SOUTH CAROLINA DEPARTMENT OF COMMERCE - DIVISION OF PUBLIC RAILWAYS

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2004

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

July 8, 2005

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 South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 2004, 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/trb

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

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WILKES & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

TIMOTHY C. WILKES, CPA
W.M. McDOWELL, JR., CPA
BEN J. PEARMAN, CPA
CHERYL H. THIGPEN, CPA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2004, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the South Carolina Department of Commerce - Division of Public Railways are intended to present the financial position, results of operations, and the cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Commerce - Division of Public Railways, enterprise funds of the State. These financial statements do not include other funds or enterprises of the Department or the State or any component units of the State. These financial statements do not purport to, and do not, present fairly the financial position of the State of South Carolina primary government or financial reporting entity or of the South Carolina Department of Commerce as of December 31, 2004, 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 South Carolina Department of Commerce - Division of Public Railway's financial statements does not adequately classify certain transactions and do not contain certain material disclosures. Also the notes to the financial statements do not disclose material information and accounting policies. These disclosures and information are not in the financial statements because it is exempted from public disclosure pursuant to the South Carolina Freedom of Information Act. Reporting of such information is essential for a fair presentation in conformity with accounting principles generally accepted in the United States of America.

1002 Calhoun Street, PO Box 2088, Columbia, South Carolina 29202 (803) 256-8800

In our opinion, because of the incomplete presentation and omission of note disclosures discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, in all material respects, the financial position of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2004, and the results of its operations and its cash flows for the year then ended.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Wilkes + Company

Columbia, South Carolina
May 4, 2005

SOUTH CAROLINA PUBLIC RAILWAYS
540 East Bay Street
Charleston, S.C. 29403
(843) 727-2067 * Fax (843) 727-2005

Management Discussion and Analysis

Our discussion and analysis of SC Public Railways financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2004. Please read these comments in conjunction with the transmittal letter and the financial statements.

Using This Annual Report

This annual report consists of a series of financial statements. The *Statement of Net Assets*; the *Statement of Revenues, Expenses and Changes in Fund Net Assets*; and *Statement of Cash Flows* provide information regarding the activities of SC Public Railways three funds and as a whole.

The two operating divisions (funds) of the SC Public Railways are:

East Cooper & Berkeley Railroad (ECBR)
Port Utilities Commission (PUC) and Port Terminal Railroad (PTR)

All divisions are enterprise fund activities, and all are reported on the accrual basis. These statements indicate how these functions were financed in the short term and what remains for future spending.

Reporting on the Division of Public Railways as a whole

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

Financial Highlights

- Operating revenues were up in 2004 over 2003 by $667,683 or 10.5 %; this was primarily due to an increase in the volume of rail shipments by BP and Nucor on the ECBR, and an increase in the BMW automobile traffic on the PUC railroad.
- Earnings on Investments were up in 2004 by $343,719 due to earning a higher interest rate and the maintaining a higher balance on deposit for a longer period than in 2003.

- Maintenance of Way expense was down in 2004 by $262,603 due to not doing a crosstie replacement project on the ECBR Railroad.
- Maintenance of Equipment was down in 2004 by $81,572 due to equipment not requiring significant repairs.
- General Expenses were down $83,150 in 2004 due primarily to a decrease in legal expenses.
- Non-Operating Expenses were up in 2004 over 2003 by $81,651 due to industrial development expenses.

Capital Assets

- Current Assets were up in 2004 by $4,401,576 due to an increase of cash balances.
- Capital Assets, net of depreciation increased by the net amount of $542,656 this was due to a major drainage project at our Remount Road Facility, the 100 percent replacement of the bridge ties on the ECBR.
- Current liabilities were up in 2004 by $515,480 due to an increase in other customer payables account, which is based on the increase in rail traffic on the ECBR, and a payable for cross ties to be used for a cross tie replacement project on the ECBR.

Economic Factors and Next Year's Operations

- We expect that the container traffic in 2005 at the PUC will be at the approximately the same level as 2004, and the BMW automobile traffic will continue to increase.
- The PTR operating revenue will be down in 2005 due to DAK reducing the amount of leased track space by 50 percent.
- Traffic handled by the ECBR is projected to be up slightly in 2005, and we expect to see an increase in the CSX trackage rights traffic.

The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2).

Table 1

Net Assets

		2004	2003		Amount Change	% Change
Current and other assets, net	$	22,220,791	$ 17,819,215	$	4,401,576	24.7%
Capital assets, net of depreciation	$	20,011,547	$ 19,468,891	$	542,656	2.8%
Total Assets	$	42,232,338	$ 37,288,106	$	4,944,232	13.3%
Current liabilities	$	1,673,929	$ 1,158,449	$	515,480	44.5%
Long-term debt outstanding	$	-	$ -	$	-	
Total Liabilities	$	1,673,929	$ 1,158,449	$	515,480	44.5%
Net assets:						
Invested in capital assets, net of debt	$	20,011,547	$ 19,468,891	$	542,656	2.8%
Restricted	$	-	$ -	$	-	
Unrestricted	$	20,546,862	$ 16,660,766	$	3,886,096	23.3%
Total net assets	$	40,558,409	$ 36,129,657	$	4,428,752	12.3%

Table 2

Changes in Net Assets

		2004		2003		Amount Change	% Change
Revenues:							
Operating Revenues	$	7,008,582	$	6,340,899	$	667,683	10.5%
Earnings on Investments	$	430,184	$	86,465	$	343,719	397.5%
Operating Grant	$	-	$	-	$	-	
Other Non-Operating Revenues	$	909,663	$	1,155,408	$	(245,745)	-21.3%
Total Revenues	$	8,348,429	$	7,582,772	$	765,657	10.1%
Expenses:							
Maintenance of Way & Structures	$	730,613	$	993,216	$	(262,603)	-26.4%
Maintenance of Equipment	$	379,162	$	460,734	$	(81,572)	-17.7%
Transportation	$	1,157,619	$	1,156,128	$	1,491	0.1%
General	$	1,375,268	$	1,458,418	$	(83,150)	-5.7%
Other Expenses	$	8,528	$	8,080	$	448	5.5%
Total Railroad	$	3,651,190	$	4,076,576	$	(425,386)	-10.4%
Other Non-Operating Expenses	$	204,441	$	122,790	$	81,651	66.5%
Total Expenses	$	3,855,631	$	4,199,366	$	(343,735)	-8.2%
Net Income Before Transfers	$	4,492,798	$	3,383,406	$	1,109,392	32.8%
Transfers	$	(64,046)	$	(701,452)	$	637,406	-90.9%
Net Income	$	4,428,752	$	2,681,954	$	1,746,798	65.1%

FINANCIAL STATEMENTS

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS
DECEMBER 31, 2004

	PUC-PTR	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 6,938,065	$ 11,038,001	$ -	$ 17,976,066
Accounts receivable	421,161	390,199	-	811,360
Accounts receivable from other division	134,818	-	(134,818)	-
Interest receivable	42,698	65,053	-	107,751
Inventories	1,831,559	223,960	-	2,055,519
Prepayments	120,095	-	-	120,095
Total Current Assets	9,488,396	11,717,213	(134,818)	21,070,791
Property, Plant, and Equipment, Net of Accumulated Depreciation	14,124,767	5,886,780	-	20,011,547
Other Assets:				
Servicing rights	-	2,300,000	-	2,300,000
Accumulated amortization - Servicing Rights	-	(1,150,000)	-	(1,150,000)
Total Other Assets	-	1,150,000	-	1,150,000
Total Assets	23,613,163	18,753,993	(134,818)	42,232,338
LIABILITIES				
Current Liabilities:				
Other customer payables	-	1,044,640	-	1,044,640
Accounts payable to other division	-	134,818	(134,818)	-
Accounts payable - other	45,204	286,440	-	331,644
Payroll taxes withheld and accrued employee benefits	26,747	-	-	26,747
Accrued annual leave and benefits	72,250	91,954	-	164,204
Accrued salaries	73,361	-	-	73,361
Deferred revenue	33,333	-	-	33,333
Total Current Liabilities	250,895	1,557,852	(134,818)	1,673,929
Total Liabilities	250,895	1,557,852	(134,818)	1,673,929
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	14,124,767	5,886,780	-	20,011,547
Unrestricted	9,237,501	11,309,361	-	20,546,862
Total Net Assets	$ 23,362,268	$ 17,196,141	$ -	$ 40,558,409

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	PUC-PTR	ECBR	TOTAL
Operating Revenues:			
Switching fees	$ 1,953,005	$ -	$ 1,953,005
Freight charges, net	-	4,552,558	4,552,558
Use of engine	41,135	127,795	168,930
Dispatching service	-	64,648	64,648
Other	269,441	-	269,441
Total Operating Revenues	2,263,581	4,745,001	7,008,582
Operating Expenses:			
Railway Operating Expenses:			
Maintenance of Way and Structures:			
Depreciation	75,687	44,859	120,546
Other maintenance of way expenses	392,680	217,387	610,067
Total Maintenance of Way and Structures	468,367	262,246	730,613
Maintenance of Equipment:			
Depreciation	86,410	57,565	143,975
Other equipment expenses	159,735	75,452	235,187
Total Maintenance of Equipment	246,145	133,017	379,162
Transportation:			
Superintendence	53,891	68,222	122,113
Yard employees	360,222	263,976	624,198
Other transportation expenses	195,423	215,885	411,308
Total Transportation	609,536	548,083	1,157,619
General:			
Administration	343,136	416,405	759,541
Insurance	245,417	255,310	500,727
Amortization of servicing rights	-	115,000	115,000
Total General	588,553	786,715	1,375,268
Total Railway Operating Expenses	1,912,601	1,730,061	3,642,662

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	PUC-PTR	ECBR	TOTAL
Other General Operating Expenses:			
Rent expense for leased road and equipment	$ -	$ 1,781	$ 1,781
Hire of freight cars	-	6,747	6,747
Total Other General Operating Expenses	-	8,528	8,528
Total Operating Expenses	1,912,601	1,738,589	3,651,190
Operating Income	350,980	3,006,412	3,357,392
Nonoperating Revenues (Expenses):			
Rental income	561,981	2,500	564,481
Interest income	171,839	258,345	430,184
Industrial Development expenses	(204,441)	-	(204,441)
Other income, net	324,727	20,455	345,182
Total Nonoperating Revenues (Expenses)	854,106	281,300	1,135,406
Income Before Transfers	1,205,086	3,287,712	4,492,798
Transfer to State of SC	-	(64,046)	(64,046)
Net Income	1,205,086	3,223,666	4,428,752
Net Assets			
Beginning of Year	22,157,182	13,972,475	36,129,657
End of Year	$ 23,362,268	$ 17,196,141	$ 40,558,409

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	PUC-PTR	ECBR	TOTAL
Cash Flows From Operating Activities:			
Cash received from customers	$ 2,473,678	$ 4,909,028	$ 7,382,706
Cash payments to suppliers and employees	(1,755,480)	(1,411,082)	(3,166,562)
Rents received	561,981	2,500	564,481
Other income received	348,801	299	379,100
Net Cash Provided (Used) by Operating Activities	1,628,980	3,500,745	5,129,725
Cash Flows From Non-Capital Financing Activities:			
Transfer – State of SC General fund	-	(64,046)	(64,046)
Net Cash Provided (Used) by Non-Capital Financing Activities	-	(64,046)	(64,046)
Cash Flows From Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(738,357)	(117,060)	(855,417)
Net Cash Provided (Used) by Capital and Related Financing Activities	(738,357)	(117,060)	(855,417)
Cash Flows from Investing Activities:			
Investment income received	132,458	194,816	327,274
Net Cash Provided (Used) by Investing Activities	132,458	194,816	327,274
Net Increase (Decrease) in Cash and Cash Equivalents	1,023,081	3,514,455	4,537,536
Cash and Cash Equivalents, Beginning of Year	5,914,984	7,523,546	13,438,530
Cash and Cash Equivalents, End of Year	$ 6,938,065	$ 11,038,001	$ 17,976,066

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	PUC-PTR	ECBR	TOTAL
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating income (loss)	$ 350,980	$ 3,006,412	$ 3,357,392
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	162,098	102,423	264,521
Depreciation charged to sister division	67,417	(67,417)	-
Abandoned track & project	-	39,320	39,320
Asset scraped for parts	8,921	-	8,921
Amortization	-	115,000	115,000
Nonoperating Revenues (Expenses)	682,267	22,955	705,222
(Increase) decrease in assets:			
Accounts receivable	234,171	(53,904)	180,267
Accounts receivable from other divisions	14,282	(14,282)	-
Inventories	215,489	(163,060)	52,429
Prepayments	(108,827)	-	(108,827)
Increase (decrease) in liabilities:			
Other customer payables	-	219,145	219,145
Accounts payable - CSX	-	(21,370)	(21,370)
Accounts payable - other	10,169	286,040	296,209
Accounts payable - other divisions	(19,646)	19,646	-
Payroll taxes withheld and accrued employee benefits	1,569	-	1,569
Accrued annual leave	7,729	9,837	17,566
Accrued salaries	2,361	-	2,361
Net Cash Provided (Used) by Operating Activities	$ 1,628,980	$ 3,500,745	$ 5,129,725

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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.

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

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

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

1. The power to sue or be sued, and make contracts.

2. To acquire by purchase or donation and to own, rent, lease, mortgage and dispose of real or personal property.

3. To operate, acquire, construct, maintain and control the tracks and equipment of the Division and be governed by rules and regulations of the Interstate Commerce Commission and its successor, the Surface Transportation Board.

4. To employ and dismiss the employees of the Division and to fix and to pay the compensation thereof.

5. To issue revenue bonds and other obligations, subject to approval by the State Budget and Control Board, to defray the cost of acquisition of other railroads.

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

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

a. Port Utilities Commission and Port Terminal Railroad (PUC-PTR) has the responsibility of operation of the railroad yard at Charleston Harbor. Switching activity between privately owned railroad lines and seagoing vessels is its primary operation and revenue source.

b. Operation and maintenance of the railroad line constructed in Berkeley County, South Carolina, is the primary responsibility of the East Cooper and Berkeley Railroad (ECBR). The railroad was constructed with financing by Amoco Chemicals Corporation, its major customer. This came after requests from the Commission and the State Budget and Control

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

The Division utilizes the accrual basis of accounting. Under the accrual basis of governmental accounting for enterprise funds, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable. Net assets are segregated into invested in capital assets, restricted and unrestricted components. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accounting principles utilized by the Division are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles. The Division has elected to apply all Financial Accounting Standards Board statements and interpretations issued prior to December 31, 1989 unless they conflict with GASB pronouncements.

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

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

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

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

The Division's operations are classified as enterprise fund types 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 for 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 - 40 years
Depreciable Road	75 years
Equipment	3-25 years
Leasehold Improvements	5 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.

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

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

Inter-division Transactions and Balances

Transactions among the two divisions of the Division of Public Railways have been eliminated for purposes of the combined financial statements presented herein. Administration overhead incurred is divided between PUC-PTR and ECBR. Overhead of the two Divisions is split, 56% to ECBR and 44% to PUC-PTR. Overhead expense includes superintendence, general administrative, and insurance. See Note 10 regarding eliminations.

Statement of Cash Flows

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

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 agencys' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value. The divisions only have special deposit accounts. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the agency’s percentage of ownership in the pool.

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS

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

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At December 31, 2004, 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 are stated at original cost with the exception of certain assets received from the State Ports Authority. $451,136 of assets acquired by the Division from the South Carolina State Ports Authority during the organization of the South Carolina Department of Commerce - Division of Public Railways are stated at the cost to the State Ports Authority, less accumulated depreciation at the time of organization. The accumulated depreciation on these assets, since acquisition by the Division, at December 31, 2004 is $30,261. Also, in 1997 the PUC-PTR Division exchanged certain assets with the State Ports Authority. The assets received from the State Ports Authority were recorded on PUC-PTR's books at book value of assets as recorded by the State Ports Authority. Amounts recorded included track and land improvements of $1,324,462 and an engine house in the amount of $1,182,402. Depreciation is computed on the straight-line method. A summary of property, plant, and equipment by division is as follows:

PUC-PTR

CAPITAL ASSETS

	Balance 12/31/03	Transfer In (Out)	Additions	Deletions	Balance 12/31/04
Land	$ 4,119,749	$ -	$ -	$ -	$ 4,119,749
Land improvements	2,647,779	-	656,882	-	3,304,661
Buildings	2,347,033	-	-	-	2,347,033
Machinery and equipment	2,573,208	-	-	(89,219)	2,483,989
Non-depreciable road	3,841,729	-	-	-	3,841,729
Leasehold improvements	205,083	-	-	-	205,083
Projects under construction	2,234	-	81,475	-	83,709
Total	$ 15,736,815	$ -	$ 738,357	$ (89,219)	$ 16,385,953

ACCUMULATED DEPRECIATION

	Balance 12/31/03	Transfer In (Out)	Additions	Deletions	Balance 12/31/04
Buildings	$ 252,259	$ -	$ 59,552	$ -	$ 311,811
Machinery and equipment	1,677,126	-	166,501	(80,297)	1,763,330
Leasehold improvements	182,584	-	3,461	-	186,045
Total	$ 2,111,969	$ -	$ 229,514	$ (80,297)	$ 2,261,186

ECBR

CAPITAL ASSETS

	Balance 12/31/03	Transfer In (Out)	Additions	Deletions	Balance 12/31/04
Land	$ 426,419	$ -	$ -	$ -	$ 426,419
Land improvements	1,706,587	-	1	-	1,706,588
Buildings	846,272	-	-	-	846,272
Machinery and equipment	821,086	20,239	-	-	841,325
Depreciable road	833,591	-	117,060	(4,800)	945,851
Non-depreciable road	2,628,369	-	-	-	2,628,369
Projects under construction	54,759	(20,239)	-	(34,520)	-
Total	$ 7,317,083	$ -	$ 117,061	$ (39,320)	$ 7,394,824

ACCUMULATED DEPRECIATION

	Balance 12/31/03	Transfer In (Out)	Additions	Deletions	Balance 12/31/04
Buildings	$ 649,956	$ -	$ 13,208	$ -	$ 663,164
Depreciable road	279,716	-	11,114	-	290,830
Machinery and equipment	543,366	-	10,684	-	554,050
Total	$ 1,473,038	$ -	$ 35,006	$ -	$ 1,508,044

COMBINED

CAPITAL ASSETS

	Balance 12/31/03	Transfer In (Out)	Additions	Deletions	Balance 12/31/04
Land	$ 4,546,168	$ -	$ -	$ -	$ 4,546,168
Land improvements	4,354,366	-	656,883	-	5,011,249
Buildings	3,193,305	-	-	-	3,193,305
Machinery and equipment	3,394,294	20,239	-	(89,219)	3,325,314
Depreciable road	765,509	-	117,060	(4,800)	877,769
Non-depreciable road	6,538,180	-	-	-	6,538,180
Leasehold improvements	205,083	-	-	-	205,083
Projects under construction	56,993	(20,239)	81,475	(34,520)	83,709
Total	$ 23,053,898	$ -	$ 855,418	$ (128,539)	$ 23,780,777

ACCUMULATED DEPRECIATION

	Balance 12/31/03	Transfer In (Out)	Additions	Deletions	Balance 12/31/04
Buildings	$ 902,215	$ -	$ 72,760	$ -	$ 974,975
Depreciable road	279,716	-	11,114	-	290,830
Machinery and equipment	2,220,492	-	177,185	(80,297)	2,317,380
Leasehold improvements	182,584	-	3,461	-	186,045
Total	$ 3,585,007	$ -	$ 264,520	$ (80,297)	$ 3,769,230

Depreciation expense for the period by division and in total was as follows: PUC-PTR $229,514 and ECBR $35,006, Total - $264,520.

NOTE 5 - ACCRUED ANNUAL LEAVE

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

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

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

NOTE 6 - 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 year's 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 annual rent. The Divisions total investment in this project ended up being $4,365,595 which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 2003 was $200,000 and at March 4, 2004 was also $200,000. The land is used as a railroad spur to the BMW plant. During 2004, $200,000 was recognized as nonoperating rental revenue and $33,333 was deferred revenue based on the terms of this agreement. Also effective March 4, 1996, the Division began receiving revenue on certain car hauls out of the BMW plant by Norfolk Southern. This amounted to $223,890 in 2004 and is included in other income, net, nonoperating revenue. See Note 8 regarding other income, net.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of $256,392 for 2004. 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 year’s rent will be adjusted to correspond to the change in the national consumer price index (“CPI”) for the previous year. The cost of land and non-depreciable track being leased to the North Charleston Terminal Company is $655,881.

Minimum rentals on non-cancelable leases based on current year rates are as follows:

2005	$ 456,392
2006	456,392
2007	456,392
2008	456,392
2009	456,392
2010-2014	2,281,960
2015	232,000
Total	$ 4,795,920

NOTE 7 - COMPENSATED ABSENCES

The following is a summary of changes in compensated absences for the year ended December 31, 2004.

	Jan 1, 2004	Increase	Decrease	Dec 31, 2004	Due Within One Year
Compensated Absences:					
PUC-PTR	$ 64,521	$ 11,593	$ (3,864)	$ 72,250	$ 72,250
ECBR	82,118	14,779	(4,943)	91,954	91,954
Total	$ 146,639	$ 26,372	$ (8,807)	$ 164,204	$ 164,204

NOTE 8- OTHER INCOME, NET

The category under "Nonoperating revenues (expenses)" entitled "Other income, net" is used to report miscellaneous income not related to the primary operating functions of each division. It consists primarily of fees received for sale of supplies, insurance proceeds, permits, lease, processing (clerical) services and contracted services. See Note 6 regarding $223,890 of income from the BMW plant. See Note 11 regarding $90,720 of offset charges received from the State Ports Authority. A breakdown by division of "Other income, net" for the year ended December 31, 2004, is as follows:

	PUC-PTR	ECBR	TOTAL
Sale of supplies, leases and contractual services:			
Between divisions	$ -	$ -	$ -
With outside parties	324,727	20,455	345,182
Total	$ 324,727	$ 20,455	$ 345,182

NOTE 9 - INTER-DIVISION ELIMINATIONS

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

BALANCE SHEET
DECEMBER 31, 2004

Descriptions	PUC-PTR	ECBR
Accounts receivable from other divisions	$ (134,818)	$ -
Accounts payable to other divisions	-	134,818
	$ (134,818)	$ 134,818

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

NOTE 10 - 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 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee’s average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor’s benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee’s annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 10.8 percent, which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The rate for the first six months of 2004 (effective July 1, 2003) was 10.85 percent, which included a 3.30 percent surcharge. The Division’s actual contributions to the SCRS for the fiscal year ended

December 31, 2004 were $117,550, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for 2003 were $112,632 and for 2002 were $114,154. Also, the Division paid employer group-life insurance contributions of $2,335 in the current fiscal year at the rate of .15 percent of compensation.

The contributions by each division is as follows:

	PUC-PTR	ECBR	Total
Retirement Plan			
Employer	$ 64,670	$ 52,880	$ 117,550
Group Life			
Employer	1,285	$ 1,050	2,335

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

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

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

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

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

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

The Division contributed $322,336 this year to the U.S. Railroad Retirement System, which covers all employees. PUC-PTR contributed $182,469 and ECBR, $139,867. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2004, wages up to $87,900 were funded at 6.2 percent by the Division to meet Tier 1 funding requirements and all wages were funded at 1.45 percent by the Division to meet Tier I Medicare funding requirements. The Division funded wages up to $65,100 at 13.1 percent to meet Tier II funding requirements. Employees matched the Division's Tier 1 contribution, but paid only 4.9 percent versus the Division's 13.1 percent Tier II rate on wages up to $65,100 for the maximum Tier II employee liability of $3,190.

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

Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Division are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirement, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through applicable revenue sources for the Division’s active employees and the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable fund sources of the Division for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 26,000 State retirees meet these eligibility requirements.

The South Carolina Department of Commerce - Division of Public Railways recorded employer contributions applicable to these benefits for active employees in the amount of $115,139 for the year ended December 31, 2004. Contributions by division are as follows: PUC-PTR, $50,661 and ECBR, $64,478. Contributions to these plans are recorded as insurance expense in the administrative costs of the divisions.

As discussed above, the Division paid $50,988 applicable to the surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Contributions by Division is as follows: PUC-PTR $28,051; and ECBR $22,937.

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

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

Deferred Compensation Plans

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

NOTE 11 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

PUC-PTR allocated to ECBR $67,417 of depreciation expense as part of the administrative overhead expense allocation between the two divisions explained in Note 2. This is shown as depreciation expense under general railway operating expenses of ECBR.

The Ports Authority pays PUC-PTR monthly offset charges. In 1988, the S.C. State Ports Authority took possession of a certain area of trackage at the Port Terminal Railroad which caused PUC-PTR to incur additional operating costs. The Ports Authority continues to pay PUC-PTR for the additional costs, which equals the initial annual base amount of $58,615 adjusted for changes in the consumer price index. The amount paid to PUC-PTR was $90,720 in 2004 and is included in other non-operating revenues. See Note 8 regarding other income, net.

During 2004, PUC-PTR incurred $204,441 of costs related to industrial development in South Carolina, as directed by the SC Department of Commerce. These amounts were not related to the operations of PUC-PTR and are classified as nonoperating expense on the statement of revenues, expenses, and changes in net assets.

As described in Note 9, the Divisions provide each other with certain services.

As provided by South Carolina 2004 Appropriations Act Proviso 73.2 ECBR transferred $64,046 to the general fund of the State of South Carolina.

Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement and insurance plan administration from various divisions of the State Budget and Control Board. The Division had financial transactions with various State agencies during the year. Payments made in 2004 to the State Budget and Control Board were primarily for insurance coverage.

NOTE 12 - OPERATING LEASES

The Division's Port Utilities Commission and Port Terminal Railroad Division, and the South Carolina State Ports Authority entered into an agreement, effective July 1, 1976, allowing the South Carolina Department of Commerce - Division of Public Railways to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The Division is now occupying these premises on a month-to-month lease. The monthly rental charge is $300. The Division incurred $3,600 for rental of this building in 2004. The Division is required to carry insurance for property damage and to maintain and repair the leased building.

The only other lease payment is $1,781 per year by ECBR to the U.S. Department of Agriculture for right of way for the railroad on National Forest Land. This lease is for an indefinite term.

Total operating lease expense in 2004 was $5,381. Minimum future payments of the Division for the lease with the indefinite terms as of December 31, 2004 are as follows:

	ECBR
2005	$ 1,781
2006	1,781
2007	1,781
2008	1,781
2009	1,781
Totals	$ 8,905

NOTE 13 - RISK MANAGEMENT

The Division is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Division. Settled claims have not exceeded this coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The Division pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered losses sustained during the policy period in accord with the insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and

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

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

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

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

2. Motor vehicles - Coverage is up to $1,000,000 per loss with a $200 deductible.

3. Torts

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

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

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

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

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

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

The Division did not incur any significant losses in 2004 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. The Division reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 14 - 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 at December 31, 2004, were $54,421 for PUC-PTR and $85,929 for ECBR.

NOTE 15 – ENTERPRISE FUND INFORMATION

Charges for services	$ 7,918,245
Operating grant and contributions	430,184
Less: expenses	(3,855,631)
Net program revenue	4,492,798
Transfers	(64,046)
Change in net assets	4,428,752
Net assets - beginning	36,129,657
Net assets - ending	$ 40,558,409

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