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

**PORT UTILITIES COMMISSION
AND
PORT TERMINAL RAILROAD**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

State of South Carolina

Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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September 18, 2002

The Honorable Jim Hodges, Governor
and
Mr. Charles S. Way, Jr., Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the Port Utilities Commission and Port Terminal Railroad, a division of the South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 2001, was issued by Wilkes & Company, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

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

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FINANCIAL STATEMENTS

WILKES & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Port Utilities Commission and Port Terminal Railroad, a division of the South Carolina Department of Commerce - Division of Public Railways, as of December 31, 2001, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, the financial statements of the Port Utilities Commission and Port Terminal Railroad are intended to present the financial position, results of operations, and the cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Port Utilities Commission and Port Terminal Railroad, an enterprise fund of the State. These financial statements do not include other funds or enterprises of the Division of Public Railways, Department of Commerce, or the State or any component units of the States. These financial statements are not intended to present fairly the financial position of the State of South Carolina primary government or financial reporting entity of the South Carolina Department of Commerce - Division of Public Railways and the results of their operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Port Utilities Commission and Port Terminal Railroad, as of December 31, 2001, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 2 to the financial statements, the Railroad adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Managements Discussion and Analysis-For State and Local Governments*; and Statement No. 37, *Basic Financial Statements- and Managements Discussion and Analysis-For State and Local Governments: Omnibus,* as of January 1,2001. This results in a change in the format and content of the financial statements.

Wilkes & Company

Columbia, South Carolina
July 31, 2002

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

STATEMENT OF NET ASSETS
DECEMBER 31, 2001

ASSETS

Current Assets:		
Cash and cash equivalents	$	5,731,276
Accounts receivable		613,659
Accounts receivable from other divisions		183,887
Bond receivable - Marlboro County		114,686
Interest receivable		73,041
Inventories		82,191
Prepayments		7,803
Total Current Assets		6,806,543
Property, Plant, and Equipment, Net of Accumulated Depreciation of $1,988,720		13,236,280
Other Asset:		
Bond receivable - Marlboro County		273,889
Total Other Asset		273,889
Total Assets	$	20,316,712

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	$	68,417
Accounts payable to other divisions		194,571
Payroll taxes withheld and accrued employee benefits		26,277
Accrued annual leave and benefits		38,435
Note payable - current		1,860
Deferred revenue		36,234
Total Current Liabilities		365,794

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

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

STATEMENT OF NET ASSETS
DECEMBER 31, 2001

Long-Term Liabilities:	
Note payable	18,137
Total Long-Term Liabilities	18,137
Total Liabilities	383,931
Net Assets:	
Invested in capital assets, net of related debt	13,216,283
Unrestricted	6,716,498
Total Net Assets	19,932,781
Total Liabilities and Net Assets	$ 20,316,712

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2001

Operating Revenues:	
Switching fees	$ 1,898,019
Use of engine	82,424
Other	94,610
Total Operating Revenues	2,075,053
Operating Expenses:	
Railway operating expenses:	
Maintenance of way and structures:	
Depreciation	59,734
Other maintenance of way expenses	191,054
Total Maintenance of Way and Structures	250,788
Maintenance of equipment:	
Superintendence	21,834
Depreciation	82,894
Other equipment expenses	122,309
Total Maintenance of Equipment	227,037
Transportation:	
Superintendence	54,621
Yard employees	453,332
Other transportation expenses	270,776
Total Transportation	778,729
General:	
Administration	345,487
Insurance	29,266
Total General	374,753
Total Railway Operating Expenses	1,631,307

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2001

Other general operating expenses:	
Hire of freight cars	9,450
Total Other General Operating Expenses	9,450
Total Operating Expenses	1,640,757
Operating Income	434,296
Nonoperating Revenues (Expenses):	
Rental income	603,399
Interest income	396,484
Interest expense	(553)
Management fees	90,000
Depreciation non-operating equipment	(56,144)
Loss on disposal of fixed assets	(10,046)
SC Coordinating Council – Industrial Development Grant	800,000
Industrial development Expenses	(558,003)
Other income, net	323,217
Net Nonoperating Revenues (Expenses)	1,588,354
Income before Transfers	2,022,650
Transfers to SC Department of Commerce	(1,340,428)
Net Income	682,222
Net Assets:	
Beginning of year, as restated	19,250,559
End of year	$ 19,932,781

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

Cash Flows From Operating Activities:	
Cash received from customers	$ 1,970,130
Cash payments to suppliers and employees	(2,032,427)
Rents received	641,529
Management fees received	97,500
Grant received	800,000
Other income received	282,143
Net Cash Provided by Operating Activities	1,758,875
Cash Flows From Non-Capital Financing Activities:	
Repayment of advance to ECBR	1,387,869
Payments on behalf of the Department of Commerce	(1,340,428)
Net Cash Provided by Non-Capital Financing Activities	47,441
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(1,858,025)
Principal paid on note payable	(1,752)
Cash received from sale of assets	225
Interest paid	(553)
Net Cash (Used) by Capital and Related Financing Activities	(1,860,105)
Cash Flows From Investing Activities:	
Bond principal received from Marlboro County	264,425
Investment income	420,117
Net Cash Provided by Investing Activities	684,542
Net Increase in Cash and Cash Equivalents	630,753
Cash and Cash Equivalents, Beginning of Year	5,100,523
Cash and Cash Equivalents, End of Year	$ 5,731,276
Reconciliation of Operating Income to Net Cash Flows From Operating Activities:	
Operating income	$ 434,296
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	142,628
Depreciation charged to sister division	21,966
Nonoperating Revenues (Expenses)	1,258,613
(Increase) decrease in assets:	
Accounts receivable	(140,444)
Accounts receivable from other divisions	(37,023)
Inventories	447
Prepayments	11,000
Increase (decrease) in liabilities:	
Accounts payable	33,693
Accounts payable to other divisions	70,531
Accrued payroll	(1,055)
Payroll taxes withheld and accrued employee benefits	(8,167)
Accrued annual leave	(23,390)
Deferred revenue	(4,220)
Net Cash Provided by Operating Activities	1,758,875

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1 - REPORTING ENTITY

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

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

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

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

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

(3) Issue bonded debt without approval by another government.

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

The Port Utilities Commission and Port Terminal Railroad (PUC-PTR) is part of the State of South Carolina Primary Government. PUC-PTR is reported within the Public Railways Divisions enterprise fund in the State's Comprehensive Annual Financial Report.

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

PUC-PTR adheres to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

The South Carolina Department of Commerce - Division of Public Railways is required by State Law (58-19-110) to maintain separate accounting of its three divisions: the Port Utilities Commission and Port Terminal Railroad, the East Cooper and Berkeley Railroad, and the Tangent Transportation Company. Presented here are the financial statements of the Port Utilities Commission and Port Terminal Railroad of the South Carolina Department of Commerce Division of Public Railways.

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

Effect of Application of New Accounting Principle

The Governmental Accounting Standards Board issued Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. This new accounting and reporting standard did not substantially effect recognition of assets, liabilities and fund equity. The only effects were the changes in capitalization policy noted under property, plant and equipment, using the direct method for the statement of cash flows and certain changes in terminology and classification. The changes in capitalization policy as noted in property, plant and equipment resulting in restating the previously reported net assets of $19,286,833 to $19,250,559.

Fund Accounting

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

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

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services for such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Enterprise funds account for activities that are self sustaining, primarily through user charges or are used when management wants to control or measure costs of services.

Property, Plant, and Equipment

Except for track and roadway, fixed assets with a unit acquisition cost in excess of $5,000 are capitalized and depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Estimated useful lives are as follows:

Buildings	20 - 40 years
Equipment	3 - 25 years
Leasehold improvements	5 years

In compliance with the State of South Carolina's capitalization policy implemented as a result of the adoption of GASB 34, the cost of assets capitalized was changed from $2,000 to $5,000 and those assets previously capitalized that were less than $5,000 were written off. Total cost of assets written off in the current year as a result of the implementation of GASB 34, was $155,657 and accumulated depreciation was $119,383 with a resulting loss of $36,274, which is reported as a restatement of beginning net assets.

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

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

See Note 5 regarding valuation of property donated by the Ports Authority and exchanged with the Ports Authority.

Inventories

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

Policy for Uncollectible Accounts

At year end management reviews past due accounts receivable and recognizes bad debt expense for those accounts determined to be uncollectible. This method is not in conformity with generally accepted accounting principles which requires accounts receivable to be reported at net realizable value using an allowance for uncollectible accounts. However based on PUC-PTR's collection history, the results from using the direct write-off method are not materially different from the allowance method.

Contributed Capital

In prior years contributed capital was presented as a separate component of fund equity. As a result of the adoption of GASB 34 $4,109,429 of amounts previously shown as contributed capital have been included in components of net assets.

Statement of Cash Flows

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

Cash and Cash Equivalents

The amounts shown in the financial statements as "*cash and cash equivalents*" represent cash on deposit with the State Treasurer and cash invested in various investments by the State Treasurer as part of the State's internal cash management pool.

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Most State agencies participate in the State's internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents included investments in short-term, highly liquid securities having an original maturity of three months or less.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each agency's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Agencies record and report their deposits in the general deposit account at cost. However, agencies report their deposits in the special deposit accounts at fair value. Investments in the pool are recorded at fair value. Interest earned by the agencys' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value. PUC-PTR only has special deposit accounts. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the agency's percentage of ownership in the pool.

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

Estimates

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

NOTE 3 - DEPOSITS

All deposits of the 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, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTE 4 - RECEIVABLE - MARLBORO COUNTY

In 1997 PUC-PTR agreed to assist Marlboro county with the upgrading of Pee Dee River Railroad. The assistance was to be in the form of project management and the purchase of an $892,000 revenue bond dated March 20, 1997, which proceeds were to be used in the upgrade of the Pee Dee River Railroad.

In 2001 Marlboro County made an additional payment of interest and principal in the amount of $180,000. Including the additional payment, total principal received in 2001 from Marlboro County was $264,425 and interest received was $52,285.

Interest and principal is due on the revenue bond April 1, 2002 through April 1, 2005 as follows:

Year	Principal	Interest
2002	$ 114,686	$ 22,654
2003	117,308	19,172
2004	126,239	10,961
2005	30,342	2,124
	$ 388,575	$ 54,911

NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost with the exception of certain assets received from the State Ports Authority. $451,136 of assets acquired by the Division from the South Carolina State Ports Authority during the organization of the South Carolina Department of Commerce - Division of Public Railways are stated at the cost to the State Ports Authority, less accumulated depreciation at the time of organization. The accumulated depreciation on these assets, since acquisition by the Division, at December 31, 2001 is $30,261. Also, in 1997 the PUC-PTR Division exchanged certain assets with the State Ports Authority. The assets received from the State Ports Authority were recorded on PUC-PTR's books at book value of assets as recorded by the State Ports Authority. Amounts recorded included track and land improvements of $1,324,462 and an engine house in the amount of $1,182,402. Depreciation is computed on the straight-line method. A summary of property, plant, and equipment is as follows:

FIXED ASSETS

	Balance 1/1/01	GASB 34 Adjustments	Adjusted Balance 1/1/02	Additions	Deletions	Balance 12/31/01
Land	$ 3,903,707	$ -	$ 3,903,707	$ 113,334	$ -	$ 4,017,041
Land improvements	2,390,396	-	2,390,396	236,003	-	2,626,399
Buildings	1,445,576	(10,357)	1,435,219	36,025	-	1,471,244
Machinery and equipment	2,600,245	(145,300)	2,454,945	150,122	(18,602)	2,586,465
Non-depreciable road	2,011,885	-	2,011,885	77,374	-	2,089,259
Leasehold improvements	212,383	-	212,383	-	(7,300)	205,083
Projects under construction	924,277	-	924,277	1,305,232	-	2,229,509
Total	$ 13,488,469	$ (155,657)	$ 13,332,812	$ 1,918,090	$ (25,902)	$ 15,225,000

ACCUMULATED DEPRECIATION

	Balance 1/1/01	GASB 34 Adjustments	Adjusted Balance 1/1/02	Additions	Deletions	Balance 12/31/01
Buildings	$ 143,911	$ (9,782)	$ 134,129	$ 30,837	$ -	$ 164,966
Machinery and equipment	1,588,976	(109,601)	1,479,375	184,749	(12,650)	1,651,474
Leasehold improvements	170,109	-	170,109	5,152	(2,981)	172,280
Total	$ 1,902,996	$ (119,383)	$ 1,783,613	$ 220,738	$ (15,631)	$ 1,988,720

Depreciation expense for the period ended December 31, 2001, was $142,628, included in operating costs and $56,144 included in nonoperating expenses for a total of $198,772.

NOTE 6 - ADVANCE TO ECBR

On May 31, 1995, the Division advanced $1,387,869 to the ECBR Division to assist with the repayment of notes payable to Amoco. The advance was repaid in May, 2001.

NOTE 7 - ACCRUED ANNUAL LEAVE

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

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

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

NOTE 8 - DEFERRED REVENUE/OPERATING LEASES/NONOPERATING RENTAL REVENUE

Effective March 4, 1994, PUC-PTR began leasing land and improvements in Spartanburg County, South Carolina for $200,000 a year. The lease is for twenty years with two ten year options to renew. During the lease term the lessee has the right to purchase the land and improvements for PUC-PTR's cost not to exceed $5,000,000. The rent is paid at the beginning of each years anniversary for one year effective March 4, 1994 and will be adjusted annually based on 90 day treasury bill rates. The initial rent was based on a 4% annual return on the initial investment of $2,000,000 which is why treasury bill rates will be used to determine changes in the annual rent. PUC-PTR's total investment in this project ended up being $4,365,595, which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 1999 was $200,000 and at

March 4, 2001 was $217,407. The land is used as a railroad spur to the BMW plant. During 2001, $221,627 was recognized as nonoperating rental revenue and $36,234 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 $232,615 in 2001 and is included in other income, net, nonoperating income. See Note 11 regarding other income, net.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of $242,572 for 2001. Effective May 30, 1995, this lease was renewed. The lease is a supplemental lease to preexisting 1980 and 1986 leases. The lease expires on February 16, 2015, with automatic one year renewals unless either party serves the other with at least twelve months notice. Under the supplemental lease each years rent will be adjusted to correspond to the change in the national consumer price index ("CPI") for the previous year.

PUC-PTR rents locomotives to Amoco, Inc. on a monthly basis. Rent was $6,350 a month for 2001. Revenue for the current year for the rentals to Amoco is $76,200 and is included in nonoperating rental revenue. See Note 13 regarding interdivision rental income.

NOTE 9 - NOTES PAYABLE

On June 30, 1990, PUC-PTR borrowed from the South Carolina State Ports Authority $35,000 for certain landscaping improvements to be made at its office building being leased from the Ports Authority. The note is to be paid over 20 years at 6% interest rate. Monthly payments are $251 including interest. The outstanding balance at December 31, 2001, was $19,997. Interest of $1,257 and principal of $1,752 was paid in 2001. $704 of interest was charged to ECBR, and $553 is shown as a nonoperating expense of PUC-PTR. Interest expense is allocated between PUC-PTR (44%) and ECBR (56%) according to the operating agreement as explained in Note 13. The principal is paid entirely by PUC-PTR.

The debt service requirements for the Ports Authority note are as follows:

	Principal	Interest
2002	$ 1,860	$ 1,149
2003	1,974	1,035
2004	2,096	913
2005	2,225	783
2006	2,363	646
2007-2011	9,479	1,054
Total at present value	$ 19,997	$ 5,580

NOTE 10 - OPERATING LEASES

The Port Utilities Commission and Port Terminal Railroad Division, and the South Carolina State Ports Authority entered into an agreement, effective July 1, 1976, allowing the Division to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The monthly rental charge is $300 for the entire lease term. PUC-PTR incurred $3,600 for rental of this building for the year ended December 31, 2001. PUC-PTR is required to carry insurance for property damage and to maintain and repair the leased building. The Division is occupying these premises under a month to month lease arrangement.

NOTE 11 - OTHER INCOME, NET

The category under "Nonoperating revenues (expenses)" entitled "Other income" is used to report miscellaneous income not related to the primary operating functions of each division. It consists primarily of fees received for sale of supplies, processing (clerical) services, contracted services and insurance proceeds. A break-down of "Other income, net" for the year ended December 31, 2001, is as follows:

Sale of supplies, contractual services, and other proceeds:	
With outside parties	$ 323,217
With other divisions of the Division of Public Railways	-
Total	$ 323,217

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

NOTE 12 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Division are covered by a pension plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.4 percent which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The rate for the first six months of 2001 (effective January 1, 2001) was 10.07 percent which included a 2.52 percent surcharge. The Division's actual contributions to the SCRS for the fiscal year ended December 31, 2001 were $49,605, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for 2000 were $43,467, and for 1999 were $44,683. Also, the Division paid employer group-life insurance contributions of $989 in the current fiscal year at the rate of .15 percent of compensation.

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

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

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

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

The General Assembly amended Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2000, with some provisions effective January 1, 2001. The amendment enacted the Teacher and Employee Retention Incentive Program, reduce from thirty to twenty-eight years of credible service required to retire at any age without penalty and made other changes to the South Carolina Retirement System.

PUC-PTR contributed $158,221 this year to the U.S. Railroad Retirement System, which covers all employees. Participation is mandatory. This program is a two-tier system which is funded based on each employee's gross annual wages. Effective January 1, 2001, wages up to $80,400 were funded at 6.2% by PUC-PTR to meet Tier 1 funding requirements and all wages were funded at 1.45% by PUC-PTR to meet Tier I Medicare Funding requirements. PUC-PTR funded wages up to $59,700 at 16.1% to meet Tier II funding requirements. Employees matched the Division's Tier 1 contribution, but paid only 4.9% versus PUC-PTR's 16.1% Tier II rate on wages up to $59,700 for the maximum Tier II employee liability of $2,925. In addition, there is a supplemental charge based on hours worked in a given month. The rate is 26.5 cents per hour. The cost is borne by PUC-PTR.

This plan is administered by the U. S. Railroad Retirement Board, in accordance with the Railroad Retirement Acts.

Data concerning the actuarial status of the U.S. Railroad Retirement System as related to PUC-PTR is not available. PUC-PTR is not liable for any unfunded costs associated with the plan and recognized no contingent liability for such cost.

Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time employees of PUC-PTR are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirement, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through applicable revenue sources for PUC-PTR's active employees and the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable division revenue sources of PUC-PTR for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 21,000 State retirees meet these eligibility requirements.

PUC-PTR recorded employer contribution expenses for these insurance benefits for active employees in the amount of $124,652 for the year ended December 31, 2001. As discussed above, PUC-PTR paid $17,022 applicable to the surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

Deferred Compensation Plans

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

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the portion of contributions paid from State General Funds to 401(k) accounts of eligible state employees. The 401(k) match is limited to $300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actively contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full-time employees making less than $20,000 as of July 1, 2000, are not required to contribute in order to receive the match.

The Division did not contribute any amounts in 2001 per this provision.

NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement and insurance plan administration from various divisions of the State Budget and Control Board. PUC-PTR had financial transactions with various State agencies during the year. Payments made in 2001 to the State Budget and Control Board were primarily for insurance coverage.

The Ports Authority pays PUC-PTR monthly offset charges. In 1988, the S.C. State Ports Authority took possession of a certain area of trackage at the Port Terminal Railroad which caused PUC-PTR to incur additional operating costs. The

Ports Authority continues to pay PUC-PTR for the additional costs which equals the initial annual base amount of $58,615 adjusted for changes in the consumer price index. The amount paid to PUC-PTR was $84,685 in 2001 and is included in other non-operating revenues. See Note 11 on other income, net.

During 2001, PUC-PTR paid $1,340,428 of vendors invoices and payments directly to the Department of Commerce related to industrial development in South Carolina, as directed by the SC Department of Commerce. These payments were not related to the operations of PUC-PTR and are classified as transfers on the statement of revenues, expenses, and changes in net assets. PUC-PTR received from the Coordinating Council of the Department of Commerce and operating grant of $800,000 to assist with industrial development efforts of the Division.

At December 31, 2001 PUC-PTR's receivables include $118,293 due from the East Cooper-Berkeley Railroad, $20,204 is for reimbursement of accrued payroll taxes and $98,089 is for various services performed by PUC-PTR for ECBR. Also included in receivables is $29,593 due from the Tangent Transportation Company for various services and $36,000 for the rental of maintenance of way equipment.

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

	Year Ended December 31, 2001
Tangent Transportation Division:	
Management fees	$ 90,000
Equipment rental	60,000
Total	150,000
East Cooper and Berkeley Division:	
Equipment rental	-
Total revenues from other divisions	$ 150,000

Equipment rental to its sister divisions is arranged through a month-to-month or annual agreement, based on the needs of the divisions. Fees consist of a rental charge of $2,000 per month for use of a locomotive. Maintenance of way equipment was leased to Tangent Transportation Company at an annual amount of $36,000. Other equipment is occasionally rented at various rates based on their actual rental value.

For the year ended December 31, 2001, PUC-PTR charged Tangent Transportation Company $24,000 for rental of a locomotive and $36,000 for maintenance of way equipment.

Depreciation of $56,144 attributable to equipment leased to the other divisions but not used by PUC-PTR has been charged to nonoperating expenses.

PUC-PTR charged Tangent Transportation Company a $90,000 management fee for administrative services at the Division office.

PUC-PTR allocated to ECBR $21,966 of depreciation expense as part of the administration overhead expense allocation explained in this note. This is allocated to ECBR and not shown in the expenses of PUC-PTR.

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

At December 31, 2001, PUC-PTR owed Tangent Transportation Company $162,118 for various maintenance of way services. During 2001, PUC-PTR was charged $311,867 by Tangent for various maintenance of the way projects, of which $147,080 was capitalized. PUC-PTR also owed ECBR $32,453 for miscellaneous transactions between the two divisions.

NOTE 14 - RISK MANAGEMENT

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

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

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

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

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

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

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

3. Torts

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

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

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

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

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

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

PUC-PTR did not incur any significant losses in 2001 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. PUC-PTR reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 15 - CONTINGENCIES

There are currently several cases in litigation concerning Workmans Compensation (FELA) Claims. The outcome or potential liability to the Division or PUC-PTR is not known at this time and cannot be reasonably estimated, therefore no liability or reserve has been established at this time. Also management believes any aggregate liability, if any, would not have a material adverse effect on the financial statements. PUC-PTR has insurance in force that effectively limits their exposure to $25,000 per claim. Losses, if any on the above, would be split between PUC-PTR and ECBR in the same ratio as their overhead cost sharing percentage as explained in Note 13.

NOTE 16 - GASB 31 ADJUSTMENTS

Effective January 1, 1998, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal (and external) investment pools, this statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. The unrealized gains included in cash and cash equivalents for PUC-PTR at December 31, 2001, was $134,541.