

**SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS**

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

State of South Carolina



Office of the State Auditor

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THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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September 18, 2002

The Honorable Jim Hodges, Governor
and
Mr. Charles S. Way, Jr., Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 2001, was issued by Wilkes & Company, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

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YEAR ENDED DECEMBER 31, 2001

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INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2001, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

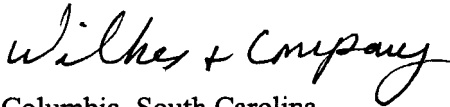
As described in Note 1, the financial statements of the South Carolina Department of Commerce - Division of Public Railways are intended to present the financial position, results of operations, and the cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Commerce - Division of Public Railways, enterprise funds of the State. These financial statements do not include other funds or enterprises of the Department or the State or any component units of the State. These financial statements are not intended to present fairly the financial position of the State of South Carolina primary government or financial reporting entity or of the South Carolina Department of Commerce and the results of either's operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

The South Carolina Department of Commerce - Division of Public Railway's financial statements do not adequately classify certain transactions and do not contain certain material disclosures. Also the notes to the financial statements do not disclose material information and accounting policies. These disclosures and information are not in the financial statements because it is exempted from public disclosure pursuant to the South Carolina Freedom of Information Act. Reporting of such information is essential for a fair presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, because of the incomplete presentation and omission of note disclosures discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, in all material respects, the financial position of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2001, and the results of its operations and its cash flows for the year then ended.

As described in Note 2 to the financial statements, the Railroad adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Managements Discussion and Analysis-For State and Local Governments*; and Statement No. 37, *Basic Financial Statements- and Managements Discussion and Analysis-For State and Local Governments: Omnibus*, as of January 1, 2001. This results in a change in the format and content of the financial statements.

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



Columbia, South Carolina
July 31, 2002



S C Public Railways
540 East Bay Street
Charleston, SC 29403-6337

(843) 727-2067

Management Discussion and Analysis

Our discussion and analysis of S C Public Railways financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2001. Please read these comments in conjunction with the transmittal letter and the financial statements.

Financial Highlights

Operating revenues for 2001 compared to 2000 for all railroads increased about 8.8%. The revenue increases by railroad and source is as follows:

East Cooper & Berkeley Railroad: Net freight and other operating revenues increased by 17%, while operating expenses only increased by 6%.

Port Utilities Commission Railroad and Port Terminal Railroad: The increase in PUC freight revenues resulted from increases in volume in several categories of freight. We expect increases in rail traffic during 2002. Our PTR rail traffic decreased during 2001 compared to 2000 as a result of the U S Department of Agriculture export shipments (PL480) declining during 2001. There is not a regular pattern for these shipments.

Port Royal Railroad: This railroad lost all its customers during 2001. The kaolin clay contract was completed during the second quarter of 2001, and has not been renewed. A major cement customer re-located to Charleston and deals directly with a trunk line railroad. Another customer relocated to Savannah after a corporate merger. We have added a new customer during 2002, and freight traffic has resumed.

Tangent Maintenance Company: A major industrial development project was completed in Anderson County for the S C Department of Commerce. Significant rail improvements were completed on each of our operating railroads, including the installation of equipment designed to provide safer work conditions.

Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2).

Table 1
Net Assets

	<u>2001</u>
Current and other assets	\$ 18,243,652
Capital assets	19,608,519
Total Assets	37,852,171

Long-term debt outstanding	18,137
Other liabilities	4,910,626
Total Liabilities	4,928,763

Net assets:

Invested in capital assets, net of debt	19,588,522
Restricted	50,000
Unrestricted	13,284,886
Total net assets	32,923,408

Table 2
Changes in Net Assets

	<u>2001</u>
Revenues:	
Operating Revenues	\$ 5,552,943
Earnings on Investments	751,545
Operating Grant	800,000
Other Non-Operating Revenues	897,818
Total Revenues	8,002,306
Expenses:	
Maintenance of Way & Structures	463,860
Maintenance of Equipment	381,119
Transportation	1,465,023
General	1,083,255
Other Expenses	17,659
Total Railroad	3,410,916
Other Non-Operating Expenses	655,833
Total Expenses	4,066,749
	3,935,557
Transfers to Dept. of Commerce	(1,340,428)
Net Income	2,595,129

Using This Annual Report

This annual report consists of a series of financial statements. The *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Net Assets* provide information regarding the activities of S C Public Railways as a whole and present a longer-term view of our finances.

Also included in the financial statements are the combining statements which presents the separate financial position, operations and cash flows of the three operating divisions. These three divisions are:

- East Cooper & Berkeley Railroad
- Port Utilities Commission and Port Terminal Railroad
- Tangent Transportation Company

All divisions are enterprise fund activities, and all are reported on the accrual basis. These statements indicate how these functions were financed in the short term and what remains for future spending. The separate reports report operations in more detail by operating division.

Reporting on the Division of Public Railways As A Whole

The railroads are enterprise funds for accounting and reporting. Enterprise funds are used when governmental entities charge customers for services. Enterprise funds very closely resemble the financial statements of business entities.

Capital Assets

A rail spur was built to serve the Michelin plant in Anderson County. The cost of this rail spur is the majority of the increase in our fixed assets. The construction of this rail spur was an incentive for Michelin to locate their plant in Anderson County.

Write-offs of assets to meet the State of South Carolina GASB 34 capitalization criteria had a minimal effect on our balance sheets.

It is anticipated that in 2002 that a new maintenance building will be built at East Cooper & Berkeley Railroad. This building is estimated to cost about \$100,000. Four new locomotives will be purchased at a total cost of about \$200,000.

Economic Factors and Next Year's Operations

The Port Royal Railroad operating under Tangent Transportation Company lost all its customers during 2001. The kaolin clay contract was completed during the second quarter of 2001, and has not been renewed. A major cement customer re-located to Charleston and deals directly with a trunk line railroad. Another customer relocated to Savannah after a corporate merger.

The Port Royal Railroad added a new customer during 2002, and freight traffic has resumed. Freight for two companies has been moved, but the more profitable (and higher volume) customer has become inactive.

The other operating railroads are experiencing higher volumes during 2002. Our expectations are for these railroads to maintain or increase their volume of freight traffic.

FINANCIAL STATEMENTS

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF NET ASSETS
DECEMBER 31, 2001

ASSETS

Current Assets:

Cash and cash equivalents	\$ 13,417,702
Accounts receivable	2,678,429
Bond receivable - Marlboro County	114,686
Interest receivable	100,355
Inventories	151,763
Prepayments	<u>11,828</u>

Total Current Assets	<u>16,474,763</u>
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Property, Plant, and Equipment, Net of Accumulated

Depreciation of \$3,544,006	<u>19,608,519</u>
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Other Assets:

Bond receivable - Marlboro County	273,889
Servicing rights	2,300,000
Accumulated amortization - Servicing Rights	<u>(805,000)</u>

Total Other Assets	<u>1,768,889</u>
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Total Assets	<u><u>\$ 37,852,171</u></u>
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THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF NET ASSETS
DECEMBER 31, 2001

LIABILITIES AND FUND EQUITY

Current Liabilities:

Other customer payables	\$ 1,046,060
Accounts payable, CSX Transportation, Inc.	3,457,362
Accounts payable - other	207,669
Payroll withholdings and accrued employee benefits	31,238
Accrued annual leave and related benefits	130,203
Note payable, current	1,860
Deferred revenue	<u>36,234</u>

Total Current Liabilities	<u>4,910,626</u>
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Long Term Liabilities:

Note payable	<u>18,137</u>
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Total Long Term Liabilities	<u>18,137</u>
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Total Liabilities	<u>4,928,763</u>
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Net Assets:

Invested in Capital Assets, Less Related Debt	19,588,522
Restricted for Working Capital Reserve	50,000
Unrestricted	<u>13,284,886</u>

Total Net Assets	<u>32,923,408</u>
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Total Liabilities and Net Assets	<u>\$ 37,852,171</u>
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THE ACCOMPANYING NOTES ARE AN
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SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2001**

Operating Revenues:	
Switching fees	\$ 1,898,019
Freight charges, net	3,306,447
Use of engine	178,843
Dispatching services	62,074
Contractual services	12,950
Other	<u>94,610</u>
Total Operating Revenues	<u>5,552,943</u>
Operating Expenses:	
Railway Operating Expenses:	
Maintenance of Way and Structures:	
Superintendence	40,207
Depreciation	140,578
Other maintenance of way expenses	<u>283,075</u>
Total Maintenance of Way and Structures	<u>463,860</u>
Maintenance of Equipment:	
Superintendence	49,623
Depreciation	127,313
Other equipment expenses	<u>204,183</u>
Total Maintenance of Equipment	<u>381,119</u>
Transportation:	
Superintendence	124,778
Yard employees	753,554
Depreciation	4,213
Other transportation expenses	<u>582,478</u>
Total Transportation	<u>1,465,023</u>
General:	
Administration	871,968
Insurance	74,321
Depreciation	21,966
Amortization of servicing rights	<u>115,000</u>
Total General	<u>1,083,255</u>
Total Railway Operating Expenses	<u>3,393,257</u>

THE ACCOMPANYING NOTES ARE AN
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SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2001**

Other General Operating Expenses:	
Rent expense for leased road and equipment	1,695
Hire of freight cars	<u>15,964</u>
Total Other General Operating Expenses	<u>17,659</u>
Total Operating Expenses	<u>3,410,916</u>
Operating Income	<u>2,142,027</u>
Nonoperating Revenues (Expenses):	
Rental income	543,399
Interest income	751,545
Interest expense	(1,257)
Loss on disposal and retirement of assets	(96,573)
SC Coordinating Council – Industrial Development Grant	800,000
Industrial development expenses	(558,003)
Other income, net	<u>354,419</u>
Net Nonoperating Revenues (Expenses)	<u>1,793,530</u>
Net Income Before Transfers	3,935,557
Transfers to SC Department of Commerce	<u>(1,340,428)</u>
Net Income	2,595,129
Net Assets, Beginning of Year, as restated	<u>30,328,279</u>
Net Assets, End of Year	<u>\$ 32,923,408</u>

THE ACCOMPANYING NOTES ARE AN
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SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

Cash Flows From Operating Activities:	
Cash received from customers	\$ 3,283,618
Cash payments to suppliers and employees	(3,563,486)
Rents received	605,529
Grant received	800,000
Other income received	<u>313,345</u>
Net Cash Provided by Operating Activities	<u>1,439,006</u>
 Cash Flows from Non-Capital Financing Activities:	
Payment of other liability	(895,582)
Payments on behalf of the Department of Commerce	<u>(1,340,428)</u>
Net Cash Used by Non-Capital Financing Activities	<u>(2,236,010)</u>
 Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(2,236,539)
Principal paid on note payable	(1,752)
Cash received from sale of assets	225
Interest paid	<u>(1,257)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,239,323)</u>
 Cash Flows from Investing Activities:	
Bond principal received from Marlboro County	264,425
Investment income	<u>777,641</u>
Net Cash Provided by Investing Activities	<u>1,042,066</u>
 Net Decrease in Cash and Cash Equivalents	(1,994,261)
 Cash and Cash Equivalents, Beginning of Year	<u>15,411,963</u>
 Cash and Cash Equivalents, End of Year	<u><u>\$ 13,417,702</u></u>
 Reconciliation of Operating Income to Net	
Cash Flows From Operating Activities:	
Operating income	\$ 2,142,027
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Depreciation	294,070
Amortization	115,000
Nonoperating Revenues (Expenses)	1,139,815
(Increase) decrease in assets:	
Accounts receivable	(747,730)
Inventories	(2,289)
Prepayments	19,797
Increase (decrease) in liabilities:	
Other customer payables	(2,369,379)
Accounts payable, CSX	845,310
Accounts payable	130,543
Accrued payroll	(57,321)
Payroll taxes withheld and accrued employee benefits	(11,836)
Accrued annual leave	(54,781)
Deferred revenue	<u>(4,220)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,439,006</u></u>

THE ACCOMPANYING NOTES ARE AN
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SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

COMBINING STATEMENT OF NET ASSETS
DECEMBER 31, 2001

<u>ASSETS</u>	<u>PUC-PTR</u>	<u>TTC</u>	<u>ECBR</u>	<u>INTERDIVISION ELIMINATIONS</u>	<u>TOTAL</u>
Current Assets:					
Cash and cash equivalents	\$ 5,731,276	\$ 231,336	\$ 7,455,090	\$ -	\$ 13,417,702
Accounts receivable	613,659	21,258	2,043,512	-	2,678,429
Accounts receivable from other divisions	183,887	186,090	34,245	(404,222)	-
Bond receivable - Marlboro County	114,686	-	-	-	114,686
Interest receivable	73,041	-	27,314	-	100,355
Inventories	82,191	8,999	60,573	-	151,763
Prepayments	7,803	2,107	1,918	-	11,828
Total Current Assets	6,806,543	449,790	9,622,652	(404,222)	16,474,763
Property, Plant, and Equipment, Net of Accumulated Depreciation	13,236,280	844,905	5,527,334	-	19,608,519
Other Assets:					
Bond receivable - Marlboro County	273,889	-	-	-	273,889
Servicing rights	-	-	2,300,000	-	2,300,000
Accumulated amortization - Servicing Rights	-	-	(805,000)	-	(805,000)
Total Other Assets	273,889	-	1,495,000	-	1,768,889
Total Assets	<u>\$ 20,316,712</u>	<u>\$ 1,294,695</u>	<u>\$ 16,644,986</u>	<u>\$ (404,222)</u>	<u>\$ 37,852,171</u>
 <u>LIABILITIES AND FUND EQUITY</u>					
Current Liabilities:					
Other customer payables	\$ -	\$ -	\$ 1,046,060	\$ -	\$ 1,046,060
Accounts payable, CSX Transportation, Inc.	-	-	3,457,362	-	3,457,362
Accounts payable to other divisions	194,571	67,386	122,061	(384,018)	-
Accounts payable - other	68,417	104,779	34,473	-	207,669
Payroll taxes withheld and accrued employee benefits	26,277	4,961	20,204	(20,204)	31,238
Accrued annual leave and benefits	38,435	42,851	48,917	-	130,203
Note payable, current	1,860	-	-	-	1,860
Deferred revenue	36,234	-	-	-	36,234
Total Current Liabilities	365,794	219,977	4,729,077	(404,222)	4,910,626
Long Term Liabilities:					
Note payable	18,137	-	-	-	18,137
Total Long Term Liabilities	18,137	-	-	-	18,137
Total Liabilities	383,931	219,977	4,729,077	(404,222)	4,928,763
Net Assets:					
Invested in Capital Assets, Less Related Debt	13,216,283	844,905	5,527,334	-	19,588,522
Restricted for working capital reserve	-	50,000	-	-	50,000
Unrestricted	6,716,498	179,813	6,388,575	-	13,284,886
Total Net Assets	19,932,781	1,074,718	11,915,909	-	32,923,408
Total Liabilities and Net Assets	<u>\$ 20,316,712</u>	<u>\$ 1,294,695</u>	<u>\$ 16,644,986</u>	<u>\$ (404,222)</u>	<u>\$ 37,852,171</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>PUC-PTR</u>	<u>TTC</u>	<u>ECBR</u>	<u>INTERDIVISION ELIMINATIONS</u>	<u>TOTAL</u>
Operating Revenues:					
Switching fees	\$ 1,898,019	\$ -	\$ -	\$ -	\$ 1,898,019
Freight charges, net	-	135,371	3,171,076	-	3,306,447
Use of engine	82,424	-	96,419	-	178,843
Dispatching service	-	-	62,074	-	62,074
Contractual services, other divisions	-	196,027	-	(196,027)	-
Contractual services, outside parties	-	12,950	-	-	12,950
Other	<u>94,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,610</u>
Total Operating Revenues	<u>2,075,053</u>	<u>344,348</u>	<u>3,329,569</u>	<u>(196,027)</u>	<u>5,552,943</u>
Operating Expenses:					
Railway Operating Expenses:					
Maintenance of Way and Structures:					
Superintendence	-	40,207	-	-	40,207
Depreciation	59,734	604	24,096	56,144	140,578
Other maintenance of way expenses	<u>191,054</u>	<u>217,652</u>	<u>106,396</u>	<u>(232,027)</u>	<u>283,075</u>
Total Maintenance of Way and Structures	<u>250,788</u>	<u>258,463</u>	<u>130,492</u>	<u>(175,883)</u>	<u>463,860</u>
Maintenance of Equipment:					
Superintendence	21,834	-	27,789	-	49,623
Depreciation	82,894	-	44,419	-	127,313
Other equipment expenses	<u>122,309</u>	<u>640</u>	<u>81,234</u>	<u>-</u>	<u>204,183</u>
Total Maintenance of Equipment	<u>227,037</u>	<u>640</u>	<u>153,442</u>	<u>-</u>	<u>381,119</u>
Transportation:					
Superintendence	54,621	-	70,157	-	124,778
Yard employees	453,332	42,728	257,494	-	753,554
Depreciation	-	4,213	-	-	4,213
Other transportation expenses	<u>270,776</u>	<u>28,977</u>	<u>282,725</u>	<u>-</u>	<u>582,478</u>
Total Transportation	<u>778,729</u>	<u>75,918</u>	<u>610,376</u>	<u>-</u>	<u>1,465,023</u>
General:					
Administration	345,487	122,382	404,099	-	871,968
Insurance	29,266	7,807	37,248	-	74,321
Management fees	-	90,000	-	(90,000)	-
Depreciation	-	-	21,966	-	21,966
Amortization of servicing rights	<u>-</u>	<u>-</u>	<u>115,000</u>	<u>-</u>	<u>115,000</u>
Total General	<u>374,753</u>	<u>220,189</u>	<u>578,313</u>	<u>(90,000)</u>	<u>1,083,255</u>
Total Railway Operating Expenses	<u>1,631,307</u>	<u>555,210</u>	<u>1,472,623</u>	<u>(265,883)</u>	<u>3,393,257</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>PUC-PTR</u>	<u>TTC</u>	<u>ECBR</u>	<u>INTERDIVISION ELIMINATIONS</u>	<u>TOTAL</u>
Other General Operating Expenses:					
Rent expense for leased road and equipment	\$ -	\$ 24,000	\$ 1,695	\$ (24,000)	\$ 1,695
Hire of freight cars	<u>9,450</u>	<u>6,514</u>	<u>-</u>	<u>-</u>	<u>15,964</u>
Total Other General Operating Expenses	<u>9,450</u>	<u>30,514</u>	<u>1,695</u>	<u>(24,000)</u>	<u>17,659</u>
Total Operating Expenses	<u>1,640,757</u>	<u>585,724</u>	<u>1,474,318</u>	<u>(289,883)</u>	<u>3,410,916</u>
Operating Income (Loss)	<u>434,296</u>	<u>(241,376)</u>	<u>1,855,251</u>	<u>93,856</u>	<u>2,142,027</u>
Nonoperating Revenues (Expenses):					
Rental income	603,399	-	-	(60,000)	543,399
Interest income	396,484	17,753	337,308	-	751,545
Interest expense	(553)	-	(704)	-	(1,257)
Depreciation - nonoperating equipment	(56,144)	-	-	56,144	-
Management fees	90,000	-	-	(90,000)	-
Loss on disposal and retirement of assets	(10,046)	(3,048)	(83,479)	-	(96,573)
SC Coordinating Council-Industrial Development Grant	800,000	-	-	-	800,000
Industrial Development expenses	(558,003)	-	-	-	(558,003)
Other income, net	<u>323,217</u>	<u>31,202</u>	<u>-</u>	<u>-</u>	<u>354,419</u>
Total Nonoperating Revenues (Expenses)	<u>1,588,354</u>	<u>45,907</u>	<u>253,125</u>	<u>(93,856)</u>	<u>1,793,530</u>
Income (Loss) Before Transfers	2,022,650	(195,469)	2,108,376	-	3,935,557
Transfers to SC Department of Commerce	<u>(1,340,428)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,340,428)</u>
Net Income (Loss)	682,222	(195,469)	2,108,376	-	2,595,129
Net Assets					
Beginning of Year, as restated	<u>19,250,559</u>	<u>1,270,187</u>	<u>9,807,533</u>	<u>-</u>	<u>30,328,279</u>
End of Year	<u>\$ 19,932,781</u>	<u>\$ 1,074,718</u>	<u>\$ 11,915,909</u>	<u>\$ -</u>	<u>\$ 32,923,408</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

	PUC-PTR	TTC	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
Cash Flows From Operating Activities:					
Cash received from customers	\$ 1,970,130	\$ 413,714	\$ 1,018,395	\$ (118,621)	\$ 3,283,618
Cash payments to suppliers and employees	(2,032,427)	(524,155)	(1,319,090)	312,186	(3,563,486)
Rents received	641,529	-	-	(36,000)	605,529
Management fees received	97,500	-	-	(97,500)	-
Grant received	800,000	-	-	-	800,000
Other income received	282,143	31,202	-	-	313,345
Net Cash Provided (Used) by Operating Activities	1,758,875	(79,239)	(300,695)	60,065	1,439,006
Cash Flows From Non-Capital Financing Activities:					
Repayments of advance to ECBR	1,387,869	-	(1,387,869)	-	-
Payment of other liability	-	-	(895,582)	-	(895,582)
Payments on behalf of the Department of Commerce	(1,340,428)	-	-	-	(1,340,428)
Net Cash Provided (Used) by Non-Capital Financing Activities	47,441	-	(2,283,451)	-	(2,236,010)
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(1,858,025)	(7,578)	(310,871)	(60,065)	(2,236,539)
Principal paid on note payable	(1,752)	-	-	-	(1,752)
Cash received from sale of fixed assets	225	-	-	-	225
Interest paid	(553)	-	(704)	-	(1,257)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,860,105)	(7,578)	(311,575)	(60,065)	(2,239,323)
Cash Flows from Investing Activities:					
Bond principal received from Marlboro County	264,425	-	-	-	264,425
Investment income	420,117	17,753	339,771	-	777,641
Net Cash Provided (Used) by Investing Activities	684,542	17,753	339,771	-	1,042,066
Net Increase (Decrease) in Cash and Cash Equivalents	630,753	(69,064)	(2,555,950)	-	(1,994,261)
Cash and Cash Equivalents, Beginning of Year	5,100,523	300,400	10,011,040	-	15,411,963
Cash and Cash Equivalents, End of Year	\$ 5,731,276	\$ 231,336	\$ 7,455,090	\$ -	\$ 13,417,702

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

	PUC-PTR	TTC	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating income (loss)	\$ 434,296	\$ (241,376)	\$ 1,855,251	\$ 93,856	\$ 2,142,027
Adjustments to reconcile operating loss to net cash provided by operating activities:					
Depreciation	142,628	4,817	90,481	56,144	294,070
Depreciation charged to sister division	21,966	-	(21,966)	-	-
Amortization	-	-	115,000	-	115,000
Nonoperating Revenues (Expenses)	1,258,613	31,202	-	(150,000)	1,139,815
(Increase) decrease in assets:					
Accounts receivable	(140,444)	179,819	(787,105)	-	(747,730)
Accounts receivable from other divisions	(37,023)	(110,452)	(22,473)	169,948	-
Inventories	447	-	(2,736)	-	(2,289)
Prepayments	11,000	9,986	(1,189)	-	19,797
Increase (decrease) in liabilities:					
Other customer payables	-	-	(2,369,379)	-	(2,369,379)
Accounts payable, CSX	-	-	845,310	-	845,310
Accounts payable	33,693	75,358	21,492	-	130,543
Accounts payable, other divisions	70,531	(23,303)	57,660	(104,888)	-
Accrued payroll	(1,055)	-	(56,266)	-	(57,321)
Payroll taxes withheld and accrued employee benefits	(8,167)	(3,669)	4,995	(4,995)	(11,836)
Accrued annual leave	(23,390)	(1,621)	(29,770)	-	(54,781)
Deferred revenue	(4,220)	-	-	-	(4,220)
Net Cash Provided (Used) by Operating Activities	<u>1,758,875</u>	<u>(79,239)</u>	<u>(300,695)</u>	<u>60,065</u>	<u>1,439,006</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1 - REPORTING ENTITY

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all its component units. Component units are legally separate organizations for which the elected officials or the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

Based on the application of the above criteria, no component units are included in the reporting entity.

The South Carolina Department of Commerce - Division of Public Railways (Division) is part of the State of South Carolina Primary Government. The Division is reported as an enterprise fund in the State's Comprehensive Annual Financial Report.

Effective July 1, 1993, as part of the Government Restructuring Act of 1993, Code Section 13-1-1310 created the Division of Public Railways (the Division) within the Department of Commerce which is governed by the Secretary of the Department of Commerce.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Continued)

The Department of Commerce is a cabinet agency operating under the governor and is subject to state laws and regulations. The Division however is not subject to the State Procurement Code or Appropriation Act. Also, the Division is not subject to State Human Resource Regulations. The Secretary of the Department of Commerce is responsible for oversight of the Division. The Division has powers of a body corporate including,

1. The power to sue or be sued, and make contracts.
2. To acquire by purchase or donation and to own, rent, lease, mortgage and dispose of real or personal property.
3. To operate, acquire, construct, maintain and control the tracks and equipment of the Division and be governed by rules and regulations of the Interstate Commerce Commission and its successor, the Surface Transportation Board.
4. To employ and dismiss the employees of the Division and to fix and to pay the compensation thereof.
5. To issue revenue bonds and other obligations, subject to approval by the State Budget and Control Board, to defray the cost of acquisition of other railroads.

The individual divisions of the South Carolina Department of Commerce - Division of Public Railways are funds of the State of South Carolina established per various sections of the Code of Laws of South Carolina. The accompanying financial statements present the financial position, results of operations, and the cash flows solely of the South Carolina Department of Commerce - Division of Public Railways and do not include any other funds of the State of South Carolina.

The South Carolina Department of Commerce - Division of Public Railways consists of three separate divisions: the Port Utilities Commission and Port Terminal Railroad, the East Cooper and Berkeley Railroad, and the Tangent Transportation Company. The functions of each of the divisions are outlined as follows:

- a. Port Utilities Commission and Port Terminal Railroad (PUC-PTR) has the responsibility of operation of the railroad yard at Charleston Harbor. Switching activity between privately owned railroad lines and seagoing vessels is its primary operation and revenue source.
- b. Operation and maintenance of the railroad line constructed in Berkeley County, South Carolina, is the primary responsibility of the East Cooper and Berkeley Railroad (ECBR). The railroad was constructed with financing by Amoco Chemicals Corporation, its major customer. This came after requests from the Commission and the State Budget and Control

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

(Continued)

Board to service the east side of the Cooper River north of Charleston, South Carolina were denied by the common carrier railroads operating in South Carolina.

- c. Tangent Transportation Company (TTC) was formed to acquire and operate the Yemassee to Port Royal railroad. On April 16, 1985, a notice was filed by the Tangent Transportation Company with the Surface Transportation Board for a modified rail certificate of public convenience and necessity under 49 C.F.R. 1150, subpart C, to operate a line of trackage from Yemassee to Port Royal in Beaufort County, South Carolina, called the Port Royal Railroad. This line of railroad had formerly been owned and operated by Seaboard System Railroad, Inc. South Carolina State Ports Authority purchased the line and negotiated with Tangent Transportation Company, a wholly-owned subsidiary of the South Carolina Department of Commerce - Division of Public Railways, to operate the line. Tangent Transportation Company commenced operation on May 14, 1985. Also, effective January 1, 1999, Tangent Transportation Company operates a maintenance of way department which does contractual services for other divisions and also outside parties.

Audited financial statements of each division are presented in separate reports.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Division adheres to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

The South Carolina Department of Commerce - Division of Public Railways is required by State Law (58-19-10) to maintain separate accounting of its three divisions: the Port Utilities Commission and Port Terminal Railroad, the East Cooper and Berkeley Railroad, and the Tangent Transportation Company. Presented here are the financial statements of the divisions of the South Carolina Department of Commerce - Division of Public Railways.

The Division utilizes the accrual basis of accounting. Under the accrual basis of governmental accounting for enterprise funds, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable. Net assets are segregated into invested in capital assets, restricted and unrestricted components. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accounting principles utilized by the Division are in conformity with the

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Continued)

uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles. The Division has elected to apply all Financial Accounting Standards Board statements and interpretations issued prior to December 31, 1989 unless they conflict with GASB pronouncements.

Effect of Application of New Accounting Principle

The Governmental Accounting Standards Board issued Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. This new accounting and reporting standard did not substantially effect recognition of assets, liabilities and fund equity. The only effects were the changes in capitalization policy noted under property, plant and equipment, using the direct method for the statement of cash flows and certain changes in terminology and classification. The changes in capitalization policy as noted in property, plant and equipment resulting in restating the previously reported net assets of \$30,370,016 to \$30,328,279.

Fund Accounting

The Division uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions or limitations. Separate accounts are maintained for each fund however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions have been reported by fund type.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The Division reports activities of the enterprise "fund type" under the proprietary fund category.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services for such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Continued)

Enterprise funds account for activities that are self sustaining, primarily through user charges or are used when management wants to control or measure costs of services.

Property, Plant, and Equipment

Except for track and roadway, fixed assets with a unit acquisition cost in excess of \$5,000 are capitalized and depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Estimated useful lives are as follows:

Buildings	20 - 40 years
Depreciable Road	75 years
Equipment	3-25 years
Leasehold Improvements	5 years

In compliance with the State of South Carolina's capitalization policy implemented as a result of the adoption of GASB 34, the cost of assets capitalized was changed from \$2,000 to \$5,000 and those assets previously capitalized that were less than \$5,000 were written off. Total cost of assets written off in the current year as a result of the implementation of GASB 34, was as follows:

	<u>COST OF ASSETS</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>NET LOSS</u>
PUC-PTR	\$ 155,657	\$ 119,383	\$ 36,274
ECBR	21,065	17,263	3,802
TTC	15,502	13,841	1,661
TOTAL	<u>\$ 192,224</u>	<u>\$ 150,487</u>	<u>\$ 41,737</u>

These amounts were treated as a restatement of the beginning net assets.

Track and roadway are capitalized at cost and depreciation is not recognized. Replacements and repairs are expensed in the period that costs are incurred. Betterments to track and roadway are capitalized.

Leasehold improvements are capitalized and amortized over the remaining life of the lease.

See Note 5 regarding valuation of property donated by the Ports Authority and exchanged with the Ports Authority.

Servicing Rights

The servicing rights asset is being amortized.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Continued)

Inventories

Inventories consisting of materials and supplies are stated at the lower of cost or market using the weighted average method.

Policy for Uncollectible Accounts

At year end management reviews past due accounts receivable and recognizes bad debt expense for those accounts determined to be uncollectible. This method is not in conformity with generally accepted accounting principles which requires accounts receivable to be reported at net realizable value using an allowance for uncollectible accounts. However based on the Divisions collection history, the results from using the direct write-off method are not materially different from the allowance method.

Contributed Capital

In prior years contributed capital was presented as a separate component of fund equity. As a result of the adoption of GASB 34 amounts previously shown as contributed capital have been included as components of net assets. TTC previously showed \$125,000 as contributed capital and PUC-PTR had \$4,109,429 of contributed capital.

Restricted Net Assets

A \$50,000 reserve was based upon an agreement between Tangent Transportation Company and the South Carolina State Ports Authority. Tangent is to keep \$50,000 working capital reserve as a condition of this agreement.

Inter-division Transactions and Balances

Transactions among the three divisions of the Division of Public Railways has been eliminated for purposes of the combined financial statements presented herein. Administration overhead incurred is divided between PUC-PTR and ECBR. Overhead of the two Divisions is split, 56% to ECBR and 44% to PUC-PTR. Overhead expense includes superintendence, general administrative, and insurance. PUC-PTR charges TTC a management fee instead of allocating direct costs. See Note 12 regarding eliminations and management fees.

Statement of Cash Flows

For purposes of this statement the Division considers deposits with State of South Carolina cash management pool to be cash equivalents because they are readily convertible to cash with an insignificant risk of loss in value.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Continued)

Cash and Cash Equivalents

The amounts shown in the financial statements as "*cash and cash equivalents*" represent cash on deposit with the State Treasurer and cash invested in various investments by the State Treasurer as part of the State's internal cash management pool.

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Most State agencies participate in the State's internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents included investments in short-term, highly liquid securities having an original maturity of three months or less.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each agency's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Agencies record and report their deposits in the general deposit account at cost. However, agencies report their deposits in the special deposit accounts at fair value. Investments in the pool are recorded at fair value. Interest earned by the agencies' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value. The divisions only have special deposit accounts. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the agency's percentage of ownership in the pool.

Although the State's internal cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 3.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Continued)

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS

All deposits of the Division are under the control of the State Treasurer who, by law, has sole authority for investing state funds.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At December 31, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTE 4 - RECEIVABLE - MARLBORO COUNTY

In 1997 PUC-PTR agreed to assist Marlboro county with the upgrading of Pee Dee River Railroad. The assistance was to be in the form of project management and the purchase of an \$892,000 revenue bond dated March 20, 1997, which proceeds were to be used in the upgrade of the Pee Dee River Railroad.

In 2001 Marlboro made an additional payment of principal and interest in the amount of \$180,000. Including the additional payment, total principal received in 2001 from Marlboro County was \$264,425 and interest received was \$52,285.

Interest and principal is due on the revenue bond April 1, 2002 through April 1, 2005 as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2002	\$ 114,686	\$ 22,654
2003	117,308	19,172
2004	126,239	10,961
2005	<u>30,342</u>	<u>2,124</u>
	<u>\$ 388,575</u>	<u>\$ 54,911</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

(Continued)

NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost with the exception of certain assets received from the State Ports Authority. \$451,136 of assets acquired by the Division from the South Carolina State Ports Authority during the organization of the South Carolina Department of Commerce - Division of Public Railways are stated at the cost to the State Ports Authority, less accumulated depreciation at the time of organization. The accumulated depreciation on these assets, since acquisition by the Division, at December 31, 2001 is \$30,261. Also, in 1997 the PUC-PTR Division exchanged certain assets with the State Ports Authority. The assets received from the State Ports Authority were recorded on PUC-PTR's books at book value of assets as recorded by the State Ports Authority. Amounts recorded included track and land improvements of \$1,324,462 and an engine house in the amount of \$1,182,402. Depreciation is computed on the straight-line method. A summary of property, plant, and equipment by division is as follows:

PUC-PTR

FIXED ASSETS

	Balance 1/1/01	GASB 34 Adjustments	Adjusted Balance 1/1/02	Additions	Deletions	Balance 12/31/01
Land	\$ 3,903,707	\$ -	\$ 3,903,707	\$ 113,334	\$ -	\$ 4,017,041
Land improvements	2,390,396	-	2,390,396	236,003	-	2,626,399
Buildings	1,445,576	(10,357)	1,435,219	36,025	-	1,471,244
Machinery and equipment	2,600,245	(145,300)	2,454,945	150,122	(18,602)	2,586,465
Non-depreciable road	2,011,885	-	2,011,885	77,374	-	2,089,259
Leasehold improvements	212,383	-	212,383	-	(7,300)	205,083
Projects under construction	924,277	-	924,277	1,305,232	-	2,229,509
Total	<u>\$ 13,488,469</u>	<u>\$ (155,657)</u>	<u>\$ 13,332,812</u>	<u>\$ 1,918,090</u>	<u>\$ (25,902)</u>	<u>\$ 15,225,000</u>

ACCUMULATED DEPRECIATION

Buildings	\$ 143,911	\$ (9,782)	\$ 134,129	\$ 30,837	\$ -	\$ 164,966
Machinery and equipment	1,588,976	(109,601)	1,479,375	184,749	(12,650)	1,651,474
Leasehold improvements	170,109	-	170,109	5,152	(2,981)	172,280
Total	<u>\$ 1,902,996</u>	<u>\$ (119,383)</u>	<u>\$ 1,783,613</u>	<u>\$ 220,738</u>	<u>\$ (15,631)</u>	<u>\$ 1,988,720</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Continued)

TANGENT

FIXED ASSETS

	Balance 1/1/01	GASB 34 Adjustments	Adjusted Balance 1/1/02	Additions	Deletions	Balance 12/31/01
Land	\$ 102,293	\$ -	\$ 102,293	\$ -	\$ -	\$ 102,293
Land improvements	14,744	-	14,744	-	-	14,744
Buildings	170,669	-	170,669	-	-	170,669
Machinery and equipment	144,714	(15,502)	129,212	7,578	(19,050)	117,740
Non-depreciable road	545,228	-	545,228	-	-	545,228
Total	<u>\$ 977,648</u>	<u>\$ (15,502)</u>	<u>\$ 962,146</u>	<u>\$ 7,578</u>	<u>\$ (19,050)</u>	<u>\$ 950,674</u>

ACCUMULATED DEPRECIATION

Buildings	\$ 16,905	\$ -	\$ 16,905	\$ 4,213	\$ -	\$ 21,118
Machinery and equipment	113,890	(13,841)	100,049	604	(16,002)	84,651
Total	<u>\$ 130,795</u>	<u>\$ (13,841)</u>	<u>\$ 116,954</u>	<u>\$ 4,817</u>	<u>\$ (16,002)</u>	<u>\$ 105,769</u>

FCBR

FIXED ASSETS

	Balance 1/1/01	GASB 34 Adjustments	Adjusted Balance 1/1/02	Additions	Deletions	Balance 12/31/01
Land	\$ 426,419	\$ -	\$ 426,419	\$ -	\$ -	\$ 426,419
Land improvements	1,706,587	-	1,706,587	-	-	1,706,587
Buildings	750,822	-	750,822	-	-	750,822
Machinery and equipment	655,404	(21,065)	634,339	39,958	-	674,297
Depreciable road	833,591	-	833,591	-	-	833,591
Non-depreciable road	2,345,267	-	2,345,267	-	(60,000)	2,285,267
Projects under construction	52,433	-	52,433	270,915	(23,480)	299,868
Total	<u>\$ 6,770,523</u>	<u>\$ (21,065)</u>	<u>\$ 6,749,458</u>	<u>\$ 310,873</u>	<u>\$ (83,480)</u>	<u>\$ 6,976,851</u>

ACCUMULATED DEPRECIATION

Buildings	\$ 623,059	\$ -	\$ 623,059	\$ 6,844	\$ -	\$ 629,903
Depreciable road	246,372	-	246,372	11,114	-	257,486
Machinery and equipment	528,834	(17,263)	511,571	50,557	-	562,128
Total	<u>\$ 1,398,265</u>	<u>\$ (17,263)</u>	<u>\$ 1,381,002</u>	<u>\$ 68,515</u>	<u>\$ -</u>	<u>\$ 1,449,517</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Continued)

COMBINED

FIXED ASSETS

	Balance 1/1/01	GASB 34 Adjustments	Adjusted Balance 1/1/02	Additions	Deletions	Balance 12/31/01
Land	\$ 4,432,419	\$ -	\$ 4,432,419	\$ 113,334	\$ -	\$ 4,545,753
Land improvements	4,111,727	-	4,111,727	236,003	-	4,347,730
Buildings	2,367,067	(10,357)	2,356,710	36,025	-	2,392,735
Machinery and equipment	3,400,363	(181,867)	3,218,496	197,658	(37,652)	3,378,502
Depreciable road	833,591	-	833,591	-	-	833,591
Non-depreciable road	4,902,380	-	4,902,380	77,374	(60,000)	4,919,754
Leasehold improvements	212,383	-	212,383	-	(7,300)	205,083
Projects under construction	976,710	-	976,710	1,576,147	(23,480)	2,529,377
Total	<u>\$ 21,236,640</u>	<u>\$ (192,224)</u>	<u>\$ 21,044,416</u>	<u>\$ 2,236,541</u>	<u>\$ (128,432)</u>	<u>\$ 23,152,525</u>

ACCUMULATED DEPRECIATION

	Balance 1/1/01	GASB 34 Adjustments	Adjusted Balance 1/1/02	Additions	Deletions	Balance 12/31/01
Buildings	\$ 783,875	\$ (9,782)	\$ 774,093	\$ 41,894	\$ -	\$ 815,987
Depreciable road	246,372	-	246,372	11,114	-	257,486
Machinery and equipment	2,231,700	(140,705)	2,090,995	235,910	(28,652)	2,298,253
Leasehold improvements	170,109	-	170,109	5,152	(2,981)	172,280
Total	<u>\$ 3,432,056</u>	<u>\$ (150,487)</u>	<u>\$ 3,281,569</u>	<u>\$ 294,070</u>	<u>\$ (31,633)</u>	<u>\$ 3,544,006</u>

Depreciation expense for the period by division and in total was as follows: PUC-PTR \$198,772, ECBR \$90,481, TTC \$4,817, Total - \$294,070. PUC-PTR includes \$142,628 in operating expenses and \$56,144 in nonoperating expenses. The South Carolina Ports Authority paid one half of the cost of Tangents engine house. Title to any buildings or track will remain with the State Ports Authority if Tangent ceases operations. None of the amounts paid by the State Ports Authority are recorded on Tangents books. In 1995, TTC purchased land to be used for storage purposes. The title to the land is in TTC's name.

NOTE 6 - ACCOUNTS PAYABLE, CSX TRANSPORTATION, INC.

Tangent Transportation Company and East Cooper and Berkeley Railroad have reciprocal agreements with CSX Transportation, Inc., whereby freight charges to customers are billed by the railroad line that originated the rail carrier order. Therefore, TTC and ECBR may bill a customer for the entire freight charge even though both Port Royal Railroad or East Cooper and Berkeley Railroad and railroad

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lines owned by CSX Transportation, Inc. were used. TTC and ECBR then remits to CSX their portion of the freight revenue due them. At December 31, 2001, \$3,457,362 for ECBR had not yet been remitted to CSX Transportation, Inc.

NOTE 7 - ACCRUED ANNUAL LEAVE

Non-union employees are entitled to accrue and carry forward at calendar year end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. Employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

Union employees can earn up to 25 days annual vacation leave per year, but do not earn any sick leave. Union employees do not carry forward any unused vacation leave. Upon termination of employment, union employees are entitled to be paid for accumulated unused annual vacation leave up to 25 days. Union employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

The Division calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments is recorded as a current liability. The net change in the liability is recorded in the current year in the applicable operating department.

NOTE 8 - ADVANCE TO ECBR

On May 31, 1995, PUC-PTR advanced \$1,387,869 to the ECBR Division to assist with the repayment of notes payable to Amoco. The advance had no repayment terms and was non-interest bearing. The advance was repaid in May, 2001.

NOTE 9 - DEFERRED REVENUE/OPERATING LEASES/NONOPERATING RENTAL REVENUE

Effective March 4, 1994, PUC-PTR began leasing land and improvements in Spartanburg County, South Carolina for \$200,000 a year. The lease is for twenty years with two ten year options to renew. During the lease term the lessee has the right to purchase the land and improvements for PUC-PTR's cost not to exceed \$5,000,000. The rent is paid at the beginning of each years anniversary for one year

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effective March 4, 1994 and will be adjusted annually based on 90 day treasury bill rates. The initial rent was based on a 4% annual return on the initial investment of \$2,000,000 which is why treasury bill rates will be used to determine changes in the annual rent. The Divisions total investment in this project ended up being \$4,365,595 which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 1999 was \$200,000, and at March 4, 2001 was \$217,407. The land is used as a railroad spur to the BMW plant. During 2001, \$221,627 was recognized as nonoperating rental revenue and \$36,234 was deferred revenue based on the terms of this agreement. Also effective March 4, 1996, the Division began receiving revenue on certain car hauls out of the BMW plant by Norfolk Southern. This amounted to \$232,615 in 2001 and is included in other income, net, nonoperating revenue. See Note 11 regarding other income, net.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of \$242,572 for 2001. Effective May 30, 1995, this lease was renewed. The lease is a supplemental lease to preexisting 1980 and 1986 leases. The lease expires on February 16, 2015, with automatic one year renewals unless either party serves the other with at least twelve months notice. Under the supplemental lease each years rent will be adjusted to correspond to the change in the national consumer price index ("CPI") for the previous year.

PUC-PTR rents locomotives to Amoco, Inc. on a monthly basis. Rent was \$6,350 a month for 2001. Revenue for the current year for the rentals to Amoco is \$76,200 and is included in nonoperating rental revenue. See Note 12 regarding interdivision rental income.

NOTE 10 - NOTES PAYABLE

On June 30, 1990, PUC-PTR borrowed from the South Carolina State Ports Authority \$35,000 for certain landscaping improvements to be made at its office building being leased from the Ports Authority. The note is to be paid over 20 years at 6% interest rate. Monthly payments are \$251 including interest. The outstanding balance at December 31, 2001, was \$19,997. Interest of \$1,257 and principal of \$1,752 was paid in 2001. \$704 of interest was charged to ECBR, and \$553 is shown as a nonoperating expense of PUC-PTR. Interest expense is allocated between PUC-PTR (44%) and ECBR (56%) according to the operating agreement as explained in Note 2. The principal is paid entirely by PUC-PTR.

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The debt service requirements for the Ports Authority note are as follows:

	<u>Principal</u>	<u>Interest</u>
2002	\$ 1,860	\$ 1,149
2003	1,974	1,035
2004	2,096	913
2005	2,225	783
2006	2,363	646
2007-2011	<u>9,479</u>	<u>1,054</u>
Total at present value	<u>\$ 19,997</u>	<u>\$ 5,580</u>

NOTE 11 - OTHER INCOME, NET

The category under "Nonoperating revenues (expenses)" entitled "Other income, net" is used to report miscellaneous income not related to the primary operating functions of each division. It consists primarily of fees received for sale of supplies, insurance proceeds, permits, lease, processing (clerical) services and contracted services. See Note 9 regarding \$232,615 of income from BMW plant. See Note 14 regarding \$84,685 of income from the State Ports Authority. A break-down by division of "Other income, net" for the year ended December 31, 2001, is as follows:

	<u>PUC-PTR</u>	<u>TTC</u>	<u>ECBR</u>	<u>TOTAL</u>
Liabilities written off	\$ -	\$ -	\$ -	\$ -
Sale of supplies, leases and contractual services:				
Between divisions	-	-	-	-
With outside parties	<u>323,217</u>	<u>31,202</u>	<u>-</u>	<u>354,419</u>
Total	<u>\$ 323,217</u>	<u>\$ 31,202</u>	<u>\$ -</u>	<u>\$ 354,419</u>

NOTE 12 - INTER-DIVISION ELIMINATIONS

The following transactions between the separate divisions have been eliminated in the combined financial statements as follows:

BALANCE SHEET DECEMBER 31, 2001			
<u>Descriptions</u>	<u>PUC-PTR</u>	<u>TTC</u>	<u>ECBR</u>
Accounts receivable from other divisions	\$ (183,887)	\$ (186,090)	\$ (34,245)
Accounts payable to other divisions	194,571	67,386	122,061
Payroll taxes withheld and accrued	<u>-</u>	<u>-</u>	<u>20,204</u>
	<u>\$ 10,684</u>	<u>\$ (118,704)</u>	<u>\$ 108,020</u>

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(Continued)

(REVENUES) AND EXPENSES
YEAR ENDED DECEMBER 31, 2001

<u>Descriptions</u>	<u>PUC-PTR</u>	<u>TTC</u>	<u>ECBR</u>
Contractual Services	\$ 164,787	\$ (196,027)	\$ 31,240
Equipment rental	(60,000)	60,000	-
Management fee	(90,000)	90,000	-
Totals	<u>\$ 14,787</u>	<u>\$ (46,027)</u>	<u>\$ 31,240</u>

PUC-PTR rents various equipment to the other two divisions on a month-to-month basis, depending on their needs. A locomotive with a rental of \$2,000 per month and maintenance of way equipment with an annual rental of \$36,000 are rented to TTC. Included in payables to PUC-PTR is \$36,000 for one years annual rental of that equipment.

In addition, depreciation of \$56,144 attributable to equipment leased to the other divisions but not used by PUC-PTR has been eliminated from nonoperating expenses and reclassified as operating expense under maintenance of way.

PUC-PTR charges Tangent Transportation Company a management fee for administrative services at the Division office incurred by PUC-PTR on behalf of Tangent. The fee is \$7,500 per month for administration. The total management fee incurred by TTC for the year ended December 31, 2001 was \$90,000, which was charged to management fee and included in general railway operating expenses. PUC-PTR reports the revenue under non-operating revenues as management fees.

During 2001, TTC charged ECBR \$31,240 and PUC-PTR \$164,787 for maintenance of way services. Also certain charges by TTC were capitalized by PUC-PTR and ECBR. PUC-PTR capitalized \$147,080 and ECBR capitalized \$111,403 of charges from TTC for maintenance of way department. Included in TTC's receivable from other divisions is \$23,972 due from ECBR and \$162,118 due from PUC-PTR for these services. TTC classifies this as operating revenue under contractual services, other divisions.

Other amounts in accounts payable for TTC, ECBR and PUC-PTR are normal monthly amounts initially paid by one division that will be reimbursed by the division receiving the goods/services.

NOTE 13 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued

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CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Division are covered by a pension plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.4 percent which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The rate for the first six months of 2001 (effective January 1, 2001) was 10.07 percent which included a 2.52 percent surcharge. The Division's actual contributions to the SCRS for the fiscal year ended

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(Continued)

December 31, 2001 were \$110,975, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for 2000 were \$101,963 and for 1999 were \$107,736. Also, the Division paid employer group-life insurance contributions of \$2,211 in the current fiscal year at the rate of .15 percent of compensation.

The contributions by each division is as follows:

	<u>PUC-PTR</u>	<u>TTC</u>	<u>ECBR</u>	<u>Total</u>
Retirement Plan				
Employer	\$ 49,605	\$ 22,395	\$ 38,975	\$ 110,975
Group Life				
Employer	989	445	777	2,211

The amounts paid by the South Carolina Department of Commerce - Division of Public Railways for pension and group-life benefits are recorded in the appropriate operating department corresponding to the employee for whom the contributions are made.

Article X, Section 16, of the South Carolina Constitution requires that all State operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the Division's liability under the plan is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Division's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Division recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

The General Assembly amended Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2001, with some provision effective January 1, 2001. The amendment enacted the Teacher and

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Employee Retention Incentive Program, reducing from thirty to twenty-eight years of credible service required to retire at any age without penalty and made other changes to the South Carolina Retirement System.

The Division contributed \$373,142 this year to the U.S. Railroad Retirement System, which covers all employees. PUC-PTR contributed \$158,221; ECBR, \$140,258, and TTC, \$74,663. Participation is mandatory. This program is a two-tier system which is funded based on each employee's gross annual wages. Effective January 1, 2001, wages up to \$80,400 were funded at 6.2 percent by the Division to meet Tier I funding requirements and all wages were funded at 1.45 percent by the Division to meet Tier I Medicare funding requirements. The Division funded wages up to \$59,700 at 16.1 percent to meet Tier II funding requirements. Employees matched the Division's Tier I contribution, but paid only 4.9 percent versus the Division's 16.1 percent Tier II rate on wages up to \$59,700 for the maximum Tier II employee liability of \$2,925. In addition, there is a supplemental charge based on hours worked in a given month. The rate is 26.5 cents per hour. The cost is borne by the Division.

This plan is administered by the U. S. Railroad Retirement Board, in accordance with the Railroad Retirement Acts.

Data concerning the actuarial status of the U.S. Railroad Retirement System as related to the Division is not available. The Division is not liable for any unfunded costs associated with the plan and recognized no contingent liability for such cost.

Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Division are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirement, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through applicable revenue sources for the Division's active employees and the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable fund sources of the Division for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 21,000 State retirees meet these eligibility requirements.

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The South Carolina Department of Commerce - Division of Public Railways recorded employer contributions applicable to these benefits for active employees in the amount of \$254,804 for the year ended December 31, 2001. Contributions by division is as follows: PUC-PTR, \$124,652; ECBR, \$94,114; and TTC, \$36,038. Contributions to these plans are recorded in the appropriate operating department corresponding to the employee for whom the contributions are made.

As discussed above, the Division paid \$38,608 applicable to the surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Contributions by Division is as follows: PUC-PTR \$17,022, ECBR \$13,232, and TTC \$8,354.

Information regarding the cost of insurance benefits applicable to the Division retirees is not available. By State law, the Division has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Division have elected to participate. The multiple-employer plans, created under Internal Revenue Service code sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw the current value of their contributions prior to termination if they meet requirements specified by the applicable plan. The State has no liability for losses under the plans.

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the portion of contributions paid from State General Funds to 401(k) accounts of eligible state employees. The 401(k) match is limited to \$300. To be eligible an employee must be a permanent

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full-time State employee or temporary grant employee who is actively contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full-time employees making less than \$20,000 as of July 1, 2000, are not required to contribute in order to receive the match.

The Division did not contribute any amounts in 2001 per this provision.

NOTE 14 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

The Tangent Transportation Company division of the Division has a contractual agreement to receive from the South Carolina Ports Authority a management fee when monthly freight charges revenue is insufficient to cover monthly expenses. For the year ended December 31, 2001, Tangent Transportation Company did not collect any monies from the State Ports Authority for any management fees related to this contract based on this condition. Also see Note 5 regarding the shared cost of certain fixed asset additions by Tangent.

PUC-PTR allocated to ECBR \$21,966 of depreciation expense as part of the administrative overhead expense allocation between the two divisions explained in Note 2. This is shown as depreciation expense under general railway operating expenses of ECBR.

The Ports Authority pays PUC-PTR monthly offset charges. In 1988, the S.C. State Ports Authority took possession of a certain area of trackage at the Port Terminal Railroad which caused PUC-PTR to incur additional operating costs. The Ports Authority continues to pay PUC-PTR for the additional costs which equals the initial annual base amount of \$58,615 adjusted for changes in the consumer price index. The amount paid to PUC-PTR was \$84,685 in 2001 and is included in other non-operating revenues. See Note 11 regarding other income, net.

During 2001, PUC-PTR paid \$1,340,428 of vendors invoices and payments directly to the Department of Commerce related to industrial development in South Carolina, as directed by the SC Department of Commerce. These invoices were not related to the operations of PUC-PTR and are classified as transfers on the statement of revenues, expenses, and changes in net assets. PUC-PTR received from the Coordinating Council of the Department of Commerce an operating grant of \$800,000 to assist with industrial development efforts of the Division.

As described in Note 12, the Divisions provide each other with certain services. For example, TTC provides PUC-PTR and ECBR maintenance of way contractual services. In 2001, it also provided these services to the Ports Authority.

The Ports Authority paid TTC \$7,784 for maintenance of way contractual services performed in 2001.

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Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement and insurance plan administration from various divisions of the State Budget and Control Board. The Division had financial transactions with various State agencies during the year. Payments made in 2001 to the State Budget and Control Board were primarily for insurance coverage.

NOTE 15 - OPERATING LEASES

The Division's Port Utilities Commission and Port Terminal Railroad Division, and the South Carolina State Ports Authority entered into an agreement, effective July 1, 1976, allowing the South Carolina Department of Commerce - Division of Public Railways to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The Division is now occupying these premises on a month to month lease. The monthly rental charge is \$300. The Division incurred \$3,600 for rental of this building in 2001. The Division is required to carry insurance for property damage and to maintain and repair the leased building.

The only other lease payment is \$1,498 per year by ECBR to the U.S. Department of Agriculture for right of way for the railroad on National Forest Land. This lease is for an indefinite term.

Total operating lease expense in 2001 was \$5,098. Minimum future payments of the Division for the lease with the indefinite terms as of December 31, 2001 are as follows:

	<u>ECBR</u>
2002	\$ 1,498
2003	1,498
2004	1,498
2005	1,498
2006	<u>1,498</u>
Totals	<u>\$ 7,490</u>

NOTE 16 - RISK MANAGEMENT

The Division is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Division. Settled claims have not exceeded this coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The Division pays insurance premiums to certain other State agencies and

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commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered losses sustained during the policy period in accord with the insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
2. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the states self-insured plan. All of the other coverages listed above are through the applicable state self-insured plan except dependent and optional life premiums which are remitted to commercial carriers.

The Divisions and other entities pay premiums to the States Insurance Reserve Fund (IRF) which issues policies, accumulate assets to cover the risks of loss and pays claims incurred for covered losses related to the following Division assets, activities, and/or events.

1. Real property, its contents and other equipment - Coverage per loss for real property is based on current valuation with a \$250 deductible. Eighty percent of each loss is covered by the IRF. Equipment losses are subject to a \$500, or two percent deductible, whichever is less.
2. Motor vehicles - Coverage is up to \$1,000,000 per loss with a \$200 deductible.
3. Torts

The IRF is a self insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, and automobile liability. The IRF's rates are determined actuarially.

State agencies are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The Division purchases insurance, which covers all divisions, through private carriers for liability and property loss on road and locomotive assets, and employee fidelity bond insurance coverage for all employees to cover losses of up to \$100,000 arising from theft or misappropriations. Management believes based on exposure and likelihood of loss that this coverage is sufficient.

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The Division has purchased insurance, which covers all divisions, from a private carrier for liability under the Federal Employers Liability Act (FELA) which is similar to workmans compensation insurance and covers all employees. The Division has elected to retain the risk of loss on this coverage for up to the first \$25,000 of costs per claim. Management has elected to retain this amount of risk because it feels that it is more economical than paying additional premiums for increased coverage. In the current year, no expenses were incurred on claims under the policy. Also a tax is paid to the U.S. Railroad Retirement System to cover all the Division employees for unemployment benefits.

The Division has recorded insurance premium expenses in the applicable operating department corresponding to the employees for whom contributions are made or in insurance expense under administrative costs.

The Division's management believes risk of loss from business interruption is a remote likelihood and does not maintain insurance for this risk.

The Division did not incur any significant losses in 2001 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. The Division reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 17 - CONTINGENCIES

There are currently several cases in litigation concerning Workmans Compensation (FELA) Claims. The outcome or potential liability to the Division is not known at this time and cannot be reasonably estimated, therefore no liability or reserve has been established at this time. Also management believes any aggregate liability, if any, would not have a material adverse effect on the financial statements. The Division has insurance in force that effectively limits their exposure to \$25,000 per claim. Losses, if any on the above, would be split between PUC-PTR and ECBR in the same ratio as their overhead cost sharing percentage as explained in Note 2. These would have no effect on TTC.

NOTE 18 - GASB 31 ADJUSTMENTS

Effective January 1, 1998, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that most investments of governmental entities be stated at fair value rather than at cost.

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For internal (and external) investment pools, this statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. The unrealized gains included in cash and cash equivalents at December 31, 2001, was \$134,541 for PUC-PTR and \$64,276 for ECBR. There were no unrealized gains included in TTC's cash and cash equivalents at December 31, 2001.

NOTE 19 – ENTERPRISE FUND INFORMATION

Charges for services	\$ 7,202,306
Operating grant	800,000
Less: expenses	<u>(4,066,749)</u>
Net program revenue	3,935,557
 Transfer to State entity	 <u>(1,340,428)</u>
Change in net assets	2,595,129
 Net assets - beginning as restated	 <u>30,328,279</u>
Net assets - ending	<u><u>\$ 32,923,408</u></u>

This information is included only for the State of South Carolina GAAP reporting purposes and includes terminology and classifications which are not consistent with the financial statements.