South Carolina State Ports Authority

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Report of Independent Auditors

To the Board of Directors
South Carolina State Ports Authority

In our opinion, the accompanying statements of net assets 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, 2011 and 2010, 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, 2011 and 2010, 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 13 and the required supplemental information on pages 46 through 49 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 14, 2011

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Management’s Discussion and Analysis

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, 2011 and 2010. The financial statements include the independent auditor's opinion, statements of net assets, 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 five-year terms. The Board consists of nine voting members and the Secretary of Transportation and Commerce as additional ex officio, non-voting members. The Ports Authority owns and is responsible for the operation of six ocean terminals at the ports of Charleston and Georgetown. These facilities primarily handle import and export containerized breakbulk and bulk cargoes.

2009 Legislation
During the 2009 session, the South Carolina General Assembly enacted legislation ("Act No. 73") affecting, among other things, the disposition of certain of the Ports Authority's real property assets, 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 sale of the Port Royal property is still pending at June 30, 2011. 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 have reviewed options for a course of action to ensure compliance with both Act No. 73 and the Ports Authority's Master Bond Resolution, regarding disposition of its real property.

Act No. 73 also imposes obligations on the Ports Authority to take all action necessary to expeditiously develop a port in Jasper County. The Ports Authority and the Georgia Ports Authority, pursuant to an Intergovernmental Agreement, have joined in a council known as the Joint Project Office to study and plan for a potential terminal. Other than funding certain studies, no action has been required of the Ports Authority to date under this provision. The impact of this provision on the Ports Authority's operations and financial position cannot be ascertained at this time, but the cost of such project could be material.

Recent Economic Events

In fiscal year 2011, the Ports Authority began to see a stabilization and recovery in volumes and financial position from fiscal year 2010. While the recovery in waterborne commerce is predicted to be slow and over the course of several years, the Ports Authority experienced the first year in pier container volume growth since fiscal year 2005 realizing an 8% increase over fiscal year 2010. In addition, breakbulk pier tons grew 22% over fiscal year 2010. The Ports Authority continues to exceed the required debt service ratio and significantly grew net revenues available for debt service in fiscal year 2011 realizing a 7% increase over fiscal year 2010. The Ports Authority continues to monitor the global economy and shipping trends and has projected modest increases for fiscal year 2012.

Leading into and during the course of fiscal year 2011, global trade and the shipment of freight to and from the United States was substantially impacted by the ongoing 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 2011 to fiscal year 2010, seven out of ten major U.S. ports saw a decline in traffic.

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:

(in thousands)	**2011**	**2010**	**2009**
Total operating revenues	$ 124,649	$ 111,744	$ 136,201
Total TEUs (equivalent number of 20' container units)	1,384	1,278	1,368
Breakbulk pier tonnage	992	750	835

A total of 1,695, 1,528 and 1,791 vessels (excluding barges) docked during the years ended June 30, 2011, 2010 and 2009, respectively. The Ports Authority provided services to the ten largest container ship lines based on US containerized import and export cargo volumes for the first six months of calendar year 2011 as reported in The *Journal of Commerce/PIERS* U.S Global Container Report.

Required Financial Statements

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

The statements of net assets 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 provides answers to such questions as where did cash come from, what was it used for, and what was the change in cash balance during the reporting period.

Analysis of Overall Financial Position and Results of Operations

One of the most important questions asked about the Ports Authority's financial statements is "Is the Ports Authority as a whole, better off or worse off as a result of the year's activities?" The statements of net assets, 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 nonfinancial factors such as changes in economic conditions, world events, regulation and new or changed government legislation.

Statements of Net Assets (Balance Sheets)

The statement of net assets 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 $681.7 million and $660.5 million at June 30, 2011 and 2010, respectively, a $21.2 million increase from June 30, 2010. A condensed summary of the Ports Authority's balance sheet and resulting net assets at June 30 is shown below:

(in thousands of dollars)	2011	2010	2009
Assets			
Current assets	$ 144,940	$ 117,550	$ 106,068
Internally designated assets	121,342	73,828	109,113
Held by trustee for debt service	15,919	6,495	6,403
Held by third party for capital projects	1,175	1,459	1,628
Other assets, net of depreciation	619,323	597,633	570,343
Total assets	$ 902,699	$ 796,965	$ 793,555
Liabilities			
Current liabilities	$ 43,485	$ 40,938	$ 40,981
Long-term obligations	177,517	95,561	99,868
Total liabilities	221,002	136,499	140,849
Net assets			
Invested in capital assets, net of debt	490,660	486,023	455,216
Restricted for debt service, net of debt	9,287	6,495	6,403
Restricted for capital projects	1,175	1,459	1,628
Restricted for federal grant purposes	515	-	-
Unrestricted	180,060	166,489	189,459
Total net assets	681,697	660,466	652,706
Total liabilities and net assets	$ 902,699	$ 796,965	$ 793,555

The largest portion of the Ports Authority's net assets each year (72.0%, 73.6% and 69.7% at June 30, 2011, 2010 and 2009, 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 (1.6%, 1.2% and 1.2% at June 30, 2011, 2010 and 2009, respectively) represents resources that are subject to external restrictions. The remaining unrestricted net assets (26.4%, 25.2% and 29.0% at June 30, 2011, 2010 and 2009) may be used to meet any of the Ports Authority's ongoing obligations as defined by the revenue bond covenants.

Statements of Revenues, Expenses and Changes in Net Assets

A condensed comparative summary of the Ports Authority's revenues, expenses and changes in net assets for the years ended June 30 is shown below:

(in thousands of dollars)	2011	2010	2009
Operating revenues	$ 124,649	$ 111,744	$ 136,201
Operating expenses	108,006	103,372	110,517
Operating earnings	16,643	8,372	25,684
Nonoperating income (expense), net	2,613	4,711	709
Contributions to State of South Carolina	(1,000)	(1,000)	(1,000)
Contributions to Berkeley County, South Carolina	-	(7,000)	-
Capital contributions of land	1,057	-	16
Capital grants from the federal government	1,918	2,677	3,459
Increase in net assets	$ 21,231	$ 7,760	$ 28,868

Operating revenues increased 11.6% from $111.7 million in 2010 to $124.6 million during 2011. The increase can be attributed to an 8.3% increase in container volume throughput and a 41.0% increase in breakbulk handled tons, both due principally to the domestic and world economic slow recovery. This slow recovery created volume that increased revenues for wharfage, handling, container and chassis services, and throughput fees. The increase in throughput fees reflects the increased container unit fees associated with the Ports Authority's new single gate operation placed into service during January 2011. This change results in uniform processes and operations across all container terminals in the Port of Charleston. Charleston now features common hours of operations, cargo cutoffs, holidays and procedures at its container terminals. In addition, a substantial increase in revenue was achieved with increased cruise ship passenger embark, disembark and vehicle storage fees earned. The increases were partially offset by decreased contract differential charges to customers for inefficient use of their licensed areas and Ports Authority provided yard equipment due to the new single gate operation discussed above. Additional deceases resulted from less property rental and use of toploaders and empty container handlers.

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.

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

(in thousands of dollars)	2011	2010	2009
Operating revenues			
Charleston	$ 122,757	$ 109,881	$ 133,653
Georgetown	1,108	949	1,552
Port Royal	11	10	68
Other	773	904	928
Total operating revenues	$ 124,649	$ 111,744	$ 136,201

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

(in thousands of dollars)	2011	2010	2009
Operating expenses			
Direct operating expenses	$ 59,856	$ 55,918	$ 60,776
Administrative expense	19,316	17,922	20,072
Depreciation expense	28,834	29,532	29,669
Total operating expenses	$ 108,006	$ 103,372	$ 110,517

Direct operating expenses for fiscal year 2011 increased by 7.0% from $55.9 million in 2010 to $59.9 million. The increase is primarily due to new gate labor costs from the private stevedoring company partnered with the Ports Authority for its new single gate operation placed into service during January 2011, increased overtime, temporary personnel services, re-power of twenty four loaded container handlers with tier 3 diesel engines, fuel costs and retirement benefits. The increase was partially offset by decreased amounts for repairs and maintenance of miscellaneous crane equipment, insurance and damage claims. Administrative expenses for fiscal year 2011 increased 7.8% from $17.9 million in 2010 to $19.3 million in 2011. This increase was primarily due to larger expense for maintenance of structures and software and use of other professional services. Many other smaller administrative expense accounts have increases contributing to the 7.8% increase from 2010. The Ports Authority placed fewer new assets into service during 2011, and retired some older assets that resulted in a decrease in depreciation expense in fiscal year 2011.

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.

For 2011, operating earnings increased by 98.8% or $8.3 million for the reasons stated above. For 2010, operating earnings decreased by 67.4% or $17.3 million for the reasons stated above.

Nonoperating income (expense), decreased from a net income of $4,711,000 in 2010 to net income of $2,613,000 in 2011. This decrease is due principally to the overall decline in earnings rates on investments, less gain on the disposal of assets, the recognition of unamortized bonds issue costs due to the redemption of $85.6 million of the Series 1998 revenue bonds, and the decline in bond interest expense because a substantial amount of the revenue bond interest costs were capitalized to assets under construction during the fiscal year. The decrease was somewhat offset by an increase in the fair market value of interest rate exchange agreements entered into during prior years and the recognition of unamortized bond issue premiums due to the redemption of the Series 1998 revenue bonds.

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.

The Ports Authority made contributions to the State of South Carolina for the Cooper River Bridge during the years ended June 30, 2011, 2010 and 2009, 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.

The State of South Carolina funded the purchase of a parcel of land during 2011 totaling $1,057,000 million for use in connection with the BMW facility in Greer South Carolina. The parcel now owned by the Ports Authority will be leased to BMW.

During 2010, the Ports Authority contributed $7.0 million to help fund the construction of the interchange leading to the site that will house a future distribution center in Berkeley County. The Ports Authority will contribute an additional $8 million towards the construction of this project in the future; however the timing of this contribution has not been determined at this time.

During the years ended June 30, 2011, 2010 and 2009, the Ports Authority received approximately $1,918,000, $2,677,000 and $3,459,000, respectively, in federal grant money to be used for security related capital expenditures and to aid in the reduction of emissions from heavy duty diesel engines.

In summary, net assets during fiscal years 2011, 2010 and 2009 increased $21.2 million, $7.8 million and $28.9 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:

(in thousands of dollars)	**2011**	**2010**	**2009**
Cash flow from operating activities	$ 44,131	$ 37,692	$ 65,131
Cash flow from investing activities	1,288	5,065	7,346
Cash flow from capital and related financing activities	28,320	(64,587)	(78,740)
Change in cash and cash equivalents	73,739	(21,830)	(6,263)
Cash and cash equivalents			
Beginning of year	163,774	185,604	191,867
End of year	$ 237,513	$ 163,774	$ 185,604

The Ports Authority's available cash and cash equivalents increased from $163.8 at the end of 2010 to $237.5 at the end of 2011 and decreased from $185.6 million at the end of 2009 to $163.8 million at the end of 2010 due to an improved or diminished flow of funds provided by operating and investing activities and the increased or decreased use of funds for capital acquisitions and related financing activities. In 2011, the significant change in cash flows from capital and related financing activities can be attributed to a cash payment of $85,570,000 for the partial redemption of the Series 1998 revenue bonds and the issuance of the Series 2010 revenue bonds for $170,000,000.

Capital Acquisitions and Construction Activities
During the fiscal year ended June 30, 2011, the Ports Authority purchased and constructed approximately $50 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, raise and pave project at the Columbus Street Terminal, development of the concept master plan and design of the passenger terminal at the Union Pier Terminal and the new terminal operating system for all terminals. Approximately $1.6 million of fixed assets (at cost) were written off or disposed of during 2011.

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.

On June 20, 2011, the Ports Authority agreed to provide $9.5 million to the U.S. Army Corps of Engineers to continue with a study for the proposed Charleston Harbor post-45 ft. deepening project. In fiscal year 2012, the Ports Authority will make an advance payment of $2 million of its required 50 percent share for the Army Corps study with the additional $7.5 million to follow as required. The deepening study is expected to take between five and seven years. The overall project is estimated by the Army Corps to cost approximately $350 million and could take as long as a decade to complete.

Capital asset acquisitions are capitalized at cost. Acquisitions were funded primarily with the issuance of tax-exempt revenue bonds and port revenues. The Ports Authority had construction commitments of approximately $22.2 million at June 30, 2011. 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 $611 million on improvements to its existing marine terminal facilities. These projects represent infrastructure improvements and equipment acquisitions required to maintain and enhance the operational efficiency and capability of the Ports Authority's existing facilities to meet customer demand. The two-year plan for existing terminal upgrades contemplates approximately $167 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 the purchase of four replacement container cranes.

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 $772 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.

As of June 30, 2010, the Ports Authority has spent approximately $85 million on construction, permitting, consulting and engineering costs related to the first phase of the new terminal. In fiscal year 2011, the Ports Authority's completed the construction of a containment wall that will allow for the consolidation of the upland and marine fill in area and will facilitate the construction of the dock and wharf portions of the project.

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"). Right-of-way acquisition by SCDOT is proceeding. 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 $772 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 continues to move forward with these critical-path projects based on its current financial capabilities and funding committed by the State of South Carolina for the access road. The Ports Authority's portion of costs associated with these critical-path projects is approximately $290 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 $424 million. All other projects related to the first phase are preliminary and supporting in nature and are estimated to cost $58 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 environmental opponents to the new terminal were settled by agreement between the parties. A late administrative environmental justice complaint letter filed by a local neighborhood association was resolved through an informal resolution process. In July 2011, the City of North Charleston filed suits in federal and state courts, alleging that plans by S.C. Public Railways for an intermodal rail yard violated a memorandum of understanding (MOU) with the Ports Authority, though Public Railways was not a party to the MOU. The complaints generally allege that the Public Railways plan is a breach of the MOU by the Ports Authority, and violates the Ports Authority permit for construction of the terminal. The Ports Authority will vigorously defend against the allegations and will defend the permit.

In addition, the Ports Authority has intervened in a lawsuit brought against a passenger cruise line by an environmental group and local Charleston, SC neighborhood organizations, claiming that the cruise operation violates certain ordinances and environmental statutes. The effect of this case on the financial position of the Ports Authority related to cruise cannot be determined at this time.

Liquidity Outlook

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

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

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

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

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, 2011, 2010 and 2009, the Ports Authority made principal payments on the bonds of $3,910,000, $3,705,000, and $3,515,000, respectively. On November 22, 2010, the Ports Authority redeemed approximately $85.6 million of the Series 1998 bonds that were callable through a cash payment. As a part of this transaction the Ports Authority also recognized to income most of the unamortized bonds issue premiums and wrote off most of the bond issue costs, due to redemption of the majority of the Series 1998 revenue bonds.

Series 2010

Funding for capital projects was obtained from the issuance of tax-exempt debt totaling $170 million on December 7, 2010. The bonds, issued at a premium of approximately $2,595,000, consist of serial bonds totaling $80,955,000, maturing between July 1, 2013 and 2025, term bonds totaling $10,700,000 maturing on July 1, 2028 and term bonds of $78,345,000 maturing on July 1, 2040. The bond premium is amortized using the effective interest method over 30 years, the life of the bonds. During the year no principal payment was due or paid.

Other Liabilities

As of June 30, 2011 and 2010, the Ports Authority recorded a current liability of approximately $7.7 million equal to the final project costs on the 45 ft. 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 cancelled during fiscal year 2011 its credit agreement with a local bank. Additionally, the Ports Authority did not use this credit agreement with a local bank to support its operations at any time during fiscal year 2011, 2010, or 2009.

Bond Insurance and Credit Rating

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

Contacting the Ports Authority's Financial Management

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

South Carolina State Ports Authority
Statements of Net Assets
June 30, 2011 and 2010

(in thousands of dollars)	**2011**	**2010**
Assets		
Current assets		
Cash	$ 1,183	$ 7,433
Investments	114,988	82,513
Accounts receivable		
Trade, net of allowance for doubtful accounts of $1,400 in 2011 and $1,200 in 2010	16,809	14,134
Other	1,863	3,398
Inventories	6,079	6,104
Prepaid and other current assets	4,018	3,968
Total current assets	144,940	117,550
Noncurrent assets and investments		
Investments internally designated for capital acquisitions	121,342	73,828
Investments held by trustee for debt service	15,919	6,495
Investment held by third party for capital projects	1,175	1,459
Property and equipment, net	615,273	594,087
Unamortized bond issue costs	1,527	988
Intangible assets and goodwill, net	2,523	2,558
Total assets	$ 902,699	$ 796,965
Liabilities and Net Assets		
Current liabilities		
Current maturities on long-term debt	$ 4,477	$ 4,261
Accounts payable	4,116	3,814
Accounts payable, construction	3,879	3,243
Retainage payable on construction contracts	4,178	5,989
Accrued interest payable	5,240	2,662
Accrued employee compensation and payroll, related withholdings and liabilities	5,091	4,319
Interest rate exchange agreements	3,604	5,088
Postretirement obligation	5,172	3,834
Harbor deepening obligation	7,728	7,728
Total current liabilities	43,485	40,938
Long-term debt, net of premiums	177,517	95,561
Total liabilities	221,002	136,499
Invested in capital assets, net of related debt	490,660	486,023
Restricted		
For debt service, net of related debt	9,287	6,495
For capital projects	1,175	1,459
For federal grant purposes	515	-
Unrestricted	180,060	166,489
Total net assets	681,697	660,466
Total liabilities and net assets	$ 902,699	$ 796,965

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, 2011 and 2010

(in thousands of dollars)	**2011**	**2010**
Operating revenues	$ 124,649	$ 111,744
Operating expenses		
Direct operating expense	59,856	55,918
Administrative expense	19,316	17,922
Depreciation expense	28,834	29,532
Total operating expenses	108,006	103,372
Operating earnings	16,643	8,372
Nonoperating revenues (expenses)		
Interest income	4,091	5,500
Other expense, net	(2,550)	(1,518)
Gain on sale of property and equipment, net	26	2,475
Interest expense	(438)	(2,461)
Unrealized gain on interest rate exchange agreements	1,484	715
Contribution to State of South Carolina for Cooper River Bridge	(1,000)	(1,000)
Contribution to Berkeley County, South Carolina for Interchange	-	(7,000)
	1,613	(3,289)
Excess revenues over expenses before capital contributions	18,256	5,083
Capital contribution from Spartanburg County for BMW land	1,057	-
Capital grants from federal government	1,918	2,677
Increase in net assets	21,231	7,760
Total net assets		
Beginning of year	660,466	652,706
End of year	$ 681,697	$ 660,466

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

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

(in thousands of dollars)	**2011**	**2010**
Cash flows from operating activities		
Cash received from customers	$ 125,261	$ 109,419
Cash paid to suppliers	(44,083)	(32,307)
Cash paid for employees	(37,047)	(39,420)
Net cash provided by operating activities	44,131	37,692
Cash flows from investing activities		
Proceeds from sale of investments	99,269	9,147
Purchases of investments	(101,777)	(9,070)
Interest received on investments	4,196	5,988
Payment to support bi-port development	(400)	(1,000)
Net cash provided by investing activities	1,288	5,065
Cash flows from capital and related financing activities		
Acquisition and construction of property and equipment	(45,385)	(56,994)
Proceeds from sale of property and equipment	36	3,172
Redemption of revenue bonds	(85,570)	-
Principal paid on revenue bonds	(3,910)	(3,705)
Proceeds from issuance of revenue bonds	164,594	-
Principal paid on other debt	(351)	(351)
Interest paid on revenue bonds, net of amounts capitalized	(3,105)	(2,552)
Interest paid on other debt	(118)	(14)
Cash paid for debt issuance costs	(132)	-
Capital grants received	3,261	3,857
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 provided by (used in) capital and related financing activities	28,320	(64,587)
Net *increase (* decrease) in cash and cash equivalents	73,739	(21,830)
Cash and cash equivalents		
Beginning of year	163,774	185,604
End of year	$ 237,513	$ 163,774
Reconciliation of cash and cash equivalents to the statements of net assets		
Cash	$ 1,183	$ 7,433
Investments	114,988	82,513
Investments internally designated for capital acquisitions	121,342	73,828
Total cash and cash equivalents	$ 237,513	$ 163,774

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

(in thousands of dollars)	2011	2010
Reconciliation of operating earnings to net cash provided by operating activities		
Operating earnings	$ 16,643	$ 8,372
Adjustments to reconcile operating earnings to net cash provided by operating activities		
Depreciation	28,834	29,532
Provision for doubtful accounts	155	(327)
Other expense, net	(1,188)	(560)
Amortization	35	47
Changes in operating assets and liabilities		
Accounts receivable	(2,735)	409
Inventories	25	(9)
Prepaid and other current assets	(50)	279
Accounts payable and other liabilities	302	(1,413)
Payroll related liabilities	772	213
Postretirement liability	1,338	1,149
Net cash provided by operating activities	$ 44,131	$ 37,692

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:

(in thousands of dollars)	2011	2010
Accounts payable associated with the purchase of property and equipment	$ 8,057	$ 9,232
Donated land	1,057	-
Unrealized gain on interest rate swap	1,484	715
Cash proceeds from Series 2010 bonds	$ 172,595	$ -
Underwriters discount	(998)	-
Amounts deposited with trustee for debt service	(6,632)	-
Costs of issuance deposited with trustee	(371)	-
Proceeds from issuance of Series 2010 bonds	$ 164,594	$ -

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

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

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

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

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

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

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

- Restricted – This component of net assets consists of external constraints placed on net asset use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

New Accounting Pronouncements
The GASB issued Statement No. 59, *Financial Instruments Omnibus*, in June 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments (e.g. derivatives) and external investment pools. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. This Statement did not have a material impact on the Ports Authority's financial statements for the year ended June 30, 2011.

The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, in December 2010. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The Statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue, and how to record any obligations of the transferor to the operator. The Statement also provides guidance for governments that are operators in an SCA. The requirements for Statement No. 60 are effective for financial statements for periods beginning after December 15, 2011. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

The GASB issued Statement No. 61. The *Financial Reporting Entity Omnibus—an amendment of GASB Statements No. 14 and No. 34*, in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Also, additional reporting guidance is provided for blending a component unit if the primary government is a business-type entity that uses a single column presentation for financial reporting. The provisions of this Statement are effective for financial statements for period beginning after June 15, 2012. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions and AICPA Accounting Research Bulletins issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The Ports Authority is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 63, *Identifying Deferred Outflows and Deferred Inflows of Resources*, in July 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The Ports Authority is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, in July 2011. Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The Ports Authority is currently evaluating the impact, if any, that this Statement will have on its financial statements.

Cash, Investments and Pooled Investments

The Ports Authority maintains cash, investments and pooled investments for operations, debt service and capital improvements. Funds are deposited in banks, money market accounts, and pooled investment funds maintained with the State Treasurer. Cash, investments and pooled investments used for operations are included on the balance sheet as “cash” and “investments”. Investments maintained in accordance with revenue bond debt service requirements are included on the 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, 2011 and 2010. 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, 2011 and 2010. 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 $12,322,000 and $6,588,000 as of June 30, 2011 and 2010, respectively. Investments held by a trustee are invested in government agency securities, which totaled $15,919,000 and $6,495,000 as of June 30, 2011 and 2010, respectively. Investments with third party banks and investments held by a trustee are fully collateralized as of June 30, 2011 and 2010 with securities maintained by an outside party. All other investments are held in a pool established by the State Treasurer and are not collateralized.

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, 2011 and 2010. 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)

		Value	
Investment Type	**Maturity**	**2011**	**2010**
Money market funds	Less than one year	$ 12,322	$ 6,588
U.S. government agency securities	Less than one year	15,919	6,495

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.

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

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

Derivative Instruments and Hedging Activities

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

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

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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

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

Deferred Financing Costs
Deferred financing costs are amortized over the term of the related debt obligations using the effective interest method and are presented as a component of other expense on the statement of revenues, expenses and changes in net assets.

Premiums on Long-Term Debt
Premiums on long-term debt are amortized as a component of interest expense over the term of the related debt obligations using the effective interest method.

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, 2011 and 2010, three customers accounted for the following revenue and accounts receivable percentages:

	2011		2010	
	Revenue	Accounts Receivable	Revenue	Accounts Receivable
Customer 1	13%	9%	15%	12%
Customer 2	13%	15%	13%	12%
Customer 3	10%	16%	12%	16%
Total	36%	40%	40%	40%

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

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.

Reclassification

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

2. Cash, Investments and Pooled Investments

The Ports Authority's total cash and investments at June 30, 2011 and 2010 are approximately $254,607,000 and $171,728,000, 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, 2011 and 2010.

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:

(in thousands of dollars)	**2011**	**2010**
Insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name	$ 4,486	$ 11,602
Carrying value of cash	1,183	7,433

Investments at June 30 consist of the following:

(in thousands of dollars)	**2011**	**2010**
Investment in state cash management pool	$ 225,183	$ 151,212
Funds deposited with third party banks	12,322	6,588
U.S. government agency securities, held by trustee	15,919	6,495
	253,424	164,295
Less: Amounts currently available for operating funds	114,988	82,513
Amounts held by trustee	15,919	6,495
Amounts restricted for capital projects	1,175	1,459
Internally designated investments	$ 121,342	$ 73,828

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

(in thousands of dollars)	**2011**	**2010**
Carrying value		
Cash	$ 1,183	$ 7,433
Investments	253,424	164,295
	$ 254,607	171,728
Included in the following balance sheets captions		
Cash	$ 1,183	$ 7,433
Investments, current assets	114,988	82,513
Internally designated for capital acquisitions	121,342	73,828
Held by trustee for debt service	15,919	6,495
Held by third party for capital projects	1,175	1,459
	$ 254,607	$ 171,728

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

(in thousands of dollars)	2011	2010
Capital Improvement Fund		
Cash	$ 4,867	$ 211
Funds invested	57,810	69,996
	62,677	70,207
Depreciation Fund		
Cash	2,496	834
Funds invested	4,921	1,121
	7,417	1,955
Construction Fund		
Cash	-	-
Funds invested	49,478	-
	49,478	-
Other - State Port Construction Fund		
Cash	68	377
Funds invested	1,702	1,289
	1,770	1,666
	$ 121,342	$ 73,828

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

General provisions regarding these Funds are as follows:

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

The Construction Fund was established with the proceeds from the 2010 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.

3. Property and Equipment

Property and equipment consist of the following amounts:

(in thousands of dollars)	Balance at June 30, 2010	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2011
Land	$ 195,907	$ 1,057	$ -	$ -	$ 196,964
Land improvements	211,375	-	-	19,051	230,426
Land held for sale	2,666	-	-	-	2,666
Buildings and structures	319,661	-	(130)	4,825	324,356
Railroad tracks	4,727	-	-	2,933	7,660
Terminal equipment	123,643	-	(1,253)	3,245	125,635
Furniture and fixtures	24,221	16	(208)	8	24,037
Capital projects in progress	123,012	48,957	-	(30,062)	141,907
	1,005,212	50,030	(1,591)	-	1,053,651
Less: Accumulated depreciation	411,125	28,834	(1,581)	-	438,378
Property and equipment, net	$ 594,087	$ 21,196	$ (10)	$ -	$ 615,273

(in thousands of dollars)	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
	949,392	57,616	(1,796)	-	1,005,212
Less: Accumulated depreciation	382,692	29,532	(1,099)	-	411,125
Property and equipment, net	$ 566,700	$ 28,084	$ (697)	$ -	$ 594,087

Leases

During the years ended June 30, 2011 and 2010, the Ports Authority leased container handlers and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately $1,198,000 and $920,000, respectively.

4. Intangible Assets and Goodwill

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

(in thousands of dollars)	2011	2010
Intangible assets subject to amortization		
Customer contracts, amortized over two years	$ 47	$ 47
Customer relationships, amortized over eighteen years	645	645
Other	184	184
	876	876
Less: Accumulated amortization	(543)	(508)
Intangible assets subject to amortization, net	333	368
Goodwill, not subject to amortization	2,190	2,190
	$ 2,523	$ 2,558

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:

(in thousands of dollars)

2012	$ 35
2013	35
2014	35
2015	35
2016	35
Thereafter	158
	$ 333

5. Long-Term Debt

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

(in thousands of dollars)	June 30, 2010	Additions	Reductions	June 30, 2011	Current Portion
Revenue bonds – Series 1998	$ 97,955	$ -	$ (89,480)	$ 8,475	$ 4,125
Revenue bonds – Series 2010	-	170,000	-	170,000	-
Notes payable	1,311		(351)	960	352
	99,266	170,000	(89,831)	179,435	4,477
Plus: Unamortized premium	556	2,595	(592)	2,559	-
	$ 99,822	$ 172,595	$ (90,423)	$ 181,994	$ 4,477

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

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, 2011 and 2010 were approximately $55,000 and $988,000, respectively. Interest is payable each January 1 and July 1 at fixed rates ranging from 3.8% to 5.5%.

During the years ended June 30, 2011 and 2010, the Ports Authority made principal payments on the series 1998 bonds of $3,910,000 and $3,705,000, respectively.

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 %

On November 22, 2010, the Ports Authority redeemed $85,570,000 of the callable Series 1998 Revenue bonds through the issuance of a cash payment from the Ports Authority's cash and investment reserves. As part of this transaction, the Ports Authority recognized $492,000 of unamortized bond premiums, which are presented as a component of interest expense. In addition, the Ports Authority wrote off approximately $881,000 in bond issuance costs associated with the Series 1998 revenue bonds, which is presented as a component of other expense on the statement of revenues, expenses and changes in net assets. As of June 30, 2011, outstanding balances under the Series 1998 bonds total $4,125,000 due July 1, 2011 and $4,350,000 due July 1, 2012.

Series 2010

On December 7, 2010, the Ports Authority issued $170,000,000 of Series 2010 bonds having stated interest rates ranging from 4.0% to 5.5% payable annually on each January 1 and July 1. Net proceeds of $171,597,000 were received to (i) pay or reimburse the Ports Authority for costs associated with the expansion and improvement of the Authority's facilities, including the reimbursement to the Ports Authority of certain costs previously incurred and certain capital expenditures as included in the Port Authority's capital budget for fiscal years 2011 through 2013 in the amount of $164,594,000, (ii) $6,632,000 to fund the debt service reserve fund and (iii) $371,000 to pay certain costs and expenses related to the issuance of the Series 2010 bonds. The bonds, issued at a premium of approximately $2,595,000, consist of serial bonds totaling $80,955,000 maturing between July 1, 2013 and 2025, term bonds totaling $10,700,000 maturing on July 1, 2028 and term bonds of $78,345,000 maturing on July 1, 2040. The bond premium is amortized using the effective interest method over 30 years, the life of the bonds. Unamortized bond issuance costs associated with the Series 2010 bonds were approximately $1,472,000 at June 30, 2011.

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

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

(in thousands of dollars)

2028 Term Bond	**Amount**
Year	
2026	$ 3,990
2027	4,215
2028	2,495

(in thousands of dollars)

2040 Term Bond	**Amount**
Year	
2028	$ 1,955
2029	4,690
2030	4,945
2031	5,210
2032	5,495
2033	5,790
2034	6,100
2035	6,430
2036	6,775
2037	7,140
2038	7,525
2039	7,930
2040	8,360

Maturities of long-term debt are summarized as follows:

	Revenue Bonds		**Other Long-Term Debt**	
(in thousands of dollars)	**Principal**	**Interest**	**Principal**	**Interest**
2012	$ 4,125	$ 8,936	$ 352	$ 7
2013	4,350	8,697	349	4
2014	4,660	8,511	259	1
2015	4,845	8,317	-	-
2016	5,035	8,116	-	-
2017 – 2021	29,095	36,354	-	-
2022 – 2026	37,320	27,626	-	-
Thereafter	89,045	37,293	-	-
	$ 178,475	$ 143,850	$ 960	$ 12

The components of interest expense for the years ended June 30, 2011 and 2010 are as follows:

(in thousands of dollars)	2011	2010
Interest expense on long-term debt	$ 7,477	$ 5,412
Amortization of premiums on long-term debt	(592)	(46)
Capitalized interest expense	(6,447)	(2,905)
	$ 438	$ 2,461

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

6. Commitments

Construction
In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately $22,225,000 and $19,218,000 at June 30, 2011 and 2010, 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.

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.

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, 2011.

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. This portion of the Harbor Deepening project represents the Ports Authority's cost associated with deepening of the harbor.

On June 20, 2011, the Ports Authority agreed to provide $9.5 million to the U.S. Army Corps of Engineers to continue with a study for the proposed Charleston Harbor Post-45 deepening project. In fiscal year 2012, the Ports Authority will make an advance payment of $2 million of its required 50 percent share for the Army Corps study with the additional $7.5 million to follow as required. The deepening study is expected to take between five and seven years. The overall project is estimated by the Army Corps to cost approximately $350 million and could take as long as a decade to complete.

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, 2011, the Ports Authority has been granted approximately $16.9 million in land for use by BMW and the Department of Transportation, which carries the same provisions as the land under lease mentioned above.

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

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, 2011, the Ports Authority had the following derivative instruments outstanding:

Item	Type	Objective	Current Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Rating
A	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	$26,055,000	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	60,795,000	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	86,850,000	7/1/2008	7/1/2026	Pay SIFMA Receive 3.508%	A1/A

As of June 30, 2011 and 2010, 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 non operating income (expense) on the statement of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010. 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, 2011 and 2010 are as follows:

	Derivative	June 30, 2011	June 30, 2010	Change in Fair Value
Item A	Pay Fixed Receive Floating	$ (3,069,000)	$ (3,561,000)	$ 492,000
Item B	Pay Fixed Receive Floating	(7,161,000)	(8,311,000)	1,150,000
Item C	Receive Fixed Pay Floating	6,626,000	6,784,000	(158,000)
		$ (3,604,000)	$ (5,088,000)	$ 1,484,000

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
		$ (5,088,000)	$ (5,803,000)	$ 715,000

Credit Risk

The Ports Authority is exposed to actual credit risk on investment derivatives that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Ports Authority's policy to require collateral posting provisions in its nonexchange traded derivatives. Those terms require the full collateralization of the fair value of derivative instruments in asset positions (net of any netting provisions) should the counterparty's rating fall below Baa2 or BBB. In addition, each credit support annex requires collateral posting at various rating levels with threshold amounts. Collateral generally consists of cash, U.S. Government securities and U.S. Agency securities. As of June 30, 2011 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, 2011 and 2010, the Ports Authority currently has a credit rating of A1 by Moody's and A+ by Standard & Poor's and no collateral has been posted under any derivative instruments.

8. Retirement Plans

Regular employees of the Ports Authority are eligible to choose between two of the plans offered by the South Carolina Retirement System. They can choose to participate in the traditional South Carolina Retirement System's plan (SCRS), a defined benefit plan, or alternatively, the State Optional Retirement Plan (State ORP), a defined contribution plan. The majority of the Authority employees have chosen the SCRS (the State ORP has only been available since July 1, 2002). A few police officers previously retired from the State or a county or local government who participated in the South Carolina Retirement System's Police Officers Retirement System (PORS) and now work for the Ports Authority, contribute to the PORS. The wages covered under SCRS, including PORS, for the years ended June 30, 2011 and 2010 were approximately $27,892,000 and $28,793,000, respectively. The wages covered under State ORP for the years ended June 30, 2011 and 2010 were approximately $773,000 and $787,000, respectively. Noncovered wages for the years ended June 30, 2011 and 2010 were approximately $711,000 and $1,920,000, respectively.

Under SCRS, benefits are fully vested after five years of earned service. Employees who retire at or after age 65 or have 28 years of service are entitled to full retirement benefits, payable monthly for life, equal to 1.82% of average final compensation times years of credited service. Final average compensation is the employee's average salary over the twelve highest consecutive quarters. An employee may choose early retirement at age 60 with five years earned service with benefits permanently reduced 5% for each year of age less than 65, or at age 55 with 25 years of service credit with benefits permanently reduced 4% for each year of service credit less than 28. SCRS also provides death and disability benefits. Benefits are established by state statute.

Under State ORP there is no minimum age or years of service requirement for retirement. Employees become eligible to receive distributions when employment terminates or upon reaching age 59 ½. Employees may leave their balance on deposit to accumulate earnings tax-deferred until they elect to receive them. The amount of State ORP benefit is based on the total accumulated in the employee's account(s) and payment method chosen. The benefit is affected by performance of the investments chosen by the employee and the amount of time invested.

Eligible employees may retire from the Authority and participate in the Teacher and Employee Retention Incentive (TERI) Program. These employees retire under the eligibility rules described above and return to work for a period not to exceed 5 years. Their deferred retirement benefits are placed in their individual retirement payroll account while they continue to work for the Authority. At the end of the TERI period, the former employee will receive the accumulated retirement benefits in a lump sum and their monthly annuity directly. TERI participants do not earn new SCRS service credits, but do have to contribute into the SCRS as described below.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for the plan. By law, employee contribution requirements during fiscal year ended June 30, 2011 were 6.50% of the employee's salary. Actuarially determined employer contribution rates for SCRS, State ORP, and TERI expressed as a percentage of compensation during fiscal year ended June 30, 2011 were 9.24%. The total employer contributions paid to the South Carolina Retirement System for the years ended June 30, 2011 and 2010 were approximately $2,655,000 and $2,740,000 from the Ports Authority and approximately $1,813,000 and $1,871,000 from or on behalf of employees, respectively. Employer contributions paid to State ORP vendors for the years ended June 30, 2011 and 2010 were approximately $39,000 and $39,000 from the Ports Authority and approximately $50,000 and $51,000 from or on behalf of employees, respectively.

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

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, 2010, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately $13,374 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, 2010 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

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

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

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

Prior to January 1, 2011, these benefits were offered through private insurance carriers and the Ports Authority paid a share of the costs for the retiree's health and dental plans, but did 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):

- Employee must retire, leave active employment with the Ports Authority, and have fifteen (15) or more years of earned retirement service credit with the Ports Authority (the last five (5) 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):

- Employee must retire, leave active employment with the Ports Authority, and have at least ten (10) but less than fifteen (15) years of earned service credit with the Ports Authority (the last five (5) 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 January 1, 2011, the Ports Authority moved from the use of private insurance carriers to the plan offered by the South Carolina Employee Insurance Program. Therefore, the following amendments to the plan went into effect.

- Any employee retiring with at least five (5) years of earned service who qualifies for a retirement benefit under the normal retirement provision is permitted to elect continued medical/prescription and dental coverage.

- Any normal retiree with less than five (5) years of earned service may not continue medical/prescription or dental coverage.

- To continue coverage, a normal retiree with at least five (5) but less than ten (10) years of earned service is required to pay the non-funded premium for the plan.

- A normal retiree with at least ten (10) years of earned service is required to pay only the funded premium for the plan.

Members hired as of May 2, 2008 have a tiered eligibility formula to determine the retiree paid premium during retirement:

Service at Retirement	**Premium for Coverage**
<15 years	Non-funded premium
15-24 years	Partially funded premium
>=25 years	Funded premium

The South Carolina Budget and Control Board Employee Insurance Program (EIP) division provides detailed program requirements for normal, early, disability and other special retirement conditions. Detailed plan information can be found at www.eip.sc.gov (Retirement Information).

Eligible retired employees participating in OPEB insurance programs pay their premiums directly to EIP. The Ports Authority paid the employer's portion of premiums directly to the EIP in the amount of approximately $916,000 and $749,000 for fiscal years 2011 and 2010, respectively.

Employees included in the actuarial valuation include retirees, survivors and active employees who are eligible to participate in the Plan upon retirement. Expenses for OPEB premiums are recognized monthly and financed on a pay-as-you-go basis. The total OPEB premiums paid were approximately $1,495,000 and $1,451,000 for fiscal years ended June 30, 2011 and 2010, respectively. For fiscal years 2011 and 2010, the Ports Authority paid approximately 61.3% and 51.6% and the retirees were responsible for funding approximately 38.7% and 48.4%, respectively.

The Ports Authority accrued during fiscal year 2011 and 2010, $1,338,000 and $1,149,000, 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)	**2011**	**2010**
Net OPEB obligation, beginning of year	$ 3,834	$ 2,685
Annual required contribution (ARC)	2,447	1,969
Interest on net OPEB obligation	13	9
Annual OPEB cost	2,460	1,978
Employer contributions	(1,122)	(829)
Interest on employer contributions	-	-
	(1,122)	(829)
Net OPEB obligation, end of year	$ 5,172	$ 3,834

Actual contributions paid in fiscal year 2011 and 2010 include the following at June 30:

(in thousands of dollars)	**2011**	**2010**
Employer and participant contributions	$ 1,495	$ 1,451
Implicit subsidy payments on behalf of active employees	206	80
Participant contributions	(579)	(702)
Total employer contributions including interest	$ 1,122	$ 829

Employer contributed 69.1% and 77.4% of annual OPEB cost during fiscal year 2011 and 2010, respectively.

Schedule of Employer Contributions

(in thousands of dollars) **Fiscal Year Ended**	**Annual Required Contributions**	**Actual Contributions**	**Percentage Contributed**
June 30, 2011	$ 2,447	$ 1,122	45.9 %
June 30, 2010	1,969	829	42.1 %
June 30, 2009	2,438	1,146	47.0 %

The ARC of $2,447,000 and $1,969,000 for fiscal year 2011 and 2010, respectively, is based on the assumption that there is no funding in a segregated qualified trust.

Schedule of Funding Progress

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

(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, 2011	$ -	$ 31,958	$ 31,958	0 %	$ 24,849	129 %
June 30, 2010	-	24,204	24,204	0 %	28,050	86 %
June 30, 2009	-	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, 2011	$ 2,460	47.6 %	$ 5,172
June 30, 2010	1,978	42.1 %	3,834
June 30, 2009	2,497	47.0 %	2,685

Summary of Key Actuarial Methods and Assumptions

Valuation year	July 1, 2010 – June 30, 2011
Actuarial cost method	Projected Unit Credit
Amortization method	30 years, level percent of active member payroll
Asset valuation method	N/A

	2011	2010
Actuarial assumptions		
Discount rate	4.5%	4.5%
Projected payroll growth rate	3.0%	3.0%
Heath care cost trend rate for medical and prescription drugs	7.25%	8.5%

(7.25% in 2011 and 2012, decreasing by one-half percentage point per year to an ultimate rate of 4.5% in fiscal year 2023 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.

In fiscal year 2011 and 2010, operating revenue recorded for facilitating agreements by the Ports Authority was approximately $81,044,000 and $73,819,000, respectively.

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

(in thousands of dollars)	2011	2010
Cost	$ 577,009	$ 565,321
Accumulated depreciation	271,638	259,770

Minimum future operating revenue and rentals, excluding contracts that do not have minimum volume guarantees, to be received under noncancellable agreements as of June 30, 2011 were:

(in thousands of dollars)	
2012	$ 16,570
2013	11,450
2014	9,446
2015	5,296
2016	5,596
Thereafter	6,273
	$ 54,631

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, 2011 and 2010 was approximately $187,239,000 and $94,810,000, respectively.

12. Other Matters

Cooper River Bridge

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

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

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

On June 24, 2005, the Ports Authority and the State of South Carolina finalized an agreement regarding the remaining contributions to the Cooper River Bridge. The agreement stated that each contribution is a separate nonexchange transaction and the Ports Authority has only the obligation to pay the $1,000,000 annual amount at any given time for the remaining 25 years. Payments to the State of South Carolina totaled $1,000,000 in each fiscal year 2011 and 2010.

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 $400,000 and $1,000,000 in cash to the joint organization in 2011 and 2010, respectively. The cash contribution has been used by the joint organization to support the initial planning associated with a bi-port facility. Total expenses recognized by the Ports Authority related to initial planning costs were approximately $390,000 for the year ended June 30, 2011.

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, 2011 and 2010, the Ports Authority has expended approximately $912,000 and $1,415,000, 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, 2011 and 2010, the Ports Authority has expended approximately $1,006,000 and $1,262,000, respectively, 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 have been incurred in order to terminate the leases and prepare the land for sale. Based on current estimates, the Ports Authority has determined that termination costs can be fully recovered from the future sale of the land. As of June 30, 2011 and 2010, the Port Royal land is classified as held for sale.

On August 9, 2011, the Ports Authority entered into a sale agreement for the Port Royal property. The buyer and the Ports Authority have reached an agreement for sale pending a 90-day period of due diligence to be performed by the buyer. The sale of the Port Royal property was approved by the State Budget and Control Board.

2009 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 is still pending at June 30, 2011. 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 have reviewed options for a course of action to ensure compliance with both Act No. 73 and the Ports Authority's Master Bond Resolution, regarding disposition of its real property.

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. Other than funding certain studies, no action has been required of the Ports Authority to date under this provision. The impact of this provision on the Ports Authority's operations and financial position cannot be ascertained at this time, but the cost of such project could be material.

13. Litigation

In the ordinary course of business, the Ports Authority becomes involved in litigation, claims and administrative proceedings. Certain litigation, claims and proceedings were pending at June 30, 2011, 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.

The Ports Authority has intervened in a lawsuit brought against a passenger cruise line by an environmental group and local Charleston, SC neighborhood organizations, claiming that the cruise operation violates certain ordinances and environmental statutes. The effect of this case on the financial position of the Ports Authority related to cruise cannot be determined at this time.

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 and increase cargo shipments through South Carolina Ports. The cash payment is reflected as a contribution presented as a nonoperating expense as of June 30, 2010. No such payment were made during fiscal year 2011.

Required Supplemental Information

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

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

Prior to January 1, 2011, these benefits were offered through private insurance carriers and the Ports Authority paid a share of the costs for the retiree's health and dental plans, but did 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):

- Employee must retire, leave active employment with the Ports Authority, and have fifteen (15) or more years of earned retirement service credit with the Ports Authority (the last five (5) 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):

- Employee must retire, leave active employment with the Ports Authority, and have at least ten (10) but less than fifteen (15) years of earned service credit with the Ports Authority (the last five (5) 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 January 1, 2011, the Ports Authority moved from the use of private insurance carriers to the plan offered by the South Carolina Employee Insurance Program. Therefore, the following amendments to the plan went into effect.

- Any employee retiring with at least five (5) years of earned service who qualifies for a retirement benefit under the normal retirement provision is permitted to elect continued medical/prescription and dental coverage.

- Any normal retiree with less than five (5) years of earned service may not continue medical/prescription or dental coverage.

- To continue coverage, a normal retiree with at least five (5) but less than ten (10) years of earned service is required to pay the non-funded premium for the plan.

- A normal retiree with at least ten (10) years of earned service is required to pay only the funded premium for the plan.

Members hired as of May 2, 2008 have a tiered eligibility formula to determine the retiree paid premium during retirement:

Service at Retirement	Premium for Coverage
<15 years	Non-funded premium
15-24 years	Partially funded premium
>=25 years	Funded premium

The South Carolina Budget and Control Board Employee Insurance Program (EIP) division provides detailed program requirements for normal, early, disability and other special retirement conditions. Detailed plan information can be found at www.eip.sc.gov (Retirement Information).

Eligible retired employees participating in OPEB insurance programs pay their premiums directly to EIP. The Ports Authority paid the employer's portion of premiums directly to the EIP in the amount of approximately $916,000 and $749,000 for fiscal years 2011 and 2010, respectively.

Employees included in the actuarial valuation include retirees, survivors and active employees who are eligible to participate in the Plan upon retirement. Expenses for OPEB premiums are recognized monthly and financed on a pay-as-you-go basis. The total OPEB premiums paid were approximately $1,495,000 and $1,451,000 for fiscal years ended June 30, 2011 and 2010, respectively. For fiscal years 2011 and 2010, the Ports Authority paid approximately 61.3% and 51.6% and the retirees were responsible for funding approximately 38.7% and 48.4%, respectively.

The Ports Authority accrued during fiscal year 2011 and 2010, $1,338,000 and $1,149,000, 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)	2011	2010
Net OPEB obligation, beginning of year	$ 3,834	$ 2,685
Annual required contribution (ARC)	2,447	1,969
Interest on net OPEB obligation	13	9
Annual OPEB cost	2,460	1,978
Employer contributions	(1,122)	(829)
Interest on employer contributions	-	-
	(1,122)	(829)
Net OPEB obligation, end of year	$ 5,172	$ 3,834

Actual contributions paid in fiscal year 2011 and 2010 include the following at June 30:

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