



**Office of the State Auditor**

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July 20, 2000

The Honorable James H. 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 Port Utilities Commission and Port Terminal Railroad, a division of the South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 1999, 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

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

**PORT UTILITIES COMMISSION  
AND  
PORT TERMINAL RAILROAD**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 1999**

SOUTH CAROLINA DEPARTMENT OF COMMERCE -  
DIVISION OF PUBLIC RAILWAYS,  
PORT UTILITIES COMMISSION AND PORT TERMINAL RAILROAD

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## **FINANCIAL STATEMENTS**

## **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 Port Utilities Commission and Port Terminal Railroad, a division of the South Carolina Department of Commerce - Division of Public Railways, as of December 31, 1999, 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements of the Port Utilities Commission and Port Terminal 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 Port Utilities Commission and Port Terminal Railroad, an 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 States. These financial statements are not intended to 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 and the results of their operations and cash flows in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Port Utilities Commission and Port Terminal Railroad, as of December 31, 1999, and the results of its operations and the cash flows for the year then ended in conformity with generally accepted accounting principles.

Columbia, South Carolina  
June 6, 2000

SOUTH CAROLINA DEPARTMENT OF COMMERCE -  
DIVISION OF PUBLIC RAILWAYS,  
PORT UTILITIES COMMISSION AND PORT TERMINAL RAILROAD

**BALANCE SHEET**  
DECEMBER 31, 1999

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ASSETS

|   |                      |
|---|----------------------|
| Current Assets:   |                      |
| Cash and cash equivalents   | \$ 5,709,149         |
| Accounts receivable   | 529,212              |
| Accounts receivable from other divisions  | 96,822               |
| Bond receivable - Marlboro County   | 85,000               |
| Interest receivable   | 95,435               |
| Inventories   | 81,521               |
| Prepayments   | <u>16,096</u>        |
| Total Current Assets  | <u>6,613,235</u>     |
| Property, Plant, and Equipment, Net of Accumulated<br>Depreciation of \$1,734,602 | <u>9,711,764</u>     |
| Other Assets:   |                      |
| Advance to ECBR   | 1,387,869            |
| Bond receivable - Marlboro County   | <u>653,000</u>       |
| Total Other Assets  | <u>2,040,869</u>     |
| Total Assets  | <u>\$ 18,365,868</u> |

LIABILITIES AND FUND EQUITY

|  |                |
|--|----------------|
| Current Liabilities:                                 |                |
| Accounts payable                                     | \$ 10,000      |
| Accounts payable to other divisions                  | 50,246         |
| Payroll taxes withheld and accrued employee benefits | 26,537         |
| Accrued annual leave and benefits                    | 54,123         |
| Notes payable - current                              | 201,650        |
| Accrued interest payable                             | 14,000         |
| Accrued payroll                                      | 18,988         |
| Other current liabilities                            | 1,600          |
| Deferred revenue                                     | <u>33,333</u>  |
| Total Current Liabilities                            | <u>410,477</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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**BALANCE SHEET**  
 DECEMBER 31, 1999

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|                                   |                      |
|-----------------------------------|----------------------|
| Long-Term Liabilities:            |                      |
| Notes payable                     | <u>221,749</u>       |
| Total Long-Term Liabilities       | <u>221,749</u>       |
| Total Liabilities                 | <u>632,226</u>       |
| Fund Equity:                      |                      |
| Contributed capital               | 4,109,429            |
| Retained earnings:                |                      |
| Unreserved and unappropriated     | <u>13,624,213</u>    |
| Total Fund Equity                 | <u>17,733,642</u>    |
| Total Liabilities and Fund Equity | <u>\$ 18,365,868</u> |

THE ACCOMPANYING NOTES ARE AN  
 INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -  
DIVISION OF PUBLIC RAILWAYS,  
PORT UTILITIES COMMISSION AND PORT TERMINAL RAILROAD

**STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN RETAINED EARNINGS**

FOR THE YEAR ENDED DECEMBER 31, 1999

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|   |                  |
|---|------------------|
| Operating Revenues:                     |                  |
| Switching fees                          | \$ 1,803,358     |
| Use of engine                           | 41,350           |
| Other                                   | <u>132,363</u>   |
| Total Operating Revenues                | <u>1,977,071</u> |
| Operating Expenses:                     |                  |
| Railway operating expenses:             |                  |
| Maintenance of way and structures:      |                  |
| Superintendence                         | -                |
| Depreciation                            | 39,385           |
| Other maintenance of way expenses       | <u>221,306</u>   |
| Total Maintenance of Way and Structures | <u>260,691</u>   |
| Maintenance of equipment:               |                  |
| Superintendence                         | 22,007           |
| Depreciation                            | 72,864           |
| Other equipment expenses                | <u>97,408</u>    |
| Total Maintenance of Equipment          | <u>192,279</u>   |
| Transportation:                         |                  |
| Superintendence                         | 62,829           |
| Yard employees                          | 372,028          |
| Other transportation expenses           | <u>188,278</u>   |
| Total Transportation                    | <u>623,135</u>   |

THE ACCOMPANYING NOTES ARE AN  
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -  
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES  
 IN RETAINED EARNINGS**

FOR THE YEAR ENDED DECEMBER 31, 1999

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|  |                             |
|--|-----------------------------|
| General:                                       |                             |
| Administration                                 | \$ 344,283                  |
| Insurance                                      | <u>17,509</u>               |
| Total General                                  | <u>361,792</u>              |
| Total Railway Operating Expenses               | <u>1,437,897</u>            |
| Operating Income                               | <u>539,174</u>              |
| Nonoperating Revenues (Expenses):              |                             |
| Rental income                                  | 586,005                     |
| Interest income                                | 360,293                     |
| Interest expense                               | (12,877)                    |
| Management fees                                | 90,000                      |
| Depreciation non-operating equipment           | (32,803)                    |
| Loss on disposal of equipment                  | (5,128)                     |
| Other income, net                              | <u>145,183</u>              |
| Net Nonoperating Revenues (Expenses)           | <u>1,130,673</u>            |
| Net Income                                     | 1,669,847                   |
| Retained Earnings, Unreserved, Unappropriated: |                             |
| Beginning of year                              | <u>11,954,366</u>           |
| End of year                                    | <u><u>\$ 13,624,213</u></u> |

THE ACCOMPANYING NOTES ARE AN  
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SOUTH CAROLINA DEPARTMENT OF COMMERCE -  
DIVISION OF PUBLIC RAILWAYS,  
PORT UTILITIES COMMISSION AND PORT TERMINAL RAILROAD

**STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED DECEMBER 31, 1999

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|  |                  |
|--|------------------|
| Cash Flows From Operating Activities:  |                  |
| Operating income   | \$ 539,174       |
| Adjustments to reconcile operating income<br>to net cash provided by operating activities: |                  |
| Depreciation   | 112,249          |
| Depreciation charged to related entity   | 8,285            |
| Nonoperating Revenues (Expenses):  |                  |
| Rental income  | 568,567          |
| Management fees  | 97,500           |
| Other income, net  | 145,774          |
| (Increase) decrease in assets:   |                  |
| Accounts receivable  | (185,457)        |
| Accounts receivable from other divisions   | 12,565           |
| Inventories  | 6,873            |
| Prepayments  | (214)            |
| Increase (decrease) in liabilities:  |                  |
| Accounts payable   | (8,318)          |
| Accounts payable to other divisions  | 50,246           |
| Accrued payroll  | (28,005)         |
| Payroll taxes withheld and accrued employee benefits                                       | 5,474            |
| Accrued annual leave   | (12,864)         |
| Deferred revenue   | <u>(3,556)</u>   |
| Net Cash Provided by Operating Activities  | <u>1,308,293</u> |
| Cash Flows From Capital and Related Financing Activities:                                  |                  |
| Proceeds from sale of fixed assets   | 50               |
| Purchase of fixed assets   | (371,089)        |
| Principal paid on notes payable  | (201,554)        |
| Interest paid on notes payable   | <u>(20,647)</u>  |
| Net Cash Used by Capital and Related Financing Activities                                  | <u>(593,240)</u> |

THE ACCOMPANYING NOTES ARE AN  
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -  
 DIVISION OF PUBLIC RAILWAYS,  
 PORT UTILITIES COMMISSION AND PORT TERMINAL RAILROAD

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

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|  |                            |
|--|----------------------------|
| Cash Flows from Investing Activities:                  |                            |
| Interest received on deposits with the State Treasurer | 292,560                    |
| Interest received - Marlboro County                    | 57,260                     |
| Bond principal and advances received - Marlboro County | <u>80,000</u>              |
| Net Cash Provided For Investing Activities             | <u>429,820</u>             |
| Net Increase in Cash and Cash Equivalents              | 1,144,873                  |
| Cash and Cash Equivalents, Beginning of Year           | <u>4,564,276</u>           |
| Cash and Cash Equivalents, End of Year                 | <u><u>\$ 5,709,149</u></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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**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 1999

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**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 is 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 Port Utilities Commission and Port Terminal Railroad (PUC-PTR) is part of the State of South Carolina Primary Government. PUC-PTR 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 (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  
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**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 1999

(Continued)

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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 outlined in the report on the combined financial statements of the South Carolina Department of Commerce - Division of Public Railways which is presented under separate cover. The function of the Port Utilities Commission and Port Terminal Railroad are as follows:

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.

Additionally, the South Carolina Department of Commerce - Division of Public Railways (PUC-PTR), provides administration and supervision of operations for Tangent Transportation Company, one of its sister divisions.

The accompanying financial statements present the Division's financial position, results of operations and the cash flows solely of the South Carolina Department of Commerce - Division of Public Railways, Port Utilities Commission and Port

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**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 1999

(Continued)

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Terminal Railroad, and do not include any other funds of the State of South Carolina, or other divisions of the South Carolina Department of Commerce - Division of Public Railways.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

PUC-PTR 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 Port Utilities Commission and Port Terminal Railroad of the South Carolina Department of Commerce Division of Public Railways.

PUC-PTR 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. Fund equity is segregated into contributed capital and retained earnings components. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accounting principles utilized by PUC-PTR are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles. PUC-PTR has elected to apply all Financial Accounting Standards Board statements and interpretations issued prior to December 31, 1989, unless they conflict with GASB pronouncements.

**Fund Accounting**

PUC-PTR 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

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**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 1999

(Continued)

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regulations, restrictions or limitations. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been reported by fund type.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -  
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**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 1999

(Continued)

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Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." PUC-PTR 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).

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 \$2,000 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 |
| Road and Equipment     | 3 - 25 years  |
| Leasehold improvements | 5 years       |

Assets valued at less than \$2,000 are expensed when purchased.

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.

**Inventories**

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

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**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 1999

(Continued)

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

**Contributed Capital**

Contributed capital is an equity account which shows the amount of permanent capital contributed to PUC-PTR by governmental agencies and private developers. Depreciation recognized on assets acquired or constructed through such resources externally restricted for capital acquisitions is charged against current operations. There were no changes in contributed capital in 1999.

**Statement of Cash Flows**

For purposes of this statement PUC-PTR 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 hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's cash management pool.

Because the 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 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 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 a maturity of three months or less.

The State's cash management pool consists of a general deposit account and several special deposit accounts. The State records an agency's interest in the

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general deposit account, however all earnings on that account are credited the State

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**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 1999

(Continued)

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General Fund. PUC-PTR, however, only has special deposit accounts. 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 non-operating interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool.

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

**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 June 30, 1999, 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.

The bond bears an annual interest rate of 7%. In 1999 the Division received from Marlboro County \$80,000 principal on the bond receivable, and \$57,260 interest on the bond receivable.

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(Continued)

Interest and principal is due on the revenue bond April 1, 2000 through April 1, 2006 as follows:

| Year | Principal  | Interest   |
|------|------------|------------|
| 2000 | \$ 85,000  | \$ 51,660  |
| 2001 | 91,000     | 45,710     |
| 2002 | 98,000     | 39,340     |
| 2003 | 104,000    | 32,480     |
| 2004 | 112,000    | 25,200     |
| 2005 | 120,000    | 17,360     |
| 2006 | 128,000    | 8,960      |
|      | \$ 738,000 | \$ 220,710 |

**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. \$464,566 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, 1999 is \$43,110. 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 is as follows:

| Assets                        | Estimated<br>Useful<br>Life(years) | Total        |
|-------------------------------|------------------------------------|--------------|
| Land and improvements         | -                                  | \$ 5,547,100 |
| Buildings                     | 20-40                              | 1,527,927    |
| Leasehold improvements        | 5                                  | 212,383      |
| Road and equipment            | 3-25                               | 2,327,161    |
| Non-depreciable road          | -                                  | 1,831,795    |
|                               |                                    | 11,446,366   |
| Less accumulated depreciation |                                    | 1,734,602    |
|                               |                                    | \$ 9,711,764 |

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(Continued)

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Depreciation expense for the period ended December 31, 1999, was \$112,249, included in operating costs and \$32,803 included in nonoperating expenses for a total of \$145,052.

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(Continued)

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**NOTE 6 - ADVANCE TO ECBR**

On May 31, 1995, the Division advanced \$1,387,869 to the ECBR Division to assist with the repayment of notes payable to Amoco. The advance is non-interest bearing and has no definitive repayment terms, although it is the intent of management that the advance will eventually be repaid.

**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.

PUC-PTR 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.

**NOTE 8 - 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 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

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annual rent. PUC-PTR's 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, 1998 was \$227,001 and at March 4, 1999 was \$200,000. The land is used as a railroad spur to the BMW plant. During 1999, \$203,556 was recognized as nonoperating rental revenue and \$33,333 was deferred revenue based on 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 \$48,000 in 1999 and is included in other nonoperating income. See Note 11 regarding other income, net.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of \$230,048 for 1999. 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 1999. Revenue for the current year for the rentals to Amoco is \$76,200 and is included in nonoperating rental revenue. See Note 13 regarding interdivision rental income.

**NOTE 9 - 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, 1999, was \$23,399. Interest of \$1,455 and principal of \$1,554 was paid in 1999. \$815 of interest was charged to ECBR, and \$640 is shown as a nonoperating expense of PUC-PTR.

On June 1, 1995, PUC-PTR borrowed \$1,000,000 from the SC Coordinating Council for Economic Development, a part of the Department of Commerce. The loan was to assist the Division and ECBR in repaying certain notes payable to Amoco - see Note 6 also. Principal is due in annual \$200,000 installments beginning June 1, 1997, through June 1, 2001. Interest is due on these dates at the rate given by the State Treasurer's Office per annum. Interest expense, included in nonoperating expenses on this note for 1999, was \$27,810 of which \$15,573 was charged to ECBR and \$12,237 to PUC-PTR. Interest of \$14,000 has been accrued at December 31,

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1999 based on a 5.93% rate. The interest on the above two notes is allocated between PUC-PTR (44%) and ECBR (56%) according to the operating agreement as explained in Note 13. The principal is paid entirely by PUC-PTR.

The debt service requirements assuming a 5.93% rate on the \$1,000,000 note are as follows:

|                        | <u>Principal</u>  | <u>Interest</u>  |
|------------------------|-------------------|------------------|
| 2000                   | \$ 201,650        | \$ 25,079        |
| 2001                   | 201,752           | 13,117           |
| 2002                   | 1,860             | 1,149            |
| 2003                   | 1,974             | 1,035            |
| 2004                   | 2,096             | 913              |
| Thereafter             | <u>14,067</u>     | <u>2,483</u>     |
| Total at present value | <u>\$ 423,399</u> | <u>\$ 43,776</u> |

**NOTE 10 - OPERATING LEASES**

The 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 Division to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The monthly rental charge is \$300 for the entire lease term. PUC-PTR incurred \$3,600 for rental of this building for the year ended December 31, 1999. PUC-PTR is required to carry insurance for property damage and to maintain and repair the leased building. The Division is occupying these premises under a month to month lease arrangement.

**NOTE 11 - OTHER INCOME, NET**

The category under "Nonoperating revenues (expenses)" entitled "Other income" 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, processing (clerical) services, contracted services and insurance proceeds. A break-down of "Other income, net" for the year ended December 31, 1999, is as follows:

|   |            |
|---|------------|
| Sale of supplies, contractual services, and other proceeds: |            |
| With outside parties  | \$ 145,183 |
| With other divisions of the Division of Public Railways     | <u>-</u>   |

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Total

\$ 145,183

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See Note 8 regarding revenues from car hauls and Note 13 regarding offset charges received from the Ports Authority.

**NOTE 12 - 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 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 30 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. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. 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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage. The rate for the State's fiscal year 1999 (effective July 1, 1998) was 9.58% which included a 2.03% surcharge. The Division's actual contributions to the SCRS for the fiscal year ended December 31,

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1999 were \$44,683, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for 1998 were \$42,427, and for 1997 were \$39,182. Also, the Division paid employer group-life insurance contributions of \$940 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by PUC-PTR for pension and group-life benefits are recorded in the operating department corresponding to the employee for whom the contributions were 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.

PUC-PTR contributed \$147,962 this year to the U.S. Railroad Retirement System, which covers all employees. Participation is mandatory. This program is a two-tier system which is funded based on each employee's gross annual wages. Effective January 1, 1999, wages up to \$72,600 were funded at 6.2% by PUC-PTR to meet Tier 1 funding requirements and all wages were funded at 1.45% by PUC-PTR to meet Tier I Medicare Funding requirements. PUC-PTR funded wages up to \$53,700 at 16.1% to meet Tier II funding requirements. Employees matched the

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Division's Tier 1 contribution, but paid only 4.9% versus PUC-PTR's 16.1% Tier II rate on wages up to \$53,700 for the maximum Tier II employee liability of \$2,631. In addition, there is a supplemental charge based on hours worked in a given month. The rate is 27 cents per hour. The cost is borne by PUC-PTR.

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 PUC-PTR is not available. PUC-PTR is not liable for any unfunded costs associated with the plan and recognized no contingent liability for such cost.

**Post-Retirement 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 PUC-PTR 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 PUC-PTR'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 division revenue sources of PUC-PTR 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 19,500 State retirees meet these eligibility requirements.

PUC-PTR recorded employer contribution expenses for these insurance benefits for active employees in the amount of \$80,643 for the year ended December 31, 1999. As discussed above, PUC-PTR paid \$12,403 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 PUC-PTR retirees is not available. By State law, PUC-PTR has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

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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 PUC-PTR 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. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Service Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

**NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS**

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. PUC-PTR had financial transactions with various State agencies during the year. Payments made in 1999 to the State Budget and Control Board were primarily for insurance coverage.

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 \$80,522 in 1999 and is included in other non-operating revenues. See Note 11 on other income, net.

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At December 31, 1999 PUC-PTR's receivables include \$58,981 due from the East Cooper-Berkeley Railroad, \$23,377 is for reimbursement of accrued payroll taxes and \$35,603 is for various services performed by PUC-PTR for ECBR. Also included in receivables is \$1,841 due from the Tangent Transportation Company for various services and \$36,000 for the annual rental of maintenance of way equipment.

Nonoperating revenues realized from transactions with the other divisions consists of \$90,000 in management fees from the Tangent Transportation Company and various rental income from both divisions as follows:

|                                     | Year Ended<br>December 31, 1999 |
|-------------------------------------|---------------------------------|
| Tangent Transportation Division:    |                                 |
| Management fees                     | \$ 90,000                       |
| Equipment rental                    | <u>60,000</u>                   |
| Total                               | <u>150,000</u>                  |
| East Cooper and Berkeley Division:  |                                 |
| Equipment rental                    | <u>16,200</u>                   |
| Total revenues from other divisions | <u>\$ 166,200</u>               |

Equipment rental to its sister divisions is arranged through a month-to-month or annual agreement, based on the needs of the Divisions. Fees consist of a rental charge of \$1,350 per month for use of a backhoe, and \$1,000 per month for use of each locomotive. Maintenance of way equipment was leased to Tangent Transportation Company at an annual amount of \$36,000. Other equipment is occasionally rented at various rates based on their actual rental value.

For the year ended December 31, 1999, PUC-PTR charged the ECBR division \$16,200 for the rental of the backhoe. The Tangent Transportation Company was charged \$24,000 for rental of locomotives and \$36,000 for maintenance of way equipment.

Depreciation of \$32,803 attributable to equipment leased to the other divisions but not used by PUC-PTR has been charged to nonoperating expenses.

PUC-PTR charged Tangent Transportation Company a \$90,000 management fee for administrative services at the Division office and operational duties at the yard incurred by PUC-PTR on behalf of Tangent. The fee is \$6,525 per month for general operating management fees and \$975 per month for maintenance of way operations. The fee was recorded as nonoperating revenues by PUC-PTR.

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PUC-PTR charges ECBR \$8,285 of depreciation expense as part of the overhead expense allocation explained in this note. This is allocated to ECBR and not shown in the expenses of PUC-PTR.

In accordance with an operating agreement signed by ECBR with Amoco Chemical Corporation 56% of overhead expense are allocated to ECBR and 44% to PUC-PTR. Overhead expense includes Superintendence, general administrative, insurance, and consulting fees.

At December 31, 1999, PUC-PTR owed Tangent Transportation Company \$38,265 for various maintenance of way services. During 1999, PUC-PTR was charged \$130,503 by Tangent for various maintenance of the way projects. See Note 18 regarding the maintenance of way department.

Also as December 31, 1999, PUC-PTR also owed Tangent Transportation Company \$11,981 for the accrued annual leave benefit liability transferred to Tangent that was related to maintenance of way employees transferred to Tangent.

**NOTE 14 - RISK MANAGEMENT**

PUC-PTR 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. PUC-PTR 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

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through the applicable state self-insured plan except dependent and optional life premiums which are remitted to commercial carriers.

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PUC-PTR 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 on comprehensive and \$500 on 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 Division employees for unemployment benefits.

PUC-PTR 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.

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

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PUC-PTR did not incur any significant losses in 1999 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. PUC-PTR 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 15 - CONTINGENCIES**

There are currently several cases in litigation concerning Workmans Compensation (FELA) Claims. The outcome or potential liability to the Division or PUC-PTR 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. PUC-PTR 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 13.

**NOTE 16 - COMMITMENTS**

In 1993 PUC-PTR committed to purchase land and building in Charleston, South Carolina from the U.S. Department of the Navy in the amount of \$422,142. The transaction was consummated in May 2000. Resolution of certain environmental matters was the reason for the delay in consummating the transaction.

**NOTE 17 - 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. 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 for PUC-PTR at December 31, 1999, was \$23,280.

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**NOTE 18 - MAINTENANCE OF WAY DEPARTMENT**

Effective January 1, 1999, the employees of the PUC-PTR who were maintenance of way workers were transferred to its sister division, Tangent Transportation Company. This was done because the Division wished to make the maintenance of way a profit center for both internal and external work. Tangent was considered the logical division in which to put this profit center. This also changed the method of recording use of the maintenance of way services. In prior years payroll costs were allocated directly to the various divisions based upon where services were performed. Effective January 1, 1999, Tangent now records revenues for work done for PUC-PTR and ECRB, who record it as other maintenance of way expenses on their books. During 1999, Tangent charged PUC-PTR \$130,503 for various maintenance of way projects.

