

**South Carolina State
Ports Authority**
Financial Statements and
Required Supplemental Information
June 30, 2018 and 2017

South Carolina State Ports Authority

Index

June 30, 2018 and 2017

	Page(s)
Report of Independent Auditors	1–2
Required Supplementary Information	
Management’s Discussion and Analysis.....	3–11
Financial Statements	
Statements of Net Position.....	12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14–15
Notes to Financial Statements	16–59
Required Supplemental Information	
Required Supplemental Information	60–64



Report of Independent Auditors

To the Board of Directors and Management of
South Carolina State Ports Authority

We have audited the accompanying financial statements of the South Carolina State Ports Authority (the "Ports Authority"), a component unit of the State of South Carolina, which comprise the statements of net position as of June 30, 2018 and June 30, 2017, and the related statements of revenues, expenses and changes in net position, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina State Ports Authority as of June 30, 2018 and June 30, 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Ports Authority are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of South Carolina that are 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, 2018 and 2017, the changes in financial position or its cash flows for the years then ended in accordance with principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Ports Authority adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 3 through 11 and the required supplemental information on pages 60 through 64 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Spartanburg, South Carolina
October 15, 2018

Required Supplementary Information

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Annual Financial Report

The annual financial report of the South Carolina Ports Authority ("Ports Authority" or the "Authority") provides an overview of the Ports Authority's financial activities for the fiscal years ended June 30, 2018 and 2017. Management's discussion and analysis should be read in conjunction with the Authority's accompanying financial statements and notes to the financial 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.

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.

About the Authority

The South Carolina 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 Secretaries of Transportation and Commerce as additional ex officio, nonvoting members. The Ports Authority owns and is responsible for the operation of six ocean terminals at the ports of Charleston and Georgetown, as well as inland port facilities in Greer and Dillon. These facilities primarily handle import and export containerized, breakbulk, and bulk cargoes.

Operating Highlights

- During fiscal year 2018, the Ports Authority handled a record, 2,199,873 twenty-foot equivalent units (TEUs). This represents an increase of approximately 3.0% over fiscal year 2017's 2,137,702 TEUs and a 13.0% increase over fiscal year 2016.
- Construction of the South Carolina Inland Port at Dillon was completed, and operations commenced in April 2018.
- In July 2017, the Authority executed the Project Partnership Agreement with the Department of the Army to begin the construction phase of the 52-foot harbor deepening project, which will result in the deepest harbor on the east coast.
- The Wharf Rehabilitation project was completed at the Wando Welch Terminal in June 2018, restoring the Authority's ability to utilize all three terminal berths.
- Construction of a new corporate office commenced during fiscal year 2018, with an estimated completion date of December 2018.

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

- Investment in capital infrastructure continued in fiscal year 2018. Site development and detailed design for the Hugh K. Leatherman, Sr. Terminal were completed, and five ship-to-shore cranes were ordered with an estimated delivery in fiscal year 2020.
- Wando Welch Terminal improvements, which include the construction of traffic and terminal flow improvements, the delivery of two Super Post-Panamax ship-to-shore (STS) cranes, the raising of four STS cranes from 115 feet to 155 feet, the order of one additional STS crane and the order of 24 additional rubber-tired gantry cranes are underway.

Financial Highlights

- The Ports Authority's total net position was \$814.4 million, \$830.1 million, and \$736.3 million as of June 30, 2018, 2017, and 2016 respectively. The Authority's total net position decreased \$15.7 million during the current fiscal year and increased \$78.1 million over fiscal year 2016. Over the three fiscal years, the net position of the Ports Authority has experienced a compound annual growth rate of 5.2%.
- The Ports Authority generated its highest total operating revenues in history of \$252.0 million for the fiscal year ended June 30, 2018. This represents an increase of 6.9% over the \$235.8 million generated for the fiscal year ended June 30, 2017 and a 19.3% increase over revenues in fiscal year 2016 of \$211.2 million.
- The Ports Authority successfully issued new debt in 2018 to fund its capital campaign supporting future growth. Combined transactions of senior and subordinated debt total approximately \$290 million in new proceeds.

Analysis of Overall Financial Position and Results of Operations

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

<i>(in thousands)</i>	2018	2017	2016
Total operating revenues	\$ 252,013	\$ 235,789	\$ 211,166
Total TEUs (equivalent number of 20' container units)	2,200	2,138	1,943
Breakbulk pier tonnage	761	859	1,151

A total of 1,705, 1,765, and 1,900 vessels (excluding barges) docked during the years ended June 30, 2018, 2017, and 2016, respectively. The Ports Authority provided services to the top 10 largest container ship lines calling the United States based on containerized import and export cargo volumes as of June 30, 2018, as reported in the *Alphaliner Top 100 Report*.

South Carolina State Ports Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017

Statements of Net Position (Balance Sheets)

A condensed summary of the Ports Authority's balance sheet and resulting net position at June 30 is shown below:

(in thousands of dollars)

	2018	2017	2016
Assets			
Current assets	\$ 243,564	\$ 231,908	\$ 253,772
Internally designated assets	366,933	239,998	247,539
Held by trustee for debt service	20,007	36,241	36,196
Capital assets, net	1,201,467	1,016,564	846,551
Other assets	1,254	1,165	561
Total assets	<u>1,833,225</u>	<u>1,525,876</u>	<u>1,384,619</u>
Deferred outflows of resources			
Total assets and deferred outflows of resources	<u>\$ 1,859,227</u>	<u>\$ 1,537,819</u>	<u>\$ 1,395,221</u>
Liabilities			
Current liabilities	\$ 47,743	\$ 68,716	\$ 64,721
Long-term obligations	992,076	638,896	594,032
Total liabilities	<u>1,039,819</u>	<u>707,612</u>	<u>658,753</u>
Deferred inflows of resources			
Total liabilities, deferred inflows of resources and net position	<u>4,777</u>	<u>119</u>	<u>144</u>
Net position			
Net investment in capital assets	611,645	456,215	479,309
Restricted for debt service, net of debt	7,344	16,805	16,672
Unrestricted	195,642	357,068	240,343
Total net position	<u>814,631</u>	<u>830,088</u>	<u>736,324</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,859,227</u>	<u>\$ 1,537,819</u>	<u>\$ 1,395,221</u>

Total assets and deferred outflows of resources increased 20.9% or \$321 million from \$1,538 million to \$1,859 million during 2018. The main driver behind the increase is the 2018 bond proceeds of \$365 million, issued at a par value of \$325 million, and equipment financing proceeds of \$80 million, offset by the defeasance of the 2010 bonds in the amount of \$155 million. The use of these funds can be seen in property and equipment as the Authority continues to improve infrastructure and equipment at existing facilities and construct two new facilities, the Hugh K. Leatherman, Sr Terminal and the new inland port facility in Dillon, South Carolina, which was completed in fiscal year 2018.

Deferred Outflows of Resources increased approximately \$13.8 million during the year to recognize the Ports Authority's allocated share of difference between actual and expected pension experience, the net difference between projected and actual investment earnings, assumption changes, changes in proportionate share and the Ports Authority's actual pension plan contributions made during 2018 that were paid subsequent to both plans' measurement date of June 30, 2017. The increase also reflects the adoption of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which recognizes deferred outflows related to other postemployment benefits.

South Carolina State Ports Authority Management's Discussion and Analysis (Unaudited) June 30, 2018 and 2017

Total liabilities increased 46.9% or \$332 million from \$708 million to \$1,040 million during 2018. The change was directly related to the senior-lien bond issuance and equipment financing. The increase was also driven by the implementation of GASB 75 which requires the full actuarially accrued liability related to post-employment benefits to be recognized in the balance sheet, resulting in an increase of approximately \$39.6 million. Additionally, the net pension liability of the authority increased by approximately \$18.9 million related to the recognition of the Authority's proportionate share. Offsetting these increases was the defeasance of the 2010 bonds in the amount of \$150 million.

The Ports Authority also recognized \$59 thousand of deferred inflows of resources for the allocated share of the difference between actual and expected pension experience and changes in proportionate share during 2018 and \$4.7 million for post-employment benefits related to assumption changes as a part of the GASB 75 implementation.

Total assets and deferred outflows of resources increased 10.2% or \$143 million from \$1,395 million to \$1,538 million during 2017. The main driver behind the increase can be seen in property and equipment as the Authority continues to improve equipment and facilities and construct two new facilities, the Hugh K. Leatherman, Sr Terminal and new inland port facility in Dillon, South Carolina.

Deferred Outflows of Resources increased approximately \$1.3 million during the prior year to recognize the Ports Authority's allocated share of difference between actual and expected pension experience, the net difference between projected and actual investment earnings, changes in proportionate share and the Port Authority's actual pension plan contributions made during 2017 that were paid subsequent to the pension plans' measurement date of June 30, 2016.

Total liabilities increased 7.4% or \$49 million from \$659 million to \$708 million during 2017. The change was directly related to a \$25 million debt facility for new equipment and a \$20 million loan to develop the new inland port at Dillon.

The Ports Authority also recognized \$119 thousand of deferred inflows of resources for the allocated share of the difference between actual and expected pension experience and changes in proportionate share during 2017.

The largest portion of the Ports Authority's net position each year (75.1%, 55.0% and 65.1% at June 30, 2018, 2017 and 2016, 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 position (0.9%, 2.0% and 2.3% at June 30, 2018, 2017 and 2016, respectively) represents resources that are subject to external restrictions. The remaining unrestricted net position (24.0%, 43.0% and 32.6% at June 30, 2018, 2017 and 2016, respectively) may be used to meet any of the Ports Authority's ongoing obligations.

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Statements of Revenues, Expenses and Changes in Net Position

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

<i>(in thousands of dollars)</i>	2018	2017	2016
Operating revenues	\$ 252,013	\$ 235,789	\$ 218,784
Operating expenses	<u>216,247</u>	<u>197,813</u>	<u>180,083</u>
Operating earnings	35,766	37,976	38,701
Gain(loss) on sale of property and equipment, net	8,832	37,063	(951)
Other nonoperating (expense) income, net	(5,602)	3,109	968
Contribution to State of South Carolina	(1,000)	(1,000)	(1,000)
Contribution to Department of Transportation	(12,600)	-	-
Contribution to CSX	(709)	-	-
Contribution to Georgetown County, South Carolina	-	(15)	-
Contribution to Sumter County, South Carolina	-	-	(1,383)
Contribution to Cherokee County, South Carolina	-	(500)	-
Contribution to Army Corps of Engineers	(299,043)	-	-
Contribution from Army Corps of Engineers	275	-	-
Capital grants from the federal government	762	5,681	5,156
Contribution from State of South Carolina	299,318	2,046	7,185
Contribution (other) for harbor deepening	-	-	(6,185)
Contribution from Spartanburg County, South Carolina	-	7,095	15,035
Contribution from Dillon County, South Carolina	<u>-</u>	<u>2,309</u>	<u>-</u>
Increase in net position	<u>\$ 25,999</u>	<u>\$ 93,764</u>	<u>\$ 57,526</u>

Operating revenues increased 6.9% from \$235.8 million to \$252.0 million during 2018. This increase is primarily attributed to increased volumes of containerized cargo and continued success of our inland port facility in Greer. During fiscal year 2018, volumes increased approximately 3.0% from 2,137,702 twenty-foot equivalent units (TEU) in 2017 to 2,199,873 TEUs in 2018.

Operating revenues increased 7.7% from \$218.8 million to \$235.8 million during 2017. This increase is primarily attributed to increased volumes of containerized cargo and continued success of our inland port facility in Greer. During fiscal year 2017, volumes increased approximately 10% from 1,943,170 in 2016 to 2,137,702 in 2017. The cruise business segment also experienced moderate revenue growth as a result of a 5.6% increase in passengers over 2016.

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

<i>(in thousands of dollars)</i>	2018	2017	2016
Operating revenues			
Charleston	\$ 234,360	\$ 218,716	\$ 198,869
Georgetown	457	782	936
Greer	14,736	11,814	9,301
Dillon	144	-	-
Other	<u>2,316</u>	<u>4,477</u>	<u>9,678</u>
Total operating revenues	<u>\$ 252,013</u>	<u>\$ 235,789</u>	<u>\$ 218,784</u>

South Carolina State Ports Authority
Management’s Discussion and Analysis (Unaudited)
June 30, 2018 and 2017

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

<i>(in thousands of dollars)</i>	2018	2017	2016
Operating expenses (gains)			
Direct operating expenses	\$ 137,861	\$ 123,876	\$ 117,476
Administrative expense	36,863	36,704	28,920
Depreciation expense	<u>41,523</u>	<u>37,233</u>	<u>33,687</u>
Total operating expenses	<u>\$ 216,247</u>	<u>\$ 197,813</u>	<u>\$ 180,083</u>

Direct operating expenses for fiscal year 2018 increased by 11.2% from \$124.0 million in 2017 to \$137.9 million in 2018. The increases are primarily a result of personnel costs and increased expenses associated with volume gains. Personnel costs continued to increase during fiscal year 2018 as the Authority brought on additional staffing at increased wages to handle record volumes. Additionally, the Authority saw an increase in repairs and maintenance expense from wear and tear on equipment as usage increased.

Administrative expenses remained relatively flat for fiscal year 2018 evidenced by an increase of 0.54% from \$36.7 million in 2017 to \$36.9 million in 2018. Over the last three years, the Ports Authority has focused its efforts on decreasing administrative expenses. While the full impact of these efforts was realized in fiscal year 2018, retirement expenses resulting from GASB 68, Accounting and Financial Reporting for Pension Plans, continued to drive noteworthy book increases related to the Ports Authority’s allocable share of pension costs, resulting in a \$2.7 million increase in fiscal year 2018. See Note 9 for additional information.

Depreciation expense increased 11.5% in fiscal year 2018. This was primarily due to the completion of the wharf refurbishment project at the Wando Welch Terminal and the inland port facility in Dillon, SC.

Direct operating expenses for fiscal year 2017 increased by 5.9% from \$117.0 million in 2016 to \$124.0 million in 2017. The increases are primarily a result of operating changes and volume gains. Wage increases and overtime policy changes for operations personnel were initiated in order to ensure the attraction and retention of essential talent at the Ports Authority. The final impacts of the retirement incentive plan were also recognized during the year. Similarly, repairs and maintenance for cranes and other material handling equipment increased during the year as the Ports Authority completed necessary maintenance to handle increased volume.

Administrative expenses for fiscal year 2017 increased by 26.9% from \$28.9 million in 2016 to \$36.7 million in 2017. This was partially due to the third-year application of GASB 68, *Accounting and Financial Reporting for Pension Plans*, resulting in an increase of the Ports Authority’s allocable share of pension costs. In addition, the Ports Authority experienced an increase in legal costs during the fiscal year as the transition to external general counsel was complete. There was also an increase in incentive awards during fiscal year 2017, due to increased volumes and net position.

Depreciation expense increased 10.5% in fiscal year 2017. This was primarily due to the purchase of two new super post-Panamax cranes at the Wando Welch Terminal, completion of two facilities for BMW in Greer, extensive paving at the North Charleston Terminal, and completion of a reefer service area at the Wando Welch Terminal.

A gain on property damage was recorded in fiscal year 2017 in the amount of \$2.1 million. This was primarily due to legal settlement for a prior year incident at Veterans Terminal. This gain is included in operating earnings in the statements of revenue, expenses and changes in net position.

South Carolina State Ports Authority Management's Discussion and Analysis (Unaudited) June 30, 2018 and 2017

Nonoperating income decreased from \$40.7 million to \$10.3 million of expense in 2018. In fiscal year 2018, the Authority recognized a gain related to the sale of the procurement office building, which was offset by costs related to the 2018 bond issuance, as well as a loss on the defeasance of the 2010 bonds.

Nonoperating income increased from a 2016 expense of \$7.6 million to \$40.7 million of income in 2017. This was principally due to the sale of the main office building of the Ports Authority.

The Ports Authority made contributions to the State of South Carolina for the Cooper River Bridge during the years ended June 30, 2018, 2017 and 2016, as more fully described in Note 13 – Other Matters. During the years ended June 30, 2018, 2017 and 2016, approximately \$0, \$0, and \$1.4 million, respectively, was contributed to Sumter County for water and sewer infrastructure to support the construction of a major manufacturing facility. During the year ended June 30, 2018, the Ports Authority contributed \$12.6 million to the Department of Transportation and \$709 thousand to CSX for infrastructure improvements. The Authority also contributed \$299.0 million to the Army Corps of Engineers for the 52-foot harbor deepening project. These funds were reimbursed to the Authority from the State of South Carolina. These payments have been treated as nonoperating contributions to the state and county governments in South Carolina and therefore have reduced the Ports Authority's net position. These contributions are not treated as a capital asset of the Ports Authority and future payments are not recorded as a liability.

For fiscal years ending June 30, 2018, 2017 and 2016, approximately \$0, \$7.1 million, and \$15.0 million, respectively was received from Spartanburg County as reimbursement for construction of facilities for use by BMW. This is further described in Note 7 – Commitments. Additionally, for the year ended June 30, 2018, \$275 thousand was received from the State of South Carolina as reimbursement for bi-state development of the Jasper Ocean Terminal. For the year ended June 30, 2017, \$2.0 million was received from the State of South Carolina as reimbursement for harbor deepening studies as well as bi-state development of the Jasper Ocean Terminal.

During the years ended June 30, 2018, 2017 and 2016, the Ports Authority earned approximately \$762 thousand, \$5.7 million and \$5.2 million, respectively, in federal grant money to be used for wharf repairs and improvements at the Wando Welch Terminal as well as security related projects to enhance facilities.

Statements of Cash Flows

A condensed comparative summary of the statements of cash flows for the years ended June 30 is shown below:

<i>(in thousands of dollars)</i>	2018	2017	2016
Cash flow from operating activities	\$ 73,551	\$ 77,981	\$ 64,681
Cash flow from (used in) investing activities	19,792	3,285	(14,846)
Cash flow (used in) from noncapital financing activities	(24,386)	5,181	(7,568)
Cash flow from (used in) capital and related financing activities	<u>60,116</u>	<u>(90,197)</u>	<u>107,132</u>
Change in cash and cash equivalents	129,073	(3,750)	149,399
Cash and cash equivalents			
Beginning of year	<u>415,550</u>	<u>419,300</u>	<u>269,901</u>
End of year	<u>\$ 544,623</u>	<u>\$ 415,550</u>	<u>\$ 419,300</u>

South Carolina State Ports Authority Management's Discussion and Analysis (Unaudited) June 30, 2018 and 2017

The Ports Authority's available cash and cash equivalents increased from \$415.6 million in 2017 to \$544.6 million in 2018. Cash flows from operating activities decreased from \$78.0 million in 2017 to \$73.6 million in 2018. One of the major influences on this decrease was the change in deferred pension inflows and outflows during fiscal year 2018, as they increased approximately \$12.2 million and decreased cash flow from operating activities by the same amount. The decrease can also be attributed to higher revenues from increased volumes and steamship contract rates offset by increases in cash paid to suppliers and employees. Cash flows from investing activities increased from \$5.2 million in 2017 to \$21.2 million in 2018. This increase is principally attributed to an increase in investments sold during fiscal year 2018. Net cash from noncapital financing activities decreased from \$3.3 million in 2017 to \$(25.8) million in 2018. This decrease is related to contributions provided to the Department of Transportation for infrastructure improvements and contributions made to the Army Corps of Engineers for the 52-foot harbor deepening project. These infrastructure improvements are not the assets of the Authority. Net cash from (used in) capital and related financing activities increased from \$(90.2) million in 2017 to \$60.1 million in 2018. This increase was directly related to an equipment financing and bond issuance occurring during fiscal year 2018. The debt proceeds received were off-set by increased capital spend and the servicing of current debt obligations.

The Ports Authority's available cash and cash equivalents decreased from \$419.3 million in 2016 to \$415.6 million in 2017. Cash flows from operating activities increased from \$64.7 million in 2016 to \$78.0 million in 2017. The increase can be principally attributed to higher revenues from increased volumes. Cash flows from (used in) investing activities increased from \$(13.8) million in 2016 to \$5.2 million in 2017. This increase is primarily related to investment purchases made during 2016 that were not duplicated in 2017. Net cash (used in) from noncapital financing activities increased from \$(8.6) million in 2016 to \$3.3 million in 2017. This decrease is related to fewer contributions provided to South Carolina Counties during 2017 for infrastructure improvements. These infrastructure improvements are not the assets of the Authority. Additionally, the Authority received increased funding from the State of South Carolina for bi-state development. Net cash from (used in) capital and related financing activities decreased from \$107.1 million in 2016 to \$(90.2) million in 2017, primarily as a result of less debt proceeds received during the current year and the increase in overall capital spend.

Capital Assets and Debt Administration

The Ports Authority's investment in capital assets was \$1.2 billion as of June 30, 2018, representing an 18.2% increase over June 30, 2017, and a 41.9% increase over 2016. The investments include land, land improvements, buildings, terminal equipment and projects in progress.

Major capital investments and other significant expenditures over the past two fiscal years include the following:

- Wharf Restoration at Wando Welch Terminal
- Purchase and upgrade Ship-to-Shore Container Cranes
- Purchase of Rubber-Tired-Gantry Cranes and other Material Handling Equipment
- 52-Foot Harbor Deepening of Charleston Harbor (In Progress)
- Hugh K. Leatherman, Sr. Terminal (In Progress)
- Construction of Inland Port – Dillon
- Construction of new main office facility (In Progress)
- Construct Manufacturing Support Facilities – BMW
- Purchase of approximately 941 acres for proposed distribution center development in Ridgeville, SC

South Carolina State Ports Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Additional information on the capital assets and projects of the Authority can be found in Note 4 and Note 7 to the financial statements.

Debt Administration

The administration of our debt and borrowing capacity is essential to achieving the current capital and growth plan of the Authority. The Ports Authority issued revenue bonds in 2010 (\$170 million), 2015 (\$294 million), and 2018 (\$325 million). The 2010 revenue bonds were legally defeased in fiscal year 2018. Total revenue bonds outstanding were \$619.0 million and \$444.2 million as of June 30, 2018, and 2017, respectively. Additionally, the Authority has promissory notes outstanding with various third parties totaling \$161.6 million and \$84.8 million as of June 30, 2018 and 2017, respectively. Additional information on the Ports Authority's long-term debt can be found in Note 6 to the financial statements.

Credit Rating

The Ports Authority's Senior Revenue Bonds, Series 2018 and Series 2015, are rated by Moody's and Standard and Poor's, A1 and A+, respectively.

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 Position

June 30, 2018 and 2017

<i>(in thousands of dollars)</i>	2018	2017
Assets		
Current assets		
Cash	\$ 8,151	\$ 14,834
Investments	169,539	160,718
Accounts receivable		
Trade, net of allowance for doubtful accounts of \$1,572 in 2018 and \$1,178 in 2017	38,549	31,500
Other receivables	13,365	11,411
Inventories, net	8,557	7,678
Prepaid and other current assets	4,834	4,822
Interest rate exchange agreements	569	945
Total current assets	<u>243,564</u>	<u>231,908</u>
Noncurrent assets and investments		
Investments internally designated for capital acquisitions	366,933	239,998
Investments held by trustee for debt service	20,007	36,241
Capital assets, net	1,201,467	1,016,564
Other receivables	1,254	1,165
Total assets	<u>1,833,225</u>	<u>1,525,876</u>
Deferred outflows of resources		
Defined benefit plans	21,952	9,753
Post employment benefit plans	1,860	-
Goodwill	1,971	2,190
Total assets and deferred outflows of resources	<u>\$ 1,859,008</u>	<u>\$ 1,537,819</u>
Liabilities		
Current liabilities		
Current maturities on long-term debt	\$ 3,677	\$ 8,698
Accounts payable	9,001	9,644
Accounts payable, construction	15,326	15,686
Retainage payable on construction contracts	3,858	11,651
Accrued interest payable	7,537	11,618
Accrued employee compensation and payroll, related withholdings and liabilities	7,110	9,476
Interest rate exchange agreements	1,121	1,834
Harbor deepening obligation, current portion	113	109
Total current liabilities	<u>47,743</u>	<u>68,716</u>
Postretirement obligation, long-term	52,907	13,279
Net pension liability	98,579	79,665
Harbor deepening obligation, long-term	3,997	4,110
Long-term debt, net of current maturities	836,593	541,842
Total liabilities	<u>1,039,819</u>	<u>707,612</u>
Deferred inflows of resources		
Defined benefit plans	59	119
Post employment benefit plans	4,718	-
	<u>4,777</u>	<u>119</u>
Net position		
Net investment in capital assets	611,645	456,215
Restricted		
For debt service, net of related debt	7,344	16,805
Unrestricted	195,423	357,068
Total net position	<u>814,412</u>	<u>830,088</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,859,008</u>	<u>\$ 1,537,819</u>

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

South Carolina State Ports Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

(in thousands of dollars)

	2018	2017
Operating revenues	\$ 252,013	\$ 235,789
Operating expenses (gains)		
Direct operating expense	137,861	123,876
Administrative expense	36,863	36,704
Depreciation expense	41,523	37,233
Total operating expenses	<u>216,247</u>	<u>197,813</u>
Operating earnings	<u>35,766</u>	<u>37,976</u>
Nonoperating (expenses) revenues		
Interest income	5,230	5,717
Other expense, net	(9,589)	(1,386)
Gain on sale of property and equipment, net	8,832	37,063
Interest expense	(1,580)	(1,418)
Unrealized gain on interest rate exchange agreements	337	196
Contribution to the State of SC for Cooper River Bridge	(1,000)	(1,000)
Contribution to Department of Transportation for infrastructure improvements	(12,600)	-
Contribution to CSX for infrastructure improvements	(709)	-
Contribution to Army Corps of Engineers for Harbor Deepening	(299,043)	-
Contribution from Army Corps of Engineers for Harbor Deepening	275	-
Contribution from the State of SC for Harbor Deepening	299,043	137
Contribution to Georgetown County for steel mill study	-	(15)
Contribution to Cherokee County for economic improvements	-	(500)
Contribution from the State of SC for Jasper Ocean Terminal	275	1,875
Total nonoperating (expenses) revenues	<u>(10,529)</u>	<u>40,669</u>
Excess revenues over expenses before capital contributions and special items	25,237	78,645
Grant from the SC Department Public Safety	-	34
Capital grants from the federal government	762	5,681
Contribution from Spartanburg County for BMW facility	-	7,095
Contribution of land from Dillon County for inland port	-	2,309
Increase in net position	<u>25,999</u>	<u>93,764</u>
Total net position		
Beginning of year	830,088	736,324
Adoption of GASB 75	<u>(41,675)</u>	<u>-</u>
End of year	<u>\$ 814,412</u>	<u>\$ 830,088</u>

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

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

<i>(in thousands of dollars)</i>	2018	2017
Cash flows from operating activities		
Cash received from customers	\$ 244,771	\$ 230,392
Cash paid to suppliers	(94,500)	(87,618)
Cash paid for employees	<u>(76,720)</u>	<u>(64,793)</u>
Net cash provided by operating activities	<u>73,551</u>	<u>77,981</u>
Cash flows from investing activities		
Proceeds from sale of investments	34,705	27,942
Purchases of investments	(18,674)	(28,138)
Interest received on investments	<u>5,186</u>	<u>5,356</u>
Net cash provided by investing activities	<u>21,217</u>	<u>5,160</u>
Cash flows from noncapital financing activities		
Principal paid on harbor deepening	(109)	(106)
Interest paid on harbor deepening	(127)	(130)
Contribution to the State of SC for Cooper River Bridge	(1,000)	(1,000)
Contribution to Department of Transportation for infrastructure improvements	(12,600)	-
Contribution to CSX for infrastructure improvements	(709)	-
Contribution to Army Corps of Engineers for Harbor Deepening	(299,043)	-
Contribution from Army Corps of Engineers for Harbor Deepening	275	-
Contribution from the State of SC for Harbor Deepening	288,677	5,023
Contribution to Georgetown County for steel mill study	-	(15)
Contribution to Cherokee County for economic improvements	-	(500)
Contribution from State of SC Department of Public Safety	-	34
Payment to support bi-state development	(1,425)	(1,875)
Contribution from the State of SC for Jasper Ocean Terminal	<u>250</u>	<u>1,875</u>
Net cash (used in) provided by noncapital financing activities	<u>(25,811)</u>	<u>3,306</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(213,883)	(180,885)
Cash received from insurance proceeds	194	2,340
Proceeds from sale of property and equipment	18,510	42,265
Cash paid for bond issuance costs	(1,789)	-
Proceeds from revenue bonds	365,158	-
Principal paid on revenue bonds	(151,861)	(5,270)
Loss on bond defeasance	(6,200)	-
Proceeds from notes payable	80,012	45,000
Principal paid on other debt	(3,162)	(1,248)
Interest paid on revenue bonds	(22,402)	(22,672)
Interest paid on bond defeasance	(2,810)	-
Interest paid on other debt	(2,123)	(1,351)
Contribution from Spartanburg County	352	21,916
Capital grants	<u>120</u>	<u>9,708</u>
Cash flow provided by (used in) capital and related financing activities	<u>60,116</u>	<u>(90,197)</u>
Net increase (decrease) in cash and cash equivalents	129,073	(3,750)
Cash and cash equivalents		
Beginning of year	<u>415,550</u>	<u>419,300</u>
End of year	<u>\$ 544,623</u>	<u>\$ 415,550</u>
Reconciliation of cash to financial statements		
Cash	\$ 8,151	\$ 14,834
Investments	169,539	160,718
Investments internally designated for capital acquisitions	<u>366,933</u>	<u>239,998</u>
Total cash and cash equivalents	<u>\$ 544,623</u>	<u>\$ 415,550</u>

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

South Carolina State Ports Authority
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

<i>(in thousands of dollars)</i>	2018	2017
Reconciliation of operating earnings to net cash provided by operating activities		
Operating earnings	\$ 35,766	\$ 37,976
Adjustments to reconcile operating earnings to net cash provided by operating activities		
Depreciation expense	41,523	37,233
Provision for doubtful accounts	422	498
Other expense, net	177	346
Amortization	35	35
Gain on property damage, net of insurance proceeds	(193)	(2,340)
Operating expense funded by grant	-	(33)
Changes in operating assets and liabilities		
Accounts receivable	(7,500)	(1,996)
Inventories	(879)	(348)
Prepaid and other current assets	(257)	(164)
Accounts payable and other liabilities	(643)	(469)
Payroll related liabilities	(2,366)	1,742
Post retirement liability	811	1,498
Pension liability	6,655	4,003
Net cash provided by operating activities	<u>\$ 73,551</u>	<u>\$ 77,981</u>

Noncash Investing, Capital and Financing Activities

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

<i>(in thousands of dollars)</i>	2018	2017
Property and equipment included in accounts payable	\$ 23,294	\$ 31,556
Unrealized gain on interest rate swap	337	196
Unrealized loss on investments	(203)	(151)
Port Royal property transfer included in other receivables	-	8,743
Harbor deepening reimbursement included in other receivables	10,366	-
Contributions in other receivables	1,375	1,081
Land swap	250	-
Interest income included in interest receivable	1,480	1,436

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

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

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, as well as inland port facilities in Greer and Dillon. These facilities handle import and export containerized, breakbulk and bulk cargoes.

The Ports Authority operates as a self-supporting governmental enterprise and uses the accrual basis of accounting applicable to governmental enterprise funds. 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. In addition to the nine voting members of the Board of Directors appointed by the Governor, there are 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 transactions of the Ports Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the balance sheet. Net position is segregated into: net investment in capital assets; restricted; and unrestricted components. These classifications are defined as follows:

- Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation, 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 investment 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 – Consists of external constraints placed on net position 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 position – Consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets".

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

New Accounting Pronouncements

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in June 2015. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. The primary objective of Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for fiscal years beginning after June 15, 2017 and has been adopted by the Ports Authority for the fiscal year ending June 30, 2018. The Ports Authority determined that it is not practical to adopt this statement retroactively by restating financial statements for all prior periods presented. The Ports Authority has restated beginning net position as of July 1, 2017 to reflect the adoption. See Note 10 for more information.

In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Ports Authority has evaluated this Statement and determined that it does not have an impact on its financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 and the Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Ports Authority is currently evaluating the impact that this Statement will have on its financial statements.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

In March 2017, GASB issued Statement No. 85, *Omnibus*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Ports Authority has evaluated this Statement and the impact can be seen in the Statements of Net Position.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements for this Statement are effective for reporting periods beginning after June 15, 2017. The Ports Authority has adopted this Statement and the impact to the financial statements can be seen in Note 6.

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government's leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Ports Authority is currently evaluating this Statement and believes it will have a material impact on its financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Ports Authority is currently evaluating this Statement and believes the impact to be minimal.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement is effective for reporting periods beginning after December 15, 2019 and should be applied prospectively. The Ports Authority is currently evaluating the impact 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 at financial institutions and invested in pooled investment funds maintained with the State Treasurer. Cash, investments and pooled investments used for operations are included on the statement of net position as "cash" and "investments." Investments maintained in accordance with revenue bond debt service requirements are included on the statement of net position as "held by trustee for debt service."

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Cash, investments and pooled investments committed by the Board of Directors for capital expansion are included on the statement of net position 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.

Credit Risk, Custodial Credit Risk, and Interest Rate Risk

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, 2018 and 2017. Investments held with third party banks include money market funds, U.S. Government securities, and interest-bearing accounts with credit ratings from Moody's of AAA and P-1 and Standard & Poor's of AA+ and A-1 as of June 30, 2018 and 2017, respectively. 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, US Government securities, and interest-bearing accounts, which totaled approximately \$85,180,000 and \$40,202,000 as of June 30, 2018 and 2017, respectively. Investments held by a trustee are invested in government agency securities, which totaled \$20,007,000 and \$36,241,000 as of June 30, 2018 and 2017, respectively. Investments held by a trustee are fully collateralized as of June 30, 2018 and 2017 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 Ports 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, 2018 and 2017. 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.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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

(in thousands of dollars)

Investment Type	Maturity	Value	
		2018	2017
Money market funds	Less than one year	\$ 68,368	\$ 37,295
U.S. government agency securities	Less than one year	5,298	1,002
U.S. government agency securities	One to five years	12,418	21,345

Investments in the state investment pool include obligations of the U.S. and certain agencies of the U.S., 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. Inventory is evaluated for obsolescence on an annual basis and adjusted accordingly.

Property and Equipment

Property and equipment constructed or purchased is stated at cost. Contributed property and equipment is recorded at estimated acquisition 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	5 to 50 years
Buildings and structures	5 to 50 years
Railroad tracks	20 to 25 years
Terminal equipment	5 to 25 years
Furniture and fixtures	5 to 20 years

Goodwill

Goodwill is accounted for under GASB 85, *Omnibus* and GASB 69, *Government Combinations and Disposals of Government Operations* and is reported as a deferred outflow of resources in the Statements of Net Position. Deferred outflows of resources related to goodwill are attributed to future periods in a systematic and rational manner, based on the professional judgment of the Ports Authority. These outflows of resources are amortized over a period of ten years. The Ports Authority will periodically review and revise its estimate of the attribution period in reporting periods subsequent to the acquisition.

Derivative Instruments and Hedging Activities

The Ports Authority has entered into interest rate swap agreements with banks 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 in the statement of revenues, expenses, and changes in net position.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Operating Revenues and Expenses

The statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing commerce through the ports. Revenue from exchange transactions is recognized at the time the transaction is completed. 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.

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 years ended June 30, 2018 and 2017, three customers accounted for the following revenue and accounts receivable percentages:

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

	2018		2017	
	Revenue	Accounts Receivable	Revenue	Accounts Receivable
Customer 1	15 %	17 %	25 %	20 %
Customer 2	10	11	16	22
Customer 3	10	17	12	10
	<u>35 %</u>	<u>45 %</u>	<u>53 %</u>	<u>52 %</u>

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.

Annual Leave Policy

Employees earn vacation at rates of 12 to 25 days per year and may accumulate up to a maximum of 5 days (previously 45 days), depending on their length of employment and type of employment contract. All employees were allowed to carry their leave balance into the new policy as their respective maximum. Upon termination, employees are paid for any unused accumulated vacation, up to their respective maximum. The liability for annual leave is accrued at the lower of its accumulated value or respective maximum in the accompanying financial statements. The liability is \$2,048,000 and \$2,374,000 as of June 30, 2018 and 2017, respectively.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the net position of the Ports Authority and additions and deductions to/from the Ports Authority's net position have been determined on the same basis as they are reported by the South Carolina Retirement Systems administered by the South Carolina Public Employees Benefit Authority (PEBA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Correction of Previously Issued Financial Information

During the year ended June 30, 2018, a correction was identified for the treatment of costs incurred related to harbor deepening. It was determined that the application of the accounting guidance in GASB Concepts Statement 4, *Elements of Financial Statements*, included all harbor deepening costs as an asset rather than expensing as incurred, resulting in an overstatement of assets and net position in the periods that were impacted.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

The Ports Authority evaluated the materiality of the error from qualitative and quantitative perspectives and concluded that the error was not material to its previously issued annual financial statements. The cumulative amount of the corrections was approximately \$6,185,000. The cumulative amount of the prior period revision would have been material to our current Statement of Revenues, Expenses and Changes in Net Position had we made the correction in the current period, and accordingly, we have revised our previously issued financial statements to correct these errors. As a result of the correction, the Ports Authority has corrected the cash flow activities associated with harbor deepening from capital and related financing activities to non-capital financing activities in the Statements of Cash Flows for the year ended June 30, 2017. The cumulative amount of change was approximately \$4,787,000.

Additionally, the Ports Authority incorrectly classified a payment of \$1,875,000 related to the Jasper County bi-state development project as an investing cash outflow activity in the Statement of Cash Flows for the year ended June 30, 2017. This payment should have been presented as a noncapital financing activity. We have revised our previously issued financial statements to correct this error. Net decrease in cash and cash equivalents did not change for the year ended June 30, 2017.

The following tables present the effect of the correction for the harbor deepening costs and the bi-development project on the previously reported statement of net position as of June 30, 2017 and the statement of cash flows for the year ended June 30, 2017:

<i>(in thousands of dollars)</i>	2017 As Reported	Adjust Opening Net Position	2017 Adjustment	2017 As Revised
Assets				
Noncurrent assets and investments				
Capital assets, net	\$ 1,022,749	\$ (6,185)	\$ -	\$ 1,016,564
Total assets	<u>1,532,061</u>	<u>(6,185)</u>	<u>-</u>	<u>\$ 1,525,876</u>
Total assets and deferred outflows of resources	<u>\$ 1,544,004</u>	<u>\$ (6,185)</u>	<u>\$ -</u>	<u>\$ 1,537,819</u>
Net position				
Net investment in capital assets	\$ 462,400	\$ (6,185)	\$ -	\$ 456,215
Total net position	<u>836,273</u>	<u>(6,185)</u>	<u>-</u>	<u>\$ 830,088</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,544,004</u>	<u>\$ (6,185)</u>	<u>\$ -</u>	<u>\$ 1,537,819</u>
Cash flows from investing				
Net cash provided by investing activities	\$ 3,285	\$ -	\$ 1,875	\$ 5,160
Cash flows from non-capital financing				
Net cash provided by non-capital financing activities	\$ 394	\$ -	\$ 2,912	\$ 3,306
Cash flows from capital and related financing activities				
Net cash used in capital and related financing activities	\$ (85,410)	\$ -	\$ (4,787)	\$ (90,197)

3. Cash, Investments and Pooled Investments

The Ports Authority's total cash and investments at June 30, 2018 and 2017 was approximately \$564.6 million and \$451.8 million, 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 and believes it is not exposed to any significant credit risk regarding cash and investments at June 30, 2018 and 2017.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

The bond trustees invest in government agency securities and repurchase agreements collateralized by U.S. government securities. These investments are carried at their estimated fair values.

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, and 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. The value of these investments at June 30, 2018 and 2017 are approximately \$446.7 million and \$401.0 million, respectively.

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

<i>(in thousands of dollars)</i>	2018	2017
Insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name	\$ 85,180	\$ 40,202
Carrying value of cash	8,151	14,834

Investments at June 30 consist of the following:

<i>(in thousands of dollars)</i>	2018	2017
Investment in state cash management pool	\$ 456,846	\$ 372,818
Funds deposited with third party banks	79,626	27,898
U.S. government agency securities, held by trustee	20,007	36,241
	<u>556,479</u>	<u>436,957</u>
Less: Amounts currently available for operating funds	169,539	160,718
Amounts held by trustee	20,007	36,241
Internally designated investments	<u>\$ 366,933</u>	<u>\$ 239,998</u>

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

<i>(in thousands of dollars)</i>	2018	2017
Carrying value		
Cash	\$ 8,151	\$ 14,834
Investments	<u>556,479</u>	<u>436,957</u>
	<u>\$ 564,630</u>	<u>\$ 451,791</u>
Included in the following balance sheets captions		
Cash	\$ 8,151	\$ 14,834
Investments, current assets	169,539	160,718
Investments internally designated for capital acquisitions	366,933	239,998
Investments held by trustee for debt service	<u>20,007</u>	<u>36,241</u>
	<u>\$ 564,630</u>	<u>\$ 451,791</u>

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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

<i>(in thousands of dollars)</i>	2018	2017
Capital improvement fund		
Funds invested	\$ 41,060	\$ 194,225
	<u>41,060</u>	<u>194,225</u>
Depreciation fund		
Cash	60,916	18,223
Funds invested	1,768	23,125
	<u>62,684</u>	<u>41,348</u>
Construction fund		
Funds invested	261,166	2,432
	<u>261,166</u>	<u>2,432</u>
Other - state port construction fund		
Cash	132	132
Funds invested	1,891	1,861
	<u>2,023</u>	<u>1,993</u>
	<u>\$ 366,933</u>	<u>\$ 239,998</u>

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 Funds exceed the requirements, the Ports Authority is permitted to use the Reserve Funds investment income for principal and interest payments and thereby reduce the amount of operating funds required to be transferred to the Debt Service Funds. 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 assets of the State Port Construction Fund are unexpended contributions to the Fund and net harbor master fees required to be transferred to the Fund. The assets are internally restricted for improvements and expansion of the Ports Authority's facilities.

Fair Value Guidance

Investments held by the Ports Authority are accounted for under GASB 72, *Fair Value Measurement and Application* and are carried at their estimated fair market value. This Statement requires the Ports Authority to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

The Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs.

The cost, gross unrealized gain, gross unrealized loss, and fair values of fixed maturity securities at June 30, 2018 and 2017 are as follows:

(in thousands of dollars)

Type of Investment	June 30, 2018			
	Cost	Unrealized Gain	Unrealized Loss	Fair Market Value
U.S. treasury securities	\$ 15,041	\$ 223	\$ (187)	\$ 15,077
Gov't sponsored securities	2,693	-	(54)	2,639
	<u>\$ 17,734</u>	<u>\$ 223</u>	<u>\$ (241)</u>	<u>\$ 17,716</u>

Type of Investment	June 30, 2017			
	Cost	Unrealized Gain	Unrealized Loss	Fair Market Value
U.S. treasury securities	\$ 15,538	\$ 217	\$ (23)	\$ 15,732
Gov't sponsored securities	6,561	99	(45)	6,615
	<u>\$ 22,099</u>	<u>\$ 316</u>	<u>\$ (68)</u>	<u>\$ 22,347</u>

The investment balances in the tables above and below are included in the balance sheet as investments (\$5.1 million) and investments held by trustee for debt service (\$12.5 million). Of the securities in an unrealized loss position at June 30, 2018, there were 15 securities representing approximately \$84,000 that had been in a continuous loss position for greater than 12 months. There were three securities in an unrealized loss position representing approximately \$19,000 that had been in a continuous loss position for greater than 12 months at June 30, 2017.

The following table provides the hierarchy information about the Ports Authority's financial assets measured at fair value on a recurring basis at June 30, 2018 and 2017:

(in thousands of dollars)

Type of Investment	June 30, 2018			
	Level 1	Level 2	Level 3	Total
U.S. treasury securities	\$ 15,077	\$ -	\$ -	\$ 15,077
Gov't sponsored securities	-	2,639	-	2,639
	<u>\$ 15,077</u>	<u>\$ 2,639</u>	<u>\$ -</u>	<u>\$ 17,716</u>

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Type of Investment	June 30, 2017			
	Level 1	Level 2	Level 3	Total
U.S. treasury securities	\$ 15,732	\$ -	\$ -	\$ 15,732
Gov't sponsored securities	-	6,615	-	6,615
	<u>\$ 15,732</u>	<u>\$ 6,615</u>	<u>\$ -</u>	<u>\$ 22,347</u>

4. Capital Assets

Capital assets consist of the following amounts:

(in thousands of dollars)	Balance at June 30, 2017	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2018
Land	\$ 206,197	\$ 208	\$ (95)	\$ 146,222	\$ 352,532
Land improvements	370,336	-	(36)	38,179	408,479
Buildings and structures	347,312	-	(3,215)	69,124	413,221
Railroad tracks	16,990	-	-	2,428	19,418
Terminal equipment	163,900	12	(3,146)	28,756	189,522
Furniture and fixtures	35,993	-	(742)	1,630	36,881
Capital projects in progress	463,281	227,018	-	(286,340)	403,959
Other	355	-	(268)	-	87
	<u>1,604,364</u>	<u>227,238</u>	<u>(7,502)</u>	<u>-</u>	<u>1,824,100</u>
Less: Accumulated depreciation	<u>587,800</u>	<u>41,523</u>	<u>(6,690)</u>	<u>-</u>	<u>622,633</u>
Property and equipment, net	<u>\$ 1,016,564</u>	<u>\$ 185,715</u>	<u>\$ (812)</u>	<u>\$ -</u>	<u>\$ 1,201,467</u>

(in thousands of dollars)	Balance at June 30, 2016	Additions	Write-Offs/ Disposals	Transfers	Balance at June 30, 2017
Land	\$ 202,613	\$ 3,746	\$ (162)	\$ -	\$ 206,197
Land improvements	327,916	-	(461)	42,881	370,336
Buildings and structures	335,364	-	(13,958)	25,906	347,312
Railroad tracks	16,990	-	-	-	16,990
Terminal equipment	155,534	-	(2,227)	10,593	163,900
Furniture and fixtures	29,303	-	(4)	6,694	35,993
Capital projects in progress	342,330	207,028	(3)	(86,074)	463,281
Other	157	233	(35)	-	355
	<u>1,410,207</u>	<u>211,007</u>	<u>(16,850)</u>	<u>-</u>	<u>1,604,364</u>
Less: Accumulated depreciation	<u>563,656</u>	<u>37,233</u>	<u>(13,089)</u>	<u>-</u>	<u>587,800</u>
Property and equipment, net	<u>\$ 846,551</u>	<u>\$ 173,774</u>	<u>\$ (3,761)</u>	<u>\$ -</u>	<u>\$ 1,016,564</u>

During the years ended June 30, 2018 and 2017, the Ports Authority incurred interest costs of \$22.7 million and \$23.6 million, respectively. Of these amounts, \$21.5 million and \$22.5 million, were capitalized, respectively.

Leases

During the years ended June 30, 2018 and 2017, the Ports Authority leased yard trucks and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately \$2,158,000 and \$2,214,000 respectively.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

During the years ended June 30, 2018 and 2017, the Ports Authority leased office and warehouse space as well as land under operating leases, incurring expenses of approximately \$1,729,000 and \$1,178,000, respectively.

During the years ended June 30, 2018 and 2017, the Ports Authority leased software, incurring expenses of approximately \$0 and \$48,000, respectively.

5. Goodwill

Goodwill is accounted for under GASB 85, *Omnibus* and GASB 69, *Government Combinations and Disposals of Government Operations* and is reported as a deferred outflow of resources in the Statements of Net Position. Deferred outflows of resources related to goodwill are attributed to future periods in a systematic and rational manner determined by the Ports Authority.

Deferred outflows of resources related to goodwill are amortized over a period of ten years. Amortization expense for the next five years and thereafter is as follows:

(in thousands of dollars)

2019	\$	219
2020		219
2021		219
2022		219
2023		219
Thereafter		876
	<u>\$</u>	<u>1,971</u>

6. Long-Term Debt

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

<i>(in thousands of dollars)</i>	June 30, 2017	Additions	Reductions	June 30, 2018	Current Portion
Revenue bonds – Series 2010	\$ 150,190	\$ -	\$ (150,190)	\$ -	\$ -
Revenue bonds – Series 2015	294,025	-	-	294,025	-
Revenue bonds - Series 2018	-	325,000	-	325,000	-
Notes payable	84,808	80,012	(3,162)	161,658	3,677
	<u>529,023</u>	<u>405,012</u>	<u>(153,352)</u>	<u>780,683</u>	<u>3,677</u>
Plus: Unamortized premium	21,517	40,158	(2,088)	59,587	-
	<u>\$ 550,540</u>	<u>\$ 445,170</u>	<u>\$ (155,440)</u>	<u>\$ 840,270</u>	<u>\$ 3,677</u>

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

<i>(in thousands of dollars)</i>	June 30, 2017	Additions	Reductions	June 30, 2018	Current Portion
Revenue bonds – Series 2010	\$ 150,190	\$ -	\$ (150,190)	\$ -	\$ -
Revenue bonds – Series 2015	294,025	-	-	294,025	-
Revenue bonds - Series 2018	-	325,000	-	325,000	-
Notes payable	84,808	80,012	(3,162)	161,658	3,677
	<u>529,023</u>	<u>405,012</u>	<u>(153,352)</u>	<u>780,683</u>	<u>3,677</u>
Plus: Unamortized premium	21,517	40,158	(2,088)	59,587	-
	<u>\$ 550,540</u>	<u>\$ 445,170</u>	<u>\$ (155,440)</u>	<u>\$ 840,270</u>	<u>\$ 3,677</u>

Series 2018

On June 6, 2018, the Ports Authority issued \$325,000,000 of Series 2018 bonds having stated interest rates from 4.0% to 5.0% payable annually on each January 1 and July 1. Net proceeds of \$364,585,000 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 Ports Authority's capital budget for fiscal years 2018 through 2020 in the amount of \$363,372,000 and (ii) \$1,785,000 to pay certain costs and expenses related to the issuance of the Series 2018 bonds. The bonds, issued at a premium of approximately \$40,158,000, consist of term bonds maturing between July 1, 2019 and 2055. The bond premium is amortized using the effective interest method over the life of the bonds. Bond issuance costs were expensed in the period incurred.

Series 2015

On November 4, 2015, the Ports Authority issued \$294,025,000 of Series 2015 bonds having stated interest rates ranging from 3.5% to 5.25% payable annually on each January 1 and July 1. Net proceeds of \$314,260,000 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 Ports Authority's capital budget for fiscal years 2016 through 2018 in the amount of \$300,000,000, (ii) \$12,443,000 to fund the debt service reserve fund and (iii) \$1,817,000 to pay certain costs and expenses related to the issuance of the Series 2015 bonds. The bonds, issued at a premium of approximately \$20,235,000, consist of term bonds maturing between July 1, 2026 and 2055. The bond premium is amortized using the effective interest method over 40 years, the life of the bonds. Bond issuance costs were expensed in the period incurred.

Series 2010

On May 14, 2018, the Ports Authority legally defeased the outstanding principal amount of its \$170,000,000 original principal amount Revenue Bonds, Series 2010 using approximately \$155,330,000 in cash. The Ports Authority's obligations with respect to the Series 2010 bonds were satisfied in full upon such defeasance. The transaction resulted in a nonoperating loss of approximately \$6.2 million.

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

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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 were expensed in the period incurred.

In connection with the Series 2018 and 2015 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) for Series 2015 only, the Ports Authority is required to maintain Revenue Bond Debt Service Funds; Revenue Bond Debt Service Reserve Funds; an Operations and Maintenance Fund; a Construction Fund (until funds are exhausted) and a Capital Improvement Fund (for improvement of Ports Authority facilities); and a Depreciation Fund (for operating equipment). The Ports Authority is in compliance with these covenants as of June 30, 2018 and 2017.

Optional Redemption

The Series 2018 and 2015 Bonds maturing on or after July 1, 2029 and 2026, respectively, shall be subject to redemption prior to maturity, at the option of the Ports Authority, on and after July 1, 2028 and 2025, respectively, 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 2018 and 2015 Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Series 2018 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, 2039, 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. The Series 2015 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, 2036, 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. The principal amounts for both Series 2018 and 2015 are indicated below:

<i>(in thousands of dollars)</i>	2018 Series	2015 Series
2040 Term Bond	Amount	Amount
Year		
2036	\$ -	\$ 2,595
2037	-	2,700
2038	-	2,810
2039	-	2,925
2040	-	3,040

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

(in thousands of dollars)

	2018 Series Amount	2015 Series Amount
2043 5% Term Bond		
Year		
2039	\$ 13,225	\$ -
2040	13,910	-
2041	5,820	-
2042	6,115	-
2043	6,430	-
	2018 Series Amount	2015 Series Amount
2045 4% Term Bond		
Year		
2041	\$ -	\$ 4,610
2042	-	4,795
2043	-	4,990
2044	-	5,195
2045	-	5,410
	Amount	Amount
2045 5% Term Bond		
Year		
2041	\$ -	\$ 7,350
2042	-	7,730
2043	-	8,125
2044	-	8,540
2045	-	8,975
	Amount	Amount
2048 5% Term Bond		
Year		
2044	\$ 6,760	\$ -
2045	7,110	-
2046	7,475	-
2047	7,855	-
2048	8,260	-
	Amount	Amount
2050 Term Bond		
Year		
2046	\$ -	\$ 15,115
2047	-	15,930
2048	-	16,790
2049	-	17,695
2050	-	18,645

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

2055 Term Bond	Amount	Amount
Year		
2051	\$ -	\$ 19,655
2052	-	20,710
2053	-	21,830
2054	-	23,005
2055	-	24,245

2055 4% Term Bond	Amount	Amount
Year		
2049	\$ 4,245	\$ -
2050	4,480	-
2051	4,720	-
2052	4,970	-
2053	5,240	-
2054	5,520	-
2055	5,825	-

2055 5% Term Bond	Amount	Amount
Year		
2049	\$ 4,415	\$ -
2050	4,585	-
2051	4,755	-
2052	4,945	-
2053	5,130	-
2054	5,330	-
2055	5,520	-

Promissory Notes

On May 15, 2018, the Ports Authority entered into a loan and security agreement with a bank for \$80,000,000. The loan was evidenced by certain Subordinate Lien Revenue Bond, Series 2018, in the same amount. Proceeds will be used to purchase material handling equipment for the Wando Welch terminal. Interest is payable semi-annually at a rate of 3.341% per annum, beginning November 15, 2018. The first principal payment is due November 15, 2019, and payments are made annually thereafter until the loan matures on May 15, 2034. As of June 30, 2018, the Ports Authority had amounts outstanding under this loan agreement of \$80,000,000.

On March 21, 2017, the Ports Authority entered into a mortgage of real estate and security agreement with Marlboro Development Team, Inc., a South Carolina Corporation for \$20,000,000. Proceeds were used for the development and construction of the South Carolina Inland Port located in Dillon, SC. Principal and interest are payable annually with interest based on a rate of 2.7% per annum. The loan matures on March 21, 2037. As of June 30, 2018 and 2017, the Ports Authority had amounts outstanding under this loan agreement of \$19,233,000 and \$20,000,000, respectively.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

On December 15, 2016, the Ports Authority entered into a loan and security agreement with a bank for \$25,000,000. The loan was evidenced by certain Subordinate Lien Revenue Bond, Series 2016, in the same amount. Proceeds were used to purchase material handling equipment for the Wando Welch and North Charleston terminals. Interest is payable semi-annually at a rate of 2.056% per annum, beginning June 15, 2017. The first principal payment is due December 15, 2018 and are made annually thereafter until the loan matures on December 15, 2032. As of June 30, 2018 and 2017, the Ports Authority had amounts outstanding under this loan agreement of \$25,000,000.

On January 29, 2015, the Ports Authority entered into a promissory note agreement with a bank for \$14,000,000. Interest is payable monthly for twelve months and then, semi-annually beginning July 29, 2016. The interest rate per annum is based on the 90-day published LIBOR plus .85%, with a floor of 1.25%. The first principal payment was due January 29, 2017. Principal payments are made annually in equal amounts with all outstanding principal and interest due on January 29, 2025. Proceeds from this note were used for the development and construction of a cold storage facility located in North Charleston, SC. As of June 30, 2018 and 2017, the Ports Authority had amounts outstanding under this loan agreement of \$12,880,000 and \$14,000,000, respectively.

On December 19, 2012, the Ports Authority entered into a promissory note agreement with a bank for \$25,000,000. The promissory note was increased to \$30,000,000 on June 20, 2013. Principal and interest are payable monthly with interest based on a rate of 2.56% per annum. The loan matures on December 19, 2022. Proceeds from this note were used for the development and construction of the South Carolina Inland Port located in Greer, SC. As of June 30, 2018 and 2017, the Ports Authority had amounts outstanding under this loan agreement of \$24,532,000 and \$25,808,000, respectively.

Maturities of long-term debt are summarized as follows:

<i>(in thousands of dollars)</i>	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2019	\$ -	\$ 23,742	\$ 3,787	\$ 4,600
2020	6,030	30,438	6,733	4,491
2021	6,325	30,129	6,913	4,304
2022	6,650	29,804	7,097	4,113
2023	6,980	29,464	24,952	3,682
2024–2028	40,640	141,576	38,935	14,263
2029–2033	52,325	130,089	40,663	9,413
2034–2038	66,740	115,669	35,594	1,539
2039–2043	84,910	97,506	1,081	99
2044–2048	107,910	74,502	-	-
2049–2053	138,870	43,545	-	-
2054–2058	101,645	7,803	-	-
	\$ 619,025	\$ 754,267	\$ 165,755	\$ 46,504

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

The components of interest expense for the years ended June 30, 2018 and 2017 are as follows:

<i>(in thousands of dollars)</i>	2018	2017
Interest expense on long-term debt	\$ 23,859	\$ 24,240
Amortization of premiums on long-term debt	(417)	(425)
Unrealized (gain) loss on investments	(337)	151
Capitalized interest expense	<u>(21,525)</u>	<u>(22,548)</u>
	<u>\$ 1,580</u>	<u>\$ 1,418</u>

The Ports Authority capitalizes interest costs, net of interest income earned from bond proceeds, 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 position.

7. Commitments

Construction

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately \$145.6 million and \$160.8 million as well as commitments for non-construction property, plant, and equipment of approximately \$3.2 million and \$22.6 million at June 30, 2018 and 2017, respectively.

Harbor Deepening

On July 19, 2017, the Ports Authority executed a Project Partnership Agreement (PPA) with the Department of the Army to commence construction of the post-45 harbor deepening project for the Charleston Harbor. As of the effective date of the agreement, construction costs are projected to be \$529 million with additional work costs of \$4.7 million for a total of \$533 million. The State of South Carolina has appropriated \$300 million plus interest earned for the harbor deepening project with the remainder of the costs, not allocated by the federal government for their defined share, being the responsibility of the Ports Authority. The current estimated difference between funds currently on hand and those left to be allocated to complete the project is \$172.9 million. The US Army Corps of Engineers Charleston District was awarded \$49 million in Federal appropriated funds in May 2018, bringing the total federal appropriated construction to \$66.5 million. Additional requests have and will be made in a timely manner for the appropriation of the remaining federal share. However, award of these funds is not guaranteed. As of June 30, 2018, the Authority has spent \$7.1 million on the feasibility phase, \$1.7 million on the PED phase, \$9.7 million on mitigation, and \$299 million on construction. All costs incurred related to the harbor deepening project are expensed as incurred. As of June 30, 2018, and 2017, there were \$10.4 million and \$0, respectively, in harbor deepening construction costs due from the state of South Carolina included in other receivables.

The Ports Authority and the Army Corps. of Engineers (Federal entity) entered into a cooperation agreement to further deepen the Charleston Harbor to its present depth of 45 feet on June 5, 1998. The Ports Authority has paid a portion of the local share amount of \$47.7 million, utilizing \$31.7 million from the State of South Carolina's funding sources provided for this project. The remaining portion of the local share is being paid over a period of 30 years and includes annual interest of 3%. As of June 30, 2018, and 2017, the remaining balance is \$4.1 million and \$4.2 million, respectively, and is reflected in current and long-term liabilities.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

BMW Manufacturing Support Facility

During the fiscal year ended June 30, 2017, the Ports Authority completed construction of an approximately 61,000 square foot BMW manufacturing support facility located at its current Spartanburg County plant. To assist with the funding of the support facility the South Carolina Coordinating Council for Economic Development provided an economic assistance grant not to exceed \$17.5 million to Spartanburg County. The funds were used for infrastructure, site improvements, and construction activities. As construction progressed, the Ports Authority drew down the economic assistance funds from Spartanburg County to cover the cost of construction. BMW committed to provide money from sources other than the grant for cost overruns that were required to complete the project. As of June 30, 2018, the project has been complete and all grant funds due from Spartanburg County have been received.

Hugh K. Leatherman Sr. Terminal

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 phases, with construction of the first phase having already commenced and expected to be completed in 2021. The first phase consists of one marine berth, required container yard support areas and necessary equipment. The cost for the first phase is currently estimated to be approximately \$863 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, 2018, the Ports Authority has spent approximately \$366.9 million on construction, permitting, consulting and engineering costs related to the first phase of the new terminal.

Corporate Office

Construction is underway for a new, 80,000 square foot corporate office complex that will consolidate Ports Authority employees currently at five locations. The new office complex has an estimated cost of \$44.5 million and is being constructed adjacent to the Wando Welch Terminal. The facility is projected to be complete in December 2018.

8. 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 by governmental entities.

On June 30, 2018 and 2017, the Ports Authority had the following derivative instruments outstanding:

2018 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	\$ 17,505,000	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	Aa2/AA
B	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	40,845,000	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	58,350,000	7/1/2008	7/1/2026	Pay SIFMA Receive 3.508%	A1/A

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

2017 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	\$ 19,282,500	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	Aa2/AA
B	Pay Fixed-Receive Floating	Hedge of changes in cash flows on the Series 1998 bonds	44,992,500	7/1/2008	7/1/2026	Pay 3.6671% Fixed Receive 70% of 1M LIBOR	Aa2/AA
C	Received Fixed-Pay Floating	Hedge of changes in cash flows on the Series 1998 bonds	64,275,000	7/1/2008	7/1/2026	Pay SIFMA Receive 3.508%	A1/A

As of June 30, 2018 and 2017, 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 nonoperating income (expense) on the statement of revenues, expenses and changes in net position for the years ended June 30, 2018 and 2017. 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. All interest rate swaps are classified as Level 2 investments in the Fair Value Hierarchy under GASB 72.

Changes in fair value at June 30, 2018 and 2017 are as follows:

(in thousands of dollars)

	Derivative	2018	2017	Change in Fair Value
Item A	Pay Fixed Receive Floating	\$ (1,121)	\$ (1,834)	\$ 713
Item B	Pay Fixed Receive Floating	(2,616)	(4,282)	1,666
Item C	Receive Fixed Pay Floating	3,185	5,227	(2,042)
		<u>\$ (552)</u>	<u>\$ (889)</u>	<u>\$ 337</u>

Changes in fair value at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)

	Derivative	2017	2016	Change in Fair Value
Item A	Pay Fixed Receive Floating	\$ (1,834)	\$ (2,948)	\$ 1,114
Item B	Pay Fixed Receive Floating	(4,282)	(6,880)	2,598
Item C	Receive Fixed Pay Floating	5,227	8,743	(3,516)
		<u>\$ (889)</u>	<u>\$ (1,085)</u>	<u>\$ 196</u>

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

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

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, 2018 and 2017 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 are not subject to foreign currency risk.

Commitments

All 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 must 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, 2018 and 2017, 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.

9. Retirement Plans

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds.

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29233. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public-school districts, and political subdivisions.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirements that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA board may increase the percentage rate in SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, the board, effective on the following July 1st, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS and PORS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation the system shows a funded ratio of less than ninety percent, then effective on the following July 1st, and annually thereafter as necessary, the board shall increase the then current contributions rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

The Retirement System Funding and Administration Act increases employer contribution rates to 13.56 percent for SCRS and 16.24 percent for PORS, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Required employee contribution rates are as follows:

	2018	2017
SCRS		
Employee class two	9.00 %	8.66 %
Employee class three	9.00 %	8.66 %
State ORP employee	9.00 %	8.66 %
PORS		
Employee class two	9.75 %	9.24 %
Employee class three	9.75 %	9.24 %

Required employer contribution rates are as follows:

	2018	2017
SCRS		
Employer class two	13.41 %	11.41 %
Employer class three	13.41 %	11.41 %
Employer incidental death benefit	0.15 %	0.15 %
State ORP		
Employer contribution	13.41 %	11.41 %
Employer incidental death benefit	0.15 %	0.15 %
PORS		
Employer class two	15.84 %	13.84 %
Employer class three	15.84 %	13.84 %
Employer incidental death benefit	0.20 %	0.20 %
Employer accidental death program	0.20 %	0.20 %

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018 and 2017, the Ports Authority reported a liability of \$98.6 million and \$79.7 million, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability was determined by an actuarial valuation as of that date. The Ports Authority's proportion of the net pension liability was based on its share of contributions to the pension plans in fiscal years 2017 and 2016 relative to the contributions made by all participating employers. At June 30, 2017 and 2016, the Ports Authority's proportion was 0.4374 and 0.4066 percent, respectively for the SCRS and 0.0096 and 0.0093 percent, respectively for the PORS.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

For the years ended June 30, 2018 and 2017, the Ports Authority recognized pension expense of \$13.1 million and \$9.1 million, respectively. At June 30, 2018 and 2017, the Ports Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<i>(in thousands of dollars)</i>		
Difference between actual and expected experience	\$ 441	\$ 54
Net difference between projected and actual earnings on pension plan investments	2,758	-
Changes in actuarial assumptions	5,790	-
Changes in proportionate share and differences between contributions and proportionate share of contributions	6,762	5
The Ports Authority's contributions subsequent to the measurement date	6,201	-
	<u>\$ 21,952</u>	<u>\$ 59</u>

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<i>(in thousands of dollars)</i>		
Difference between actual and expected experience	\$ 904	\$ 94
Net difference between projected and actual earnings on pension plan investments	7,334	-
Changes in proportionate share and differences between contributions and proportionate share of contributions	(3,606)	25
The Ports Authority's contributions subsequent to the measurement date	5,121	-
	<u>\$ 9,753</u>	<u>\$ 119</u>

\$6.2 million and \$5.1 million reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the years ended June 30, 2019 and 2018, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<i>(in thousands of dollars)</i>	SCRS	PORS
Years Ended June 30, 2018		
2019	\$ (2,495)	\$ (6)
2020	(2,495)	(6)
2021	654	(2)
2022	-	-

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

(in thousands of dollars)

	SCRS	PORS
Years Ended June 30, 2017		
2018	\$ (2,354)	\$ (16)
2019	(2,354)	(16)
2020	(1,721)	(13)
2021	-	-

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the systems was most recently issued as of July 1, 2015.

The June 30, 2017, total pension liability (TPL), net pension liability (NPL), and sensitivity information were determined by the Systems consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used to calculate TPL as of June 30, 2017.

	2016	
	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions		
Investment rate of return	7.25 %	7.25 %
Projected salary increases	3.0% to 12.5%	3.5% to 9.5%
Includes inflation at	2.25 %	2.25 %
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500
	2015	
	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions		
Investment rate of return	7.50 %	7.50 %
Projected salary increases	3.5% to 12.5%	4.0% to 10.0%
Includes inflation at	2.75 %	2.75 %
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. The base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the determination of the June 30, 2017, TPL are as follows:

	Males	Females
Former job class		
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General employees and members of the general assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public safety and firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 30-year capital market assumptions. The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees. The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

	2018		
Asset class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global equity	45.0 %		
Global public equity	31.0	6.72 %	2.08 %
Private equity	9.0	9.60	0.86
Equity Options Strategies	5.0	5.91	0.30
Real assets	8.0		
Real estate (Private)	5.0	4.32	0.22
Real Estate (REITs)	2.0	6.33	0.13
Infrastructure	1.0	6.26	0.06
Opportunistic	17.0		
GTAA/risk parity	10.0	4.16	0.42
Hedge Funds (non-PA)	4.0	3.82	0.15
Other Opportunistic Strategies	3.0	4.16	0.12
Diversified credit	18.0		
Mixed credit	6.0	3.92	0.24
Emerging markets debt	5.0	5.01	0.25
Private debt	7.0	4.37	0.31
Conservative fixed income	12.0		
Core fixed income	10.0	1.60	0.16
Cash and short duration (net)	2.0	0.92	0.02
Total expected real return	<u>100 %</u>		<u>5.32 %</u>
Inflation for actuarial purposes			<u>2.25</u>
Total expected nominal return			<u>7.57 %</u>

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

	2017		
Asset class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global equity	43.0 %		
Global public equity	34.0	6.52 %	2.20 %
Private equity	9.0	9.30	0.84
Real assets	8.0		
Real estate	5.0	4.32	0.22
Commodities	3.0	4.53	0.13
Opportunistic	20.0		
GTAA/risk parity	10.0	3.90	0.39
HF (low beta)	10.0	3.87	0.39
Diversified credit	17.0		
Mixed credit	5.0	3.52	0.17
Emerging markets debt	5.0	4.91	0.25
Private debt	7.0	4.47	0.31
Conservative fixed income	12.0		
Core fixed income	10.0	1.72	0.17
Cash and short duration	2.0	0.71	0.01
Total expected real return	<u>100.0 %</u>		<u>5.10</u>
Inflation for actuarial purposes			<u>2.75</u>
Total expected nominal return			<u>7.85 %</u>

Discount Rate

The discount rate used to measure the TPL was 7.25 and 7.5 percent as of June 30, 2018 and 2017, respectively. The projection of cash flows used to determine the discount rate assumed that the contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Sensitivity Analysis

The following table presents the Ports Authority's proportionate share of the collective NPL of the participating employers calculated using the June 30, 2018 and 2017 discount rate of 7.25 percent and 7.5 percent, respectively, as well as what the Ports Authority's proportionate share of the NPL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	2018		
	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
<i>(in thousands of dollars)</i>			
Ports authority's share of the net pension liability			
SCRS	\$ 126,921	\$ 98,475	\$ 81,215
PORS	356	264	191
	2017		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
<i>(in thousands of dollars)</i>			
Ports authority's share of the net pension liability			
SCRS	\$ 108,348	\$ 86,853	\$ 68,961
PORS	308	235	170

Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS.

Deferred Compensation Plans

During the year ended June 30, 2012, the Ports Authority established a 401(a)-defined contribution plan and a 415(m)-government excess plan on behalf of certain executives at the Ports Authority. The Ports Authority makes payments into the plans each year of employment and the participants in the plan become fully vested at the end of a five-year period. The assets of the plans remain the assets of the Ports Authority throughout the duration of the five years. Compensation expense is recognized for payments made to the plans. As of June 30, 2018, and June 30, 2017, contributions to the plan were approximately \$2,894,607 and \$2,473,738, respectively.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Under GASB 72, the plan assets are Level 1 and are carried at their estimated fair values. A corresponding liability is recognized for the fair value of the plan assets with all unrealized gains and losses adjusted solely on the Statement of Net Position. The cost, gross unrealized gains, gross unrealized losses, and estimated fair value at June 30, 2018 and 2017 is as follows:

(in thousands of dollars)

Type of Investment	June 30, 2018			
	Cost	Unrealized Gain	Unrealized Loss	Fair Market Value
Money market funds	\$ 153	\$ -	\$ -	\$ 153
Mutual funds	1,914	122	(21)	2,015
Common Stock	309	132	(12)	429
	<u>\$ 2,376</u>	<u>\$ 254</u>	<u>\$ (33)</u>	<u>\$ 2,597</u>

(in thousands of dollars)

Type of Investment	June 30, 2017			
	Cost	Unrealized Gain	Unrealized Loss	Fair Market Value
Money market funds	\$ 1,129	\$ -	\$ -	\$ 1,129
Mutual funds	959	126	(13)	1,072
Common Stock	296	54	(22)	328
	<u>\$ 2,384</u>	<u>\$ 180</u>	<u>\$ (35)</u>	<u>\$ 2,529</u>

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

In fiscal-year 2018, the Ports Authority adopted GASB 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*. This guidance has been adopted prospectively. In June 2018, the Ports Authority issued \$325 million of Series 2018 bonds. The official statement released for the offering of these bonds did not reflect the impact of GASB 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*, on the financial statements of the Ports Authority. Therefore, the Ports Authority has determined it impractical to adopt GASB 75 retroactively and create confusion or potentially mislead the 2018 Series bondholders. The information presented below related to OPEB is not presented on a comparable basis, but as information for two separate fiscal years.

The Ports Authority provides single employer, post-employment health care benefits including group healthcare, dental and vision to eligible employees who retire from the Ports Authority. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

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.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

The Ports Authority follows the eligibility rules set by PEBA, which are summarized below.

Retiree Insurance Eligibility and Funding for Employees Hired Before May 2, 2008:

- At any age, with 28 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.
- At age 60 and older, with at least 10 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.
- At age 60 and older, with at least 20 years (left employment before eligible to retire) of service credit (at least 20 years must be earned service), retiree and employer fund the premium; coverage begins when eligible for retirement.
- At age 55-60, with at least 25 years of service credit (at least 10 years must be earned service), retiree pays nonfunded premium until age 60 or when 28 years of service would have been earned. Afterward, retiree and employer fund the premium.
- At age 60 and older, with at least 5 years of service credit (at least 5 but fewer than 10 years must be earned service), retiree pays nonfunded premium.
- At any age if approved for disability, with at least 5 years of service credit (at least 4 but fewer than 10 years must be earned service), retiree and employer fund the premium.

Retiree Insurance Eligibility and Funding for Employees Hired After May 2, 2008:

- At any age, with 28 years of service credit (at least 25 years must be earned service), retiree and employer fund the premium.
- At age 60 and older or approved for disability, with at least 15 years of service credit (at least 15 years must be earned service), retiree pays retiree share plus 50% of employer share.
- At age 60 and older or approved for disability with at least 5 years of service credit (at least 5 years must be earned service), retiree pays nonfunded premium.

Eligibility requirements are subject to changes made by the South Carolina Public Employee Benefit Authority.

At June 30, 2018, the following employees were covered by the benefit terms:

(in thousands of dollars)

	2018
Retirees and beneficiaries currently receiving benefit payments	\$ 284
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	499
Total	\$ 783

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Total OPEB Liability

The Ports Authority's total OPEB liability of \$52.9 million was measured as of June 30, 2017 ("measurement date") and was determined by an actuarial valuation as of June 30, 2016, that was rolled forward to the measurement date. The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	2018
Inflation	2.25%
Salary increases	3.0% to 7.0% for SCRS, including inflation
Discount rate	3.56%
Healthcare cost trend rates	7.0% decreasing to an ultimate rate of 4.15% over 15 years; ultimate trend rate includes a 0.15% adjustment for the excise tax
Participation rate	78% of eligible retirees for full, 60% of retirees for partially funded subsidy and 10% who are not eligible for any subsidy

The discount rate was based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index." Mortality rates were based on the 2016 Public Retirees of South Carolina Mortality Table for Males or Females, as appropriate, with fully generational mortality projections from the year 2016 based on the ultimate rates in Scale MP-2014. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study as of June 30, 2016. Update procedures were used to roll forward the total OPEB liability to June 30, 2017.

(in thousands of dollars)

	2018
Total OPEB obligation, beginning of year	\$ 56,645
Service cost	1,779
Interest on the total OPEB liability	1,655
Changes of benefit terms	-
Difference between expected and actual experience	3
Changes in assumptions or other inputs	(5,484)
Benefit payments	(1,691)
Net change in total OPEB liability	(3,738)
Total OPEB obligation, end of year	\$ 52,907

Changes of assumptions or other inputs reflect a change in the discount rate from 2.92% as of July 1, 2016 to 3.56% as of June 30, 2017.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Sensitivity Analysis

The following presents the total OPEB liability of the Ports Authority, as well as what the Ports Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	2018		
	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
<i>(in thousands of dollars)</i>			
Total OPEB liability	\$ 61,722	\$ 52,907	\$ 45,721

The following presents the total OPEB liability of the Ports Authority, as well as what the Ports Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6 percent decreasing to 3.15 percent) or 1-percentage point higher (8 percent decreasing to 5.15 percent) than the current healthcare cost trend rates:

	2018		
	1% Decrease 6.00% decreasing to 3.15%	Healthcare Cost Trend Rates 7.00% decreasing to 4.15%	1% Increase 8.00% decreasing to 5.15%
<i>(in thousands of dollars)</i>			
Total OPEB liability	\$ 43,935	\$ 52,907	\$ 64,576

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Ports Authority recognized OPEB expense of \$2,669,000. At June 30, 2018, the Ports Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<i>(in thousands of dollars)</i>		
Difference between actual and expected experience	\$ 3	\$ -
Changes in actuarial assumptions or other inputs	-	4,718
The Ports Authority's contributions subsequent to the measurement date	1,857	-
	<u>\$ 1,860</u>	<u>\$ 4,718</u>

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<i>(in thousands of dollars)</i>	SCRS
Years Ended June 30, 2018	
2019	\$ (765)
2020	(765)
2021	(765)
2022	(765)
2023	(765)
Thereafter	(889)

OPEB – Fiscal Year 2017

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 \$1.6 million for fiscal year 2017.

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 \$2.3 million for fiscal year ended June 30, 2017. For fiscal years 2017, the Ports Authority paid approximately 69.4% and the retirees were responsible for funding approximately 30.6%.

The Ports Authority recorded expense during fiscal year 2017 of \$1.5 million in retiree healthcare expense.

Annual Required Contribution

The Ports Authority’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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

<i>(in thousands of dollars)</i>	2017
Net OPEB obligation, beginning of year	<u>\$ 11,781</u>
Annual required contribution (ARC)	3,188
Interest and ARC adjustment	<u>(2)</u>
Annual OPEB cost	3,186
Employer contributions	<u>(1,688)</u>
Net OPEB obligation, end of year	13,279
Less: Current portion	<u>-</u>
Net OPEB obligation, long term	<u>\$ 13,279</u>

Actual contributions paid in fiscal year 2017 include the following at June 30:

<i>(in thousands of dollars)</i>	2017
Employer and participant contributions	\$ 2,277
Implicit subsidy payments on behalf of active employees	107
Participant contributions	<u>(696)</u>
Total employer contributions including interest	<u>\$ 1,688</u>

Employer contributed 53.0% of annual OPEB cost during fiscal year 2017.

Schedule of Employer Contributions

The Port Authority’s annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the year ended June 30, 2017 are presented below.

<i>(in thousands of dollars)</i>	Annual Required Contributions	Actual Contributions	Percentage Contributed
Fiscal Year Ended			
June 30, 2017	\$ 3,188	\$ 1,688	52.9 %

The ARC of \$3.2 million for fiscal year 2017 is based on the assumption that there is no funding in a segregated qualified trust.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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.

<i>(in thousands of dollars)</i>	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)]
Fiscal Year Ended						
June 30, 2017	\$ -	\$ 49,261	\$ 49,261	0 %	\$ 42,521	116 %

Schedule of Percentage of OPEB Cost Contributed

<i>(in thousands of dollars)</i>	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended			
June 30, 2017	\$ 3,186	53.0 %	\$ 13,279

Summary of Key Actuarial Methods and Assumptions

For the fiscal year ended June 30, 2017, the Entry Age Normal actuarial cost method is used to calculate the ARC for the Port Authority's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The method provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, requires employers to use the Entry Age Normal Actuarial Cost Method.

Projections of health benefits are based on the plan as understood by the Ports Authority and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Port Authority and the Port Authority's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Valuation year	July 1, 2016 – June 30, 2017
Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	30 years open, level percent of active member payroll
Asset valuation method	N/A

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

2017

Actuarial assumptions

Discount rate	3.75 %
Projected payroll growth rate	3.0 %
Health care cost trend rate for medical and prescription drugs	7.0 %
Ultimate trend rate	4.15 %
Number of years for trend rates to reach the ultimate rate	15

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the Authority's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liability for benefits.

11. Facilitating Agreements

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

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

<i>(in thousands of dollars)</i>	2018	2017
Cost	\$ 39,298	\$ 35,758
Accumulated depreciation	28,470	22,118

Minimum future operating revenue and rentals, to be received under noncancelable agreements as of June 30, 2018 were:

<i>(in thousands of dollars)</i>	
2019	\$ 4,799
2020	3,213
2021	3,174
2022	1,560
2023	1,252
Thereafter	27,533
	<u>\$ 41,531</u>

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

12. Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, accounts and retainage payable, credit agreements 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 value at June 30, 2018 and 2017 was approximately \$619 million and \$458 million, respectively.

13. Other Matters

Dillon

In September 2016, the Ports Authority announced plans to develop a second inland port facility in Dillon, South Carolina to support growth of intermodal container volumes and expand access to markets in neighboring states and throughout the Northeast and Midwest. The total cost of the inland port facility was \$36.5 million, and operations commenced in April 2018.

Ridgeville Property

On June 26, 2018, the Ports Authority executed an agreement for the purchase of approximately 942 acres of land in Ridgeville, South Carolina for \$16.2 million. Proposed use of the site will be for the development of warehouse and distribution centers to facilitate the movement of cargo to and from the Port of Charleston.

Cooper River Bridge

After contributing \$20 million before fiscal year 2004, the Ports Authority agreed to pay \$1 million per year beginning in fiscal year 2004 for 25 years for a total of \$45 million for the construction of the new Cooper River Bridge. These payments to the State of South Carolina have been treated as nonoperating expenses, and therefore, have reduced the Ports Authority's net assets.

Payments to the State of South Carolina for the Cooper River Bridge totaled \$1 million in each fiscal year 2018 and 2017.

Jasper County

The Ports Authority entered into a joint government organizational agreement with the State of Georgia for the formation of a bi-state facility to be operated jointly between the Ports Authority and the State of Georgia. The legal and operational structure of the potential bi-state facility is not known at this time. The Ports Authority contributed \$1.4 million and \$1.9 million in cash to the joint organization in fiscal years ended June 30, 2018 and 2017, respectively. Amounts contributed in fiscal year 2018 and 2017 by the Ports Authority were sourced from capital project funds provided by the State of South Carolina. The cash contribution has been used by the joint organization to support the initial planning associated with a bi-state facility. Total expenses recognized by the Ports Authority related to initial planning costs were approximately \$1.7 million for the years ended June 30, 2018 and 2017, and are included in "Other expense, net" in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Federal Grant Agreements

During July 2015, the Ports Authority entered into a grant agreement in the amount of \$10.8 million with the U.S. Department of Transportation Maritime Administration. The authorizing federal legislation refers to the program as the "TIGER Discretionary Grant" program. The TIGER grant will provide federal dollars for the Wando Welch Terminal Rehabilitation, Productivity and Densification Project. The total project is estimated to cost approximately \$39.9 million. The federal funds will cover approximately 27.2% of the costs with the balance coming from the Ports

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Authority. The grant fund's qualifying expenditures are limited to the certain wharf and piling replacements and repairs made during the multiple phases of the project. As of June 30, 2018, the Ports Authority has expended approximately \$10.8 million related to this grant agreement, of which, \$1.3 million is included in other receivables as of June 30, 2018.

The Ports Authority has been 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, 2018, and 2017, the Ports Authority has expended approximately \$797 thousand and \$752 thousand, respectively, related to these grant agreements.

Sale of Certain Properties

2009 Act No. 73 also requires that the Daniel Island and Thomas (St. 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 Department of Administration as a fiduciary to the Ports Authority and its bondholders. The requirements to sell the property have been extended to June 30, 2019. In addition, a requirement was added that the Ports Authority shall transfer fifty acres of its real property on Daniel Island to the Department of Parks, Recreation, and Tourism, which shall ensure, in the manner it deems appropriate, that the property is used for public recreation activities. This transfer was complete in 2016 by way of an executed long-term lease agreement. If the Ports Authority has not completed the sale of its remaining real property on Daniel Island and Thomas (St. Thomas) Island, except for the dredge disposal cells that are needed in connection with the construction of the Leatherman terminal on the Charleston Naval Complex and for harbor deepening and for channel and berth maintenance by June 30, 2019, the Ports Authority must transfer the property to the State Department of Administration as fiduciary to the Ports Authority and its bondholders. The Ports Authority shall sell the real property under terms and conditions it considers most advantageous to the Ports Authority and the State of South Carolina, and the price must be equal to or greater than at least one of two required independent appraisals.

14. 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, 2018, 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.

In January 2013, the Ports Authority intervened in a federal case brought by preservation and environmental groups against the United State Army Corps of Engineers, to challenge issuance of authority for the Ports Authority to drive pilings under a building on Union Pier Terminal in renovating the building to accommodate passenger vessels. On September 19, 2013, the federal district court remanded the permit to the Corps for further review and action. The permit application is under review by the Corps of Engineers on remand. The Ports Authority intends to continue pursuing the federal permit and to continue any legal actions necessary to perfect the final permit.

In February 2013, the same cruise terminal opponents and others filed an administrative action challenging the State permit issued for the piling work at Union Pier. The South Carolina Administrative Law Court granted summary judgment in favor of the Ports Authority and dismissed

South Carolina State Ports Authority

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

the challenge on April 21, 2014. The case was appealed, and arguments heard on February 15, 2017 by the South Carolina Court of Appeals. On October 18, 2017, the Court of appeals issued a unanimous opinion affirming the South Carolina Administrative Law Court. This was appealed to the South Carolina Supreme Court, and the Supreme Court accepted a petition for certiorari on August 21, 2018. Briefing and argument have not been scheduled at this time. The Ports Authority intends to vigorously defend the permits. The effect of these administrative permit cases on the financial position of the Ports Authority related to cruise cannot be determined at this time.

On October 14, 2012, a portion of the quay wall at Veterans' Terminal (VT) in North Charleston, failed. A claim relating to the quay wall failure and remediation costs has also been asserted by the Ports Authority against the United States Navy for indemnity under Section 330 of the National Defense Authorization Act of 1993 (P.L. 102-484), as amended by P.L. 103-160. The claim is related only to oil pollution left by the United States Navy in an underground pipe near the damaged area, which had not been designated as an area of concern, nor disclosed presence of oil, which should have been cleaned out and removed by the Government. Small amounts of oil were released in an investigatory excavation before being sealed off and recovered. The presence of the oil has caused increased costs of remediation, in an amount which cannot be accurately determined until the contract for remedial work has been completed and costs tallied. The Department of Defense is defending the 330 indemnity claim and has sought additional information. Under the indemnity claim, the Government would likely be responsible only for the remediation costs related to the oil, which is excluded from insurance coverage by the Ports Authority's property insurance policy.

Construction of the Hugh K. Leatherman, Sr. Terminal was delayed by discovery of issues associated with the design and administration of the project that have required re-engineering of the containment wall structures. An excess cost statement has been delivered to the responsible parties to determine recovery of the additional construction costs caused by design and project management issues and to seek resolution by agreement. The matter has been resolved against one contractor through a settlement agreement, while the litigation continues against the remaining contractor defendant. Remediation work and construction is continuing.

In October 2002, the Ports Authority and the City of North Charleston (City) entered into a Memorandum of Understanding (MOU) related to certain issues concerning the development of the Hugh K. Leatherman, Sr. Terminal located at the former Charleston Navy Base Facility. One requirement of the MOU is for the City and the Ports Authority to approach the S C General Assembly for the funding of certain infrastructure which is desired by the City. The City has communicated to the Authority that it believes this infrastructure is required prior to the opening of the terminal. While the Authority disagrees with the City on this point, it plans to fully comply with all applicable terms of the MOU. At this time, no measurable impact of the City's position can reasonably be made.

15. Special Items

Office Building Sale

In October 2017, a contract was entered with a third party for the purchase of the Morrison Drive office building currently occupied by the certain employees of the Ports Authority. The contract was ratified in March 2018 with a contract sales price of \$9.1 million. The Ports Authority entered an operating lease to lease the building back from the new owners until January 31, 2019.

South Carolina State Ports Authority
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

16. Subsequent Event

Subsequent to fiscal year-end, the South Carolina General Assembly enacted proviso 112.2 (Ports Authority Loan) as part of the General Appropriations Bill for fiscal year 2018-2019. The proviso directs the State Treasurer to loan the Ports Authority up to \$50 million to assist in cash flow needs related to the Charleston harbor deepening project. No funds have been received by the Authority as terms of the loan have not been finalized and a loan agreement has not yet been executed.

Required Supplemental Information

South Carolina State Ports Authority
Required Supplemental Information
June 30, 2018 and 2017

(in thousands of dollars)

2018

Total OPEB liability

Service cost	\$ 1,779
Interest on the total OPEB liability	1,655
Changes of benefit terms	-
Difference between expected and actual experience	3
Changes in assumptions or other inputs	(5,484)
Benefit payments	<u>(1,691)</u>
Net change in total OPEB liability	(3,738)
Total OPEB liability - beginning	<u>56,645</u>
Total OPEB liability - ending	<u>\$ 52,907</u>
Covered payroll	\$ 46,051
Total OPEB liability as a percentage of covered payroll	114.89%

Changes of assumptions: Changes of assumptions or other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used each period:

Measurement date, June 30, 2017	3.56 %
Measurement date, June 30, 2016	2.92 %

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 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.

Effective January 1, 2011, the Ports Authority moved from the use of private insurance carriers to the plan offered by the South Carolina Public Employee Benefit Authority (PEBA) Employee Insurance Program. The Ports Authority now follows the eligibility rules set by PEBA, which are summarized below.

Retiree Insurance Eligibility and Funding for Employees Hired Before May 2, 2008:

- At any age, with 28 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.
- At age 60 and older, with at least 10 years of service credit (at least 10 years must be earned service), retiree and employer fund the premium.
- At age 60 and older, with at least 20 years (left employment before eligible to retire) of service credit (at least 20 years must be earned service), retiree and employer fund the premium; coverage begins when eligible for retirement.
- At age 55-60, with at least 25 years of service credit (at least 10 years must be earned service), retiree pays nonfunded premium until age 60 or when 28 years of service would have been earned. Afterward, retiree and employer fund the premium.

South Carolina State Ports Authority Required Supplemental Information June 30, 2018 and 2017

- At age 60 and older, with at least 5 years of service credit (at least 5 but fewer than 10 years must be earned service), retiree pays nonfunded premium.
- At any age if approved for disability, with at least 5 years of service credit (at least 4 but fewer than 10 years must be earned service), retiree and employer fund the premium.

Retiree Insurance Eligibility and Funding for Employees Hired After May 2, 2008:

- At any age, with 28 years of service credit (at least 25 years must be earned service), retiree and employer fund the premium.
- At age 60 and older or approved for disability, with at least 15 years of service credit (at least 15 years must be earned service), retiree pays retiree share plus 50% of employer share.
- At age 60 and older or approved for disability with at least 5 years of service credit (at least 5 years must be earned service), retiree pays nonfunded premium.

Eligibility requirements are subject to changes made by the South Carolina Public Employee Benefit Authority.

The South Carolina Public Employee Benefit Authority Employee Insurance Program (EIP) division provides detailed eligibility and funding requirements for retiree insurance. Detailed plan information can be found at www.eip.sc.gov.

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 \$1.6 million for fiscal year 2017 and 2016.

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 \$2.3 million for fiscal year ended June 30, 2017. For fiscal year 2017, the Ports Authority paid approximately 69.4% and the retirees were responsible for funding approximately 30.6%.

The Ports Authority accrued during fiscal year 2017, \$1.5 million, 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.

Annual Required Contribution

The Port Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

South Carolina State Ports Authority
Required Supplemental Information
June 30, 2018 and 2017

(in thousands of dollars)

	2017
Net OPEB obligation, beginning of year	<u>\$ 11,781</u>
Annual required contribution (ARC)	3,188
Interest and ARC adjustment	<u>(2)</u>
Annual OPEB cost	3,186
Employer contributions	<u>(1,688)</u>
Net OPEB obligation, end of year	13,279
Less: Current portion	<u>-</u>
Net OPEB obligation, long term	<u>\$ 13,279</u>

Actual contributions paid in fiscal year 2017 include the following at June 30:

(in thousands of dollars)

	2017
Employer and participant contributions	\$ 2,277
Implicit subsidy payments on behalf of active employees	107
Participant contributions	<u>(696)</u>
Total employer contributions including interest	<u>\$ 1,688</u>

Employer contributed 53.0% of annual OPEB cost during fiscal year 2017.

Schedule of Employer Contributions

The Port Authority's annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the year ended June 30, 2017 are presented below.

<i>(in thousands of dollars)</i>	Annual Required Contributions	Actual Contributions	Percentage Contributed
Fiscal Year Ended			
June 30, 2017	\$ 3,188	\$ 1,688	52.9 %

The ARC of \$3.2 million for fiscal year 2017 assumes 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.

<i>(in thousands of dollars)</i>	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)]
Fiscal Year Ended						
June 30, 2017	\$ -	\$ 49,261	\$ 49,261	0 %	\$ 42,521	116 %

South Carolina State Ports Authority
Required Supplemental Information
June 30, 2018 and 2017

Schedule of Percentage of OPEB Cost Contributed

<i>(in thousands of dollars)</i>	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Fiscal Year Ended			
June 30, 2017	\$ 3,186	53.0 %	\$ 13,279

Summary of Key Actuarial Methods and Assumptions

For the fiscal years ended June 30, 2017, the Entry Age Normal actuarial method is used to calculate the ARC for the Port Authority's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. Both methods provide for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, will require employers to use the Entry Age Normal Actuarial Cost Method.

Projections of health benefits are based on the plan as understood by the Ports Authority and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Ports Authority and the Ports Authority's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Valuation year	July 1, 2016 – June 30, 2017
Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	30 years open, level percent of active member payroll
Asset valuation method	N/A

2017

Actuarial assumptions

Discount rate	3.75%
Inflation rate	2.25%
Projected payroll growth rate	3.0 %
Health care cost trend rate for medical and prescription drugs	7.0 %
Ultimate Trend Rate	4.2 %
Number of years is trend rates to reach ultimate rate	15

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the Authority's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liability for benefits.

South Carolina State Ports Authority
Required Supplemental Information
June 30, 2018 and 2017

(in thousands of dollars)

	2018	2017	2016	2015
SCRS				
Ports Authority's proportion of the net pension liability (asset)	0.4347 %	0.4066 %	0.3917 %	0.3756 %
Ports Authority's proportionate share of the net pension liability (asset)	\$ 98,475	\$ 86,853	74,141	64,669
Ports Authority's covered payroll	45,922	42,391	38,198	30,855
Ports Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	214.4%	204.89 %	194.21%	209.59%
Plan fiduciary net position as a percentage of the total pension liability	53.3 %	52.9 %	57.0 %	59.9 %

(in thousands of dollars)

	2018	2017	2016	2015
PORS				
Ports Authority's proportion of the net pension liability (asset)	0.0096 %	0.0093 %	0.0071 %	0.0079 %
Ports Authority's proportionate share of the net pension liability (asset)	\$ 264	\$ 235	155	152
Ports Authority's covered payroll	129	130	118	95
Ports Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	204.7%	180.77%	131.36%	160.00%
Plan fiduciary net position as a percentage of the total pension liability	60.9 %	60.4 %	64.6 %	67.5 %

(in thousands of dollars)

	2018	2017	2016	2015
SCRS				
Contractually required contribution	\$ 5,102	\$ 4,355	\$ 4,003	\$ 3,615
Contributions in relation to the contractually required contributions	(5,102)	(4,355)	(4,003)	(3,615)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Ports Authority's covered payroll	\$ 45,922	\$ 42,391	\$ 38,198	\$ 30,855
Contributions as a percentage of covered payroll	11.11%	10.27%	10.48%	11.72%

(in thousands of dollars)

	2018	2017	2016	2015
PORS				
Contractually required contribution	\$ 18	\$ 16	\$ 12	\$ 12
Contributions in relation to the contractually required contribution	(18)	(16)	(12)	(12)
Contribution deficiency (excess)	-	-	-	-
Ports Authority's covered payroll	\$ 129	\$ 130	\$ 118	\$ 95
Contributions as a percentage of covered payroll	13.95%	12.31%	10.17%	12.63%