arriving at our destination

04
FISCAL YEAR
annual report

LETTER FROM THE CHAIRMAN AND PRESIDENT *By attracting new business and controlling costs, the South Carolina State Ports Authority posted its best year ever in fiscal 2004.*

A solid financial position is vitally important, considering the substantial port-related investments facing our state in the coming years. While the Authority's principal business segment, containers, increased only 3%, we pushed operating revenues 6% higher to $116 million. We accomplished this in part by being more selective and choosing more profitable accounts. At the same time, we managed operating expenses with a measured reduction in spending and personnel. This moderation of expenses, combined with the growth in revenues, boosted our operating margin to 16%.

Our effort to reduce expenses is the start of a process, not a one-time event. We will continue to look for ways to reduce expenses and expand volume while growing our revenues.

We also continue to evaluate all assets, disposing of under-utilized properties and using the proceeds to support our core business. The closure and redevelopment of the Port of Port Royal is one such move. All of this aggressive management has an obvious purpose. A stronger, leaner Ports Authority is better positioned to generate funds for important short-term port improvement projects that will help meet our customers' near-term growth needs. The Board and management have identified our public seaport system's most pressing near-term capital needs. We are proud that we can meet these more immediate needs without turning to the state or the taxpayer. At the same time, we authorized market studies that will lead to a plan for addressing our customers' long-term growth needs. Only by providing for this expansion will our state's ports continue to increase jobs that bring economic vitality to people's lives.

The people of South Carolina have good reason to enjoy confidence in their Ports Authority. Our actions show that we are committed to fostering economic development and bringing new, high paying jobs. All of this will be done while running a fiscally sound operation.

STATE
PORTS AUTHORITY SOUTH CAROLINA

STATE PORTS AUTHORITY SOUTH CAROLINA

arriving at our destination

04

FISCAL YEAR

annual report

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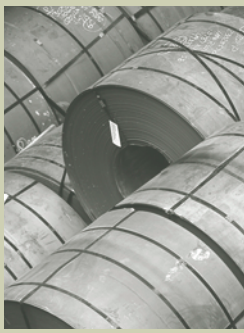
A SOLID FINANCIAL *position* is vitally important, considering the substantial port-related *investments* facing our state IN THE COMING YEARS.



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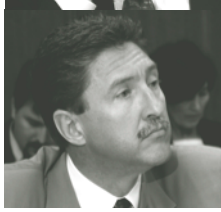

LETTER FROM THE CHAIRMAN AND PRESIDENT

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Harry J. Butler, Jr.
Chairman

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

...positive moves, along with employee reductions, had the IMPACT of reducing *expenses* more than $2 MILLION in fiscal year 2004.

To meet the state's legislated mandate for port expansion in Charleston, the Authority began the permitting process for a new container terminal at the former Charleston Naval Complex.

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EXPANSION
-costs

NAVY BASE EXPANSION

The proposed terminal, which includes berthing space for three ships and a 280-acre facility, could handle international shipping demands through the Port of Charleston over the coming two decades. With the assistance of a private sector consultant, the U.S. Army Corps of Engineers began coordinating the permitting process to address community concerns. The Authority trusts that this process will proceed smoothly and worked to ensure that the important environmental, social and quality of life issues were approached in a responsible and reasonable way. Port expansion in Charleston is vital to South Carolina's future economic prosperity, as evidenced by the statewide public and political support this project enjoys. In fiscal 2004, the Authority initiated the studies necessary to achieve the permits and realize this essential expansion of our state's principal seaport.

Over the past year, the Authority took a number of reasonable steps to control costs and boost the bottom line.

CONTROLLING COSTS

Importantly, these efforts had the effect of improving customer service while also minimizing expenses. Breakbulk operations were restructured and unnecessary equipment was abandoned. The Authority also discontinued railroad service into the Port of Port Royal and restructured its marketing periodical. In addition, the Ports Authority released its Hong Kong-based Asian sales representative and reduced office space in Tokyo. These moves, along with employee reductions, had the impact of reducing expenses more than $2 million in fiscal year 2004. The Authority also continued to move ahead with the eventual development and redevelopment of Authority-owned property in Port Royal, as well as the sale of surplus property acquired in the Cainhoy region for a proposed railroad. Funds generated from the disposal of under-performing assets will support further development and expansion of the Authority's core business, marine terminal operations in Charleston and Georgetown.

The port now enjoys *45 feet of water* at low tide, allowing Charleston to *accommodate* the larger ships serving world trade.

The Ports Authority set new volume records in fiscal year 2004, as a weaker dollar and increasing trade with the Pacific Rim pushed business to new levels.

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BUSINESS
-improvements

BUSINESS REACHES NEW HEIGHTS

Exports began rebounding late in the year, an important trend in the production-heavy South. Inbound trade from Asia also continued its march, driving much of the growth. Equally important was business with the Indian subcontinent. Several ocean carriers either started new services or enhanced existing services on the route. Although posting a decline in volume, breakbulk business enjoyed a solid financial performance, buoyed by strength in military cargoes and BMW shipments. In addition, the Authority dedicated Veterans Terminal at the former Charleston Navy Base, providing new terminal capacity. Finally, all of the Authority's major productivity measures rose in fiscal year 2004. Crane productivity increased to nearly 38 moves per hour, well above the 26 to 32 moves per hour typical in most major ports.

Nearly $1.5 billion in port-related improvement projects progressed toward completion in fiscal year 2004.

IMPROVING OUR EXISTING PORT

The last major contract associated with the Charleston Harbor Deepening & Widening Project was completed late in the year. The port now enjoys 45 feet of water at low tide, allowing Charleston to accommodate the larger ships serving world trade. Work on the new Ravenel Bridge over the main shipping channel is leading to an earlier than expected completion. The Authority's internal capital investment program, such as new equipment and facility enhancements, allowed the port to handle larger volumes of trade while improving service levels. More efficient cranes were delivered to Columbus Street Terminal, capping a multi-year realignment of the facility. In addition, the Yard Management System proved its worth by cutting trucker turn time in half at the North Charleston Terminal while volume increased by double-digits. These near-term projects continue to be funded with internally generated funds, not taxpayer dollars.

Charleston is now
home to many more PORT POLICE and
Customs & Border Protection officers,

as well as new equipment
to SCAN SHIPMENTS.

With new federal security regulations that went into effect at the end of the year, port security remains a key issue in South Carolina and across the nation.

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SECURING
-our nation

SECURING OUR NATION

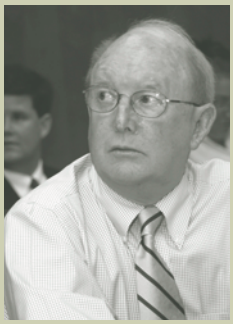
The Ports Authority has devoted significant effort and resources to meet stringent new security requirements. In addition to millions of dollars in internal funding, the Authority is eligible to receive more than $7 million in federal grants for various port security initiatives, such as intrusion detection, surveillance and perimeter security. Charleston is now home to many more Port Police and Customs & Border Protection officers, as well as new equipment to scan shipments. The Authority announced that a terminal security surcharge would go into effect at the beginning of fiscal year 2005. Assessed on the vessel at a rate of $1 per foot, the new charge is expected to generate $1 million in funding annually and offset a portion of the additional expense of new security regulations.

Harry J. Butler, Jr.
Chairman

BOARD MEMBERS

William H. Stern
Vice Chairman

Carroll A. Campbell, III
Treasurer



Whitemarsh S. Smith, III
Secretary

Joseph T. Newton, III

James A. Bennett

John F. Hassell, III

Glen P. Kilgore

SENIOR MANAGEMENT

As of June 30, 2004

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

Peter N. Hughes, CPA
Chief Financial Officer

Joe T. Bryant
Vice President, Terminal Development

William A. McLean
Vice President, Operations

Anne M. Moise
Vice President, Public Relations, Human Resources and Security

George W. Young
Vice President, Marketing and Sales

Pamela A. Everitt
Director, Information Technology

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

Peter O. Lehman, Esq.
Director, Planning and Business Development

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 that 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 PricewaterhouseCoopers LLP, independent auditors, whose report appears on the next page.

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

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
South Carolina State Ports Authority

In our opinion, the accompanying balance sheet and related statement of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the South Carolina State Ports Authority (the "Ports Authority") at June 30, 2004 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Ports Authority's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Ports Authority as of June 30, 2003 and for the year then ended were audited by other auditors, whose report dated August 22, 2003 expressed an unqualified opinion on those statements.

The management's discussion and analysis on pages 13 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 12, 2004

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, 2004 and 2003. The financial statements include the independent auditor's opinion, balance sheets, statements of revenues, expenses and changes in net assets, 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 seven-year terms. The Ports Authority owns and is responsible for the operation of eight ocean terminals at the ports of Charleston, Georgetown and Port Royal. These facilities primarily handle import and export containerized, breakbulk and bulk cargoes.

FINANCIAL HIGHLIGHTS

The Ports Authority's performance measures during fiscal years ended June 30, 2004, 2003 and 2002 are as follows:

(In thousands)	**2004**	2003	2002
Total operating revenues	**$116,530**	$110,204	$99,916
Total TEUs (equivalent number of 20' container units)	**1,725**	1,682	1,509
Breakbulk Pier Tonnage	**1,847**	2,297	2,337

A total of 1,954, 1,976 and 2,223 vessels (excluding barges) docked during the years ended June 30, 2004, 2003 and 2002, respectively. The Ports Authority provided services to the ten largest container ship lines based on the second quarter 2004 issue of 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's use of accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The Balance Sheet includes all of the Ports Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Ports Authority 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 Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Ports Authority's operations and can be used to determine whether the Ports Authority has successfully recovered all its costs through its customer contracts, tariff and other charges, as well as its profitability, and creditworthiness.

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

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

One of the most important questions asked about the Ports Authority's financial statements is "Is the Ports Authority as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet, and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Ports Authority's activities in a way that will help answer this question. You can think of the Ports Authority's net assets – 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 assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, world events, regulation and new or changed government legislation.

STATEMENTS OF FINANCIAL POSITION (BALANCE SHEET)

The balance sheet 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 $382.6 million and $376.0 million at June 30, 2004 and 2003, respectively, a $6.6 million increase from June 30, 2003. A condensed summary of the Ports Authority's balance sheet and resulting net assets at June 30 is shown below (in thousands):

Assets	**2004**	2003	2002
Current assets	**$ 77,571**	$ 39,854	$ 37,358
Internally designated assets	**40,751**	73,055	67,190
Held by trustee for debt service	**5,804**	5,935	5,923
Non-current assets (net of depreciation)	**441,975**	418,703	423,439
Total assets	**$ 566,101**	$ 537,547	$ 533,910
Liabilities			
Current liabilities	**$ 25,493**	$ 17,515	$ 17,330
Long-term obligations	**157,977**	143,992	146,471
Total liabilities	**183,470**	161,507	163,801
Net assets			
Invested in capital assets, net of debt	**272,882**	269,949	269,939
Restricted for debt service	**5,804**	78,990	73,113
Unrestricted	**103,945**	27,101	27,057
Total net assets	**382,631**	376,040	370,109
Total liabilities and net assets	**$ 566,101**	$ 537,547	$ 533,910

The largest portion of the Ports Authority's net assets each year (71.3%, 71.8% and 72.9% at June 30, 2004, 2003, and 2002, 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 assets (1.5%, 21.0% and 19.8% at June 30, 2004, 2003, and 2002, respectively) represents resources that are subject to external restrictions on how they can be used under bond resolutions and Federal regulations. The remaining unrestricted net assets (27.1%, 7.2% and 7.3% at June 30, 2004, 2003 and 2002) may be used to meet any of the Ports Authority's ongoing obligations as defined by the revenue bond covenants.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A condensed comparative summary of the Ports Authority's Revenues, Expenses and Changes in Net Assets for the years ended June 30 is shown below (in thousands):

	2004	2003	2002
Operating revenues	**$ 116,530**	$ 110,204	$ 99,916
Operating expenses	**97,826**	92,572	88,511
Operating earnings	**18,704**	17,632	11,405
Non-operating expenses, net	**(6,329)**	(5,355)	(13,620)
Contributions to the State of South Carolina	**(9,000)**	(9,307)	(5,000)
Contributions from State of South Carolina	**2,437**	2,961	
Capital grants from the federal government	**779**	-	-
Increase (decrease) in net assets	**$ 6,591**	$ 5,931	$ (7,215)

Operating revenues increased by approximately 5.7% from $110.2 million to $116.5 million during 2004 due to a general increase in container volume. For fiscal year 2003, operating revenues grew 10.3% from $99.9 million to $110.2 million principally due to a general increase in container volume and the movement of military cargo overseas through the port of Charleston. The following table breaks down operating revenues by port for each fiscal year ended June 30 (in thousands):

Operating revenues	**2004**	2003	2002
Charleston	**$ 109,886**	$ 104,396	$ 94,352
Georgetown	**2,518**	2,661	2,919
Port Royal	**717**	714	664
Other	**3,409**	2,433	1,981
Total operating revenues	**$ 116,530**	$ 110,204	$ 99,916

The following table breaks down operating expenses for each fiscal year ended June 30 (in thousands):

Operating expenses	**2004**	2003	2002
Direct operating expenses	**$ 56,595**	$ 53,897	$ 52,399
Administrative expense	**16,864**	16,660	15,368
Depreciation expense	**24,367**	22,015	20,744
Total operating expenses	**$ 97,826**	$ 92,572	$ 88,511

Operating expenses for fiscal year 2004 increased by 5.7% from $92.6 million to $97.8 million as a result of the increased expenses associated with increased cargo volume, increased property and liability insurance and claims costs, utilities, dredging expenses and increased repair and maintenance costs for equipment and dock fender systems. Depreciation expense of $24.4 million in 2004 compared to $22.0 million in 2003, increased $2.4 million principally due the write-off of the remaining undepreciated book value associated with closing down the Authority's grain elevator facility.

Operating expenses for fiscal year 2003 increased by 4.6% from $88.5 million to $92.6 million as a result of the increased expenses associated with increased cargo volume, payment of employee performance incentive programs, increased costs of community advertising and rising costs of property and liability insurance. In addition, depreciation expense increased due to placing new assets into service. Capital assets placed in service include structural repairs to dockside cranes, paving of container yards, and purchases of new container handling equipment.

Operating earnings for 2004 increased by 6.1% or $1.1 million from 2003. In 2003, operating earnings increased by 54.6% or $6.2 million from 2002 due to the reasons discussed above.

Non-operating expenses, excluding contributions to the State of South Carolina, increased from a net expense of $5.4 million in 2003 to a net expense of $6.3 million in 2004. During 2004, the Authority dismantled and disposed of two old and fully depreciated cranes at a total cost of approximately $596,000. A loss of approximately $523,000 was incurred during 2004 from the disposal of other equipment.

Non-operating expenses, excluding contributions to the State of South Carolina, decreased from a net expense of $13.6 million in 2002 to a net expense of $5.4 million in 2003. No new major write-offs and disposals of assets were incurred similar to those written off in the prior year which included Daniel Island terminal expansion projects and two terminal warehouse buildings. To a lesser extent the reduction in interest earnings also contributed to reduction in other non-operating revenue.

The Ports Authority made several contributions to the State of South Carolina during the years ended June 30, 2004 and 2003. As more fully described in Note 11-Other Matters, the Ports Authority Board resolved to contribute $5,000,000 during 2002 toward the building of the new Cooper River Bridge and further resolved to make a one time payment of $15,000,000 in 2003 and additionally pay $1,000,000 per year beginning in fiscal year 2003 for 25 years. With concurrence from the State of South Carolina, the Ports Authority transferred its 2003 commitment in two installments for the Cooper River Bridge. The first payment of $7 million was transferred in the last month of the fiscal year ended 2003 plus the additional $1 million payment for 2003, and the remaining $8 million was transferred in the first month of the fiscal year ended 2004 plus the additional $1 million payment for 2004. These payments have been treated as non-operating contributions to the State of South Carolina and therefore have reduced the Ports Authority's net assets. This contribution is not treated as a capital asset of the Ports Authority and future payments are not recorded as a liability. In compliance with Proviso 72.98 the Ports Authority transferred $1.3 million during 2003 back to the State of South Carolina from funds held by the State Treasurer for the Ports Authority's project that placed fill material on Daniel Island from the Harbor Deepening project. These funds represented the unspent balance of funds after project completion.

The State of South Carolina funded the purchase of six parcels of land during 2004 totaling approximately $2.4 million and four parcels totaling approximately $2.9 million during 2003 in connection with the BMW facility in Greer, South Carolina. The parcels, now owned by the Ports authority, will be leased to BMW.

During the year ended June 30, 2004, the Authority received approximately $779,000 in Federal grant money to be used for security related capital expenditures.

In summary, net assets at June 30, 2004 and 2003 increased $6.6 and $5.9 million, respectively.

STATEMENTS OF CASH FLOWS

The following shows a summary of the major sources and uses of cash and cash equivalents. Cash equivalents are considered highly liquid investments generally with an original maturity of three months or less. A condensed comparative summary of the Statement of Cash Flows for the years ended June 30 is shown below (in thousands):

	2004	2003	2002
Cash flow from operating activities	**$37,360**	$41,795	$35,723
Cash flow from investing activities	**220**	920	3,532
Cash flow from capital and related financing activities	**(36,801)**	(34,083)	(35,301)
Cash flow from non-capital financing	**2,750**	-	-
Net increase in cash and cash equivalents	**3,529**	8,632	3,954
Cash and cash equivalents			
Beginning of year	**87,763**	79,131	75,177
End of year	**$91,292**	$87,763	$79,131

The Ports Authority's available cash and cash equivalents increased from $87.8 million at the end of 2003 to $91.3 million at the end of 2004 and from $79.1 million at the end of 2002 to $87.8 million at the end of 2003 due to the positive flow of funds provided by operating and investing activities offset by the use of funds for capital acquisitions and related financing activities. Additional cash flow was provided during 2004 from approximately $2.7 million of non-capital financing.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

During the fiscal year ended June 30, 2004, the Ports Authority purchased and constructed approximately $27.5 million in new capital assets. The major capital assets constructed include a new container berth and two dockside cranes that were started in 2003. The new container berths and cranes serve the Columbus Street Terminal. Approximately $5.3 million of fixed assets (at cost) were written off or disposed of during 2004.

During the fiscal year ended June 30, 2003, the Ports Authority purchased and constructed approximately $17.5 million in new capital assets. The major capital projects in progress include replacement of a dockside fender system and a partial payment for two new dockside cranes for the Columbus Street terminal. Various new equipment was acquired to replace or upgrade container handler equipment, the network computer infrastructure and the existing phone system. Approximately $1.8 million of fixed assets (at cost) were written off or disposed of during 2003.

Capital asset acquisitions are capitalized at cost. Acquisitions are funded primarily with the issuance of tax-exempt revenue bonds and port revenues. The Ports Authority had construction commitments of approximately $22,658,000 at June 30, 2004. 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.

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 $1,105,000, 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 is amortized using the effective interest method over 28 years, the life of the bonds. During the years ended June 30, 2004, 2003 and 2002, the Ports Authority made principal payments on the bonds of $2,785,000, $2,675,000 and $2,545,000, respectively.

The balance outstanding under the Series 1998 Bonds is as follows: June 30, 2004 - $117,590,000, June 30, 2003 - $120,375,000; June 30, 2002 - $123,050,000.

Series 1998B

During fiscal 1999, the Ports Authority issued Series 1998B bonds to refund the Ports Authority's issued Series 1998B bonds to refund the Ports Authority's outstanding $24,800,000 1994 Junior Lien Revenue Bonds. The bonds, issued at cost, consist of term bonds of $25,000,000 maturing on July 1, 2028. Interest is payable each January 1 and July 1 at variable rates, with a maximum rate of 18%. The 1998B bonds are generally redeemable prior to maturity on interest payment dates with a 30 or 60-day notice from the Ports Authority, depending on which interest rate applies at the time. Some interest rates require a no-call period during which the bonds are not redeemable.

Other Liabilities

As of June 30, 2004, the Ports Authority recorded a long term liability of $15.5 million equal to the final project costs on the Charleston Harbor deepening project. In addition, the Ports Authority borrowed $3 million against the credit agreement to support operations and an additional $499,000 for capital purposes. As a result of the acquisition of a business, the Authority assumed a line of credit of approximately $3.5 million and a note payable of $400,000. See further discussion in Note 4 – Intangible Assets and Goodwill.

Bond Insurance and Credit Rating

The Ports Authority has purchased insurance for each bond issue to underwrite the payment of principal and interest. As a result, the Ports Authority has secured AAA ratings from both Moody's and Standard and Poor's covering both of its outstanding bond issues discussed above. Without the insurance the underlying ratings are A1 by Moody's and A+ by Standard and Poor's for both outstanding bond issues.

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.

BALANCE SHEETS

Assets (in thousands)	2004	June 30 2003
Current assets		
Cash	**$ 8,574**	$ 2,933
Investments	**41,967**	11,775
Accounts receivable		
Trade, net of allowance for doubtful accounts of $1,365 in 2004 and $1,350 in 2003	**14,713**	14,691
Other	**3,172**	1,251
Inventories	**3,681**	3,079
Prepaid and other current assets	**5,464**	6,125
Total current assets	**77,571**	39,854
Non-current assets and investments		
Internally designated for capital acquisitions	**40,751**	73,055
Held by trustee for debt service	**5,804**	5,935
Property and equipment, net	**420,935**	416,949
Unamortized bond issue costs	**1,679**	1,754
Deferred harbor deepening costs	**15,514**	-
Intangible assets	**3,847**	-
Total assets	**$ 566,101**	$ 537,547

Liabilities and Net Assets (in thousands)		
Current liabilities		
Current maturities on long-term debt	**$ 7,117**	$ 2,880
Accounts payable	**4,585**	5,642
Accounts payable, construction	**4,751**	550
Retainage payable on construction contracts	**449**	227
Accrued interest payable	**3,124**	3,172
Accrued employee compensation and payroll-related withholdings and liabilities	**5,467**	5,044
Total current liabilities	**25,493**	17,515
Harbor deepening obligation	**14,048**	-
Long-term debt	**143,929**	143,992
Total liabilities	**183,470**	161,507
Invested in capital assets, net of related debt	**272,882**	269,949
Restricted for debt service	**5,804**	78,990
Unrestricted	**103,945**	27,101
Total net assets	**382,631**	376,040
Total liabilities and net assets	**$ 566,101**	$ 537,547

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years ended June 30	
(in thousands)	**2004**	2003
Operating revenues	**$ 116,530**	$ 110,204
Operating expenses		
Direct operating expense	**56,595**	53,897
Administrative expense	**16,864**	16,660
Depreciation expense	**24,367**	22,015
Total operating expenses	**97,826**	92,572
Operating earnings	**18,704**	17,632
Nonoperating revenues (expenses)		
Interest income	**960**	880
Other income	**304**	325
Interest expense	**(5,595)**	(5,802)
Other expense	**(1,998)**	(758)
Contribution to State of South Carolina for Cooper River Bridge	**(9,000)**	(8,000)
Contribution to State of South Carolina for Daniel Island Fill Material Recovery Project	**-**	(1,307)
	(15,329)	(14,662)
Excess revenues over expenses before capital contributions	**3,375**	2,970
Capital contribution from State of South Carolina - BMW land	**2,437**	2,961
Capital grants from federal government	**779**	-
Increase in net assets	**6,591**	5,931
Total net assets beginning of year	**376,040**	370,109
Total net assets end of year	**$ 382,631**	$ 376,040

STATEMENTS OF CASH FLOWS

(in thousands)	Years ended June 30 2004	2003
Cash flows from operating activities		
Cash received from customers	**$ 117,396**	$ 111,335
Cash paid to suppliers	**(39,136)**	(30,791)
Cash paid to employees	**(40,900)**	(38,749)
Net cash provided by operating activities	**37,360**	41,795
Cash flows from investing activities		
Acquisition of business, net of cash acquired	**(871)**	-
Proceeds from the sale of property and equipment	**-**	53
Proceeds from sale of investments	**9,021**	6,351
Purchases of investments	**(8,890)**	(6,368)
Interest received on investments	**960**	884
Net cash provided by investing activities	**220**	920
Cash flows from capital and related financing activities		
Acquisition and construction of property and equipment	**(20,064)**	(15,626)
Proceeds from sale of property and equipment	**70**	-
Borrowings on credit agreement	**499**	422
Borrowings on other debt	**139**	-
Principal paid on revenue bonds	**(2,785)**	(2,675)
Principal paid on other debt	**(233)**	(234)
Interest paid on revenue bonds, net of amounts capitalized	**(5,579)**	(6,648)
Interest paid on other debt	**(65)**	(15)
Capital grants received	**217**	-
Transfer to State of South Carolina for new Cooper River Bridge	**(9,000)**	(8,000)
Transfer to State of South Carolina - Daniel Island Fill Project	**-**	(1,307)
Net cash used in capital and related financing activities	**(36,801)**	(34,083)
Cash flows from non-capital financing		
Borrowings on credit agreement	**3,000**	-
Principal paid on credit agreement	**(250)**	-
Net cash provided by investing activities	**2,750**	-
Net increase in cash and cash equivalents	**3,529**	8,632
Cash and cash equivalents		
Beginning of year	**87,763**	79,131
End of year	**$ 91,292**	$ 87,763
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash	**$ 8,574**	$ 2,933
Investments	**41,967**	11,775
Internally designated for capital acquisitions	**40,751**	73,055
Total cash and cash equivalents	**$ 91,292**	$ 87,763

(in thousands)	Years ended June 30 2004	2003
Reconciliation of operating earnings to net cash provided by operating activities		
Operating earnings	**$ 18,704**	$ 17,632
Adjustments to reconcile operating earnings to net cash provided by operating activities, net of acquisition		
Depreciation	**24,367**	22,015
Provision for doubtful accounts	**295**	330
Other losses, net	**(1,693)**	(313)
Amortization	**104**	29
Changes in operating assets and liabilities		
Accounts receivable	**40**	1,114
Inventories	**(602)**	(289)
Prepaid and other current assets	**(698)**	(884)
Other long term assets	**(15,514)**	-
Accounts payable	**(2,114)**	1,105
Payroll related liabilities	**423**	1,056
Other obligation	**14,048**	-
Net cash provided by operating activities	**$ 37,360**	$ 41,795

Non-cash investing, capital and related financing activities

Property and equipment and accounts payable were adjusted by approximately $4,423 and $550 at June 30, 2004 and 2003, respectively, for non-cash amounts in connection with the accrual of liabilities. In addition, land with a fair value of $2,437 and $2,961 was donated by the State of South Carolina during the years ended June 30, 2004 and 2003, respectively, and federal grants receivable totaled $562 at June 30, 2004.

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 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, 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 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 (i.e. total assets net of total liabilities) are segregated into: invested in capital assets, net of related debt; restricted; and unrestricted components. These classifications are defined as follows:

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

- Restricted – This component of net assets consists of external constraints placed on net asset 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 assets – This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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". Cash and investments and pooled investments maintained in accordance with revenue bond debt service requirements are included on the balance sheet as "Held by Trustee for Debt Service." Cash, investments and pooled investments earmarked by the board of trustees for capital expansion are included on the balance sheet as "Internally designated for capital acquisitions." Amounts invested with the State Treasurer including cash, short-term investments 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 statement of cash flows.

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

Property and Equipment
Property and equipment constructed or purchased is stated at cost. Contributed property and equipment is recorded at estimated fair value on the date received. Interest is capitalized on major long-term construction projects and is depreciated over the useful life of the related asset. Depreciation is computed using the straight-line method over the following estimated useful lives:

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

Impairment
The Ports Authority accounts for long-lived assets in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Ports Authority records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by these assets are less than the carrying amount of those assets. The Ports Authority recorded an impairment charge of approximately $2,400,000 related to certain buildings and equipment for the year ended June 30, 2004, which is included in depreciation expense in the statement of revenues, expenses and changes in net assets.

Intangible Assets and Goodwill
The excess of cost over net assets acquired is recorded as goodwill. 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 Authority reviews the carrying value of intangibles for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

The 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.

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

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

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

Deferred Financing Costs
Deferred bond issuance expenses are recorded at cost and amortized over the life of the bonds using the effective interest method.

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

Risk Management
The Ports Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of asset; 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 fiscal year 2004 and 2003, two customers each accounted for approximately 16% and 10%, and 17% and 11%, respectively, of the Ports Authority's revenues. 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.

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.

Reclassification
For comparative purposes, certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

2. CASH, INVESTMENTS AND POOLED INVESTMENTS

The Ports Authority's total cash and investments at June 30, 2004 and 2003 were approximately $97,096,000 and $93,698,000, respectively. Periodically cash on deposit in federally insured institutions exceeds the limit on insured deposits, and may not be specifically collateralized.

At June 30, 2004 and 2003, the Ports Authority's funds held by trustees totaled $5,804,000 and $5,935,000, respectively. The State Treasurer held approximately $82,718,000 and $3,000,000 of the Ports Authority's funds at June 30, 2004 and 2003, respectively. For the year ended June 30, 2003, approximately $81,830,000 was invested through a third party investment banking institution.

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.

The Ports Authority purchases participation units in the State Treasurer's fund. Funds deposited with the State Treasurer as part of an investment pool and are invested in U.S. government securities, federal agency securities, repurchase agreements secured by U.S. government securities and commercial paper. The average maturity of the funds invested with the State Treasurer are not greater than 60 days, therefore these amounts are considered to be cash equivalents. The investments are carried at cost plus accrued interest, which approximates market value.

At June 30, the Ports Authority had bank balances as follows (in thousands):

	2004	2003
Insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name	$ 2,748	$ 2,967
Carrying value of cash	$ 8,574	$ 2,933

Investments at June 30 consist of the following (in thousands):

	2004	2003
Funds deposited with the State Treasurer	$ 82,718	$ 84,830
U.S. government obligations, held by trustee	5,804	5,935
	88,522	90,765
Less amounts currently available for operating funds	41,967	11,775
Less amounts held by trustee	5,804	5,935
Internally designated investments	$ 40,751	$ 73,055

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

	2004	2003
Carrying value		
Cash	$ 8,574	$ 2,933
Investments	88,522	90,765
	$ 97,096	$ 93,698
Included in the following balance sheet captions		
Cash	$ 8,574	$ 2,933
Investments, current assets	41,967	11,775
Internally designated for capital acquisitions	40,751	73,055
Held by trustee for debt service	5,804	5,935
	$ 97,096	$ 93,698

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

	2004	2003
Capital improvement fund		
Cash	$ 1,013	$ 2,148
Funds invested	34,645	47,947
	35,658	50,095
Construction funds		
Funds invested	199	198
Depreciation fund		
Cash	787	436
Funds invested	2,890	21,282
	3,677	21,718
Other - State Port Construction Fund		
Cash	206	44
Funds invested	1,011	1,000
	1,217	1,044
	$ 40,751	$ 73,055

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

General provisions regarding these Funds are as follows:

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

The Construction Fund was established with the proceeds from the 1998 revenue bonds. This fund is 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 are limited to be consistent with the need for money from the Construction Fund.

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.

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

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following amounts (in thousands):

	Balance at June 30, 2003	Additions	Write-offs/ Disposals	Transfers/ Retirements	Balance at June 30, 2004
Land	$ 139,362	$ 2,437	$ -	$ (39)	$ 141,760
Land improvements	145,651	2,898	-	-	148,549
Buildings and structures	247,590	5,837	(3,882)	-	249,545
Railroad tracks	4,601	-	-	-	4,601
Terminal equipment	70,714	4,890	(1,374)	(105)	74,125
Furniture and fixtures	5,787	128	-	-	5,915
Capital projects in progress	53,589	13,346	-	(1,855)	65,080
	667,294	29,536	(5,256)	(1,999)	689,575
Less accumulated depreciation	250,345	24,367	(4,735)	(1,337)	268,640
Property and equipments, net	$ 416,949	$ 5,169	$ (521)	$ (662)	$ 420,935

	Balance at June 30, 2002	Additions	Write-offs/ Disposals	Transfers/ Retirements	Balance at June 30, 2003
Land	$ 142,929	$ 3,260	$ -	$ (6,827)	$ 139,362
Land improvements	142,456	3,195	-	-	145,651
Buildings and structures	246,335	1,480	(225)	-	247,590
Railroad tracks	4,488	113	-	-	4,601
Terminal equipment	69,078	3,284	(1,648)	-	70,714
Furniture and fixtures	5,506	281	-	-	5,787
Capital projects in progress	40,848	14,598	-	(1,857)	53,589
	651,640	26,211	(1,873)	(8,684)	667,294
Less accumulated depreciation	230,030	22,015	(1,700)	-	250,345
Property and equipments, net	$ 421,610	$ 4,196	$ (173)	$ (8,684)	$ 416,949

Leases

During 2004 and 2003, the Ports 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 $1,063,000 and $884,000, respectively.

4. INTANGIBLE ASSETS AND GOODWILL

On August 30, 1999, the Ports Authority entered into a license agreement with Charleston International Ports, LLC ("CIP") related to the joint operation of an ocean terminal located in Charleston, SC. The license agreement allowed for license fees to be paid to the Ports Authority equal to 50% of the net income generated by CIP. In addition, CIP would pay the Ports Authority lease payments for use of the terminal and the associated land.

On January 7, 2004, CIP and the Ports Authority reached an agreement to terminate the relationship and the license agreement. As a result of this termination agreement, the Ports Authority agreed to acquire all rights and benefits under the license agreement. The purchase price paid by the Ports Authority was $1.5 million, which included a cash payment of $1.1 million and a note payable of $400,000. In addition, the Authority assumed liabilities as of the date of the purchase equal to approximately $4,507,000, which consists primarily of a line of credit and amounts due to the Authority under the terminal land lease. The purchase price for the business and the assumed liabilities have been allocated to certain tangible assets including cash of $229,000, accounts receivable of $357,000 and property and equipment of $1,499,000 as well as intangible assets totaling approximately $692,000 and goodwill of $3,230,000.

The intangible assets consist of the following at June 30, 2004:

Intangible assets subject to amortization	
Customer contracts, amortized over 2 years	$ 47,000
Customer relationships, amortized over 10 years	645,000
	692,000
Accumulated amortization	(75,000)
	$ 617,000

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

2005	$ 133,000
2006	71,000
2007	65,000
2008	58,000
2009	39,000
Thereafter	251,000
	$ 617,000

5. LONG-TERM DEBT

Borrowings and payments on long-term debt are as follows (in thousands):

	June 30, 2003	Additions	Reductions	June 30, 2004	Current Portion
Revenue bonds-1998B	$ 25,000	$ -	$ -	$ 25,000	$ -
Revenue bonds-1998	120,375	-	(2,785)	117,590	2,905
Credit agreement	422	3,499	(250)	3,671	3,671
Notes payable	199	3,989	(233)	3,955	541
	145,996	7,488	(3,268)	150,216	7,117
Plus unamortized premium	876	-	(46)	830	-
Total	$ 146,872	$ 7,488	$ (3,314)	$ 151,046	$ 7,117

	June 30, 2002	Additions	Reductions	June 30, 2003	Current Portion
Revenue bonds-1998B	$ 25,000	$ -	$ -	$ 25,000	$ -
Revenue bonds-1998	123,050		(2,675)	120,375	2,785
Credit agreement	-	422	-	422	-
Notes payable	433	-	(234)	199	95
	148,483	422	(2,909)	145,996	2,880
Plus unamortized premium	922	-	(46)	876	-
Total	$ 149,405	$ 422	$ (2,955)	$ 146,872	$ 2,880

Series 1991

During fiscal year 1992, the Ports Authority issued Series 1991 bonds to provide funds to finance a portion of the cost of improvements and expansion at 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.

On August 3, 1999 the Ports Authority completed the in-substance defeasance of $27,975,000 of the outstanding 1991 Series revenue bonds. 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 of this transaction and the defeasance of $27,970,000 in June 1998, $55,945,000 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. At June 30, 2004, there are no amounts outstanding under the 1991 Series revenue bonds.

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 is amortized using the effective interest method over 28 years, the life of the bonds. Unamortized bond issue costs at June 30, 2004 and 2003 were approximately $1,352,000, and $1,413,000, respectively. Interest is payable each January 1 and July 1 at rates ranging from 3.8% to 5.5%.

The Series 1998 Bonds maturing on July 1, 2013 and thereafter are 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 amount are as follows (plus interest accrued to date):

Redemption Date (Inclusive)	Redemption Price
July 1, 2008 to June 30, 2009	101.0%
July 1, 2009 to June 30, 2010	100.5%
July 1, 2010 and thereafter	100.0%

The Series 1998 Bonds maturing on July 1, 2026 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):

Redemption Period	Redemption Price
2019	$6,210
2020	6,540
2021	6,890
2022	7,255
2023	7,640
2024	8,040
2025	8,470
2026	3,090

Series 1998B

During fiscal year 1999, the Ports Authority issued Series 1998B bonds to refund the Ports Authority's outstanding $24,800,000 1994 Junior Lien Revenue Bonds. The bonds, issued at cost, consist of term bonds of $25,000,000 maturing on July 1, 2028. Interest is payable each January 1, and July 1 at variable rates, with a maximum rate of 18%. The interest rate at June 30, 2004 and 2003 was 1.1%. The 1998B bonds are generally redeemable prior to maturity on interest payment dates with a 30 or 60-day notice from the Ports Authority, depending on which interest rate applies at the time. Some interest rates require a no-call period during which the bonds are not redeemable. Unamortized bond issue costs at June 30, 2004 and 2003 were approximately $327,000 and $341,000, respectively.

The 1998B bonds are collateralized by an irrevocable letter of credit that had a value of $27,219,000 at June 30, 2004 and 2003. This letter of credit equals the aggregate principal amount of the bonds outstanding plus 270 days of interest computed at a rate of 12% per annum. The letter of credit has a termination clause based on a 13 month notification period.

The 1998B 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.

Credit Agreement

During fiscal year 2001, the Ports Authority obtained a $10,000,000 revolving line of credit from a bank. Under the credit agreement, the Ports Authority and the lender will agree on the maturity date, the interest rate and the interest payment dates for each borrowing at the time of such borrowing. The interest rate on the borrowings is not to exceed the prime rate. Use of the borrowings is unrestricted. The Ports Authority borrowed approximately $3,499,000 and $422,000 against the line of credit in 2004 and 2003, at LIBOR plus 1.25% (2.67% and 2.45% at June 30, 2004 and 2003, respectively). All borrowings are due July 2005, and are classified as current obligations.

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

	Revenue Bonds		Other Long Term Debt	
	Principal	Interest	Principal	Interest
2005	$2,905	$6,453	$4,212	$104
2006	3,025	6,330	473	71
2007	3,155	6,200	474	61
2008	3,330	6,026	477	51
2009	3,515	5,843	350	42
2010 - 2014	20,680	26,095	1,640	90
2015 - 2019	26,845	19,939	-	-
2020 - 2024	34,535	12,249	-	-
2025 - 2029	44,600	2,407	-	-
2030 - 2034	-	-	-	-
	$142,590	$91,542	$7,626	$419

Various debt obligations, including the 1998B revenue bonds have variable interest rates. Related future interest costs have been estimated based on the interest rates in effect at June 30, 2004.

Interest cost incurred in 2004 and 2003 was approximately $6,465,000 and $6,604,000, respectively. Interest of approximately $870,000 and $802,000 was capitalized in 2004 and 2003, respectively, in connection with the construction of various Port facilities.

6. COMMITMENTS

Construction

In addition to routine commitment for repairs and maintenance, the Ports Authority had commitments for construction of approximately $22,658,000 at June 30, 2004.

Harbor Deepening

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

An Army Corps of Engineers study of the Charleston harbor completed in 1996 concluded that a further deepening of Charleston Harbor would lower transportation costs. Based on the 1996 study, Congress in 1996 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 a depth of 45 feet. The agreement was entered into on June 5, 1998.

The Army Corps of Engineers has estimated the total cost of this deepening project to be approximately $134.9 million over a six-year period. Funding sources include anticipated Federal appropriations totaling approximately $85.2 million and a local share of approximately $49.7 million. Of this local share, the Authority had received $32.1 million from the State of South Carolina through June 30, 2003. To meet the balance of the local share of the project, the Authority has requested the remaining $17.6 million from the State of South Carolina. During June 2004, the State approved the transfer of $2.1 million to the Ports Authority. The $2.1 million was approved in the State budget and the payment was received by the Authority in August of 2004. However, the remaining portion of the local share equal to approximately $15.5 million is the legal obligation of the Authority. The State has not committed any funds for the current project beyond the $32.1 million already received and the $2.1 million recently approved, nor is there any assurance as to any such commitment. Since 1957, the State has financially supported certain projects including terminal expansion and has provided the local share for previous harbor deepening projects.

As of June 30, 2004, the Ports Authority has recorded a liability of $15,514,000 equal to the remaining portion of the local share and $1,466,000 of this balance is included in construction accounts payable. In addition, the Ports Authority has recorded deferred harbor deepening costs of $15,514,000.

To facilitate payments to the Federal government for the State's share of the Harbor Deepening Project and the Daniel Island Fill Material Project, the Ports Authority established two letter of credit arrangements with a regional bank. The contracting Federal agency is authorized to draw against the letters of credit as construction progresses. During fiscal years 2004 and 2003, the total credit issued under the letters of credit was approximately $41.2 million and $41.3 million, respectively. A total of $41.8 million has been drawn by the contracting Federal agency leaving $1.8 million in available funds at June 30, 2004. There were no outstanding draws against the letters of credit as of June 30, 2004 and 2003.

BMW Land

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. BWM 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.

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.

7. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

Employees of the Ports Authority participate in the South Carolina Retirement System's employees retirement plan ("SCRS"), a defined benefit, cost-sharing, multiple-employer, public employee retirement system. Substantially all full-time permanent Ports Authority employees are required to participate in SCRS. The wages covered by SCRS for the years ended June 30, 2004 and 2003 were approximately $30,484,000 and $29,846,000, respectively. The wages not covered by SCRS for the year ended June 30, 2004 and 2003 were approximately $1,395,000 and $387,000, respectively.

Under SCRS, employees who retire at or after age 65 or have 28 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 employ'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. SCRS also provides death and disability benefits. Benefits are established by state statute.

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.scrs.state.sc.us.

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 at July 1, 2003 (the latest available) were 6% of the employee's salary. Actuarially determined employer contribution rates for SCRS, expressed as a percentage of compensation, at July 1, 2003 (the latest available) were 7.55%. The total contribution for the years ended June 30, 2004 and 2003 was approximately $2,346,000 and $2,253,000 from the Ports Authority and approximately $1,698,000 and $1,701,000 from employees, respectively.

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 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, 2003, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately $4.201 billion. Ten-year historical trend information showing SCRS's progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2004 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

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 retirees' dependents are paid by the retirees. As a governmental entity the Ports Authority has the option to account for postretirement benefits other than pensions using the "pay as you go" or "advance funding on an actuarially determined basis" method. In accordance with GASB 12, the Ports Authority has elected to follow the "pay as you go" method and expenses costs as incurred. At June 30, 2004 and 2003, 205 and 203 retirees were receiving benefits, respectively. The Ports Authority pays 100 percent of the cost of medical insurance premiums for the retirees. During the years ended June 30, 2004 and 2003, expenses for the post-retirement health care benefits were approximately $760,000 and $775,000, 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 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 eighteen 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 2004 and 2003, operating revenue recorded for facilitating agreements by the Ports Authority was approximately $83,215,000 and $77,089,000, respectively.

The approximate total cost and related accumulated depreciation of facilities assigned to others at June 30, 2004 and 2003 were (in thousands):

	2004	2003
Cost	$433,009	$425,470
Accumulated depreciation	137,641	127,862

Minimum future operating revenue and rentals to be received under noncancelable agreements as of June 30, 2004 were (in thousands):

2005	$17,665
2006	2,899
2007	1,211
2008	961
2009	849
Thereafter	6,043
	$29,628

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, accounts receivable, investments, accounts and retainage payable, credit agreement and other debt approximate fair value. At June 30, 2004, 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, 2004 was approximately $143,829,000.

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, 2004, 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. OTHER MATTERS

Cooper River Bridge

In 1998, the Ports Authority consulted with its 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, that firm 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 which 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 $8 million during each of the years ended June 30, 2004 and 2003 toward the building of the new Cooper River Bridge. Additionally, the Port Authority will pay $1,000,000 per year beginning in fiscal year 2004 for 25 years. These payments have been treated as non-operating expenses to the State of South Carolina and therefore have reduced the Ports Authority's net assets. This non-operating expense is not treated as a capital asset of the Ports Authority and future payments are not recorded as a liability as the Authority is under no contractual obligation to pay the $1,000,000 annual amount. Total payments to the State of South Carolina totaled $9 million for the year ended June 30, 2004.

Department of Defense Appropriations Act for 2002

During 2004 and 2003, the Ports Authority was awarded grants from the Department of Transportation, Maritime Administration ("DOT") (as an agent of the Transportation Security Administration) for approximately $7.2 million to be used for port security. During 2003, no amounts were received or expended related to this grant. As of June 30, 2004, the Ports Authority has expended approximately $779,000 related to these grant agreements.

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