SOUTH CAROLINA DEPARTMENT OF COMMERCE - DIVISION OF PUBLIC RAILWAYS

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

State of South Carolina

Office of the State Auditor

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

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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

August 9, 2013

The Honorable Nikki R. Haley, Governor
and
Mr. Robert M. Hitt III, 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, 2012, was issued by McDowell-Pearman LLC, 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,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

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McDOWELL◆PEARMAN, LLC
CERTIFIED PUBLIC ACCOUNTANTS

W. M. McDowell, Jr. CPA
Ben J. Pearman, CPA
Cheryl H. Thigpen, CPA
◆ ◆ ◆ ◆ ◆
Charles M. Ayers, CPA
Lisa N. Smith, CPA

INDEPENDENT AUDITOR'S REPORT

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Department of Commerce - Division of Public Railways, as of and for the year then ended December 31, 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

South Carolina Department of Commerce - Division of Public Railways' management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

2700 Middleburg Drive, Suite 201, Post Office Box 2088, Columbia, South Carolina, 29202 803-256-8800

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion on the financial statements.

Basis for Adverse Opinion on the Financial Statements

The South Carolina Department of Commerce - Division of Public Railway's financial statements does 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.

Adverse Opinion on Financial Statements

In our opinion, because of the incomplete presentation and omission of note disclosures discussed in the Basis for Adverse Opinion on the Financial Statements paragraph, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2012, and the results of its operations and its cash flows for the year then ended.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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, 2012, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2013, on our consideration of the South Carolina Department of Commerce - Division of Public Railways' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Carolina Department of Commerce - Division of Public Railways' internal control over financial reporting and compliance.

McDonnell Pearman

August 8, 2013

Management Discussion and Analysis

Our discussion and analysis of SC Public Railways (SCPR) financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2012. 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 provide information on the division's net assets, operations, and cash flows for the year ended December 31, 2012.

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 increased in 2012 by $1,394,230 or 13.8% due primarily to significant increases in the volume of rail shipments by BP on the ECBR and a new switching customer, Santee Cooper, at the PTR. Earnings on investments increased in 2012 by $121,335 or 65.0% primarily due to increases in invested cash following profitable years.

- Maintenance of Way & Structures expenses increased $583,129 or 50.5%; this is primarily due to major crosstie replacement projects at ECBR in 2012.

- Maintenance of Equipment expenses increased $17,188 or 1.9% due primarily to locomotive parts and repairs.

- Transportation expenses increased $433,041 or 22.7% due primarily to adding Santee Cooper as a switching customer in July 2012. The increase also includes higher fuel consumption and salaries.

- General Expenses increased $176,639 or 7.2% due primarily to the increased compensation.

- Other Non-Operating Revenues increased $244,750 or 106.2% primarily due to lease income from property on the former Navy Yard purchased in December of 2010.
- Other Non-Operating Expenses decreased $60,402 or 93.0% due to fewer non-core projects in 2012.
- Current and other Assets increased $10,358,568 or 42.1% due to $8.0 million in access rights purchased through a settlement with the City of North Charleston to allow rail access to the former Navy Yard. In addition, cash accounts have increased through operating profits.
- Capital Assets increased by $9,826,425 or 19.0% due to re-structuring of the Navy Yard property and rehabilitation of rental properties and locomotives. Per the settlement with the City of North Charleston, SCPR agreed to assume responsibility for payment of approximately $6.5 million in Tax Increment Financing Bonds. These bonds are directly associated with the Navy Yard redevelopment and the Intermodal Container Transfer Facility.

Economic Factors and Next Year Operations

- Freight traffic on the ECBR will be up for BP and NUCOR in 2013 from 2012 mainly due to improved economic conditions.
- Based on client projections, traffic at PUC is projected to be lower in 2013 but the addition of Santee Cooper switching should offset any losses.
- PTR traffic is expected to be down slightly as the South Carolina State Ports Authority (SCSPA) has elected not to utilize rail for intermodal cargo at the North Charleston Terminal.
- Capital expenditures will continue to be incurred as the permitting process starts and additional properties are acquired on the Navy Yard property to facilitate and construct an Intermodal Container Transfer Facility.

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

FINANCIAL STATEMENTS

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS
STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS
DECEMBER 31, 2012

	PUC-PTR	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 4,064,247	$ 16,213,982	$ -	$ 20,278,229
Accounts receivable	725,549	424,133	-	1,149,682
Accounts receivable from other division	320,568	-	(320,568)	-
Interest receivable	7,985	42,907	-	50,892
Deposits to purchase land	3,698,000	-	-	3,698,000
Inventories	1,358,857	55,120	-	1,413,977
Prepayments	119,419	1,925	-	121,344
Total Current Assets	10,294,625	16,738,067	(320,568)	26,712,124
Property, Plant and Equipment				
Land and non-depreciable assets	39,930,182	10,158,405	-	50,088,587
Other depreciable assets, net of Accumulated depreciation	10,294,645	1,145,043	-	11,439,688
Total Property, Plant and Equipment	50,224,827	11,303,448	-	61,528,275
Other Assets:				
Servicing rights	8,000,000	2,300,000	-	10,300,000
Accumulated amortization - Servicing Rights	-	(2,070,000)	-	(2,070,000)
Total Other Assets	8,000,000	230,000	-	8,230,000
Total Assets	68,519,452	28,271,515	(320,568)	96,470,399
LIABILITIES				
Current Liabilities:				
Accounts payable to other division	-	320,568	(320,568)	-
Accounts payable - other	246,728	-	-	246,728
Accrued payroll	199,664	-	-	199,664
Payroll taxes withheld and accrued employee benefits	62,754	-	-	62,754
Accrued annual leave and benefits	109,385	139,218	-	248,603
Servicing rights payable – Short Term	2,000,000	-	-	2,000,000
TIF bonds payable – Short Term	150,000	-	-	150,000
Deferred revenue	247,619	-	-	247,619
Total Current Liabilities	3,016,150	459,786	(320,568)	3,155,368
Noncurrent Liabilities:				
Servicing rights payable	6,000,000	-	-	6,000,000
TIF bonds payable	6,210,000	-	-	6,210,000
Deferred revenue	1,125,000	-	-	1,125,000
Total Noncurrent Liabilities	13,335,000	-	-	13,335,000
Total Liabilities	16,351,150	459,786	(320,568)	16,490,368
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	43,864,827	11,303,448	-	55,168,275
Unrestricted	8,303,475	16,508,281	-	24,811,756
Total Net Assets	$ 52,168,302	$ 27,811,729	$ -	$ 79,980,031

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, 2012

	PUC-PTR	ECBR	TOTAL
Operating Revenues:			
Switching fees	$ 3,046,415	$ 302,130	$ 3,348,545
Freight charge	401,080	6,128,510	6,529,590
Rental revenue	571,828	-	571,828
Contractual services	608,313	-	608,313
Storage Revenue	287,936	-	287,936
Dispatching service	-	47,437	47,437
Other revenue	110,552	-	110,552
Total Operating Revenues	5,026,124	6,478,077	11,504,201
Operating Expenses:			
Railway Operating Expenses:			
Maintenance of Way and Structures:			
Depreciation	112,341	66,584	178,925
Other maintenance of way expenses	895,890	662,581	1,558,471
Total Maintenance of Way and Structures	1,008,231	729,165	1,737,396
Maintenance of Equipment:			
Depreciation	165,144	175,324	340,468
Other equipment expenses	337,193	226,596	563,789
Total Maintenance of Equipment	502,337	401,920	904,257
Transportation:			
Superintendence	130,042	165,508	295,550
Yard employees	672,859	389,877	1,062,736
Other transportation expenses	474,341	505,802	980,143
Total Transportation	1,277,242	1,061,187	2,338,429
General:			
Administration	816,476	980,516	1,796,992
Insurance	388,775	343,153	731,928
Amortization of servicing rights	-	115,000	115,000
Total General	1,205,251	1,438,669	2,643,920
Total Railway Operating Expenses	3,993,061	3,630,941	7,624,002

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, 2012

	PUC-PTR	ECBR	TOTAL
Operating Income	1,033,063	2,847,136	3,880,199
Nonoperating Revenues (Expenses):			
Other rental income, net	371,003	100	371,103
Interest income (loss)	49,183	258,884	308,067
Gain (loss) on sale or disposal of fixed assets	808	-	808
Other income, net	55,241	48,125	103,366
Industrial Development Costs	(4,520)	-	(4,520)
Total Nonoperating Revenues	471,715	307,109	778,824
Increase in Net Assets	1,504,778	3,154,245	4,659,023
Net Assets			
Beginning of Year	50,663,524	24,657,484	75,321,008
End of Year	$ 52,168,302	$ 27,811,729	$ 79,980,031

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, 2012

	PUC-PTR	ECBR	TOTAL
Cash Flows from Operating Activities:			
Cash received from customers	$ 5,329,259	$ 6,308,629	$ 11,637,887
Cash payments to suppliers and employees	(4,074,432)	(3,384,397)	(7,458,828)
Rents received	1,164,358	-	1,164,358
Advances received on Navy Yard rentals	1,341,341	-	1,341,341
Security deposits	3,636	-	3,636
Other income received	55,241	48,225	103,466
Net Cash Provided (Used) by Operating Activities	3,819,403	2,972,457	6,791,860
Cash Flows from Capital and Related Financing Activities:			
Cash received from sale of fixed assets	11,773	-	11,773
Acquisition and construction of capital assets	(3,959,390)	(53,833)	(4,013,223)
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,947,617)	(53,833)	(4,001,450)
Cash Flows from Investing Activities:			
Investment income	52,596	274,755	327,351
Net Cash Provided (Used) by Investing Activities	52,596	274,755	327,351
Net Increase (Decrease) in Cash and Cash Equivalents	(75,618)	3,193,379	3,117,761
Cash and Cash Equivalents, Beginning of Year	4,139,865	13,020,603	17,160,468
Cash and Cash Equivalents, End of Year	$ 4,064,247	$ 16,213,982	$ 20,278,229

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, 2012

	PUC-PTR	ECBR	TOTAL
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating income (loss)	$ 1,033,063	$ 2,847,136	$ 3,880,199
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	445,472	244,081	689,553
Depreciation charged to sister division	116,152	(116,152)	-
(Gain) loss on sale or disposal of assets	(808)	-	(808)
Amortization	-	115,000	115,000
Nonoperating Revenues (Expenses)	424,587	48,225	472,812
(Increase) decrease in assets:			
Accounts receivable	292,110	(217,573)	74,537
Accounts receivable from other divisions	16,072	48,125	64,197
Inventories	92,641	(2,890)	89,751
Prepayments	(1,644)	3,813	2,169
Increase (decrease) in liabilities:			
Accounts payable - other	(25,074)	-	(25,074)
Accounts payable to other divisions	(48,125)	(16,072)	(64,197)
Payroll taxes withheld and accrued employee benefits	29,124	-	29,124
Accrued annual leave	14,741	18,764	33,505
Accrued salaries	91,806	-	91,806
Deferred revenue	1,339,286	-	1,339,286
Net Cash Provided (Used) by Operating Activities	$ 3,819,403	$ 2,972,457	$ 6,791,860

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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 maintains 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	15 - 40 years
Depreciable Road	75 years
Equipment	3 - 25 years
Leasehold Improvements	5 - 20 years

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

Servicing Rights

The servicing rights assets are 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.

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 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 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 the State's internal cash management pool. The State's internal cash management pool is comprised of the 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.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 8, 2013, the date the financial statement was available to be issued.

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, 2012, 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, EQUIPMENT, AND DEPOSITS TO PURCHASE LAND

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, 2012 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. In 2005 a capital contribution was recorded for land, land improvements and track on ECBR. The amounts recorded were $201,000 for land, $308,229 for land improvements and $749,746 for non-depreciable road.

On July 26, 2010, the Division entered into a Purchase and Sales Agreement with Greystar GP, LLC. The agreement required the Division to provide the necessary funds to Greystar to purchase loan documents and the right to foreclosure under a Mortgage Loan and Sale agreement Greystar had entered into with Capmark Finance Inc., also on that date. The purchase price was $21,390,500. On August 27, 2010, Greystar assigned the Mortgage Loan and Sale agreement to CHSA, LLC, and also assigned 100% of CHSA, LLC to the Division. On December 7, 2010, the mortgage was satisfied by foreclosure at the former Navy Yard. The property, which includes 240 acres of land and approximately 65 buildings, was deeded to the Division for nominal consideration on December 15, 2010.

In October 2011, The Division entered into an agreement with the Charleston Naval Complex Redevelopment Authority ("the RDA") to redevelop the Shipyard Headquarters Building on the former Navy Yard. The RDA would pay $1,500,000 to rehabilitate the building and then occupy it for seven years rent free. See Note 6. The RDA's seven year period commenced on March 31, 2012. The Division is depreciating the building improvements over the building's useful life.

On December 5, 2012 The Division agreed to sign a Settlement Agreement and Release (the "Agreement") to settle and release six civil actions in which the Division was the defendant. See Note 14. As part of the agreement, the Division will assume $6,360,000 in Tax Increment Financing ("TIF") Bonds for the Navy Base Redevelopment Project. The $6,360,000 was included as construction in progress of the proposed Intermodal Facility. See Note 15.

A summary of property, plant, and equipment by division is as follows:

PUC-PTR
CAPITAL ASSETS

	Balance 12/31/11	Transfer In (Out)	Additions	Deletions	Balance 12/31/12
Land	$ 20,584,427	$ -	$ 66,100	$ -	$ 20,650,527
Land improvements	3,457,913	-	49,773	-	3,507,686
Fencing	51,478	-	-	-	51,478
Buildings	8,017,115	-	1,500,000	12,288	9,504,827
Machinery and equipment	3,513,132	392,882	388,913	26,200	4,268,727
Depreciable road	219,791	-	26,718	-	246,509
Non-depreciable road	5,656,682	-	-	-	5,656,682
Leasehold improvements	251,515	-	-	-	251,515
Projects under construction	2,072,104	(392,882)	8,436,065	-	10,115,287
Total	$ 43,824,157	$ -	$ 10,467,569	$ 38,488	$ 54,253,238

ACCUMULATED DEPRECIATION

	Balance 12/31/11	Transfer In (Out)	Additions	Deletions	Balance 12/31/12
Buildings	$ 914,591	$ -	$ 225,359	$ 11,057	$ 1,128,893
Fencing	35,857	-	5,208	-	41,065
Machinery and equipment	2,302,533	-	326,312	22,007	2,606,838
Depreciable road	35,513	-	866	-	36,379
Leasehold improvements	211,357	-	3,879	-	215,236
Total	$ 3,499,851	$ -	$ 561,624	$ 33,064	$ 4,028,411

ECBR
CAPITAL ASSETS

	Balance 12/31/11	Transfer In (Out)	Additions	Deletions	Balance 12/31/12
Land	$ 627,419	$ -	$ -	$ -	$ 627,419
Land improvements	6,027,549	-	-	-	6,027,549
Buildings	914,273	-	-	-	914,273
Machinery and equipment	1,242,064	-	53,833	25,098	1,270,799
Depreciable road	945,851	-	-	-	945,851
Non-depreciable road	3,503,437	-	-	-	3,503,437
Total	$ 13,260,593	$ -	$ 53,833	$ 25,098	$ 13,289,328

ACCUMULATED DEPRECIATION

	Balance 12/31/11	Transfer In (Out)	Additions	Deletions	Balance 12/31/12
Buildings	$ 785,095	$ -	$ 18,925	$ -	$ 804,020
Depreciable road	384,724	-	13,414	-	398,138
Machinery and equipment	713,230	-	95,590	25,098	783,722
Total	$ 1,883,049	$ -	$ 127,929	$ 25,098	$ 1,985,880

COMBINED
CAPITAL ASSETS

	Balance 12/31/11	Transfer In (Out)	Additions	Deletions	Balance 12/31/12
Land	$ 21,211,846	$ -	$ 66,100	$ -	$ 21,277,946
Land improvements	9,485,462	-	49,773	-	9,535,235
Fencing	51,478	-	-	-	51,478
Buildings	8,931,388	-	1,500,000	12,288	10,419,100
Machinery and equipment	4,755,196	392,882	442,746	51,298	5,539,526
Depreciable road	1,165,642	-	26,718	-	1,192,360
Non-depreciable road	9,160,119	-	-	-	9,160,119
Leasehold improvements	251,515	-	-	-	251,515
Projects under construction	2,072,104	(392,882)	8,436,065	-	10,115,287
Total	$ 57,084,750	$ -	$ 10,521,402	$ 63,586	$ 67,542,566

ACCUMULATED DEPRECIATION

	Balance 12/31/11	Transfer In (Out)	Additions	Deletions	Balance 12/31/12
Buildings	$ 1,699,686	$ -	$ 244,284	$ 11,057	$ 1,932,913
Fencing	35,857	-	5,208	-	41,065
Depreciable road	420,237	-	14,280	-	434,517
Machinery and equipment	3,015,763	-	421,902	47,105	3,390,560
Leasehold improvements	211,357	-	3,879	-	215,236
Total	$ 5,382,900	$ -	$ 689,553	$ 58,162	$ 6,014,291

Depreciation expense for the period by division and in total was as follows: PUC-PTR $445,472 and ECBR $244,081, Total - $689,553. Included in other rental income-net is $166,280 of depreciation on buildings that are held for rent. The cost of the leased buildings is $7,026,204 and net cost is $6,721,769. The majority of these assets were acquired as part of the Greystar purchase in paragraph 2 of this note. See Note 9 also.

In 2011, the Division filed several condemnation lawsuits to acquire additional property to build an intermodal facility. Land deposits of $3,698,000 represent the deposits made to the Charleston County Clerk's Office for the land. If the condemnation lawsuits are rejected the deposits will be fully refunded to the Division.

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/OPERATING 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, 2011 was $200,000 and at March 4, 2012 was $200,000. The land is used as a railroad spur to the BMW plant. During 2012, $200,000 was recognized as operating 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 $401,080 in 2012 and is included in freight income.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of $316,666 for 2012. 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.

On December 15, 2010 the Division was deeded over approximately 240 acres of property and approximately 65 buildings at the former Navy Yard, see Note 4 and Note 9. The property has several commercial leases ranging from month to month leases to 7 year leases. See Note 9 for total revenue and expenses related to the property.

In October 2011, The Division entered into an agreement with the Charleston Naval Complex Redevelopment Authority ("the RDA") to redevelop the Shipyard Headquarters Building on the former Navy Yard. The RDA would pay $1,500,000 to rehabilitate the building and then occupy it for seven years rent free. The RDA's seven year period commenced on March 31, 2012. The Division is amortizing the $1,500,000 rent over the period of the lease. Current deferred rent for this lease is $214,286 and the noncurrent portion is $1,125,000.

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

2013	$ 1,336.876
2014	993,193
2015	438.213
2016	385.962
2017	388.215
2018-2021	687.857
Total	$ 4.230,316

NOTE 7 - COMPENSATED ABSENCES

The following is a summary of changes in compensated absences for the year ended December 31, 2012.

	Jan 1, 2012	Increase	Decrease	Dec 31, 2012	Due Within One Year
Compensated Absences:					
PUC-PTR	$ 94,644	$ 103,915	$ 89,174	$ 109,385	$ 109,385
ECBR	120,454	132,258	113,494	139,218	139,218
Total	$ 215,098	$ 236,173	$ 202,668	$ 248,603	$ 248,603

NOTE 8- OTHER REVENUE

The category under "Operating Revenues" entitled "Other Revenue," is used to report miscellaneous income. For the year ended December 31, 2012 it consists of offset charges received from the State Ports Authority (SPA) see note 12. A breakdown by division of "Other revenue" is as follows:

	PUC-PTR	ECBR	TOTAL
Offset charges with SPA	$ 110,552	-	$ 110,552
Total	$ 110,552	$ -	$ 110,552

NOTE 9 – OTHER RENTAL INCOME, NET, NON OPERATING REVENUES

The Division leases several buildings on the former navy base and parking spaces. The revenue and expenses for 2012 were as follows:

Rental revenue	$	1,169,182
Less: expenses		
Professional fees		139,431
Depreciation		166,280
Landscaping		134,488
Insurance		71,029
Maintenance		148,526
Utilities		123,638
Other		14,787
Net income	$	371,003

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS

The majority of employees of the Division are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position 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, as amended or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

The Retirement Division maintains five 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 South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the statewide CAFR of the State of South Carolina.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). 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 (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days of termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death 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 or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to $6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

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 earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will be closed and end for all participants effective June 30, 2018.

As an alternative to membership to SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP plan other than for payment of contributions to designated companies. To elect participation of the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the incidental death amounts are remitted to SCRS.

Effective July 1, 2012, the member contribution was increased from 6.5% to 7%.

The effective employer rates by year for SCRS and the State ORP are as follows:

SCRS and State ORP

Effective Date	Base Employer Rate	Insurance Surcharge	Total Employer Rate	Optional Incidental Death Benefit	Optional Accidental Death Prog.
07/01/12	10.450%	4.55%	15.000%	0.15%	N/A
07/01/11	9.385%	4.30%	13.685%	0.15%	N/A
07/01/10	9.240%	3.90%	13.140%	0.15%	N/A
07/01/09	9.240%	3.50%	12.740%	0.15%	N/A

Five percent of the earnable compensation contributed as part of the State ORP employer contribution is remitted directly to the ORP vendor to be allocated to the member's account.

The Division's actual contributions to the SCRS and State ORP for the years ended December 31, 2012, 2011 and 2010 were $ 258,656, $ 210,921, and $198,354, respectively, and equaled the base required retirement contribution rate as shown in the above table. Also, the Division paid employer incidental death contributions of, $3,994, $3,485, and $3,304, at the rate of .15% of compensation for the current fiscal years ended December 31, 2013, 2012, and 2011 respectively.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members quality for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2012, the member contribution was increased from 6.5% to 7%.

The effective employer rates by year for PORS are as follows:

PORS

Effective Date	Base Employer Rate	Insurance Surcharge	Total Employer Rate	Optional Incidental Death Benefit	Optional Accidental Death Prog.
07/01/12	11.900%	4.550%	16.450%	0.20%	0.20%
07/01/11	11.363%	4.300%	15.663%	0.20%	0.20%
07/01/10	11.130%	3.900%	15.030%	0.20%	0.20%
07/01/09	10.650%	3.500%	14.150%	0.20%	0.20%

The Division's actual contribution to the PORS for the years ended December 31, 2012, 2011, and 2010 were \$5,047, \$4,923, and \$4,500, respectively, and equaled the base retirement required contribution rate, shown in the above table. The Division also paid employer incidental death contributions of approximately \$120, \$ 89, and \$ 84, at the rate of .20% of compensation for the current fiscal years ended December 31, 2012, 2011, and 2010 respectively. In addition the Division paid accidental death program contributions of approximately \$120, \$89, and \$84, at the rate of .20% of compensation for the current fiscal years ended December 31, 2012, 2011, and 2010 respectively.

The amounts paid by the Division for pension, incidental death program benefits, and accidental death program benefits are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related services are charged.

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, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The contributions by each division for 2012 are as follows:

	PUC-PTR	ECBR	Total
Retirement Plan			
Employer	$ 148,451	$ 115,252	$ 263,703
Group Incidental			
& Acc. Death	$ 2,492	$ 1,742	$ 4,234

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

The surcharges to fund retiree heath and dental insurance are not part of the actuarially established rates. For the current fiscal year the SCRS does not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Division's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Division recognizes no contingent liability for unfunded costs associated with participation in the plans.

The Division contributed $505,641 this year to the U.S. Railroad Retirement System, which covers all employees. PUC-PTR contributed $285,492 and ECBR, $220,149. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2012, wages up to $110,100 were funded at 6.2 percent by the Division and 4.2 percent by the employee 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 $81,900 at 12.1 percent to meet Tier II funding requirements. Employees paid 3.9 percent on wages up to $81,900.

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.

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment heath and dental and long-tem disability benefits to retired State and school district employees and their covered dependents. The Division contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost–sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority, (PEBA).

Generally, retirees are eligible for the heath and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statue to contribute at a rate assessed each year by the Office of the State Budget, and which are included in the tables in Note 10. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Division paid $117,106 and $94,908 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended December 31, 2012 and 2011, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was $3.22 for the fiscal years ended December 31, 2012 and 2011. The Division recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of $ 898 and $821 for the years ended December 31, 2012 and 2011, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree heath and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

One may obtain a copy of the complete financial statements for the benefit plans and the trust funds from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

NOTE 12 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

PUC-PTR allocated to ECBR $116,152 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 $110,552 in 2012 and is included in other operating revenues. See Note 8 regarding other revenue.

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.

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 2012 to the State Budget and Control Board were primarily for insurance coverage.

NOTE 13 - 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 2012. The Division is required to carry insurance for property damage and to maintain and repair the leased building. This amount is included in general administration expenses.

The only other lease payment is $3,742 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. This amount is included in other operating expenses.

Total operating lease expense in 2012 was $3,742. Minimum future payments of the Division for the lease with the indefinite terms as of December 31, 2012 are as follows:

	ECBR
2013	$ 3,742
2014	3,742
2015	3,742
2016	3,742
2017	3,742
Totals	$ 18,710

NOTE 14 – SETTLEMENT AGREEMENT, RELEASE AND SERVICING RIGHTS

On December 5, 2012 The Division, the City of North Charleston ("North Charleston") and the North Charleston Sewer District ("Sewer District") agreed to sign the Settlement Agreement and Release (the "Agreement") to settle and release six civil actions in which North Charleston or the Sewer District were the plaintiff and the Division was the defendant. The Effective Date of the agreement was March 25, 2013, the date on which the Consent Order was entered adopting and incorporating the terms of the Agreement. The Agreement was necessary to obtain land in order for the Division to plan and construct an Intermodal Container Transfer Facility (ICTF) on the former Navy Yard.

The terms of the agreement are as follows:

1. The Division will pay North Charleston $8,000,000 over 4 years as service rights to mitigate rail access impacts. The first payment of $2,000,000 was made on March 23, 2013. Thereafter, the $2,000,000 payments will be made no later than the anniversary date of the first payment in 2014, 2015 and 2016. The service rights will be amortized over 15 years once the ICTF begins operations.
2. The Division will assume approximately $6,500,000 in Tax Increment Financing ("TIF") Bonds for the Navy Base Redevelopment Project. See Note 15.

3. The Division will transfer to North Charleston certain buildings and land on the former Navy Yard as soon as practicable after the Effective Date.
4. North Charleston will transfer to the Division certain buildings and land on the former Navy Yard as soon as practicable after the Effective Date.
5. Before December 31, 2017, the Division will transfer to North Charleston additional buildings and land on the former Navy Yard.
6. Before December 31, 2017, North Charleston will transfer to the Division additional buildings and land on the former Navy Yard.

NOTE 15 – NONCURRENT LIABILITY – TIF BONDS

As part of the Settlement Agreement and Release, see Note 14, the Division assumed responsibility for payment of $6,360,000 in Tax Increment Financing ("TIF") Bonds from the City of North Charleston. Principal and interest is payable in annual installments beginning September 2013 through September 2037 with variable interest (.19% at June 30, 2012), as determined by the remarketing agent but amortized at an average coupon rate of 4.00%, payable each month. The balance outstanding at December 31, 2012 was $6,360,000.

Future principal payments of the bonds are as follows:

2013	$	150,000
2014		155,000
2015		160,000
2016		165,000
2017		175,000
2018-2022		985,000
2023-2027		1,225,000
2028-2032		1,495,000
2033-2037		1,850,000
Total	$	6,360,000

NOTE 16 - RISK MANAGEMENT

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

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

3. Torts

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

State agencies are the primary participants in the Employee Insurance Program 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

$100,000 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, however the Division does have $250,000 coverage through their equipment liability coverage policy for this risk.

The Division did not incur any significant losses in 2012 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. The Division reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 17 - 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, 2012, were $70,077 for PUC-PTR and $376,999 for ECBR.

NOTE 18 – CONTINGENCIES AND LITIGATION

The Division is party to a number of civil lawsuits and other legal proceedings. At the current time Management and legal counsel are unable to determine any ultimate outcome of existing and potential legal actions.

NOTE 19 – SUBSEQUENT EVENT

On June 3, 2013, the Division signed a Purchase and Sale agreement with the Noisette Company, LLC, Navy Yard New Market I, LLC and 10 Storehouse Row, LLC to purchase 12 buildings and land on the former Navy Yard. The purchase price is $10,000,000 and the transaction is expected to close within 90 days.

NOTE 20 – ENTERPRISE FUND INFORMATION

Charges for services	$ 12,776,849
Operating grant and contributions	308,875
Less: expenses	(8,426,701)
Net program revenue	4,659,023
Change in net assets	4,659,023
Net assets - beginning	75,321,008
Net assets - ending	$ 79,980,031

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.

MCDOWELL◆PEARMAN, LLC
CERTIFIED PUBLIC ACCOUNTANTS

W. M. McDowell, Jr. CPA
Ben J. Pearman, CPA
Cheryl H. Thigpen, CPA
◆ ◆ ◆ ◆ ◆
Charles M. Ayers, CPA
Lisa N. Smith, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. Richard H. Gilbert, Jr.
Interim State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the South Carolina Department of Commerce - Division of Public Railways' basic financial statements, and have issued our report thereon dated August 8, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Carolina Department of Commerce - Division of Public Railways' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Carolina Department of Commerce - Division of Public Railways' internal control. Accordingly, we do not express an opinion on the effectiveness of South Carolina Department of Commerce - Division of Public Railways' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material deficiencies or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Carolina Department of Commerce - Division of Public Railways' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McAbee Pearson

August 8, 2013