May 24, 1999

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

This report on the audit of the financial statements of the Port Utilities Commission and Port Terminal Railroad, a division of the South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 1998, 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

TLW/sj

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

PORT UTILITIES COMMISSION
AND
PORT TERMINAL RAILROAD

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

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

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FINANCIAL STATEMENTS

<u>INDEPENDENT AUDITOR'S REPORT</u>

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, 1998, 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.

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

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the Year 2000 Issue. South Carolina Department of Commerce - Division of Public Railways, Port Utilities Commission and Port Terminal Railroad has included such disclosures in Note 18. Because of the unprecedented nature of the Year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support South Carolina Department of Commerce - Division of Public Railways, Port Utilities Commission and Port Terminal Railroad’s disclosures with respect to the Year 2000 Issue made in Note 18. Further, we do not provide assurance that South Carolina Department of Commerce - Division of Public Railways, Port Utilities Commission and Port Terminal Railroad is or will be year 2000 ready, that South Carolina Department of Commerce - Division of Public Railways, Port Utilities Commission and Port Terminal Railroad’s year 2000 remediation efforts will be successful in whole or in part, or that parties with which South Carolina Department of Commerce - Division of Public Railways, Port Utilities Commission and Port Terminal Railroad does business will be year 2000 ready.

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

In our opinion, except for the efforts of such adjustments, if any, as might have been determined necessary had we been able to examine evidence regarding Year 2000 disclosures, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina Department of Commerce - Division of Public Railways, Port Utilities Commission and Port Terminal Railroad, as of December 31, 1998, and the results of its operations and the cash flows for the year then ended in conformity with generally accepted accounting principles.

Columbia, South Carolina
April 2, 1999

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

BALANCE SHEET
DECEMBER 31, 1998

ASSETS

Current Assets:		
Cash and cash equivalents	$	4,564,276
Accounts receivable		362,908
Accounts receivable from other divisions		80,887
Bond receivable - Marlboro County		80,000
Interest receivable		84,962
Inventories		88,394
Prepayments		15,882
Total Current Assets		5,277,309
Property, Plant, and Equipment, Net of Accumulated Depreciation of $1,592,270		9,499,190
Other Assets:		
Advance to ECBR		1,387,869
Bond receivable - Marlboro County		738,000
Total Other Assets		2,125,869
Total Assets	$	16,902,368

LIABILITIES AND FUND EQUITY

Current Liabilities:		
Accounts payable	$	18,318
Payroll taxes withheld and accrued employee benefits		21,063
Accrued annual leave and benefits		66,987
Notes payable - current		201,554
Accrued interest payable		21,770
Accrued payroll		46,993
Other current liabilities		1,600
Deferred revenue		36,889
Total Current Liabilities		415,174

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

BALANCE SHEET
DECEMBER 31, 1998

Long-Term Liabilities:	
Notes payable	423,399
Total Long-Term Liabilities	423,399
Total Liabilities	838,573
Fund Equity:	
Contributed capital	4,109,429
Retained earnings:	
Unreserved and unappropriated	11,954,366
Total Fund Equity	16,063,795
Total Liabilities and Fund Equity	$ 16,902,368

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1998

Operating Revenues:	
Switching fees	$ 1,379,407
Use of engine	38,250
Other	82,839
Total Operating Revenues	1,500,496
Operating Expenses:	
Railway operating expenses:	
Maintenance of way and structures:	
Superintendence	20,298
Depreciation	65,472
Other maintenance of way expenses	158,286
Total Maintenance of Way and Structures	244,056
Maintenance of equipment:	
Superintendence	21,557
Depreciation	70,633
Other equipment expenses	93,269
Total Maintenance of Equipment	185,459
Transportation:	
Superintendence	59,743
Yard employees	288,901
Other transportation expenses	247,158
Total Transportation	595,802

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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 RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1998

General:	
Administration	$ 309,751
Insurance	17,818
Total General	327,569
Total Railway Operating Expenses	1,352,886
Other General Operating Expenses:	
Hire of freight cars	15,484
Total Other General Operating Expenses	15,484
Total Operating Expenses	1,368,370
Operating Income	132,126
Nonoperating Revenues (Expenses):	
Rental income	581,483
Interest income	326,905
Interest expense	(19,452)
Management fees	90,000
Depreciation non-operating equipment	(10,577)
Loss on disposal of equipment	(1,331)
Other income, net	194,941
Net Nonoperating Revenues (Expenses)	1,161,969
Net Income	1,294,095
Retained Earnings, Unreserved, Unappropriated:	
Beginning of year	10,660,271
End of year	$ 11,954,366

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1998

Cash Flows From Operating Activities:	
Operating income	$ 132,126
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	136,105
Depreciation charged to related entity	13,963
Nonoperating Revenues (Expenses):	
Rental income	562,452
Management fees	90,000
Other income, net	193,550
(Increase) decrease in assets:	
Accounts receivable	(74,361)
Accounts receivable from other divisions	(17,192)
Inventories	(11,341)
Prepayments	(3,592)
Increase (decrease) in liabilities:	
Accounts payable	(30,650)
Accrued payroll	46,993
Payroll taxes withheld and accrued employee benefits	4,429
Accrued annual leave	38
Deferred revenue	72
Net Cash Provided by Operating Activities	1,042,592
Cash Flows From Capital and Related Financing Activities:	
Purchase of fixed assets	(372,524)
Principal paid on notes payable	(201,464)
Interest paid on notes payable	(26,709)
Net Cash Used by Capital and Related Financing Activities	(600,697)

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1998

Cash Flows from Investing Activities:	
Interest received on deposits with the State Treasurer	261,438
Interest received - Marlboro County	73,500
Bond principal and advances received - Marlboro County	171,560
Net Cash Provided For Investing Activities	506,498
Net Increase in Cash and Cash Equivalents	948,393
Cash and Cash Equivalents, Beginning of Year	3,615,883
Cash and Cash Equivalents, End of Year	$ 4,564,276

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

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

Fund Accounting

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

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable 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 $2,000 are capitalized and depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Estimated useful lives are as follows:

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

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

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

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

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

Inventories

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

Policy for Uncollectible Accounts

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

Contributed Capital

Contributed capital is an equity account which shows the amount of permanent capital contributed to PUC-PTR by governmental agencies and private developers. Depreciation recognized on assets acquired or constructed through such resources externally restricted for capital acquisitions is charged against current operations. There were no changes in contributed capital in 1998.

Statement of Cash Flows

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

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's cash management pool.

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

The State's cash management pool consists of a general deposit account and several special deposit accounts. The State records an agency’s interest in the general deposit account, however all earnings on that account are credited the State

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

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

NOTE 3 - DEPOSITS

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

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1998, 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.

As project coordinator, besides the $892,000 in proceeds expended in 1997, PUC-PTR incurred additional expenses for the upgrade of the railroad in the amount of $179,355, of which $81,795 was incurred in 1998. The Division received reimbursement of the $179,355 in 1998. No fees were charged to Marlboro County by PUC-PTR as project coordinator.

The bond bears an annual interest rate of 7%. Also an interest rate of 7% was used to compute interest on all monies advanced by PUC-PTR. In 1998 the Division received from Marlboro County $74,000 principal on the bond receivable, and $73,500 interest on the advances and bond receivable.

Interest and principal is due on the revenue bond April 1, 1999 through April 1, 2006 as follows:

Year	Principal	Interest
1999	$ 80,000	$ 57,260
2000	85,000	51,660
2001	91,000	45,710
2002	98,000	39,340
2003	104,000	32,480
2004	112,000	25,200
2005	120,000	17,360
2006	128,000	8,960
	$ 818,000	$ 277,970

NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost with the exception of certain assets received from the State Ports Authority. $464,566 of assets acquired by the Division from the South Carolina State Ports Authority during the organization of the South Carolina Department of Commerce - Division of Public Railways are stated at the cost to the State Ports Authority, less accumulated depreciation at the time of organization. The accumulated depreciation on these assets, since acquisition by the Division, at December 31, 1998 is $43,110. Also, in 1997 the PUC-PTR Division exchanged certain assets with the State Ports Authority. The assets received from the State Ports Authority were recorded on PUC-PTR's books at book value of assets as recorded by the State Ports Authority. Amounts recorded included track and land improvements of $1,324,462 and an engine house in the amount of $1,182,402. Depreciation is computed on the straight-line method. A summary of property, plant, and equipment is as follows:

Assets	Estimated Useful Life(years)	Total
Land and improvements	-	$ 5,517,265
Buildings	20-40	1,414,749
Leasehold improvements	5	212,383
Road and equipment	3-25	2,201,445
Non-depreciable road	-	1,745,618
		11,091,460
Less accumulated depreciation		1,592,270
		$ 9,499,190

Depreciation expense for the period ended December 31, 1998, was $136,105, included in operating costs and $10,577 included in nonoperating expenses for a total of $146,682.

NOTE 6 - ADVANCE TO ECBR

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

NOTE 7 - ACCRUED ANNUAL LEAVE

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

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

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

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

Effective March 4, 1994, PUC-PTR began leasing land and improvements in Spartanburg County, South Carolina for $200,000 a year. The lease is for twenty years with two ten year options to renew. During the lease term the lessee has the right to purchase the land and improvements for PUC-PTR's cost not to exceed

$5,000,000. The rent is paid at the beginning of each years anniversary for one year effective March 4, 1994 and will be adjusted annually based on 90 day treasury bill rates. The initial rent was based on a 4% annual return on the initial investment of $2,000,000 which is why treasury bill rates will be used to determine changes in the 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, 1997 was $220,899 and at March 4, 1998 was $227,001. The land is used as a railroad spur to the BMW plant. During 1998, $221,263 was recognized as nonoperating rental revenue and $36,889 was deferred revenue based on this agreement. Also effective March 4, 1996, the Division began receiving revenue on certain car hauls out of the BMW plant by Norfolk Southern. This amounted to $42,555 in 1998 and is included in other nonoperating income. See Note 11 regarding other income, net.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of $227,170 for 1998. 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 for the first six months of 1998 was $6,250 a month, and for the last six months of 1998 was $6,350 a month. Revenue for the current year for the rentals to Amoco is $75,600 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, 1998, was $24,953. Interest of $1,545 and principal of $1,464 was paid in 1998. $865 of interest was charged to ECBR, and $680 is shown as an expense of PUC-PTR.

On June 1, 1995, PUC-PTR borrowed $1,000,000 from the SC Coordinating Council for Economic Development, a part of the Department of Commerce. The loan was to assist the Division and ECBR in repaying certain notes payable to

Amoco - see Note 6 also. Principal is due in annual $200,000 installments beginning June 1, 1997, through June 1, 2001. Interest is due on these dates at the rate given by the State Treasurer's Office per annum. Interest expense, included in nonoperating expenses on this note for 1998, was $42,663 of which $23,892 was charged to ECBR and $18,771 to PUC-PTR. Interest of $21,770 has been accrued at December 31, 1998 based on a 6.24% rate. The interest on the above two notes is allocated between PUC-PTR (44%) and ECBR (56%) according to the operating agreement as explained in Note 13. The principal is paid entirely by PUC-PTR.

The debt service requirements assuming a 6.24% rate on the $1,000,000 note are as follows:

	Principal	Interest
1999	$ 201,554	$ 38,895
2000	201,650	26,319
2001	201,752	13,737
2002	1,860	1,149
2003	1,974	1,035
Thereafter	16,163	3,396
Total at present value	$ 624,953	$ 84,531

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, 1998. 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, 1998, is as follows:

Sale of supplies, contractual services, and other proceeds:		
With outside parties	$	194,941
With other divisions of the Division of Public Railways		-
Total	$	194,941

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

NOTE 12 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS

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

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

Under SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee’s average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor’s benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee’s annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The rate for the State's fiscal year 1998 (effective July 1, 1997) was 9.466% which included a 1.916% surcharge. The Division's actual contributions to the SCRS for the fiscal year ended December 31, 1998 were $42,427, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for 1997 were $39,182, and for 1996 were $38,666. Also, the Division paid employer group-life insurance contributions of $843 in the current fiscal year at the rate of .15 percent of compensation.

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

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

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

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

PUC-PTR contributed $141,540 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, 1998, wages up to $68,400 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 $50,700 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 $50,700 for the maximum Tier II employee liability of $2,484. In addition, there is a supplemental charge based on hours worked in a given month. The rate is 35 cents per hour. The cost is borne by PUC-PTR.

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

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

Post-Retirement and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time employees of PUC-PTR are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirement, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through applicable revenue sources for PUC-PTR's active employees and the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable division revenue sources of PUC-PTR for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 18,500 State retirees meet these eligibility requirements.

PUC-PTR recorded employer contribution expenses for these insurance benefits for active employees in the amount of $85,708 for the year ended December 31, 1998. As discussed above, PUC-PTR paid $10,812 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 PUC-PTR have elected to participate. The multiple-employer plans, created under Internal Revenue Service code sections 457, 401(k), and 403(b) are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions prior to termination if they meet requirements specified by the applicable plan.

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its financial report.

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

NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement and insurance plan administration from various divisions of the State Budget and Control Board. PUC-PTR had financial transactions with various State agencies during the year. Payments made in 1998 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 additional costs were, and continue to be, paid to the Ports Authority at an initial annual amount of $58,615. The initial amount has been and continues to be subject to changes in the CPI. The amount paid to PUC-PTR was $79,276 in 1998 and is included in other non-operating revenues. See Note 11 on other income, net.

At December 31, 1998 PUC-PTR's receivables include $63,403 due from the East Cooper-Berkeley Railroad, $18,433 is for reimbursement of accrued payroll taxes and $44,970 is for various services performed by PUC-PTR for ECBR. Also included in receivables is $17,484 due from the Tangent Transportation Company for December 1998 management fees of $7,500 and for other services of $9,984.

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, 1998
Tangent Transportation Division:	
Management fees	$ 90,000
Equipment rental	33,000
Total	123,000
East Cooper and Berkeley Division:	
Equipment rental	24,450
Total revenues from other divisions	$ 147,450

Equipment rental to its sister divisions is arranged through a month-to-month agreement, based on the needs of the Divisions. Fees consist of a rental charge of $1,350 per month for use of a backhoe, $688 per month for use of a bushcutter and $1,000 per month for use of each locomotive. Other equipment is occasionally rented at various rates based on their actual rental value.

For the year ended December 31, 1998, PUC-PTR charged the ECBR division $16,200 for the rental of the backhoe and $8,250 for rental of a bushcutter. The Tangent Transportation Company was charged $24,000 for rental of locomotives and $9,000 for rental of a bushcutter.

Depreciation of $10,577 attributable to equipment leased to the other divisions but not used by PUC-PTR has been charged to nonoperating expenses.

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

PUC-PTR charges ECBR $13,963 of depreciation expense as part of the overhead expense allocation explained in this note. This is allocated to ECBR and not shown in the expenses of PUC-PTR.

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

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 1998 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. PUC-PTR reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 15 - CONTINGENCIES

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

NOTE 16 - COMMITMENTS

PUC-PTR is committed to purchase land and building from the U.S. Department of the Navy in the amount of $422,142. The transaction is expected to be consummated in 1999 pending resolution of certain environmental matters.

NOTE 17 - ACCOUNTING CHANGES AND PRIOR PERIOD 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 effect of this change on the beginning balances at January 1, 1998, was not material and therefore no prior period adjustments were necessary. The unrealized gains included in cash and cash equivalents for PUC-PTR at December 31, 1998, was $17,667.

NOTE 18 - THE YEAR 2000 ISSUE

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features - such as environmental systems, elevators, and vehicles - as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the South Carolina Department of Commerce - Division of Public Railways's (Division) control but also the systems of other entities with which the Division transacts business. Some of the Division's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the Division.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Division is or will be year 2000 ready, that the Division's remediation efforts will be successful in whole or in part, or that parties with whom the Division does business will be year 2000 ready.

The Y2K problem is an issue the Division's management is fully aware of and has been upgrading all hardware. The last system was installed in January 1999, making all hardware Year 2000 compliant.

All software used in house meets Year 2000 requirements. The ISS and IRCS programs that interface with the other railroads are or will be compliant before the end of 1999. The Divisions banks, Wachovia and NationsBank, have replied to written requests as to compliance. Wachovia has stated that they plan to be compliant by the end of March 1999. NationsBank has stated they will be compliant by the end of June 1999.