

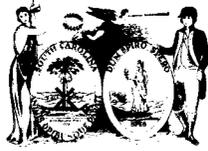
**SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS**

EAST COOPER AND BERKELEY RAILROAD

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002

State of South Carolina



Office of the State Auditor

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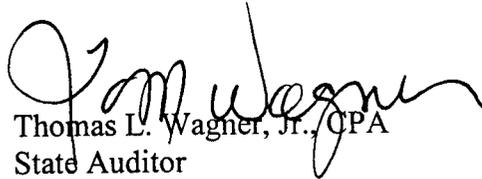
August 25, 2003

The Honorable Mark Sanford, Governor
and
Mr. Robert A. Faith, Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the East Cooper and Berkeley Railroad, a division of the South Carolina Department of Commerce - Division of Public Railways, for the fiscal year ended December 31, 2002, 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,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS
EAST COOPER AND BERKELEY RAILROAD

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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 East Cooper and Berkeley Railroad, a division of the South Carolina Department of Commerce - Division of Public Railways, as of December 31, 2002, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Railroad'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 component unit 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 discussed in Note 1, the financial statements of the East Cooper and Berkeley Railroad 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 East Cooper and Berkeley Railroad, enterprise fund of the State. These financial statements do not include other funds or enterprises of the Division of Public Railways, Department of Commerce, or the State or any component units of the State. These financial statements do not purport to, and do not, present fairly the financial position of the State of South Carolina primary government or financial reporting entity of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2002 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Railroad'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

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
South Carolina Office of the State Auditor
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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 East Cooper and Berkeley Railroad as of December 31, 2002, and the results of its operations and its cash flows for the year then ended.

Wilkes & Company

Columbia, South Carolina
May 8, 2003

FINANCIAL STATEMENTS

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS,
EAST COOPER AND BERKELEY RAILROAD

STATEMENT OF FUND NET ASSETS – ENTERPRISE FUND
DECEMBER 31, 2002

ASSETS

Current Assets:		
Cash and cash equivalents	\$	5,334,713
Accounts receivable		471,629
Interest receivable		12,880
Inventories		<u>66,595</u>
Total Current Assets		<u>5,885,817</u>
Property, Plant, and Equipment, Net of Accumulated Depreciation of \$1,492,373		<u>5,855,028</u>
Other Asset:		
Servicing rights		2,300,000
Less, accumulated amortization		<u>(920,000)</u>
Total Other Asset		<u>1,380,000</u>
Total Assets		<u>13,120,845</u>

LIABILITIES

Current Liabilities:		
Other customer payables		1,048,415
Accounts payable, CSX Transportation, Inc.		91,609
Accounts payable to other divisions		62,852
Accounts payable, other		5,621
Payroll taxes withheld and accrued employee benefits - payable to PUC-PTR		22,121
Accrued annual leave and related benefits		<u>69,732</u>
Total Current Liabilities		<u>1,300,350</u>

NET ASSETS

Invested in capital assets		5,855,028
Unrestricted		<u>5,965,467</u>
Total Net Assets	\$	<u>11,820,495</u>

THE ACCOMPANYING NOTES
ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS,
EAST COOPER AND BERKELEY RAILROAD

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS – ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

Operating Revenues:	
Freight charges, net	\$ 3,437,993
Use of engine	121,104
Dispatching service	<u>64,422</u>
Total Operating Revenues	<u>3,623,519</u>
Operating Expenses:	
Railway operating expenses:	
Maintenance of way and structures	
Depreciation	18,882
Other maintenance of way expenses	<u>138,682</u>
Total Maintenance of Way and Structures	<u>157,564</u>
Maintenance of equipment:	
Superintendence	25,364
Depreciation	23,974
Other equipment expenses	<u>106,679</u>
Total Maintenance of Equipment	<u>156,017</u>
Transportation:	
Superintendence	71,418
Yard employees	253,302
Other transportation expenses	<u>309,381</u>
Total Transportation	<u>634,101</u>
General:	
Administration	486,928
Insurance	53,895
Depreciation	35,072
Amortization of servicing rights	<u>115,000</u>
Total General	<u>690,895</u>
Total Railway Operating Expenses	<u>1,638,577</u>

THE ACCOMPANYING NOTES
ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
 DIVISION OF PUBLIC RAILWAYS,
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN FUND NET ASSETS – ENTERPRISE FUND
 FOR THE YEAR ENDED DECEMBER 31, 2002**

Other General Operating Expenses:	
Rent expense for leased road and equipment	<u>1,735</u>
Total Other General Operating Expenses	<u>1,735</u>
Total Operating Expenses	<u>1,640,312</u>
Operating Income	<u>1,983,207</u>
Nonoperating Revenues (Expenses):	
Interest income	43,474
Miscellaneous income	8,353
Interest expense	<u>(644)</u>
Total Nonoperating Revenues (Expenses)	<u>51,183</u>
Income before Transfers	2,034,390
Transfers to the State of SC General Fund	<u>(2,129,804)</u>
Net Loss	(95,414)
Net Assets:	
Beginning of year	<u>11,915,909</u>
End of year	<u>\$ 11,820,495</u>

THE ACCOMPANYING NOTES
 ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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EAST COOPER AND BERKELEY RAILROAD

STATEMENT OF CASH FLOWS – ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

Cash Flows From Operating Activities:	
Cash received from customers, net	\$ 1,832,486
Cash payments to suppliers and employees	(1,518,373)
Miscellaneous income	<u>8,600</u>
Net Cash Provided (Used) by Operating Activities	<u>322,713</u>
Cash Flows From Non-Capital Financing Activities:	
Transfer to the General Fund of the State	<u>(2,129,804)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(2,129,804)</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(370,550)
Interest paid	<u>(644)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(371,194)</u>
Cash Flows From Investing Activities:	
Investment income	<u>57,908</u>
Net Cash Provided by Investing Activities	<u>57,908</u>
Net Decrease in Cash and Cash Equivalents	(2,120,377)
Cash and Cash Equivalents, Beginning of Year	<u>7,455,090</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,334,713</u>
Reconciliation of Operating Income to Net Cash	
Used by Operating Activities:	
Operating income	\$ 1,983,207
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	77,928
Depreciation charged from sister division	(35,072)
Amortization	115,000
Nonoperating revenues	8,353
(Increase) decrease in assets:	
Accounts receivable	1,571,883
Accounts receivable, other divisions	34,245
Inventories	(6,022)
Prepayments	1,918
Increase (decrease) in liabilities:	
Accounts payable, CSX	(3,365,753)
Other customer payables	2,355
Accounts payable, other divisions	(59,209)
Accounts payable, other	(28,852)
Payroll taxes withheld and accrued employee benefits payable to PUC-PTR	1,917
Accrued annual leave and benefits	<u>20,815</u>
Net Cash Provided by Operating Activities	<u>\$ 322,713</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS,
EAST COOPER AND BERKELEY RAILROAD

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

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 its 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.

East Cooper and Berkeley Railroad (ECBR) is part of the State of South Carolina Primary Government. ECBR is reported within the Public Railways Divisions 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 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,
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

(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 South Carolina Department of Commerce - Division of Public Railways consists of three separate divisions: the Port Utilities Commission and Port Terminal Railroad (PUC-PTR), the East Cooper and Berkeley Railroad (ECBR), and the Tangent Transportation Company (TTC). The functions of each of the divisions are different and are outlined in the report on the combined financial statements of the South Carolina Department of Commerce - Division of Public Railways which are presented under separate cover. The function of East Cooper and Berkeley Railroad is as follows:

Operation and maintenance of the railroad line constructed by the Division and located 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 Division and the State Budget and Control 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.

The accompanying financial statements present the financial position, results of operations, and the cash flows solely of the East Cooper and Berkeley Railroad, a division of the South Carolina Department of Commerce - Division of Public Railways and do not include any other funds of the State of South Carolina, or other divisions of the Division of Public Railways.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

ECBR 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 (58-19-110) 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 East Cooper and Berkeley Railroad division of the Division of Public Railways.

ECBR 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 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 South Carolina Department of Commerce - Division of Public Railways and ECBR are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles. ECBR has elected to apply all Financial Accounting Standards Board statements and interpretations issued prior to December 31, 1989, unless they conflict with GASB pronouncements.

Operating income includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets.

Fund Accounting

ECBR 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.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

(Continued)

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. 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." ECBR reports activities by the enterprise "fund type" under the proprietary fund category.

ECBR is a proprietary fund, which accounts for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

ECBR is classified as an enterprise fund type within the proprietary fund classification. 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 on track and roadway, capital 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 years; equipment, 3-25 years; depreciable road, 75 years.

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.

Servicing Rights

The servicing rights asset is being amortized.

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 ECBR's collection history, the results from using the direct write-off method are not materially different from the allowance method.

Statement of Cash Flows

For purposes of this statement ECBR 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.

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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS
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(Continued)

interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value. ECBR only has 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 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 agency 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, 2002, 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 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost and is depreciated on the straight-line method. Property, plant and equipment is summarized as follows:

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2002

(Continued)

CAPITAL ASSETS

	Balance 12/31/01	Transfer as Completed	Additions	Deletions	Balance 12/31/02
Land	\$ 426,419	\$ -	\$ -	\$ -	\$ 426,419
Land improvements	1,706,587	-	-	-	1,706,587
Buildings	750,822	-	82,182	-	833,004
Machinery and equipment	674,297	-	210,614	-	884,911
Depreciable road	833,591	-	-	-	833,591
Non-depreciable road	2,285,267	267,011	76,091	-	2,628,369
Projects under construction	299,868	(267,011)	1,663	-	34,520
Total	<u>\$ 6,976,851</u>	<u>\$ -</u>	<u>\$ 370,550</u>	<u>\$ -</u>	<u>\$ 7,347,401</u>

ACCUMULATED DEPRECIATION

	Balance 12/31/01	Transfer as Completed	Additions	Deletions	Balance 12/31/02
Buildings	\$ 629,903	\$ -	\$ 6,845	\$ -	\$ 636,748
Depreciable road	257,486	-	11,115	-	268,601
Machinery and equipment	562,128	-	24,896	-	587,024
Total	<u>\$ 1,449,517</u>	<u>\$ -</u>	<u>\$ 42,856</u>	<u>\$ -</u>	<u>\$ 1,492,373</u>

Depreciation expense for the period ended December 31, 2002, from East Cooper and Berkeley Railroad's operations was \$77,928, of which \$35,072 was charged to ECBR by the PUC-PTR Division in relation to the overhead cost sharing between ECBR and PUC-PTR as explained in Note 9.

NOTE 5 - ACCOUNTS PAYABLE, CSX TRANSPORTATION, INC.

East Cooper and Berkeley Railroad has a reciprocal agreement with CSX Transportation, Inc., whereby freight charges to customers are billed by the railroad line that originated the rail carrier order. Therefore, East Cooper and Berkeley Railroad may bill a customer for the entire freight charge even though both East Cooper-Berkeley Railroad and railroad lines owned by CSX Transportation, Inc. were used. East Cooper and Berkeley Railroad then remits to CSX their portion of the freight revenue due them. As of December 31, 2002, \$91,609 had not yet been remitted to CSX Transportation, Inc. Effective November of 2002 CSX began billing all freight charges and remitting ECBR's portion to them, therefore after settlement of the above \$91,609 there will no longer be amounts due to CSX for freight charges collected by ECBR.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

(Continued)

NOTE 6 - ACCRUED ANNUAL LEAVE

Non-union ECBR 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.

ECBR 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 departments.

The following is a summary of changes in compensated absences for the year ended December 31, 2002.

	<u>Jan 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Dec 31, 2002</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 48,917	\$ 24,334	\$ 3,519	\$ 69,732	\$ 69,732

NOTE 7 - 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 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

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NOTES TO FINANCIAL STATEMENTS

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(Continued)

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% of all compensation. Effective July 1, 2002, the employer contribution rate became 10.7% which included 3.15% surcharge to fund retiree health and dental insurance coverage. The rate for the first six months of 2002 (effective July 1, 2001) was 10.4% which included a 2.85% surcharge. The Division's actual contributions to the SCRS for the fiscal year ended December 31, 2002 were \$42,883, and equaled the required contributions of 7.55% (excluding the surcharge) for the year. Employer contributions for 2001 were \$38,975, and for 2000 were \$37,282. Also, the Division paid employer group-life insurance contributions of \$852 in the current fiscal year at the rate of .15% of compensation.

The amounts paid by the East Cooper and Berkeley Railroad for pension and group-life benefits are recorded in the appropriate operating department corresponding to the employee for whom contributions are made.

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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 East Cooper and Berkeley Railroad contributed \$139,243 this year to the U.S. Railroad Retirement System, which covers all employees. Participation is mandatory. This program is a two-tier system that is funded based on each employee's gross annual wages. Effective January 1, 2002, wages up to \$84,900 were funded at 6.2% by ECBR to meet Tier 1 funding requirements and all wages were funded at 1.45% by ECBR to meet Tier I Medicare Funding requirements. ECBR funded wages up to \$63,000 at 16.1% to meet Tier II funding requirements. Employees matched the Division's Tier 1 contribution, but paid only 4.9% versus ECBR's 16.1% Tier II rate on wages up to \$63,000 for the maximum Tier II employee liability of \$3,087.

The U. S. Railroad Retirement Board, in accordance with the Railroad Retirement Acts, administers this plan.

Data concerning the actuarial status of the U.S. Railroad Retirement System as related to ECBR is not available. ECBR 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 employees of East Cooper and Berkeley Railroad 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 ECCR's applicable revenue sources for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable division revenue sources of the East Cooper and Berkeley Railroad 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 24,000 State retirees meet these eligibility requirements.

The East Cooper and Berkeley Railroad recorded employer contributions expenses for these insurance benefits for active employees in the amount of \$115,003 for the year ended December 31, 2002. As discussed above, the East Cooper and Berkeley Railroad paid \$17,123 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.

Information regarding the cost of insurance benefits applicable to East Cooper and Berkeley Railroad retirees is not available. By State law, East Cooper and Berkeley Railroad 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

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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.

NOTE 8 - OPERATING LEASES

The only operating lease obligations was a yearly payment to the U. S. Department of Agriculture for right of way for the railroad on National Forest Land in the amount of \$1,755 per year until such time as the right of way is abandoned by East Cooper and Berkeley Railroad.

NOTE 9 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

East Cooper and Berkeley Railroad has certain transactions with the State of South Carolina, various State agencies and its two sister divisions, Port Utilities Commission and Port Terminal Railroad, and Tangent Transportation Company. Services received at no cost from State agencies include banking and investment functions from the State Treasurer, legal services from the Attorney General, and retirement and insurance plan administration and audit services from various divisions of the State Budget and Control Board. East Cooper and Berkeley Railroad had financial transactions with various State agencies during the year. Payments were made to the State Budget and Control Board for insurance coverage. The amounts of 2002 expenses applicable to related party transactions are not readily available. East Cooper and Berkeley Railroad provided no services free of charge to other State agencies during the year.

At December 31, 2002 East Cooper and Berkeley Railroad owed the PUC-PTR Division \$50,852 for various services provided by PUC-PTR on behalf of East Cooper and Berkeley Railroad and \$22,121 of accrued payroll taxes payable by the PUC-PTR division on behalf of East Cooper and Berkeley Railroad. The total payable to PUC-PTR was \$.72,973.

During 2002, Tangent charged ECBR \$45,840 for maintenance of way projects. These amounts are included under other maintenance of way expenses. Included in the payable to Tangent at December 31, 2002 was \$12,000 related to maintenance of way services performed.

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Overhead expense of the PUC-PTR and ECBR divisions are split 56% to ECBR and 44% to PUC-PTR. Overhead expenses include superintendence, general administration, insurance, and consulting fees.

As provided by South Carolina 2002 Appropriation Act Proviso's 72.98 and 77.79 ECBR transferred \$2,129,804 to the general fund of the State of SC.

NOTE 10 - RISK MANAGEMENT

ECBR 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 Railroad. 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 Railroad pays insurance premiums to certain other State agencies and 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 premium 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.

ECBR 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 Railroad assets, activities, and/or events.

1. Real property, its contents and other equipment - Coverage per loss of 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.

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2. Motor vehicles - Coverage is up to \$1,000,000 per loss with a \$200 deductible for comprehensive and \$500 for collision.

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.

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 the Railroad employees for unemployment benefits.

ECBR 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.

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

ECBR did not incur any significant losses in 2002 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. ECBR 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.

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NOTE 11 - CONTINGENCIES

There are currently several cases in litigation concerning Workmans Compensation (FELA) Claims. The outcome or potential liability to the Division or ECBR 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 9.