025 and 2020, respectively, 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 2015 and 2010 Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Series 2015 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, 2036, 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. The Series 2010 bonds are subject to mandatory sinking fund redemption, by lot, 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. The principal amounts for both Series 2015 and 2010 are indicated below:

(in thousands of dollars)

2028 Term Bond	**2015 Series Amount**	**2010 Series Amount**
Year		
2026	$ -	$ 3,990
2027	-	4,215
2028	-	2,495

(in thousands of dollars)

2040 Term Bond	**Amount**	**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	2,595	6,775
2037	2,700	7,140
2038	2,810	7,525
2039	2,925	7,930
2040	3,040	8,360

2045 4% Term Bond	**2015 Series Amount**	**2010 Series Amount**
Year		
2041	$ 4,610	$ -
2042	4,795	-
2043	4,990	-
2044	5,195	-
2045	5,410	-

2045 5% Term Bond	**Amount**	**Amount**
Year		
2041	$ 7,350	$ -
2042	7,730	-
2043	8,125	-
2044	8,540	-
2045	8,975	-

2050 Term Bond	**Amount**	**Amount**
Year		
2046	$ 15,115	$ -
2047	15,930	-
2048	16,790	-
2049	17,695	-
2050	18,645	-

2055 Term Bond	**Amount**	**Amount**
Year		
2051	$ 19,655	$ -
2052	20,710	-
2053	21,830	-
2054	23,005	-
2055	24,245	-

Promissory Notes

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 with interest based on a rate of 2.56% per annum. The loan matures on December 19, 2022. Proceeds from this note were used for the development and construction of the South Carolina Inland Port located in Greer, SC. As of June 30, 2016 and 2015, the Ports Authority had amounts outstanding under this loan agreement of $27,056,000 and $28,269,000, respectively.

On August 28, 2014, the Ports Authority entered into an agreement with a bank for a line of credit in the amount of $200,000,000. Interest is payable monthly and is based on a LIBOR indexed rate which is 67% of the sum of LIBOR plus 51 basis points per annum. All outstanding principal and interest is due August 27, 2016. Proceeds from this note were used for the purchase of port equipment and the development and construction of port facilities. The line of credit was paid off during the current fiscal year and had no outstanding amount as of June 30, 2016. As of June 30, 2015, the Ports Authority had amounts outstanding under this loan agreement of $100,430,000.

On January 29, 2015, the Ports Authority entered into a promissory note agreement with a bank for $14,000,000. Interest is payable monthly for twelve months and then, semi-annually beginning July 29, 2016. The interest rate per annum is based on the 90-day published LIBOR plus .85%, with a floor of 1.25%. The first principal payment is due January 29, 2017. Principal payments are made annually in equal amounts with all outstanding principal and interest due on January 29, 2025. Proceeds from this note were used for the development and construction of a cold storage facility located in North Charleston, SC. As of June 30, 2016 and 2015, the Ports Authority had amounts outstanding under this loan agreement of $14,000,000 and $2,278,000, respectively.

Maturities of long-term debt are summarized as follows:

	Revenue Bonds		Other Long-Term Debt	
(in thousands of dollars)	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 5,270	$ 22,540	$ 1,808	$ 862
2018	5,535	22,264	1,835	822
2019	5,810	21,973	1,864	782
2020	6,090	21,669	1,896	742
2021	6,390	21,349	1,933	1,925
2022–2026	37,320	101,067	31,720	-
2027–2031	31,450	92,154	-	-
2032–2036	40,480	82,927	-	-
2037–2041	51,800	71,345	-	-
2042–2046	65,720	57,180	-	-
2047–2051	84,175	38,031	-	-
2052–2056	109,445	12,094	-	-
	$ 449,485	$ 564,593	$ 41,056	$ 5,133

The components of interest expense for the years ended June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	**2016**	**2015**
Interest expense on long-term debt	$ 19,054	$ 9,646
Amortization of premiums on long-term debt	(317)	(127)
Unrealized gain on investments	(384)	-
Capitalized interest expense	(16,310)	(6,356)
	$ 2,043	$ 3,163

The Ports Authority capitalizes interest costs, net of interest income earned from bond proceeds, 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.

7. Commitments

Construction

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately $231.5 million and $35.7 million as well as commitments for non-construction property, plant, and equipment of approximately $7.7 million and $8.5 million at June 30, 2016 and 2015, respectively.

Harbor Deepening

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 on June 5, 1998. In May 2013, the Army Corps of Engineers determined the total cost of this deepening project to be approximately $136.2 million. The final cost sharing from federal sources was approximately $88.5 million and the local share approximately $47.7 million. The Ports Authority has paid a portion of this local share utilizing $31.7 million from the State of South Carolina's funding sources provided for this project. The remaining portion of the local share is being paid over a period of 30 years and includes annual interest of 3%. As of June 30, 2016 and 2015 the remaining balance is $4.3 million and $4.4 million, respectively, and is reflected in current and long term liabilities.

In 2011, the United States Army Corps of Engineers (USACE) commenced a feasibility study to determine the scope of a future, post-45 foot project. In September 2015, the USACE issued a Chief's report recommending the Charleston Harbor be deepened to 52 feet with a projected all-in cost of $532 million and projected completion by the end of 2019. This report is a result of a feasibility study that began in 2011 and was part of a 50/50 cost share with the federal government. In September 2015, the project moved into the Preconstruction Engineering and Design (PED) phase which is projected to last 18 to 24 months. In tandem with the PED phase, a version of the Water Resource Development Act Bill will be voted on by Congress in September 2016. The passing of this bill would authorize the project to move forward and allow it to be eligible for appropriations. The overall project will be complete on a cost share basis with the federal government. It is anticipated that the Ports Authority's total share of the project will be $353 million and the federal share will be $179 million. During fiscal year 2012, the SC General Assembly appropriated $300 million along with interest earned to the Harbor Deepening Reserve Fund to cover costs associated with the deepening of the Charleston harbor. Management believes this appropriation and previously allocated funds will cover the local share. The Authority is in the process of seeking the remaining $179 million from the federal government. As of June 30, 2016 the Authority has spent $7.1 million on the feasibility phase, $1.5 million on the PED phase and $9.7 million in mitigation. The PED and mitigation spending was reimbursed by the SC General Assembly appropriation. Costs incurred during the PED phase and in all phases going forward are included in intangible assets. As of June 30, 2016, $4.9 million in post-feasibility costs due from the state of South Carolina are included in other receivables.

The Ports Authority entered in to a cooperative agreement in December 2014 with the South Carolina Coastal Conservation League (CCL) and the Lowcountry Open Land Trust (LOLT). The purpose of the agreement was to memorialize the understanding between the parties regarding impacts associated with the Post 45 Foot Charleston Harbor Deepening Project and to resolve any and all issues concerning environmental issues associated with the construction of the Project. The cooperation agreement provides for the establishment of an escrow account funded by the Ports Authority in the amount of $5 million. In March 2015 these funds were paid into escrow by the Ports Authority for the LOLT to draw from for options on real property, and associated administrative and management costs. The payment was recorded in other expenses. The Ports Authority was reimbursed by the State of South Carolina for this expense and this contribution is recorded in non-operating revenue. As of the close of fiscal year 2015, the LOLT has exercised its first stage of the project by providing payment toward the acquisition of the French Quarter Track with in the Cooper River Corridor.

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, 2016, the Ports Authority has been granted approximately $17.0 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, 2024.

BMW Manufacturing Support Facility

The Ports Authority has agreed to build, own and lease to BMW an approximately 61,000 square foot manufacturing support facility to be located at its current Spartanburg County plant. To assist with the funding of the support facility the South Carolina Coordinating Council for Economic Development is providing an economic assistance grant not to exceed $17.5 million to Spartanburg County. The funds may be used for infrastructure, site improvements, and construction activities. As construction progresses, the Ports Authority will draw down the economic assistance funds from Spartanburg County to cover the cost of construction. The parties have agreed that use of the grant funds will only be available to fund the project through September 30, 2016. BMW has committed to provide monies from sources other than the grant for cost overruns that are required to complete the project. As of June 30, 2016, $15.2 million of the grant funds due from Spartanburg County are included in other receivables.

Daniel Island Lease

In June 2015 the Ports Authority entered into a ground lease of 50 acres located on Daniel Island to the South Carolina Department of Parks Recreation and Tourism. The lease is effective beginning July 1, 2015. The property has been leased for development of recreational uses. The initial term of the ground lease terminates in December 2075 and can be extended for four additional ten year terms all totaling approximately 100 years.

NOCS Lease

In fiscal year 2016, the Ports Authority executed an amendment to a previous land lease and license agreement with New Orleans Cold Storage (NOCS) for the lease of a cold storage facility. The terms of the amendment grant NOCS with a rent holiday from December 2016 through December 2017. Beginning January 2017, they will begin paying rent according to the terms of the amendment. Under GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* the Ports Authority will recognize revenue on a straight-line basis beginning in December 2016 until the end of the lease term on December 31, 2046. The straight-line recognition creates a difference between the revenue recognized and the actual amount of rent received. The difference in these two amounts is included in Other Receivables-Non-Current on the Statement of Net Position. For the fiscal year ending June 30, 2016, the Ports Authority has recognized revenue of $561,000 in relation to the NOCS lease, of which that same amount is also included in Other Receivables - Non-Current Assets. As of June 30, 2016, there is also $3.2 million included in other receivables related to costs incurred for a freezer system installation at the cold storage facility that are to be reimbursed to the Ports Authority by NOCS.

Hugh K. Leatherman Sr. Terminal

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 phases. The first phase will consist of one to two marine berths, required container yard support areas and necessary equipment. The cost for the first phase is currently estimated to be approximately $782 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.

The initial portion of the first phase of construction for the new terminal involves engineering, design, and permitting costs as well as three critical-path projects. The critical-path includes 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. As of June 30, 2016 the Ports Authority has spent approximately $203 million on construction, permitting, consulting and engineering costs related to the first phase of the new terminal. The remaining costs associated with these critical path projects are approximately $239 million, a portion of which the Ports Authority expects to recover as reimbursement from cost overruns. 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. The additional cost of these projects is estimated to be $340 million.

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 2020. 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.

8. 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, 2016 and 2015, the Ports Authority had the following derivative instruments outstanding:

2016 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	$ 20,992,500	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	48,982,500	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	69,975,000	7/1/2008	7/1/2026	Pay SIFMA Receive 3.508%	A1/A

2015 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	$ 22,642,500	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	52,832,500	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	75,475,000	7/1/2008	7/1/2026	Pay SIFMA Receive 3.508%	A1/A

As of June 30, 2016 and 2015, 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, 2016 and 2015. 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. All interest rate swaps are classified as Level 2 investments in the Fair Value Hierarchy under GASB 72.

Changes in fair value at June 30, 2016 and 2015 are as follows:

	Derivative	2016	2015	Change in Fair Value
Item A	Pay Fixed Receive Floating	$ (2,948,000)	$ (2,770,000)	$ (178,000)
Item B	Pay Fixed Receive Floating	(6,880,000)	(6,464,000)	(416,000)
Item C	Receive Fixed Pay Floating	8,743,000	8,260,000	483,000
		$ (1,085,000)	$ (974,000)	$ (111,000)

Changes in fair value at June 30, 2015 and 2014 are as follows:

	Derivative	2015	2014	Change in Fair Value
Item A	Pay Fixed Receive Floating	$ (2,770,000)	$ (3,040,000)	$ 270,000
Item B	Pay Fixed Receive Floating	(6,464,000)	(7,090,000)	626,000
Item C	Receive Fixed Pay Floating	8,260,000	8,260,000	-
		$ (974,000)	$ (1,870,000)	$ 896,000

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, 2016 and 2015 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, 2016 and 2015, 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.

9. Retirement Plans

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.qov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

General Information about the Pension Plans

Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirements that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

  The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

  The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase in the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

Required employee contribution rates are as follows:

	2016	**2015**
SCRS		
Employee Class Two	8.16%	8.00%
Employee Class Three	8.16%	8.00%
State ORP Employee	8.16%	8.00%
PORS		
Employee Class Two	8.74%	8.41%
Employee Class Three	8.74%	8.41%

Required employer contribution rates are as follows:

SCRS		
Employer Class Two	10.91%	10.75%
Employer Class Three	10.91%	10.75%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution	10.91%	10.75%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	13.34%	13.01%
Employer Class Three	13.34%	13.01%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, the Ports Authority reported a liability of $74.3 million and $64.8 million, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability was determined by an actuarial valuation as of that date. The Ports Authority's proportion of the net pension liability was based on its share of contributions to the pension plans in fiscal years 2015 and 2014 relative to the contributions made by all participating employers. At June 30, 2015 and 2014, the Ports Authority's proportion was 0.3917 percent and 0.3756 percent, respectively for the SCRS and 0.0071 percent and 0.0079 percent, respectively for the PORS.

For the years ended June 30, 2016 and 2015, the Ports Authority recognized pension expense of $6.1 million and $4.6 million, respectively. At June 30, 2016 and 2015, the Ports Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016 *(in thousands of dollars)*	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between actual and expected experience	$ 1,323	133
Net difference between projected and actual earnings on pension plan investments	499	-
Changes in proportionate share and differences between contributions and proportionate share of contributions	2,222	11
The Ports Authority's contributions subsequent to the measurement date	4,368	-
	$ 8,412	$ 144

2015 *(in thousands of dollars)*	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between actual and expected experience	$ 1,837	$ -
Net difference between projected and actual earnings on pension plan investments	-	5,470
The Ports Authority's contributions subsequent to the measurement date	4,166	-
	$ 6,003	$ 5,470

$4.4 million and $4.2 million reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	SCRS	**PORS**
Year Ended June 30, 2016		
2017	$ (1,850,630)	$ 72
2018	(1,850,630)	72
2019	(1,298,667)	(632)
2020	-	-

	SCRS	PORS
Year Ended June 30, 2015		
2016	$ (796,228)	$ (3,337)
2017	(796,228)	(3,337)
2018	(796,228)	(3,337)
2019	(1,230,963)	(3,488)

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014 and 2013, valuations for SCRS and PORS, respectively.

	SCRS	PORS
2014		
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Investment rate of return	7.50 %	7.50 %
Projected salary increases	3.5% to 12.5%	4.0% to 10.0%
Includes inflation at	2.75 %	2.75 %
Benefit adjustments	lesser of 1% or $500	lesser of 1% or $500

	SCRS	PORS
2013		
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	7.50 %	7.50 %
Projected salary increases	levels off at 3.5%	levels off at 4.0%
Includes inflation at	2.75 %	2.75 %
Benefit adjustments	lesser of 1% or $500	lesser of 1% or $500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014 and 2013 valuations for SCRS and PORS are as follows:

	Males	Females
Former Job Class		
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
2016			
Asset Class			
Short Term	**5.0 %**		
Cash	2.0	1.9	0.04
Short Duration	3.0	2.0	0.06
Domestic Fixed Income	**13.0**		
Core Fixed Income	7.0	2.7	0.19
Mixed Credit	6.0	3.8	0.23
Global Fixed Income	**9.0**		
Global Fixed Income	3.0	2.8	0.08
Emerging Markets Debt	6.0	5.1	0.31
Global Public Equity	**31.0**	7.1	2.20
Global Tactical Asset Allocation	**10.0**	4.9	0.49
Alternatives	**32.0**		
Hedge Funds (Low Beta)	8.0	4.3	0.34
Private Debt	7.0	9.9	0.69
Private Equity	9.0	9.9	0.89
Real Estate (Broad Market)	5.0	6.0	0.30
Commodities	3.0	5.9	0.18
Total Expected Real Return	100.0 %		6.00
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.75

2015 **Asset Class**	**Target Asset Allocation**	**Expected Arithmetic Real Rate of Return**	**Expected Portfolio Real Rate of Return**
Short Term	5.0 %		
Cash	2.0	0.3	0.01
Short Duration	3.0	0.6	0.02
Domestic Fixed Income	-		
Core Fixed Income	7.0	1.1	0.08
High Yields	2.0	3.5	0.07
Bank Loans	4.0	2.8	0.11
Global Fixed Income	-		
Global Fixed Income	3.0	0.8	0.02
Emerging Markets Debt	6.0	4.1	0.25
Global Public Equity	-	7.8	2.42
Global Tactical Asset Allocation	-	5.1	0.51
Alternatives	-		
Hedge Funds (Low Beta)	8.0	4.0	0.32
Private Debt	7.0	10.2	0.71
Private Equity	9.0	10.2	0.92
Real Estate (Broad Market)	5.0	5.9	0.29
Commodities	3.0	5.1	0.15
Total Expected Real Return	5.0 %		5.88
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.63

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following table presents the Ports Authority's proportionate share of the collective net pension liability of the participating employers calculated using the discount rate of 7.5 percent, as well as what the Ports Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

2016 *(in thousands of dollars)*	**1% Decrease (6.5%)**	**Discount Rate (7.5%)**	**1% Increase (8.5%)**
Ports Authority's share of the net pension liability			
SCRS	$ 93,659	$ 74,291	$ 58,057
PORS	211	155	105

2015 *(in thousands of dollars)*		**1% Decrease (6.5%)**		**Discount Rate (7.5%)**		**1% Increase (8.5%)**
Ports Authority's share of the net pension liability						
SCRS	$	83,686	$	64,669	$	48,804
PORS		212		152		102

Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS.

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 each year of employment and the participants in the plan become fully vested at the end of a 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, 2016 and June 30, 2015, contributions to the plan were approximately $1,786,715 and $1,473,000, respectively.

Under GASB 72, the plan assets are Level 1 and are carried at their estimated fair values. A corresponding liability is recognized for the fair value of the plan assets with all unrealized gains and losses adjusted solely on the Statement of Net Position. The cost, gross unrealized gains, gross unrealized losses, and estimated fair value at June 30, 2016 is as follows:

	June 30, 2016							
Type of Investment		**Cost**		**Unrealized Gain**		**Unrealized Loss**		**Fair Market Value**
Money Market Funds	$	886,636	$	-	$	-	$	886,636
Mutual Funds		900,079		155,299		(22,301)		1,033,077
	$	1,786,715	$	155,299	$	(22,301)	$	1,919,713

10. 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.

Effective January 1, 2011, the Ports Authority moved from the use of private insurance carriers to the plan offered by the South Carolina Public Employee Benefit Authority (PEBA) Employee Insurance Program. The Ports Authority now follows the eligibility rules set by PEBA, which are summarized below.

Retiree Insurance Eligibility and Funding for Employees Hired Before May 2, 2008:

- At any age, with 28 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.

- At age 60 and older, with at least 10 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.

- At age 60 and older, with at least 20 years (left employment before eligible to retire) of service credit (at least 20 years must be earned service), retiree and employer fund the premium; coverage begins when eligible for retirement.

- At age 55-60, with at least 25 years of service credit (at least 10 years must be earned service), retiree pays nonfunded premium until age 60 or when 28 years of service would have been earned. Afterward, retiree and employer fund the premium.

- At age 60 and older, with at least 5 years of service credit (at least 5 but fewer than 10 years must be earned service), retiree pays nonfunded premium.

- At any age if approved for disability, with at least 5 years of service credit (at least 4 but fewer than 10 years must be earned service), retiree and employer fund the premium.

Retiree Insurance Eligibility and Funding for Employees Hired After May 2, 2008:

- At any age, with 28 years of service credit (at least 25 years must be earned service), retiree and employer fund the premium.

- At age 60 and older or approved for disability, with at least 15 years of service credit (at least 15 years must be earned service), retiree pays retiree share plus 50% of employer share.

- At age 60 and older or approved for disability with at least 5 years of service credit (at least 5 years must be earned service), retiree pays nonfunded premium.

Eligibility requirements are subject to changes 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 $1,388,000 and $1,317,000 for fiscal years 2016 and 2015, 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 $1,999,000 and $1,897,000 for fiscal years ended June 30, 2016 and 2015, respectively. For fiscal years 2016 and 2015, the Ports Authority paid approximately 69.4% and the retirees were responsible for funding approximately and 30.6%, respectively.

The Ports Authority recorded expense during fiscal year 2016 and 2015 of $1,446,000 and $1,392,000, respectively, in retiree healthcare expense.

Annual Required Contribution

The Ports 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)	**2016**	**2015**
Net OPEB obligation, beginning of year	$ 10,335	$ 8,943
Annual required contribution (ARC)	3,048	2,959
Interest and ARC adjustment	34	30
Annual OPEB cost	3,082	2,989
Employer contributions	(1,636)	(1,597)
Net OPEB obligation, end of year	11,781	10,335
Less current portion	(1,669)	(1,636)
Net OPEB obligation, long term	$ 10,112	$ 8,699

Actual contributions paid in fiscal year 2016 and 2015 include the following at June 30:

(in thousands of dollars)	**2016**	**2015**
Employer and participant contributions	$ 1,999	$ 1,897
Implicit subsidy payments on behalf of active employees	248	280
Participant contributions	(611)	(580)
Total employer contributions including interest	$ 1,636	$ 1,597

Employer contributed 53.1% and 53.4% of annual OPEB cost during fiscal year 2016 and 2015, 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, 2016 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, 2016	$ 3,048	$ 1,636	53.7 %
June 30, 2015	2,959	1,597	54.0 %
June 30, 2014	2,933	1,633	55.7 %

The ARC of $3,048,000 and $2,959,000 for fiscal year 2016 and 2015, 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, 2016	$ -	$ 38,583	$ 38,583	0 %	$ 38,316	101 %
June 30, 2015	-	45,300	45,300	0 %	35,944	126 %

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, 2016	$ 3,082	53.1 %	$ 11,781
June 30, 2015	2,989	53.4 %	10,335

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, 2015 – June 30, 2016
Actuarial cost method	Projected Unit Credit
Amortization method	30 years open, level percent of active member payroll
Asset valuation method	N/A

	2016	2015
Actuarial assumptions		
Discount rate	4.5%	4.5%
Projected payroll growth rate	3.0%	3.0%
Health care cost trend rate for medical and prescription drugs	6.0%	6.0%

(Initial rate of 6.0% declining to an ultimate rate of 4.5% over a period of 9 years).

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.

11. 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.

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

(in thousands of dollars)	2016	2015
Cost	$ 39,786	$ 18,465
Accumulated depreciation	17,916	12,556

Minimum future operating revenue and rentals, to be received under noncancelable agreements as of June 30, 2016 were:

(in thousands of dollars)

2017	$	3,252
2018		1,982
2019		1,770
2020		1,648
2021		1,635
Thereafter		28,297
	$	38,584

12. Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, 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 value at June 30, 2016 and 2015 was approximately $470,057,000 and $178,074,000, respectively.

13. Other Matters

Cooper River Bridge

On March 13, 2002, the Ports Authority Board resolved to make a contribution to the Cooper River 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 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 agreed to pay $1,000,000 per year beginning in fiscal year 2004 for 25 years for a total of $45 million. These payments to the State of South Carolina have been treated as nonoperating expenses 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 for the Cooper River Bridge totaled $1,000,000 in each fiscal year 2016 and 2015.

Jasper County

The Ports Authority entered into a joint government organizational agreement with the State of Georgia for the formation of a bi-state facility to be operated jointly between the Ports Authority and the State of Georgia. The legal and operational structure of the potential bi-state facility is not known at this time. The Ports Authority contributed $1,000,000 and $1,050,000 in cash to the joint organization in fiscal years ended June 30, 2016 and 2015, respectively. Amounts contributed in fiscal year 2016 and 2015 by the Ports Authority were sourced from capital project funds provided by the State of South Carolina. The cash contribution has been used by the joint organization to support the initial planning associated with a bi-state facility. Total expenses recognized by the Ports Authority related to initial planning costs were approximately $1,083,000 and $1,088,000 for the years ended June 30, 2016 and 2015, respectively, and are included in Other income (expense), net.

Federal Grant Agreements

During July 2015, the Authority entered into a grant agreement in the amount of $10,840,000 with the U.S. Department of Transportation Maritime Administration. The authorizing federal legislation refers to the program as the "TIGER Discretionary Grant" program. The TIGER grant will provide federal dollars for the Wando Welch Terminal Rehabilitation, Productivity and Densification Project. The total project is estimated to cost approximately $39,915,000. The federal funds will cover approximately 27.2% of the costs with the balance coming from the Ports Authority. The grant fund's qualifying expenditures are limited to the certain wharf and piling replacements and repairs made during the multiple phases of the project. As of June 30, 2016 the Ports Authority has expended approximately $4,514,000 related to this grant agreement, all of which is included in other receivables as of June 30, 2016.

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, 2016 and 2015, the Ports Authority has expended approximately $642,000 and $361,000, respectively, related to these grant agreements.

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 actively marketed the property, but when contracts failed to close by December 31, 2015, the land was transferred to the State Department of Administration for auction and sale as provided by State law, with net proceeds of sale to be paid to the Ports Authority. As of June 30, 2016 the Ports Authority has $11,611,000 due from the state of South Carolina included in other receivables in relation to the Port Royal land sale.

Sale of Certain Properties

2009 Act No. 73 also requires that the Daniel Island and Thomas (St. 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 as a fiduciary to the Ports Authority and its bondholders. The requirements to sell the property have been extended to June 30, 2017. In addition, a requirement was added that the State Ports Authority shall transfer fifty acres of its real property on Daniel Island to the Department of Parks, Recreation, and Tourism, which shall ensure, in the manner it deems appropriate, that the property is used for public recreation activities. This transfer was complete in 2016 by way of an executed long-term lease agreement. If the State Ports Authority has not completed the sale of its remaining real property on Daniel Island and Thomas (St. Thomas) Island, except for the dredge disposal cells that are needed in connection with the construction of the North Charleston terminal on the Charleston Naval Complex and for harbor deepening and for channel and berth maintenance, by June 30, 2017, the Authority must transfer the property to the State Department of Administration (successor to the State Budget and Control Board) as fiduciary to the Ports Authority and its bondholders. The Authority shall sell the real property under terms and conditions it considers most advantageous to the Authority and the State of South Carolina, and the price must be equal to or greater than at least one of two required independent appraisals.

2009 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.

14. 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, 2016, 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.

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. The permit application is under review by the Corps of Engineers on remand. The Authority intends to continue pursuing the federal permit and to continue any legal actions necessary to perfect the final permit.

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. The South Carolina Administrative Law Court granted summary judgment in favor of the Ports Authority, and dismissed the challenge on April 21, 2014. The case is now on appeal, briefing is completed, and at this time arguments are scheduled for November 2016, with a decision likely in late 2016 or early 2017. The decision may be further appealed to the State Supreme Court. 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.

On October 14, 2012, a portion of the quay wall at Veterans' Terminal (VT) in North Charleston, failed, sending quantities of gravel, certain equipment, and miscellaneous structural materials into the Cooper River. This area is under lease from the Charleston Naval Complex Redevelopment Authority, a state agency. The failure was apparently due to overloading of the quay wall by Atlantic Coast Materials, LLC (ACM), a user of the facility that deposited stone in proximity to the wall. Appropriate State and Federal regulatory authorities were timely notified. The State Ports Authority is required to remove the material in the river and rebuild the quay wall facility. At this time, the regulatory process must be completed before obtaining permits to allow reconstruction contracts to be bid. Until contracts are let and the project is completed, there is no final determination of costs and financial impact. The regulatory process has been extended by required consultation procedures with National Marine Fisheries Service and the U.S. Army Corps of Engineers, who are studying potential environmental impacts and restrictions on the remedial work. Commencement of construction is estimated as the third quarter of fiscal year 2017. A preliminary estimate of project costs is approximately $28 million. Property insurance will cover a portion of the costs, but will not cover a significant portion of the loss, which is excluded under a pollution exclusion clause. This amount has not been determined at this time.

On October 10, 2014, ACM filed suit against the Ports Authority, alleging various tort and contract claims, and seeking damages for lost material and equipment, estimated at approximately $2,000,000. The Ports Authority thereafter has served its suit by way of counterclaim against ACM to recover damages estimated at approximately $40,000,000, which is in excess of ACM's insurance coverage. The case was removed to the State Business Court for Charleston County, is in discovery stage at this time, with mediation ongoing. Recovery may be affected by insurance coverages, though it is too early in the discovery phase to estimate recovery.

A claim relating to the quay wall failure and remediation costs has also been asserted by the Ports Authority against the United States Navy for indemnity under Section 330 of the National defense Authorization Act of 1993 (P.L. 102-484), as amended by P.L. 103-160. The claim is related only to oil pollution left by the United States Navy in an underground pipe near the damaged area, which had not been designated as an area of concern, nor disclosed presence of oil, which should have been cleaned out and removed by the Government. Small amounts of oil were released in an investigatory excavation before being sealed off and recovered. The presence of the oil has caused increased costs of remediation, in an amount which cannot be accurately determined until the contract for remedial work has been completed and costs tallied. Department of Defense is defending the 330 indemnity claim and has sought additional information. Under the indemnity claim, the Government would likely be responsible only for the remediation costs related to the oil, which is excluded from insurance coverage by the Ports Authority's property insurance policy.

Construction of the Hugh K. Leatherman, Sr. Terminal was delayed by discovery of issues associated with the design and administration of the project that have required re-engineering of the containment wall structures. An excess cost statement has been delivered to the responsible party to determine recovery of the additional construction costs caused by design and project management issues and to seek resolution by agreement. Discussions of the costs and responsibility will likely occur in the near future, and it is too early in the process to assess the likelihood of resolution or the amount of resolution. Remediation work and construction is continuing.

In October, 2002 the Authority and the City of North Charleston (City) entered into a Memorandum of Understanding (MOU) related to certain issues concerning the development of the Hugh K. Leatherman, Sr. Terminal located at the former Charleston Navy Base Facility. One requirement of the MOU is for the City and the Ports Authority (Authority) to approach the S C General Assembly for the funding of certain infrastructure which is desired by the City. The City has communicated to the Authority that it believes this infrastructure is required prior to the opening of the terminal. While the Authority disagrees with the City on this point, it plans to fully comply with all applicable terms of the MOU. At this time, no measurable impact of the City's position can reasonably be made.

15. Payments to Aiken County and Sumter County

In May 2012, the Ports Authority entered into an agreement with Aiken County, South Carolina to fund up to $2,500,000 of 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 payments are reflected as a contribution and are presented as a nonoperating expense. The Ports Authority contributed during fiscal year 2016 and 2015, $0 and $74,000, respectively.

In May 2012, the Ports Authority entered into an agreement with Sumter County, South Carolina to fund up to $5,000,000 of infrastructure improvements to support future business development in Sumter County that ultimately will benefit water bourne commerce in the State of South Carolina. The cash payments are reflected as a contribution and are presented as a nonoperating expense. The Ports Authority contributed during fiscal year 2016 and 2015, $1,383,000 and $425,000, respectively.

16. Special Items

Office Building Sale

In June 2016, a contract was entered into with a third party for the purchase of the office building currently occupied by the Ports Authority. The agreement allowed the purchaser a specified due diligence period and upon expiration, the Ports Authority expects the contract to be ratified. As part of the agreement, the Ports Authority will lease the building back from the new owners until a new office building is constructed. As of June 30, 2016 the contract is still contingent upon the purchaser's completion of their due diligence.

In November 2012, the Authority entered into an agreement with Norfolk Southern Railway Company to contribute to the capital costs of the South Carolina Inland Port. The agreement requires the Authority and Norfolk Southern Railway Company to share in the construction for the South Carolina Inland Port based on a split of 75% and 25%, respectively. The Norfolk Southern Railway Company share of the funding shall not exceed $7.5 million. During the years ended June 30, 2016 and June 30, 2015 Norfolk Southern Railway Company contributed approximately $0 and $1,134,000, respectively, toward the facility's construction.

17. Subsequent Event

The Ports Authority evaluated subsequent events through October 27, 2016, which is the date these financial statements were available to be issued.

Dillon

During September 2016, the Ports Authority announced plans to develop a second inland port facility in Dillon, South Carolina to support growth of intermodal container volumes and expand access to markets in neighboring states and throughout the Northeast and Midwest. The Ports Authority will break ground in the first quarter of 2017 with plans to open the facility by the end of the year.

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.

Effective January 1, 2011, the Ports Authority moved from the use of private insurance carriers to the plan offered by the South Carolina Public Employee Benefit Authority (PEBA) Employee Insurance Program. The Ports Authority now follows the eligibility rules set by PEBA, which are summarized below.

Retiree Insurance Eligibility and Funding for Employees Hired Before May 2, 2008:

- At any age, with 28 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.
- At age 60 and older, with at least 10 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.
- At age 60 and older, with at least 20 years (left employment before eligible to retire) of service credit (at least 20 years must be earned service), retiree and employer fund the premium; coverage begins when eligible for retirement.
- At age 55-60, with at least 25 years of service credit (at least 10 years must be earned service), retiree pays nonfunded premium until age 60 or when 28 years of service would have been earned. Afterward, retiree and employer fund the premium.
- At age 60 and older, with at least 5 years of service credit (at least 5 but fewer than 10 years must be earned service), retiree pays nonfunded premium.
- At any age if approved for disability, with at least 5 years of service credit (at least 4 but fewer than 10 years must be earned service), retiree and employer fund the premium.

Retiree Insurance Eligibility and Funding for Employees Hired After May 2, 2008:

- At any age, with 28 years of service credit (at least 25 years must be earned service), retiree and employer fund the premium.
- At age 60 and older or approved for disability, with at least 15 years of service credit (at least 15 years must be earned service), retiree pays retiree share plus 50% of employer share.
- At age 60 and older or approved for disability with at least 5 years of service credit (at least 5 years must be earned service), retiree pays nonfunded premium.

Eligibility requirements are subject to changes 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 $1,388,000 and $1,317,000 for fiscal years 2016 and 2015, 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 $1,999,000 and $1,897,000 for fiscal years ended June 30, 2016 and 2015, respectively. For fiscal years 2016 and 2015, the Ports Authority paid approximately 69.4% and the retirees were responsible for funding 30.6%.

The Ports Authority accrued during fiscal year 2016 and 2015, $1,446,000 and $1,392,000, 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)	**2016**	**2015**
Net OPEB obligation, beginning of year	$ 10,335	$ 8,943
Annual required contribution (ARC)	3,048	2,959
Interest and ARC adjustment	34	30
Annual OPEB cost	3,082	2,989
Employer contributions	(1,636)	(1,597)
Net OPEB obligation, end of year	11,781	10,335
Less current portion	(1,669)	(1,636)
Net OPEB obligation, long term	$ 10,112	$ 8,699

Actual contributions paid in fiscal year 2016 and 2015 include the following at June 30:

(in thousands of dollars)	**2016**	**2015**
Employer and participant contributions	$ 1,999	$ 1,897
Implicit subsidy payments on behalf of active employees	248	280
Participant contributions	(611)	(580)
Total employer contributions including interest	$ 1,636	$ 1,597

Employer contributed 53.1% and 53.4% of annual OPEB cost during fiscal year 2016 and 2015, 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, 2016 and the three preceding fiscal years are presented below.

(in thousands of dollars)	**Annual Required Contributions**	**Actual Contributions**	**Percentage Contributed**
Fiscal Year Ended			
June 30, 2016	$ 3,048	$ 1,636	53.7 %
June 30, 2015	2,959	1,597	54.0 %
June 30, 2014	2,933	1,633	55.7 %
June 30, 2013	2,848	1,540	54.1 %

The ARC of $3,048,000 and $2,959,000 for fiscal year 2016 and 2015, 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, 2016	$ -	$ 38,583	$ 38,583	0 %	$ 38,316	101 %
June 30, 2015	-	45,300	45,300	0 %	35,944	126 %
June 30, 2014	-	39,767	39,767	0 %	29,389	135 %
June 30, 2013	-	38,208	38,208	0 %	26,419	145 %

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, 2016	$ 3,082	53.1 %	$ 11,781
June 30, 2015	2,989	53.4 %	10,335
June 30, 2014	2,958	55.2 %	8,943
June 30, 2013	2,869	53.7 %	7,618

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, 2015 – June 30, 2016
Actuarial cost method	Projected Unit Credit
Amortization method	30 years open, level percent of active member payroll
Asset valuation method	N/A

	2016	2015
Actuarial assumptions		
Discount rate	4.5%	4.5%
Projected payroll growth rate	3.0%	3.0%
Health care cost trend rate for medical and prescription drugs	6.0%	6.0%

(Initial rate of 6.0% declining to an ultimate rate of 4.5% over a period of 9 years).

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.

Schedule of the Ports Authority's Share of the Net Pension Liability

(in thousands of dollars)	**2016**	**2015**
SCRS		
Ports Authority's proportion of the net pension liability (asset)	0.3917%	0.3756%
Ports Authority's proportionate share of the net pension liability (asset)	$ 74,141	$ 64,669
Ports Authority's covered payroll	38,198	30,855
Ports Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	194.21%	209.59%
Plan fiduciary net position as a percentage of the total pension liability	57.0 %	59.9 %

(in thousands of dollars)	**2016**	**2015**
PORS		
Ports Authority's proportion of the net pension liability (asset)	0.0071%	0.0079%
Ports Authority's proportionate share of the net pension liability (asset)	$ 155	$ 152
Ports Authority's covered payroll	118	95
Ports Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	131.36%	160.00%
Plan fiduciary net position as a percentage of the total pension liability	64.6 %	67.5 %

Schedule of the Ports Authority's Contributions

(in thousands of dollars)	2016	2015
SCRS		
Contractually required contribution	$ 4,003	$ 3,615
Contributions in relation to the contractually required contributions	(4,003)	(3,615)
Contribution deficiency (excess)	$ -	$ -
Ports Authority's covered-employee payroll	$ 38,198	$ 30,855
Contributions as a percentage of covered-employee payroll	10.48%	11.72%

(in thousands of dollars)	2016	2015
PORS		
Contractually required contribution	$ 12	$ 12
Contributions in relation to the contractually required contribution	(12)	(12)
Contribution deficiency (excess)	$ -	$ -
Ports Authority's covered-employee payroll	$ 118	$ 95
Contributions as a percentage of covered-employee payroll	10.17%	12.63%