PALMETTO RAILWAYS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

April 29, 2016

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 d/b/a Palmetto Railways, for the fiscal year ended December 31, 2015, was issued by Greene, Finney & Horton, LLP, 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,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

GLKIII/trb

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Greene Finney & Horton
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA
State Auditor
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 d/b/a Palmetto Railways (the "Division") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 judgment, 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not present fairly the financial position of the State of South Carolina or the South Carolina Department of Commerce as of December 31, 2015, the changes in their financial position, or, where applicable, their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in the year ended December 31, 2015 the Division adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016 on our consideration of the Division's internal control over financial reporting and on 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 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 the Division's internal control over financial reporting and compliance.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
April 29, 2016

Management's Discussion and Analysis

Our discussion and analysis of South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the "Division") financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2015. Please read these comments in conjunction with the financial statements.

Using This Annual Report

This annual report consists of a series of financial statements. The *Statement of Net Position*; the *Statement of Revenues, Expenses and Changes in Fund Net Position*; and *Statement of Cash Flows* provide information regarding the activities of the Division's three operating subdivisions, a fund holding contributed land and land improvements, and as a whole.

The three operating subdivisions of the Division are:

Charleston Subdivision (CHS)
North Charleston Subdivision (NCS)
Charity Church Subdivision (CCS)

All the subdivisions and the fund holding contributed land and land improvements (the "Economic Development Project Fund") are enterprise fund activities, and all are reported on the accrual basis. CHS and NCS are combined in the financial statements.

These statements provide information on the Division's net position, operations, and cash flows for the year ended December 31, 2015. This discussion and analysis is intended to serve as an introduction to the financial statements. The notes to the financial statements also contain details on some of the information presented in the financial statements.

Reporting on the Division as a whole

The subdivisions 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. These statements offer short and long-term financial information about the Division's activities. The Statement of Net Position presents information on all of the Division's assets, liabilities, and net position. Net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources.

Over time, increases and decreases in net position, specifically unrestricted net position, may serve as a useful indicator of whether the financial position of the Division is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the Division's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Highlights

- Operating revenues increased in 2015 by $2,236,530 or 18.9% due primarily to switching revenue from assuming the operations of Cosgrove Yard at NCS. Cosgrove Yard had been leased to the North Charleston Terminal Company prior to August 17, 2015.

- Capital contributions were $39,408,288 in 2015 up from $12,562,199 in the prior year. In 2015 land improvements and site development of the land contributed by South Carolina Department of Commerce continued for the Economic Development Project Fund

- Loss on investments increased in 2015 by $15,506 or 87.5% primarily due to a decline in state investment income during 2015.

- Other non-operating revenue decreased $651,988 or 33.0% due to a decrease in rental income on the former Navy Base as well as a decrease in the gain on sale of fixed assets.

- Maintenance of way & structures expenses increased $168,584 or 12.0%; this is primarily a result of fully staffed maintenance of way crew as well as several maintenance projects at Cosgrove Yard.

- Maintenance of equipment expenses increased $159,213 or 13.6% due primarily to additional locomotive repairs and improvements required in 2015. These additional repairs and improvements were needed to support the undertaking of the operations at Cosgrove Yard.

- Transportation expenses increased $1,381,346 or 46.3% due primarily to personnel and other expenses associated with hiring additional staff to operate Cosgrove Yard.

- General expenses increased $1,122,798 or 35.6% primarily due to the hiring of a Chief Commercial Officer and additional administrative staff for the Cosgrove operations. Other increases included information technology upgrades, merit increases and appraisals associated with a future loan application.

- Current assets decreased $1,457,054 or 14.6% due to cash and investments being used to design the Intermodal Container Transfer Facility on the former navy base and a decrease in rail material inventory that was used at Cosgrove Yard. This was partially offset by an increase in accounts receivable due to increased revenues from Cosgrove Yard.

- Capital assets increased by $52,218,589 or 33.9% due to the land improvements through capital contributions noted above, and further development of the Intermodal Container Transfer Facility.

- Deferred outflows of resources increased $998,211 or 100.0% due to the implementation of new accounting standards discussed further below.

Financial Highlights (Continued)

- Current liabilities increased $1,509,708 or 36.2% primarily due to a $1,372,844 increase in accounts payable as a result of the timing of year end payments and invoices related to the Intermodal Container Transfer Facility.

- Deferred inflows of resources increased $12,099 or 100.0% due to the implementation of new accounting standards discussed further below.

- Other liabilities increased $12,689,261 or 160.7%% primarily due to an interest-free note payable of $8,000,000 from the South Carolina Department of Commerce – SC Coordinating Council for Economic Development as well as the recognition of the net pension liability of $6,854,261, partially offset by the third $2,000,000 installment payment to the City of North Charleston.

- Net position increased by $43,165,982 or 29.5% from the prior year net position, as restated for the change in accounting standards discussed below. Net investment in capital assets increased $45,950,592 or 31.9%, and unrestricted net position decreased $2,784,610 or 35.1% from the restated prior year unrestricted net position.

- The Division implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27* ("GASB #68") and GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* ("GASB #71" and collectively "Statements") in the year ended December 31, 2015. These Statements require the Division to recognize a net pension liability, deferred outflows of resources, and deferred inflows of resources for their participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System ("Plans"), cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the Statement of Net Position) and presents more extensive note disclosures.

  The adoption of these Statements has resulted in the restatement of the Division's net position as of January 1, 2015 to reflect the reporting of net pension liabilities and deferred outflows of resources for each of its qualified Plans in accordance with the provisions of these Statements. Net position of the Division as of January 1, 2015 was decreased by approximately $5,617,000, reflecting the cumulative change in accounting principle related to the adoption of these Statements. See Note 10 for more information regarding the Division's retirement plans.

Financial Analysis

The following are the condensed financial statements of the Division for fiscal years 2015 and 2014, including information concerning the events and circumstances regarding the balances and changes:

Condensed Statement of Net Position

	2015	2014	Amount Change	% Change
Current and other assets, net	$ 8,499,598	$ 9,956,652	$ (1,457,054)	-14.6%
Capital assets, net of depreciation	206,332,072	154,113,483	52,218,589	33.9%
Total Assets	214,831,670	164,070,135	50,761,535	30.9%
Deferred pension charges	998,211	-	998,211	100.0%
Total Deferred Outflows of Resources	998,211	-	998,211	100.0%
Total Assets & Deferred Outflows of Resources	$ 215,829,881	$ 164,070,135	$ 51,759,746	31.5%
Current liabilities	$ 5,682,803	$ 4,173,095	$ 1,509,708	36.2%
Other liabilities	20,584,261	7,895,000	12,689,261	160.7%
Total Liabilities	26,267,064	12,068,095	14,198,969	117.7%
Deferred pension credits	12,099	-	12,099	100.0%
Total Deferred Inflows of Resources	12,099	-	12,099	100.0%
Net Position:				
Net investment in capital assets	190,009,075	144,058,483	45,950,592	31.9%
Unrestricted	(458,357)	7,943,557	(8,401,914)	-105.8%
Total Net Position	189,550,718	152,002,040	37,548,678	24.7%
Total Liabilities, Deferred Inflows of Resources, & Net Position	$ 215,829,881	$ 164,070,135	$ 51,759,746	31.5%

Changes in assets, liabilities and net position are discussed in the Financial Highlights section above.

Financial Analysis (Continued)

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position

	2015	2014	Amount Change	% Change
Revenues:				
Operating revenues	$ 14,067,792	$ 11,831,262	$ 2,236,530	18.9%
Capital contributions	39,408,288	12,562,199	26,846,089	213.7%
Earnings on investments	(33,230)	(17,724)	(15,506)	87.5%
Other non-operating revenues	1,324,832	1,976,820	(651,988)	-33.0%
Total Revenues	54,767,682	26,352,557	28,415,125	107.8%
Expenses:				
Maintenance of way and structures	1,578,871	1,410,287	168,584	12.0%
Maintenance of equipment	1,325,693	1,166,480	159,213	13.6%
Transportation	4,364,453	2,983,107	1,381,346	46.3%
General	4,278,381	3,155,583	1,122,798	35.6%
Total Railroad	11,547,398	8,715,457	2,831,941	32.5%
Other non-operating expenses	54,302	19,746	34,556	175.0%
Total Expenses	11,601,700	8,735,203	2,866,497	32.8%
Change in Net Position	43,165,982	17,617,354	25,548,628	145.0%
Net Position, Beginning of Year - As Previously Reported	152,002,040	134,384,686	17,617,354	13.1%
Cummulative Change in Accounting Principle	(5,617,304)	-	(5,617,304)	100.0%
Ner Position, Beginning of Year - Restated	146,384,736	134,384,686	12,000,050	100.0%
Net Position, End of Year	$ 189,550,718	$ 152,002,040	$ 37,548,678	24.7%

Changes in revenues and expenses are discussed in the Financial Highlights section above.

Financial Analysis (Continued)

Detailed Information on the Funds

The Economic Development Project Fund was a new fund for the year ended December 31, 2013. It is being used to account for land and land improvement contributions received from the South Carolina Department of Commerce which purchased the land and funded the land improvements using proceeds from the State of South Carolina's General Obligation Bond Fund. Contributions received were $39,408,288 and $12,562,199 for the years ended December 31, 2015 and 2014, respectively.

CHS and NCS had a combined increase in net position of $3,085,859 or 4.2% from the adjusted beginning net position primarily due from income before transfers of $1,510,073 and transfers in of $1,575,786 received from CCS. Net investment in capital assets increased $6,544,833 or 9.3% while unrestricted net position decreased $3,458,974 or 139.8%. These changes in net position are primarily due to the acquisition and construction of capital assets as well as the recognition of the net pension liability. Major changes in assets and liabilities include a decrease in cash and cash equivalents of $2,823,159 or 68.8% and a $12,812,830 or 15.9% increase in capital assets related primarily to the planning and design of the Intermodal Container Transfer Facility project. An increase of $8,000,000 in notes payable related to a loan from the South Carolina Department of Commerce – SC Coordinating Council for Economic Development to fund the cost of the Intermodal Container Transfer Facility and a $2,000,000 decrease in settlements payable as a result of the third installment payment made to the City of North Charleston per the terms of the 2012 settlement agreement. Revenues and expenses increased from the prior year due to assuming operations at Cosgrove Yard.

CCS had an increase in net position of $671,835 or 5.8% from the adjusted beginning net position primarily due to income before transfers of $2,247,621 and transfers out of $1,575,786 made to CHS and NCS. Net investment in capital assets remained fairly consistent while unrestricted net position increased $674,364 or 455.3%. Major changes in assets and liabilities include a $3,340,673 increase in non-current liabilities due to the net pension liability. Revenues and expenses were fairly consistent with the prior year with the major change being the increased general expenses as noted above.

Financing Activities

As the Intermodal Container Transfer Facility capital project continues, a loan was issued to fund the planning and design. The balance outstanding at December 31, 2015 was $8,000,000.

As part of the settlement agreement with the City of North Charleston, the Division assumed responsibility for payment of $6,360,000 in Tax Increment Financing ("TIF") Bonds. Principal and interest is payable in annual installments beginning September 2013 through September 2037 with variable interest (.11% at June 30, 2015), as determined by the remarketing agent, payable each month. The balance outstanding at December 31, 2015 was $5,895,000.

More detailed information about the Division's financing activities is presented in the Notes to the Financial Statements.

Capital Asset Activities

Capital assets consist of land, land improvements, fencing, buildings, machinery and equipment, depreciable roads, non-depreciable roads, leasehold improvements and projects under construction. The Division had $206,332,072 invested in capital assets, net of accumulated depreciation, as of December 31, 2015, compared to $154,113,483 as of December 31, 2014. The table below provides a summary.

Capital Assets at December 31,

	2015	2014
Land	$ 116,461,661	$ 73,247,119
Land improvements	22,097,434	22,097,434
Fencing	51,478	51,478
Buildings	17,943,469	17,636,073
Machinery and equipment	7,953,049	7,419,027
Depreciable road	1,192,360	1,192,360
Non-depreciable road	13,097,099	13,097,099
Leasehold improvements	184,106	184,106
Projects under construction	35,533,647	26,483,886
Total Capital Assets	214,514,303	161,408,582
Less: Accumulated Depreciation	(8,182,231)	(7,295,099)
Capital Assets, Net	$ 206,332,072	$ 154,113,483

Major additions in 2015 include the acquisition of land improvements through capital contributions by the South Carolina Department of Commerce and further development of the Intermodal Container Transfer Facility.

More detailed information about the Division's capital asset activities is presented in the Notes to the Financial Statements.

Economic Factors and Next Year Operations

- Freight traffic on the CCS will be up in 2016 mainly due to improved economic conditions and growth.

- Traffic and expense at NCS is projected to be higher in 2016 due to the assumption of operations at Cosgrove Yard during third quarter of 2015. A full year of Cosgrove Yard operations will be reported in 2016.

- Administrative expense is expected to be higher as financing costs for the construction of the Intermodal Container Transfer Facility are incurred.

- Capital expenditures will continue to be incurred as the permitting process, planning, and design continues for the construction of the Intermodal Container Transfer Facility.

BASIC FINANCIAL STATEMENTS

PALMETTO RAILWAYS
STATEMENT OF NET POSITION - ENTERPRISE FUNDS
DECEMBER 31, 2015

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	INTERDIVISION ELIMINATIONS	TOTAL
ASSETS					
Current Assets:					
Cash and cash equivalents	$ -	1,278,395	3,679,434	-	$ 4,957,829
Restricted cash - security deposits	-	87,892	-	-	87,892
Accounts receivable	-	1,799,608	374,197	-	2,173,805
Accounts receivable from other division	-	563,260	-	(563,260)	-
Interest receivable	-	77	1,136	-	1,213
Deposits to purchase land	-	258,000	-	-	258,000
Inventories	-	682,590	29,306	-	711,896
Prepayments	-	308,963	-	-	308,963
Total Current Assets	-	4,978,785	4,084,073	(563,260)	8,499,598
Property, Plant and Equipment:					
Land and non-depreciable assets	101,063,198	75,968,238	10,158,405	-	187,189,841
Other depreciable assets, net of accumulated depreciation	-	17,475,911	1,666,320	-	19,142,231
Total Property, Plant and Equipment	101,063,198	93,444,149	11,824,725	-	206,332,072
TOTAL ASSETS	**101,063,198**	**98,422,934**	**15,908,798**	**(563,260)**	**214,831,670**
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pension charges	-	511,697	486,514	-	998,211
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**-**	**511,697**	**486,514**	**-**	**998,211**
LIABILITIES					
Current Liabilities:					
Accounts payable to other division	-	-	563,260	(563,260)	-
Accounts payable - other	-	2,645,452	-	-	2,645,452
Security deposits	-	87,892	-	-	87,892
Accrued payroll	-	355,665	-	-	355,665
Payroll taxes withheld and accrued employee benefits	-	110,197	-	-	110,197
Accrued annual leave and benefits	-	105,674	134,494	-	240,168
Settlement payable - Short-Term	-	2,000,000	-	-	2,000,000
TIF bonds payable - Short-Term	-	165,000	-	-	165,000
Unearned revenue	-	78,429	-	-	78,429
Total Current Liabilities	-	5,548,309	697,754	(563,260)	5,682,803
Non-current Liabilities:					
TIF Bonds payable	-	5,730,000	-	-	5,730,000
Note payable	-	8,000,000	-	-	8,000,000
Net pension liability	-	3,513,588	3,340,673		6,854,261
Total Non-current Liabilities	-	17,243,588	3,340,673	-	20,584,261
TOTAL LIABILITIES	**-**	**22,791,897**	**4,038,427**	**(563,260)**	**26,267,064**
DEFERRED INFLOWS OF RESOURCES					
Deferred pension credits	-	6,202	5,897	-	12,099
TOTAL DEFERRED INFLOWS OF RESOURCES	**-**	**6,202**	**5,897**	**-**	**12,099**
NET POSITION					
Net investment in capital assets	101,063,198	77,121,152	11,824,725	-	190,009,075
Unrestricted	-	(984,620)	526,263	-	(458,357)
TOTAL NET POSITION	**$ 101,063,198**	**76,136,532**	**12,350,988**	**-**	**$ 189,550,718**

The accompanying notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

PALMETTO RAILWAYS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	TOTAL
Operating Revenues:				
Switching fees	$ -	4,906,595	862,689	$ 5,769,284
Freight charge	-	489,110	6,469,924	6,959,034
Rental revenue	-	507,696	-	507,696
Contractual services	-	180,319	-	180,319
Storage revenue	-	481,751	-	481,751
Dispatching service	-	-	52,861	52,861
Other revenue	-	116,847	-	116,847
Total Operating Revenues	-	6,682,318	7,385,474	14,067,792
Operating Expenses:				
Railways Operating Expenses:				
Maintenance of Way and Structures:				
Depreciation	-	121,600	51,030	172,630
Other maintenance of way expenses	-	716,825	689,416	1,406,241
Total Maintenance of Way and Structures	-	838,425	740,446	1,578,871
Maintenance of Equipment:				
Depreciation	-	212,152	183,732	395,884
Other equipment expenses	-	593,850	335,959	929,809
Total Maintenance of Equipment	-	806,002	519,691	1,325,693
Transportation:				
Other transportation expenses	-	2,620,753	1,743,700	4,364,453
Total Transportation	-	2,620,753	1,743,700	4,364,453
General:				
Administration	-	1,535,177	1,647,054	3,182,231
Insurance	-	572,157	523,993	1,096,150
Total General	-	2,107,334	2,171,047	4,278,381
Total Railway Operating Expenses	$ -	6,372,514	5,174,884	$ 11,547,398

The accompanying notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

PALMETTO RAILWAYS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	TOTAL
Operating Income	$ -	309,804	2,210,590	$ 2,520,394
Non-operating Revenues (Expenses):				
Other rental income, net	-	1,157,281	100	1,157,381
Interest income and gain (loss) on investments	-	(22,598)	(10,632)	(33,230)
Gain (loss) on sale or disposal of fixed assets	-	102,654	-	102,654
Other income, net	-	17,234	47,563	64,797
Grant revenue	-	-	-	-
Industrial development costs	-	(54,302)	-	(54,302)
Total Non-Operating Revenues (Expenses)	-	1,200,269	37,031	1,237,300
Income Before Capital Contributions and Transfers	-	1,510,073	2,247,621	3,757,694
Capital contributions	39,408,288	-	-	39,408,288
Transfers Between Divisions	-	1,575,786	(1,575,786)	-
Change in Net Position	39,408,288	3,085,859	671,835	43,165,982
Net Position, Beginning of Year - As Previously Reported	61,654,910	75,930,181	14,416,949	152,002,040
Cummulative Change in Accounting Principle - See Note 2	-	(2,879,508)	(2,737,796)	(5,617,304)
Net Position, Beginning of Year - Restated	61,654,910	73,050,673	11,679,153	146,384,736
Net Position, End of Year	$ 101,063,198	76,136,532	12,350,988	$ 189,550,718

The accompanying notes to the financial statements are an integral part of this statement.
See accompanying independent auditor’s report.

PALMETTO RAILWAYS
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	TOTAL
Cash Flows from Operating Activities:				
Cash received from customers	$ -	5,972,597	7,442,919	$ 13,415,516
Cash payments to suppliers and employees	-	(6,727,854)	(5,205,959)	(11,933,813)
Rents received	-	2,592,630	-	2,592,630
Security deposits	-	16,452	-	16,452
Other income received	-	17,234	47,663	64,897
Net Cash Provided By (Used In) Operating Activities	-	1,871,059	2,284,623	4,155,682
Cash Flows from Non-Capital Financing Activities:				
Cash received from/paid to other divisions	-	1,575,786	(1,575,786)	-
Net Cash Provided By (Used In) Non-Capital Financing Activities	-	1,575,786	(1,575,786)	-
Cash Flows from Capital and Related Financing Activities:				
Cash received from sale of fixed assets	-	278,911	-	278,911
Cash received from note	-	8,000,000	-	8,000,000
Payments for TIF Bonds payable	-	(160,000)	-	(160,000)
Payments for legal settlement	-	(2,000,000)	-	(2,000,000)
Acquisition and construction of capital assets	-	(12,354,042)	-	(12,354,042)
Net Cash Provided By (Used In) Capital and Related Financing Activities	-	(6,235,131)	-	(6,235,131)
Cash Flows from Investing Activities:				
Investment income	-	(18,421)	(7,271)	(25,692)
Net Cash Provided By (Used In) Investing Activities	-	(18,421)	(7,271)	(25,692)
Net Increase (Decrease) in Cash and Cash Equivalents	-	(2,806,707)	701,566	(2,105,141)
Cash and Cash Equivalents, Beginning of Year	-	4,172,994	2,977,868	7,150,862
Cash and Cash Equivalents, End of Year	$ -	1,366,287	3,679,434	$ 5,045,721

The accompanying notes to the financial statements are an integral part of this statement.
See accompanying independent auditor’s report.

PALMETTO RAILWAYS
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	TOTAL
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:				
Operating Income (Loss)	$ -	309,804	2,210,590	$ 2,520,394
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	-	731,399	251,038	982,437
Depreciation charged to sister division	-	108,323	(108,323)	-
Pension expenses	-	128,586	122,260	250,846
Non-operating revenues (expenses)	-	1,120,213	47,663	1,167,876
(Increase) decrease in assets:				
Accounts receivable	-	(988,752)	57,445	(931,307)
Accounts receivable from other division	-	280,491	-	280,491
Inventories	-	442,436	20,245	462,681
Prepayments	-	(79,810)	2,623	(77,187)
Increase (decrease) in liabilities:				
Accounts payable - other	-	(351,923)	-	(351,923)
Accounts payable to other division	-	-	(280,491)	(280,491)
Security deposits	-	16,452	-	16,452
Payroll taxes withheld and accrued employee benefits	-	38,330	-	38,330
Accrued annual leave	-	(30,192)	(38,427)	(68,619)
Accrued salaries	-	100,606	-	100,606
Unearned revenue	-	45,096	-	45,096
Net Cash Provided By (Used In) Operating Activities	$ -	1,871,059	2,284,623	$ 4,155,682
Schedule of Non-cash Investing, Capital and Financing Activities:				
Change in capital acquisitions included in accounts payable	$ -	(1,724,767)	(140,186)	$ (1,864,953)
Acquisition of capital assets through capital contributions	$ 39,408,288	-	-	$ 39,408,288

The accompanying notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

NOTE 1 - REPORTING ENTITY

South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the 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 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. 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 Fiscal Accountability Authority, to defray the cost of acquisition of other railroads.

The individual subdivisions of the South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto Railways are funds of the State of South Carolina established by 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 d/b/a Palmetto Railways and do not include any other funds of the State of South Carolina.

The South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto Railways consists of two separate operating divisions: 1) the Charleston Subdivision (CHS) and the North Charleston Subdivision (NCS), and 2) the Charity Church Subdivision (CCS). The functions of each of the divisions are outlined as follows:

NOTE 1 - REPORTING ENTITY (CONTINUED)

a. The Charleston Subdivision and the North Charleston Subdivision (CHS-NCS) have the responsibility of operations of the railroad yards at Charleston Harbor and the Cosgrove Yard. Switching activity between privately owned railroad lines and seagoing vessels is the 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 Charity Church Subdivision (CCS). The railroad was constructed with financing by Amoco Chemicals Corporation, its major customer. This came after requests from the Division and the State Budget and Control Board to service the east side of the Cooper River north of Charleston, South Carolina were denied by the common carrier railroads operating in South Carolina.

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

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

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

1. Determine its budget without another government's having the authority to approve and modify that budget.

2. Levy taxes or set rates or charges without approval by another government.

3. Issue bonded debt without approval by another government.

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

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 ("GASB").

The Division maintains separate accounting of its two operating divisions: 1) the Charleston Subdivision and the North Charleston Subdivision, and 2) the Charity Church Subdivision.

The Division also reports the Economic Development Project Fund to account for land and land improvement contributions received from the South Carolina Department of Commerce which were purchased using proceeds from the State of South Carolina's General Obligation Bond Fund. Presented here are the financial statements of the three funds of the South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto 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 position is reported in three components: (1) net investment in capital assets, (2) restricted and (3) unrestricted. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. 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.

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.

Significant New Accounting Standards Adopted – Change in Accounting Principle

The Division implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB #68") and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* ("GASB #71" and collectively "Statements") in the year ended December 31, 2015. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. In addition, state and local governments who participate in a cost-sharing multiple employer plan are now required to recognize a liability for their proportionate share of the net pension liability of that plan. It is GASB's intention that these Statements will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Division's financial obligations to current and former employees for past services rendered.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant New Accounting Standards Adopted – Change in Accounting Principle (Continued)

In particular, these Statements require the Division to recognize a net pension liability, deferred outflows of resources, and deferred inflows of resources for its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System ("Plans"), cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

The adoption of these Statements has resulted in the restatement of the Division's net position as of January 1, 2015 to reflect the reporting of net pension liabilities, deferred inflows of resources, and deferred outflows of resources for each of its qualified Plans in accordance with the provisions of these Statements. Net position of the Division as of January 1, 2015 was decreased by $5,617,304, reflecting the cumulative change in accounting principle related to the adoption of these Statements. See Note 10 for more information regarding the Division's retirement plans.

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. 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 per 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:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment (Continued)

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.

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

Intra-division Transactions and Balances

Transactions among the subdivisions of the Division have been eliminated for purposes of the combined financial statements presented herein. Administration overhead incurred is divided between CHS-NCS and CCS. Overhead of the subdivisions is split, 56% to CCS and 44% to CHS-NCS. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and invest in certain debt obligations 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 include investments in short-term, highly liquid securities having an original maturity of three months or less.

Cash equivalents: The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and 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 agencies' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value.

The Division only has special deposit accounts. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the agency's percentage of ownership in the pool.

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Division currently has one type of deferred outflows of resources. The Division reports deferred pension charges in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. These deferred pension charges are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Division currently has one type of deferred inflows of resources. The Division reports deferred pension credits in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System. These deferred pension credits are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the Statement of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

The Division recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Division's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the Division's fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Other Postemployment Benefits

Other post-employment benefits ("OPEB") cost for retiree healthcare and similar non-pension retiree benefits is required to be measured and disclosed using the accrual basis of accounting (see Note 11 for more information). Annual OPEB cost is equal to the annual required contributions to the OPEB Plan, calculated in accordance with GAAP.

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, 2015, 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. Assets of $451,136 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. Also, in 1997 CHS-NCS exchanged certain assets with the State Ports Authority. The assets received from the State Ports Authority were recorded on CHS-NCS'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 CCS. 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 Base. The property, which includes 240 acres of land and approximately 65 buildings, was deeded to the Division for nominal consideration on December 15, 2010 and is reported on CHS-NCS's books at the fair value as of the date of acquisition. CHSA, LLC had no ongoing operations during the year ended December 31, 2015.

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 Base. 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. In August 2014, the Division transferred the property and lease to the City of North Charleston as required by the Settlement Agreement and Release, see below and Notes 6 and 14.

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. As part of the agreement, the Division assumed $6,360,000 in Tax Increment Financing ("TIF") Bonds for the Navy Base Redevelopment Project. The Division also agreed to pay $8,000,000 to the City of North Charleston (the "City") to mitigate rail access impacts. The $6,360,000 and $8,000,000 are included as construction in progress of the proposed Intermodal Container Transfer Facility. The Agreement also required the Division and the City to transfer property to one another. The first transfer occurred in August 2014. See Notes 14 and 15.

On October 9, 2013, the Division purchased land and several office and warehouse buildings on the former Navy Yard from the Noisette Company, LLC, Navy Yard New Market I, LLC and 10 Storehouse Row, LLC. The purchase price was $10,668,000.

NOTE 4 - PROPERTY, PLANT, EQUIPMENT, AND DEPOSITS TO PURCHASE LAND (CONTINUED)

During 2015 the Division recorded $39,408,288 in land improvements to the 468 acres of land acquired in December 2013 related to a lease agreement with the Boeing Company. See Note 6. The land purchase price of $49,092,700 and the land improvement costs were paid by the South Carolina Department of Commerce, who subsequently donated the assets to the Division.

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

CHS-NCS

	Balance 12/31/2014	Transfers In (Out)	Additions	Deletions	Balance 12/31/2015
Non-depreciable capital assets:					
Land	$ 23,526,989	3,956,694	11,639	162,079	$ 27,333,243
Land improvements	3,507,686	-	-	-	3,507,686
Non-depreciable road	9,593,662	-	-	-	9,593,662
Projects under construction	26,483,886	(4,567,339)	13,617,100	-	35,533,647
Total non-depreciable capital assets	63,112,223	(610,645)	13,628,739	162,079	75,968,238
Depreciable capital assets:					
Fencing	51,478	-	-	-	51,478
Buildings	16,721,800	289,471	17,925	-	17,029,196
Machinery and equipment	5,403,510	376,764	322,331	109,483	5,993,122
Depreciable road	246,509	-	-	-	246,509
Leasehold improvements	184,106	-	-	-	184,106
Total depreciable capital assets	22,607,403	666,235	340,256	109,483	23,504,411
Accumulated depreciation:					
Fencing	51,479	-	-	-	51,479
Buildings	1,712,012	-	470,747	-	2,182,759
Machinery and equipment	3,110,241	195,776	323,579	95,305	3,534,291
Depreciable road	59,533	-	16,332	-	75,865
Leasehold improvements	155,042	-	29,064	-	184,106
Total accumulated depreciation	5,088,307	195,776	839,722	95,305	6,028,500
Net depreciable capital assets	17,519,096	470,459	(499,466)	14,178	17,475,911
Net capital assets	$ 80,631,319	(140,186)	13,129,273	176,257	$ 93,444,149

NOTE 4 - PROPERTY, PLANT, EQUIPMENT, AND DEPOSITS TO PURCHASE LAND (CONTINUED)

CCS

	Balance 12/31/2014	Transfers In (Out)	Additions	Deletions	Balance 12/31/2015
Non-depreciable capital assets:					
Land	$ 627,419	-	-	-	$ 627,419
Land improvements	6,027,549	-	-	-	6,027,549
Non-depreciable road	3,503,437	-	-	-	3,503,437
Total non-depreciable capital assets	10,158,405	-	-	-	10,158,405
Depreciable capital assets:					
Buildings	914,273	-	-	-	914,273
Machinery and equipment	2,015,517	(55,590)	-	-	1,959,927
Depreciable road	945,851	-	-	-	945,851
Total depreciable capital assets	3,875,641	(55,590)	-	-	3,820,051
Accumulated depreciation:					
Buildings	841,870	-	18,925	-	860,795
Machinery and equipment	939,958	(195,776)	110,377	-	854,559
Depreciable road	424,964	-	13,413	-	438,377
Total accumulated depreciation	2,206,792	(195,776)	142,715	-	2,153,731
Net depreciable capital assets	1,668,849	140,186	(142,715)	-	1,666,320
Net capital assets	$ 11,827,254	140,186	(142,715)	-	$ 11,824,725

Economic Development Project Fund

	Balance 12/31/2014	Transfers In (Out)	Additions	Deletions	Balance 12/31/2015
Non-depreciable capital assets:					
Land	$ 61,654,910	-	39,408,288	-	$ 101,063,198
Total non-depreciable capital assets	61,654,910	-	39,408,288	-	101,063,198
Net capital assets	$ 61,654,910	-	39,408,288	-	$ 101,063,198

NOTE 4 - PROPERTY, PLANT, EQUIPMENT, AND DEPOSITS TO PURCHASE LAND (CONTINUED)

COMBINED

	Balance 12/31/2014	Transfers In (Out)	Additions	Deletions	Balance 12/31/2015
Non-depreciable capital assets:					
Land	$ 73,247,119	3,956,694	39,419,927	162,079	$ 116,461,661
Land improvements	22,097,434	-	-	-	22,097,434
Non-depreciable road	13,097,099	-	-	-	13,097,099
Projects under construction	26,483,886	(4,567,339)	13,617,100	-	35,533,647
Total non-depreciable capital assets	134,925,538	(610,645)	53,037,027	162,079	187,189,841
Depreciable capital assets:					
Fencing	51,478	-	-	-	51,478
Buildings	17,636,073	289,471	17,925	-	17,943,469
Machinery and equipment	7,419,027	321,174	322,331	109,483	7,953,049
Depreciable road	1,192,360	-	-	-	1,192,360
Leasehold improvements	184,106	-	-	-	184,106
Total depreciable capital assets	26,483,044	610,645	340,256	109,483	27,324,462
Accumulated depreciation:					
Fencing	51,479	-	-	-	51,479
Buildings	2,553,882	-	489,672	-	3,043,554
Machinery and equipment	4,050,199	-	433,956	95,305	4,388,850
Depreciable road	484,497	-	29,745	-	514,242
Leasehold improvements	155,042	-	29,064	-	184,106
Total accumulated depreciation	7,295,099	-	982,437	95,305	8,182,231
Net depreciable capital assets	19,187,945	610,645	(642,181)	14,178	19,142,231
Net capital assets	$ 154,113,483	-	52,394,846	176,257	$ 206,332,072

Depreciation expense for the period by subdivision and in total was as follows: CHS-NCS $839,722 and CCS $142,715, Total - $982,437. Included in other rental income-net is $384,858 of depreciation on buildings that are held for rent and included in administration expenses is $29,065 of depreciation on the administration building. The cost of the leased buildings is $14,243,177 and net book value is $13,147,716. The majority of these assets were acquired as part of the Greystar purchase in paragraph 2 and the Noisette Company, LLC, Navy Yard New Market I, LLC and 10 Storehouse Row, LLC purchases in paragraph 5 of this note. See Note 9.

The Division had remaining construction commitments of $18,136,754 as of December 31, 2015 relating to construction at the Intermodal Container Transfer Facility and entered into an additional $1,755,412 subsequent to December 31, 2015.

During the year ended December 31, 2015, CHS-NCS transferred two locomotives with a net book value of $556,207 to CCS and received two locomotives with a net book value of $416,021. The difference in net book values of $140,186 is shown as net transfers in the CHS-NCS and CCS detailed schedules above and was paid to CCS by CHS-NCS.

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 – UNEARNED REVENUE/OPERATING LEASES/OPERATING RENTAL REVENUE

Effective March 4, 1994, CHS-NCS began leasing land and improvements in Spartanburg County, South Carolina for $200,000 a year. The lease is for ten years with two ten-year options to renew. During the lease term the lessee has the right to purchase the land and improvements for CHS-NCS'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 Division's total investment in this project ended up being $4,365,595 which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 2014 was $200,000 and at March 4, 2015 was $200,000. The land is used as a railroad spur to the BMW plant. In February 2014, this lease was extended for the final 10 year renewal term through March 3, 2024. During 2015, $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 $489,110 in 2015 and is included in freight income.

CHS-NCS received rental revenue from the North Charleston Terminal Company in the amount of $193,678 for 2015. This rental revenue accounts for rents received for January through mid-August, at which point the Division assumed operations at Cosgrove yard.

On December 15, 2010 the Division was deeded over approximately 240 acres of property and approximately 65 buildings at the former Navy Base and on October 9, 2013 the Division purchased additional property and buildings, see Note 4 and Note 9. The property has several commercial leases ranging from month to month leases to nine year leases. See Note 9 for total revenue and expenses related to the property.

NOTE 6 - UNEARNED REVENUE/OPERATING LEASES/OPERATING RENTAL REVENUE (CONTINUED)

In December 2013, the Division entered into agreements with the Boeing Company for the development of a total of approximately 468 acres of land through December 31, 2027 with one six-year and six five-year options to renew. In consideration for the exclusive use of the leased property, the Boeing Company agreed to pay $1.00 per year for each year of the initial lease term. Additional rent provisions will be applicable for the extension terms. In consideration of the Boeing Company's planned improvements to and use of the property, the Boeing Company will have the option of purchasing the property, including any improvements, for a purchase price equal to the price paid on behalf of the Division to acquire the property. The option to purchase may be exercised at the end of the initial lease term or during any extension term.

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

2016	$ 2,528,272
2017	2,034,544
2018	1,281,249
2019	1,138,949
2020	1,088,780
2021-2024	1,919,369
	$ 9,991,163

NOTE 7 – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligation activity for the year ended December 31, 2015:

	January 1, 2015	Increases	Decreases	December 31, 2015	Due Within One Year
Compensated absences:					
CHS-NCS	$ 135,867	72,209	102,402	105,674	$ 105,674
CCS	172,921	91,903	130,330	134,494	134,494
	308,788	164,112	232,732	240,168	240,168
Legal Settlement	4,000,000	-	2,000,000	2,000,000	2,000,000
Notes Payable	-	8,000,000	-	8,000,000	-
TIF Bonds Payable	6,055,000	-	160,000	5,895,000	165,000
Total long-term obligations	$10,363,788	8,164,112	2,392,732	16,135,168	$ 2,405,168

NOTE 7 – LONG-TERM OBLIGATIONS (CONTINUED)

The note payable represents an interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development in an amount not to exceed $50 million. The loan matures and must be repaid in full by June 30, 2017, but is payable on demand with sixty days written notice from the Coordinating Council or the Division. The loan proceeds are being used for civil work costs related to the Intermodal Container Transfer Facility until the Division secures long-term financing for the project. Once obtained, the proceeds from the long-term financing will be used to repay the loan.

See Notes 14 and 15 for a detail description of the legal settlement and the TIF bonds payable.

NOTE 8 – OTHER REVENUE

The category under "Operating Revenues" entitled "Other Revenue," is used to report miscellaneous income. For the year ended December 31, 2015 it consists of offset charges of $116,847 received by CHS-NCS from the State Ports Authority (SPA) - see Note 12.

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

The Division leases several buildings and parking spaces on the former Navy Base. The revenue and expenses for 2015 were as follows:

Rental revenue - Navy Base	$ 2,539,100
Rental revenue - Other	7,075
	2,546,175
Less: expenses	
Depreciation	384,858
Landscaping and janitorial	331,803
Professional fees	22,100
Utilities	320,533
Maintenance	189,736
Security	24,216
Property tax and disposal fees	55,513
Insurance	34,439
Other	25,596
	1,388,794
Net Income	$ 1,157,381

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS

The Division participates in the State of South Carolina's retirement plans, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board ("Board") decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the State.

Plan Description

The South Carolina Retirement System ("SCRS"), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public Divisions, and political subdivisions.

The State Optional Retirement Program ("State ORP") is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System ("PORS"), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Plan Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Membership (Continued)

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

- State ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

Plan Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Benefits (Continued)

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

  The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

  The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for the SCRS and 5 percent for the PORS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one half of one percent per year.

As noted above, both employees and the Division are required to contribute to the Plans at rates established and as amended by the PEBA. The Division's contributions are actuarially determined but are communicated to and paid by the Division as a percentage of the employees' annual eligible compensation as follows for the past three fiscal years:

	SCRS and State ORP Rates				PORS Rates			
	Effective Date				Effective Date			
	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2012	7/1/2013	7/1/2014	7/1/2015
Employer Rate:								
Retirement *	10.45%	10.45%	10.75%	10.91%	11.90%	12.44%	13.01%	13.34%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%	0.20%
	10.60%	10.60%	10.90%	11.06%	12.30%	12.84%	13.41%	13.74%
Employee Rate	7.00%	7.50%	8.00%	8.16%	7.00%	7.84%	8.41%	8.74%

* Of the rate for the State ORP Plan, 5% of earnable compensation must be remitted by the employer direct to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

The required contributions and percentages of amounts contributed by the Division to the Plans for the past three years were as follows:

Year Ended	SCRS Contributions		State ORP Contributions		PORS Contributions	
December 31,	Required	% Contributed	Required	% Contributed	Required	% Contributed
2015	$ 398,523	100%	51,822	100%	$ 6,947	100%
2014	318,469	100%	21,989	100%	6,521	100%
2013	$ 227,334	100%	17,357	100%	$ 6,290	100%

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Contributions (Continued)

Eligible payrolls of the Division covered under the Plans for the past three years were as follows:

Year Ended December 31,		SCRS Payroll	State ORP Payroll	PORS Payroll		Total Payroll
2015	$	3,626,806	471,722	51,171	$	3,677,977
2014		2,961,075	204,452	49,680		3,010,755
2013	$	2,616,362	163,750	50,084	$	2,666,446

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revisions, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires than an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015 total pension liability, net pension liability, and sensitivity information were determined by the PEBA's consulting actuary, Gabriel, Roeder, Smith and Company and are based on the July 1, 2014 actuarial valuations as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015 using generally accepted actuarial principles.

The following table provides a summary of the actuarial cost method and assumptions used in the July 1, 2014, valuations for SCRS and PORS.

	SCRS	PORS
Actuarial Cost Method	Entry Age	Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Salary Increases	3.5% to 12.5% (varies by service)	4.0% to 10.0% (varies by service)
Includes Inflation at	2.75%	2.75%
Benefit Adjustments	Lesser of 1% or $500 annually	Lesser of 1% or $500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014 valuations for the SCRS and PORS are as follows:

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Actuarial Assumptions and Methods (Continued)

Former Job Class	Males	Females
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Net Pension Liability

The net pension liability ("NPL") is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals as of June 30, 2015 for the SCRS and PORS are presented in the following table:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 44,097,310,230	25,131,828,101	$ 18,965,482,129	56.99%
PORS	$ 6,151,321,222	3,971,824,838	$ 2,179,496,384	64.57%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

At December 31, 2015, the Division reported liabilities of $6,765,556 and $88,706 for its proportionate share of the net pension liabilities for the SCRS and PORS ("Plans"), respectively. The net pension liabilities were measured as of June 30, 2015, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2014 that was projected forward to the measurement date.

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Net Pension Liability (Continued)

The Division's proportion of the net pension liabilities were based on a projection of the Division's long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At June 30, 2015, the Division's SCRS proportion was .03567 percent, which was an increase of 0.00427 percent from its proportion measured as of June 30, 2014. At June 30, 2015, the Division's PORS proportion was .00407 percent, which was an increase of 0.00001 from its proportion measured as of June 30, 2014.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014 actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission ("RSIC") in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted by the RSIC for fiscal year 2015. The long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Long-term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	**5.0%**		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	**13.0%**		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	**9.0%**		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	**31.0%**	7.10%	2.20%
Global Tactical Asset Allocation	**10.0%**	4.90%	0.49%
Alternatives	**32.0%**		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of the Division's proportionate share of the net pension liability of the Plans to changes in the discount rate, calculated using the discount rate of 7.5 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.5 percent) or 1% point higher (8.5 percent) than the current rate:

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Discount Rate (Continued)

System		1% Decrease (6.5%)	Current Discount Rate (7.5%)		1% Increase (8.5%)
The Division's proportionate share of the net pension liability of the SCRS	$	8,529,433	6,765,556	$	5,287,203
The Division's proportionate share of the net pension liability of the PORS	$	120,838	88,706	$	59,981

Pension Expense and Deferred Outflows/Inflows Related to Pensions

For the year ended December 31, 2015, the Division recognized pension expense of approximately $678,000 and $8,000 for the SCRS and PORS, respectively. At December 31, 2015, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		Deferred Outflows of Resources		Deferred Inflows of Resources
SCRS				
Differences Between Expected and Actual Experience	$	120,201	$	12,099
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		45,285		-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions		589,742		-
The Division's Contributions Subsequent to the Measurement Date		236,601		-
Total SCRS		991,829		12,099
PORS				
Differences Between Expected and Actual Experience		1,758		-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		970		-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions		139		-
The Division's Contributions Subsequent to the Measurement Date		3,515		-
Total PORS		6,382		-
Total SCRS and PORS	$	998,211	$	12,099

The amount reported as deferred outflows of resources includes $236,601 and $3,515 related to the Division’s contributions subsequent to the measurement date to the SCRS and PORS, respectively, which will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the SCRS and PORS will be recognized in pension expense as follows:

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Pension Expense and Deferred Outflows/Inflows Related to Pensions (Continued)

Year Ended June 30,	SCRS	PORS	Total
2016	$ 215,356	313	$ 215,669
2017	215,356	313	215,669
2018	174,069	235	174,304
2019	138,348	2,006	140,354
Total	$ 743,129	2,867	$ 745,996

Plans Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

Payable to Plans

The Division reported payables of approximately $97,000 and $1,000 to the PEBA as of December 31, 2015, representing required employer and employee contributions for the month of December 2015 for the SCRS and PORS, respectively. These amounts are included in Accrued Employee Benefits on the financial statements and were paid in January 2016.

Railroad Retirement System

The Division contributed $851,624 this year to the U.S. Railroad Retirement System, which covers all employees. CHS-NCS contributed $486,642 and CCS $364,982. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2015, wages up to $118,500 were funded at 6.2 percent by the Division and 6.2 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 $88,200 at 13.1 percent to meet Tier II funding requirements. Employees paid 4.9 percent on wages up to $88,200.

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 – OTHER POSTEMPLOYMENT BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina ("State") provides health, dental, and long-term disability benefits ("OPEB Plan") 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 health and dental benefits if they have established at least ten years of retirement service credit. For new hires on May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four 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.

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 though annual appropriations by the State General Assembly for active employees to the IB and participating retirees to the PEBA, except the portion funded through the pension surcharge and provided from other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the SCRHITF are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.33% of annual covered payroll effective July 1, 2015, 5.00% of annual covered payroll effective July 1, 2014, and 4.92% of annual covered payroll effective July 1, 2013. The actual required employer contribution surcharge amounts were approximately $215,000, $160,000, and $134,000 for the years ended December 31, 2015, 2014, and 2013, respectively. The actual contribution rates and amounts were 100% of the required employer contribution surcharge percentages and amounts for the OPEB Plan for all years presented. The IB sets the employer contribution rate based on a pay-as-you-go basis. 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 years ended December 31, 2015, 2014, and 2013.

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 health 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.

A copy of the complete financial statements for the benefit plans and the trust funds may be obtained from the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, SC 29211-1960.

NOTE 12 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

During 2015, the Division entered into an interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development in an amount not to exceed $50 million. The loan matures and must be repaid in full by June 30, 2017, but is payable on demand with sixty days written notice from the Coordinating Council or the Division. The loan proceeds are being used for civil work costs related to the Intermodal Container Transfer Facility until the Division secures long-term financing for the project. Once obtained, the proceeds from the long-term financing will be used to repay the loan. See Note 7 regarding long-term obligations.

The Ports Authority pays CHS-NCS 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 CHS-NCS to incur additional operating costs. The Ports Authority continues to pay CHS-NCS 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 CHS-NCS was $116,847 in 2015 and is included in other operating revenues. See Note 8 regarding other revenue.

Other amounts in accounts payable for CCS and CHS-NCS are normal monthly amounts initially paid by one subdivision 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 the PEBA. The Division had financial transactions with various State agencies during the year. Payments made in 2015 to the State Fiscal Accountability Authority were primarily for insurance coverage.

NOTE 13 - OPERATING LEASES

The Division and the South Carolina State Ports Authority entered into an agreement, effective July 1, 1976, allowing the Division to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The 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 2015. 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.

NOTE 14 – SETTLEMENT AGREEMENT AND RELEASE

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 on the former Navy Base.

NOTE 14 – SETTLEMENT AGREEMENT AND RELEASE (CONTINUED)

The terms of the agreement are as follows:

1. The Division will pay North Charleston $8,000,000 over 4 years 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.
2. The Division will assume approximately $6,500,000 in 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 Base.

In August 2014, the first round of transfers noted above in 3. and 4. occurred. The Division transferred approximately $6,035,000 of land, buildings and deferred rent to the City of North Charleston and the Division received land and buildings from the City of the same approximate value.

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 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 (.11% at June 30, 2015), as determined by the remarketing agent, payable each month. The balance outstanding at December 31, 2015 was $5,895,000.

Future principal payments of the bonds are as follows:

2016	$ 165,000
2017	175,000
2018	180,000
2019	190,000
2020	195,000
2021-2025	1,125,000
2026-2030	1,380,000
2031-2035	1,700,000
2036-2037	785,000
Total	$ 5,895,000

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 (PEBA – Insurance Benefits Division); and

2. Claims of covered public employees for long-term disability and group-life insurance benefits (PEBA – Insurance Benefits Division).

Employees elect health coverage through either a health maintenance organization or through the State's 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 Division and other entities pay premiums to the State's 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 $500 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 PEBA – Insurance Benefits Division and in IRF.

NOTE 16 - RISK MANAGEMENT (CONTINUED)

The Division purchases insurance, which covers all subdivisions, 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 workmen's' 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 2015 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 – COMMITMENTS, 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. The Division has undertaken condemnation actions on certain properties in connection with the Intermodal Container Transfer Facility to be constructed in North Charleston, South Carolina. The Division has determined just compensation in the outstanding condemnation actions to be in excess of $13,800,000; however, the Division anticipates the resolution of the condemnation actions will involve exchanges of land in lieu of cash.

NOTE 18 – ENTERPRISE FUND INFORMATION

Charges for services	$	15,225,173
Capital grant and contributions		39,408,288
Less: expenses		(11,601,700)
Net program revenue		43,031,761
Interest income and gain (loss) on sale of investments		(33,230)
Miscellaneous revenue		64,797
Gain (loss) on sale or disposal of fixed assets		102,654
Net general revenue		134,221
Change in net position		43,165,982
Net position – beginning of year – as previously reported		146,384,736
Cumulative change in accounting principle		(5,617,304)
Net position – beginning of year – restated		146,384,736
Net position – end of year	$	189,550,718

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.

NOTE 19 – INTERFUND BALANCES

Interfund balances at December 31, 2015 (which are expected to be received or paid within one year), consisted of the following individual fund receivables and payables:

Fund		Receivables		Payables
CHS-NCS	$	563,260	$	-
CCS		-		563,260
Totals	$	563,260	$	563,260

The receivables and payables are primarily the result of expenses for CCS being paid using the CHS-NCS cash account. These interfund receivables and payables were relieved subsequent to December 31, 2015.

NOTE 20 – INTERFUND TRANSFERS

Transfers from (to) other funds for the year ended December 31, 2015 consisted of the following:

Fund	Transfers from	Transfers to
CHS-NCS	$ 1,575,786	$ -
CCS	-	1,575,786
Totals	$ 1,575,786	$ 1,575,786

These transfers were made in order to help fund the Intermodal Container Transfer Facility project.

NOTE 21 – SUBSEQUENT EVENTS

Subsequent to December 31, 2015, the Division made $6,000,000 in additional draws on the interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PALMETTO RAILWAYS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY SOUTH CAROLINA RETIREMENT SYSTEM

LAST TWO FISCAL YEARS

	Year Ended December 31,	
	2015	**2014**
Palmetto Railways' Proportion of the Net Pension Liability	0.03567%	0.03140%
Palmetto Railways' Proportionate Share of the Net Pension Liability	$ 6,765,556	$ 5,406,556
Palmetto Railways' Covered-Employee Payroll	$ 3,157,875	$ 2,748,612
Palmetto Railways' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	214.24%	196.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.992%	59.919%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the year presented. Only two years of data were available; thus, only two years were presented.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PALMETTO RAILWAYS' CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM

LAST TWO FISCAL YEARS

	Year Ended December 31,	
	2015	**2014**
Contractually Required Contribution	$ 426,759	$ 330,236
Contributions in Relation to the Contractually Required Contribution	426,759	330,236
Contribution Deficiency (Excess)	$ -	$ -
Palmetto Railways' Covered-Employee Payroll	$ 3,626,806	$ 2,961,075
Contributions as a Percentage of Covered-Employee Payroll	11.77%	11.15%

Notes to Schedule:

Only two years of data were available; thus, only two years were presented.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PALMETTO RAILWAYS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY POLICE OFFICERS RETIREMENT SYSTEM

LAST TWO FISCAL YEARS

	Year Ended December 31,	
	2015	**2014**
Palmetto Railways' Proportion of the Net Pension Liability	0.00407%	0.00406%
Palmetto Railways' Proportionate Share of the Net Pension Liability	$ 88,706	$ 77,745
Palmetto Railways' Covered-Employee Payroll	$ 50,425	$ 48,840
Palmetto Railways' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	175.92%	159.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.57%	67.55%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the year presented. Only two years of data were available; thus, only two years were presented.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PALMETTO RAILWAYS' CONTRIBUTIONS
POLICE OFFICERS RETIREMENT SYSTEM

LAST TWO FISCAL YEARS

	Year Ended December 31,	
	2015	**2014**
Contractually Required Contribution	$ 6,947	$ 6,521
Contributions in Relation to the Contractually Required Contribution	6,947	6,521
Contribution Deficiency (Excess)	$ -	$ -
Palmetto Railways' Covered-Employee Payroll	$ 51,171	$ 49,680
Contributions as a Percentage of Covered-Employee Payroll	13.58%	13.13%

Notes to Schedule:

Only two years of data were available; thus, only two years were presented.

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*

INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the 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 of the South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the "Division") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated April 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's 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 a 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
April 29, 2016