

# **South Carolina State Ports Authority**

**Financial Statements and  
Required Supplemental Information  
June 30, 2014 and 2013**

# South Carolina State Ports Authority

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June 30, 2014 and 2013

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## Independent Auditor's Report

To the Board of Directors  
South Carolina State Ports Authority

We have audited the accompanying financial statements of the South Carolina State Ports Authority (the "Ports Authority"), a component unit of the State of South Carolina, which comprise the statements of net position as June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and of cash flows for the years then ended.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the Company adopted GASB Statement No.65, items previously reported as Assets and Liabilities, during the year ended June 30, 2014. The provisions have been applied retroactively to the financial information for fiscal years 2014 and 2013, as required, and resulted in a reduction to net position of \$1.37 million as of June 30, 2013.



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina State Ports Authority at June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements of the Ports Authority are intended to present the financial position, changes in financial position and cash flows of the State of South Carolina that are attributable to transactions of the Ports Authority. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2014 and 2013, 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.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the company adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. The provisions have been applied retroactively to the financial information for fiscal years 2014 and 2013, as required, and resulted in a reduction to net position of \$1.37 million as of June 30, 2013.

***Other Matter***

The accompanying management's discussion and analysis on pages 3 through 15 and the required supplemental information on pages 50 through 54 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers LLP*

Spartanburg, South Carolina  
October 15, 2014

## **Required Supplementary Information**

# **South Carolina State Ports Authority**

## **Management's Discussion and Analysis**

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#### **Annual Financial Report**

The annual financial report of the South Carolina State Ports Authority ("Ports Authority") provides an overview of the Ports Authority's financial activities for the fiscal years ended June 30, 2014 and 2013. The financial statements include the independent auditor's opinion, statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and the accompanying explanatory notes. Management's discussion and analysis should be read in conjunction with the financial statements and notes.

#### **Management's Discussion and Analysis**

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

#### **2009 Legislation**

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

2009 Act No. 73 directs the sale of real property owned by the Ports Authority at Port Royal, Daniel Island and Thomas Island and imposes time deadlines for the completion of such sales. Management does not believe that the sale of the assets in question would have a material impact on the Ports Authority's operations or financial position. However, the Ports Authority must balance compliance with the deadlines imposed by Act. No. 73 with certain limitations upon the disposition of real property contained in the Ports Authority's Master Bond Resolution. Legal counsel for the Ports Authority and the State Budget and Control Board have reviewed options for a course of action to ensure compliance with both Act No. 73 and the Ports Authority's Master Bond Resolution, regarding disposition of its real property.

#### **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, which agency would assume the Ports Authority's fiduciary duties to its bondholders relating to the disposition of real property. The sale of the Port Royal property is still pending at June 30, 2014. The statute has been 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 exists as of July 1, or a bona fide offer is received within 90 days before June 30, then the date for closing the transaction is extended through December 31, 2015. If the dates are not met, the property is to be 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.

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## **Management's Discussion and Analysis**

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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, 2015. In addition, a requirement has been 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. 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, 2015, the Authority must transfer the property to the 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.

#### **Recent Economic Events**

In fiscal year 2014, the Ports Authority continued to experience the stabilization and recovery in volumes that began in fiscal year 2011. While the macro-economic recovery, and more specifically the recovery in waterborne commerce, is predicted to be gradual over the next several years, the Port Authority's pier container volume as expressed in twenty-foot-equivalent units (TEUs) grew substantially at a rate of 8.0% over fiscal year 2013, while breakbulk pier tons experienced a 18.7% decrease over fiscal year 2013.

The Ports Authority continues to exceed the required debt service ratio, net revenues for debt service increased by 8.4% in fiscal year 2014. This increase results from improved operating performance. Operating cash flow, defined as operating earnings plus depreciation expense, increased by 4% in fiscal year 2014 over fiscal year 2013. The increase is also driven by the requirement to recognize a \$2.2 million condemnation of a customer's lease as reported in fiscal year 2013 and reduction in amounts paid out for economic development grants. In fiscal year 2014, the Ports Authority paid economic development grants to two counties in South Carolina in the total amount of approximately \$4.2 million.

The Ports Authority continues to monitor the global economy and shipping trends and projects increases in volumes and net revenues for fiscal year 2015.

#### **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.

# South Carolina State Ports Authority

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

#### Financial Position

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

<i>(in thousands)</i>	2014	2013	2012
Total operating revenues	\$ 164,143	\$ 140,388	\$ 130,948
Total TEUs (equivalent number of 20' container units)	1,685	1,560	1,432
Breakbulk pier tonnage	1,316	1,618	1,412

A total of 1,830, 1,839 and 1,745 vessels (excluding barges) docked during the years ended June 30, 2014, 2013 and 2012, respectively. The Ports Authority provided services to 18 out of the top 20 largest container ship lines based on US containerized import and export cargo volumes for the calendar year 2013 as reported in *The Journal of Commerce/PIERS U.S Global Container Report*.

#### Required Financial Statements

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

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

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

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

#### Changes to the Financial Statements Required by GASB Statement No. 65

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 was effective for financial statements for periods beginning after December 15, 2012 with early adoption permitted. The Ports Authority elected to adopt GASB 65 commencing with the year ended June 30, 2014. The provisions have been applied retroactively to the financial information for fiscal years 2014, 2013 and 2012, as required.

# **South Carolina State Ports Authority**

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The retroactive application of GASB 65 resulted in a cumulative adjustment to the opening balance of net position as of July 1, 2011, the beginning of fiscal year 2012, and as of July 1, 2012, the beginning of fiscal year 2013, for the balances of unamortized bond issue costs as of those dates. As a result of the retroactive adjustment, the impact on net position for June 30, 2012 was a reduction of net position of \$1.42 million and the impact on net position for June 30, 2013 was a reduction of net position of \$1.37 million. The retroactive application also resulted in a restatement of the fiscal year 2013 and 2012 amortization of unamortized bond issue costs.

Please see Note 1 to the financial statements for disclosure of GASB Statement No. 65.

#### **Analysis of Overall Financial Position and Results of Operations**

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

# South Carolina State Ports Authority

## Management's Discussion and Analysis

### June 30, 2014 and 2013

#### Statements of Net Position (Balance Sheets)

The statement of net position serves as a useful indicator of the Ports Authority's financial position. It distinguishes assets and liabilities as to their expected use for current operations or internally designated use for capital projects. The Ports Authority's assets exceeded liabilities by \$716.8 million and \$705.2 million at June 30, 2014 and 2013, respectively, an \$11.7 million increase from June 30, 2013. A condensed summary of the Ports Authority's balance sheet and resulting net assets at June 30 is shown below:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>			
Current assets	\$ 125,837	\$ 86,576	\$ 154,138
Internally designated assets	68,786	137,787	103,058
Held by trustee for debt service	15,733	15,642	15,451
Held by third party for capital projects	-	-	1,000
Other assets, net of depreciation	748,118	696,245	640,046
Total assets	<u>\$ 958,474</u>	<u>\$ 936,250</u>	<u>\$ 913,693</u>
<b>Liabilities</b>			
Current liabilities	\$ 43,414	\$ 47,703	\$ 38,669
Long-term obligations	198,230	183,369	177,174
Total liabilities	<u>241,644</u>	<u>231,072</u>	<u>215,843</u>
<b>Net Position</b>			
Invested in capital assets, net of debt	544,688	504,276	471,360
Restricted for debt service, net of debt	9,100	9,009	8,818
Restricted for capital projects	-	-	1,000
Unrestricted	163,042	191,893	216,672
Total net position	<u>716,830</u>	<u>705,178</u>	<u>697,850</u>
Total liabilities and net position	<u>\$ 958,474</u>	<u>\$ 936,250</u>	<u>\$ 913,693</u>

The largest portion of the Ports Authority's net position each year (75.9%, 71.5% and 67.5% at June 30, 2014, 2013 and 2012, respectively) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related debt outstanding used to acquire those capital assets. The Ports Authority uses these capital assets to provide services to major steamship lines and their agents for movement of maritime cargo; consequently, these assets are not available for future spending. Although the Ports Authority's investment in capital assets reported is shown net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves generally are not sold to liquidate liabilities.

An additional portion of the Ports Authority's net position (1.3%, 1.3% and 1.4% at June 30, 2014, 2013 and 2012, respectively) represents resources that are subject to external restrictions. The remaining unrestricted net assets (22.8%, 27.2% and 31.1% at June 30, 2014, 2013 and 2012, respectively) may be used to meet any of the Ports Authority's ongoing obligations as defined by the revenue bond covenants.

# South Carolina State Ports Authority

## Management's Discussion and Analysis

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#### 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:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating revenues	\$ 164,143	\$ 140,388	\$ 130,948
Operating expenses	<u>149,850</u>	<u>124,061</u>	<u>123,674</u>
Operating earnings	14,293	16,327	7,274
Nonoperating income, net	1,314	1,777	5,324
Contribution to State of South Carolina	(1,000)	(1,000)	(1,000)
Contribution to Berkeley County, South Carolina	-	(8,000)	-
Contribution to Aiken County, South Carolina	(1,315)	(1,093)	-
Contribution to Sumter County, South Carolina	(2,886)	-	-
Capital grants from the federal government	143	1,517	6,082
Contribution from Norfolk Southern Railway Company	1,103	-	-
Condemnation of leasehold rights	<u>-</u>	<u>(2,200)</u>	<u>-</u>
Increase in net position	<u>\$ 11,652</u>	<u>\$ 7,328</u>	<u>\$ 17,680</u>

Operating revenues increased 16.9% from \$140.4 million to \$164.1 million during 2014. The increase can be attributed to a 7.5% increase in container volume throughput or a 8.0% increase expressed in twenty-foot-equivalent units (TEU) and a 3.7% increase in Charleston breakbulk revenue. All other business segments grew from the prior year. The new South Carolina Inland Port realized substantial growth of \$1.9 million during fiscal year 2014 over the prior year. This recovery created volume that increased revenues for most port services that include terminal security surcharge, handling, property rental, rail drayage, container and chassis services, demurrage and throughput fees. These revenue increases were partially offset by decreases in container handler rental, and by sales incentives provided to customers.

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

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

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating revenues</b>			
Charleston	\$ 159,709	\$ 138,558	\$ 129,145
Georgetown	1,399	1,255	1,127
Greer	1,898	18	20
Other	1,137	557	656
Total operating revenues	<u>\$ 164,143</u>	<u>\$ 140,388</u>	<u>\$ 130,948</u>

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

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating expenses (gains)</b>			
Direct operating expenses	\$ 91,622	\$ 75,625	\$ 71,567
Administrative expense	26,163	23,440	21,140
Depreciation expense	32,415	28,702	30,967
Gain on storm damage net of insurance proceeds	(350)	(3,706)	-
Total operating expenses	<u>\$ 149,850</u>	<u>\$ 124,061</u>	<u>\$ 123,674</u>

Direct operating expenses for fiscal year 2014 increased by 21.2% from \$75.6 million in 2013 to \$91.6 million. Both the container business segment and the South Carolina Inland Port segment incurred a substantial increase in operating expenses to meet the substantial increase in revenue production in both segments. More specifically, the increase is due to more overtime hours to accommodate more vessel calls on weekends, performance incentive payments, electricity for refrigerated containers, insurance and damage claims, repairs and maintenance of yard equipment, other outside services, equipment rental, fuel costs and motor carrier rail dray. This increase was offset by the decline in berth maintenance dredging costs. Administrative expenses for fiscal year 2014 increased 11.6% from \$23.4 million in 2013 to \$26.2 million in 2014. This increase was primarily due to new hiring, performance incentive payments, increased retirement benefits, other outside services and other professional services. This increase was offset by a reduction in legal fees and marketing. The Ports Authority placed more assets into service during 2014, resulting in a increase in depreciation expense in fiscal year 2014. The Ports Authority recognized a gain of \$0.4 million from storm damage repair costs net of insurance recovery for four dockside cranes that were damaged in a wind storm during fiscal year 2013.

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

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storm damage repair costs net of insurance recovery for four dockside cranes that were damaged in a wind storm during fiscal year 2013.

Nonoperating income (expense), decreased from income of \$1.8 million in 2013 to income of \$1.3 million in 2014. This decrease is due principally to decreased earnings on investments and decreased interest expense as a result of the requirement to capitalize interest expense for assets under construction.

Nonoperating income (expense), decreased from a net income of \$5.3 million in 2012 to net income of \$1.8 million in 2013. This decrease is due principally to the impact of the prior year collection of an easement fee in connection with a city drainage project of \$1.6 million, reduction in the amount of federal grant funds passed through for recipients in heavy duty diesel engine replacement programs, decreased earnings on investments, and a decrease in the fair market value of interest rate exchange agreements entered into during prior years. The decrease was offset partially due to less interest expense required to be capitalized for assets under construction.

The Ports Authority made contributions to the State of South Carolina for the Cooper River Bridge during the years ended June 30, 2014, 2013 and 2012, as more fully described in Note 12 – Other Matters. In the years ended June 30, 2014 and June 30, 2013, the Ports Authority contributed approximately \$1.3 million and \$1.1 million, respectively, to Aiken County for water and sewer infrastructure improvements to support the expansion of a major manufacturing facility. During the year ended June 30, 2014, approximately \$2.9 million was contributed to Sumter County for water and sewer infrastructure to support the construction of a major manufacturing facility. In addition, during the year ended June 30, 2013, the Ports Authority contributed \$8.0 million to help fund the construction of the interchange leading to the site that houses a major distribution center in Berkeley County. These payments have been treated as nonoperating contributions to the state and county governments in South Carolina and therefore have reduced the Ports Authority's net position. These contributions are not treated as a capital asset of the Ports Authority and future payments are not recorded as a liability. Approximately \$1.1 million was received from Norfolk Southern Railway Company for construction of the Inland Port in the year ended June 30, 2014.

During the year ended June 30, 2013, the Ports Authority incurred a \$2.2 million expense to settle the condemnation of leasehold rights on their property located in Spartanburg County in preparation for construction of its new inland port.

During the years ended June 30, 2014, 2013 and 2012, the Ports Authority earned approximately \$0.1 million, \$1.5 million and \$6.1 million, respectively, in federal grant money to be used for security related capital expenditures and to aid in the reduction of emissions from heavy duty diesel engines.

In summary, net position during fiscal years 2014, 2013 and 2012 increased \$11.7 million, \$7.3 million and \$17.7 million, respectively.

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## Management's Discussion and Analysis

### June 30, 2014 and 2013

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#### 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:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Cash flow from operating activities	\$ 43,882	\$ 41,786	\$ 40,038
Cash flow from investing activities	1,983	4,212	4,859
Cash flow used in noncapital financing activities	(5,097)	(12,293)	-
Cash flow used in capital and related financing activities	<u>(72,056)</u>	<u>(74,605)</u>	<u>(54,421)</u>
Change in cash and cash equivalents	(31,288)	(40,900)	(9,524)
<b>Cash and cash equivalents</b>			
Beginning of year	<u>187,090</u>	<u>227,989</u>	<u>237,513</u>
End of year	<u>\$ 155,802</u>	<u>\$ 187,089</u>	<u>\$ 227,989</u>

The Ports Authority's available cash and cash equivalents decreased from \$187.0 million in 2013 to \$155.8 million in 2014. Cash flows from operating activities increased from \$41.8 million in 2013 to \$43.9 million in 2014. The increase can be attributed to improved operating profitability. Cash flows from investing activities decreased from \$4.2 million in 2013 to \$2.0 million in 2014. This decrease is primarily related to a decrease in proceeds from the sale of investments and investment income during 2014 as a result of low interest rates and declining investment balances for the Ports Authority as substantial cash is being spent on capital activities. Net cash used in noncapital financing activities decreased from \$12.3 million in 2013 to \$5.1 million in 2014. This decrease is related to the reduction in grant monies provided to Berkeley County during 2014 for infrastructure improvements and no condemnation of lease hold rights during 2014. The decrease was partially offset by increased payments to Aiken and Sumter Counties for economic development grants. 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 decreased from \$74.6 million in 2013 to \$72.1 million in 2014 as a result of increased capital spending related to various construction projects, although offset by cash received from insurance and note payable proceeds. The most significant projects include the continuation of site development work for the new container terminal located on the former Navy Base as well as the Inland Port facility located in Spartanburg County.

#### Capital Acquisitions and Construction Activities

During the fiscal year ended June 30, 2014, the Ports Authority purchased and constructed approximately \$86.2 million in new capital assets. The major capital assets under design and construction were the completion of a new inland port facility in Spartanburg County, continuation of site development work at the future container terminal located at the former Charleston Navy Base, wharf improvements and repairs, and payments made on the purchase of container cranes for the Wando Welch Terminal. Approximately \$8.6 million of fixed assets (at cost) were written off, reclassified, or disposed of during 2014. The net book value of disposals was approximately \$280,000.

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During the fiscal year ended June 30, 2013, the Ports Authority purchased and constructed approximately \$87.4 million in new capital assets. The major capital assets under design and construction were the continuation of site development work at the future container terminal located at the former Charleston Navy Base, the construction of a new inland port facility in Spartanburg County, and a new interchange facility along with pavement improvements at the North Charleston Terminal. Approximately \$3.0 million of fixed assets (at cost) were written off or disposed of during 2013.

Capital asset acquisitions are capitalized at cost. Acquisitions were funded primarily with the issuance of tax-exempt revenue bonds and port revenues. The Ports Authority had construction commitments of approximately \$37.9 million at June 30, 2014. Additional information on the Ports Authority's capital assets and commitments can be found in Note 3 – Property and Equipment and Note 6 – Commitments in the notes to the financial statements.

#### **Capital Improvement Plan 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 \$751 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 \$226 million in capital spending. The near-term projects include wharf upgrades and improvements, paving upgrades, the purchase of two ship to shore container cranes, the purchase and upgrades of container handling equipment, and retrofitting an existing warehouse for a new cruise ship terminal.

#### **Harbor Deepening**

In 2011 the U.S. Army Corps of Engineers began a feasibility study for the proposed post 45 foot Charleston harbor deepening project. The costs of this feasibility study are shared by the Ports Authority and the federal government on a 50/50 basis. Through fiscal year 2014, the Ports Authority made payments of \$6.7 million of its required 50% share for the Army Corps study. The deepening study is expected to be complete by September 2015. The Army Corps has estimated that the harbor deepening project will be complete by the end of calendar year 2019 and will cost approximately \$509 million. The overall project will be completed on a cost share basis with the federal government. It is anticipated that the Ports Authority's share of the project will be \$343 million and the federal share will be \$166 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 will seek the remaining \$166 million from the federal government.

# South Carolina State Ports Authority

## Management's Discussion and Analysis

### June 30, 2014 and 2013

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#### ***South Carolina Inland Port***

The Ports Authority opened the South Carolina Inland Port in Greer, SC for test cargo in October 2013 and it became fully operational by November 2013. The Inland Port is an intermodal rail facility that transfers import and export containers and cargo via rail over 200 miles between Charleston and Greer. The Inland Port, providing overnight double-stack rail service, improves the efficiency of international freight movements between the Port, the upstate manufacturing region, and neighboring states, thus promoting economic development in the State of South Carolina. As of June 30, 2014, the Ports Authority has invested approximately \$39 million in capital expenditures related to this new facility.

#### ***New Terminal Expansion – Navy Base Project***

In May 2007, the Ports Authority received permits to begin construction of a 286 acre container terminal facility on a portion of the former Charleston Naval Base on the west bank of the Cooper River in North Charleston, SC. This facility is planned to be constructed in 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 \$812 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, 2014, the Ports Authority has spent approximately \$144 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 \$244 million. After completion of these critical-path projects, the dock and wharf construction, paving, and equipping the terminal will follow to complete the first phase of construction. The additional cost of these projects is estimated to be \$424 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 2024. Management expects that existing terminal capacities can accommodate the high end projected container forecast through 2020. Management believes that the new terminal will be completed and operational at whatever date in the years set forth above is justified by demand.

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

#### **Contributions for Economic Development Projects**

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

# South Carolina State Ports Authority

## Management's Discussion and Analysis

### June 30, 2014 and 2013

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On October 26, 2011 the Ports Authority entered into a grant agreement with Bridgestone Americas to contribute \$2.5 million toward publicly-owned off-site water and wastewater system improvements related to its Aiken County facility, to be owned and maintained by a governmental entity of the State. The incentive will be made available on a reimbursement basis once a Performance Agreement with the South Carolina Coordinating Council for Economic Development (CCED) has been executed and an intergovernmental agreement between the Ports Authority and Aiken County has been executed. The Performance Agreement between Bridgestone and the CCED is in place and the agreement between the Ports Authority and Aiken County has been executed. As of June 30, 2014, \$2.4 million was paid under this agreement.

On November 1, 2011 the Ports Authority entered into an agreement with Continental Tire to contribute \$5 million toward publicly-owned infrastructure at its Sumter County facility. The incentive will be made available for reimbursement once a Performance Agreement with the South Carolina Coordinating Council for Economic Development (CCED) has been executed and an intergovernmental agreement between the Ports Authority and Sumter County has been executed. The Performance Agreement between Continental and the CCED is in place and the agreement between the Ports Authority and Sumter County has been executed. As of June 30, 2014, the Ports Authority paid \$2.9 million under this agreement.

#### **Legal**

In August 2011, the Ports Authority intervened in a lawsuit brought against a passenger cruise line by an environmental group and local Charleston, SC neighborhood organizations, claiming that Union Pier Terminal cruise operations violates certain ordinances and environmental statutes. In 2012, the case was assumed by the South Carolina Supreme Court. In June, 2013, the Court dismissed environmental claims and certain claims based on local ordinance. The Court dismissed all remaining claims on January 22, 2014. The case is now closed.

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 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, under a briefing schedule, with a decision likely within the fiscal year 2015. 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.

In 2013, a suit by a lessee of property in Port Royal resulted in a verdict against the Ports Authority in the amount of \$1.1 million, alleging that a parking lot parcel was within the lease, but was not owned by the Ports Authority. The Ports Authority denied that the parcel was within the lease. The Ports Authority filed a notice of appeal, after which the case was settled, and is now ended. In the process, the Authority's Port Royal property was cleared of the encumbering lease.

# South Carolina State Ports Authority

## Management's Discussion and Analysis

### June 30, 2014 and 2013

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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 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, completion of the regulatory process is nearing the stage 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. A preliminary estimate of project costs is approximately \$26.5 million. Property insurance will cover a portion of the costs, but will not cover a significant portion, possibly \$7 to \$10 million. This has not been determined with certainty as of this time. The Authority has put potentially responsible parties on notice and intends to pursue claims for recovery of the costs when damages have been determined to a reasonable degree of certainty.

#### **Liquidity Outlook**

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

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

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

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

# South Carolina State Ports Authority

## Management's Discussion and Analysis

### June 30, 2014 and 2013

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#### **Long-Term Debt**

##### ***Series 1998***

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

##### ***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 \$4.7 million in principal was paid.

##### ***Other Liabilities***

As of June 30, 2014 and 2013, the Ports Authority recorded a current liability of approximately \$4.3 million and \$8 million, respectively, equal to the final project costs on the 45 ft. Charleston Harbor deepening project. On December 19, 2012, the Ports Authority entered into a promissory note agreement with a bank for \$25,000,000. That promissory note was replaced with a \$30,000,000 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, 2014, the Ports Authority had amounts outstanding under this loan agreement of approximately \$29.4 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 will be 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 \$80,430,000. 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.

##### **Bond Insurance and Credit Rating**

The Ports Authority purchased bond insurance for the Series 1998 bonds to underwrite the payment of principal and interest. As a result, the Series 1998 revenue bond issue received AAA ratings from both Moody's and Standard and Poor's. In fiscal year 2011, the Ports Authority issued Series 2010 revenue bonds. These bonds are rated A1 by Moody's and A+ by Standard and Poor's. During fiscal year 2014, both rating agencies reaffirmed their ratings.

##### **Contacting the Ports Authority's Financial Management**

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

**South Carolina State Ports Authority**  
**Statements of Net Position**  
**June 30, 2014 and 2013**

(in thousands of dollars)

	2014	2013
<b>Assets</b>		
Current assets		
Cash	\$ 4,320	\$ 3,885
Investments	82,696	45,418
Accounts receivable		
Trade, net of allowance for doubtful accounts of \$1,403 in 2014 and \$1,558 in 2013	25,730	20,073
Other receivables	937	6,493
Inventories	6,718	6,504
Prepaid and other current assets	5,436	4,203
Total current assets	<u>125,837</u>	<u>86,576</u>
Noncurrent assets and investments		
Investments internally designated for capital acquisitions	68,786	137,787
Investments held by trustee for debt service	15,733	15,642
Property and equipment, net	745,701	693,792
Intangible assets and goodwill, net	2,417	2,453
Total assets	<u>\$ 958,474</u>	<u>\$ 936,250</u>
<b>Liabilities and Net Position</b>		
Current liabilities		
Current maturities on long-term debt	\$ 6,029	\$ 5,237
Accounts payable	7,255	6,805
Accounts payable, construction	9,371	8,865
Retainage payable on construction contracts	1,326	4,663
Accrued interest payable	4,336	4,432
Accrued employee compensation and payroll, related withholdings and liabilities	7,305	5,766
Interest rate exchange agreements	1,870	2,306
Postretirement obligation, current portion	1,713	1,633
Harbor deepening obligation	4,289	7,996
Total current liabilities	<u>43,494</u>	<u>47,703</u>
Postretirement obligation, long-term	7,230	5,985
Long-term debt, net of current maturities	190,920	177,384
Total liabilities	<u>241,644</u>	<u>231,072</u>
Net investment in capital assets	544,688	504,276
Restricted		
For debt service, net of related debt	9,100	9,009
For capital projects	-	-
Unrestricted	163,042	191,893
Total net position	<u>716,830</u>	<u>705,178</u>
Total liabilities and net position	<u>\$ 958,474</u>	<u>\$ 936,250</u>

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, 2014 and 2013**

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
<b>Operating revenues</b>	<u>\$ 164,143</u>	<u>\$ 140,388</u>
<b>Operating expenses (gains)</b>		
Direct operating expense	91,622	75,625
Administrative expense	26,163	23,440
Depreciation expense	32,415	28,702
Gain on storm damage net of insurance recovery	<u>(350)</u>	<u>(3,706)</u>
Total operating expenses	<u>149,850</u>	<u>124,061</u>
Operating earnings	<u>14,293</u>	<u>16,327</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	2,163	3,283
Other expense, net	(382)	(430)
(Loss) gain on sale of property and equipment, net	(54)	62
Interest expense	(849)	(1,748)
Unrealized gain on interest rate exchange agreements	436	610
Contribution to State of South Carolina for Cooper River Bridge	(1,000)	(1,000)
Contribution to Berkeley County for highway interchange	-	(8,000)
Contribution to Aiken County for infrastructure improvements	(1,315)	(1,093)
Contribution to Sumter County for infrastructure improvements	<u>(2,886)</u>	<u>-</u>
	<u>(3,887)</u>	<u>(8,316)</u>
Excess revenues over expenses before capital contributions and special items	10,406	8,011
Capital grants from federal government	143	1,517
Condemnation of leasehold rights	-	(2,200)
Contribution from Norfolk Southern Railway Company for inland port	<u>1,103</u>	<u>-</u>
Increase in net position	11,652	7,328
<b>Total net position</b>		
Beginning of year	<u>705,178</u>	<u>697,850</u>
End of year	<u>\$ 716,830</u>	<u>\$ 705,178</u>

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

**South Carolina State Ports Authority**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 161,058	\$ 139,340
Cash paid to suppliers	(71,027)	(55,986)
Cash paid for employees	(46,149)	(41,568)
Net cash provided by operating activities	<u>43,882</u>	<u>41,786</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	13,265	14,167
Purchases of investments	(13,356)	(13,358)
Interest received on investments	2,374	3,803
Payment to support bi-port development	(300)	(400)
Net cash provided by investing activities	<u>1,983</u>	<u>4,212</u>
<b>Cash flows from noncapital financing activities</b>		
Contribution to State of South Carolina for Cooper River Bridge	(1,000)	(1,000)
Contribution to Berkeley County for highway interchange	-	(8,000)
Contribution to Aiken County for infrastructure improvements	(1,315)	(1,093)
Contribution to Sumter County for infrastructure improvements	(2,782)	-
Payment for condemnation of leasehold rights	-	(2,200)
Net cash used in noncapital financing activities	<u>(5,097)</u>	<u>(12,293)</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(92,603)	(82,013)
Cash received from insurance proceeds	5,866	1,000
Proceeds from sale of property and equipment	118	62
Principal paid on revenue bonds	(4,660)	(4,350)
Proceeds from notes payable	19,658	10,342
Principal paid on other debt	(584)	(607)
Interest paid on revenue bonds	(424)	(1,949)
Interest paid on other debt	(650)	(40)
Contribution from Norfolk Southern Railway Company for Inland Port	1,103	-
Capital grants	120	3,161
Capital grant money returned	-	(211)
Net cash used in capital and related financing activities	<u>(72,056)</u>	<u>(74,605)</u>
Net decrease in cash and cash equivalents	(31,288)	(40,899)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>187,090</u>	<u>227,989</u>
End of year	<u>\$ 155,802</u>	<u>\$ 187,090</u>
<b>Reconciliation of cash to financial statements</b>		
Cash	\$ 4,320	\$ 3,885
Investments	82,696	45,418
Internally designated for capital acquisitions	68,786	137,787
Total cash and cash equivalents	<u>\$ 155,802</u>	<u>\$ 187,090</u>

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

**South Carolina State Ports Authority**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
<b>Reconciliation of operating earnings to net cash provided by operating activities</b>		
Operating earnings	\$ 14,293	\$ 16,327
Adjustments to reconcile operating earnings to net cash provided by operating activities, net of acquisitions		
Depreciation	32,415	28,702
Provision for doubtful accounts	147	(217)
Other expense (income), net	(110)	(30)
Amortization	36	35
Gain on storm damage net of insurance proceeds	(350)	(3,706)
Changes in operating assets and liabilities		
Accounts receivable	(5,671)	(4,061)
Inventories	(214)	(261)
Prepaid and other current assets	156	(336)
Accounts payable and other liabilities	316	2,602
Payroll related liabilities	1,539	1,402
Post retirement liability	1,325	1,329
Net cash provided by operating activities	<u>\$ 43,882</u>	<u>\$ 41,786</u>

**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:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Property and equipment included in accounts payable	\$ 14,986	\$ 21,524
Impairment loss	112	2,438
Receivable for insurance proceeds	-	(5,144)
Unrealized gain (loss) on interest rate swap	436	610

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

# South Carolina State Ports Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

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#### 1. Summary of Significant Accounting Policies

##### Organization and Basis of Presentation

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

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

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

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

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

**South Carolina State Ports Authority**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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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 March, 2012 GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012 (the year ended June 30, 2014 for the Ports Authority). The provisions were applied retroactively to the fiscal 2013 financial statements, as required. GASB 65 requires the following major change:

- Debt issuance costs are to be recognized as an expense in the period incurred, not deferred and amortized over the life of the debt, as was previously done.

The retroactive application of GASB 65 has resulted in a cumulative adjustment to the opening balance of net position as of July 1, 2012, the beginning of fiscal year 2013, for the balance of unamortized bond issue costs as of that date.

The following table illustrates the changes in selected statements of net position items before and after the application of GASB 65 at June 30, 2013 (in thousands):

	<b>As Previously Reported</b>	<b>GASB 65 Adjustments</b>	<b>As Restated</b>
<b>Statement of net position - June 30, 2013</b>			
<i>Noncurrent assets and investments</i>			
Unamortized bond issue costs	\$ 1,372	\$ (1,372)	\$ -
<i>Net position</i>			
Unrestricted	193,265	(1,372)	191,893
Total net position	706,550	(1,372)	705,178

**South Carolina State Ports Authority**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

The following table illustrates the changes in selected statements of revenues, expenses and changes in net position items before and after the application of GASB 65 for the year ended June 30, 2013 (in thousands):

	As Previously Reported	GASB 65 Adjustments	As Restated
<b>Statement of revenues, expenses, and changes in net position for the year ended June 30, 2013</b>			
<i>Nonoperating revenues (expenses)</i>			
Other income (expense), net	\$ (480)	\$ 50	\$ (430)
Total nonoperating revenues (expenses)	(8,366)	50	(8,316)
<i>Excess revenues over expenses before capital contributions and special items</i>			
	7,961	50	8,011
<i>Increase in net position</i>	7,278	50	7,328
Cumulative effect to the beginning (July 1, 2012) total net position as a result of the change required by GASB 65		<u>(1,422)</u>	
Net change to June 30, 2013 total net position		<u>\$ (1,372)</u>	

The following table illustrates the cumulative effect at June 30, 2012 and June 30, 2013 (in thousands):

June 30, 2012 net position, as originally reported	\$ 699,272
Cumulative effect of changes required by GASB 65 at June 30, 2012	<u>(1,422)</u>
June 30, 2012 net position, as restated	697,850
Increase in net position (as restated) for the year ended June 30, 2013	<u>7,328</u>
Net position (as restated) at June 30, 2013	<u>\$ 705,178</u>

The reconciliation of operating earnings to net cash provided by operating activities for the year ended June 30, 2013 has been restated to reflect the expense restatements presented above. There were no changes to the net cash provided by operating activities to the net decrease in cash and cash equivalents on the Statements of Cash Flows for the periods presented.

The GASB issued Statement No. 66, *Technical Corrections*, in March 2012. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The Ports Authority has adopted the provisions of this Statement as of and for the year ended June 30,

# South Carolina State Ports Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

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2014 and they have determined this Statement does not have a significant impact to the financial statements for the years presented.

In June, 2012, GASB approved Statement No. 67, *Financial Reporting for Pension Plans*, which revises the existing guidance for the financial reports of most pension plans. This Statement enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. The Ports has adopted the provisions of this Statement as of and for the year ended June 30, 2014. They have concluded this statement has no impact to the financial statements for the years presented.

In June 2012, GASB approved Statement No. 68, *Accounting and Financial Reporting for Pension Plans*, which revises and establishes new financial reporting requirements for most governments that provide pension benefits to their employees. The Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*. The Ports Authority will be required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

The GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*, in January 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

In April 2013, GASB approved Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

In November 2013, GASB approved Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

# South Carolina State Ports Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

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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.” This is a change in the current fiscal year as historically all amounts budgeted and committed were included. 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, 2014 and 2013. The investments held with third party banks include money market funds and interest bearing accounts with credit ratings from Moody’s of P-1 and Standard & Poor’s of A-1 as of June 30, 2014 and 2013. The money invested with the State Treasurer in the cash management pool is not rated by an outside agency; however, it is the policy of the State to invest in only the highest investment grade securities including those rated at least A by the two leading national rating services.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Ports Authority will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investments with third party banks and investments held by a trustee are not registered in the name of the Ports Authority. Investments held with third party banks are invested primarily in money market funds and interest bearing accounts, which totaled approximately \$9,613,000 and \$5,913,000 as of June 30, 2014 and 2013, respectively. Investments held by a trustee are invested in government agency securities, which totaled \$15,733,000 and \$15,642,000 as of June 30, 2014 and 2013, respectively. Investments with third party banks and investments held by a trustee are fully collateralized as of June 30, 2014 and 2013 with securities maintained by an outside party. All other investments are held in a pool established by the State Treasurer and are not collateralized.

**South Carolina State Ports Authority**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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Concentration of credit risk is the risk of loss attributed to the magnitude of the Port Authority's investments in a single issuer. The Ports Authority does not have any individual investments that represent 5% or more of the Ports Authority's investments at June 30, 2014 and 2013. 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)*

Investment Type	Maturity	Value	
		2014	2013
Money market funds	Less than one year	\$ 9,613	\$ 5,913
U.S. government agency securities	Less than one year	15,733	15,642

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

**Inventories**

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

**Property and Equipment**

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

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

Land improvements	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.

# South Carolina State Ports Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

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

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

#### **Derivative Instruments and Hedging Activities**

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

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

#### **Operating Revenues and Expenses**

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

#### **Contributions**

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

#### **Restricted Resources**

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

#### **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.

**South Carolina State Ports Authority**  
**Notes to Financial Statements**  
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**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, 2014 and 2013, three customers accounted for the following revenue and accounts receivable percentages:

	2014		2013	
	Revenue	Accounts Receivable	Revenue	Accounts Receivable
Customer 1	17 %	23 %	11 %	8 %
Customer 2	12	8	15	18
Customer 3	9	12	8	14
	38 %	43 %	34 %	40 %

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

**Annual Leave Policy**

Employees earn vacation at rates of 12 to 25 days per year and may accumulate up to a maximum of 45 days, depending on their length of employment and type of employment contract. Upon termination, employees are paid for any unused accumulated vacation. The liability for annual leave is accrued at its accumulated value in the accompanying financial statements. The liability is \$2,487,000 and \$2,296,000 as of June 30, 2014 and 2013, 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.

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**2. Cash, Investments and Pooled Investments**

The Ports Authority's total cash and investments at June 30, 2014 and 2013 are approximately \$171,535,000 and \$202,732,000, respectively. Periodically, cash on deposit in federally insured institutions exceeds the limit on insured deposits and may not be specifically collateralized. The Ports Authority has not experienced any such losses in its cash or investment accounts. The Ports Authority believes it is not exposed to any significant credit risk regarding cash and investments at June 30, 2014 and 2013.

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

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

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

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Insured (FDIC) or collateralized by securities held by the pledging institution's agent in the Ports Authority's name	\$ 12,926	\$ 9,260
Carrying value of cash	4,320	3,885

Investments at June 30 consist of the following:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Investment in state cash management pool	\$ 141,869	\$ 177,292
Funds deposited with third party banks	9,613	5,913
U.S. government agency securities, held by trustee	15,733	15,642
	<u>167,215</u>	<u>198,847</u>
Less: Amounts currently available for operating funds	82,696	45,418
Amounts held by trustee	15,733	15,642
	<u>98,429</u>	<u>61,060</u>
Internally designated investments	<u>\$ 68,786</u>	<u>\$ 137,787</u>

**South Carolina State Ports Authority**  
**Notes to Financial Statements**  
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The carrying values of cash and investments are included in the balance sheets as follows:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
<b>Carrying value</b>		
Cash	\$ 4,320	\$ 3,885
Investments	<u>167,215</u>	<u>198,847</u>
	<u>\$ 171,535</u>	<u>\$ 202,732</u>
<b>Included in the following balance sheets captions</b>		
Cash	\$ 4,320	\$ 3,885
Investments, current assets	82,696	45,418
Internally designated for capital acquisitions	68,786	137,787
Held by trustee for debt service	<u>15,733</u>	<u>15,642</u>
	<u>\$ 171,535</u>	<u>\$ 202,732</u>

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

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
<b>Capital Improvement Fund</b>		
Cash	\$ -	\$ -
Funds invested	<u>55,511</u>	<u>117,870</u>
	<u>55,511</u>	<u>117,870</u>
<b>Depreciation Fund</b>		
Cash	14	14
Funds invested	<u>11,336</u>	<u>18,002</u>
	<u>11,350</u>	<u>18,016</u>
<b>Other - State Port Construction Fund</b>		
Cash	132	132
Funds invested	<u>1,793</u>	<u>1,769</u>
	<u>1,925</u>	<u>1,901</u>
	<u>\$ 68,786</u>	<u>\$ 137,787</u>

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).

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General provisions regarding these Funds are as follows:

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

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

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

**3. Property and Equipment**

Property and equipment consist of the following amounts:

<i>(in thousands of dollars)</i>	<b>Balance at June 30, 2013</b>	<b>Additions</b>	<b>Write-Offs/ Disposals</b>	<b>Transfers</b>	<b>Balance at June 30, 2014</b>
Land	\$ 197,232	\$ 1,753	\$ (2)	\$ 2,692	\$ 201,675
Land improvements	275,621	-	(112)	33,512	309,021
Land held for sale	2,674	-	-	-	2,674
Buildings and structures	337,817	-	(3,823)	5,660	339,654
Buildings and structures held for sale	-	1,140	-	-	1,140
Railroad tracks	8,869	-	-	7,957	16,826
Terminal equipment	136,133	43	(3,033)	8,225	141,368
Furniture and fixtures	24,659	-	-	4,458	29,117
Capital projects in progress	207,602	83,265	(1,593)	(62,504)	226,770
	<u>1,190,607</u>	<u>86,201</u>	<u>(8,563)</u>	<u>-</u>	<u>1,268,245</u>
Less: Accumulated depreciation	496,815	32,415	(6,686)	-	522,544
Property and equipment, net	<u>\$ 693,792</u>	<u>\$ 53,786</u>	<u>\$ (1,877)</u>	<u>\$ -</u>	<u>\$ 745,701</u>

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

In July of 2012, the Ports Authority experienced a significant storm with hurricane like winds that damaged four cranes located at the Wando Welch Terminal. The significant damage to the cranes caused them to be inoperable for up to nine months. In accordance with GASB 42, *Impairment of Capital Assets and Insurance Recoveries*, the Ports Authority recorded an impairment loss related to the cranes of approximately \$2,438,000 as of June 30, 2013. The damage to the cranes was fully recoverable through insurance. As of June 30, 2014, the Ports Authority has recognized approximately \$6,569,000 in insurance recovery proceeds to offset the cost of the crane reconstruction.

On June 28, 2012, the Ports Authority entered into a service agreement with a third party for the use of a crane barge. The third party will supply and furnish all necessary management, maintenance, insurance and labor to safely lift and load heavy cargo utilizing the crane barge. The Ports Authority has agreed to pay \$2,500,000 towards the construction of the crane barge. In exchange, the crane barge will be dedicated for use by the Ports Authority and its customers for a period of 20 years. However, the third party will have the right to employ the barge for its own purposes on other jobs, on the condition that the jobs are not in direct competition with the Ports Authority. In addition, the third party will pay a license fee to the Ports Authority equal to a percentage of gross revenue for every lift the crane barge performs for parties that are not customers of the Ports Authority. The license fee will equal 30% of gross revenue for the years 1 through 10 of the agreement, 15% of gross revenue for the years 11 to 15 and 5% of gross revenue for the years 16 through 20. As of June 30, 2014, the crane barge is in operation.

**Leases**

During the years ended June 30, 2014 and 2013, the Ports Authority leased container handlers and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately \$1,614,000 and \$1,391,000, respectively.

During the years ended June 30, 2014 and 2013, the Ports Authority leased office and warehouse space as well as land under operating leases, incurring expenses of approximately \$924,000 and \$256,000, respectively.

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**4. Intangible Assets and Goodwill**

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

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Intangible assets subject to amortization		
Customer contracts, amortized over two years	\$ 47	\$ 47
Customer relationships, amortized over eighteen years	645	645
Other	184	184
	<u>876</u>	<u>876</u>
Less: Accumulated amortization	(649)	(613)
Intangible assets subject to amortization, net	<u>227</u>	<u>263</u>
Goodwill, not subject to amortization	2,190	2,190
	<u>\$ 2,417</u>	<u>\$ 2,453</u>

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

<i>(in thousands of dollars)</i>	
2015	\$ 35
2016	35
2017	35
2018	35
2019	35
Thereafter	52
	<u>\$ 227</u>

**5. Long-Term Debt**

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

<i>(in thousands of dollars)</i>	<b>June 30, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2014</b>	<b>Current Portion</b>
Revenue bonds – Series 2010	\$ 170,000	\$ -	\$ (4,660)	\$ 165,340	\$ 4,845
Notes payable	10,342	19,700	(584)	29,458	1,184
	180,342	19,700	(5,244)	194,798	6,029
Plus: Unamortized premium	2,279	-	(128)	2,151	-
	<u>\$ 182,621</u>	<u>\$ 19,700</u>	<u>\$ (5,372)</u>	<u>\$ 196,949</u>	<u>\$ 6,029</u>

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

**Series 1998**

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

During the years ended June 30, 2014 and 2013, the Ports Authority made principal payments on the Series 1998 bonds of \$0 and \$4,350,000, respectively.

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

<b>Redemption Date (Inclusive)</b>	<b>Redemption Price</b>
July 1, 2013 to June 30, 2014	100.0 %
July 1, 2014 to June 30, 2015	100.0 %
July 1, 2015 and thereafter	100.0 %

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

**Series 2010**

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

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\$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 due to the retroactive application of GASB 65. See Note 1 for details.

***Optional Redemption***

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

***Mandatory Sinking Fund Redemption***

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

*(in thousands of dollars)*

<b>2028 Term Bond</b>	<b>Amount</b>
<b>Year</b>	
2026	\$ 3,990
2027	4,215
2028	2,495
<b>2040 Term Bond</b>	<b>Amount</b>
<b>Year</b>	
2028	\$ 1,955
2029	4,690
2030	4,945
2031	5,210
2032	5,495
2033	5,790
2034	6,100
2035	6,430
2036	6,775
2037	7,140
2038	7,525
2039	7,930
2040	8,360

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**Promissory Note**

On December 19, 2012, the Ports Authority entered into a promissory note agreement with a bank for \$25,000,000. The promissory note was increased to \$30,000,000 on June 20, 2013. Principal and interest are payable monthly, interest is based on a rate of 2.56% per annum. The first principal payment was due January 30, 2014. 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, 2014, the Ports Authority had amounts outstanding under this loan agreement of \$29,423,000.

Maturities of long-term debt are summarized as follows:

<i>(in thousands of dollars)</i>	<b>Revenue Bonds</b>		<b>Other Long-Term Debt</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2015	\$ 4,845	\$ 8,317	\$ 1,184	\$ 751
2016	5,035	8,116	1,214	722
2017	5,270	7,852	1,247	687
2018	5,535	7,575	1,275	655
2019	5,810	7,285	1,304	621
2020–2024	33,725	31,431	23,234	1,902
2025–2029	28,730	22,579	-	-
Thereafter	76,390	24,550	-	-
	<u>\$ 165,340</u>	<u>\$ 117,705</u>	<u>\$ 29,458</u>	<u>\$ 5,338</u>

The components of interest expense for the years ended June 30, 2014 and 2013 are as follows:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Interest expense on long-term debt	\$ 9,245	\$ 8,879
Amortization of premiums on long-term debt	(128)	(128)
Capitalized interest expense	(8,268)	(7,003)
	<u>\$ 849</u>	<u>\$ 1,748</u>

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

**6. Commitments**

**Construction**

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately \$37,914,000 and \$45,172,000 at June 30, 2014 and 2013, respectively.

**Harbor Deepening**

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

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

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

In May 2013, the Army Corps of Engineers determined the total final cost of this deepening project to be approximately \$136.2 million. The final cost sharing from federal sources is approximately \$88.5 million and the local share approximately \$47.7 million. Of this local share, the Ports Authority has paid a total of approximately \$39.7 million utilizing \$31.7 million from the State of South Carolina's funding sources provided for this project. The remaining portion of the local share of \$4.3 million and \$8.0 million is the legal obligation of the Ports Authority and is reflected as a currently liability as of June 30, 2014 and 2013, respectively.

In June 2011, the U.S. Army Corps of Engineers began a feasibility study for the proposed post 45 foot Charleston harbor deepening project. The cost of this feasibility study are shared by the Ports Authority and the federal government on a 50/50 basis. Through fiscal year 2014, the Ports Authority made payments of \$6.7 million of its required 50% share for the Army Corps study. The deepening study is expected to be complete by September 2015. The Army Corps has estimated that the harbor deepening project will be completed by the end of calendar year 2019 and will cost approximately \$509 million. The overall project will be completed on a cost share basis with the federal government. It is anticipated that the Ports Authority's share of the project will be \$343 million and the federal share will be \$166 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 will seek the remaining \$166 million from the federal government.

#### **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, 2014, the Ports Authority has been granted approximately \$16.9 million in land for use by BMW and the Department of Transportation, which carries the same provisions as the land under lease mentioned above.

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

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#### **South Carolina Inland Port**

As of June 30, 2014, the Ports Authority completed construction of the South Carolina Inland Port in Greer, SC. The Greer terminal is an intermodal rail facility to transfer import and export containers and cargo via rail spanning more than 200 miles. The Inland Port, providing overnight double-stack rail service, improves the efficiency of international freight movements between the Port, the upstate manufacturing region, and neighboring states, thus promoting economic development in the State of South Carolina. By utilizing the rail line, importers and exporters can maximize tonnage moved per gallon of fuel, which provides both environmental benefits and cost savings. The inland port began operation in October 2013. As of June 30, 2014, the Ports Authority has invested approximately \$39 million in capital expenditures related to this new facility.

#### **New Terminal Expansion – Navy Base Project**

In May 2007, the Ports Authority received permits to begin construction of a 286 acre container terminal facility on a portion of the former Charleston Naval Base on the west bank of the Cooper River in North Charleston, SC. This facility is planned to be constructed in 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 \$812 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, 2014 the Ports Authority has spent approximately \$144 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 \$244 million. After completion of these critical-path projects, the dock and wharf construction, paving, and equipping the terminal will follow to complete the first phase of construction. The additional cost of these projects is estimated to be \$424 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 2024. Management expects that existing terminal capacities can accommodate the high end projected container forecast through 2020. Management believes that the new terminal will be completed and operational at whatever date in the years set forth above is justified by demand.

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

#### **7. Interest Rate Exchange Agreements**

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

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On June 30, 2014, the Ports Authority had the following derivative instruments outstanding:

Item	Type	Objective	Current Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Rating
A	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	\$ 24,232,500	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	Aa2/AA
B	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	56,542,500	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	Aa2/AA
C	Received Fixed-Pay Floating	Hedge of changes in cash flows on the Series 1998 bonds	80,775,000	7/1/2008	7/1/2026	Pay SIFMA Receive 3.508%	A1/A

As of June 30, 2014 and 2013, 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, 2014 and 2013. The Ports Authority anticipates holding the interest rate exchange contracts through maturity.

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

Changes in fair value at June 30, 2014 and 2013 are as follows:

	Derivative	2014	2013	Change in Fair Value
Item A	Pay Fixed Receive Floating	\$ (3,040,000)	\$ (3,352,000)	\$ 312,000
Item B	Pay Fixed Receive Floating	(7,090,000)	(7,810,000)	720,000
Item C	Receive Fixed Pay Floating	8,260,000	8,856,000	(596,000)
		<u>\$ (1,870,000)</u>	<u>\$ (2,306,000)</u>	<u>\$ 436,000</u>

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

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

# South Carolina State Ports Authority

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#### **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, 2014 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, 2014 and 2013, the Ports Authority currently has a credit rating of A1 by Moody's and A+ by Standard & Poor's and no collateral has been posted under any derivative instruments.

## **8. Retirement Plans**

Regular employees of the Ports Authority are eligible to choose between two of the plans offered by the South Carolina Retirement System. They can choose to participate in the traditional South Carolina Retirement System's plan (SCRS), a defined benefit plan, or alternatively, the State Optional Retirement Plan (State ORP), a defined contribution plan. The majority of the Authority employees have chosen the SCRS (the State ORP has only been available since July 1, 2002). A few police officers previously retired from the State or a county or local government who participated in the South Carolina Retirement System's Police Officers Retirement System (PORS) and now work for the Ports Authority, contribute to the PORS. The wages covered under SCRS,

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including PORs, for the years ended June 30, 2014 and 2013 were approximately \$33,345,000 and \$30,664,000, respectively. The wages covered under State ORP for the years ended June 30, 2014 and 2013 were approximately \$1,613,000 and \$1,445,000, respectively. Noncovered wages for the years ended June 30, 2014 and 2013 were approximately \$1,661,000 and \$563,000, respectively.

Under SCRS, for Class Two members (membership effective prior to July 1, 2012), benefits are fully vested after five years of earned service. Employees who retire at or after age 65 or have 28 years of service are eligible to receive full retirement benefits, payable monthly for life, equal to 1.82% of average final compensation times years of credited service. Final average compensation is the employee's average salary over the twelve highest consecutive quarters. An employee may choose early retirement at age 60 with five years earned service or at age 55 with at least 25 years of service and receive reduced benefits. SCRS also provides death and disability benefits. Benefits are established by state statute.

Under SCRS, for Class Three members (membership effective on or after July 1, 2012), benefits are fully vested after eight years of earned service. Employees who retire at or after age 65 or have combined age and years of service totaling at least 90 are eligible to receive full retirement benefits, payable monthly for life, equal to 1.82% of average final compensation times years of credited service. Final average compensation is the employee's average salary over the twenty highest consecutive quarters. An employee may choose early retirement at age 60 with eight years earned service and receive reduced benefits. SCRS also provides death and disability benefits. Benefits are established by state statute.

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

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

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for the plan. By law, employee contribution requirements during fiscal year ended June 30, 2014 for SCRS, State ORP, and TERI were 7.5% of the employee's salary. Actuarially determined employer contribution rates for SCRS, State ORP, and TERI expressed as a percentage of compensation during fiscal year ended June 30, 2014 were 10.45% with a group life contribution rate of 0.15% for a total contribution of 10.6%. The total employer contributions paid to the South Carolina Retirement System for the years ended June 30, 2014 and 2013 were approximately \$3,627,000 and \$3,333,000 from the Ports Authority and approximately \$2,495,000

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and \$2,141,000 from employees, respectively. Employer contributions paid to State ORP vendors for the years ended June 30, 2014 and 2013 were approximately \$81,000 and \$72,000 from the Ports Authority and approximately \$121,000 and \$101,000 from employees, respectively.

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

The “accrued liability” is a standardized disclosure measure of the actuarial present value of the projected benefits of each individual allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The actuarial valuation method is based on a projected benefit entry age normal cost and an open-end unfunded actuarial accrued liability. The actuarial interest rate assumption is 7.5% per annum, compounded annually. The measure is intended to help users assess SCRS’s funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. SCRS does not make separate measurements of assets and benefits payable for individual employers. The unfunded accrued liability at July 1, 2013, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately \$15,443 billion and an estimated liquidation period of 30 years. The ten-year historical trend information showing SCRS’s progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2013 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

#### **Deferred Compensation Plans**

During the year ended June 30, 2012, the Ports Authority established a 401(a) defined contribution plan and a 415(m) government excess plan on behalf of certain executives at the Ports Authority. The Ports Authority makes payments into the plans over a period of five years and the participants in the plan become fully vested at the end of the five year period. The assets of the plans remain the assets of the Ports Authority throughout the duration of the five years. Compensation expense is recognized for payments made to the plans. As of June 30, 2014 and June 30, 2013, contributions to the plan were approximately \$1,007,000 and \$538,000, respectively.

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

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

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

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.

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#### 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 non-funded 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 non-funded 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 non-funded 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](http://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 \$1,301,000 and \$1,240,000 for fiscal years 2014 and 2013, 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 \$1,843,000 and \$1,728,000 for fiscal years ended June 30, 2014 and 2013, respectively. For fiscal years 2014 and 2013, the Ports Authority paid approximately 70.6% and 71.8% and the retirees were responsible for funding approximately 29.4% and 28.2%, respectively.

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The Ports Authority accrued during fiscal year 2014 and 2013, \$1,325,000 and \$1,329,000, 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:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
<b>Net OPEB obligation, beginning of year</b>	<u>\$ 7,618</u>	<u>\$ 6,289</u>
Annual required contribution (ARC)	2,933	2,848
Interest and ARC adjustment	<u>25</u>	<u>21</u>
Annual OPEB cost	<u>2,958</u>	<u>2,869</u>
Employer contributions	<u>(1,633)</u>	<u>(1,540)</u>
<b>Net OPEB obligation, end of year</b>	<u>8,943</u>	<u>7,618</u>
Less current portion	<u>(1,713)</u>	<u>(1,633)</u>
<b>Net OPEB obligation, long term</b>	<u>\$ 7,230</u>	<u>\$ 5,985</u>

Actual contributions paid in fiscal year 2014 and 2013 include the following at June 30:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Employer and participant contributions	\$ 1,843	\$ 1,728
Implicit subsidy payments on behalf of active employees	332	300
Participant contributions	<u>(542)</u>	<u>(488)</u>
Total employer contributions including interest	<u>\$ 1,633</u>	<u>\$ 1,540</u>

Employer contributed 55.2% and 53.7% of annual OPEB cost during fiscal year 2014 and 2013, respectively.

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**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, 2014 and the two preceding fiscal years are presented below.

<i>(in thousands of dollars)</i>	<b>Annual Required Contributions</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
<b>Fiscal Year Ended</b>			
June 30, 2014	\$ 2,933	\$ 1,633	55.7 %
June 30, 2013	2,848	1,540	54.1 %
June 30, 2012	2,535	1,435	56.6 %

The ARC of \$2,933,000 and \$2,848,000 for fiscal year 2014 and 2013, 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.

<i>(in thousands of dollars)</i>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b)-(a)/(c)]</b>
<b>Fiscal Year Ended</b>						
June 30, 2014	\$ -	\$ 39,767	\$ 39,767	0 %	\$ 29,389	135 %
June 30, 2013	-	38,208	38,208	0 %	26,419	145 %
June 30, 2012	-	33,201	33,201	0 %	24,849	133 %

**Schedule of Percentage of OPEB Cost Contributed**

<i>(in thousands of dollars)</i>	<b>Annual OPEB Cost</b>	<b>Percentage of OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
<b>Fiscal Year Ended</b>			
June 30, 2014	\$ 2,958	55.2 %	\$ 8,943
June 30, 2013	2,869	53.7 %	7,618
June 30, 2012	2,552	56.2 %	6,289

**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.

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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, 2013 – June 30, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	30 years open, level percent of active member payroll
Asset valuation method	N/A

	<b>2014</b>	<b>2013</b>
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	7.00%	7.25%

(7.0% in 2014, decreasing by one-fourth percentage point per year to an ultimate rate of 4.5% in fiscal year 2025 and after).

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

**10. Facilitating Agreements**

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

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

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Cost	\$ 14,021	\$ 13,702
Accumulated depreciation	9,067	8,576

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**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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Minimum future operating revenue and rentals, to be received under noncancelable agreements as of June 30, 2014 were:

*(in thousands of dollars)*

2015	\$ 16,714
2016	8,371
2017	7,519
2018	1,666
2019	1,621
Thereafter	<u>25,192</u>
	<u>\$ 61,083</u>

**11. 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 market value at June 30, 2014 and 2013 was approximately \$182,816,000 and \$183,289,000, respectively.

**12. Other Matters**

**Cooper River Bridge**

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

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

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

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## Notes to Financial Statements

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On June 24, 2005, the Ports Authority and the State of South Carolina finalized an agreement regarding the remaining contributions to the Cooper River Bridge. The agreement stated that each contribution is a separate nonexchange transaction and the Ports Authority has only the obligation to pay the \$1,000,000 annual amount at any given time for the remaining 25 years. Payments to the State of South Carolina totaled \$1,000,000 in each fiscal year 2014 and 2013.

#### **Jasper County**

The Ports Authority entered into a joint government organizational agreement with the State of Georgia for the formation of a bi-port facility to be operated jointly between the Ports Authority and the State of Georgia. The legal and operational structure of the potential bi-port facility is not known at this time. The Ports Authority contributed \$300,000 and \$400,000 in cash to the joint organization in fiscal years ended June 30, 2014 and 2013, respectively. The cash contribution has been used by the joint organization to support the initial planning associated with a bi-port facility. Total expenses recognized by the Ports Authority related to initial planning costs were approximately \$293,000 and \$395,000 for the years ended June 30, 2014 and 2013, respectively.

#### **Federal Grant Agreements**

The Ports Authority has been awarded grants from the Department of Homeland Security, Office of State and Local Government Coordination and Preparedness and the Department of Transportation, Maritime Administration ("DOT") (as an agent of the Transportation Security Administration) for approximately \$26.2 million to be used for port security. As of June 30, 2014 and 2013, the Ports Authority has expended approximately \$98,000 and \$1,578,000, respectively, related to these grant agreements.

The Ports Authority has been awarded grants from the Environmental Protection Agency's National Clean Diesel Funding Assistance Program for approximately \$2,735,000. As of June 30, 2014 and 2013, the Ports Authority has expended approximately \$45,000 and \$150,000, respectively, related to these grants.

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

#### **Closure of Port Royal Terminal**

Effective December 31, 2006, the Ports Authority discontinued operations and closed the Port Royal terminal located in Port Royal, SC. The State of South Carolina has mandated the closure of this terminal so that the land can be developed to generate future revenues for the State of South Carolina. The Ports Authority had lease contracts with several major tenants at the Port Royal facility. Certain lease termination costs have been incurred in order to terminate the leases and prepare the land for sale. Based on current estimates, the Ports Authority has determined that termination costs can be fully recovered from the future sale of the land. The Ports Authority is actively marketing the property at this point of time. As of June 30, 2014 and 2013, the Port Royal land is classified as held for sale.

#### **2009 Legislation**

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

2009 Act No. 73 directs the sale of real property owned by the Ports Authority at Port Royal, Daniel Island and Thomas Island and imposes time deadlines for the completion of such sales.

# South Carolina State Ports Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

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

#### **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, which agency would assume the Ports Authority's fiduciary duties to its bondholders relating to the disposition of real property. The sale of the Port Royal property is still pending at June 30, 2014. The statute has been 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 exists as of July 1, or a bona fide offer is received within 90 days before June 30, then the date for closing the transaction is extended through December 31, 2015. If the dates are not met, the property is to be 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.

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 has been extended to June 30, 2015. In addition, a requirement has been 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. 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, 2015, the Authority must transfer the property to the 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.

# South Carolina State Ports Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

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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.

#### **13. Litigation**

In the ordinary course of business, the Ports Authority becomes involved in litigation, claims and administrative proceedings. Certain litigation, claims and proceedings were pending at June 30, 2014, 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 2011, the Ports Authority intervened in a lawsuit brought against a passenger cruise line by an environmental group and local Charleston, SC neighborhood organizations, claiming that the cruise operation violates certain ordinances and environmental statutes. On January 22, 2014, the South Carolina Supreme Court dismissed remaining claims, thus ending the case in favor of the 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 Ports Authority appealed the ruling, but when the Corps of Engineers withdrew its appeal the Authority did not oppose. Thus, 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 judgement in favor of the Ports Authority, and dismissed the challenge on April 21, 2014. The case is now on appeal under the briefing schedule, with a decision likely within the fiscal year 2015. 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.

In 2013, suit by a lessee of property in Port Royal resulted in a verdict against the Ports Authority in the amount of \$1.1 million, alleging that a parking lot parcel was within the lease, but was not owned by the Ports Authority. The Ports Authority denied that the parcel was within the lease. The Ports Authority filed a notice of appeal, after which the case was settled, and is now ended. In the process, the Authority's Port Royal property was cleared of the encumbering lease and the Ports Authority took ownership of the restaurant and rights to future revenues.

# South Carolina State Ports Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

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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 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, completion of the regulatory process is nearing the stage 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. A preliminary estimate of project costs is approximately \$26.5 million. Property insurance will cover a portion of the costs, but will not cover a significant portion, possibly \$7 to \$10 million. This has not been determined with certainty as of this time. The Authority has put potentially responsible parties on notice and intends to pursue claims for recovery of the costs when damages have been determined to a reasonable degree of certainty.

#### **14. Payments to Berkeley County, Aiken County, and Sumter County**

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

In May 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 borne 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 2014 and 2013, \$1,315,000 and \$1,093,000, 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 borne 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 2014 and 2013, \$2,886,000 and \$0, respectively.

#### **15. Special Item**

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

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 year ended June 30, 2014 Norfolk Southern Railway Company contributed approximately \$1.1 million toward the facility's construction.

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**16. Subsequent Event**

ASC 855-10, *Subsequent Events* ("ASC 855-10") provides for disclosure regarding the existence and timing of a company's evaluation on its subsequent events. ASC 855-10 defines two types of subsequent events, "recognized" and "nonrecognized". Recognized subsequent events provide additional evidence about conditions that existed at the date of the balance sheet and are required to be reflected in the financial statements.

Nonrecognized subsequent events provide evidence about conditions that did not exist at the date of the balance sheet but arose after the date and, therefore are not required to be reflected in the financial statements. However, certain nonrecognized subsequent events may require disclosure to prevent the financial statements from being misleading.

The Company evaluated subsequent events through October 15, 2014, which is the date these financial statements were available for issuance.

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 will be 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 \$80,430,000. 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 monthly interest only payments until it expires in August 2016 when the entire outstanding principal amount is due.

## **Required Supplemental Information**

## South Carolina State Ports Authority Required Supplemental Information June 30, 2014 and 2013

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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 non-funded 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 non-funded 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 non-funded premium.

Eligibility requirements are subject to changes made by the South Carolina Public Employee Benefit Authority.

## South Carolina State Ports Authority Required Supplemental Information June 30, 2014 and 2013

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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](http://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 \$1,301,000 and \$1,240,000 for fiscal years 2014 and 2013, 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 \$1,843,000 and \$1,728,000 for fiscal years ended June 30, 2014 and 2013, respectively. For fiscal years 2014 and 2013, the Ports Authority paid approximately 70.6% and 71.8% and the retirees were responsible for funding approximately 29.4% and 28.2%, respectively.

The Ports Authority accrued during fiscal year 2014 and 2013, \$1,325,000 and \$1,329,000, 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)*

	<b>2014</b>	<b>2013</b>
<b>Net OPEB obligation, beginning of year</b>	<u>\$ 7,618</u>	<u>\$ 6,289</u>
Annual required contribution (ARC)	2,933	2,848
Interest and ARC adjustment	<u>25</u>	<u>21</u>
Annual OPEB cost	<u>2,958</u>	<u>2,869</u>
Employer contributions	<u>(1,633)</u>	<u>(1,540)</u>
<b>Net OPEB obligation, end of year</b>	<u>8,943</u>	<u>7,618</u>
Less current portion	<u>(1,713)</u>	<u>(1,633)</u>
<b>Net OPEB obligation, long term</b>	<u>\$ 7,230</u>	<u>\$ 5,985</u>

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Actual contributions paid in fiscal year 2014 and 2013 include the following at June 30:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Employer and participant contributions	\$ 1,843	\$ 1,728
Implicit subsidy payments on behalf of active employees	332	300
Participant contributions	<u>(542)</u>	<u>(488)</u>
Total employer contributions including interest	<u>\$ 1,633</u>	<u>\$ 1,540</u>

Employer contributed 55.2% and 53.7% of annual OPEB cost during fiscal year 2014 and 2013, 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, 2014 and the two preceding fiscal years are presented below.

<i>(in thousands of dollars)</i>	<b>Annual Required Contributions</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
<b>Fiscal Year Ended</b>			
June 30, 2014	\$ 2,933	\$ 1,633	55.7 %
June 30, 2013	2,848	1,540	54.1 %
June 30, 2012	2,535	1,435	56.6 %

The ARC of \$2,933,000 and \$2,848,000 for fiscal year 2014 and 2013, 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.

<i>(in thousands of dollars)</i>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b)-(a)/(c)]</b>
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June 30, 2014	\$ -	\$ 39,767	\$ 39,767	0 %	\$ 29,389	135 %
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**Schedule of Percentage of OPEB Cost Contributed**

<i>(in thousands of dollars)</i>	<b>Annual OPEB Cost</b>	<b>Percentage of OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
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**Summary of Key Actuarial Methods and Assumptions**

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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, 2013 – June 30, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	30 years open, level percent of active member payroll
Asset valuation method	N/A

	<b>2014</b>	<b>2013</b>
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	7.00%	7.25%

(7.0% in 2014, decreasing by one-fourth percentage point per year to an ultimate rate of 4.5% in fiscal year 2025 and after).

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