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 Tangent Transportation Company, 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

TANGENT TRANSPORTATION COMPANY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS,
TANGENT TRANSPORTATION COMPANY

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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 Tangent Transportation Company, 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 Company'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. Tangent Transportation Company has included such disclosures in Note 11. 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 Tangent Transportation Company’s disclosures with respect to the Year 2000 Issue made in Note 11. Further, we do not provide assurance that Tangent Transportation Company is or will be year 2000 ready, that Tangent Transportation Company’s year 2000 remediation efforts will be successful in whole or in part, or that parties with which Tangent Transportation Company does business will be year 2000 ready.

As described in Note 1, the financial statements of the Tangent Transportation Company 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 Tangent Transportation Company, 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 effects 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 Tangent Transportation Company as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Columbia, South Carolina
April 2, 1999

FINANCIAL STATEMENTS

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS,
TANGENT TRANSPORTATION COMPANY

BALANCE SHEET
DECEMBER 31, 1998

ASSETS

Current Assets:		
Cash and cash equivalents	$	252,854
Accounts receivable		234,559
Inventories		15,964
Prepayments		7,397
Total Current Assets		510,774
Property, Plant, and Equipment, Net of Accumulated Depreciation of $122,302		669,945
Total Assets	$	1,180,719

LIABILITIES AND FUND EQUITY

Current Liabilities:		
Accounts payable, CSX Transportation, Inc.	$	161,566
Accounts payable, PUC-PTR		17,484
Accounts payable - other		122,142
Payroll taxes withheld and accrued employee benefits		1,037
Accrued annual leave and related benefits		6,810
Total Current Liabilities		309,039
Fund Equity:		
Contributed capital		125,000
Retained earnings:		
Working capital contingency reserve		50,000
Unreserved and unappropriated		696,680
Total Retained Earnings		746,680
Total Fund Equity		871,680
Total Liabilities and Fund Equity	$	1,180,719

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS,
TANGENT TRANSPORTATION COMPANY

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

Operating Revenues:	
Freight charges	$ 410,825
Use of engine	11,095
Total Operating Revenues	421,920
Operating Expenses:	
Railway Operating Expenses:	
Maintenance of Way and Structures:	
Depreciation	5,327
Other maintenance of way expenses	103,757
Total Maintenance of Way and Structures	109,084
Maintenance of Equipment:	
Other equipment expenses	9,145
Total Maintenance of Equipment	9,145
Transportation:	
Yard employees	23,452
Other transportation expenses	52,250
Total Transportation	75,702
General:	
Administration	2,804
Insurance	21,096
Management Fees	78,300
Total General	102,200
Total Railway Operating Expenses	296,131

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS,
TANGENT TRANSPORTATION COMPANY

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

Other General Operating Expenses:	
Rent expense for leased equipment	24,000
Hire of freight cars	36,116
Total Other General Operating Expenses	60,116
Total Operating Expenses	356,247
Operating Income	65,673
Nonoperating Revenues (Expenses):	
Interest income	20,728
Other income	10,595
Total Nonoperating Revenues (Expenses)	31,323
Net Income	96,996
Retained Earnings, Unreserved:	
Beginning of year	599,684
End of year	$ 696,680

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS
TANGENT TRANSPORTATION COMPANY

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

Cash Flows From Operating Activities	
Operating income	$ 65,673
Adjustments to reconcile operating loss	
to net cash provided by operating activities:	
Depreciation	5,327
Other nonoperating revenues	10,595
(Increase) decrease in assets:	
Accounts receivable	(175,580)
Inventories	13,022
Prepayments	(3,731)
Increase (decrease) in liabilities:	
Accounts payable, PUC-PTR	9,959
Accounts payable, CSX	61,753
Accounts payable, other	(3,838)
Payroll taxes withheld and accrued employee benefits	144
Accrued annual leave and benefits	(2,096)
Net Cash Used by Operating Activities	(18,772)
Cash Flows from Capital and Related Financing Activities:	
Purchase of fixed assets	(133,186)
Net Cash used by Capital and Related Financing Activities	(133,186)
Cash Flows from Investing Activities:	
Interest received on deposits with the State Treasurer	20,728
Net Cash Provided by Investing Activities	20,728
Net Decrease in Cash and Cash Equivalents	(131,230)
Cash and Cash Equivalents, Beginning of Year	384,084
Cash and Cash Equivalents, End of Year	$ 252,854

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

NOTE 1 - REPORTING ENTITY

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

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

Tangent Transportation Company (TTC) is part of the State of South Carolina Primary Government. TTC is reported within the Public Railways Division 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 different and are outlined in the report on the combined financial statements of the South Carolina Department of Commerce - Division of Public Railways which are presented under separate cover. The function of Tangent Transportation Company is as follows:

> Tangent Transportation Company (TTC) was formed to acquire and operate the Yemassee to Port Royal railroad. On April 16, 1985, a notice was filed by the Tangent Transportation Company with the Surface Transportation Board for a modified rail certificate of public convenience and necessity under 49 C.F.R. 1150, subpart C, to operate a line of trackage from Yemassee to Port Royal in Beaufort County, South Carolina, called the Port Royal Railroad. This line of railroad had formerly been owned and operated by Seaboard System Railroad, Inc.
>
> South Carolina State Ports Authority, a political subdivision of the State of South Carolina, purchased the line and negotiated with Tangent Transportation

Company, a wholly-owned subsidiary of the South Carolina Public Railways Commission, to operate the line. Tangent Transportation Company commenced operation on May 14, 1985.

The accompanying financial statements present the financial position, results of operations, and the cash flows solely of the Tangent Transportation Company 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

TTC 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 Tangent Transportation Company division of the South Carolina Department of Commerce - Division of Public Railways.

TTC 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 the Division and Tangent Transportation Company are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles. TTC 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

TTC 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." TTC reports activities by 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	40 years
Road and Equipment	3 - 4 years

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

The majority of track and roadway is owned by the State Ports Authority. Track and roadway when paid for by TTC 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, if paid for by TTC.

Inventories

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

Policy for Uncollectible Accounts

At year end management reviews past due accounts receivable and recognizes bad debt expense for those accounts determined to be uncollectible. This method is not in conformity with generally accepted accounting principles which requires accounts receivable to be reported at net realizable value using an allowance for uncollectible accounts. However based on the Company'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 the Company 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 to contributed capital in the current year.

Reserved Retained Earnings

A reserve for working capital is required under an agreement between the Company and South Carolina Ports Authority when the Ports Authority provided start-up monies for Tangent Transportation Company. The agreement required Tangent Transportation Company to maintain a $50,000 working capital reserve.

Statement of Cash Flows

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

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represents cash on hand with the State Treasurer and cash invested in various investments of 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 equity interest in the general deposit account, however all earnings on that account are credited to the State General Fund. TTC, 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 Company 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 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment is stated at original cost and is depreciated on a straight-line method. Property, plant and equipment is summarized as follows:

Assets	Estimated Useful Life (Years)		
Land		$	102,293
Building	40		170,669
Equipment	3 - 4		142,553
Non-depreciable road	-		376,732
			792,247
Less accumulated depreciation			122,302
		$	669,945

Depreciation expense for the period ended December 31, 1998 was $5,327. Title to any building or track will remain with the Ports Authority if the Company ceases operations of the railroad. The Ports Authority paid one half ($170,669) of the cost of the engine house. Amounts paid by the Ports Authority have not been recorded on the books of the Company. In 1995 the Company purchased land to be used for storage purposes. The title to the land is in the Company's name.

NOTE 5 - ACCOUNTS PAYABLE, CSX TRANSPORTATION, INC.

Tangent Transportation Company has a reciprocal agreement with CSX Transportation, Inc., whereby freight charges to customers are billed by the railroad line that originated the rail carrier order. Therefore, Tangent Transportation Company may bill a customer for the entire freight charge even though both Port Royal Railroad and railroad lines owned by CSX Transportation, Inc. were used. Tangent Transportation Company then remits to CSX their portion of the freight revenue due them. As of December 31, 1998, $161,565 had not yet been remitted to CSX Transportation, Inc.

NOTE 6 - 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. TTC does not have union employees.

TTC 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 7 - OPERATING LEASES

The total rent expense for the year ended December 31, 1998, for operating leases was $33,000. This relates to a month-to-month lease arrangement with Tangent Transportation Company's sister division, PUC-PTR, for two locomotives which the monthly rental is $1,000 per locomotive. Also PUC-PTR leased a bushcutter to TTC for $750 a month. Total rent for locomotives was $24,000 and for the bushcutter was $9,000. The $9,000 rent paid for the bushcutter is included in other maintenance of the way expenses.

NOTE 8 - 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% of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58% which included a 2.03% 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 $5,912, and equaled the required contributions of 7.55% (excluding the surcharge) for the year. Employer contributions for 1997 were $4,890 and for 1996 were $3,292. Also, the Division paid employer group-life insurance contributions of $117 in the current fiscal year at the rate of .15% of compensation.

The amounts paid by the Tangent Transportation Company division for pension and group-life benefits are recorded in the appropriate operating department corresponding to the employee for whom contributions are made.

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

The System does not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the Division's liability under the plan is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Division's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated 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.

Tangent Transportation Company contributed $20,573 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 TTC to meet Tier 1 funding requirements and all wages were funded at 1.45% by TTC to meet Tier I Medicare Funding requirements. TTC 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 TTC'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 TTC.

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 TTC is not available. TTC 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 Tangent Transportation Company 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 TTC's applicable revenue sources for 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 revenue sources of the Tangent Transportation Company 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.

The Tangent Transportation Company recorded employer contribution expenses for these insurance benefits for active employees in the amount of $11,504 for the year ended December 31, 1998. As discussed above, the Tangent Transportation Company paid $1,540 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 the Tangent Transportation Company retirees is not available. By State law, the Tangent Transportation Company 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. 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 Internal Revenue Service 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 9 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISION

The Tangent Transportation Company division of the Division has a contractual agreement to receive from the South Carolina State Ports Authority a management fee when monthly freight charges revenue is insufficient to cover monthly expenses.

For the year ended December 31, 1998, Tangent Transportation Company did not bill the State Ports Authority for any management fees related to this contract based on this condition.

Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement plan administration from various divisions of the State Budget and Control Board. The Tangent Transportation Company 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 Company provided no services free of charge to other State agencies during the year.

During the year ended December 31, 1998, Tangent Transportation Company incurred costs for goods and services received from PUC-PTR as outlined by the following.

Management fee	$	90,000
Equipment rental		33,000
Total	$	123,000

PUC-PTR charges Tangent Transportation Company a 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 was $6,525 a month for administration and $975 per month for operations. The total management fee incurred by Tangent Transportation Company for the year ended December 31, 1998 was $90,000 of which $78,300 was charged to general expenses as a management fee and $11,700 to other maintenance of way expenses. Included in Tangent Transportation Company's accounts payable to PUC-PTR is $7,500 due for December's management fee. Also included in Tangent's accounts payable to PUC-PTR is $9,984 due for other services performed by PUC-PTR for Tangent.

NOTE 10 - RISK MANAGEMENT

The Tangent Transportation Company 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 Company. Settled claims have not exceeded this coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The Company 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.

The Company 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 for comprehensive and $500 for collision.

3. Torts

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

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

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

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

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

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

The Company 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. TTC 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 11 - 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.