

South Carolina State Ports Authority

**Financial Statements
June 30, 2010 and 2009**

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June 30, 2010 and 2009

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Report of Independent Auditors

To the Board of Directors
South Carolina State Ports Authority

In our opinion, the accompanying balance sheets and related statements 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"), a component unit of the State of South Carolina, at June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years 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 audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Ports Authority are intended to present the financial position, changes in financial position and cash flows of the State of South Carolina that is attributable to transactions of the Ports Authority. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2010 and 2009, the changes in financial position or its cash flows for the years then ended in conformity with principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 12 and the required supplemental information on pages 42 through 45 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. 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 4, 2010

Management's Discussion and Analysis

South Carolina State Ports Authority

Management's Discussion and Analysis

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Annual Financial Report

The annual financial report of the South Carolina State Ports Authority ("Ports Authority") provides an overview of the Ports Authority's financial activities for the fiscal years ended June 30, 2010 and 2009. 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 seven ocean terminals at the ports of Charleston and Georgetown. These facilities primarily handle import and export containerized breakbulk and bulk cargoes.

Recent Legislation

During the 2009 session, the South Carolina General Assembly enacted legislation ("Act No. 73") affecting, among other things, the disposition of certain of the Ports Authority's real property assets, its governance structure and its long-range strategic direction. The governance structure of the Board was impacted by the addition of two members, the Secretary of Transportation and the Secretary of Commerce. These members of the Board are in addition to the board members appointed by the Governor of South Carolina as indicated in Note 1 to the financial statements.

Act No. 73 directs the sale of real property owned by the Ports Authority at Port Royal, Daniel Island and Thomas Island and imposes time deadlines for the completion of such sales. Management does not believe that the sale of the assets in question would have a material impact on the Ports Authority's operations or financial position. However, the Ports Authority must balance compliance with the deadlines imposed by Act. No. 73 with certain limitations upon the disposition of real property contained in the Ports Authority's Master Bond Resolution. In particular, Act No. 73 required a sale of the Port Royal property by December 31, 2009, barring which the Port Royal property was to be transferred to the State Budget and Control Board, which agency would assume the Ports Authority's fiduciary duties to its bondholders relating to the disposition of real property. The Port Royal sale has not been completed. Act No. 73 also requires that the Daniel Island and Thomas Island properties be subject to a contract of sale by December 31, 2012, such sale to be completed by December 31, 2013, barring which such properties are also to be transferred to the State Budget and Control Board. Legal counsel for the Ports Authority and the State Budget and Control Board are reviewing options for a course of action to ensure compliance with both Act No. 73 and the Ports Authority's Master Bond Resolution, regarding disposition of its real property.

Act No. 73 also imposes obligations on the Ports Authority to take all action necessary to expeditiously develop a port in Jasper County. No action has been required of the Ports Authority to date under this provision. The impact of this provision on the Ports Authority's operations and financial position cannot be ascertained at this time, but the cost of such project could be material.

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Recent Economic Events

Leading into and during the course of fiscal year 2010, global trade and the shipment of freight to and from the United States was substantially impacted by the on going financial crisis. More specifically, container trade to almost every U.S. trading partner declined during this period. When comparing major U. S. port container traffic handled during fiscal year 2010 to fiscal year 2009, seven out of ten major U. S. ports saw a decline in traffic.

The unprecedented downturn in the global economy has substantially impacted the volumes of waterborne commerce through the Ports Authority's facilities. Between fiscal year 2007 and fiscal year 2010 pier container volumes have declined by 31.1%. The Ports Authority's fiscal year 2011 volumes are projected to increase by an estimated 4.6% from fiscal year 2010 levels. Net revenues available for debt service have declined by 52.4% from \$93.3 million in fiscal year 2008 to \$44.4 million in fiscal year 2010; however, the Ports Authority continues to exceed the required debt service ratios. As more fully discussed in the section titled Capital Improvement Plan, these declines have affected the schedule for facility improvements and have reduced the Ports Authority's projected debt capacity.

Cautionary Note Regarding Forward-Looking Statements

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

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

Financial Position

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

<i>(in thousands)</i>	2010	2009	2008
Total operating revenues	\$ 111,744	\$ 136,201	\$ 165,092
Total TEUs (equivalent number of 20' container units)	1,278	1,368	1,695
Breakbulk pier tonnage	750	835	947

A total of 1,528, 1,791 and 1,840 vessels (excluding barges) docked during the years ended June 30, 2010, 2009 and 2008, respectively. The Ports Authority provided services to the ten largest container ship lines based on US containerized import and export cargo volumes for calendar year 2009 as reported in the *Journal of Commerce/PIERS Global Intelligence Solutions*.

Required Financial Statements

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

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

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

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Ports Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provide 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 sheets, and the statements 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. One 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.

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Statements of Financial Position (Balance Sheets)

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 \$660.5 million and \$652.7 million at June 30, 2010 and 2009, respectively, a \$7.8 million increase from June 30, 2009. A condensed summary of the Ports Authority's balance sheet and resulting net assets at June 30 is shown below:

<i>(in thousands of dollars)</i>	2010	2009	2008
Assets			
Current assets	\$ 117,550	\$ 106,068	\$ 53,197
Internally designated assets	73,828	109,113	173,631
Held by trustee for debt service	6,495	6,403	6,377
Held by third party for capital projects	1,459	1,628	1,790
Other assets, net of depreciation	<u>597,633</u>	<u>570,343</u>	<u>565,045</u>
Total assets	<u>\$ 796,965</u>	<u>\$ 793,555</u>	<u>\$ 800,040</u>
Liabilities			
Current liabilities	\$ 40,938	\$ 40,981	\$ 47,255
Long-term obligations	<u>95,561</u>	<u>99,868</u>	<u>128,947</u>
Total liabilities	<u>136,499</u>	<u>140,849</u>	<u>176,202</u>
Net assets			
Invested in capital assets, net of debt	486,023	455,216	402,803
Restricted for debt service	6,495	6,403	6,384
Restricted for capital projects	1,459	1,628	1,790
Unrestricted	<u>166,489</u>	<u>189,459</u>	<u>212,861</u>
Total net assets	<u>660,466</u>	<u>652,706</u>	<u>623,838</u>
Total liabilities and net assets	<u>\$ 796,965</u>	<u>\$ 793,555</u>	<u>\$ 800,040</u>

The largest portion of the Ports Authority's net assets each year (73.6%, 69.7% and 64.6% at June 30, 2010, 2009 and 2008, 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 (1.2%, 1.2% and 1.3% at June 30, 2010, 2009 and 2008, respectively) represents resources that are subject to external restrictions. The remaining unrestricted net assets (25.2%, 29.0% and 34.1% at June 30, 2010, 2009 and 2008) may be used to meet any of the Ports Authority's ongoing obligations as defined by the revenue bond covenants.

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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:

<i>(in thousands of dollars)</i>	2010	2009	2008
Operating revenues	\$ 111,744	\$ 136,201	\$ 165,092
Operating expenses	103,372	110,517	110,399
Operating earnings	8,372	25,684	54,693
Nonoperating income (expense), net	4,711	709	(896)
Contributions to State of South Carolina	(1,000)	(1,000)	(1,000)
Contributions to Berkeley County, South Carolina	(7,000)	-	-
Capital contributions of land	-	16	23,550
Capital grants from the federal government	2,677	3,459	639
Increase in net assets	<u>\$ 7,760</u>	<u>\$ 28,868</u>	<u>\$ 76,986</u>

Operating revenues decreased 18.0% from \$136.2 million in 2009 to \$111.7 million during 2010. The decrease can be attributed to a 5.24% decrease in container volume throughput and a 23.6% decrease in breakbulk handled tons, both due principally to the domestic and world economic slowdown. This slowdown created volume declines that decreased revenues for wharfage, dockage, handling, container and chassis services, throughput fees, demurrage and contract differential charges to customers for inefficient use of their licensed areas and Ports Authority provided yard equipment.

Operating revenues decreased 17.5% from \$165.1 million in 2008 to \$136.2 million during 2009 resulting from a 19.6% decrease in container volume throughput and 26.8% decrease in breakbulk handled tons both due principally to the domestic and world economic slowdown. However, this decrease was partially offset by increased empty container storage per diem charges.

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

<i>(in thousands of dollars)</i>	2010	2009	2008
Operating revenues			
Charleston	\$ 106,673	\$ 130,638	\$ 159,156
Georgetown	949	1,552	1,622
Port Royal	10	68	123
Other	4,112	3,943	4,191
Total operating revenues	<u>\$ 111,744</u>	<u>\$ 136,201</u>	<u>\$ 165,092</u>

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

<i>(in thousands of dollars)</i>	2010	2009	2008
Operating expenses			
Direct operating expenses	\$ 55,918	\$ 60,776	\$ 62,252
Administrative expense	17,922	20,072	19,609
Depreciation expense	29,532	29,669	28,538
Total operating expenses	<u>\$ 103,372</u>	<u>\$ 110,517</u>	<u>\$ 110,399</u>

Direct operating expenses for fiscal year 2010 decreased by 8.0% from \$60.8 million in 2009 to \$55.9 million. The decline is primarily due to a reduction in work force that yielded a significant decline in payroll related expense, decreased expenses for overtime, decrease in the need for other outside services and fuel costs. The reduction was partially offset by increased amounts for repairs and maintenance to container handling equipment and the use of other professional services. Administrative expenses for fiscal year 2010 decreased 10.7% from \$20.1 million in 2009 to \$17.9 million in 2010. This decrease was primarily due to a drop in payroll related expenses as a result of a reduction in work force, use of other professional services and domestic advertising. Many other smaller administrative expense accounts produced savings contributing to the 10.7% decline from 2009. The Ports Authority placed new assets into service during 2010, and retired some older assets that resulted in a decrease in depreciation expense in fiscal year 2010.

Direct operating expenses for fiscal year 2009 decreased by 2.4% from \$62.3 million in 2008 to \$60.8 million. The reduction is primarily due to decreased expenses for overtime, performance incentives, property insurance and damage claims and fuel. The reduction was partially offset by increased amounts of outside services for the movement of specialized breakbulk cargos. Administrative expenses for fiscal year 2009 increased 2.4% from \$19.6 million in 2008 to \$20.1 million in 2009. This increase was primarily due to other professional services for strategic planning and recruiting, domestic advertising and legal fees. These amounts were partially offset by decreased expenses for overtime and performance incentives. The Ports Authority placed several new assets into service during 2009, which increased depreciation expense in fiscal year 2009.

For 2010, operating earnings decreased by 67.4% or \$17.3 million for the reasons stated above. In 2009, operating earnings decreased by 53.1% or \$29.0 million from 2008 due to the reasons discussed above.

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Nonoperating income (expense), increased from a net income of \$709,000 in 2009 to net income of \$4,711,000 in 2010. This increase is due principally to recording a gain on disposal of assets of approximately \$2.4 million and due to a \$2.6 million dollar increase in the fair market value of interest rate exchange agreements entered into during prior years and offset by reduced interest earnings of approximately \$1.7 million on investments.

Nonoperating income (expense), increased from a net expense of \$896,000 in 2008 to net income of \$709,000 in 2009. This increase is principally due to a change of \$3.5 million in the fair market value of two interest rate exchange agreements entered into during prior years and offset by reduced interest earnings of approximately \$2.3 million on investments and reduced interest expense of \$541,000 from the redemption of the series 1998B bond issue.

The Ports Authority made contributions to the State of South Carolina during the years ended June 30, 2010, 2009 and 2008, as more fully described in Note 12 – Other Matters. These payments have been treated as nonoperating 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.

During 2010, the Ports Authority contributed \$7 million to help fund the construction of the interchange leading to the site that will house a future distribution center in Berkeley County.

During 2008, the Ports Authority received 318 acres of land from the Charleston Naval Complex Redevelopment Authority ("RDA"). This land was part of the land situated at the former Charleston Navy Base and it will be used for the construction of a new container terminal. It was recorded on the Ports Authority's books at fair value of \$23.6 million as of June 30, 2008.

During the years ended June 30, 2010, 2009 and 2008, the Ports Authority received approximately \$2,677,000, \$3,459,000 and \$639,000, respectively, in federal grant money to be used for security related capital expenditures, and to reduce emissions from heavy duty diesel engines.

In summary, net assets during fiscal years 2010, 2009 and 2008 increased \$7.8 million, \$28.9 million and \$76.9 million, respectively.

Statements of Cash Flows

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

<i>(in thousands of dollars)</i>	2010	2009	2008
Cash flow from operating activities	\$ 37,692	\$ 65,131	\$ 78,982
Cash flow from investing activities	5,065	7,346	7,693
Cash flow used in capital and related financing activities	<u>(64,587)</u>	<u>(78,740)</u>	<u>(52,610)</u>
Change in cash and cash equivalents	(21,830)	(6,263)	34,065
Cash and cash equivalents			
Beginning of year	<u>185,604</u>	<u>191,867</u>	<u>157,802</u>
End of year	<u>\$ 163,774</u>	<u>\$ 185,604</u>	<u>\$ 191,867</u>

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The Ports Authority's available cash and cash equivalents decreased from \$185.6 million at the end of 2009 to \$163.8 million at the end of 2010 due to a diminished flow of funds provided by operating and investing activities and the increased use of funds for capital acquisitions and related financing activities.

Capital Acquisitions and Construction Activities

During the fiscal year ended June 30, 2010, the Ports Authority purchased and constructed approximately \$57.6 million in new capital assets. The major capital assets under construction were continuing site development work and the construction of a containment wall at the new container terminal located at the old Charleston Navy Base and perimeter and access security improvements at the Wando terminal. Approximately \$1.8 million of fixed assets (at cost) were written off or disposed of during 2010.

During the fiscal year ended June 30, 2009, the Ports Authority purchased and constructed approximately \$52.2 million in new capital assets. The major capital assets under construction were continuing site development work at the new container terminal located at the old Charleston Navy Base and perimeter and access security improvements at the Wando terminal. Another major construction project completed was the Wando terminal container yard expansion. Approximately \$400,000 of fixed assets (at cost) were written off or disposed of during 2009.

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 \$19.2 million at June 30, 2010. Additional information on the Ports Authority's capital assets and commitments can be found in Note 3 – Property and Equipment and Note 6 – Commitments in the notes to the financial statements.

Capital Improvement Plan

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

Improvements to Existing Facilities

Over the next 10 years the Ports Authority plans to spend approximately \$615 million on improvements to its existing marine terminal facilities. These projects represent infrastructure improvements required to maintain and enhance the operational efficiency and capability of the Ports Authority's existing facilities to meet customer demand. The two-year plan for existing terminal upgrades contemplates approximately \$115 million in capital spending. The near-term projects include retrofitting an existing warehouse for a new cruise ship terminal, implementing a new terminal operating system, and raising and paving the Columbus Street yard.

New Terminal Expansion – Navy Base Project

In May 2007, the Ports Authority received permits to begin construction of a 286 acre container terminal facility on a portion of the former Charleston Naval Base on the west bank of the Cooper River in North Charleston, SC. This facility is planned to be constructed in at least three phases. The first phase consists of two marine berths, 171 improved acres and necessary equipment. The cost of this first phase is currently estimated to be approximately \$752 million and is subject to revision based on the timing of construction and other factors which could result in a significant increase in total project costs. The remaining phases will be developed over many years on a demand driven basis.

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As of June 30, 2010, the Ports Authority has spent approximately \$72 million on preliminary construction, permitting, consulting and engineering costs related to the first phase of the new terminal. In April 2009, the Ports Authority's Board awarded a contract for the construction of a containment wall that will allow for the construction of the upland fill area and will facilitate the construction of the dock and wharf portions of the project. The containment wall project is expected to be complete in fiscal year 2011.

In addition to the marine terminal, an access road project is planned to facilitate the movement of traffic to and from the new terminal. This access road will be constructed by the South Carolina Department of Transportation ("SCDOT"). The current estimated cost of the road is \$282 million, of which approximately \$70 million will be paid for by the Ports Authority. Based on this estimate, the State of South Carolina has committed the remainder of the necessary funds for the access road project. The Ports Authority's share (\$70 million) is included in the total \$752 million first phase cost estimate for the new facility, noted above. The access road must be constructed in order for the Ports Authority to comply with permit conditions for the new marine terminal facility.

The initial portion of the first phase of construction for the new terminal involves three critical-path projects: the construction of the containment wall, the construction of the access road by SCDOT, and the fill and consolidation of the land at the site. The Ports Authority plans to move forward with these critical-path projects based on its current financial capabilities and funding committed by the State of South Carolina for the access road. The Ports Authority's portion of costs associated with these critical-path projects is approximately \$286 million. After completion of these critical-path projects, the dock and wharf construction, paving, and equipping the terminal will follow to complete the first phase of construction. These projects are estimated to cost approximately \$408 million. All other projects related to the first phase are preliminary and supporting in nature and are estimated to cost \$57 million.

Due to the recent global economic downturn and its negative effects on world trade, the Ports Authority has updated its financial forecasts, including its plans for new terminal construction and other capital projects. Through this effort the Ports Authority has considered a variety of market, competitive, regulatory and technical factors that directly affect the construction of the new terminal. These forecasts include a range of pier container growth assumptions and are primarily influenced by the rate of economic growth, recovery in world trade and the Ports Authority's projected market share of container volumes to be received as a result of the completion of the Panama Canal. The Ports Authority intends to schedule expenditures on the new terminal so as to insure its availability to meet increased demand as such demand materializes. The Ports Authority's current forecast indicates that demand on the high end would dictate completion of the first phase in fiscal year 2018, the median range would target completion between fiscal years 2019 and 2022, and the low range indicates completion beyond fiscal 2022. Management expects that existing terminal capacities can accommodate the high end projected container forecast through 2018. Management believes that the new terminal will be completed and operational at whatever date in the years set forth above is justified by demand.

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

Legal

In August 2010, all pending legal proceedings brought by opponents to the new terminal were settled by agreement between the parties. Currently, a late administrative environmental justice complaint letter filed by a local neighborhood association is following an informal resolution process. The Ports Authority will respond at the appropriate time to such letter, and if suit is filed, will vigorously defend its position.

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Liquidity Outlook

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

Our strategy for growth includes terminal expansion and new port facilities in the near future. We believe that cash on hand, investments and cash generated from operations will enable us to support our strategy. We have plans to seek additional financing through the issuance of revenue bonds during 2010. We believe we have excess borrowing capacity beyond our current obligations, however there can be no assurance that such financing would be available or, if so, at terms that are acceptable to us.

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

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

Long-Term Debt

Series 1998

During fiscal year 1999, the Ports Authority issued Series 1998 bonds to provide funds to finance the expansion and improvement of the Ports Authority's facilities. The bonds, issued at a premium of approximately \$1,105,000, 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, 2010, 2009 and 2008, the Ports Authority made principal payments on the bonds of \$3,705,000, \$3,515,000, and \$3,330,000, respectively.

The balance outstanding under the Series 1998 Bonds is as follows: June 30, 2010 – \$97,955,000, June 30, 2009 – \$101,660,000 and June 30, 2008 – \$105,175,000.

The Ports Authority is expected to redeem approximately \$85.6 million of the Series 1998 bonds through a cash payment made subsequent to June 30, 2010. Funding for capital projects is expected to be obtained from the issuance of tax-exempt debt totaling approximately \$150 million before December 31, 2010. However, no assurances can be provided that such funding will be obtained.

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 par, consisted of term bonds of \$25,000,000 maturing on July 1, 2028. Interest was payable monthly at variable rates, with a

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maximum rate of 18%. The 1998B bonds were 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. The Ports Authority elected to retire these bonds on October 3, 2008 by cash payment to the trustee. As of October 3, 2008, these bonds are no longer outstanding and are no longer a financial obligation to the Ports Authority.

Other Liabilities

As of June 30, 2010, the Ports Authority recorded a current liability of approximately \$7.7 million equal to the final project costs on the Charleston Harbor deepening project. As a result of the acquisition of a business in January 2004, the Ports Authority assumed a note payable of approximately \$3.5 million. The Ports Authority did not use its credit agreement with a local bank to support its operations at any time during fiscal year 2010, 2009, or 2008.

Bond Insurance and Credit Rating

The Ports Authority purchased bond insurance for the Series 1998 and Series 1998B bonds to underwrite the payment of principal and interest. As a result, the Series 1998 and 1998B revenue bond issues received 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 would have been 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.

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Balance Sheets
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<i>(in thousands of dollars)</i>	2010	2009
Assets		
Current assets		
Cash	\$ 7,433	\$ 6,547
Investments	82,513	69,944
Accounts receivable		
Trade, net of allowance for doubtful accounts of \$1,200 in 2010 and \$2,143 in 2009	14,134	14,108
Other	3,398	5,169
Inventories	6,104	6,095
Prepaid and other current assets	3,968	4,205
Total current assets	<u>117,550</u>	<u>106,068</u>
Noncurrent assets and investments		
Investments internally designated for capital acquisitions	73,828	109,113
Investments held by trustee for debt service	6,495	6,403
Investment held by third party for capital projects	1,459	1,628
Property and equipment, net	594,087	566,700
Unamortized bond issue costs	988	1,050
Intangible assets and goodwill	2,558	2,593
Total assets	<u>\$ 796,965</u>	<u>\$ 793,555</u>
Liabilities and Net Assets		
Current liabilities		
Current maturities on long-term debt	\$ 4,261	\$ 4,056
Accounts payable	3,814	5,227
Accounts payable, construction	3,243	6,472
Retainage payable on construction contracts	5,989	2,138
Accrued interest payable	2,662	2,766
Accrued employee compensation and payroll, related withholdings and liabilities	4,319	4,106
Interest rate exchange agreement	5,088	5,803
Postretirement obligation	3,834	2,685
Harbor deepening obligation	7,728	7,728
Total current liabilities	<u>40,938</u>	<u>40,981</u>
Long-term debt	<u>95,561</u>	<u>99,868</u>
Total liabilities	<u>136,499</u>	<u>140,849</u>
Invested in capital assets, net of related debt	486,023	455,216
Restricted		
For debt service	6,495	6,403
For capital projects	1,459	1,628
Unrestricted	<u>166,489</u>	<u>189,459</u>
Total net assets	<u>660,466</u>	<u>652,706</u>
Total liabilities and net assets	<u>\$ 796,965</u>	<u>\$ 793,555</u>

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

South Carolina State Ports Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

<i>(in thousands of dollars)</i>	2010	2009
Operating revenues	<u>\$ 111,744</u>	<u>\$ 136,201</u>
Operating expenses		
Direct operating expense	55,918	60,776
Administrative expense	17,922	20,072
Depreciation expense	<u>29,532</u>	<u>29,669</u>
Total operating expenses	<u>103,372</u>	<u>110,517</u>
Operating earnings	8,372	25,684
Nonoperating revenues (expenses)		
Interest income	5,500	7,191
Other expense, net	(1,518)	(903)
Gain on sale of property and equipment, net	2,475	53
Interest expense	(1,746)	(5,632)
Contribution to State of South Carolina for Cooper River Bridge	(1,000)	(1,000)
Contribution to Berkeley County, South Carolina for Interchange	<u>(7,000)</u>	<u>-</u>
	<u>(3,289)</u>	<u>(291)</u>
Excess revenues over expenses before capital contributions	5,083	25,393
Capital contribution from the Charleston Naval Complex Redevelopment Authority, land	-	16
Capital grants from federal government	<u>2,677</u>	<u>3,459</u>
Increase in net assets	7,760	28,868
Total net assets		
Beginning of year	<u>652,706</u>	<u>623,838</u>
End of year	<u>\$ 660,466</u>	<u>\$ 652,706</u>

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

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

(in thousands of dollars)

	2010	2009
Cash flows from operating activities		
Cash received from customers	\$ 109,419	\$ 146,965
Cash paid to suppliers	(32,307)	(40,696)
Cash paid for employees	(39,420)	(41,138)
Net cash provided by operating activities	<u>37,692</u>	<u>65,131</u>
Cash flows from investing activities		
Proceeds from sale of investments	9,147	9,139
Purchases of investments	(9,070)	(9,003)
Interest received on investments	5,988	7,210
Payment to support bi-port development	(1,000)	-
Net cash provided by investing activities	<u>5,065</u>	<u>7,346</u>
Cash flows from capital and related financing activities		
Acquisition and construction of property and equipment	(56,994)	(55,107)
Proceeds from sale of property and equipment	3,172	72
Redemption of revenue bonds	-	(25,000)
Principal paid on revenue bonds	(3,705)	(3,515)
Borrowings on other debt	-	26
Principal paid on other debt	(351)	(363)
Interest paid on revenue bonds, net of amounts capitalized	(2,552)	(3,754)
Interest paid on other debt	(14)	(55)
Reimbursement of deposit paid for purchase of land	-	9,317
Capital grants received	3,857	639
Transfer to State of South Carolina for new Cooper River Bridge	(1,000)	(1,000)
Transfer to Berkeley County South Carolina	(7,000)	-
Net cash used in capital and related financing activities	<u>(64,587)</u>	<u>(78,740)</u>
Net decrease in cash and cash equivalents	(21,830)	(6,263)
Cash and cash equivalents		
Beginning of year	<u>185,604</u>	<u>191,867</u>
End of year	<u>\$ 163,774</u>	<u>\$ 185,604</u>
Reconciliation of cash and cash equivalents to the statements of net assets		
Cash	\$ 7,433	\$ 6,547
Investments	82,513	69,944
Investments internally designated for capital acquisitions	73,828	109,113
Total cash and cash equivalents	<u>\$ 163,774</u>	<u>\$ 185,604</u>

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

<i>(in thousands of dollars)</i>	2010	2009
Reconciliation of operating earnings to net cash provided by operating activities		
Operating earnings	\$ 8,372	\$ 25,684
Adjustments to reconcile operating earnings to net cash provided by operating activities		
Depreciation	29,532	29,670
Provision for doubtful accounts	(327)	360
Other expense, net	(560)	(903)
Amortization	47	321
Changes in operating assets and liabilities		
Accounts receivable	409	8,723
Inventories	(9)	(680)
Prepaid and other current assets	279	(409)
Other long-term assets	-	465
Accounts payable and other liabilities	(1,413)	1,136
Payroll related liabilities	213	(561)
Postretirement liability	1,149	1,325
Net cash provided by operating activities	<u>\$ 37,692</u>	<u>\$ 65,131</u>

Noncash investing, capital and related financing activities

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

<i>(in thousands of dollars)</i>	2010	2009
Property and equipment included in accounts payable	\$ 9,232	\$ 8,610
Donated land and harbor deepening land	-	7,744
Unrealized gain (loss) on interest rate swap	715	(1,888)

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

South Carolina State Ports Authority

Notes to Financial Statements

June 30, 2010 and 2009

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 eight ocean terminals at the ports of Charleston, Georgetown and Port Royal. These facilities handle import and export containerized, breakbulk and bulk cargoes.

The Ports Authority operates as a self-supporting governmental enterprise and uses the accrual basis of accounting applicable to governmental enterprise funds. 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 issued after November 30, 1989, 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. Effective June 29, 2009, the South Carolina General Assembly enacted legislation (Act No. 73) affecting the governance structure of the Ports Authority. In addition to the nine voting members of the Board of Directors appointed by the Governor, the Act requires an additional two non-voting board members including the Secretary of Transportation and the Secretary of Commerce. The Ports Authority's financial statements are included in the State of South Carolina general purpose financial statements as a discretely presented component unit.

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

The accounting and financial reporting treatment applied to the Ports Authority is determined by its measurement focus. The transactions of the Ports Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the balance sheet. Net assets are segregated into: 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.

South Carolina State Ports Authority

Notes to Financial Statements

June 30, 2010 and 2009

- 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 consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”.

New Accounting Pronouncements

GASB Statement No. 59, *Financial Instruments Omnibus*, addresses accounting for certain financial instruments and external investment pools. It increases the consistency of measurements between governmental entities and provides clarification of existing standards. The provisions of GASB Statement No. 59 are effective for periods beginning after June 15, 2010. The Ports Authority does not anticipate the adoption of this standard will have a significant impact on the financial statements.

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, was released to respond to the rise in bankruptcies involving governments negatively impacted by the recent economic downturn. It provides guidance on recognition and measurement issues in financial statements of governmental entities that have formally petitioned for protection from creditors under Chapter 9 of the US Bankruptcy Code. GASB Statement No. 58 is effective for periods beginning after June 15, 2009. The application of this standard has no impact to the financial statements for the year ended June 30, 2010.

GASB Statement No. 57, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, amends the provisions of GAS 43 and GAS 45 for agent multiemployer plans and participating employers and expands the availability of the alternative measurement method, and in doing so, modifies the requirements related to obtaining an actuarial valuation. The provisions related to the use of the alternative measurement method were applicable upon issuance in December 2009. The application of this standard has no impact to the financial statements for the year ended June 30, 2010.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, moved financial statement preparation guidance pertaining to related-party transactions, subsequent events, and going concern considerations from the professional auditing literature into accounting literature “as is,” subject only to modifications needed to make the language more responsive to the governmental environment. The requirements of GAS 56 were effective upon issuance in March 2009.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, moved existing multi-tiered hierarchy from the accounting literature “as is,” subject only to modifications needed to make the language more responsive to the governmental environment. The requirements of GAS 55 were effective upon issuance in March 2009.

South Carolina State Ports Authority

Notes to Financial Statements

June 30, 2010 and 2009

Cash, Investments and Pooled Investments

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

Credit Risk, Custodial Credit Risk, and Interest Rate Risk

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Ports Authority. The investments held by a trustee include U.S government agency securities, which receive credit ratings from organizations such as Moody's Investors Service and Standard & Poor's. These rating agencies assign ratings to the securities by assessing the likelihood of issuer default; however, government obligations typically are not considered as having significant credit risk. The funds held by trustee received credit ratings from Moody's Investors Service of AAA and Standard & Poor's of AAAM as of June 30, 2010 and 2009. The investments held with third party banks include money market funds and interest bearing accounts with credit ratings from Moody's of P-1 and Standard & Poor's of A-1 as of June 30, 2010 and 2009. The money invested with the State Treasurer in the cash management pool is not rated by an outside agency; however, it is the policy of the State to invest in only the highest investment grade securities including those rated at least A by the two leading national rating services.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Ports Authority will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investments with third party banks and investments held by a trustee are not registered in the name of the Ports Authority. Investments held with third party banks are invested primarily in money market funds and interest bearing accounts, which totaled approximately \$6,588,000 and \$8,405,000 as of June 30, 2010 and 2009, respectively. Investments held by a trustee are invested in government agency securities, which totaled \$6,495,000 and \$6,403,000 as of June 30, 2010 and 2009, respectively. Investments with third party banks and investments held by a trustee are fully collateralized as of June 30, 2010 and 2009 with securities maintained by an outside party. All other investments are held in a pool established by the State Treasurer and are not collateralized.

South Carolina State Ports Authority
Notes to Financial Statements
June 30, 2010 and 2009

Concentration of credit risk is the risk of loss attributed to the magnitude of the Port Authority's investments in a single issuer. The Ports Authority does not have any individual investments that represent 5% or more of the Ports Authority's investments at June 30, 2010 and 2009. The investments held by the State Treasurer are invested in various short term investments of which no single investment is greater than 5%.

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

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

(in thousands of dollars)

Investment Type	Maturity	Value	
		2010	2009
Money market funds	Less than one year	\$ 6,588	\$ 8,405
U.S. government agency securities	Less than one year	6,495	6,403

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

Inventories

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

Property and Equipment

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

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

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

Intangible Assets and Goodwill

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes specific guidance for the amortization of intangible assets, including determining the useful life of intangibles that are limited by legal or contractual provisions. The Ports Authority adopted this statement on July 1, 2008.

South Carolina State Ports Authority

Notes to Financial Statements

June 30, 2010 and 2009

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

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

Derivative Instruments and Hedging Activities

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

The Ports Authority has entered into interest rate swap agreements with a bank to fix the rate of interest on long term debt. Interest rate swaps are considered derivatives and are carried on the balance sheet at fair value. The Ports Authority does not enter into financial instruments for trading or speculative purposes. Changes in the fair value of the interest rate swap agreements are recorded as a component of interest expense.

Operating Revenues and Expenses

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

Contributions

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

South Carolina State Ports Authority
Notes to Financial Statements
June 30, 2010 and 2009

Use of Estimates

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

Risk Management

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

Concentration of Credit Risk

The Ports Authority provides services and facilities usage for companies located throughout the world. During the year ended June 30, 2010 and 2009, three customers accounted for the following revenue and accounts receivable percentages:

	2010		2009	
	Revenue	Accounts Receivable	Revenue	Accounts Receivable
Customer 1	15%	12%	18%	6%
Customer 2	13%	12%	10%	12%
Customer 3	12%	16%	12%	11%
Total	40%	40%	40%	29%

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 Department of Employment and Workforce for benefits paid by the Department in connection with claims. The Ports Authority records a liability for estimated future unemployment compensation claims.

Related Party Transactions

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

South Carolina State Ports Authority
Notes to Financial Statements
June 30, 2010 and 2009

2. Cash, Investments and Pooled Investments

The Ports Authority's total cash and investments at June 30, 2010 and 2009 are approximately \$171,728,000 and \$193,635,000, respectively. Periodically, cash on deposit in federally insured institutions exceeds the limit on insured deposits and may not be specifically collateralized. The Ports Authority has not experienced any such losses in its cash or investment accounts. The Ports Authority believes it is not exposed to any significant credit risk regarding cash and investments at June 30, 2010 and 2009.

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

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

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

<i>(in thousands of dollars)</i>	2010	2009
Insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name	\$ 11,602	\$ 6,728
Carrying value of cash	7,433	6,547

Investments at June 30 consist of the following:

<i>(in thousands of dollars)</i>	2010	2009
Investment in state cash management pool	\$ 151,212	\$ 172,280
Funds deposited with third party banks	6,588	8,405
U.S. government agency securities, held by trustee	6,495	6,403
	<u>164,295</u>	<u>187,088</u>
Less: Amounts currently available for operating funds	82,513	69,944
Amounts held by trustee	6,495	6,403
Amounts restricted for capital projects	1,459	1,628
Internally designated investments	<u>\$ 73,828</u>	<u>\$ 109,113</u>

South Carolina State Ports Authority
Notes to Financial Statements
June 30, 2010 and 2009

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

	2010	2009
Carrying value		
Cash	\$ 7,433	\$ 6,547
Investments	<u>164,295</u>	<u>187,088</u>
	<u>\$ 171,728</u>	<u>\$ 193,635</u>
Included in the following balance sheets captions		
Cash	\$ 7,433	\$ 6,547
Investments, current assets	82,513	69,944
Internally designated for capital acquisitions	73,828	109,113
Held by trustee for debt service	6,495	6,403
Held by third party for capital projects	<u>1,459</u>	<u>1,628</u>
	<u>\$ 171,728</u>	<u>\$ 193,635</u>

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

	2010	2009
<i>(in thousands of dollars)</i>		
Capital Improvement Fund		
Cash	\$ 211	\$ 1,326
Funds invested	<u>69,996</u>	<u>102,209</u>
	<u>70,207</u>	<u>103,535</u>
Depreciation Fund		
Cash	834	1,380
Funds invested	<u>1,121</u>	<u>2,577</u>
	<u>1,955</u>	<u>3,957</u>
Other - State Port Construction Fund		
Cash	377	377
Funds invested	<u>1,289</u>	<u>1,244</u>
	<u>1,666</u>	<u>1,621</u>
	<u>\$ 73,828</u>	<u>\$ 109,113</u>

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

South Carolina State Ports Authority
Notes to Financial Statements
June 30, 2010 and 2009

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 anticipated 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.

South Carolina State Ports Authority
Notes to Financial Statements
June 30, 2010 and 2009

3. Property and Equipment

Property and equipment consist of the following amounts:

<i>(in thousands of dollars)</i>	Balance at June 30, 2009	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2010
Land	\$ 195,907	\$ -	\$ -	\$ -	\$ 195,907
Land improvements	209,441	-	-	1,934	211,375
Land held for sale	2,728	-	(62)	-	2,666
Buildings and structures	319,526	-	(111)	246	319,661
Railroad tracks	5,328	-	(601)	-	4,727
Terminal equipment	123,218	-	(631)	1,056	123,643
Furniture and fixtures	23,976	-	-	245	24,221
Capital projects in progress	69,268	57,616	(391)	(3,481)	123,012
	<u>949,392</u>	<u>57,616</u>	<u>(1,796)</u>	<u>-</u>	<u>1,005,212</u>
Less: Accumulated depreciation	<u>382,692</u>	<u>29,532</u>	<u>(1,099)</u>	<u>-</u>	<u>411,125</u>
Property and equipment, net	<u>\$ 566,700</u>	<u>\$ 28,084</u>	<u>\$ (697)</u>	<u>\$ -</u>	<u>\$ 594,087</u>

<i>(in thousands of dollars)</i>	Balance at June 30, 2008	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2009
Land	\$ 188,177	\$ 7,744	\$ (16)	\$ 2	\$ 195,907
Land improvements	177,159	-	-	32,282	209,441
Land held for sale	2,728	-	-	-	2,728
Buildings and structures	318,524	-	(22)	1,024	319,526
Railroad tracks	5,328	-	-	-	5,328
Terminal equipment	121,530	26	(331)	1,993	123,218
Furniture and fixtures	22,107	-	-	1,869	23,976
Capital projects in progress	54,292	52,146	-	(37,170)	69,268
	<u>889,845</u>	<u>59,916</u>	<u>(369)</u>	<u>-</u>	<u>949,392</u>
Less: Accumulated depreciation	<u>353,356</u>	<u>29,670</u>	<u>(334)</u>	<u>-</u>	<u>382,692</u>
Property and equipment, net	<u>\$ 536,489</u>	<u>\$ 30,246</u>	<u>\$ (35)</u>	<u>\$ -</u>	<u>\$ 566,700</u>

Leases

During the years ended June 30, 2010 and 2009, the Ports Authority leased container handlers and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately \$920,000 and \$1,074,000, respectively.

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Land Grant

On July 17, 2007, the Ports Authority received a grant of 318 acres of land from the Charleston Naval Complex Redevelopment Authority (“RDA”). The RDA is a jointly governed organization between the State of South Carolina and several counties within South Carolina. The RDA is not considered a component unit of the State of South Carolina and the State has no ongoing financial interest in the RDA. Therefore, the grant of land received by the Port Authority is not considered an intra-entity transaction and the value assigned to the land is fair market value. Based on third party independent appraisals obtained by the Ports Authority, the fair market value of the land on the date of grant is approximately \$23,550,000. The Ports Authority received an additional land grant from the RDA of approximately \$16,000 during the year ended June 30, 2009. The land will be used for the construction of a new shipping terminal.

4. Intangible Assets and Goodwill

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

<i>(in thousands of dollars)</i>	2010	2009
Intangible assets subject to amortization		
Customer contracts, amortized over two years	\$ 47	\$ 47
Customer relationships, amortized over eighteen years	645	645
Other	184	184
	<u>876</u>	<u>876</u>
Less: Accumulated amortization	(508)	(473)
Intangible assets subject to amortization, net	<u>368</u>	<u>403</u>
Goodwill, not subject to amortization	2,190	2,190
	<u>\$ 2,558</u>	<u>\$ 2,593</u>

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

<i>(in thousands of dollars)</i>	
2011	\$ 35
2012	35
2013	35
2014	35
2015	35
Thereafter	<u>193</u>
	<u>\$ 368</u>

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5. Long-Term Debt

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

<i>(in thousands of dollars)</i>	June 30, 2009	Additions	Reductions	June 30, 2010	Current Portion
Revenue bonds – 1998	\$101,660	\$ -	\$ (3,705)	\$ 97,955	\$ 3,910
Notes payable	<u>1,662</u>	<u>-</u>	<u>(351)</u>	<u>1,311</u>	<u>351</u>
	103,322	-	(4,056)	99,266	4,261
Plus: Unamortized premium	<u>602</u>	<u>-</u>	<u>(46)</u>	<u>556</u>	<u>-</u>
	<u>\$103,924</u>	<u>\$ -</u>	<u>\$ (4,102)</u>	<u>\$ 99,822</u>	<u>\$ 4,261</u>

<i>(in thousands of dollars)</i>	June 30, 2008	Additions	Reductions	June 30, 2009	Current Portion
Revenue bonds – 1998B	\$ 25,000	\$ -	\$ (25,000)	\$ -	\$ -
Revenue bonds – 1998	105,175	-	(3,515)	101,660	3,705
Notes payable	<u>1,999</u>	<u>26</u>	<u>(363)</u>	<u>1,662</u>	<u>351</u>
	132,174	26	(28,878)	103,322	4,056
Plus: Unamortized premium	<u>648</u>	<u>-</u>	<u>(46)</u>	<u>602</u>	<u>-</u>
	<u>\$132,822</u>	<u>\$ 26</u>	<u>\$ (28,924)</u>	<u>\$103,924</u>	<u>\$ 4,056</u>

Series 1998

During fiscal year 1999, the Ports Authority issued Series 1998 bonds to provide funds to finance the expansion and improvement of the Ports Authority's facilities. The bonds, issued at a premium of approximately \$1,105,000, consist of serial bonds totaling \$70,865,000 maturing July 1, 2018 and term bonds of \$54,135,000 maturing on July 1, 2026. The bond premium is amortized using the effective interest method over 28 years, the life of the bonds. Unamortized bond issue costs at June 30, 2010 and 2009 were approximately \$988,000 and \$1,050,000, respectively. Interest is payable each January 1 and July 1 at fixed rates ranging from 3.8% to 5.5%.

The Series 1998 Bonds maturing on July 1, 2018 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 amounts are as follows (plus interest accrued to date):

Redemption Date (Inclusive)	Redemption Price
July 1, 2010 to June 30, 2011	100.0 %
July 1, 2011 to June 30, 2012	100.0 %
July 1, 2012 and thereafter	100.0 %

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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 of dollars)

Redemption Period	Redemption Price
2020	\$ 6,210
2021	6,540
2022	6,890
2023	7,255
2024	7,640
2025	8,040
2026	8,470
2027	3,090

Subsequent to June 30, 2010, the Ports Authority is expected to redeem approximately \$85.6 million of the Series 1998 bonds, see Note 15 for further information.

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 monthly at variable rates, with a maximum rate of 18%.

On October 3, 2008, the Ports Authority redeemed the Series 1998B variable rate bonds through a cash payment of \$25,010,246. The 1998B bonds were subject to redemption at the option of the Ports Authority without premium at any time. The associated bond issuance costs were fully amortized at the time of redemption.

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 shall accrue on the unpaid principal balance at the LIBOR Market Rate Index Rate plus 0.4%, as the rate may change from day to day in accordance with changes in the LIBOR Market Index Rate. Use of the borrowings is unrestricted. There are no borrowings under the line of credit at June 30, 2010 and 2009.

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Maturities of long-term debt are summarized as follows:

<i>(in thousands of dollars)</i>	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2011	\$ 3,910	\$ 4,956	\$ 351	\$ 39
2012	4,125	4,729	352	29
2013	4,350	4,490	349	15
2014	4,590	4,249	259	3
2015	4,835	3,989	-	-
2016 – 2020	28,220	15,736	-	-
2021 – 2025	36,365	7,117	-	-
2026 – 2027	11,560	164	-	-
	<u>\$ 97,955</u>	<u>\$ 45,430</u>	<u>\$ 1,311</u>	<u>\$ 86</u>

Interest cost incurred in fiscal year 2010 and 2009 was approximately \$5,366,000 and \$7,951,000, respectively. Included in interest costs is an unrealized gain in fiscal year 2010 of approximately \$715,000 and an unrealized loss of approximately \$1,888,000 in fiscal year 2009, related to the interest rate swap agreements. Interest of approximately \$2,905,000 and \$2,319,000 was capitalized in fiscal year 2010 and 2009, respectively, in connection with the construction of various Port facilities and is netted against interest expense on the statement of revenues, expenses and changes in net assets.

6. Commitments

Construction

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately \$19,218,000 and \$79,746,000 at June 30, 2010 and 2009, respectively.

Harbor Deepening

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

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

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

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The Army Corps of Engineers determined the total cost of this deepening project to be approximately \$134.9 million over a six-year period. Funding sources include federal appropriations totaling approximately \$85.1 million and a local share of approximately \$49.8 million. Of this local share, the Ports Authority had drawn \$42.1 million from the State of South Carolina's general fund through June 30, 2009 as reimbursement for costs incurred by the Ports Authority associated with the project. The remaining portion of the local share of \$7.7 million is the legal obligation of the Ports Authority.

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 2010 and 2009, the total credit issued under the letters of credit was approximately \$32.9 million for both years. A total of \$32.5 has been drawn by the contracting federal agency leaving \$397,000 at the end of June 30, 2010 and 2009. As of June 30 2010, there is an outstanding draw of approximately \$193,000 against the letter of credit.

The final settlement of \$7,728,000 is estimated to be paid by the Ports Authority upon receipt of the final billing from the Army Corps of Engineers and is due on demand. This amount is reflected as a current liability as of June 30, 2010.

On August 22, 2008, the Ports Authority received official word from the State of South Carolina that no further appropriations from the State budget would be allocated for funding of the Harbor Deepening project. Therefore, the remaining obligation of approximately \$7,728,000 continues to be the financial responsibility of the Ports Authority. This portion of the Harbor Deepening project represents the Ports Authority's cost associated with deepening of the harbor.

BMW Land

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

From 1994 through June 30, 2010, the Ports Authority has been granted approximately \$17.5 million in land for use by BMW and the Department of Transportation, which carries the same provisions as the land under lease mentioned above.

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

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7. Interest Rate Exchange Agreements

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

On June 30, 2010, the Ports Authority had the following derivative instruments outstanding:

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Rating
A	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	\$26,197,500	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	Aa2/AA Aa2/AA
B	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	61,127,500	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	A1/A
C	Received Fixed-Pay Floating	Hedge of changes in cash flows on the Series 1998 bonds	87,325,000	7/1/2008	7/1/2026	Pay SIFMA Receive 3.508%	A1/A

As of June 30, 2010 and 2009, the Ports Authority determined that none of its interest rate swaps meet the criteria under GASB 53 for effectiveness; therefore, all three of the Port Authority's interest rate swap contracts are classified as investment derivatives per guidance included in GASB No. 53. Changes in the fair value of the interest rate swap contracts are included in interest expense on the statement of revenues, expenses and changes in net assets for the years ended June 30, 2010 and 2009. The Ports Authority anticipates holding the interest rate exchange contracts through maturity.

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

Changes in fair value at June 30, 2010 and 2009 are as follows:

	Derivative	June 30, 2010	June 30, 2009	Change in Fair Value
Item A	Pay Fixed Receive Floating	\$ (3,561,000)	\$ (2,465,000)	\$ (1,096,000)
Item B	Pay Fixed Receive Floating	(8,311,000)	(5,751,000)	(2,560,000)
Item C	Receive Fixed Pay Floating	6,784,000	2,413,000	4,371,000
		<u>\$ (5,088,000)</u>	<u>\$ (5,803,000)</u>	<u>\$ 715,000</u>

Changes in fair value at June 30, 2009 and 2008 are as follows:

	Derivative	June 30, 2009	June 30, 2008	Change in Fair Value
Item A	Pay Fixed Receive Floating	\$ (2,465,000)	\$ (883,000)	\$ (1,582,000)
Item B	Pay Fixed Receive Floating	(5,751,000)	(2,063,000)	(3,688,000)
Item C	Receive Fixed Pay Floating	2,413,000	(969,000)	3,382,000
		<u>\$ (5,803,000)</u>	<u>\$ (3,915,000)</u>	<u>\$ (1,888,000)</u>

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Credit Risk

The Ports Authority is exposed to actual credit risk on investment derivatives that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Ports Authority's policy to require collateral posting provisions in its non-exchange traded derivatives. Those terms require the full collateralization of the fair value of derivative instruments in asset positions (net of any netting provisions) should the counterparty's rating fall below Baa2 or BBB. In addition, each credit support annex requires collateral posting at various rating levels with threshold amounts. Collateral generally consists of cash, U.S. Government securities and U.S. Agency securities. As of June 30, 2010 no collateral has been posted by any counterparty under any derivatives contracts.

Interest Rate Risk

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

Termination Risk

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

Foreign Currency Risk

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

Commitments

All of the Ports Authority's derivative instruments contain provisions that require the Ports Authority to post collateral in the event of credit rating downgrades, subject to certain threshold amounts and minimum transfer amounts. If the rating of the Ports Authority drops to BBB or Baa2 and below, the Ports Authority must fully collateralize the fair value of the derivative. The collateral posted has to be in the form of cash, U.S. Government Securities or Agency securities in the amount of the fair value of the derivative instruments in liability positions net of the effect of applicable netting arrangements, and subject to certain thresholds at various ratings levels. As of June 30, 2010 and 2009, the Ports Authority currently has a credit rating of A1 by Moody's and A+ by Standard & Poor's and no collateral has been posted under any derivative instruments.

8. Retirement Plans

Employees of the Ports Authority participate in the South Carolina Retirement System's employees retirement plan ("SCRS"), a defined benefit, cost-sharing, multiemployer, 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, 2010 and 2009 were approximately \$28,793,000 and \$31,597,000, respectively. The wages not covered by SCRS for the years ended June 30, 2010 and 2009 were approximately \$2,707,000 and \$2,608,000, respectively.

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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 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. 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.retirement.sc.gov.

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, 2009 (the latest available) were 6.50% of the employee's salary. Actuarially determined employer contribution rates for SCRS, expressed as a percentage of compensation, at July 1, 2009 (the latest available) were 9.24%. The total contribution for the years ended June 30, 2010 and 2009 was approximately \$2,740,000 and \$3,012,000 from the Ports Authority and approximately \$1,871,000 and \$2,027,000 from or on behalf of 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 actuarial valuation method is based on a projected benefit entry age normal cost and an open-end unfunded actuarial accrued liability. The actuarial interest rate assumption is 8% per annum, compounded annually. The measure is intended to help users assess SCRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. SCRS does not make separate measurements of assets and benefits payable for individual employers. The unfunded accrued liability at July 1, 2009, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately \$11,967 billion and an estimated liquidation period of 30 years. The ten-year historical trend information showing SCRS's progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2009 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

9. Other Post-Employment Benefits ("OPEB")

The Ports Authority provides postemployment health care benefits including group healthcare, dental and vision to all employees who officially retire from the Ports Authority. These benefits are offered through private insurance carriers and the Ports Authority pays a share of the costs for the retiree's health and dental plans, but does not contribute toward the cost of the vision plan.

To be eligible for retiree group health and/or dental insurance coverage, employees must retire (based on the rules of the South Carolina Retirement System) meeting one or more of the rules below:

- Due to years of service with the Ports Authority
- Due to age (minimum service requirements must also be met)

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- On approved disability through the South Carolina Retirement System (minimum service requirements must also be met)

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

- Effective January 1, 2009, employee must retire, leave active employment with the Ports Authority, and have fifteen or more years of earned retirement service credit with the Ports Authority (the last five years must be consecutive and the employee must have been actively working in a full-time non-temporary position).

To be eligible for Non-Funded Insurance (retiree pays full premium):

- Effective January 1, 2009, employee must retire, leave active employment with the Ports Authority, and have at least ten but less than fifteen years of earned service credit with the Ports Authority (the last five years must be consecutive and the employee must have been actively working in a full-time non-temporary position).

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

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

Eligible retired employees participating in OPEB insurance programs pay their premiums directly to the third party administrator. The Ports Authority paid the employer's portion of premiums directly to the insurance carriers in the amount of approximately \$749,000 and \$748,000 for fiscal years 2010 and 2009, respectively.

The OPEB Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program, dental and vision care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, Ports Authority coverage is secondary. Recommendations for modifications are brought to the Human Resources Executive Committee. Any amendments to the obligations of the plan members or the Ports Authority's obligations to contribute to the plans are brought forth by the Human Resources Executive Committee and approved by the President and CEO.

Employees included in the actuarial valuation include retirees, survivors and active employees who are eligible to participate in the Plan upon retirement. Expenses for OPEB premiums are recognized monthly and financed on a pay-as-you-go basis. The total OPEB premiums paid were approximately \$1,451,000 and \$1,462,000 for fiscal years ended June 30, 2010 and 2009, respectively. For fiscal years 2010 and 2009, the Ports Authority paid approximately 51.6% and 51.2% and the retirees were responsible for funding approximately 48.4% and 48.8%, respectively.

As part of the transition provisions of GASB Statement No. 45, the Ports Authority accrued during fiscal year 2010 and 2009, \$1,149,000 and \$1,325,000, respectively, in retiree healthcare expense.

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

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

<i>(in thousands of dollars)</i>	2010	2009
Net OPEB obligation, beginning of year	<u>\$ 2,685</u>	<u>\$ 1,360</u>
Annual required contribution (ARC)	1,969	2,438
Interest on net OPEB obligation	9	59
Annual OPEB cost	<u>1,978</u>	<u>2,497</u>
Employer contributions	(829)	(1,146)
Interest on employer contributions	-	(26)
	<u>(829)</u>	<u>(1,172)</u>
Net OPEB obligation, end of year	<u>\$ 3,834</u>	<u>\$ 2,685</u>

Actual contributions paid in fiscal year 2010 and 2009 include the following at June 30:

<i>(in thousands of dollars)</i>	2010	2009
Employer and participant contributions	\$ 1,451	\$ 1,462
Implicit subsidy payments on behalf of active employees	80	424
Participant contributions	<u>(702)</u>	<u>(714)</u>
Total employer contributions including interest	<u>\$ 829</u>	<u>\$ 1,172</u>

Employer contributed 77.4% and 75.5% of annual OPEB cost during fiscal year 2010 and 2009, respectively.

Schedule of Employer Contributions

<i>(in thousands of dollars)</i>	Annual		
	Required	Actual	Percentage
Fiscal Year Ended	Contributions	Contributions	Contributed
June 30, 2010	\$ 1,969	\$ 829	42.1 %
June 30, 2009	2,438	1,146	47.0 %
June 30, 2008	2,546	1,216	47.8 %

The ARC of \$1,969,000 and \$2,438,000 for fiscal year 2010 and 2009, respectively, is based on the assumption that there is no funding in a segregated GASB qualified trust.

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Schedule of Funding Progress

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

(in thousands of dollars)

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)/(c)]
June 30, 2010	\$ -	\$ 24,204	\$ 24,204	0 %	\$ 28,050	86 %
June 30, 2009	-	31,552	31,552	0 %	26,061	121 %
June 30, 2008	-	31,552	31,552	0 %	26,061	121 %

Schedule of Percentage of OPEB Cost Contributed

(in thousands of dollars)

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 1,978	42.1 %	\$ 3,834
June 30, 2009	2,497	47.0 %	2,685
June 30, 2008	2,603	47.8 %	1,360

Summary of Key Actuarial Methods and Assumptions

Valuation year	July 1, 2008 – June 30, 2009	
Actuarial cost method	Projected Unit Credit	
Amortization method	30 years, level percent of active member payroll	
Asset valuation method	N/A	
Actuarial assumptions	2010	2009
Discount rate	4.5%	4.5%
Projected payroll growth rate	3.0%	3.0%
Health care cost trend rate for medical and prescription drugs	8.5%	9.0%

(8.5% in 2010 and 9.0% in 2009, decreasing by one-half percentage point per year to an ultimate rate of 4.5% in fiscal year 2018 and after).

10. Facilitating Agreements

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

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In fiscal year 2010 and 2009, operating revenue recorded for facilitating agreements by the Ports Authority was approximately \$73,819,000 and \$87,748,000, respectively.

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

<i>(in thousands of dollars)</i>	2010	2009
Cost	\$ 565,321	\$ 544,626
Accumulated depreciation	259,770	236,669

Minimum future operating revenue and rentals, excluding contracts that do not have minimum volume guarantees, to be received under noncancelable agreements as of June 30, 2010 were:

<i>(in thousands of dollars)</i>		
2011		\$ 24,702
2012		20,528
2013		20,735
2014		16,218
2015		6,100
Thereafter		<u>12,742</u>
		<u>\$ 101,025</u>

11. Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, investments, accounts and retainage payable, credit agreement and other debt approximate fair value. The fair values of long-term debt were estimated using discounted cash flows based on current rates available to the Ports Authority for similar borrowing arrangements and the market rate of comparable traded debt. The fair market value at June 30, 2010 and 2009 was approximately \$94,810,000 and \$98,947,000, respectively.

12. Other Matters

Cooper River Bridge

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

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

South Carolina State Ports Authority

Notes to Financial Statements

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

On June 24, 2005, the Ports Authority and the State of South Carolina finalized an agreement regarding the remaining contributions to the Cooper River Bridge. The agreement stated that each contribution is a separate non-exchange transaction and the Ports Authority has only the obligation to pay the \$1,000,000 annual amount at any given time for the remaining 25 years. Payments to the State of South Carolina totaled \$1,000,000 in each fiscal year 2010 and 2009.

Jasper County

The Ports Authority entered into a joint government organizational agreement with the State of Georgia for the formation of a bi-port facility to be operated jointly between the Ports Authority and the State of Georgia. The legal and operational structure of the potential bi-port facility is not known at this time. The Ports Authority contributed \$1,000,000 in cash to the joint organization in 2010. The cash contribution has been used by the joint organization to support the initial planning associated with a bi-port facility. Total expenses recognized by the Ports Authority related to initial planning costs were approximately \$960,000 for the year ended June 30, 2010.

Federal Grant Agreements

From 2002 through 2009, the Ports Authority was awarded grants from the Department of Homeland Security, Office of State and Local Government Coordination and Preparedness and the Department of Transportation, Maritime Administration ("DOT") (as an agent of the Transportation Security Administration) for approximately \$26.2 million to be used for port security. As of June 30, 2010 and 2009, the Ports Authority has expended approximately \$1,415,000 and \$3,225,000, respectively, related to these grant agreements.

In 2009 the Ports Authority was awarded grants from the Environmental Protection Agency's National Clean Diesel Funding Assistance Program for approximately \$2,735,000. As of June 30, 2010, the Ports Authority has expended approximately \$1,262,000 related to these grants.

Closure of Port Royal Terminal

Effective December 31, 2006, the Ports Authority discontinued operations and closed the Port Royal terminal located in Port Royal, SC. The State of South Carolina has mandated the closure of this terminal so that the land can be developed to generate future revenues for the State of South Carolina. The Ports Authority had lease contracts with several major tenants at the Port Royal facility. Certain lease termination costs will be incurred in order to terminate the leases and prepare the land for sale. The Ports Authority has estimated the costs to terminate the leases as of June 30, 2010 and 2009. Based on current estimates, the Ports Authority believes the termination costs can be fully recovered from the future sale of the land and has recorded the estimated termination charges as deferred costs.

In May 2010, the Ports Authority entered into a sale agreement for the Port Royal property. At June 30, 2010, the buyer and the Ports Authority have reached an agreement for sale; however final approval is pending by the State Budget and Control Board. As of June 30, 2010 and 2009, the Port Royal land is classified as held for sale.

South Carolina State Ports Authority

Notes to Financial Statements

June 30, 2010 and 2009

Recent Legislation

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

Act No. 73 directs the sale of real property owned by the Ports Authority at Port Royal, Daniel Island and Thomas Island and imposes time deadlines for the completion of such sales. Management does not believe that the sale of the assets in question would have a material impact on the Ports Authority's operations or financial position. However, the Ports Authority must balance compliance with the deadlines imposed by Act. No. 73 with certain limitations upon the disposition of real property contained in the Ports Authority's Master Bond Resolution. In particular, Act No. 73 required a sale of the Port Royal property by December 31, 2009, barring which the Port Royal property was to be transferred to the State Budget and Control Board, which agency would assume the Ports Authority's fiduciary duties to its bondholders relating to the disposition of real property. The Port Royal sale has not been completed. Act No. 73 also requires that the Daniel Island and Thomas Island properties be subject to a contract of sale by December 31, 2012, such sale to be completed by December 31, 2013, barring which such properties are also to be transferred to the State Budget and Control Board. Legal counsel for the Ports Authority and the State Budget and Control Board are reviewing options for a course of action to ensure compliance with both Act No. 73 and the Ports Authority's Master Bond Resolution, regarding disposition of its real property.

Act No. 73 also imposes obligations on the Ports Authority to take all action necessary to expeditiously develop a port in Jasper County, including the imposition of timelines and benchmarks. No action has been required of the Ports Authority to date under this provision. The impact of this provision on the Ports Authority's operations and financial position cannot be ascertained at this time, but the cost of such project could be material.

13. Litigation

In the ordinary course of business, the Ports Authority becomes involved in litigation, claims and administrative proceedings. Certain litigation, claims and proceedings were pending at June 30, 2010, 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.

As noted in Note 12, which describes the closure of the Port Royal terminal, related tenants have filed arbitration notices claiming breach of contract against the Ports Authority. Each plaintiff seeks monetary damages. It is the intention of the Ports Authority to defend its position vigorously. During fiscal year 2009, a settlement was reached with two of the tenants. Management is unable to determine the probability of an unfavorable or favorable outcome related to the remaining arbitration notice.

14. Payment to Berkeley County

In February 2010, the Ports Authority made a cash payment of \$7,000,000 to Berkeley County, South Carolina for the construction of a highway interchange to support business development in South Carolina. The cash payment is reflected as a contribution presented as a non-operating expense as of June 30, 2010.

South Carolina State Ports Authority
Notes to Financial Statements
June 30, 2010 and 2009

15. Subsequent Event

The Ports Authority is expected to redeem approximately \$85.6 million of the Series 1998 bonds through a cash payment made subsequent to June 30, 2010. Funding for capital projects is expected to be obtained from the issuance of tax-exempt debt totaling approximately \$150 million before December 31, 2010, although no assurances can be provided that such funding will be obtained.

On September 30, 2010, the sale of the Port Royal property was approved by the State Budget and Control Board.

Required Supplemental Information

South Carolina State Ports Authority Required Supplemental Information June 30, 2010 and 2009

(in thousands of dollars)

The Ports Authority provides postemployment health care benefits including group healthcare, dental and vision to all employees who officially retire from the Ports Authority. These benefits are offered through private insurance carriers and the Ports Authority pays a share of the costs for the retiree's health and dental plans, but does not contribute toward the cost of the vision plan.

To be eligible for retiree group health and/or dental insurance coverage, employees must retire (based on the rules of the South Carolina Retirement System) meeting one or more of the rules below:

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

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

- Effective January 1, 2009, employee must retire, leave active employment with the Ports Authority, and have fifteen or more years of earned retirement service credit with the Ports Authority (the last five years must be consecutive and the employee must have been actively working in a full-time non-temporary position).

To be eligible for Non-Funded Insurance (retiree pays full premium):

- Effective January 1, 2009, employee must retire, leave active employment with the Ports Authority, and have at least ten but less than fifteen years of earned service credit with the Ports Authority (the last five years must be consecutive and the employee must have been actively working in a full-time non-temporary position).

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

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

Eligible retired employees participating in OPEB insurance programs pay their premiums directly to the third party administrator. The Ports Authority paid the employer's portion of premiums directly to the insurance carriers in the amount of approximately \$749,000 and \$748,000 for fiscal years 2010 and 2009, respectively.

South Carolina State Ports Authority
Required Supplemental Information
June 30, 2010 and 2009

(in thousands of dollars)

The OPEB Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program, dental and vision care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, Ports Authority coverage is secondary. Recommendations for modifications are brought to the Human Resources Executive Committee. Any amendments to the obligations of the plan members or the Ports Authority's obligations to contribute to the plans are brought forth by the Human Resources Executive Committee and approved by the President and CEO.

Employees included in the actuarial valuation include retirees, survivors and active employees who are eligible to participate in the Plan upon retirement. Expenses for OPEB premiums are recognized monthly and financed on a pay-as-you-go basis. The total OPEB premiums paid were approximately \$1,451,000 and \$1,462,000 for fiscal years ended June 30, 2010 and 2009, respectively. For fiscal years 2010 and 2009, the Ports Authority paid approximately 51.6% and 51.2% and the retirees were responsible for funding approximately 48.4% and 48.8%, respectively.

As part of the transition provisions of GASB Statement No. 45, the Ports Authority accrued during fiscal year 2010 and 2009, \$1,149,000 and \$1,325,000, respectively, in retiree healthcare expense.

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

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

(in thousands of dollars)

	2010	2009
Net OPEB obligation, beginning of year	<u>\$ 2,685</u>	<u>\$ 1,360</u>
Annual required contribution (ARC)	1,969	2,438
Interest on net OPEB obligation	9	59
Annual OPEB cost	<u>1,978</u>	<u>2,497</u>
Employer contributions	(829)	(1,146)
Interest on employer contributions	-	(26)
	<u>(829)</u>	<u>(1,172)</u>
Net OPEB obligation, end of year	<u>\$ 3,834</u>	<u>\$ 2,685</u>

Actual contributions paid in fiscal year 2010 and 2009 include the following at June 30:

(in thousands of dollars)

	2010	2009
Employer and participant contributions	\$ 1,451	\$ 1,462
Implicit subsidy payments on behalf of active employees	80	424
Participant contributions	<u>(702)</u>	<u>(714)</u>
Total employer contributions including interest	<u>\$ 829</u>	<u>\$ 1,172</u>

South Carolina State Ports Authority
Required Supplemental Information
June 30, 2010 and 2009

(in thousands of dollars)

Employer contributed 77.4% and 75.5% of annual OPEB cost during fiscal year 2010 and 2009, respectively.

Schedule of Employer Contributions

(in thousands of dollars)

Fiscal Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2010	\$ 1,969	\$ 829	42.1 %
June 30, 2009	2,438	1,146	47.0 %
June 30, 2008	2,546	1,216	47.8 %

The ARC of \$1,969,000 and \$2,438,000 for fiscal year 2010 and 2009, respectively, is based on the assumption that there is no funding in a segregated GASB qualified trust.

Schedule of Funding Progress

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

(in thousands of dollars)

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)/(c)]
June 30, 2010	\$ -	\$ 24,204	\$ 24,204	0 %	\$ 28,050	86 %
June 30, 2009	-	31,552	31,552	0 %	26,061	121 %
June 30, 2008	-	31,552	31,552	0 %	26,061	121 %

Schedule of Percentage of OPEB Cost Contributed

(in thousands of dollars)

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 1,978	42.1 %	\$ 3,834
June 30, 2009	2,497	47.0 %	2,685
June 30, 2008	2,603	47.8 %	1,360

South Carolina State Ports Authority
Required Supplemental Information
June 30, 2010 and 2009

(in thousands of dollars)

Summary of Key Actuarial Methods and Assumptions

Valuation year	July 1, 2008 – June 30, 2009	
Actuarial cost method	Projected Unit Credit	
Amortization method	30 years, level percent of active member payroll	
Asset valuation method	N/A	
Actuarial assumptions	2010	2009
Discount rate	4.5%	4.5%
Projected payroll growth rate	3.0%	3.0%
Health care cost trend rate for medical and prescription drugs	8.5%	9.0%

(8.5% in 2010 and 9.0% in 2009, decreasing by one-half percentage point per year to an ultimate rate of 4.5% in fiscal year 2018 and after).