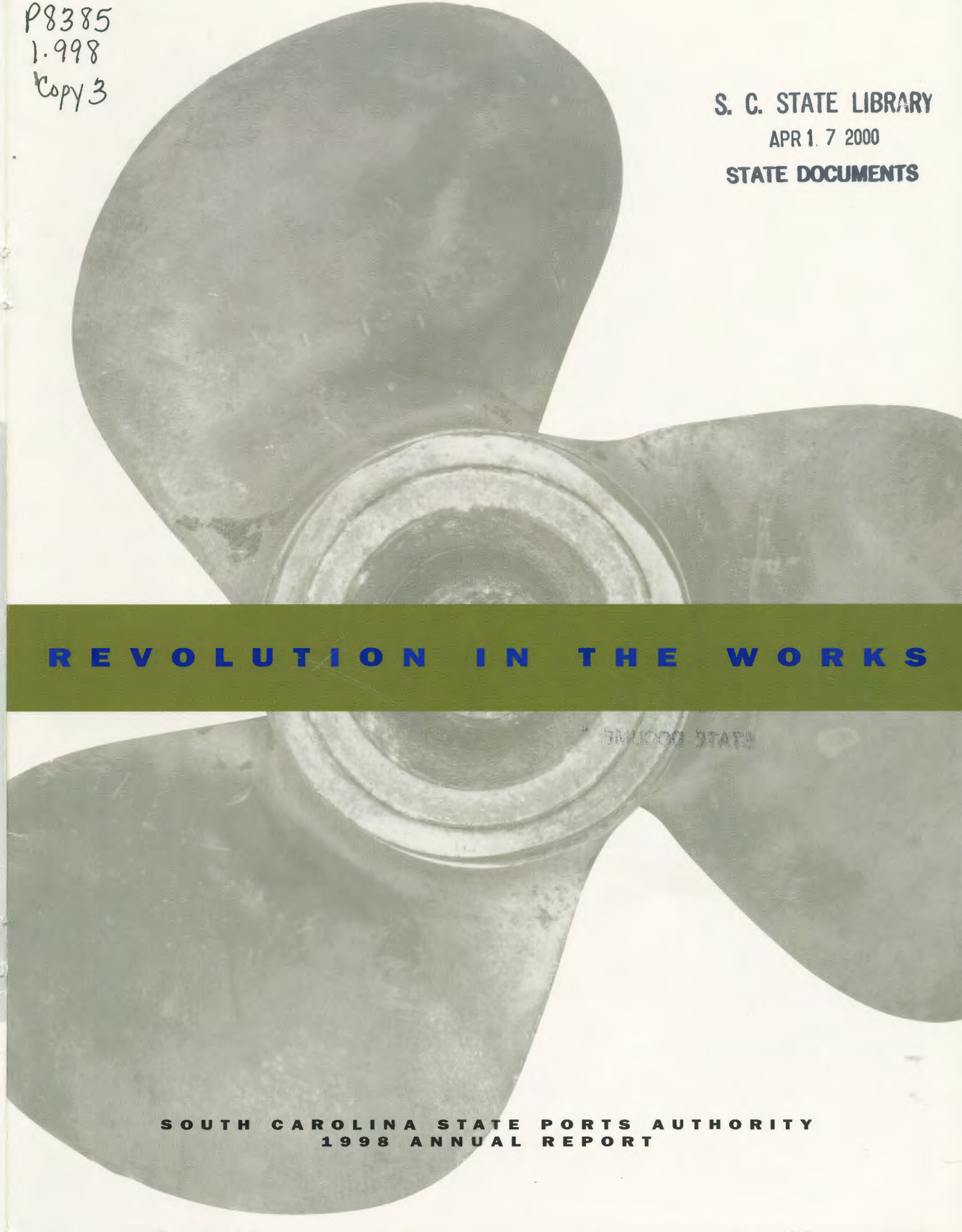
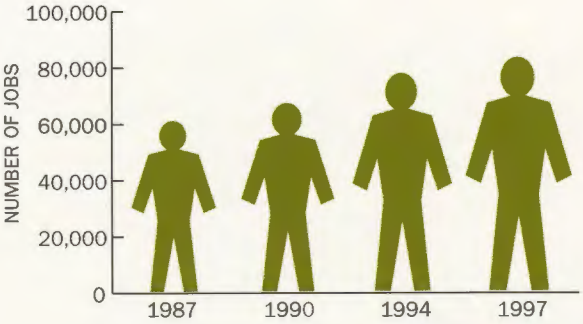


REVOLUTION IN THE WORKS

SOUTH CAROLINA STATE PORTS AUTHORITY
1998 ANNUAL REPORT

PORT-RELATED JOBS IN SOUTH CAROLINA

The positive economic impact of the Ports Authority radiates from the coast into every county of the State. Of the State's 50 largest manufacturing employers, all but three ship goods through the Port.



SETTING A GLOBAL STANDARD

An effectively managed Ports Authority and a strong commitment to efficiency across the waterfront community result in record-setting productivity for the world's largest ocean carriers.

POST-PANAMAX

The importance of harbor deepening and terminal development on Daniel Island became exceptionally clear with the arrival of one of the world's largest containerships, the 1,043-foot Regina Maersk. Capable of carrying more than 6,000 20-foot container units, the Regina is the biggest containership to ever call North America.

The South Carolina State Ports Authority has just completed a year filled with significant changes. Records were surpassed in every major business segment. The State's ports handled more cargo and more containers, worth more money than ever before and handled it in larger ships than have ever served our State before. The major steamship lines had a successful year and expanded their operations at Charleston. A symbol of these many changes and successes, and one that many citizens of South Carolina will remember, was the historic visit of the Regina Maersk. The Regina is the largest containership ever to call North America.

SETTING NEW STANDARDS OF EXCELLENCE

Her visit brought home to each person who saw her, the size and the infrastructure requirements of the vessels of the future. It can truly be said that the Regina brought the future to Charleston.

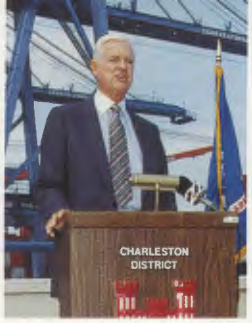
The Regina visit lent strong support to the Authority's case for the Charleston Harbor Deepening Project as approved by the U.S. Army Corps of Engineers and authorized by the U.S. Congress. The ship had to come in lightly loaded at high tide in order to have enough water under her keel to maneuver safely. Fully loaded the Regina would have had a draft of 47 feet. She is one of many vessels calling Charleston today which have to wait for high tide or carry less than a full load of cargo in order to safely navigate the harbor channels.

Evergreen Line, with its handsome, modern R-class and D-class vessels, is well aware of harbor navigation issues including difficult bends in the channel, which will be eased during the Deepening Project. In order to maintain service levels for these larger vessels, the Authority worked with one of the tug companies serving Charleston to establish new tractor tug capability during the year. It is a compliment to the stature and activity level at the Port to have service providers move so quickly to meet customer needs. It was an honor to have two of the newest class of tugs, the Elizabeth Turecamo and the Brooklyn McAllister, christened in our port during the year. The deepening project will ensure that port channels are both deep enough and wide enough to meet the needs of the excellent lines which call Charleston and which are investing in the most modern ships to move South Carolina goods around the world.

All of this significant activity symbolizes the opportunities as well as the challenges that are part of South Carolina's future. The Regina became a voice for every one of the 700 South Carolina businesses that take part in the global marketplace through this Port. She spoke for every worker, over 83,000 of them, who work at those companies using the State port system. This summer many South Carolinians gathered from around the state to watch as the Regina Maersk moved in stately fashion out to sea. As she gained speed, it was clear to the State Ports Authority, to the State's Legislators and to the industries dependent on international trade that the future of shipping is not a distant, vague concept. The mega-ship trend is upon us.

NEW TRACTOR TUG CAPABILITY

Two modern tractor tugs joined the Charleston waterfront in fiscal year 1998, vastly improving the Port's ability to handle larger vessels. Increasing ship size requires not only advanced terminals and landside infrastructure, but waterside assets like these highly-advanced tugboats.



STRONG SUPPORT

U.S. Senator Fritz Hollings and Congressman Jim Clyburn kick off the Charleston Harbor Deepening Project, which is vital to the long-term success of the Port.

While the funding package for the deepening was not completed in FY98, initial support was established to allow the five-year effort to begin. The official federal kickoff was held June 12th with Senator Ernest F. Hollings and Congressman James Clyburn, as well as Lt. Col. Robert Rowlette of the U.S. Army Corps of Engineers. Although this was an important event, it is vital that both Federal and State funding be assured in order to keep the project moving. Inadequate or sporadic funding would result in costly time delays and place the Port's business at risk.

A significant and positive step was taken this year in the funding package achieved for the replacement of the Cooper River Bridges crossing Charleston's harbor and shipping channel. It was a masterful coalition of federal funding and creative State Infrastructure Bank financing which will move the project forward after 20 years of concern over the safety and obsolescence of the two massive and historic structures. The Infrastructure Bank credited the importance and the impact of the South Carolina State Ports Authority for the Bank's unprecedented funding of the first $200 million without a local match.

A SYSTEM FOR GROWTH

The Ports Authority made significant progress last year on its new Yard Management System, which tracks inventory in real-time and speeds cargo through the port chain. YMS, an advanced radio frequency based computer system, will allow the Ports Authority to more effectively manage data and to provide a seamless flow of information.

In addition to the advances in harbor and highway infrastructure, the Authority is approaching the escalating terminal infrastructure needs from two directions. The Environmental Impact Statement (EIS) is well underway for the Ports Authority's new Global Gateway Terminal on Daniel Island in the center of Charleston Harbor. This terminal will address the growth needs of the Ports Authority and the businesses of South Carolina well into the next century. Considerable effort has been made to gain public input during the EIS process, bringing citizens and interest groups, as well as environmental and regulatory agencies, into the evaluation process. To focus and expedite the permitting procedure, input from the resource agencies is being included at the start of the planning process.

Shorter term, the Ports Authority is addressing infrastructure needs by rigorously upgrading, streamlining and enhancing existing terminals in Charleston. Today there are three very efficient container terminals and one breakbulk terminal in the Port of Charleston. The plan is to upgrade these terminals and their equipment both structurally and technologically so that more cargo can be handled through them more rapidly. Critical to this capital-intensive effort was the issuance of Port revenue bonds. While the bonds were not issued until just after the close of the 1998 fiscal year, strategic planning and in-depth financial study during FY98 put

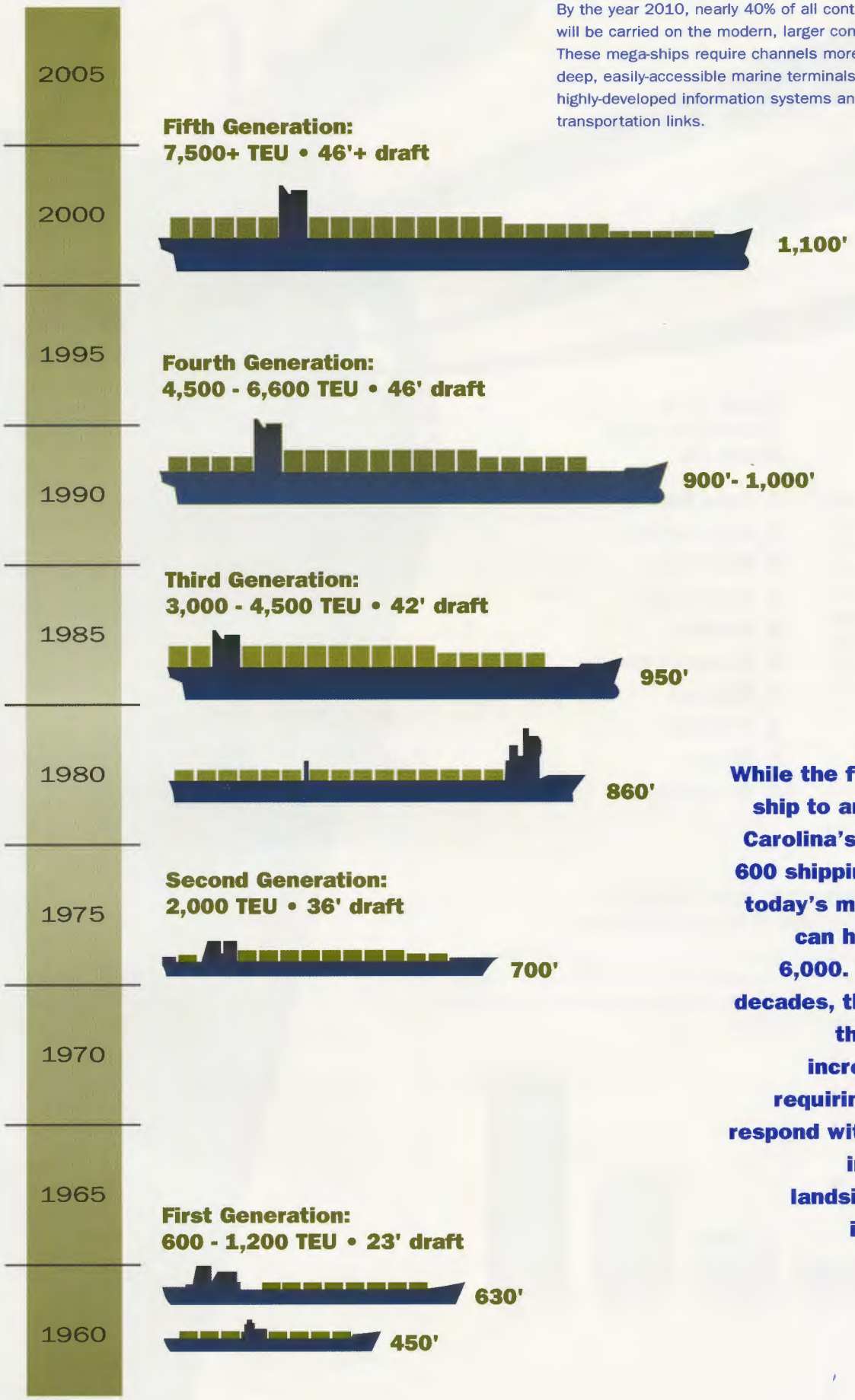
POSITIONED FOR RECORD GROWTH

APPROACHING INFRASTRUCTURE ENHANCEMENTS

Two new container cranes ordered for $10 million during fiscal year 1998 arrive in the Port of Charleston aboard a specially-designed ship. Capable of efficiently handling ships too wide and too long for the Panama Canal, these modern post-Panamax cranes will also allow the Port to build on its reputation as one of the most productive ports in the world.

INCREASING VESSEL SIZES

By the year 2010, nearly 40% of all containerized cargo will be carried on the modern, larger containerships. These mega-ships require channels more than 40 feet deep, easily-accessible marine terminals, larger cranes, highly-developed information systems and efficient inland transportation links.



While the first containership to arrive on South Carolina's coast carried 600 shipping containers, today's modern vessels can hold more than 6,000. In three short decades, the capacity of these ships has increased tenfold, requiring seaports to respond with appropriate investments in landside and harbor infrastructure.

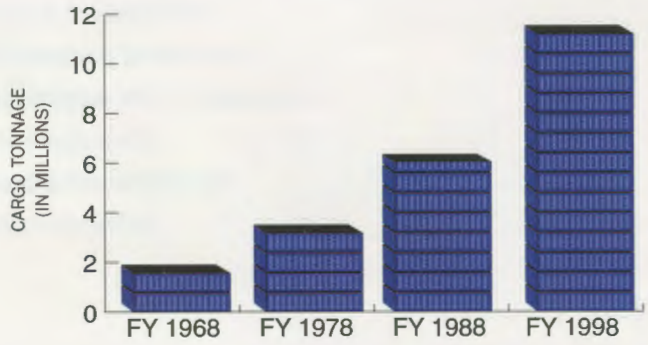
TOP U.S. CONTAINER PORTS

In 1998, Charleston firmly consolidated its hold on the number four ranked position among all United States containerized cargo ports.

1. Long Beach
2. Los Angeles
3. New York
4. Charleston
5. Seattle
6. Hampton Roads
7. Oakland
8. Houston
9. Miami
10. Savannah

TOTAL PORTS AUTHORITY TONNAGE AT CHARLESTON

The total cargo shipped through the Port of Charleston in FY98 is six times greater than that of 30 years ago, and has almost doubled in the past decade. Even more impressive is the fact that the Authority handled over $27 billion in cargo last year alone.



STRONG CARRIER SERVICE

Evergreen's modern R-class and D-class ships sail through Charleston harbor more than 200 times every year.

the Authority on a path to be ready with the cranes, the information technology, and the innovative yard management system required to handle the rapidly increasing ship and cargo demands on the existing terminal system. Despite a strong financial position and conservative management, self-generated revenue alone is insufficient to fund the capital improvement project, therefore a $125 million bond issue was prepared.

The Ports Authority also made significant strides in bolstering its global reputation for productivity and efficiency. A coordinated effort to improve service to motor carriers reduced trucker dwell time on our terminals by more than half. In addition, the Ports Authority, Sea-Land, and the ILA are proud to have recently set a new vessel productivity record by moving more than 50 containers per hour per crane over an entire shift. This is a symbol both of the Authority's commitment to efficiency and to the entire waterfront's ability to work toward world-class productivity.

In 1998, the Authority handled over 12 million tons of cargo. That is a 7% increase over FY 1997, which was a 14% increase over FY 1996, reflecting the continuation of a strong decade of growth. These comparisons serve to highlight the fact that in 1998, Charleston firmly consolidated its hold on the number four ranked position among container ports in the entire United States. The impact of this kind of international trade growth on the State has been dramatic and gratifying. It is also growth that has placed pressure on the full spectrum of the State Ports Authority's infrastructure even as it enhanced the positive impact on the State.

The positive Port impact on South Carolina was recognized in November of fiscal year 1998, when the Authority was honored by the internationally respected Newcomen Society for its on-going contributions to industry and mankind. In accepting the award, the South Carolina State Ports Authority reaffirmed its commitment to build upon the contributions of South Carolina business, community and political leaders of the past with effective planning, hard work and vision to create a better economic future for all South Carolinians.

In South Carolina, the State Ports Authority will continue to be a vital link between state economic development responsibilities and individual business needs. Port authorities across the nation are recognized as the vital link connecting all of the public and private-sector interests involved in intermodal transportation. Port authorities are the natural connection in the supply chain where facilities, labor, service industries, transportation and cargo interests meet and interface. The Authority pledges to continue to serve South Carolina responsibly and efficiently, with the leadership, commitment and equity that the businesses we serve have come to expect from their public port system. We sincerely feel that with your continued strong support, the South Carolina State Ports Authority is superbly positioned to accept the challenges of the future.

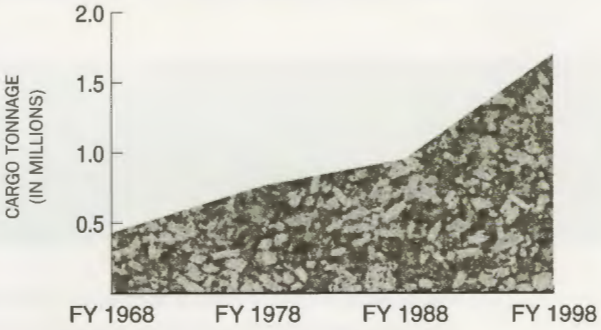
COMMITTED TO ACCEPT CHALLENGES OF THE FUTURE

William L. Bethea, Jr.
CHAIRMAN

Bernard S. Groseclose, Jr.
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Steel, salt, forest products and cement are top commodities through the Port of Georgetown, which handled 1.5 million tons of cargo in fiscal year 1998.

TOTAL PORTS AUTHORITY TONNAGE AT GEORGETOWN AND PORT ROYAL



In fiscal year 1998, Port Royal volume was more than double the previous year's tonnage, reflecting a renaissance at South Carolina's smallest port.

Another record-breaking year for the Ports of Georgetown and Port Royal clearly points to their strengths and roles in South Carolina's international landscape.

In fiscal year 1998, Georgetown and Port Royal combined for a total of nearly 1.7 million tons of cargo, up 4% from the year before and more than triple the volume handled just three decades ago.

While the Port of Charleston has an enviable position as a major global shipping hub, South Carolina's powerful seaport system is rounded out by the services provided by the Ports of Georgetown and Port Royal.

Some are surprised to learn that the maritime histories of Georgetown and Port Royal actually pre-date that of Charleston. The Spanish settled at Winyah Bay in Georgetown in 1526 and French Huguenots in Port Royal in 1562, a full century before the British landed in Charleston in 1670.

In FY98, Georgetown and Port Royal combined for a total of nearly 1.7 million tons of cargo, up 4% from the year before, and more than triple the volume handled just three decades ago.

GEORGETOWN - PORT ROYAL

While the first two settlements did not last, their storied pasts show that these ports are geographic assets and natural resources that have attracted trade for hundreds of years. Georgetown, situated north of Charleston, and Port Royal, south of Charleston, have been through numerous cycles of activity and inactivity. The resurgence of Southern economies in the post-World War II era led to the reemergence of Georgetown and Port Royal as viable ports in international commerce.

Since they did not have the volume of trade, location or commercial connections to be a major general transfer point like Charleston, Georgetown and Port Royal had to seek out their own separate and unique identities. In the twentieth century, the Ports Authority found a niche for Georgetown and Port Royal in the state port system as specialty ports serving specific industries. These industries, in turn, have dominated the Ports' development and progress.

In planning and developing the state's seaports, the Ports Authority has paid considerable attention to providing facilities that are versatile and services that are diversified. Herein lies the Ports' strength. No matter what type of cargo or commodity a South Carolina company is shipping, it can be efficiently handled by ports right here in the state.

Georgetown and Port Royal are dedicated breakbulk and bulk ports, handling cement, salt, steel, forest products, kaolin clay and other commodities every year. These two ports are keenly focused on serving the specialty transportation needs of specific companies in close proximity to the waterfront and consequently play a significant role in supporting major industries in their areas.

Even today, the majority of the Ports' business is related to local industries, such as Georgetown Steel, International Paper and other local companies. These firms rely on access to their suppliers and customers in international markets through the Ports of Georgetown and Port Royal. The health of these major employers cannot be separated from the Port.

Although Georgetown and Port Royal are significantly smaller in volume than the Port of Charleston, they are aggressively operated and benefit from the flexibility that their size offers. They focus on personalized service, such as a service that lets shippers and consignees combine a multitude of transportation costs under one invoice. This allows importers and exporters to save time, money and administrative hassles.

With another record year on the books, expectations of growth over the coming accounting period, and strong customer focus, the future of South Carolina's niche ports indeed appears bright. The seaport tradition continues in Georgetown and Port Royal, offering exciting opportunities for economic growth in these regions.

AUTHORITY BOARD

William L. Bethea, Jr.
Chairman

Edgar A. Buck
Vice Chairman

Billy J. Coleman
Secretary

Thomas F. Hartnett
Treasurer

Harry R. Easterling

Dorothy G. Owen

Gayle O. Averyt

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Joseph T. Newton, III

Bernard S. Groseclose, Jr.
President and Chief Executive Officer

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President and Chief Executive Officer

L. Duane Grantham
Executive Vice President and Chief Operating Officer

Anne M. Moïse
Vice President, Public Relations and Human Resources

Joe T. Bryant
Vice President, Terminal Development

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Peter N. Hughes, CPA
Chief Financial Officer

George W. Young
Director, Marketing and Sales

Pamela A. Everitt
Director, Information Technology

L. David Schronce
Director, Ports of Georgetown and Port Royal

Peter O. Lehman, Esq.
Executive Assistant to the President

Barbara L. Melvin
Government Relations Liaison

FINANCIAL STATEMENTS

Years Ended June 30, 1998 and 1997 with Report of Independent Auditors

Statement of Fiscal Accountability

Financial data of the South Carolina State Ports Authority originates in its various functional areas. Ports Authority management maintains an internal control structure designed to provide reasonable assurance that transactions are executed properly and in accordance with management's authorization, that the financial records are reliable for the purposes of preparing financial statements, and that assets are safeguarded from loss or unauthorized use.

The concept of reasonable assurance is applied by weighing the costs of an internal control structure against the benefits to be derived. The internal control structure of the Ports Authority is supported by the selection, training, and development of qualified personnel; an appropriate segregation of duties; and the dissemination of written policies and procedures. Elements of the internal control structure of the Ports Authority are reviewed and evaluated on an ongoing basis by means of an Internal Audit Department, which is independent of the Authority's Finance Division and other functional areas.

The Board of the Ports Authority maintains an Audit Committee which meets periodically with management, the internal auditors, and the independent auditors to review the scope and results of audit work. The internal auditors and the independent auditors have unrestricted access to the Audit Committee, without the presence of management, to discuss any matter.

The Finance Division of the Ports Authority is responsible for the fair presentation and preparation of the financial statements, notes related thereto, and other financial information contained in this annual report. The financial statements were prepared in conformity with generally accepted accounting principles, applying certain estimates and informed judgments as required. The financial statements contained in this annual report have been audited by Ernst & Young LLP, independent auditors, whose report appears on this page.

Peter N. Hughes
Chief Financial Officer
South Carolina State Ports Authority

Report of Independent Auditors

Members of the Governing Board
South Carolina State Ports Authority

We have audited the balance sheets of the South Carolina State Ports Authority as of June 30, 1998 and 1997 and the related statements of reinvested earnings and accumulated earnings reinvested in the business, and cash flows for the years then ended. These financial statements are the responsibility of the South Carolina State Ports Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina State Ports Authority at June 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

Greenville, South Carolina
August 20, 1998

Balance Sheets

(In thousands)	*June 30*	
	1998	**1997**
Assets		
Current assets:		
Cash	**$ 4,980**	$ 1,487
Operating funds invested by the State Treasurer	**242**	13,289
	5,222	14,776
Accounts receivable:		
Trade, less allowance for doubtful accounts of $790 (1998) and $750 (1997)	**10,268**	10,136
Other	**1,224**	2,655
Inventories	**1,388**	1,165
Prepaid and other current assets	**3,376**	3,296
Total current assets	**21,478**	32,028
Assets restricted by revenue bond covenants	**7,974**	30,270
Property and equipment, net	**351,221**	331,574
Unamortized bond issue costs	**855**	1,501
Total assets	**$ 381,528**	$ 395,373

(In thousands)	*June 30*	
	1998	**1997**
Liabilities and capitalization		
Current liabilities payable from current assets:		
Accounts payable	**$ 2,936**	$ 3,199
Accrued employee compensation and payroll-related withholdings and liabilities	**2,600**	2,282
Total current liabilities payable from current assets	**5,536**	5,481
Current liabilities payable from restricted assets:		
Current maturities of long-term debt	**1,372**	1,299
Accounts payable, construction	**10,767**	8,057
Retainage payable on construction contracts	**1,802**	1,042
Accrued interest payable	**2,094**	2,128
Total current liabilities payable from restricted assets	**16,035**	12,526
Construction obligation	**–**	3,706
Long-term debt	**56,206**	85,075
Capitalization:		
Contributed capital	**174,066**	174,398
Accumulated earnings reinvested in the business	**129,685**	114,187
Total capitalization	**303,751**	288,585
Total liabilities and capitalization	**$381,528**	$395,373

See accompanying notes.

Statements of Reinvested Earnings and Accumulated Earnings Reinvested in the Business

(In thousands)	*Year ended June 30*	
	1998	**1997**
Operating revenue	**$ 80,965**	$ 71,024
Operating expenses:		
Direct operating expense	**35,430**	31,728
Administrative expense	**10,936**	11,153
Depreciation expense	**15,773**	15,086
	62,139	57,967
Operating earnings	**18,826**	13,057
Nonoperating income (expense):		
Interest income	**2,718**	2,595
Other income	**1,960**	121
Interest expense	**(4,325)**	(4,559)
Other expense	**(243)**	(269)
	110	(2,112)
Earnings reinvested in Port operations and facilities before extraordinary loss on defeasance	**18,936**	10,945
Extraordinary loss on defeasance	**(3,438)**	–
Earnings reinvested in Port operations and facilities	**15,498**	10,945
Accumulated earnings reinvested in the business at beginning of year	**114,187**	103,242
Accumulated earnings reinvested in the business at end of year	**$ 129,685**	$ 114,187

See accompanying notes.

Statements of Cash Flows

(In thousands)	*Year ended June 30*	
	1998	**1997**
Operating activities		
Operating earnings	**$ 18,826**	$ 13,057
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	**15,773**	15,086
Provision for doubtful accounts	**261**	170
Other earnings (losses), net	**1,717**	(148)
Amortization	**108**	108
Loss on disposal of fixed assets	**45**	41
Changes in operating assets and liabilities:		
Accounts receivable	**1,038**	(2,307)
Inventories	**(223)**	(56)
Prepaid and other current assets	**110**	(692)
Accounts payable	**(263)**	760
Payroll-related liabilities	**318**	186
Net cash provided by operating activities	**37,710**	26,205
Investing activities		
Proceeds from sale of investments	**7,290**	5,642
Purchases f investments	**(5,522)**	(5,110)
Interest on investments	**2,718**	2,595
Net cash provided by investing activities	**4,486**	3,127
Capital and related financing activities		
Acquisition and construction of capital assets	**(32,614)**	(22,531)
Change in retainage and construction accounts payable	**(3,256)**	5,244
Principal paid on revenue bonds	**(1,070)**	(1,015)
Principal paid on other debt	**(240)**	(29)
Principal defeased on 1991 revenue bonds	**(27,970)**	–
Cash deposited into trust on defeasance of bonds	**(2,473)**	–
Interest paid on revenue bonds	**(4,308)**	(4,516)
Interest paid on other debt	**(12)**	(20)
Capital contributed from State of South Carolina	**–**	502
Other	**(332)**	–
Net cash used in capital and related financing activities	**(72,275)**	(22,365)
Net (decrease) increase in cash and cash equivalents	**(30,079)**	6,967
Cash and cash equivalents at beginning of year	**39,198**	32,231
Cash and cash equivalents at end of year	**$ 9,119**	$ 39,198

Statements of Cash Flows (continued)

A reconciliation of cash and cash equivalents reflected in the statement of cash flows to the balance sheet is as follows:

(In thousands)

	Current Assets	Restricted Assets	Statement of Cash Flows Total
Cash and cash equivalents at June 30, 1997	$14,776	$ 24,422	$ 39,198
Net decrease	(9,554)	(20,525)	(30,079)
Cash and cash equivalents at June 30, 1998	$ 5,222	$ 3,897	$ 9,119

Noncash investing, capital and related financing activities

Property and equipment and accounts payable were adjusted by approximately $3,020,000 at June 30, 1998 for non-cash amounts in connection with the accrual of liabilities.

Property and equipment, accounts payable, construction, and construction obligation were adjusted by approximately $7,083,000, $3,377,000, and $3,706,000 respectively at June 30, 1997 for non-cash amounts in connection with the accrual of liabilities.

See accompanying notes.

June 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Accounting

The South Carolina State Ports Authority "the 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 seven ocean terminals at the Ports of Charleston, Georgetown and Port Royal. These facilities handle import and export containerized and breakbulk cargoes.

The Ports Authority operates as a self-supporting governmental enterprise and uses the accrual basis of accounting applicable to governmental enterprise funds. In accordance with Governmental Accounting Standards Board "GASB" Statement No. 20, the Ports Authority has elected to apply all Financial Accounting Standards Board "FASB" Pronouncements, except those that conflict with or contradict GASB Pronouncements. The Ports Authority has no stockholders or equity holders and is directed by a governing board "the Ports Authority Board," whose members are appointed by the Governor of South Carolina for seven-year terms. The Ports Authority's financial statements are included in the State of South Carolina general purpose financial statements.

Cash, Investments and Pooled Investments

The Ports Authority maintains cash balances and pooled investments for operations and maintains cash, investments, and pooled investments for debt service and capital improvements. Funds are deposited in banks and in pooled investment funds maintained by the State Treasurer. Cash and pooled investments used for operations are included on the balance sheet as "Cash" and "Operating funds invested by the State Treasurer." Cash and cash equivalents, investments and pooled investments maintained in accordance with revenue bond covenants are included on the balance sheet as "Assets restricted by revenue bond covenants."

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

At June 30, 1998 and 1997, the Ports Authority's funds held by banks as trustees totaled $4,077,000 and $5,848,000, respectively. The State Treasurer held approximately $726,000 and $34,450,000 of the Ports Authority's funds at June 30, 1998 and 1997, respectively.

The Ports Authority's total cash and investments at June 30, 1998 and 1997 were approximately $13,196,000 and $45,046,000, respectively, at cost, which approximates market value. Periodically cash on deposit in Federally insured institutions exceeds the limit on insured deposits, and may not be specifically collateralized.

Inventories

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

Property and Depreciation

Property constructed or purchased is stated at cost. Contributed property is stated 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 generally over the following estimated useful lives:

Land improvements	3 to 50 years
Buildings and structures	5 to 50 years
Railroad tracks	20 to 25 years
Terminal equipment	3 to 25 years
Furniture and fixtures	2 to 20 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Concentration of Credit Risk

The Ports Authority provides services and facilities usage for companies located throughout the world. During fiscal year 1998, two customers each accounted for approximately 10% and 12% of the Ports Authority's revenues. 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.

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 Employment Security Commission for benefits paid by the Commission in connection with claims. The Ports Authority records a liability for estimated future unemployment compensation claims.

Statements of Cash Flows

For purposes of the statements of cash flows, the Ports Authority considers all demand deposits and short-term investments (including funds held by the State Treasurer and restricted funds, except Debt Service Funds, and Debt Service Reserve Funds) purchased with an original maturity of three months or less to be cash equivalents.

Reclassifications

Certain reclassifications have been made to the 1997 information to conform to the 1998 presentation.

2. ASSETS RESTRICTED BY REVENUE BOND COVENANTS

Restricted funds at June 30 summarized by fund are:

(In thousands)	1998	1997
Funds held by trustee relating to outstanding revenue bonds:		
1991 Debt Service Fund	$ 3,161	$ 3,173
1991 Debt Service Reserve Fund	711	2,675
1994 Debt Service Reserve Fund	205	–
Total funds held by trustee	4,077	5,848
Cash and cash equivalents:		
Capital Improvement Fund:		
Cash	2,057	2,891
Funds invested by the State Treasurer	139	16,445
	2,196	19,336
Capital Improvement Fund (Georgetown):		
Funds invested by the State Treasurer	–	91
	2,196	19,427
Depreciation Fund:		
Cash	1,261	348
Funds invested by the State Treasurer	46	4,345
	1,307	4,693
Other-State Port Construction Fund:		
Cash	95	23
Funds invested by the State Treasurer	299	279
	394	302
Total cash and cash equivalents	3,897	24,422
Total assets restricted by revenue bond covenants	$ 7,974	$ 30,270

The 1991 Debt Service Reserve Fund included approximately $2,637,000 at June 30, 1997 invested in U.S. Government debt securities considered held-to-maturity since the Ports Authority had the intent and ability to do so. The investment was a Category 3 investment as defined by GASB, and was scheduled to mature in September 1998. In connection with the in-substance defeasance of a portion of the 1991 Series revenue bonds, the investments were sold in June 1998 at loss of approximately $8,000.

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

2. ASSETS RESTRICTED BY REVENUE BOND COVENANTS *(continued)*

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, a Capital Improvement Fund (for improvement of Ports Authority facilities), and a Depreciation Fund (for operating equipment).

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

Additions to the Capital Improvement Fund and Depreciation Fund are required in amounts equal to the annual budget for facilities improvements and equipment. Proceeds from the sale of real and personal property also are required to be deposited to these Funds. The Funds can be used for improvements, betterments and extensions of facilities, restoration of depreciated or obsolete property, operating equipment, unforeseen contingencies, and payment of principal or interest on outstanding bonds if the assets of the Debt Service or Debt Service Reserve Funds are not sufficient to make such payments. Maturities of investments in the Capital Improvement Funds and Depreciation Funds are limited to a maximum of five years and two years, respectively.

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

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following amounts at June 30, 1998 and 1997:

(In thousands)	**1998**	1997
Land	**$ 129,476**	$ 131,273
Land improvements	**114,308**	101,482
Buildings and structures	**207,027**	206,233
Railroad tracks	**2,897**	2,897
Terminal equipment	**36,271**	29,546
Furniture and fixtures	**3,202**	3,126
Capital projects in progress	**38,596**	22,294
	531,777	496,851
Less accumulated depreciation	**180,556**	165,277
Property and equipment, net	**$ 351,221**	$ 331,574

3. PROPERTY AND EQUIPMENT *(continued)*

Leases

During 1998 and 1997, the Authority leased container handlers and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses in the amount of approximately $532,000 and $684,000, respectively.

4. LONG-TERM DEBT

Series 1991

During fiscal 1992, the Ports Authority issued Series 1991 Bonds to provide funds to finance a portion of the cost of improvements and expansion to its container facilities at the Wando Welch Terminal. The bonds, issued at a discount of approximately $1,092,000, originally consisted of serial bonds totaling $17,895,000 maturing July 1, 2006; term bonds of $11,130,000 maturing on July 1, 2011; and term bonds of $36,700,000 maturing on July 1, 2021. The bond discount and bond issue costs are being amortized using the straight-line method over thirty years, the life of the bonds. Unamortized bond discount and unamortized bond issue costs at June 30, 1998 were approximately $459,000 and $676,000, respectively. Interest is payable each January 1 and July1 at rates ranging from 5.7% to 6.75%.

The Series 1991 Bonds may generally be redeemed prior to maturity, at the option of the Ports Authority, or after July 1, 2001. The redemption prices as a percentage of principal amount are as follows (plus interest accrued to date):

Redemption Date (Inclusive)	Redemption Price
July 1, 2001 to June 30, 2002	102%
July 1, 2002 to June 30, 2003	101
July 1, 2003 and thereafter	100

The 1991 Bonds may also be subject to redemption at the option of the Ports Authority without premium at any time as a whole at the principal amount thereof if the project, or any substantial portion thereof, is damaged or destroyed, or if any public authority condemns or exercises the power of eminent domain over the project.

On June 19, 1998 the Authority completed the in-substance defeasance of $27,970,000 of the outstanding 1991 Series revenue bonds. Approximately $32,925,000 1991 series revenue bonds remain outstanding at June 30, 1998, with interest rates ranging from 5.7% to 6.75%. The Ports Authority used existing cash reserves to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with a bank as escrow agent to provide for all future debt service payments on the bonds. As a result, $27,970,000 of the 1991 revenue bonds are considered to be in-substance defeased and the liability for those bonds has been removed from long-term debt.

The Ports Authority incurred an extraordinary loss of $3,438,000 in connection with the partial in-substance defeasance of the 1991 Series revenue bonds. This loss is comprised of the write-off of a pro-rata portion of the unamortized bond discount of $390,000; the write-off of a pro-rata portion of the unamortized bond issue costs of $575,000; and the difference between the amount of cash and securities deposited with the trustee ($30,443,000), and the face amount of the bonds defeased ($27,970,000) of $2,473,000.

On June 30, 1998, the Authority sold an option to a third party to purchase the escrowed U.S. government securities. The exercise price of the option shall equal the redemption price of the defeased bonds. The Authority received $1,862,000 in June 1998 related to this transaction. This fee was recognized as other income in fiscal 1998.

4. LONG-TERM DEBT *(continued)*

The Series 1991 Bonds, due July 1, 2011 and July 1, 2021, are subject to mandatory sinking fund redemption by lot on July 1 in each of the following years and will be redeemed at 100% of the principal amount plus accrued interest at the redemption date:

Term Bonds Due 2011 *(in thousands)*

Year	Amount
2007	$ 975
2008	1,040
2009	1,105
2010	1,185
2011	1,260
	$ 5,565

Term Bonds Due 2021 *(in thousands)*

Year	Amount
2012	$ 1,345
2013	1,435
2014	1,535
2015	1,635
2016	1,745
2017	1,860
2018	1,990
2019	2,125
2020	2,265
2021	2,420
	$ 18,355

Series 1994

During fiscal 1994, the Ports Authority issued Series 1994 Junior Lien Revenue Bonds to provide funds to finance a portion of the cost of improvements and expansion to its container facilities at the Wando Welch Terminal. The bonds consist of term bonds, $25,000,000 maturing July 1, 2024. Bond issue costs incurred, totaling approximately $251,000, are being amortized using the straight-line method over fifteen years and the balance at June 30, 1998 is approximately $178,000. Interest is payable at the beginning of each month at a variable rate which was 3.75% at June 30, 1998.

The Series 1994 Bonds may be redeemed prior to maturity, at the option of the Ports Authority.

The Ports Authority is required to maintain an irrevocable letter of credit equal to the principal amount of the Series 1994 Bonds and accrued interest. The letter of credit had an available balance of approximately $27,813,000 at June 30, 1998.

The Series 1994 Bonds are subject to mandatory sinking fund redemption by lot on July 1 in each of the following years and will be redeemed at 100% of the principal amount plus accrued interest at the redemption date *(in thousands)*:

Year	Amount	Year	Amount	Year	Amount
1998	$ 200	2007	$ 500	2016	$ 1,100
1999	300	2008	600	2017	1,300
2000	300	2009	600	2018	1,400
2001	300	2010	700	2019	1,500
2002	300	2011	700	2020	1,600
2003	400	2012	800	2021	1,800
2004	400	2013	900	2022	1,900
2005	400	2014	1,000	2023	2,100
2006	500	2015	1,100	2024	2,300

Maturities of long-term debt are summarized as follows *(in thousands)*:

	1994 Revenue Bonds	1991 Revenue Bonds	Other Debt	Total
1999	$ 200	$ 1,130	$ 42	$ 1,372
2000	300	1,200	43	1,543
2001	300	1,270	22	1,592
2002	300	1,350	4	1,654
2003	400	715	–	1,115
Thereafter	23,500	27,260	–	50,760
	25,000	32,925	111	58,036
Less:				
Current portion	200	1,130	42	1,372
Unamortized bond discount	–	458	–	458
Long-term portion	$24,800	$31,337	$ 69	$56,206

Interest cost incurred in 1998 and 1997 was approximately $4,325,000 and $5,061,000, respectively. Interest of approximately $700,000 and $502,000 was capitalized in 1998 and 1997, respectively, in connection with the construction of various Port facilities.

5. CONTRIBUTED CAPITAL AND PLANT EXPANSION

Contributed capital at June 30, 1998 and 1997 consisted of:

(In thousands)	1998	1997
State of South Carolina:		
For general operations before 1959-60 (a)	**$ 3,498**	$ 3,498
Proceeds from State Ports General Expansion Bonds	**22,000**	22,000
Proceeds from State Ports Grain Elevator Expansion Bonds	**2,000**	2,000
Proceeds from State Capital Improvement Bonds	**106,533**	106,533
For Wando Welch Terminal Access Road (Department of Highways and Public Transportation)	**65**	65
For BMW Plant Land Purchase	**35,307**	35,307
Capital contributed (b)	**(817)**	(485)
	168,586	168,918
City of Charleston and Southern Railway	**3,180**	3,180
State Port Construction Fund (c)	**1,653**	1,653
Federal Grant for construction of Passenger Terminal	**344**	344
Federal Grant for rail rehabilitation	**303**	303
Total contributed capital	**$ 174,066**	$ 174,398

(a) Contributions for general operations before 1959-60 include donations made by Charleston County and the City of Charleston.

(b) Includes rehabilitation costs incurred on the Port Royal track considered capital donations to the owners of the track, Tangent Transportation, a subsidiary of the South Carolina Railways Commission and certain costs incurred on behalf of the Town of Port Royal.

(c) Contributions to the State Port Construction Fund were received primarily from the Maritime Association of the Port of Charleston.

The State of South Carolina has authorized funds for improvement and expansion of Ports Authority facilities using the proceeds of State Capital Improvement Bonds issued by the state. The authorized funds are released as needed once approval to proceed on specific projects is given by the Ports Authority Board and by the State Budget and Control Board. The Ports Authority records these funds as additions to contributed capital when the funds are committed by the State Treasurer.

6. COMMITMENTS

Construction

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately $17,993,000 at June 30, 1998.

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

More recently, an Army Corps of Engineers study of Charleston Harbor completed in 1996 concluded that a further deepening of Charleston Harbor would lower transportation costs. Based on the 1996 study, Congress in 1996 approved a channel depth of 45 feet. The Army Corps of Engineers has estimated the total cost of this deepening project to be approximately $159.7 million over a six year period. Funding sources include anticipated Federal appropriations totaling approximately $85.4 million and a local share of approximately $74.3 million. Of this local share, the Authority has received approval from the State of South Carolina to use $8.1 million of unspent State funds previously appropriated for the 1986 harbor deepening project. To meet the balance of the local share of the project, the Authority has requested $66.2 million from the State of South Carolina. Since 1957, the State has financially supported certain projects including terminal expansion and has provided the local share for previous harbor deepening projects. However, the State has not committed any funds for the current project beyond the $8.1 million previously mentioned, nor can there be any assurance as to any such commitment.

To facilitate payment to the federal government in connection with the maintenance of disposal sites and the State's share of the Charleston Harbor Deepening Project, the Ports Authority established letter of credit arrangements with a regional bank. The contracting Federal agency is authorized to draw against the letters of credit for the State's share as maintenance occurs and construction progresses. The total available under the letters of credit is approximately $1,372,000 at June 30, 1998. During 1998 there were no draws against the letters of credit, and accordingly there were no reimbursements to the Ports Authority from State funds. There were no outstanding draws against the letters of credit at June 30, 1998.

In 1994, the Ports Authority purchased certain land in Greer, South Carolina, for a total 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 historical cost.

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 July 31, 2004.

In connection with the acquisition of a parcel of land located on Daniel Island designated for future Port expansion, the Ports Authority agreed to partially fund and manage construction of an interchange and access roads for I-526 on the island. The estimated final cost of the interchange and access roads project is $9,268,000. The interchange and access roads will ultimately be deeded to the South Carolina Department of Transportation. The cost of the project funded by the Ports Authority will be capitalized as acquisition costs incurred in connection with the acquisition of the Daniel Island property. Partial funding, totaling $3,803,000, is being provided by the State of South Carolina and from private sources. The Ports Authority has committed to fund the remaining costs, estimated to be $5,465,000. As of June 30, 1998 $7,597,000 remains to be expended, and is included in "accounts payable, construction" as the project is expected to be completed by the end of fiscal year 1999.

7. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

Employees of the Ports Authority participate in the South Carolina Retirement System's employees retirement plan "PERS," a defined benefit, cost-sharing, multiple-employer, public employee retirement system. Substantially all full-time permanent Ports Authority employees are required to participate in PERS. The payroll for employees covered by PERS for the year ended June 30, 1998 was approximately $20,427,000. The payroll for employees not covered by PERS for the year ended June 30, 1998 was approximately $377,000.

Under PERS, employees who retire at or after age 65 or have 30 years of service are entitled to a retirement benefit, 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. Benefits are fully vested after five years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. PERS also provides death and disability benefits. Benefits are established by state statute.

The employee and employer contribution rates are actuarially determined for PERS. Employees are required by state statute to contribute 6% of annual compensation, and the Ports Authority must contribute 7.7% of total payroll of covered employees for PERS. The total contribution for the year ended June 30, 1998 was approximately $1,542,000 from the Ports Authority and $1,226,000 from employees.

The South Carolina Retirement System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for PERS. The report may be obtained by writing to:

The South Carolina Retirement System
Fontaine Business Center
202 Arbor Lake Drive
Columbia, SC 29223

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 for the fiscal year ended June 30, 1997, (the latest available) was 6% of the employees salary. Actuarially determined employer contribution rates for PERS, expressed as a percentage of compensation, for the fiscal year ended June 30, 1997 (the latest available) was 7.7%.

The State of South Carolina's required contributions in dollars (expressed in thousands) and the percentage of those amounts contributed for the latest available years were as follows:

Fiscal Year Ended June 30

	Required	% Contributed
1997	$149,711	100.00%
1996	$147,212	100.00%
1995	$140,648	100.00%

In accordance with GASB Statement 27, the pension liability (asset) for PERS was determined to be zero both at the PERS transition date of July 1, 1995 and prior to the PERS transition date.

In addition to pension benefits, the Ports Authority provides post-retirement health care benefits to all retirees, such benefits being the same as for active employees except that the cost of medical insurance premiums associated with retiree's dependents are paid by the retirees. As a governmental entity the Authority has the option to account for postretirement benefits other than pensions using the "pay as you go" or the "advance funding on an actuarially determined basis" method. In accordance with GASB 12, the Authority has elected to follow the "pay as you go" method and expenses costs as incurred. At June 30, 1998, 173 retirees were receiving benefits. The Ports Authority pays 100 percent of the cost of medical insurance premiums for the retirees. Expenses for post-retirement medical insurance premiums are recognized as paid by the Ports Authority. During the years ended June 30, 1998 and 1997, expenses for post-retirement health care benefits were approximately $352,000 and $347,000, respectively. The plan under which this benefit is provided may be terminated, amended or modified at any time at the sole discretion of the Ports Authority.

8. FACILITATING AGREEMENTS

The Ports Authority has entered into agreements with tenants whereby it assigns certain land areas and certain of its facilities for their use for terms ranging from one month to thirty 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.

In 1998 and 1997, operating revenue recorded for facilitating agreements by the Ports Authority was approximately $54,122,000 and $45,439,000, respectively.

The approximate total cost and related accumulated depreciation of facilities assigned to others at June 30, 1998 and 1997 were:

Fiscal Year Ended June 30

(In thousands)	**1998**	**1997**
Cost	**$262,352**	$214,753
Accumulated depreciation	**75,978**	69,712

Minimum future operating revenue and rentals to be received under noncancelable agreements as of June 30, 1998 were:

Year Ending June 30	*(In thousands)*
1999	$ 3,822
2000	2,804
2001	411
2002	411
2003	308
Later years	1,539
Total minimum future operating revenue and rentals to be received	$ 9,295

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, accounts receivable, operating funds invested by the State Treasurer, assets restricted by revenue bond covenants and accounts and retainage payable approximate fair value. At June 30, 1998, the fair values of long-term debt were estimated using discounted cash flows based on current rates available to the Authority for similar borrowing arrangements and the market rate of comparable traded debt, as follows *(in thousands)*:

	1998		1997	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Debt	**$58,036**	**$60,322**	$86,374	$91,231

The above long-term debt is comprised principally of bonds issued to partially finance improvements and expansion at the Wando Welch Terminal. These bonds are considered private activity bonds and as such, cannot be defeased with the proceeds of an issuance of similar bonds.

10. 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, 1998, 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.

11. YEAR 2000 (UNAUDITED)

The Ports Authority recognizes the need to ensure its operations will not be adversely impacted by Year 2000 software failures. Software failures due to processing errors potentially arising from calculations using the Year 2000 date are a known risk. The Ports Authority is addressing this risk to the availability and integrity of financial systems and the reliability of operational systems. The Ports Authority has established processes for evaluating and managing the risks and costs associated with this problem. The computing portfolio was identified and an initial assessment has been completed. Based upon the results of the work done to date, the Ports Authority believes that the remaining work will be completed in a timely manner and that the overall cost of such work will not be material. The Ports Authority expenses such costs when incurred. There can be no assurance, however, that further work will not identify issues which could change the Ports Authority's present assessment of the cost of addressing this issue.

12. SUBSEQUENT EVENT

Subsequent to June 30, 1998, the Ports Authority issued $125,000,000 of Series 1998 revenue 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 consisted 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 is being amortized using the effective interest method over 28 years, the life of the bonds. Interest is payable each January 1 and July 1 at rates ranging from 3.8% to 5.5%.

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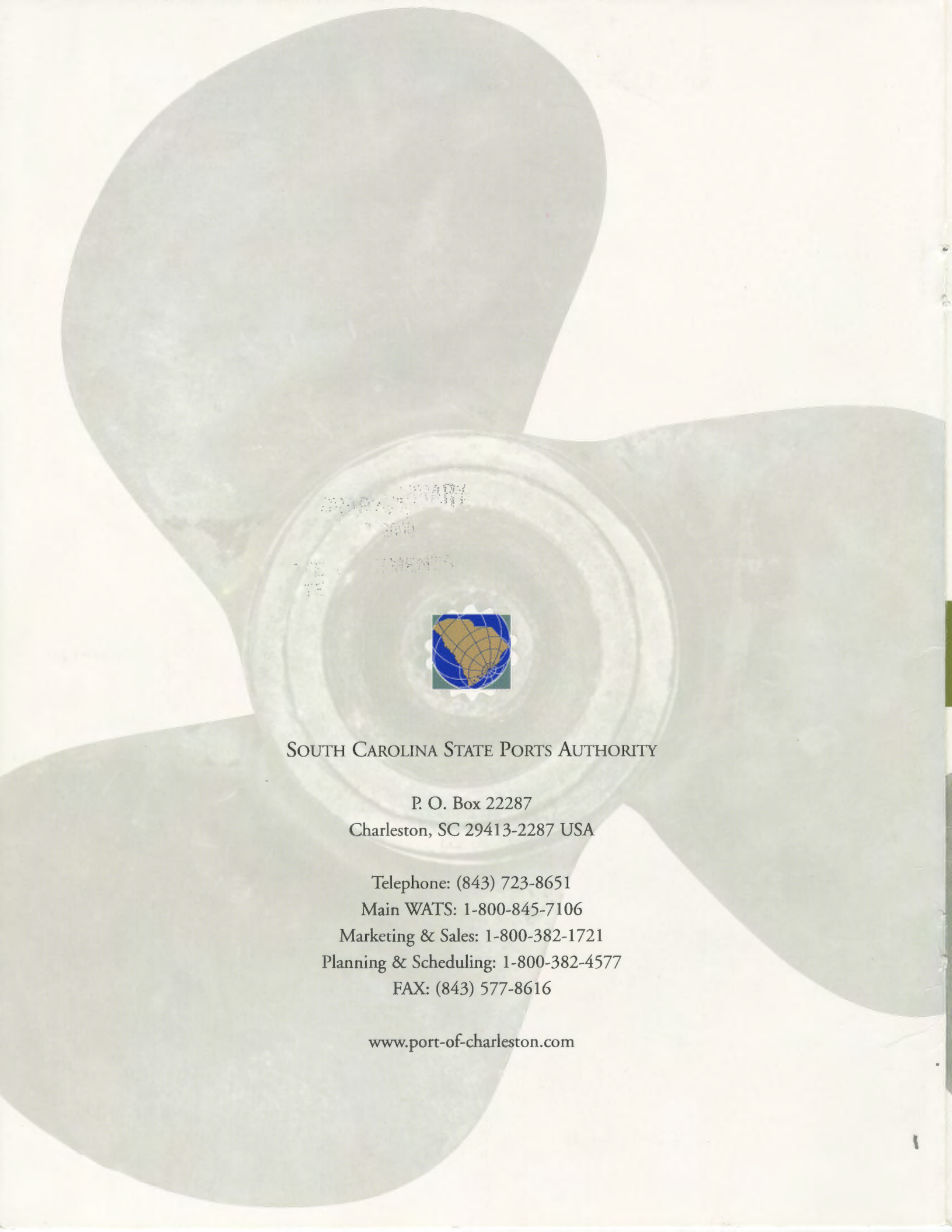

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