

P8385  
1.996  
Copy 2

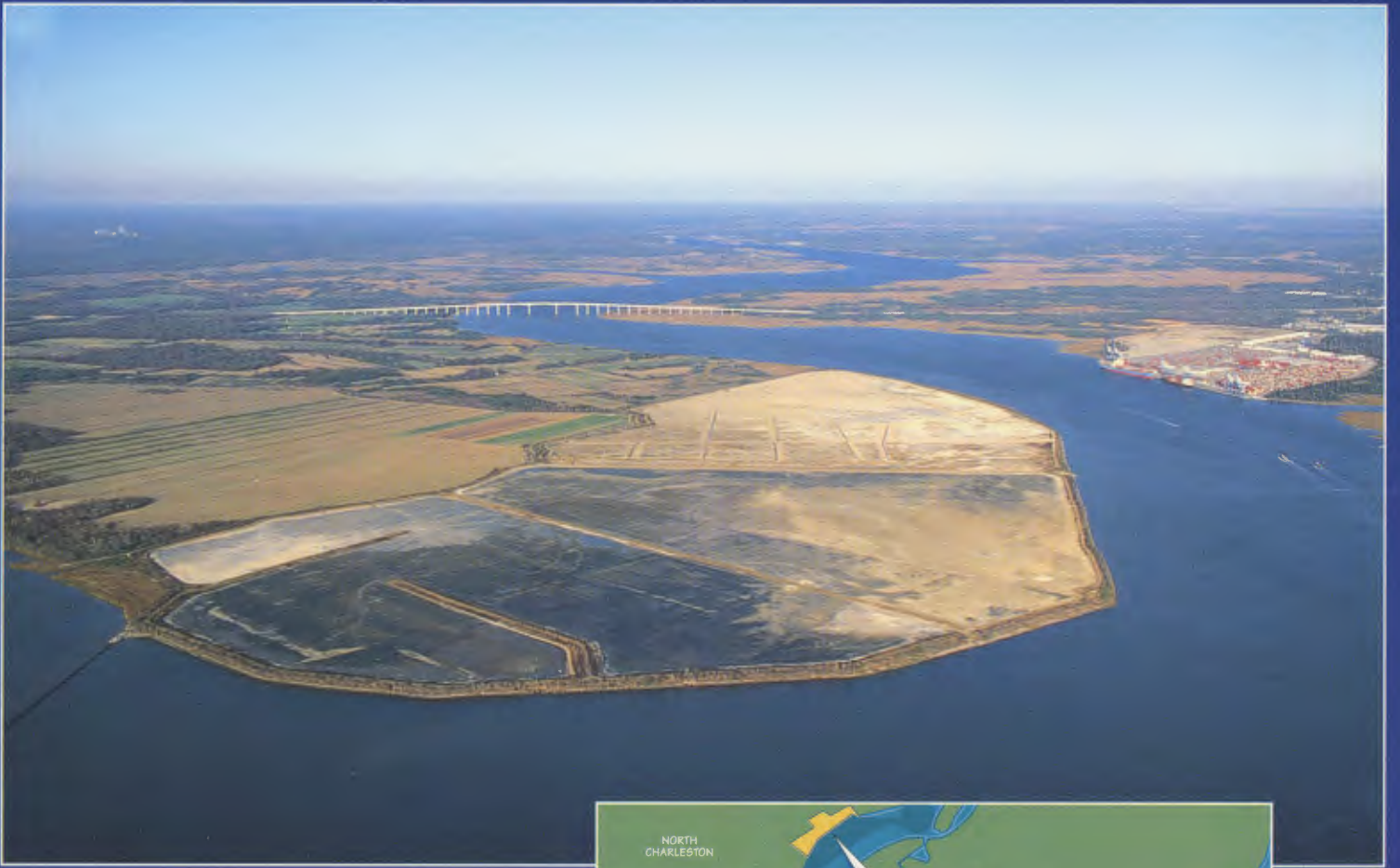
S. C. STATE LIBRARY  
MAY 21 1999  
STATE DOCUMENTS



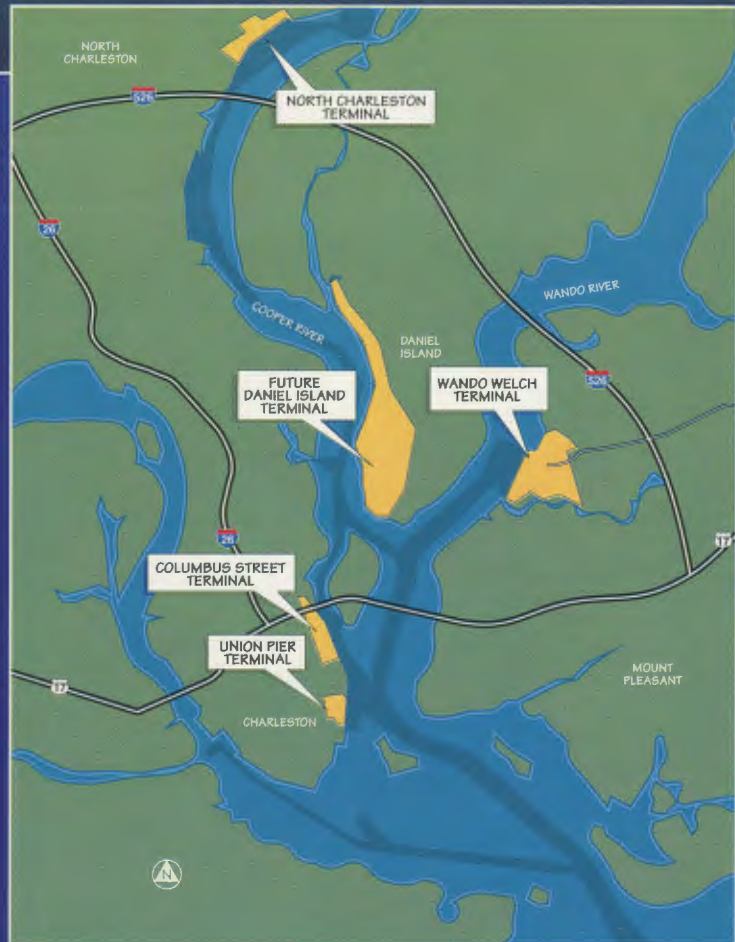
Looking to  
*the Future...*

SOUTH CAROLINA  
STATE PORTS  
AUTHORITY

ANNUAL REPORT  
*Fiscal Year 1996*



*At completion, Daniel Island Terminal will add more than 800 acres of space, doubling existing capacity.*



*Daniel Island is located only 1 1/2 hours from the open sea.*

A photograph of two men in business suits standing on the deck of a ship. They are looking at a large document held by the man on the left. The man on the right is gesturing with his hand. The background shows a clear blue sky and a body of water.

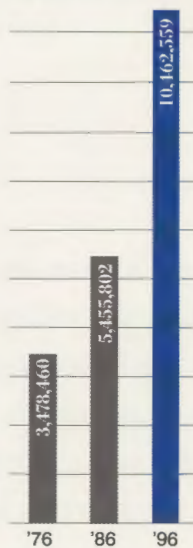
*Message from the*

**CHAIRMAN AND EXECUTIVE DIRECTOR**

**FISCAL YEAR 1996** was a very significant crossroads for the South Carolina State Ports Authority. Direction was confirmed and commitment made which will greatly enhance the economic future of South Carolina. It is quite clear to us that international development and trading trends require additional port facilities to handle economic development and the flow of international trade through the SPA's predominant Port of Charleston.

A major factor in South Carolina's economic growth over the past several decades has been its strong international focus. The SPA has certainly played a significant role in this development, and has at the same time enjoyed growth because of the economic development and businesses attracted to South Carolina. As companies from across the country and around the world set their sights on new locations for manufacturing and distribution facilities, South Carolina often jumps to the foreground. This did not just happen by chance. Rather, it is the product of a lot of coordinated effort by numerous entities and individuals in South Carolina who are determined to make our state uniquely attractive to quality industries.

TOTAL TONNAGE  
South Carolina  
State Ports Authority



Looking at the state's record in attracting investment, it becomes clear that a decidedly pro-business climate combined with immediate access to one of the best ports in the country are very persuasive components of the industrial recruitment efforts. The diverse services offered through the Port of Charleston provide globally-oriented companies with the greatest variety of shipping options in the Mid- and South Atlantic. This minimizes costs and provides companies with a tighter link between domestic and worldwide operations.

The ever-changing landscape of international shipping requires heavy investment in terminals and ship channels to handle rapidly expanding trade and to maintain competitive advantage. The SPA has a hard-earned reputation for providing the tools necessary for companies to reach their suppliers and customers; a fact that is manifested in significant volume increases over the past several years.

## New Leadership for

### THE FUTURE

Following executive director W. Don Welch's announcement of his intention to retire at the end of June 1997, the nine-member board of the South Carolina State Ports Authority unanimously selected **Bernard S. Groseclose, Jr.**, the SPA's current director of planning & development, as *president and chief executive officer*.

Mr. Groseclose will assume these positions January 1, 1997 with Don Welch serving in a consulting role through the remainder of the fiscal year. L. Duane Grantham, the port's current director of sales & marketing, was named executive vice president and chief operating officer.

Many excellent candidates from around the world were among those reviewed in the SPA's search. It is to the SPA's credit, and also speaks well for Don Welch's guidance and leadership, that internal candidates demonstrated the high levels of experience and



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

leadership qualifications to be chosen to lead the state's ports into the future.

Mr. Groseclose joined the Ports Authority in 1985 as manager of business analysis, later serving as executive assistant to the executive director before becoming director of planning & development. He was previously with Rockwell International where he rose to the position of manager of financial analysis.

His strong planning and financial skills have contributed to the SPA's success over the past 10 years and his broad experience has prepared him well for his new roles as president and CEO. In his current position, he has been responsible for coordinating major port projects, analyzing contracts and business opportunities, developing the SPA's strategic plan, supervising the Information Services department, and planning for the future information needs of the Authority.



*This year the Wando Welch Terminal handled more cargo than the entire port did just 10 years ago.*

He is currently chairman of the South Carolina World Trade Center-Charleston and has also served as chairman of the American Association of Port Authorities' Planning & Research Committee, president of the South Atlantic & Caribbean Ports Association, member of the Transportation Research Board's Committee on Ports & Channels, and many other professional organizations. Mr. Groseclose is quite active in authoring port-related articles and is a frequent lecturer at various seminars in the U.S. and abroad. He received his B.A. in economics at Hampden-Sydney College in Virginia and his M.B.A. from the College of William & Mary.



**L. Duane Grantham**  
*Executive Vice President and  
Chief Operating Officer*

**L. Duane Grantham** will bring a broad range of experience to his new role as *executive vice president and chief operating officer*. He joined the Ports Authority in 1985 as director of sales & marketing after working in

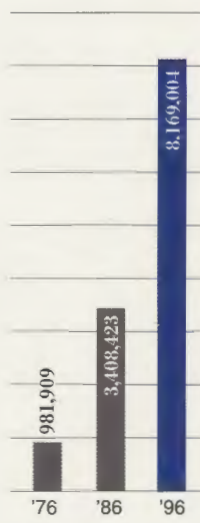
management with United States Lines, a major ocean carrier in the history of U.S. containerized trade. During his time at the SPA, Mr. Grantham has overseen steamship and cargo sales, pricing and tariffs, marketing research and advertising and publications.

While serving in various roles with U.S. Lines he developed a refined view of the East Coast international shipping environment. His knowledge of and effectiveness in dealing with the leading shipping lines throughout the world will aid the SPA in its commitment to provide ever-increasing quality service to our existing shipping lines and other customers. His many strengths as the leading salesman for the SPA will enable the SPA to continue to attract new quality users, and resulting cargo volumes to the existing and planned port facilities. Mr. Grantham received a B.B.A. degree in finance from Georgia Southern University.



*Close proximity to the open sea and superior productivity move vessels rapidly through the Port of Charleston.*

**CONTAINERIZED TONNAGE**  
Port of Charleston



After a record-shattering year in 1995, with major new steamship lines bringing extremely rapid growth to Charleston, it is obvious that Charleston has established itself as the most efficient, attractive, and modern port in the eastern U.S. Growth continued in 1996 and the new terminal space at Wando Welch Terminal, completed just before the start of the fiscal year, was filled immediately upon its completion.

The pattern of growth over the last five years confirms the strong trends indicated for Charleston by world trade analysts. Plans for handling continuing increases in demand have developed new urgency to provide the capabilities to properly meet those demands. A Daniel Island site purchased by the SPA in 1992 and long referred to as "Terminal X" is now an active

and vital part of daily planning discussions. The unknown quantity "X" has become Daniel Island Terminal, an 825-acre site which will be developed over the next 10-15 years into seven berths with huge cranes, hundreds of acres of cargo marshaling area, and on-site rail facilities. While a facility so large and costly will be constructed in several phases, the infrastructure must come at the front of the project and the first phase must now get underway.

As pressure grew to meet South Carolina's future trading needs, the survey work for Daniel Island was pushed to completion. Vital channel and navigation studies became more complex in preparation for terminal design and harbor deepening. Routes for ships and cargo in and out of the facility are being prepared. The deepening

of Charleston Harbor to 45 feet is a project on which the SPA worked closely with our state's United States Congressional delegation to include in the 1996 Water Resources Development Act, and this was accomplished in the last week of September before the Congress adjourned. The railroad route linking the new terminal with the East Cooper and Berkeley Railroad, which already services Amoco and Nucor above the Daniel Island Terminal, was carefully researched. Work is underway to secure the necessary property right-of-way.

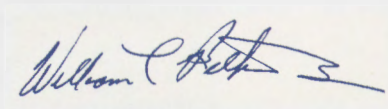
Requests for proposals have gone out for further transportation work to include traffic studies and design. RFPs have also been published and contracts are now being finalized for geotechnical work, environmental and permitting work, and freshwater and tidal wetlands delineation. Survey work is complete. Senior port management has been involved in open discussions with regulatory and environmental groups to ensure that questions are addressed from the very beginning of the process. We are hopeful that this proactive approach will help the development proceed with appropriate input and guidance before, during, and following the permitting process.

The balancing of need in relation to cost is delicate. A conservative and efficient port plans to have its facilities on-line just at the point when cargo overflows existing space. The SPA wants neither to

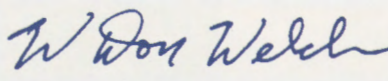
turn away business which may never be retrieved, nor to pay debt service on construction moneys before space is needed. Careful studies and long-term strategic planning work together to define port deadlines. At this point, the deadline for opening Daniel Island Terminal will be upon us early in the next century and all efforts are turned to meeting that deadline.

In the meantime, we must search for new and innovative ways to obtain more utilization from our existing terminals and equipment as a means by which we can maintain our momentum and accommodate some of the continued growth in demand. We must also, and we will, strive with determination to make all of our customers and constituencies know that our solemn commitment is to continue the earnest push to make Charleston the premier load center port on the East Coast of North America, second only to the Port Authority of New York & New Jersey.

The State of South Carolina, the businesses, and the people of our state deserve no less.

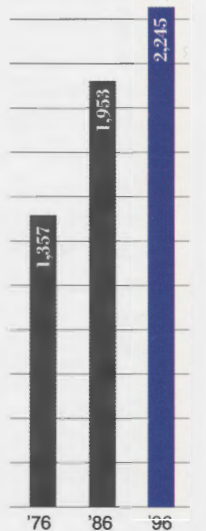


William L. Bethea, Jr.  
Chairman



W. Don Welch  
Executive Director

VESSEL CALLS  
South Carolina State  
Ports Authority



## Continuing Financial Leadership

**Peter N. Hughes**, the SPA's controller for the past nine years, has been named *chief financial officer*, succeeding William M. Lawrence who was named senior director, corporate processes.



**Peter N. Hughes**  
*Chief Financial Officer*

Mr. Hughes came from the public accounting industry to the SPA as internal auditor in 1983. He later served as manager of general accounting before being named controller in 1987. He will be responsible for all of the SPA's financial functions, including general accounting, debt management, treasury operations, financial planning, risk management, and the coordination of legal matters.

Mr. Hughes, a graduate of the College of Charleston, is a Certified Public Accountant and a Certified Internal Auditor. He is a member of various professional associations including the South Carolina Association of CPAs, the American Institute of CPAs, the Institute of Internal Auditors, and the Finance Committee of the American Association of Port Authorities.

**William M. Lawrence**, as *senior director of corporate processes*, now reviews and evaluates major SPA policies and management directives in preparation for the SPA's future challenges.



**William M. Lawrence**  
*Senior Director,  
Corporate Processes*

During his 22-year tenure, Lawrence developed a financial management team of the highest professional and ethical caliber to the ongoing benefit of the Authority. He established solid relationships in the commercial and investment banking environment and created a true property and liability risk management function. In support of business and customer development, Mr. Lawrence enhanced SPA accounting and financial operations and reporting.

As Mr. Lawrence moves into his planned retirement December 31, 1996, he has prepared the Authority for continuing financial leadership.



*Steel coils, forest products, and bulk commodities are top cargoes for Georgetown and Port Royal.*

## Georgetown & Port Royal Overview

Under the guidance of Director, L. David Schronce, Charleston's sister ports in Georgetown and Port Royal continued their important role of providing access to ocean transportation for a number of local industries.

**The Port of Georgetown** set a new record in the fiscal year by handling 1.49 million tons of cargo. Tonnage increased 12%, up strongly from 1.3 million tons in the 1995 accounting period.

A vast majority of the port's business is related to local industries such as Georgetown Steel, International Paper, Holnam Cement, AKZO-Nobel Salt and Insteel Industries, companies that rely on the harbor to access their suppliers and customers. These healthy existing accounts combined with new business to spur the increase for the fiscal year.

Martin Marietta, which signed a 12-month, 100,000-ton agreement with the port, began moving washed limestone through Georgetown in late May. In February, McAllister Towing started a new Puerto Rican service bringing in shredded scrap steel from San Juan and then loading breakbulk cargo at the Ports Authority's dock for export.

While inbound shipments make up a large portion of traffic through Georgetown, exports showed significant growth last year. According to U.S. government statistics, Georgetown handled more than \$53.3 million in exports in 1995, up 174% from 1994.

Also during the fiscal year, the federal

government appropriated \$300,000 to study whether or not the Port of Georgetown should have a deeper shipping channel or other navigational improvements. A deeper channel could allow larger or more heavily laden vessels to come into Georgetown and could expand opportunities for waterborne commerce.

Several new contracts signed at the **Port of Port Royal** in its first year under SPA operational control point to healthy future business for the facility. Port volume totaled 73,000 tons, which was even with the previous year.

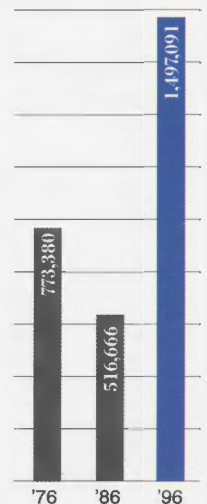
New business for Port Royal includes The Feldspar Corporation's bulk feldspar exports to Venezuela and the Dominican Republic, Addlestone International's iron shipments from Brazil, and B&B Trucking Company's future bulk cement imports from Venezuela. B&B Trucking has signed a long-term lease with the port which will lead to dedicated facilities. The SPA gained operating control of the port from a private operator just before the beginning of the fiscal year.

Considering the port's existing clay slurry account and these three new accounts, Port Royal volume could total 100,000 tons this year and 175,000 tons next year. With these four accounts, vessel traffic could rise to 25 ships by 1997. The SPA also announced new lease agreements during the fiscal year for properties in Port Royal, diversifying this business segment's revenue stream.



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

TOTAL  
TONNAGE  
Port of Georgetown



*Authority Board*



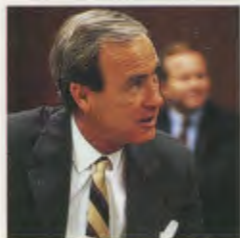
**William L. Bethea, Jr.**  
*Chairman*



**Edgar A. Buck**  
*Vice Chairman*



**Billy J. Coleman**  
*Secretary*



**Thomas F. Hartnett**  
*Treasurer*



**Harry R. Easterling**



**Dorothy G. Owen**



**Gayle O. Averyt**



**James B. Moore, Jr.**



**Joseph T. Newton, III**



**W. Don Welch**  
*Executive Director*

# Financial Statements

Years ended June 30, 1996 and 1995  
with Report of Independent Auditors

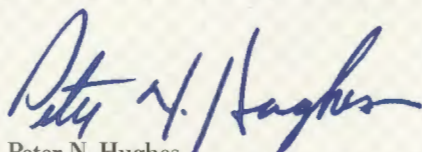
## STATEMENT OF FISCAL ACCOUNTABILITY

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

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

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

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



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

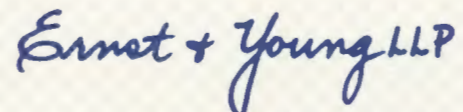
## REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Members of the Governing Board  
South Carolina State Ports Authority

We have audited the balance sheets of the South Carolina State Ports Authority as of June 30, 1996 and 1995, and the related statements of reinvested earnings and accumulated earnings reinvested in the business, and cash flows for the years then ended. These financial statements are the responsibility of the South Carolina State Ports Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina State Ports Authority at June 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



Greenville, South Carolina  
August 23, 1996

**BALANCE SHEETS**

<i>(In thousands)</i>	<i>Years ended June 30,</i>	
	1996	1995
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,438	\$ 1,519
Operating funds invested by the State Treasurer	8,214	9,701
	10,652	11,220
Accounts receivable:		
Trade, less allowance for doubtful accounts of \$650 (1996) and \$697 (1995)	10,387	9,572
Other	267	213
Inventories	1,109	1,086
Prepaid and other current assets	2,603	1,872
Total current assets	25,018	23,963
Assets restricted by revenue bond covenants	27,959	21,252
Property and equipment, net	317,124	320,527
Unamortized bond issue costs	1,572	1,643
Total assets	\$371,673	\$367,385

<i>(In thousands)</i>	<i>Years ended June 30,</i>	
	1996	1995
<b>LIABILITIES AND CAPITALIZATION</b>		
Current liabilities payable from current assets:		
Accounts payable	\$ 2,439	\$ 2,443
Accrued employee compensation and payroll-related withholdings and liabilities	2,096	1,998
Total current liabilities payable from current assets	4,535	4,441
Current liabilities payable from restricted assets:		
Current maturities of long-term debt	1,043	984
Accounts payable, construction	287	1,154
Retainage payable on construction contracts	191	466
Accrued interest payable	2,141	2,184
Total current liabilities payable from restricted assets	3,662	4,788
Long-term debt	86,338	87,341
Capitalization:		
Contributed capital	173,896	171,100
Accumulated earnings reinvested in the business	103,242	99,715
Total capitalization	277,138	270,815
Total liabilities and capitalization	\$371,673	\$367,385

See accompanying notes.

**STATEMENTS OF REINVESTED EARNINGS AND ACCUMULATED EARNINGS REINVESTED IN THE BUSINESS**

<i>(In thousands)</i>	<i>Years ended June 30,</i>	
	<b>1996</b>	<b>1995</b>
<b>OPERATING REVENUE</b>	<b>\$ 62,254</b>	<b>\$55,278</b>
Operating expenses:		
Direct operating expense	29,593	26,093
Administrative expense	11,708	11,341
Depreciation expense	14,671	12,234
	55,972	49,668
<b>OPERATING EARNINGS</b>	<b>6,282</b>	<b>5,610</b>
Nonoperating income (expense):		
Interest income	1,747	1,520
Other income	487	471
Interest expense	(4,731)	(1,166)
Other expense	(258)	(208)
	(2,755)	617
Earnings reinvested in Port operations and facilities	3,527	6,227
Accumulated earnings reinvested in the business at beginning of year	99,715	93,188
Accumulated earnings reinvested in the business at end of year	<b>\$103,242</b>	<b>\$99,715</b>

See accompanying notes.

**STATEMENTS OF CASH FLOWS**

<i>(In thousands)</i>	<i>Years ended June 30,</i>	
	1996	1995
<b>OPERATING ACTIVITIES</b>		
Operating earnings	\$ 6,282	\$ 5,610
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	14,671	12,234
Provision for doubtful accounts	800	750
Other earnings, net	229	263
Amortization	108	108
Gain on disposal of fixed assets	(277)	(85)
Changes in operating assets and liabilities:		
Accounts receivable	(1,668)	(1,498)
Inventories	(23)	(150)
Prepaid and other current assets	(731)	123
Accounts payable	(4)	203
Payroll-related liabilities	98	228
Net cash provided by operating activities	19,485	17,786
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	6,976	26,436
Purchases of investments	(5,448)	(6,024)
Interest on investments	1,747	1,939
Net cash provided by investing activities	3,275	22,351
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(11,352)	(20,940)
Change in retainage and construction accounts payable	(1,142)	(1,186)
Principal paid on revenue bonds	(960)	(915)
Principal paid on other debt	(21)	(448)
Interest paid on revenue bonds	(4,711)	(5,133)
Interest paid on other debt	(27)	(42)
Capital contributed to State Railways Commission	(9)	(315)
Capital contributed from State of South Carolina	2,805	-
Proceeds from sale of fixed assets	324	116
Net cash (used in) capital and related financing activities	(15,093)	(31,863)
Net increase in cash and cash equivalents	7,667	8,274
Cash and cash equivalents at beginning of year	24,564	16,290
Cash and cash equivalents at end of year	\$ 32,231	\$ 24,564

**STATEMENTS OF CASH FLOWS** (Continued)

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

(In thousands)

	Current Assets	Restricted Assets	Statement of Cash Flows Totals
Cash and cash equivalents at June 30, 1995	\$11,220	\$13,344	\$24,564
Net (decrease) increase	(568)	8,235	7,667
Cash and cash equivalents at June 30, 1996	<b>\$10,652</b>	<b>\$21,579</b>	<b>\$32,231</b>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

During 1995, the Ports Authority entered into a capital lease agreement for an asset valued at \$144,000.

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1996

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION AND BASIS OF ACCOUNTING**

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

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

**CASH, INVESTMENTS AND POOLED INVESTMENTS**

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

with revenue bond covenants are included on the balance sheet as “Assets restricted by revenue bond covenants.”

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

At June 30, 1996 and 1995, the Ports Authority’s funds held by banks as trustees totaled \$6,380,000 and \$7,908,000, respectively. The State Treasurer held \$28,450,000 and \$21,769,000 of the Port’s Authority’s funds at June 30, 1996 and 1995, respectively.

The Ports Authority’s total cash and investments at June 30, 1996 and 1995 were \$38,611,000 and \$32,472,000, respectively, at cost, which approximates market value. Periodically cash on deposit in Federally insured institutions exceeds the limit on insured deposits, and may not be specifically collateralized.

**INVENTORIES**

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

**PROPERTY AND DEPRECIATION**

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

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

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

Notes to the Financial Statements (continued)

**USE OF ESTIMATES**

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

**RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The 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 in any of the past three fiscal years.

**CONCENTRATION OF CREDIT RISK**

The Ports Authority provides services and facilities usage for companies located throughout the world. During fiscal year 1996, one customer accounted for approximately 10% of the Authority's revenues. The Ports Authority performs ongoing credit evaluations

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

**UNEMPLOYMENT COMPENSATION**

The Ports Authority is liable under the South Carolina Employment Security Law for unemployment compensation to its employees. The Ports Authority has elected to reimburse the Employment Security Commission for benefits paid by the Commission in connection with claims. The Ports Authority records a liability for estimated future unemployment compensation claims.

**STATEMENTS OF CASH FLOWS**

For purposes of the statement of cash flows, the Ports Authority considers all demand deposits and short-term investments (including funds held by the State Treasurer and restricted funds, except Debt Service Funds, Debt Service Reserve Funds, the 1994 Construction Funds and the Wando Completion Fund) purchased with an original maturity of three months or less to be cash equivalents.

**2. ASSETS RESTRICTED BY REVENUE BOND COVENANTS**

Restricted funds at June 30 summarized by fund are (in thousands):

	1996	1995
Funds held by trustee relating to outstanding revenue bonds:		
1994 Construction Fund	\$ -	\$ 1,778
1991 Debt Service Fund	3,309	3,198
1991 Debt Service Reserve Fund	3,071	2,927
Wando Completion Fund	-	5
<b>Total funds held by trustee</b>	<b>6,380</b>	<b>7,908</b>
Cash and cash equivalents:		
Capital Improvement Fund:		
Cash	848	1,126
Funds invested by the State Treasurer	15,879	9,654
	<b>16,727</b>	<b>10,780</b>
Capital Improvement Fund (Georgetown):		
Funds invested by the State Treasurer	85	80
	<b>16,812</b>	<b>10,860</b>
Depreciation Fund:		
Cash	473	137
Funds invested by the State Treasurer	4,066	2,178
	<b>4,539</b>	<b>2,315</b>
Other - State Port Construction Fund:		
Cash	22	13
Funds invested by the State Treasurer	206	156
	<b>228</b>	<b>169</b>
<b>Total cash and cash equivalents</b>	<b>21,579</b>	<b>13,344</b>
<b>Total assets restricted by revenue bond covenants</b>	<b>\$27,959</b>	<b>\$21,252</b>

The 1991 Debt Service Reserve Fund includes \$2,637,000 (1996 and 1995) invested in U.S. Government debt securities considered held-to-maturity since the Ports Authority has the intent and ability to do so. The investment matures in September 1998 and is a Category 3 investment as defined by GASB.

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 Revenue Bond Construction Fund (for unexpended revenue bond proceeds), a Capital Improvement Fund (for improvement of Ports Authority facilities), and a Depreciation Fund (for operating equipment).

Notes to the Financial Statements (continued)

**GENERAL PROVISIONS REGARDING THESE FUNDS ARE AS FOLLOWS:**

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

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

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

**3. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following amounts at June 30, 1996 and 1995 (in thousands):

	1996	1995
Land	\$117,622	\$114,806
Land improvements	100,568	99,144
Buildings and structures	205,644	198,866
Railroad tracks	3,728	3,144
Terminal equipment	27,680	24,549
Furniture and fixtures	3,017	2,637
Capital projects in progress	10,250	15,777
	468,509	458,923
Less accumulated depreciation	151,385	138,396
Property and equipment, net	\$317,124	\$320,527

**LEASES**

During 1996 and 1995, the Authority leased container handlers and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses in the amount of \$1,303,000 and \$574,000, respectively.

**4. LONG-TERM DEBT**

On December 19, 1991, the Authority legally defeased \$23,330,000 of outstanding 1982A and 1989 Series bonds, of which \$3,370,000 and \$16,980,000, respectively, is outstanding at June 30, 1996, with average interest rates of 10.9% and 7.5%, respectively. The Ports Authority used existing cash reserves to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with a bank as escrow agent to provide for all future debt service payments on the 1982A and 1989 Series bonds. As a result, the 1982A and 1989 bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

Although the defeasance resulted in the recognition of an accounting loss of \$820,000 in fiscal 1992, the Ports Authority in effect reduced its aggregate debt service payments by approximately \$6,540,000 over the next seventeen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$1,520,000.

During fiscal 1992, the Ports Authority issued Series 1991 bonds to provide funds to finance a portion of the cost of improvements and expansion to its container facilities at the Wando Welch Terminal. The bonds, issued at a discount of \$1,092,000, consist of serial bonds totaling \$17,895,000 maturing July 1, 2006; term bonds of \$11,130,000 maturing on July 1, 2011; and term bonds of \$36,700,000 maturing on July 1, 2021. The bond discount and bond issue costs are being amortized using the straight-line method over thirty years, the life of the bonds. Unamortized bond discount and unamortized bond issue costs at June 30, 1996 were \$922,000 and \$1,360,000, respectively. Interest is payable each January 1 and July 1 at rates ranging from 5.6% to 6.75%.

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

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

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

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

**TERM BONDS DUE 2011**

Year	Amount
2007	\$ 1,950
2008	2,080
2009	2,215
2010	2,365
2011	2,520
	\$11,130

**TERM BONDS DUE 2021**

Year	Amount
2012	\$ 2,690
2013	2,870
2014	3,065
2015	3,270
2016	3,490
2017	3,725
2018	3,975
2019	4,245
2020	4,530
2021	4,840
	\$36,700

Notes to the Financial Statements (continued)

During fiscal 1994, the Ports Authority issued Series 1994 Junior Lien Revenue Bonds to provide funds to finance a portion of the cost of improvements and expansion to its container facilities at the Wando Welch Terminal. The bonds consist of term bonds, \$25,000,000 maturing July 1, 2024. Bond issue costs incurred, totaling approximately \$251,000, are being amortized using the straight-line method over fifteen years and the balance at June 30, 1996 is \$212,000. Interest is payable at the beginning of each month at a variable rate which was 3.25% at June 30, 1996.

The Series 1994 Bonds may be redeemed prior to

maturity, at the option of the Ports Authority.

The Ports Authority is required to maintain an irrevocable letter of credit equal to the principal amount of the Series 1994 Bonds and accrued interest. The letter of credit had an available balance of \$27,813,000 at June 30, 1996.

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

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

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

	1994 Revenue Bonds	1991 Revenue Bonds	Other Debt	Total
1997	\$ -	\$ 1,015	\$ 28	\$ 1,043
1998	200	1,070	228	1,498
1999	300	1,130	28	1,458
2000	300	1,200	29	1,529
2001	300	1,270	10	1,580
Thereafter	23,900	57,295	-	81,195
	25,000	62,980	323	88,303
<b>Less:</b>				
Current portion	-	1,015	28	1,043
Unamortized bond discount	-	922	-	922
<b>Long-term portion</b>	<b>\$25,000</b>	<b>\$61,043</b>	<b>\$295</b>	<b>\$86,338</b>

Interest cost incurred in 1996 and 1995 was \$5,135,000 and \$5,133,000, respectively. Interest of \$425,000 and \$3,592,000, net of related interest income of \$0 and \$419,000 was capitalized in 1996 and 1995, respectively, in connection with the construction of the Wando Welch Terminal.

**5. CONTRIBUTED CAPITAL AND PLANT EXPANSION**

Contributed capital at June 30, 1996 and 1995 consisted of (in thousands):

	1996	1995
State of South Carolina:		
For general operations before 1959-60 (a)	\$ 3,498	\$ 3,498
Proceeds from State Ports General Expansion Bonds	22,000	22,000
Proceeds from State Ports Grain Elevator Expansion Bonds	2,000	2,000
Proceeds from State Capital Improvement Bonds	106,533	106,533
For Wando Welch Terminal Access Road (Department of Highways and Public Transportation)	65	65
For BMW Plant Land Purchase	34,805	32,000
Capital contributed to Tangent Transportation (b)	(485)	(476)
	<b>168,416</b>	<b>165,620</b>
City of Charleston and Southern Railway		
State Port Construction Fund (c)	3,180	3,180
Federal Grant for construction of Passenger Terminal	1,653	1,653
Federal Grant for rail rehabilitation	344	344
	<b>303</b>	<b>303</b>
<b>Total contributed capital</b>	<b>\$173,896</b>	<b>\$171,100</b>

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

(b) Rehabilitation costs incurred on the Port Royal track are considered capital donations to the owners of the track, Tangent Transportation, a subsidiary of the South Carolina Railways Commission. Accordingly, the Ports Authority has shown this as a reduction in capital.

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

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

**6. COMMITMENTS**

**CONSTRUCTION**

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately \$1,544,000 at June 30, 1996.

The Federal Water Resources Development Act of 1986 authorized the deepening of Charleston Harbor from its official 35-foot depth to an official 40-foot depth for the inside channels and a 42-foot depth for the entrance channel. This Federal project is expected to be completed during 1997 and will cost approximately \$64.3 million. This Act, which authorizes construction of 41 separate port deepening projects, requires a local non-Federal sponsor to share in the cost of each project. The non-Federal share of the Charleston Harbor Deepening Project is estimated to be \$30 million. The state legislature has authorized state general obligation bonds to pay the local non-Federal share. The proceeds of these bonds will be provided to the Ports Authority for the benefit of the

Notes to the Financial Statements (continued)

contracting Federal agency, and the State will repay the principal and interest without charge to the Ports Authority.

To facilitate payment to the Federal government in connection with the maintenance of disposal sites and the State's share of the Charleston Harbor Deepening Project, the Ports Authority established letter of credit arrangements with a regional bank. The contracting Federal agency is authorized to draw against the letters of credit for the State's share as maintenance occurs and construction progresses. The total available under the letters of credit is \$2,808,000 at June 30, 1996. During 1996, \$1,004,000 was drawn against the letters of credit of which \$884,000 was reimbursed to the Ports Authority from State funds. There were no outstanding draws against the letters of credit at June 30, 1996.

In 1994, the Ports Authority purchased certain land in Greer, South Carolina, for a total cost of approximately \$37 million. The purchase was funded by \$5 million from the Ports Authority and the balance from the State of South Carolina and related entities.

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

The Ports Authority and BMW have entered into a Service Agreement establishing a unit fee per each vehicle handled and stored by the Ports Authority. The term of the Service Agreement ends July 31, 2004.

During 1994, the Ports Authority committed for business purposes to invest \$3,000,000 in connection with the construction of an aquarium and parking garage by the City of Charleston. In return for its investment, the Ports Authority will be entitled to one-third of the net cash flow (after debt service) of the parking garage. Construction on the facilities began during calendar year 1996.

## **7. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS**

Employees of the Ports Authority participate in the South Carolina Retirement System's employees retirement plan ("PERS"), a defined benefit, cost-sharing, multiple-employer, public employee retirement system. Substantially all full-time permanent Ports Authority employees are required to participate in PERS. The payroll for employees covered by PERS for the year ended June 30, 1996 was \$16,478,000. The payroll for employees not covered by PERS for the year ended June 30, 1996 was \$497,000.

Under PERS, employees who retire at or after age 65 or have 30 years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.82% of average final compensation times years of credited service. Final average compensation is the employee's average salary over the twelve highest consecutive quarters. Benefits are fully vested after five years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. PERS also provides death and disability benefits. Benefits are established by state statute.

The employee and employer contribution rates are actuarially determined for PERS. Employees are required by state statute to contribute 6 percent of annual compensation, and the Ports Authority must contribute 7.55 percent of total payroll of covered employees for PERS. The total contribution for the year ended June 30, 1996 was \$1,244,000 from the Ports Authority and \$989,000 from employees.

An actuarial valuation is performed for PERS annually. At the most recent valuation date, July 1, 1994,

the pension benefit obligation for retired and active members was approximately \$13.7 billion. The amortized cost of assets of PERS was approximately \$10.3 billion. The unfunded pension benefit obligation was approximately \$3.4 billion. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, which is an actuarial present value of credited projected benefits, is intended to help users assess PERS'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. PERS does not make separate measurements of assets and benefits payable for individual employers. The Ports Authority's contribution represented less than one percent of the total contributions to PERS.

Ten-year historical trend information showing PERS's progress in accumulating sufficient assets to pay benefits when due is presented in PERS's June 30, 1994 Comprehensive Annual Financial Report.

In addition to pension benefits, the Ports Authority provides post-retirement health care benefits to all retirees, such benefits being the same as for active employees except that the cost of medical insurance premiums associated with retirees' dependents are paid by the retirees. As a governmental entity the Authority has the option to account for post-retirement benefits other than pensions using the "pay as you go" or the "advance funding on an actuarially determined basis" method. In accordance with GASB 12, the Authority has elected to follow the "pay as you go" method and expenses costs as incurred. At June 30, 1996, 153 retirees were receiving benefits. The Ports Authority pays 100 percent of the cost of medical insurance premiums for the retirees. Expenses for post-retirement medical insurance premiums are recognized as paid by the Ports Authority. During the years ended June 30, 1996 and 1995, expenses for post-retirement health care benefits were \$317,000 and \$301,000, respectively. The plan under which this benefit is provided may be terminated,

amended or modified at any time at the sole discretion of the Ports Authority.

**8. FACILITATING AGREEMENTS**

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

In 1996 and 1995, operating revenue recorded for facilitating agreements by the Ports Authority was \$37,981,000 and \$33,292,000, respectively.

The approximate total cost and related accumulated depreciation of facilities assigned to others at June 30, 1996 and 1995 were (in thousands):

	1996	1995
Cost	\$200,786	\$217,906
Accumulated depreciation	58,228	55,455

Minimum future operating revenue and rentals to be received under noncancelable agreements as of June 30, 1996 were (in thousands):

Year Ending June 30	
1997	\$ 8,303
1998	6,594
1999	3,406
2000	2,867
2001	409
Later years	1,448
Total minimum future operating revenue and rentals to be received	\$23,027

**9. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying value of cash, operating funds invested by the State Treasurer, assets restricted by revenue bond covenants and accounts and retainage payable ap-



Notes to the Financial Statements (continued)

proximate fair value. At June 30, 1996, the fair values of long-term debt were estimated using discounted cash flows based on current rates available to the Authority for similar borrowing arrangements and the market rate of comparable traded debt, as follows (in thousands):

	1996		1995	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Debt	\$87,381	\$90,786	\$88,325	\$91,468

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

**10. LITIGATION**

In the ordinary course of business, the Ports Authority becomes involved in litigation, claims and administrative proceedings. Certain litigation, claims and proceedings were pending at June 30, 1996, 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.

**ABOUT THIS REPORT**

The South Carolina State Ports Authority and its employees actively participate in a port-wide recycling program. This entire document is printed in the U.S.A. on recycled paper. The gloss coated paper contains more than 50% pre-consumer recycled fiber. The financial section is printed on an uncoated text made from 50% recovered fiber including 20% post-consumer waste. This meets or exceeds EPA guidelines for recycled paper.

1.5M/11/96/WP



## **MANAGEMENT**

**W. Don Welch**  
*Executive Director*

**Bernard S. Groseclose, Jr.**  
*Director, Planning & Development*

**L. Duane Grantham**  
*Director, Marketing & Sales*

**Joe T. Bryant**  
*Senior Director, Operations & Engineering*

**Peter N. Hughes**  
*Chief Financial Officer*

**W.M. Lawrence**  
*Senior Director, Corporate Processes*

**Robert A. Loy**  
*Executive Assistant to the Executive Director*

**Anne M. Moise**  
*Director, Public and Employee Relations*

**L. David Schronce**  
*Director, Ports of Georgetown/Port Royal*

## South Carolina State Ports Authority

P.O. Box 817

CHARLESTON, SC 29402 USA

TELEPHONE: (803) 723-8651

MAIN WATS: 1-800-845-7106

MARKETING & SALES: 1-800-382-1721

PLANNING & SCHEDULING: 1-800-382-4577

FAX: (803) 577-8616