

LAW OFFICES OF

SIMONS & KEAVENY

147 WAPPOO CREEK DRIVE • SUITE 604 • CHARLESTON, SC 29412

TELEPHONE: (843) 762-9132 • FACSIMILE: (843) 406-9913

KEATING L. SIMONS, III
klsimons@charlestonattorneys.net

THOMAS J. KEAVENY, II
tjkeaveny@charlestonattorneys.net

DEREK FARRELL DEAN
dffdean@charlestonattorneys.net

BOB J. CONLEY
bjconley@charlestonattorneys.net

30

November 28, 2006

Via Hand Delivery

The Honorable Vernon Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, DC 20423

FEE RECEIVED

DEC - 1 2006

SURFACE
TRANSPORTATION BOARD



Re: Finance Docket No.: 34943
Beaufort Railroad Company, Inc.'s
Notice For Modified Certificate of Public Convenience and Necessity

Dear Secretary Williams:

Enclosed please find one (1) original and ten (10) copies of Beaufort Railroad Company, Inc.'s ("BRC") Notice for Modified Certificate of Public Convenience and Necessity ("Notice") pursuant to 49 C.F.R. §1150.23. Also enclosed, please find a check in the amount of \$1,400.00 for filing fees associated with this Notice pursuant to 49 C.F.R. §1002.2.

Please date stamp the additional copy of this letter and Notice and return the same to our courier.

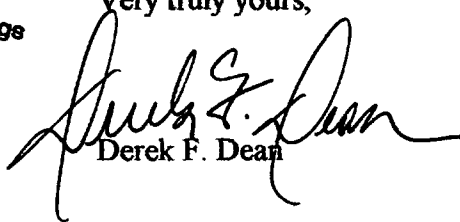
If you have any questions regarding the enclosed, please contact me at the telephone number listed above.

ENTERED
Office of Proceedings

DEC 1 - 2006

Part of
Public Record

Very truly yours,


Derek F. Dean

FILED

DEC - 1 2006

SURFACE
TRANSPORTATION BOARD

DFD/

Enclosures

Cc: Mr. Dan Green (w/enc.)



BEFORE THE
SURFACE TRANSPORTATION BOARD

Modified Certificate of Public Convenience and
Necessity of Beaufort Railroad Company, Inc., a
subsidiary of the South Carolina Division of
Public Railways

Finance Docket: 34943

**NOTICE FOR MODIFIED CERTIFICATE OF PUBLIC CONVENIENCE AND
NECESSITY**

Derek F. Dean
Law Offices of Simons & Keaveny
147 Wappoo Creek Drive, Suite 604
Charleston, SC 29412
Tel.: 843-762-9132
Fax: 843-406-9913

Warren L. Dean, Jr.
Sean McGowan
Thompson Coburn, LLP
1909 K Street, N.W.
Suite 600
Washington, D.C. 20006
Tel.: 202-585-6900
Fax: 202-585-6969

Counsel for Beaufort Railroad Company,
Inc., a subsidiary of the South Carolina
Division of Public Railways

Counsel for the South Carolina State
Ports Authority

December 1, 2006

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BEFORE THE
SURFACE TRANSPORTATION BOARD

Modified Certificate of Public Convenience and
Necessity of Beaufort Railroad Company, Inc., a
subsidiary of the South Carolina Division of
Public Railways

Finance Docket: 34943

NOTICE FOR MODIFIED CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Beaufort Railroad Company, Inc., (the "Operator" or "BRC"), a subsidiary of the South Carolina Division of Public Railways ("SCDPR"),¹ submits this Notice For Modified Certificate of Public Convenience and Necessity (the "Modified Certificate") pursuant to 49 C.F.R. §1150.23(a) to provide potential shippers, meeting preconditions to be determined, with "as required" service over the rail line from Yemassee, South Carolina (milepost AMJ-443.26) to Port Royal, South Carolina (milepost AMJ-468.31)(hereinafter known and described as the "Line"), which was formerly operated by the Seaboard System Railroad, Inc. ("Seaboard") and Tangent Transportation Company, Inc. ("Tangent"). The right of way ("ROW") upon which the Line is situated is owned by the South Carolina State Ports Authority ("SCSPA").² The SCSPA and the SCDPR, through BRC, have entered into an Operating Agreement for service over the Line. The SCSPA and SCDPR are both entities organized under the laws of the State of South Carolina. Both the SCSPA and SCDPR intend to maintain the Line and ROW. To that

¹ South Carolina Division of Public Railways, a Division of the South Carolina Department of Commerce, is organized and exists under the laws of the State of South Carolina. See S.C. Code §1-30-25 (2005).

² South Carolina State Ports Authority is an instrumentality of the State of South Carolina and is organized and exists under the laws of the State of South Carolina. See S.C. Code §§ 54-3-10, 54-3-130 (2005).

end, the SCDPR proposes to offer services as required on this Line through BRC and seeks issuance of the Modified Certificate in the name of Beaufort Railroad Company, Inc.

SPECIFIC INFORMATION REQUIRED BY 49 C.F.R. §1150.23(b)

1) The name and address of the operator.

The Operator maintains its offices at 540 East Bay Street, Charleston, South Carolina 29403. BRC's articles of incorporation are attached hereto at Attachment A. The name and address of BRC's president is attached hereto at Attachment B.³ As to its financial responsibility, BRC submits the SCDPR's Financial Statements for Fiscal Year 2005 attached hereto at Attachment C.⁴

2) Information about the prior abandonment.

The Line to be operated by BRC from Yemassee, South Carolina to Port Royal, South Carolina, was the subject of an abandonment application filed by Seaboard on June 14, 1984. The abandonment proceeding was assigned Docket No. AB-55 (Sub. No. 110). On August 23, 1984, the Interstate Commerce Commission ("ICC") issued a decision authorizing Seaboard to abandon the Line. An offer to purchase the Line was subsequently made. No agreement could be reached, however, and it was requested that the ICC set the terms and conditions of sale.

³ BRC's president, Mr. Daniel S. Green, is also the president of the SCDPR. The SCDPR currently operates three railroads: (1) two switching railroads in Charleston County, and (2) one short line located in Berkeley County. See <http://www.sccommerce.com/PublicRailways.html>, (last visited November 22, 2006).

⁴ See SCDPR Financial Statements for the Year Ended December 31, 2005, available at <http://www.osa.sc.gov/NR/rdonlyres/8C093D30-78EF-40CF-9ACC-B0DA7806996C/0/P3205PublicRailways.pdf>, (last visited November 22, 2006).

The terms and conditions were not accepted. On December 27, 1984, the ICC determined that the certificate authorizing abandonment would be effective upon the service date - January 4, 1985.

No consummation of abandonment was ever filed by Seaboard because subsequent negotiations resulted in a sale of the Line in 1985 when the SCSPA acquired the Line and leased the Line to the South Carolina Public Railways Commission ("SCPRC"),⁵ the predecessor to the SCDPR. Tangent, a wholly-owned subsidiary of the SCPRC, filed its Application for Modified Certificate of Public Convenience and Necessity on April 16, 1985.⁶ The ICC issued the Notice of Modified Rail Certificate on June 7, 1985. Tangent operated the Line on an "as required" basis until November 30, 2003. Since that time, the ROW has been maintained by the SCSPA.

3) Dates of operation and agreement with the State.

Under the Operating Agreement, the Operator and the SCSPA agree to a term of one year from the date of execution of the Operating Agreement, October 12, 2006. The term continues from year to year thereafter until terminated in accordance with the Operating Agreement and the Surface Transportation Board's regulations. The Operating Agreement

⁵ South Carolina Public Railways Commission was created and operated under the laws of South Carolina, Title 58, Chapter 19, which was repealed by 1993 Act No. 181, Section 1617(A), effective July 1, 1993. South Carolina Public Railways Commission is now under the South Carolina Department of Commerce Division of Public Railways. See S.C. Code §1-30-25(E) (2005).

⁶ See *Tangent Transportation Company*, ICC Finance Docket No. 30655.

may be terminated at any time if the conditions of Section 7 of the Operating Agreement are met. The Operating Agreement is attached hereto at Attachment D.

4) **A description of the service to be performed.**

Under the Operating Agreement, the Operator agrees to equip, develop, operate, and maintain the Line in order to offer service from Yemassee, South Carolina to Port Royal, South Carolina. The Operator will offer freight services on the Line on an "as required" basis. The Operator does not expect to make any interchange or interline connections with any connecting railroads. Under the terms of the Operating Agreement, both the SCSA and the Operator agree to acquire and/or maintain insurance to protect the interests of both parties from any liability arising from third party bodily injury or property damage occurring during the term of the Operating Agreement. Specifically, the SCSA will maintain third party liability insurance in an amount of not less than \$5,000,000 to cover any and all claims arising solely from the existence of hazards presented by the Line or the property upon which the Line is situated. Prior to the commencement of railroad operations, the Operator will acquire and maintain third party liability insurance, from its insurer, Zurich American Insurance Co. ("Zurich"), a subsidiary of Switzerland's Zurich Allied AG, in an amount of not less than \$5,000,000 to cover any and all claims arising solely from any acts, work or operations of the Operator, which may be conducted with respect to the Line or the property upon which the Line is situated. A letter from BRC's insurance broker is attached hereto at Attachment E. Prior to commencement of operations, BRC shall provide the Surface Transportation Board with evidence of the Zurich insurance policy to include any binder or policy number. The

SCSPA and the Operator have agreed to name each other as Additional Named Insureds on these insurance policies. The cost of such insurance policies will be borne solely by the SCSPA.

BRC intends to offer its services on an “as required” basis. Any shipper seeking transportation services over the Line shall be required to provide binding written commitments for a sufficient volume of carloads per year over the Line on terms necessary to operate and maintain the Line economically.⁷

5) The name and address of any subsidizers.

As stated in the Operating Agreement, SCSPA shall advance the amount of \$50,000 to the Operator to maintain a reserve for working capital and operating contingencies of the Line. Amounts necessary to maintain the reserve at the said minimum level shall be included in the monthly statement submitted by the Operator to the SCSPA for payment in accordance with the Operating Agreement.

6) Sufficient information to establish the financial responsibility of any subsidizers.

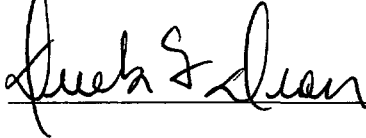
The SCSPA has the powers of a body corporate, including the power to make contracts.⁸ The SCSPA is authorized to enter into the Operating Agreement and provide funds for operations over the Line. The SCSPA is an instrumentality of the State of South Carolina

⁷ Sufficient funds, if any, may be required of shippers for rehabilitation and funding of the rail, track, and associated track materials.

⁸ See S.C. Code §54-3-140 (2005).

and proof of its financial responsibility is published in its annual report attached hereto at
Attachment F.⁹

Respectfully submitted,



Derek F. Dean
Law Offices of Simons & Keaveny
147 Wappoo Creek Drive, Suite 604
Charleston, SC 29412
Tel.: 843-762-9132

Warren L. Dean, Jr.
Sean McGowan
Thompson Coburn, LLP
1909 K Street, N.W.
Suite 600
Washington, D.C. 20006
Tel.: 202-585-6900

Counsel for Beaufort Railroad Company,
Inc., a subsidiary of the South Carolina
Division of Public Railways

Counsel for the South Carolina State Ports
Authority

⁹ See SCSPA Annual Report for FY 2005 available at http://www.port-of-charleston.com/about_the_port/statistics/SPA_FY05_Annual_Report.pdf, (last visited November 22, 2006).

Attachments

- Attachment A: BRC's Articles of Incorporation
- Attachment B: Names and Addresses of BRC's Officers and Directors
- Attachment C: BRC's Financial Responsibility Information
- Attachment D: Operating Agreement
- Attachment E: Wachovia Insurance Services Letter
- Attachment F: SCSPA's Financial Responsibility Information

Beaufort Railroad Company, Inc.
Notice of Modified Certificate
Attachment A

SEP 25 2006

STATE OF SOUTH CAROLINA
SECRETARY OF STATE

Mark Hammond
SECRETARY OF STATE OF SOUTH CAROLINA

ARTICLES OF INCORPORATION
FOR A
STATUTORY CLOSE CORPORATION

TYPE OR PRINT CLEARLY IN BLACK INK

1. The name of the proposed corporation is BEAUFORT RAILROAD COMPANY, INC.
2. This corporation is a statutory close corporation, pursuant to Chapter 18, Title 33 of the 1976 South Carolina Code of Laws, as amended.
3. The initial registered office of the corporation is 147 Wappoo Creek Dr., Suite 604
Street Address

CHARLESTON CHARLESTON SC 29412

City

County

State

Zip Code

and the initial registered agent at such address is Derek F. Dean
Print Name

I hereby consent to the appointment as registered agent of the corporation *Derek F. Dean*
Agent's Signature

4. The corporation is authorized to issue shares of stock as follows. Complete "a" or "b", whichever is applicable:
- a. ☒ The corporation is authorized to issue a single class of shares, the total number of shares authorized is 100
- b. ☐ The corporation is authorized to issue more that one class of shares:

Class of Shares	Authorized No. of Each Class
_____	_____
_____	_____
_____	_____

If shares are divided into two or more classes or if any class of shares is divided into series within a class, the relative rights, preferences, and limitations of the shares of each class, and of each series within a class, are as follows:

5. The existence of the corporation shall begin as of the filing date with the Secretary of State unless a delayed date is indicated (See Section 33-1-230(b) of the 1976 South Carolina Code of Laws, as amended) _____
6. Unless specified otherwise below, the transfer of shares of stock of the corporation shall be subject to the restrictions set out in Sections 33-18-110 through 33-18-130 of the 1976 South Carolina Code of Laws, as amended. Specify any variations: _____
33-18-110 through 33-18-130.

060926-0044

FILED: 09/25/2006

BEAUFORT RAILROAD COMPANY, INC.

Filing Fee: \$135.00 ORIG



Mark Hammond

South Carolina Secretary of State

BEAUFORT RAILROAD COMPANY, INC.

Name of Corporation

7. Unless otherwise specified below the corporation shall have a board of directors (See Sections 33-18-210 of the 1976 South Carolina Code of Laws, as amended).

☒ This corporation elects not to have a board of directors.

8. Check, if applicable.

☐ This corporation elects to have the provisions of Sections 33-18-140 through 33-18-170 of the 1976 South Carolina Code of Laws, as amended, which give the estate of a deceased shareholder the right to compel the corporation to purchase the deceased shareholder's shares, apply.
Specify any variations in the statutory format in Sections 33-18-140 through 33-18-170.

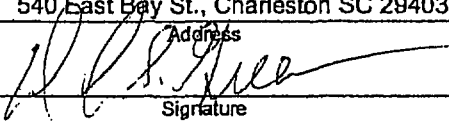
9. The optional provisions, which the corporation elects to include in the articles of incorporation, are as follows (See the applicable provisions of Sections 33-2-102, 33-18-330, 35-2-105, and 35-2-221 of the 1976 South Carolina Code of Laws, as amended).

10. The name, address and signature of each incorporator is as follows (only one is required):

a. Daniel S. Green
Name

540 East Bay St., Charleston SC 29403

Address


Signature

b. _____
Name

Address

Signature

c. _____
Name

Address

Signature

11. I, Derek F. Dean, an attorney licensed to practice in the State of South Carolina, certify that the corporation, to whose articles of incorporation this certificate is attached, has complied with the requirements of Chapter 2, Title 33 of the 1976 South Carolina Code of Laws, as amended, relating to the articles of incorporation.

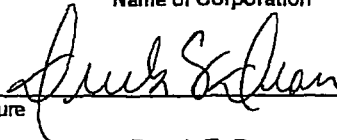
Date

9/20/06

BEAUFORT RAILROAD COMPANY, INC.

Name of Corporation

Signature



Derek F. Dean

Type or Print Name

147 Wappoo Creek Dr., Suite 604

Address

Charleston, SC 29412

843-762-9132

Telephone Number

FILING INSTRUCTIONS

1. Two copies of this form, the original and either a duplicate original or a conformed copy, must be filed.
2. If the space in this form is insufficient, please attach additional sheets containing a reference to the appropriate paragraph in this form.
3. Enclose the fee of \$135.00 payable to the Secretary of State.
4. THIS FORM MUST BE ACCOMPANIED BY THE ANNUAL REPORT (SEE SECTION 12-19-20 OF THE 1976 SOUTH CAROLINA CODE OF LAWS, AS AMENDED)

Return to: Secretary of State
P.O. Box 11350
Columbia, SC 29211

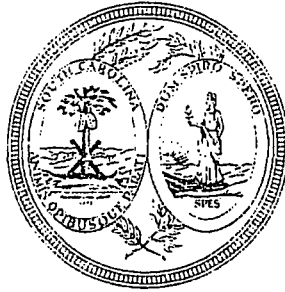
SPECIAL NOTE

ALL SHARE CERTIFICATES ISSUED BY A STATUTORY CLOSE CORPORATION MUST CONTAIN THE FOLLOWING CONSPICUOUS NOTICE:

THE RIGHTS OF SHAREHOLDERS IN A STATUTORY CLOSE CORPORATION MAY DIFFER MATERIALLY FROM THE RIGHTS OF SHAREHOLDERS IN OTHER CORPORATIONS. COPIES OF THE ARTICLES OF INCORPORATION AND BY-LAWS, SHAREHOLDERS' AGREEMENTS AND OTHER DOCUMENTS, ANY OF WHICH MAY RESTRICT TRANSFERS AND AFFECT VOTING AND OTHER RIGHTS, MAY BE OBTAINED BY A SHAREHOLDER ON WRITTEN REQUEST TO THE CORPORATION.

THE FILING OF THIS DOCUMENT DOES NOT, IN AND OF ITSELF, PROVIDE AN EXCLUSIVE RIGHT TO USE THIS CORPORATE NAME ON OR IN CONNECTION WITH ANY PRODUCT OR SERVICE. USE OF A NAME AS A TRADEMARK OR SERVICE MARK WILL REQUIRE FURTHER CLEARANCE AND REGISTRATION AND BE AFFECTED BY PRIOR USE OF THE MARK. FOR MORE INFORMATION, CONTACT THE TRADEMARKS DIVISION OF THE SECRETARY OF STATE'S OFFICE AT (803) 734-1728.

The State of South Carolina



Office of Secretary of State Mark Hammond

Certificate of Existence

I, Mark Hammond, Secretary of State of South Carolina Hereby certify that:

BEAUFORT RAILROAD COMPANY, INC.,
a corporation duly organized under the laws of the State of South Carolina on September 25th, 2006, and having a perpetual duration unless otherwise indicated below, has as of the date hereof filed all reports due this office, paid all fees, taxes and penalties owed to the Secretary of State, that the Secretary of State has not mailed notice to the Corporation that it is subject to being dissolved by administrative action pursuant to section 33-14-210 of the South Carolina Code, and that the corporation has not filed articles of dissolution as of the date hereof.

Given under my Hand and the Great
Seal of the State of South Carolina this
26th day of September, 2006.

A handwritten signature in cursive script that reads "Mark Hammond".

Mark Hammond, Secretary of State

Beaufort Railroad Company, Inc.
Notice of Modified Certificate
Attachment B

BEAUFORT RAILROAD COMPANY, INC.
OFFICERS AND DIRECTORS*

Daniel S. Green
President
Beaufort Railroad Company, Inc.
540 East Bay Street
Charleston, SC 29403-6337

* This corporation has elected not to have a board of directors. *See* Beaufort Railroad Company, Inc.'s Articles of Incorporation at Art. 7.

Beaufort Railroad Company, Inc.
Notice of Modified Certificate
Attachment C

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

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

State of South Carolina



Office of the State Auditor

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

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

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

August 8, 2006

The Honorable Mark Sanford, Governor
and
Mr. Joe E. Taylor, Jr., Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 2005, was issued by McDowell-Pearman LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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

RHGjr/trb

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

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YEAR ENDED DECEMBER 31, 2005

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Statement of Revenues, Expenses, and Changes in Fund Net Assets-Enterprise Funds	8
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McDOWELL PEARMAN, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2005, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the South Carolina Department of Commerce - Division of Public Railways are intended to present the financial position, results of operations, and the cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Commerce - Division of Public Railways, enterprise funds of the State. These financial statements do not include other funds or enterprises of the Department or the State or any component units of the State. These financial statements do not purport to, and do not, present fairly the financial position of the State of South Carolina primary government or financial reporting entity or of the South Carolina Department of Commerce as of December 31, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The South Carolina Department of Commerce - Division of Public Railway's financial statements does not adequately classify certain transactions and do not contain certain material disclosures. Also the notes to the financial statements do not disclose material information and accounting policies. These disclosures and information are not in the financial statements because it is exempted from public disclosure pursuant to the South Carolina Freedom of Information Act. Reporting of such information is essential for a fair presentation in conformity with accounting principles generally accepted in the United States of America.

Mr. Richard H. Gilbert, Jr.
Deputy State Auditor
South Carolina Office of the State Auditor
Page 2

In our opinion, because of the incomplete presentation and omission of note disclosures discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, in all material respects, the financial position of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2005, and the results of its operations and its cash flows for the year then ended.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Michael D. Powell".

Columbia, South Carolina
July 5, 2006



SOUTH CAROLINA PUBLIC RAILWAYS

**540 East Bay Street
Charleston, S.C. 29403
(843) 727-2067 * Fax (843) 727-2005**

Management Discussion and Analysis

Our discussion and analysis of SC Public Railways financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2005. Please read these comments in conjunction with the transmittal letter and the financial statements.

Using This Annual Report

This annual report consists of a series of financial statements. The *Statement of Net Assets*; the *Statement of Revenues, Expenses and Changes in Fund Net Assets*; and *Statement of Cash Flows* provide information regarding the activities of SC Public Railways three funds and as a whole.

The two operating divisions (funds) of the SC Public Railways are:

East Cooper & Berkeley Railroad (ECBR)
Port Utilities Commission (PUC) and Port Terminal Railroad (PTR)

All divisions are enterprise fund activities, and all are reported on the accrual basis. These statements indicate how these functions were financed in the short term and what remains for future spending.

Reporting on the Division of Public Railways as a whole

The divisions are enterprise funds for accounting and reporting purposes. Enterprise funds are used when governmental entities charge customers for services. Enterprise funds very closely resemble the financial statements of business entities.

Financial Highlights

- > Operating revenues were up in 2005 by \$44,293 or .6 %; this was primarily due to an increase in the volume of rail shipments by Nucor on the ECBR.
- Earnings on investments were up in 2004 by \$102,698 or 23.9% this was due to earning a higher interest rate and continuing to increase the balance on deposit.

- Maintenance of Way and Structure expenses were up in 2005 by \$86,396 or 11.8%, this was due primarily to a cross tie replacement project on the ECBR that was carried over from 2004.
- Maintenance of Equipment expense was up \$19,239 or 5.1 % this was due to the higher usage due to the cross tie replacement project on the ECBR.
- Transportation expense was up \$117,926 or 10.2% this was due primarily to the increased cost of fuel.
- General expenses were up by \$94,260 or 6.9% this was due primarily to the increased cost of health and liability insurance.

Capital Assets

- Current Assets were up \$3,034,983 or 13.7% this was due to an increase of cash balances.
- Capital Assets, net of depreciation were up \$1,475,943 or 7.4% is due primarily to the capital contribution of the lead track and right of way into the Nucor Plant on the ECBR.

Economic Factors and Next Year's Operations

- Traffic on the ECBR will be down in 2006 from 2005. • The rail traffic to Nucor is projected to be about the same as 2005, but rail shipments from BP will be down due to inconsistency in raw materials supply.
- Traffic on the PUCC and PTR is projected to be slightly lower in 2006 than 2005.

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

Table 1

Net Assets

	2005	2004	Amount Change	% Change
Current and other assets, net	\$ 25,255,774	\$ 22,220,791	\$ 3,034,983	13.7%
Capital assets, net of depreciation	\$ 21,487,490	\$ 20,011,547	\$ 1,475,943	7.4%
Total Assets	\$ 46,743,264	\$ 42,232,338	\$ 4,510,926	10.7%
			\$ -	
Current liabilities	\$ 397,178	\$ 1,673,929	\$ (1,276,751)	76.3%
Total Liabilities	\$ 397,178	\$ 1,673,929	\$ (1,276,751)	76.3%
Net assets:				
Invested in capital assets, net of debt	\$ 21,487,490	\$ 20,011,547	\$ 1,475,943	7.4%
Unrestricted	\$ 24,858,596	\$ 20,546,862	\$ 4,311,734	21.0%
Total net assets	\$ 46,346,086	\$ 40,558,409	\$ 5,787,677	14.3%

Table 2

Changes in Net Assets

	2005	2004	Amount Change	% Change
Revenues:				
Operating Revenues	\$ 7,052,877	\$ 7,008,582	\$ 44,295	0.6%
Earnings on Investments	\$ 533,152	\$ 430,184	\$ 102,968	23.9%
Operating Grant	-	-	\$	
Other Non-Operating Revenues	\$ 881,364	\$ 909,663	\$ (28,299)	-3.1%
Total Revenues	\$ 8,467,393	\$ 8,348,429	\$ 118,964	1.4%
Expenses:				
Maintenance of Way & Structures	\$ 817,009	\$ 730,613	\$ (86,396)	-11.8%
Maintenance of Equipment	\$ 398,401	\$ 379,162	\$ (19,239)	-5.1%
Transportation	\$ 1,275,545	\$ 1,157,619	\$ (117,926)	-10.2%
General	\$ 1,469,528	\$ 1,375,268	\$ (94,260)	-6.9%
Other Expenses	\$ 4,798	\$ 8,528	\$ 3,730	43.7%
Total Railroad	\$ 3,965,281	\$ 3,651,190	\$ (314,091)	-8.6%
Other Non-Operating Expenses	\$	\$ 204,441	\$ 204,441	100.0%
Total Expenses	\$ 3,965,281	\$ 3,855,631	\$ (109,650)	-2.8%
Income Before Other Revenues and Transfers	\$ 4,502,112	\$ 4,492,798	\$ 9,314	0.2%
Transfer	\$ 26,590	\$ (64,046)	\$ 90,636	-141.5%
Capital Contributions	\$ 1,258,975	\$	\$ 1,258,975	100.0%
Increase in Net Assets	\$ 5,787,677	\$ 4,428,752	\$ 1,358,925	30.7%

FINANCIAL STATEMENTS

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS
DECEMBER 31, 2005

<u>ASSETS</u>	<u>PUC-PTR</u>	<u>ECBR</u>	<u>INTERDIVISION ELIMINATIONS</u>	<u>TOTAL</u>
Current Assets:				
Cash and cash equivalents	\$ 8,066,171	\$ 13,300,287	\$ -	\$ 21,366,458
Accounts receivable	425,566	237,932	-	663,498
Accounts receivable from State of SC	19,943	-	-	19,943
Accounts receivable from other division	117,420	-	(117,420)	-
Interest receivable	42,694	59,916	-	102,610
Inventories	1,861,625	76,391	-	1,938,016
Prepayments	130,249	-	-	130,249
Total Current Assets	<u>10,663,668</u>	<u>13,674,526</u>	<u>(117,420)</u>	<u>24,220,774</u>
Property, Plant, and Equipment, Net of Accumulated Depreciation	<u>14,386,237</u>	<u>7,101,253</u>	<u>-</u>	<u>21,487,490</u>
Other Assets:				
Servicing rights	-	2,300,000	-	2,300,000
Accumulated amortization - Servicing Rights	-	(1,265,000)	-	(1,265,000)
Total Other Assets	<u>-</u>	<u>1,035,000</u>	<u>-</u>	<u>1,035,000</u>
Total Assets	<u>25,049,905</u>	<u>21,810,779</u>	<u>(117,420)</u>	<u>46,743,264</u>
 <u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable to other division	-	117,420	(117,420)	-
Accounts payable - other	83,969	10,834	-	94,803
Payroll taxes withheld and accrued employee benefits	26,638	-	-	26,638
Accrued annual leave and benefits	72,052	91,702	-	163,754
Accrued salaries	78,650	-	-	78,650
Deferred revenue	33,333	-	-	33,333
Total Current Liabilities	<u>294,642</u>	<u>219,956</u>	<u>(117,420)</u>	<u>397,178</u>
Total Liabilities	<u>294,642</u>	<u>219,956</u>	<u>(117,420)</u>	<u>397,178</u>
 <u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt Unrestricted	<u>14,386,237</u> <u>10,369,026</u>	<u>7,101,253</u> <u>14,489,570</u>	<u>-</u> <u>-</u>	<u>21,487,490</u> <u>24,858,596</u>
Total Net Assets	<u>\$ 24,755,263</u>	<u>\$ 21,590,823</u>	<u>\$ -</u>	<u>\$ 46,346,086</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>PUC-PTR</u>	<u>ECBR</u>	<u>TOTAL</u>
Operating Revenues:			
Switching fees	\$ 1,868,122	\$ -	\$ 1,868,122
Freight charges, net	-	4,711,934	4,711,934
Use of engine	17,951	122,715	140,666
Dispatching service	-	62,273	62,273
Other	<u>269,882</u>	<u>-</u>	<u>269,882</u>
Total Operating Revenues	<u>2,155,955</u>	<u>4,896,922</u>	<u>7,052,877</u>
Operating Expenses:			
Railway Operating Expenses:			
Maintenance of Way and Structures:			
Depreciation	82,172	49,126	131,298
Other maintenance of way expenses	<u>229,226</u>	<u>456,485</u>	<u>685,711</u>
Total Maintenance of Way and Structures	<u>311,398</u>	<u>505,611</u>	<u>817,009</u>
Maintenance of Equipment:			
Depreciation	72,348	36,273	108,621
Other equipment expenses	<u>179,983</u>	<u>109,797</u>	<u>289,780</u>
Total Maintenance of Equipment	<u>252,331</u>	<u>146,070</u>	<u>398,401</u>
Transportation:			
Superintendence	72,296	92,013	164,309
Yard employees	386,755	257,211	643,966
Other transportation expenses	<u>214,522</u>	<u>252,748</u>	<u>467,270</u>
Total Transportation	<u>673,573</u>	<u>601,972</u>	<u>1,275,545</u>
General:			
Administration	370,590	448,176	818,766
Insurance	268,788	266,974	535,762
Amortization of servicing rights	<u>-</u>	<u>115,000</u>	<u>115,000</u>
Total General	<u>639,378</u>	<u>830,150</u>	<u>1,469,528</u>
Total Railway Operating Expenses	<u>1,876,680</u>	<u>2,083,803</u>	<u>3,960,483</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>PUC-PTR</u>	<u>ECBR</u>	<u>TOTAL</u>
Other General Operating Expenses:			
Rent expense for leased road and equipment	\$ -	\$ 1,820	\$ 1,820
Hire of freight cars	-	2,978	2,978
Total Other General Operating Expenses	-	4,798	4,798
Total Operating Expenses	1,876,680	2,088,601	3,965,281
Operating Income	279,275	2,808,321	3,087,596
Nonoperating Revenues (Expenses):			
Rental income	552,954	100	553,054
Interest income	205,866	327,286	533,152
Industrial Development expenses	-	-	-
Other income, net	328,310	-	328,310
Total Nonoperating Revenues (Expenses)	1,087,130	327,386	1,414,516
Income Before Other Revenues and Transfers	1,366,405	3,135,707	4,502,112
Capital contributions	-	1,258,975	1,258,975
Transfer from State of SC	26,590	-	26,590
Increase in Net Assets	1,392,995	4,394,682	5,787,677
Net Assets			
Beginning of Year	23,362,268	17,196,141	40,558,409
End of Year	\$ 24,755,263	\$ 21,590,823	\$ 46,346,086

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>PUC-PTR</u>	<u>ECBR</u>	<u>TOTAL</u>
Cash Flows From Operating Activities:			
Cash received from customers	\$ 2,159,390	\$ 4,012,894	\$ 6,172,284
Cash payments to suppliers and employees	(1,690,859)	(2,088,134)	(3,778,993)
Rents received	559,304	-	559,304
Other income received	<u>312,500</u>	<u>100</u>	<u>312,600</u>
Net Cash Provided (Used) by Operating Activities	<u>1,340,335</u>	<u>1,924,860</u>	<u>3,265,195</u>
Cash Flows From Non-Capital Financing Activities:			
Transfer – State of SC General fund	<u>6,648</u>	<u>-</u>	<u>6,648</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>6,648</u>	<u>-</u>	<u>6,648</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(446,472)	(94,997)	(541,469)
Cash received from sale of assets	<u>21,725</u>	<u>100,000</u>	<u>121,725</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(424,747)</u>	<u>5,003</u>	<u>(419,744)</u>
Cash Flows from Investing Activities:			
Investment income received	<u>205,870</u>	<u>332,423</u>	<u>538,293</u>
Net Cash Provided (Used) by Investing Activities	<u>205,870</u>	<u>332,423</u>	<u>538,293</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,128,106	2,262,286	3,390,392
Cash and Cash Equivalents, Beginning of Year	<u>6,938,065</u>	<u>11,038,001</u>	<u>17,976,066</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,066,171</u>	<u>\$ 13,300,287</u>	<u>\$ 21,366,458</u>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>PUC-PTR</u>	<u>ECBR</u>	<u>TOTAL</u>
Reconciliation of Operating Income (Loss) to Net			
Cash Flows from Operating Activities:			
Operating income (loss)	\$ 279,275	\$ 2,808,321	\$ 3,087,596
Adjustments to reconcile operating loss			
to net cash provided by operating activities:			
Depreciation	154,520	85,399	239,919
Depreciation charged to sister division	46,401	(46,401)	-
Abandoned track	-	500	500
Inventories charged to fixed assets	(5,203)	-	(5,203)
Gain on sale of assets	(1,620)	-	(1,620)
Amortization	-	115,000	115,000
Nonoperating Revenues (Expenses)	881,264	100	881,364
(Increase) decrease in assets:			
Accounts receivable	(4,405)	152,268	147,863
Accounts receivable from other			
divisions	17,398	(17,398)	-
Inventories	(30,067)	147,570	117,503
Prepayments	(10,154)	-	(10,154)
Increase (decrease) in liabilities:			
Other customer payables	-	(1,044,640)	(1,044,640)
Accounts payable - other	7,944	(275,606)	(267,662)
Payroll taxes withheld and accrued			
employee benefits	(109)	-	(109)
Accrued annual leave	(198)	(253)	(451)
Accrued salaries	5,289	-	5,289
Net Cash Provided (Used) by			
Operating Activities	<u>\$ 1,340,335</u>	<u>\$ 1,924,860</u>	<u>\$ 3,265,195</u>

Noncash capital and related financing activities:

A capital contribution in the amount of \$2,193,850 to ECBR was recorded in the current year.

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 it issues separate financial statements. That organization is identified herein as a primary entity.

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

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

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

The South Carolina Department of Commerce - Division of Public Railways (Division) is part of the State of South Carolina Primary Government. The Division is reported as an enterprise fund in the State's Comprehensive Annual Financial Report.

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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

(Continued)

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

1. The power to sue or be sued, and make contracts.
2. To acquire by purchase or donation and to own, rent, lease, mortgage and dispose of real or personal property.
3. To operate, acquire, construct, maintain and control the tracks and equipment of the Division and be governed by rules and regulations of the Interstate Commerce Commission and its successor, the Surface Transportation Board.
4. To employ and dismiss the employees of the Division and to fix and to pay the compensation thereof.
5. To issue revenue bonds and other obligations, subject to approval by the State Budget and Control Board, to defray the cost of acquisition of other railroads.

The individual divisions of the South Carolina Department of Commerce - Division of Public Railways are funds of the State of South Carolina established per various sections of the Code of Laws of South Carolina. The accompanying financial statements present the financial position, results of operations, and the cash flows solely of the South Carolina Department of Commerce - Division of Public Railways and do not include any other funds of the State of South Carolina.

The South Carolina Department of Commerce - Division of Public Railways consists of two separate divisions: the Port Utilities Commission and Port Terminal Railroad, and the East Cooper and Berkeley Railroad. The functions of each of the divisions are outlined as follows:

- a. Port Utilities Commission and Port Terminal Railroad (PUC-PTR) has the responsibility of operation of the railroad yard at Charleston Harbor. Switching activity between privately owned railroad lines and seagoing vessels is its primary operation and revenue source.
- b. Operation and maintenance of the railroad line constructed in Berkeley County, South Carolina, is the primary responsibility of the East Cooper and Berkeley Railroad (ECBR). The railroad was constructed with financing by Amoco Chemicals Corporation, its major customer. This came after requests from the Commission and the State Budget and Control

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

Board to service the east side of the Cooper River north of Charleston, South Carolina were denied by the common carrier railroads operating in South Carolina.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Division adheres to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

The South Carolina Department of Commerce - Division of Public Railways is required by State Law (58-19-10) to maintain separate accounting of its two divisions: the Port Utilities Commission and Port Terminal Railroad, and the East Cooper and Berkeley Railroad. Presented here are the financial statements of the divisions of the South Carolina Department of Commerce - Division of Public Railways.

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

Operating income includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets.

Fund Accounting

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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

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

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

The Division's operations are classified as enterprise fund types within the proprietary fund classification. Enterprise funds account for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services.

Property, Plant, and Equipment

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

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

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

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

Servicing Rights

The servicing rights asset is being amortized.

Inventories

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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

Policy for Uncollectible Accounts

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

Inter-division Transactions and Balances

Transactions among the two divisions of the Division of Public Railways have been eliminated for purposes of the combined financial statements presented herein. Administration overhead incurred is divided between PUC-PTR and ECBR. Overhead of the two Divisions is split, 56% to ECBR and 44% to PUC-PTR. Overhead expense includes superintendence, general administrative, and insurance. See Note 10 regarding eliminations.

Statement of Cash Flows

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

Cash and Cash Equivalents

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

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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

(Continued)

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

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

Estimates

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

NOTE 3 - DEPOSITS

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

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At December 31, 2005, 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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

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 are stated at original cost with the exception of certain assets received from the State Ports Authority. \$451,136 of assets acquired by the Division from the South Carolina State Ports Authority during the organization of the South Carolina Department of Commerce - Division of Public Railways are stated at the cost to the State Ports Authority, less accumulated depreciation at the time of organization. The accumulated depreciation on these assets, since acquisition by the Division, at December 31, 2005 is \$30,261. Also, in 1997 the PUC-PTR Division exchanged certain assets with the State Ports Authority. The assets received from the State Ports Authority were recorded on PUC-PTR's books at book value of assets as recorded by the State Ports Authority. Amounts recorded included track and land improvements of \$1,324,462 and an engine house in the amount of \$1,182,402. Depreciation is computed on the straight-line method. During 2005 two locomotives owned by ECBR were sold to PUC-PTR at ECBR's basis of \$100,000. In 2005 a capital contribution was recorded for land, land improvements and track on ECBR. The amounts recorded were \$201,000 for land, \$308,229 for land improvements and \$749,746 for non-depreciable road. A summary of property, plant, and equipment by division is as follows:

<u>PUC-PTR</u>					
<u>CAPITAL ASSETS</u>					
	Restated Balance 12/31/04	Transfer In (Out)	Additions	Deletions	Balance 12/31/05
Land	\$ 4,119,749	\$ -	\$ -	\$ -	\$ 4,119,749
Land improvements	3,304,661	(44,900)	35,325	-	3,295,086
Fencing	-	44,900	6,578	-	51,478
Buildings	2,347,033	-	129,588	-	2,476,621
Machinery and equipment	2,483,989	83,709	254,587	(97,211)	2,725,074
Non-depreciable road	3,841,729	-	-	-	3,841,729
Leasehold improvements	205,083	-	12,385	(7,430)	210,038
Projects under construction	83,709	(83,709)	44,033	-	44,033
Total	<u>\$ 16,385,953</u>	<u>\$ -</u>	<u>\$ 482,499</u>	<u>\$ (104,641)</u>	<u>\$ 16,763,808</u>
<u>ACCUMULATED DEPRECIATION</u>					
Buildings	\$ 310,886	\$ -	\$ 60,064	\$ -	\$ 370,950
Fencing	-	-	4,610	-	4,610
Machinery and equipment	1,764,255	-	132,372	(77,106)	1,819,521
Leasehold improvements	186,045	-	3,875	(7,430)	182,490
Total	<u>\$ 2,261,186</u>	<u>\$ -</u>	<u>\$ 200,921</u>	<u>\$ (84,536)</u>	<u>\$ 2,377,571</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

(Continued)

ECBR

CAPITAL ASSETS

	Balance 12/31/04	Transfer In (Out)	Additions	Deletions	Balance 12/31/05
Land	\$ 426,419	\$ -	\$ 201,000	\$ -	\$ 627,419
Land improvements	1,706,588	-	308,229	-	2,014,817
Buildings	846,272	-	37,500	-	883,772
Machinery and equipment	841,325	-	-	(100,000)	741,325
Depreciable road	945,851	-	-	-	945,851
Non-depreciable road	2,628,369	-	807,242	(500)	3,435,111
Total	<u>\$ 7,394,824</u>	<u>\$ -</u>	<u>\$ 1,353,971</u>	<u>\$ (100,500)</u>	<u>\$ 8,648,295</u>

ACCUMULATED DEPRECIATION

Buildings	\$ 663,164	\$ -	\$ 13,443	\$ -	\$ 676,607
Depreciable road	290,830	-	13,414	-	304,244
Machinery and equipment	<u>554,050</u>	<u>-</u>	<u>12,141</u>	<u>-</u>	<u>566,191</u>
Total	<u>\$ 1,508,044</u>	<u>\$ -</u>	<u>\$ 38,998</u>	<u>\$ -</u>	<u>\$ 1,547,042</u>

COMBINED

CAPITAL ASSETS

	Restated Balance 12/31/04	Transfer In (Out)	Additions	Deletions	Balance 12/31/05
Land	\$ 4,546,168	\$ -	\$ 201,000	\$ -	\$ 4,747,168
Land improvements	5,011,249	(44,900)	343,554	-	5,309,903
Fencing	-	44,900	6,578	-	51,478
Buildings	3,193,305	-	167,088	-	3,360,393
Machinery and equipment	3,325,314	83,709	254,587	(197,211)	3,466,399
Depreciable road	945,851	-	-	-	945,851
Non-depreciable road	6,470,098	-	807,242	(500)	7,276,840
Leasehold improvements	205,083	-	12,385	(7,430)	210,038
Projects under construction	<u>83,709</u>	<u>(83,709)</u>	<u>44,033</u>	<u>-</u>	<u>44,033</u>
Total	<u>\$ 23,780,777</u>	<u>\$ -</u>	<u>\$ 1,836,467</u>	<u>\$ (205,141)</u>	<u>\$ 25,412,103</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

(Continued)

ACCUMULATED DEPRECIATION

	Balance 12/31/04	Transfer In (Out)	Additions	Deletions	Balance 12/31/05
Buildings	\$ 974,050	\$ -	\$ 73,507	\$ -	\$ 1,047,557
Fencing	-	-	4,610	-	4,610
Depreciable road	290,830	-	13,414	-	304,244
Machinery and equipment	2,318,305	-	144,513	(77,106)	2,385,712
Leasehold improvements	186,045	-	3,875	(7,430)	182,490
Total	<u>\$ 3,769,230</u>	<u>\$ -</u>	<u>\$ 239,919</u>	<u>\$ (84,536)</u>	<u>\$ 3,924,613</u>

Depreciation expense for the period by division and in total was as follows:
PUC-PTR \$200,921 and ECBR \$38,998, Total - \$239,919. The beginning balances
in accumulated depreciation for buildings and machinery and equipment for PUC-PTR
were restated by \$925 respectively, the total remains the same.

NOTE 5 - ACCRUED ANNUAL LEAVE

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

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

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

**NOTE 6 - DEFERRED REVENUE/OPERATING LEASES/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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

right to purchase the land and improvements for PUC-PTR's cost not to exceed \$5,000,000. The rent is paid at the beginning of each year's anniversary for one year effective March 4, 1994 and will be adjusted annually based on 90-day Treasury bill rates. The initial rent was based on a 4% annual return on the initial investment of \$2,000,000, which is why Treasury bill rates will be used to determine changes in the annual rent. The Divisions total investment in this project ended up being \$4,365,595 which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 2004 was \$200,000 and at March 4, 2005 was also \$200,000. The land is used as a railroad spur to the BMW plant. During 2005, \$200,000 was recognized as nonoperating rental revenue and \$33,333 was deferred revenue based on the terms of this agreement. Also effective March 4, 1996, the Division began receiving revenue on certain car hauls out of the BMW plant by Norfolk Southern. This amounted to \$221,490 in 2005 and is included in other income, net, nonoperating revenue. See Note 8 regarding other income, net.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of \$264,454 for 2005. Effective May 30, 1995, this lease was renewed. The lease is a supplemental lease to preexisting 1980 and 1986 leases. The lease expires on February 16, 2015, with automatic one-year renewals unless either party serves the other with at least twelve months notice. Under the supplemental lease each year's rent will be adjusted to correspond to the change in the national consumer price index ("CPI") for the previous year. The cost of land and non-depreciable track being leased to the North Charleston Terminal Company is \$655,881.

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

2006	\$	464,454
2007		464,454
2008		464,454
2009		464,454
2010		464,454
2011-2015		<u>2,090,873</u>
Total	\$	<u>4,413,143</u>

NOTE 7 - COMPENSATED ABSENCES

The following is a summary of changes in compensated absences for the year ended December 31, 2005.

	<u>Jan 1, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Dec 31, 2005</u>	<u>Due Within One Year</u>
Compensated Absences:					
PUC-PTR	\$ 72,250	\$ 6,098	\$ (6,296)	\$ 72,052	\$ 72,052
ECBR	91,954	7,761	(8,013)	91,702	91,702
Total	<u>\$ 164,204</u>	<u>\$ 13,859</u>	<u>\$ (14,309)</u>	<u>\$ 163,754</u>	<u>\$ 163,754</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

NOTE 8 - OTHER INCOME, NET

The category under "Nonoperating revenues (expenses)" entitled "Other income, net" 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, insurance proceeds, permits, lease, processing (clerical) services and contracted services. See Note 6 regarding \$221,490 of income from the BMW plant. See Note 11 regarding \$93,081 of offset charges received from the State Ports Authority. A breakdown by division of "Other income, net" for the year ended December 31, 2005, is as follows:

	<u>PUC-PTR</u>	<u>ECBR</u>	<u>TOTAL</u>
Sale of supplies, leases and contractual services:			
Between divisions	\$ -	\$ -	\$ -
With outside parties	<u>328,310</u>	<u>-</u>	<u>328,310</u>
Total	<u>\$ 328,310</u>	<u>\$ -</u>	<u>\$ 328,310</u>

NOTE 9 - INTER-DIVISION ELIMINATIONS

The following transactions between the separate divisions have been eliminated in the combined financial statements as follows:

BALANCE SHEET
DECEMBER 31, 2005

<u>Descriptions</u>	<u>PUC-PTR</u>	<u>ECBR</u>
Accounts receivable from other divisions	\$ (117,420)	\$ -
Accounts payable to other divisions	<u>-</u>	<u>117,420</u>
	<u>\$ (117,420)</u>	<u>\$ 117,420</u>

Other amounts in accounts payable for ECBR and PUC-PTR are normal monthly amounts initially paid by one division that will be reimbursed by the division receiving the goods/services.

NOTE 10 - 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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

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

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2005 the contribution rate for employees became 6.5 percent. Effective July 1, 2004, the employer contribution rate became 10.8 percent, which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The Division's actual contributions to the SCRS for the fiscal year ended December 31, 2005 were

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

\$123,277 and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for 2004 were \$117,550 and for 2003 were \$112,632. Also, the Division paid employer group-life insurance contributions of \$2,449 in the current fiscal year at the rate of .15 percent of compensation.

The contributions by each division are as follows:

	<u>PUC-PTR</u>	<u>ECBR</u>	<u>Total</u>
Retirement Plan			
Employer	\$ 65,042	\$ 58,235	\$ 123,277
Group Life			
Employer	\$ 1,292	\$ 1,157	\$ 2,449

The amounts paid by the South Carolina Department of Commerce - Division of Public Railways for pension and group-life benefits are recorded in the appropriate operating department corresponding to the employee for whom the 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 therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Division recognizes no contingent liability for unfunded costs associated with participation in the plan.

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

The General Assembly amended Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2001, with some provision effective January 1, 2001. The amendment enacted the Teacher and

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

(Continued)

Employee Retention Incentive Program, reducing from thirty to twenty-eight years of credible service required to retire at any age without penalty and made other changes to the South Carolina Retirement System.

The Division contributed \$328,922 this year to the U.S. Railroad Retirement System, which covers all employees. PUC-PTR contributed \$174,921 and ECBR, \$154,001. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2005, wages up to \$90,000 were funded at 6.2 percent by the Division to meet Tier I funding requirements and all wages were funded at 1.45 percent by the Division to meet Tier I Medicare funding requirements. The Division funded wages up to \$66,900 at 12.6 percent to meet Tier II funding requirements. Employees matched the Division's Tier I contribution, but paid only 4.4 percent versus the Division's 12.6 percent Tier II rate on wages up to \$66,900 for the maximum Tier II employee liability of \$2,944.

The U. S. Railroad Retirement Board, in accordance with the Railroad Retirement Acts, administers this plan.

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

Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Division 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 the Division'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 fund sources of the Division 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 27,000 State retirees meet these eligibility requirements.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Continued)

The South Carolina Department of Commerce - Division of Public Railways recorded employer contributions applicable to these benefits for active employees in the amount of \$127,611 for the year ended December 31, 2005. Contributions by division are as follows: PUC-PTR, \$56,149 and ECBR, \$71,462. Contributions to these plans are recorded as insurance expense in the administrative costs of the divisions.

As discussed above, the Division paid \$53,066 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. Contributions by Division are as follows: PUC-PTR \$27,998; and ECBR \$25,068.

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

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

Deferred Compensation Plans

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

NOTE 11 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

PUC-PTR allocated to ECBR \$46,401 of depreciation expense as part of the administrative overhead expense allocation between the two divisions explained in Note 2. This is shown as depreciation expense under general railway operating expenses of ECBR. PUC-PTR purchased locomotives for \$100,000 from ECBR at book value.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

(Continued)

The Ports Authority pays PUC-PTR monthly offset charges. In 1988, the S.C. State Ports Authority took possession of a certain area of trackage at the Port Terminal Railroad which caused PUC-PTR to incur additional operating costs. The Ports Authority continues to pay PUC-PTR for the additional costs, which equals the initial annual base amount of \$58,615 adjusted for changes in the consumer price index. The amount paid to PUC-PTR was \$93,081 in 2005 and is included in other non-operating revenues. See Note 8 regarding other income, net.

As described in Note 9, the Divisions provide each other with certain services.

As provided by South Carolina 2006 Appropriations Act Proviso 73.17 PUC-PTR is to receive in quarterly installments \$26,591 from the general fund of the State of South Carolina. \$6,647 was transferred in 2005 and the balance of \$19,943 will be transferred in 2006. This \$19,943 is shown as a receivable from the State of South Carolina at December 31, 2005.

Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement and insurance plan administration from various divisions of the State Budget and Control Board. The Division had financial transactions with various State agencies during the year. Payments made in 2005 to the State Budget and Control Board was primarily for insurance coverage.

NOTE 12 - OPERATING LEASES

The Division's Port Utilities Commission and Port Terminal Railroad Division, and the South Carolina State Ports Authority entered into an agreement, effective July 1, 1976, allowing the South Carolina Department of Commerce - Division of Public Railways to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The Division is now occupying these premises on a month-to-month lease. The monthly rental charge is \$300. The Division incurred \$3,600 for rental of this building in 2005. The Division is required to carry insurance for property damage and to maintain and repair the leased building.

The only other lease payment is \$1,820 per year by ECBR to the U.S. Department of Agriculture for right of way for the railroad on National Forest Land. This lease is for an indefinite term.

Total operating lease expense in 2005 was \$5,420. Minimum future payments of the Division for the lease with the indefinite terms as of December 31, 2005 are as follows:

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NOTES TO FINANCIAL STATEMENTS

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(Continued)

	ECBR
2006	\$ 1,820
2007	1,820
2008	1,820
2009	1,820
2010	<u>1,820</u>
Totals	<u>\$ 9,100</u>

NOTE 13 - RISK MANAGEMENT

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

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

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

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

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

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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(Continued)

2. Motor vehicles - Coverage is up to \$1,000,000 per loss with a \$200 deductible.

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 all the Division employees for unemployment benefits.

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

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

The Division did not incur any significant losses in 2005 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. The Division reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

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NOTES TO FINANCIAL STATEMENTS
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(Continued)

NOTE 14 - GASB 31 ADJUSTMENTS

Effective January 1, 1998, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal (and external) investment pools, this statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. The unrealized gains included in cash and cash equivalents at December 31, 2005, were \$6,208 for PUC-PTR and \$54,421 for ECBR.

NOTE 15 - ENTERPRISE FUND INFORMATION

Charges for services	\$ 7,934,241
Operating grant and contributions	533,152
Capital grants and contributions	1,258,975
Less: expenses	<u>(3,965,281)</u>
Net program revenue	5,761,087
Transfers	<u>26,590</u>
Change in net assets	5,787,677
Net assets - beginning	<u>40,558,409</u>
Net assets - ending	<u>\$ 46,346,086</u>

This information is included only for the State of South Carolina GAAP reporting purposes and includes terminology and classifications which are not consistent with the financial statements.

Beaufort Railroad Company, Inc.
Notice of Modified Certificate
Attachment D

STATE OF SOUTH CAROLINA)
)
COUNTY OF CHARLESTON) OPERATING AGREEMENT

This Agreement is made the 12th day of October, 2006, by and between the SOUTH CAROLINA STATE PORTS AUTHORITY, a public body corporate organized and existing under the law of the State of South Carolina ("SCSPA"), and BEAUFORT RAILROAD COMPANY, INC., ("Company"), a subsidiary of the SOUTH CAROLINA DIVISION OF PUBLIC RAILWAYS, a public body corporate organized and existing under the laws of the State of South Carolina ("SCPR"), witnesseth:

WHEREAS, the SCSPA wishes to ensure continued rail service over the rail line formerly operated by the Seaboard Railroad System in Beaufort County, South Carolina, between Port Royal/Beaufort, South Carolina, and Yemassee, South Carolina, and also formerly operated by Tangent Transportation Company, Inc., said rail line herein known and described as the Port Royal Railroad ("the Railroad") and the SCSPA desires to maintain rail service over the Railroad; and, whereas, the Company has been organized and established by the SCPR as a railroad operating subsidiary to assist in accomplishing such purposes consistent with its enabling statutes and similar agreements with other customers; it is the intent of the parties that neither the Company nor the SCPR shall sustain any loss by reason of the operation of the Railroad:

NOW, THEREFORE, in consideration of the mutual promises and covenants herein made, the SCSPA and the Company do hereby agree as follows:

1. Railroad Operations: The Company agrees to equip, develop, operate, and maintain the Railroad at the expense of the SCSPA for a period of one (1) year from the date hereof, and from year to year thereafter, unless terminated as herein provided. Except for original

equipment costs and routine operation and maintenance costs, the Company will not incur obligations for major equipment or maintenance, or for major improvements or development of the Railroad without prior consultation and approval by the SCSA. The Company agrees to operate the Railroad in the most efficient and economical manner, and in compliance with all applicable laws, regulations, and standards administered by the U.S. Department of Transportation, including the FRA and STB.

2. Guarantees to the Company: The SCSA obligates itself and guarantees that neither the Company nor the SCPR shall sustain any loss or pecuniary liability of any kind or nature by reason of or arising from the operation of the Railroad by the Company. To assure such protection from loss, the SCSA shall be charged for sufficient funds (above and beyond revenues earned by the Railroad) necessary to equip, develop, operate, and maintain the Railroad, including overhead costs, insurance premiums, and other expenses of the Company directly related to service renewal and operation not defrayed by charges to third-party customers, during the entire term of this Agreement and any extension thereof.

3. Charges: The SCSA shall be charged on a monthly basis for sufficient funds to cover all expenses of the Railroad not provided for by revenues from the Railroad's operations. Said monthly charges shall also include funds necessary for the Company to reimburse the SCPR for services provided or sums expended by the SCPR for the Company, all as provided in that certain executive decision adopted by the SCPR on October 12, 2006, whereby the SCPR authorized the company to operate the Railroad, provided that such operations do not result in adverse economic impact on the SCPR and that all costs incurred by the SCPR for the Company shall be repaid. Total monthly payments for all charges herein provided shall be made by the SCSA to the Company within

ten (10) days after receipt of the Company's or the Company's representatives' monthly statement, which statement will reflect all revenues received by the Company in the prior month from operations of the Railroad, as well as balances due to the Company on all accounts.

4. Working Capital Reserve: Prior to the commencement of railroad operations, SCSPA shall advance sufficient funds to maintain a reserve for working capital and operating contingencies of the Railroad of \$50,000.00; which reserve fund or the unexpended balance thereof will be returned or credited to the account of the SCSPA upon the termination of this Agreement. Amounts necessary to maintain the reserve at the said minimum level shall be included in the monthly statement submitted by the Company to the SCSPA for payment as above provided.

5. Restrictions: The Company shall take no action nor enter into any agreement which could encumber or affect the title to any Railroad property in which the SCSPA might have an interest. All personal property and equipment purchased by the Company pursuant to this Agreement shall be the property of the Company.

6. Insurance: To protect the interests of both the SCSPA and the Company prior to commencement of railroad operations, SCSPA and the Company both agree to acquire and maintain the following insurance to protect the interests of both parties from any liability arising from third party bodily injury or property damage occurring during the term of this agreement:

The SCSPA will acquire and maintain third party liability insurance in an amount of not less than \$5,000,000.00 to cover any and all claims arising solely from the existence hazard presented by the Railroad or the property upon which the Railroad is situated. Such

insurance will name the Company as an Additional Named Insured. The cost of such insurance will be borne solely by the SCSA.

Prior to the commencement of railroad operations, the Company will acquire and maintain third party liability insurance in an amount of not less than \$5,000,000.00 to cover any and all claims arising solely from any acts, work or operations of the Company which may be conducted as respects the Railroad or on the property upon which the Railroad is situated. Such insurance will name the SCSA as an Additional Named Insured. The cost of such insurance will be charged by the Company to SCSA as expenses as provided in this Agreement. 7. Termination: This Agreement is terminable at any time by the Company upon failure of the SCSA to make timely payments to the Company for all accounts and obligations as herein provided; provided, the Company shall give thirty (30) days written notice of such termination; and, provided further, that if within such thirty (30) days the SCSA shall make all payments then due hereunder, this Agreement shall remain in effect. Otherwise, this Agreement may be terminated at any time during the original one (1) year term or extension hereof only by Agreement of the parties. By mutual agreement, the parties may renew or extend this Agreement.

8. Company Independent Contractor: Any provisions in this Agreement which may appear to grant SCSA the right to direct the Company with respect to the performance of services to be provided by the Company hereunder or to exercise any control over the performance of such Services, shall be deemed to mean only that the Company shall follow the requests of the SCSA as to provision of the services only, and not as to the means or methods whereby the services are to be accomplished. The Company shall use its own discretion and shall have complete and authoritative control over the performance of all rail

services, and over its employees, including schedules and other details of providing services. The Company shall assume all the rights, obligations, and liabilities applicable to it as an independent contractor, including the obligation to obtain all licenses, permits, approvals, contracts and agreements necessary for it to operate the Railroad.

9. General Provisions: This Agreement is made pursuant to and shall be governed by the laws of the State of South Carolina. This Agreement may be amended only in writing signed by both parties. This Agreement shall be binding on the legal successors and assigns of the parties hereto.

WITNESS the hands and seals of the parties by their duly authorized officers as of the day and date first above written.

SOUTH CAROLINA STATE PORTS AUTHORITY

Witnessed:

Martha A. Lead

By: [Signature]
President and Chief Executive Officer

BEAUFORT RAILROAD COMPANY, INC.

Witnessed:

Lisa Irvin

By: [Signature]
President

Beaufort Railroad Company, Inc.
Notice of Modified Certificate
Attachment E

Wachovia Insurance Services, Inc.
4401 Northside Parkway
Suite 400
Atlanta, GA 30327-3078

Tel 770 850-0050
Fax 770 850-9375



WACHOVIA INSURANCE SERVICES

November 16, 2006

Mr. J.W. Stuart
Vice President Marketing and Finance
South Carolina Public Railways
540 East Bay Street
Charleston, South Carolina 29403

RE: Beaufort Railroad Company, Inc.

Dear Jimmy:

Thanks for sending the agreement with the South Carolina Ports Authority and the application. Zurich's quotation for this exposure is \$5,850. This would contemplate a limit of \$5,000,000 with a self-insured retention of \$100,000. The Port Authority would be an Additional Named Insured as per the proposed agreement.

Thanks for the opportunity to be of service. Please instruct us if and when appropriate. We appreciate your business.

Very truly yours,

Edwin P. Bendin
Senior Vice President
Direct Dial # 404 487-7307
E-mail: ed.bendin@wachovia.com

EPB/rds

CC: Ms. Trudy Hepfner – Zurich

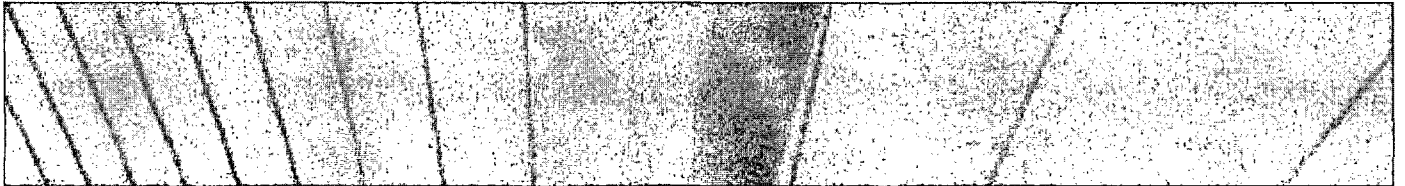
Beaufort Railroad Company, Inc.
Notice of Modified Certificate
Attachment F

FISCAL YEAR

south carolina STATE PORTS AUTHORITY

annual report

reinvesting for the future



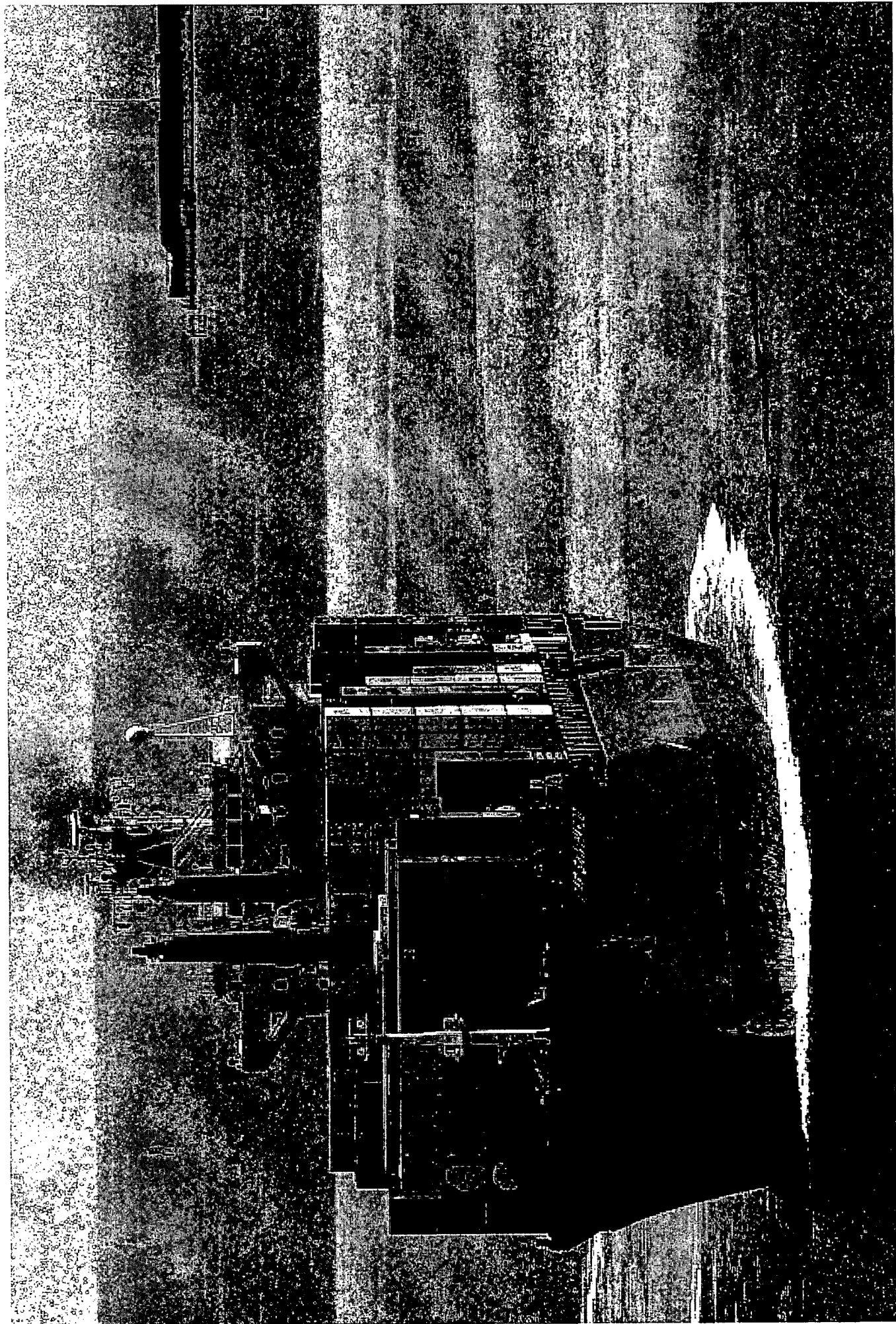
south carolina **STATE PORTS AUTHORITY** FISCAL YEAR

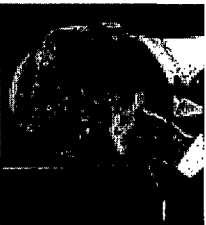
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annual report



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MESSAGE from CHAIRMAN/PRESIDENT

All-Time Record Volume, Revenues and Earnings

In fiscal year 2005, the South Carolina State Ports Authority aggressively pursued its important economic development mission, setting new records for volume, revenues and earnings along the way.

The Ports Authority took steps to improve efficiency and more effectively manage our existing facilities. This allowed the Ports Authority to handle a 14% growth in container volume, while at the same time holding operating expense growth to less than a third of one percent.

The impact of this aggressive management is striking. Most seaports expect mounting delays and rising costs when dealing with a rapid volume increase. South Carolina's success in improving productivity and holding the reins on spending has set the bar for other public ports.

These achievements demonstrate both the urgency of providing new shipping capacity and the requirements of a statewide strategy to accommodate the expanding need.

Over the past year, we made significant progress on the vital port expansion project at the former Charleston Naval Complex. The Ports Authority funded the necessary studies to support this project and expects permits and construction in the coming fiscal year.

Building this new terminal is complemented by a strategic capital investment program that will bolster capacity at our existing public terminals in Charleston.

Beyond new capacity in Charleston, the Ports Authority resolved to begin moving ahead with steps to develop a port facility on the

Savannah River in Jasper County. This is perhaps one of our region's finest sites for port development and represents tremendous economic development potential for South Carolina in the decades to come.

Through a competitive bid process to invite private participation, port expansion will be accomplished without any taxpayer funding of the marine terminal infrastructure.

With the Ports Authority's leadership, the Charleston and Jasper projects will support one another. They represent the value and importance of a coordinated effort to satisfy our State's and our region's long-term international trading needs.

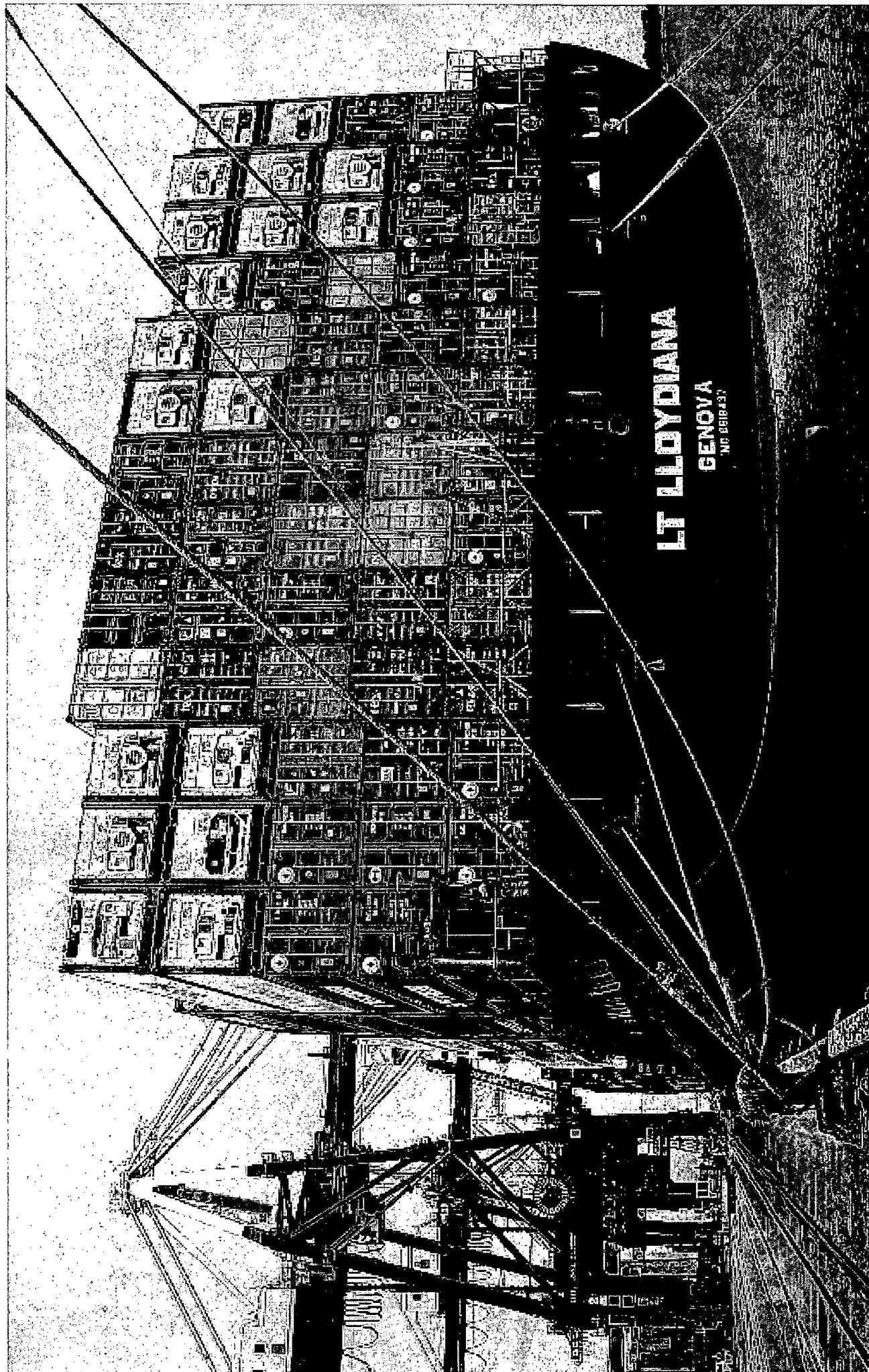
Also last year, the new Ravenel Bridge across South Carolina's main shipping channel was completed. As the largest cable cable-stayed bridge in North America, it bolsters Charleston's competitive position and will provide for our expanding port system. This awe-inspiring structure symbolizes our state's momentum and potential.

In the face of expanding business, South Carolina's ports must expand. The Ports Authority has the plan, the resources and the public accountability to triumph over our shared challenges in a respectful way that will secure our shared future.

As we reflect on the past year, we are proud of our accomplishments and are humbled by the support of South Carolina's elected, business and community leaders. The Ports Authority is committed to its responsibilities and is steadfast in the pursuit of its mission on behalf of the people of South Carolina.

Harry J. Butler, Jr., Chairman
at June 30, 2005

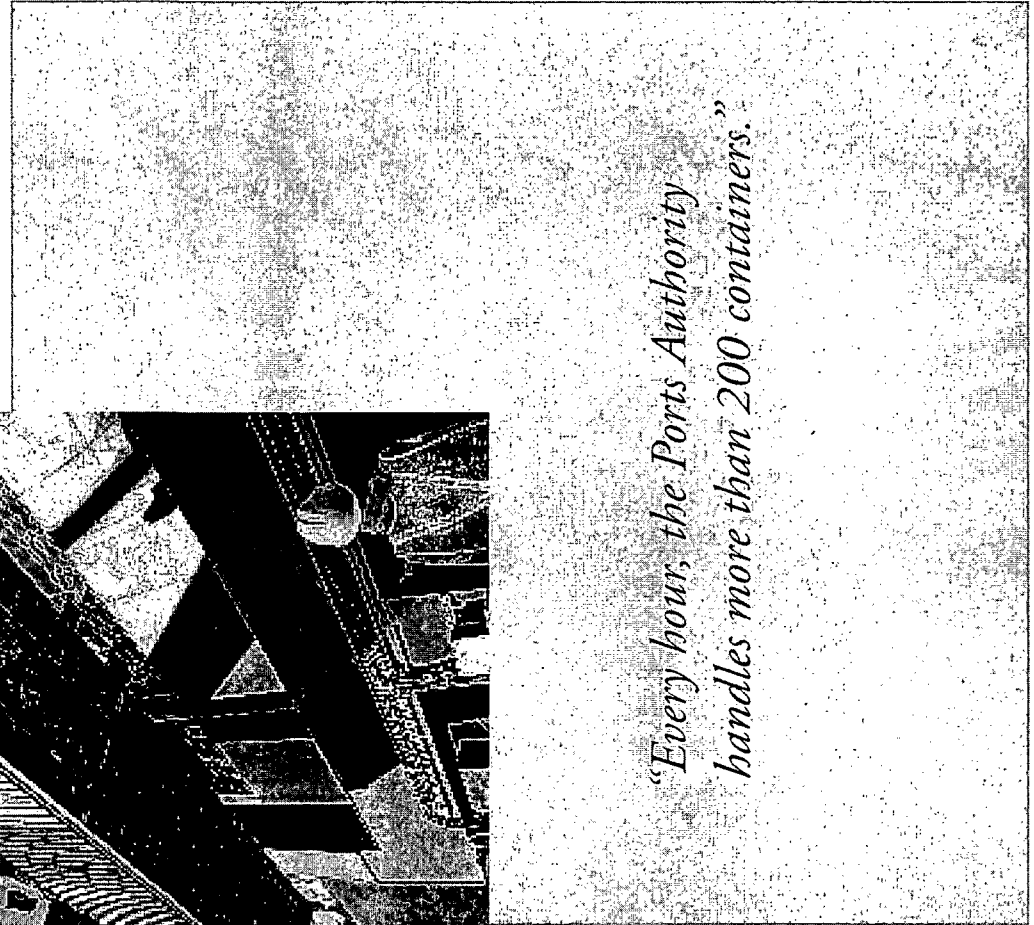
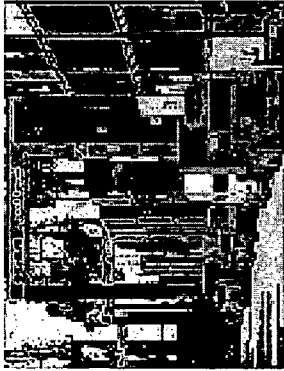
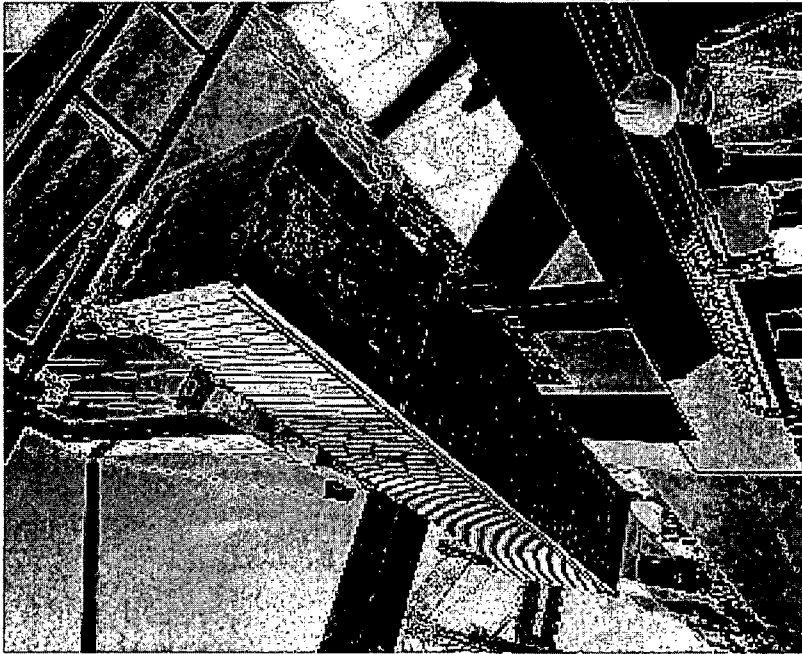
Bernard S. Groseclose, Jr.,
President and Chief Executive Officer



LT LLOYDIANA

GENOVA

IMO 8618431



*"Every hour, the Ports Authority
handles more than 200 containers."*

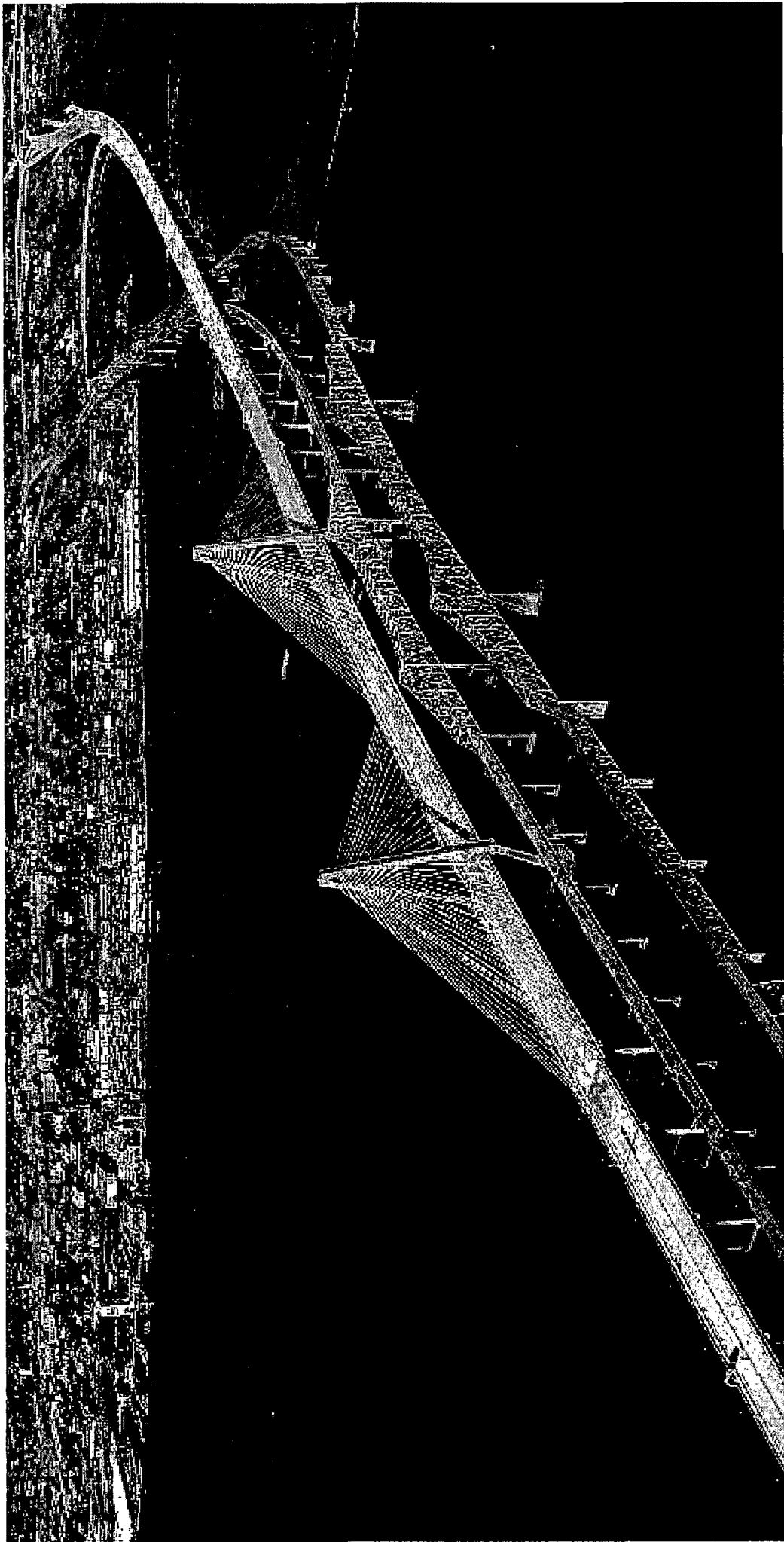
EFFICIENCY

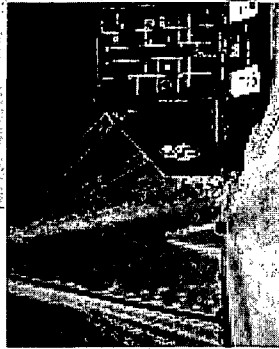
Ensuring the highest and best use of South Carolina's public marine terminals is a vital responsibility so the Ports Authority is pressing for more efficient and safer operations.

With the launch of the Yard Management System at the Wando Welch Terminal in January 2005, all terminals are covered with radio frequency technology to track cargo and better manage the facilities.

The results were immediate. In May, container volume reached an all-time record with more than 70,000 gate moves through facilities operated by the Ports Authority. Yet the median time it takes for truckers to perform a standard transaction was held to 27 minutes.

To promote productive and safe operations, the Ports Authority, stevedores, labor and the motor carrier community formed a joint safety team. The group cooperated to formalize safe operating practices and continues to meet.





*"South Carolina must
expand its ports—
trade will double
in less than 20 years."*

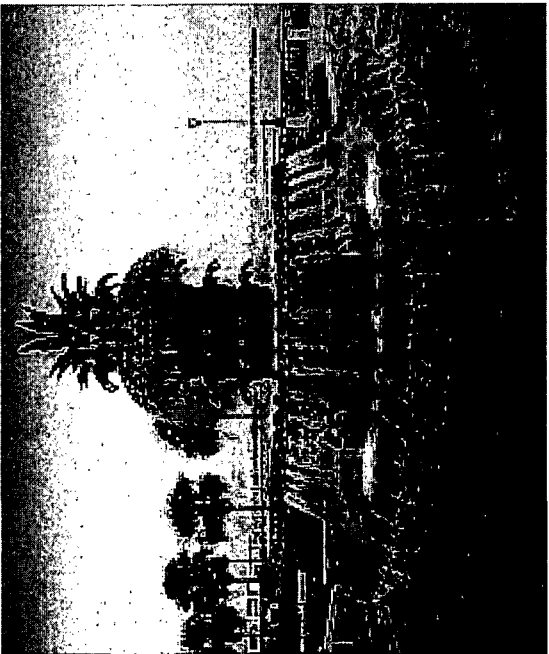
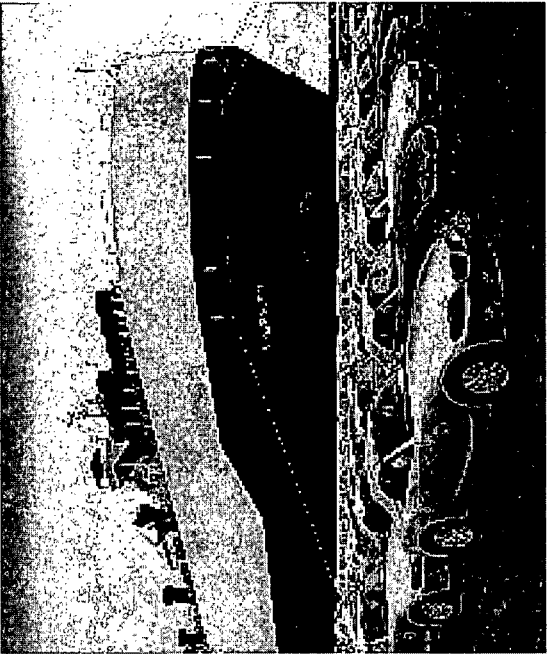
VITALITY

At the close of the fiscal year, South Carolina celebrated completion of the new Ravenel Bridge spanning Charleston's main shipping channel as plans for new port expansion materialized.

The massive new bridge, combined with the deeper harbor that was realized last fiscal year, provides higher and wider clearance for the latest generation of container ships. Charleston now has deeper channels and higher clearances than competing ports.

Port expansion on the former Charleston Naval Complex took shape when the Ports Authority approved \$6.5 million in contracts for environmental, engineering and mitigation studies. Permit approvals on the project are expected in fiscal 2006.

The Ports Authority also launched efforts to acquire a site in Jasper County for the state's public seaport needs and began a competitive bid process to ensure private participation in the financing of future port expansion.





*"More than 700 companies
from across the state ship through
the Ports Authority."*



PROSPERITY

The Ports Authority exists to provide economic opportunities and prosperity to the people of South Carolina. Several announcements during the year point to brighter prospects in the year ahead.

The Ports Authority finalized a new 10-year service agreement with BMW Manufacturing that secures the automaker's presence in the Port of Charleston and increases shipments.

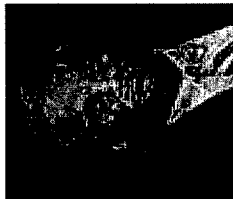
Several ocean carriers also added new services with the Ports Authority during the year, improving links to the Middle East and Latin America.

To further develop the state's global presence, the South Carolina General Assembly passed a new International Trade Incentive Program that offers tax credits to companies increasing their shipments through the state's ports.

The Ports Authority also secured Asian sales representation during the year and welcomed a private company's investment in a huge heavy lift crane that should open Charleston to new cargo opportunities.

SOUTH CAROLINA STATE PORTS AUTHORITY **BOARD & SENIOR MANAGEMENT**

As of June 30, 2005



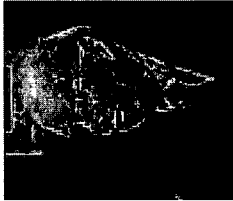
Harry J. Butler, Jr.
Georgetown, Chairman



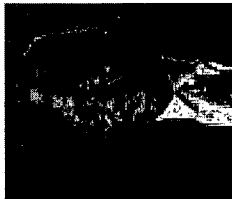
Bill H. Stern
Columbia, Vice Chairman



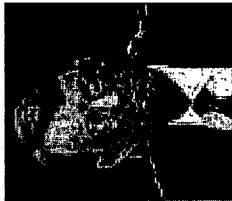
Carroll A. Campbell, III
Columbia, Board Treasurer



Whitemarsh S. Smith, III
Charleston, Board Secretary



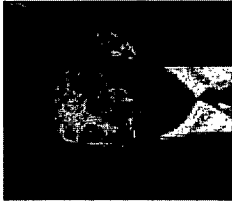
James A. Bennett
Columbia, Board Member



John F. Hassell, III
Charleston, Board Member



Glen P. Kilgore
Beaufort, Board Member



Thomas C. Davis
Beaufort, Board Member

Senior Management

Bernard S. Groseclose, Jr.
President and CEO

Joc T. Bryant
Vice President, Terminal Development

William A. McLean
Vice President, Operations

Philip L. Lawrence, Esq.
Chief Legal Counsel

Peter N. Hughes, CPA
Chief Financial Officer

Fred N. Stribling
Vice President, Marketing and Sales

Pamela A. Everitt
Director, Information Technology

L. David Schronce
Director, Georgetown, Port Royal and Veterans

Peter O. Lehman, Esq.
Director, Planning and Business Development

Stephen E. Connor
Director, Security, Risk Management and Human Resources

Barbara L. Melvin
Government Relations Liaison

Byron D. Miller
Manager, Public Relations

STATEMENT of FISCAL ACCOUNTABILITY

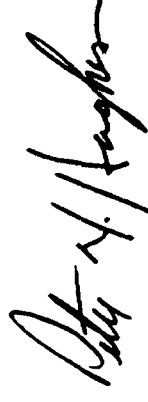
Financial data of the South Carolina State Ports Authority originates in their various functional areas. Ports Authority management maintains an internal control structure designed to provide reasonable assurance that transactions are executed properly and in accordance with management's authorization, that the financial records are reliable for the purposes of preparing financial statements, and that assets are safeguarded from loss or unauthorized use.

The internal auditors and the independent auditors have unrestricted access to the Audit Committee, without the presence of management, to discuss any matter.

The Finance Division of the Ports Authority is responsible for the fair presentation and preparation of the financial statements, notes related thereto, and other financial information contained in this annual report.

The concept of reasonable assurance is applied by weighing the costs of an internal control structure against the benefits to be derived. The internal control structure of the Ports Authority is supported by the selection, training, and development of qualified personnel, an appropriate segregation of duties, and the dissemination of written policies and procedures. Elements of the internal control structure of the Ports Authority are reviewed and evaluated on an ongoing basis by means of an Internal Audit Department, which is independent of the Authority's Finance Division and other functional areas.

The financial statements were prepared in conformity with generally accepted accounting principles, applying certain estimates and informed judgments as required. The financial statements contained in this annual report have been audited by PricewaterhouseCoopers LLP, independent auditors, whose report appears on the next page.



Peter N. Hughes
Chief Financial Officer
South Carolina State Ports Authority

The Board of the Ports Authority maintains an Audit Committee that meets periodically with management, the internal auditors, and the independent auditors to review the scope and results of audit work.

REPORT OF INDEPENDENT AUDITORS

*To the Board of Directors
South Carolina State Ports Authority*

In our opinion, the accompanying balance sheets and related statements of revenues, expenses and changes in net assets, and of cash flows presented fairly, in all material respects, the financial position of the South Carolina State Ports Authority (the "Ports Authority") at June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Ports Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,

evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The management's discussion and analysis on pages 15 through 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Priscilla L. Cooper, CPA

October 3, 2005

MANAGEMENT'S DISCUSSION and ANALYSIS

June 30, 2005 and 2004

ANNUAL FINANCIAL REPORT

The annual financial report of the South Carolina State Ports Authority ("Ports Authority") provides an overview of the Ports Authority's financial activities for the fiscal years ended June 30, 2005 and 2004. The financial statements include the independent auditor's opinion, balance sheets, statements of revenues, expenses and changes in net assets, statements of cash flows and the accompanying explanatory notes. Management's discussion and analysis should be read in conjunction with the financial statements and notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The South Carolina State Ports Authority was created in 1942 by Act Number 626 of the South Carolina General Assembly for the general purposes of developing and improving the harbors and seaports of Charleston, Georgetown and Beaufort for the handling of waterborne commerce, and to foster and stimulate the shipment of freight and commerce through these ports. The Ports Authority has no stockholders or equity holders and is directed by a governing board, whose members are appointed by the Governor of South Carolina for seven-year terms. The Ports Authority owns and is responsible for the operation of eight ocean terminals at the ports of Charleston, Georgetown and Port Royal. These facilities primarily handle import and export containerized, breakbulk and bulk cargoes.

FINANCIAL POSITION

The Ports Authority's performance measures during fiscal years ended June 30 are as follows:

<i>(in thousands of dollars)</i>	2005	2004	2003
Total operating revenues	\$ 138,007	\$ 116,530	\$ 110,204
Total TEUs (equivalent number of 20' container units)	1,971	1,725	1,682
Breakbulk Pier Tonnage	1,908	1,847	2,297

A total of 2,004, 1,954 and 1,976 vessels (excluding barges) docked during the years ended June 30, 2005, 2004 and 2003, respectively. The Ports Authority provided services to the ten largest container ship lines based on the second quarter 2005 issue of the Journal of Commerce/Piers, U.S. Global Container Report.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Ports Authority report information about the Ports Authority's using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The balance sheets include all of the Ports Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Ports Authority creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Ports Authority and assessing the liquidity and financial flexibility of the Ports Authority.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Ports Authority's operations and can be used to determine whether the Ports Authority has successfully recovered all its costs through its customer contracts, tariff and other charges, as well as its profitability, and creditworthiness.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Ports Authority's cash receipts and cash payments during the reporting period. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provide answers to such questions as where did cash come from, what was it used for, and what was the change in cash balance during the reporting period.

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

One of the most important questions asked about the Ports Authority's financial statements is "Is the Ports Authority as a whole, better off or worse off as a result of the year's activities?" The balance sheets, and the statements of revenues, expenses and changes in net assets report information about the Ports Authority's activities in a way that will help answer this question. You can think of the Ports Authority's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over

time, increases or decreases in the Ports Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, world events, regulation and new or changed government legislation.

STATEMENTS OF FINANCIAL POSITION (BALANCE SHEETS)

The balance sheet serves as a useful indicator of the Ports Authority's financial position. It distinguishes assets and liabilities as to their expected use for current operations or internally designated use for capital projects. The Ports Authority's assets exceeded liabilities by \$427.6 million and \$382.6 million at June 30, 2005 and 2004, respectively, a \$45 million increase from June 30, 2004. A condensed summary of the Ports Authority's balance sheet and resulting net assets at June 30 is shown below:

<i>(in thousands of dollars)</i>	2005	2004	2003
Assets			
Current assets	\$ 91,407	\$ 77,571	\$ 39,854
Internally designated assets	55,139	40,751	73,055
Held by trustee for debt service	6,091	5,804	5,935
Noncurrent assets (net of depreciation)	453,748	445,157	418,703
Total assets	\$ 606,385	\$ 569,283	\$ 537,547
Liabilities			
Current liabilities	\$ 24,788	\$ 28,675	\$ 17,515
Long-term obligations	153,965	157,977	143,992
Total liabilities	178,753	186,652	161,507
Net assets			
Invested in capital assets, net of debt	290,949	272,882	269,949
Restricted for debt service	6,091	5,804	78,990
Unrestricted	130,592	103,945	27,101
Total net assets	427,632	382,631	376,040
Total liabilities and net assets	\$ 606,385	\$ 569,283	\$ 537,547

The largest portion of the Ports Authority's net assets each year (68.1%, 71.3% and 71.8% at June 30, 2005, 2004, and 2003, respectively) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related debt outstanding used to acquire those capital assets. The Ports Authority uses these capital assets to provide services to major steamship lines and their agents for movement of maritime cargo; consequently, these assets are not available for future spending. Although the Ports Authority's investment in capital assets reported is shown net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves generally are not sold to liquidate liabilities.

An additional portion of the Ports Authority's net assets (1.4%, 1.5% and 21.0% at June 30, 2005, 2004 and 2003, respectively) represents resources that are subject to external restrictions on how they can be used under bond resolutions and Federal regulations. The remaining unrestricted net assets (30.5%, 27.1% and 7.2% at June 30, 2005, 2004 and 2003) may be used to meet any of the Ports Authority's ongoing obligations as defined by the revenue bond covenants.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A condensed comparative summary of the Ports Authority's revenues, expenses and changes in net Assets for the years ended June 30 is shown below:

<i>(in thousands of dollars)</i>	2005	2004	2003
Operating revenues	\$ 138,007	\$ 116,530	\$ 110,204
Operating expenses	98,173	97,826	92,572
Operating earnings	39,834	18,704	17,632
Nonoperating expenses, net	(2,240)	(6,329)	(5,355)
Contributions to State of South Carolina	(1,000)	(9,000)	(9,307)
Contributions from State of South Carolina	3,488	2,437	2,961
Capital grants from the federal government	4,919	779	—
Increase in net assets	\$ 45,001	\$ 6,591	\$ 5,931

Operating revenues increased by approximately 18.4% from \$116.5 million to \$138.0 million during 2005 due to a general increase in container volume as well as increases in wharfage, handling and rental income. For fiscal year 2004, operating revenues grew 5.7% from \$110.2 million to \$116.5 million principally due to a general increase in container volume and the movement of military cargo overseas through the port of Charleston. The following table breaks down operating revenues by port for each fiscal year ended June 30:

<i>(in thousands of dollars)</i>	2005	2004	2003
Operating revenues			
Charleston	\$ 132,375	\$ 109,886	\$ 104,396
Georgetown	2,614	2,518	2,661
Port Royal	702	717	714
Other	2,316	3,409	2,433
Total operating revenues	\$ 138,007	\$ 116,530	\$ 110,204

The following table breaks down operating expenses for each fiscal year ended June 30:

<i>(in thousands of dollars)</i>	2005	2004	2003
Operating expenses			
Direct operating expenses	\$ 58,448	\$ 56,595	\$ 53,897
Administrative expense	16,146	16,864	16,660
Depreciation expense	23,579	24,367	22,015
Total operating expenses	\$ 98,173	\$ 97,826	\$ 92,572

Direct operating expenses for fiscal year 2005 increased by 3.3% from \$56.6 million to \$58.5 million as a result of the increased expenses associated with increased cargo volume and increased berth dredging costs. Administrative expenses for fiscal year 2005 decreased 4.3% from \$16.9 million in 2004 to \$16.1 million in 2005 as a result of decreased expenses for administrative salaries and wages and legal fees. Depreciation expense decreased \$800,000 from \$24.3 million in 2004 to \$23.5 million in 2005. The Authority placed

several assets into service during 2005 which increased depreciation expense in fiscal year 2005; however this increase was significantly less than what was experienced in 2004 due to the write off of \$2.3 million in undepreciated book value associated with closing down the Authority's grain elevator facility.

Direct operating expenses for fiscal year 2004 compared to 2003 increased by 5.0% from \$53.9 million to \$56.6 million as a result of the increased expenses associated with increased cargo volume, increased property and liability insurance and claims costs, utilities, dredging expenses and increased repair and maintenance costs for equipment and dock fender systems. Depreciation expense of \$24.4 million in 2004 compared to \$22.0 million in 2003, increased \$2.4 million principally due the write-off of the remaining undepreciated book value associated with closing down the Authority's grain elevator facility.

Operating earnings for 2005 increased by 112.9% or \$21.1 million from 2004 due to reasons stated above. In 2004, operating earnings increased by 6.1% or \$1.1 million from 2003 due to the reasons discussed above.

Nonoperating expenses, excluding contributions to the State of South Carolina, decreased from a net expense of \$6.3 million in 2004 to a net expense of \$2.2 million in 2005. During 2005, the Authority's sizable growth in earnings produced a significant amount of excess cash for investment at interest rates higher than what was available in the prior year.

Nonoperating expenses, excluding contributions to the State of South Carolina, increased from a net expense of \$5.4 million in 2003 to a net expense of \$6.3 million in 2004. During 2004, the Authority dismantled and disposed of two old and fully depreciated cranes at a total cost of approximately \$596,000. A loss of approximately \$523,000 was incurred during 2004 from the disposal of other equipment.

The Ports Authority made several contributions to the State of South Carolina during the years ended June 30, 2005, 2004 and 2003. As more fully described in Note 11 – Other Matters, the Ports Authority Board further resolved to make a one time payment of \$15,000,000 in 2003 toward the building of the new Cooper River Bridge and additionally pay \$1,000,000 per year beginning in fiscal year 2003 for 25 years.

With concurrence from the State of South Carolina, the Ports Authority transferred its 2003 commitment in two installments for the Cooper River Bridge. The first payment of \$7 million was transferred in the last month of the fiscal year ended 2003 plus the additional \$1 million payment for 2003, and the remaining \$8 million was transferred in the first month of the fiscal year ended 2004 plus the additional \$1 million payment for 2004 and 2005. These payments have been treated as non-operating contributions to the State of South Carolina and therefore have reduced the Ports Authority's net assets. This contribution is not treated as a capital asset of the Ports Authority and future payments are not recorded as a liability. In compliance with Proviso 72.98 the Ports Authority transferred \$1.3 million during 2003 back to the State of South Carolina from funds held by the State Treasurer for the Ports Authority's project that placed fill material on Daniel Island from the Harbor Deepening project. These funds represented the unspent balance of funds after project completion.

The State of South Carolina funded the purchase of one parcel of land during 2005 totaling approximately \$3.5 million, six parcels of land during 2004 totaling approximately \$2.4 million and four parcels totaling approximately \$2.9 million during 2003 in connection with the BMW facility in Greer, South Carolina. The parcels, now owned by the Ports Authority, will be leased to BMW.

During the year ended June 30, 2005 and 2004, the Authority earned approximately \$4.9 million and \$779,000, respectively, in Federal grant money to be used for security related capital expenditures.

In summary, net assets at June 30, 2005, 2004 and 2003 increased \$45.0 million, \$6.6 million and \$5.9 million, respectively.

STATEMENTS OF CASH FLOWS

The following shows a summary of the major sources and uses of cash and cash equivalents. Cash equivalents include highly liquid investments generally with a remaining maturity at time of purchase of three months or less. A condensed comparative summary of the statements of cash flows for the years ended June 30 is shown below:

<i>(in thousands of dollars)</i>	2005	2004	2003
Cash flow from operating activities	\$ 68,213	\$ 37,360	\$ 41,795
Cash flow from investing activities	2,734	220	920
Cash flow from capital and related financing activities	(40,653)	(36,801)	(34,083)
Cash flow from noncapital financing	(2,750)	2,750	—
Net increase in cash and cash equivalents	27,544	3,529	8,632
Cash and cash equivalents			
Beginning of year	91,292	87,763	79,131
End of year	\$ 118,836	\$ 91,292	\$ 87,763

The Ports Authority's available cash and cash equivalents increased from \$91.3 million at the end of 2004 to \$118.8 million at the end of 2005 and from \$87.8 million at the end of 2003 to \$91.3 million at the end of 2004 due to the positive flow of funds provided by operating and investing activities offset by the use of funds for capital acquisitions and related financing activities. Additional cash flow was provided during 2004 from approximately \$2.75 million of noncapital financing, which was repaid during 2005.

FINANCIAL POSITION CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

During the fiscal year ended June 30, 2005, the Ports Authority purchased and constructed approximately \$33.9 million in new capital assets. The major capital assets constructed include several port security projects funded by federal grants, the purchase of new dockside cranes and various wharf enhancements. Approximately \$3.7 million of fixed assets (at cost) were written off or disposed of during 2005.

During the fiscal year ended June 30, 2004, the Ports Authority purchased and constructed approximately \$32.7 million in new capital assets. The major capital assets constructed include a new container berth and two dockside cranes that were started in 2003. The new container berths and cranes serve the Columbus Street Terminal. Approximately \$5.3 million of fixed assets (at cost) were written off or disposed of during 2004.

Capital asset acquisitions are capitalized at cost. Acquisitions are funded primarily with the issuance of tax-exempt revenue bonds and port revenues. The Ports Authority had construction commitments of approximately \$18,820,000 at June 30, 2005. Additional information on the Ports Authority's capital assets and commitments can be found in Note 3 – Property and Equipment and Note 6 – Commitments in the notes to the financial statements.

LONG-TERM DEBT

Series 1998

During fiscal year 1999, the Ports Authority issued Series 1998 bonds to provide funds to finance the expansion and improvement of the Ports Authority's facilities. The bonds, issued at a premium of approximately \$1,105,000, consist of serial bonds totaling \$70,865,000 maturing July 1, 2018 and term bonds of \$54,135,000 maturing on July 1, 2026. The bond premium is amortized using the effective interest method over 28 years, the life of the bonds. During the years ended June 30, 2005, 2004 and 2003, the Ports Authority made principal payments on the bonds of \$2,905,000, \$2,785,000 and \$2,675,000, respectively.

The balance outstanding under the Series 1998 Bonds is as follows:

June 30, 2005 – \$114,685,000, June 30, 2004 – \$117,590,000 and June 30, 2003 – \$120,375,000.

Series 1998B

During fiscal 1999, the Ports Authority issued Series 1998B bonds to refund the Ports Authority's outstanding \$24,800,000 1994 Junior Lien Revenue Bonds. The bonds, issued at cost, consist of term bonds of \$25,000,000 maturing on July 1, 2028. Interest is payable each January 1 and July 1 at variable rates, with

a maximum rate of 18%. The 1998B bonds are generally redeemable prior to maturity on interest payment dates with a 30 or 60-day notice from the Ports Authority, depending on which interest rate applies at the time. Some interest rates require a no-call period during which the bonds are not redeemable.

Other Liabilities

As of June 30, 2005, the Ports Authority recorded a long term liability of \$13.6 million equal to the final project costs on the Charleston Harbor deepening project. As a result of the acquisition of a business in January 2004, the Authority assumed a note payable of approximately \$3.5 million. See further discussion in Note 4- Intangible Assets and Goodwill. The Ports Authority did not use its credit agreement with a local bank to support its operations at any time during fiscal year 2005.

Bond Insurance and Credit Rating

The Ports Authority has purchased insurance for each bond issue to underwrite the payment of principal and interest. As a result, the Ports Authority has secured AAA ratings from both Moody's and Standard and Poor's covering both of its outstanding bond issues discussed above. Without the insurance, the underlying ratings would have been A1 by Moody's and A+ by Standard and Poor's for both outstanding bond issues.

Contacting the Ports Authority's Financial Management

If you have questions about this report or need additional financial information, contact the Ports Authority's Chief Financial Officer, P. O. Box 22287, Charleston, SC 29413-2287 USA.

BALANCE SHEETS

June 30, 2005 and 2004

<i>(in thousands of dollars)</i>	2005	2004	<i>(in thousands of dollars cont.)</i>	2005	2004
Assets			Liabilities and Net Assets		
Current assets			Current liabilities		
Cash	\$ 2,115	\$ 8,574	Current maturities on long-term debt	\$ 3,507	\$ 7,117
Investments	61,582	41,967	Accounts payable	4,900	4,585
Accounts receivable			Accounts payable, construction	3,361	4,751
Trade, net of allowance for doubtful accounts of \$1,590 in 2005 and \$1,365 in 2004	16,670	14,713	Retainage payable on construction contracts	846	449
Other			Accrued interest payable	3,100	3,124
Inventories	3,790	3,172	Accrued employee compensation and payroll, related withholdings and liabilities	5,352	5,467
Prepaid and other current assets	3,811	3,681	Deferred revenue	3,722	3,182
Total current assets	91,407	77,571	Total current liabilities	24,788	28,675
Noncurrent assets and investments			Harbor deepening obligation	13,548	14,048
Investments internally designated for capital acquisitions	55,139	40,751	Long-term debt	140,417	143,929
Investments held by trustee for debt service	6,091	5,804	Total liabilities	178,753	186,652
Property and equipment, net	434,158	424,117	Invested in capital assets, net of related debt	290,949	272,882
Unamortized bond issue costs	1,604	1,679	Restricted for debt service	6,091	5,804
Deferred harbor deepening costs	15,314	15,514	Unrestricted	130,592	103,945
Intangible assets	2,672	3,847	Total net assets	427,632	382,631
Total assets	\$ 606,385	\$ 569,283	Total liabilities and net assets	\$ 606,385	\$ 569,283

The accompanying notes are an integral part of these financial statements.

20. BALANCE SHEETS | reinvesting for the future

STATEMENTS of REVENUES, EXPENSES and CHANGES in NET ASSETS
Year Ended June 30, 2005 and 2004

<i>(in thousands of dollars)</i>	2005	2004
Operating revenues	\$ 138,007	\$ 116,530
Operating expenses		
Direct operating expense	58,448	56,595
Administrative expense	16,146	16,864
Depreciation expense	23,579	24,367
Total operating expenses	98,173	97,826
Operating earnings	39,834	18,704
Nonoperating revenues (expenses)		
Interest income	3,542	960
Other income	385	304
Interest expense	(5,834)	(5,595)
Other expense	(333)	(1,998)
Contribution to State of South Carolina for Cooper River Bridge	(1,000)	(9,000)
	(3,240)	(15,329)
Excess revenues over expenses before capital contributions	36,594	3,375
Capital contribution from State of South Carolina - BMW land	3,488	2,437
Capital grants from federal government	4,919	779
Increase in net assets	45,001	6,591
Total net assets		
Beginning of year	382,631	376,040
End of year	\$ 427,632	\$ 382,631

The accompanying notes are an integral part of these financial statements.

Years Ended June 30, 2005 and 2004

The accompanying notes are an integral part of these financial statements.

22. CASH FLOWS | reinvesting for the future

<i>(in thousands of dollars)</i>	2005	2004
Cash flows from noncapital financing activities		
Borrowings on credit agreement	—	3,000
Principal paid on credit agreement	(2,750)	(250)
Net cash provided by (used in) noncapital financing activities	(2,750)	2,750
Net increase in cash and cash equivalents	27,544	3,529
Cash and cash equivalents		
Beginning of year	91,292	87,763
End of year	\$ 118,836	\$ 91,292
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash	\$ 2,115	\$ 8,574
Investments	61,582	41,967
Internally designated for capital acquisitions	55,139	40,751
Total cash and cash equivalents	\$ 118,836	\$ 91,292

STATEMENTS of CASH FLOWS

Years Ended June 30, 2005 and 2004

<i>(in thousands of dollars)</i>	2005	2004
Reconciliation of operating earnings to net cash provided by operating activities		
Operating earnings	\$ 39,834	\$ 18,704
Adjustments to reconcile operating earnings to net cash provided by operating activities, net of acquisition		
Depreciation	23,579	24,367
Provision for doubtful accounts	507	295
Other income(expenses), net	52	(1,693)
Amortization	164	104
Changes in operating assets and liabilities		
Accounts receivable	(2,464)	40
Inventories	(130)	(602)
Prepaid and other current assets	5,192	(698)
Other long-term assets	200	(15,514)
Accounts payable and other liabilities	1,897	(2,114)
Payroll related liabilities	(118)	423
Other obligation	(500)	14,048
Net cash provided by operating activities	\$ 68,213	\$ 37,360

NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES

Property and equipment and accounts payable were adjusted by approximately \$4,207 and \$5,200 at June 30, 2005 and 2004, respectively, for noncash amounts in connection with the purchase of property and equipment. A noncash adjustment was recorded to goodwill of \$1,040 during the year ended June 30, 2005. In addition, land with a fair value of \$3,488 and \$2,437 was donated by the State of South Carolina during the years ended June 30, 2005 and 2004, respectively, and federal grants receivable totaled \$3,264 and \$562 at June 30, 2005 and 2004, respectively.

The accompanying notes are an integral part of these financial statements.

reinvesting for the future | CASH FLOWS. 23

NOTES to FINANCIAL STATEMENTS

June 30, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The South Carolina State Ports Authority ("Ports Authority") was created in 1942 by Act Number 626 of the South Carolina General Assembly for the general purposes of developing and improving the harbors and seaports of Charleston, Georgetown and Beaufort for the handling of waterborne commerce, and to foster and stimulate the shipment of freight and commerce through these ports. The Ports Authority owns and is responsible for the operation of eight ocean terminals at the ports of Charleston, Georgetown and Port Royal. These facilities handle import and export containerized, breakbulk and bulk cargoes.

The Ports Authority operates as a self-supporting governmental enterprise and uses the accrual basis of accounting applicable to governmental enterprise funds. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 20, the Ports Authority has elected to apply all Financial Accounting Standards Board ("FASB") Pronouncements, except those that conflict with or contradict GASB Pronouncements. The Ports Authority has no stockholders or equity holders and is directed by a governing board, whose members are appointed by the Governor of South Carolina for seven-year terms. The Ports Authority's financial statements are included in the State of South Carolina general purpose financial statements as a discretely presented component unit.

In 2005, the Ports Authority adopted GASB Statement No. 40 - Deposit and Investment Risk Disclosures.

This Statement addresses common deposit and investment risks and disclosures related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

All activities of the Ports Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Ports Authority is determined by its measurement focus. The transactions of the Ports Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated into: invested in capital assets, net of related debt; restricted; and unrestricted components. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and debt issuance costs associated with long-term debt and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.
- Restricted – This component of net assets consists of external constraints placed on net asset use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Cash, Investments and Pooled Investments

The Ports Authority maintains cash, investments and pooled investments for operations, debt service and capital improvements. Funds are deposited in banks, money market accounts, and pooled investment funds maintained with the State Treasurer. Cash, investments and pooled investments used for operations are included on the balance sheet as "Cash" and "Investments." Cash and investments and pooled investments maintained in accordance with revenue bond debt service requirements are included on the balance sheet as "Held by Trustee for Debt Service." Cash, investments and pooled investments earmarked by the board of

trustees for capital expansion are included on the balance sheet as “Internally designated for capital acquisitions.” Amounts invested with the State Treasurer are part of an internal investment pool. The pool operates as a demand deposit account, and therefore amounts invested in the cash management pool are classified as cash and cash equivalents for purposes of the statement of cash flows. All other amounts including cash, short-term investments and funds internally designated for capital acquisitions are highly-liquid investments with a maturity of three-months or less, and are considered cash and cash equivalents for purposes of the statement of cash flows.

Credit risk, custodial credit risk, and interest rate risk

The Ports Authority has investments held by a trustee to meet its debt service requirements. Investments with third party banks and investments with the State Treasurer as part of an internal investment pool as noted above.

The investments held by a trustee include U.S government obligations which receive credit ratings from organizations such as Moody's Investors Service and Standard & Poor's. These rating agencies assign ratings to the securities by assessing the likelihood of issuer default, however government obligations typically are not considered as having significant credit risk. The investments held with third party banks include money market funds and other short term investments with credit ratings from Moody's of AA+ and Standard & Poor's of Aa1 as of June 30, 2005. The money invested with the State Treasurer in the cash management pool is not rated by an outside agency, however it is the policy of the State to invest in only the highest investment grade securities including those rated at least A by the two leading national rating services.

Investments with third party banks and investments held by a trustee are not registered in the name of the Ports Authority. Investments held with third party banks are invested primarily in short term securities which totaled approximately \$5,850,000 and \$2,007,000 as of June 30, 2005 and 2004, respectively. Investments held by a trustee are invested in government obligations which totaled \$6,091,000 and \$5,804,000 as of June 30, 2005 and 2004, respectively. Investments with third party banks and investments held by a trustee are fully collateralized as of June 30, 2005 and 2004 with securities maintained by an outside party. All other investments are held in a pool established by the State Treasurer and are not collateralized.

The Ports Authority does not have any individual investments that represent 5% or more of the Authority's investments at June 30, 2005 and 2004. The investments held by the State Treasurer are invested in various short term investments of which no single investment is greater than 5%.

Prices of fixed income securities rise and fall in response to changes in the interest rates paid for similar securities. Market factors, such as demand for particular fixed-income securities, may cause the price of certain fixed-income securities to rise while the prices of other securities remain unchanged. The Ports Authority minimizes their interest rate risk by investing in primarily short-term securities. Interest rate risk associated with the investments at the State Treasurer, are managed by asset allocation policies and by additional constraints controlling risk exposure.

Inventories

Inventories consist principally of maintenance parts and supplies valued at the lower of average cost or market.

Property and Equipment

Property and equipment constructed or purchased is stated at cost. Contributed property and equipment is recorded at estimated fair value on the date received. Interest is capitalized on major long-term construction projects and is depreciated over the useful life of the related asset.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	3 to 50 years
Buildings and structures	5 to 50 years
Railroad tracks	20 to 25 years
Terminal equipment	3 to 25 years
Furniture and fixtures	2 to 20 years

Impairment

The Ports Authority accounts for long-lived assets in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Ports Authority records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by these assets are less than the carrying amount of those assets. The Ports Authority recorded an impairment charge of approximately \$2,400,000 related to certain buildings and equipment for the year ended June 30, 2004, which is included in depreciation expense in the statement of revenues, expenses and changes in net assets. There are no impairment charges recorded for the year ended June 30, 2005.

Intangible Assets and Goodwill

The excess of cost over net assets acquired is recorded as goodwill. Intangible assets represent identifiable intangible assets including customer contracts and customer relationships. Amortization of intangible assets with definite useful lives is computed using an accelerated method based on the estimated useful lives of the related assets. The Authority reviews the carrying value of intangibles for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

The Authority tests goodwill for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Operating Revenues and Expenses

The statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing commerce through the ports. Non-exchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to support commerce, other than financing costs.

Contributions

From time to time, the Ports Authority receives contributions from the State of South Carolina or the Federal government. Revenues from contributions are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Restricted Resources

When the Ports Authority has both restricted and unrestricted resources available to finance a particular program, it is the Ports Authority's policy to use restricted resources before unrestricted resources.

Deferred Financing Costs

Deferred bond issuance expenses are recorded at cost and amortized over the life of the bonds using the effective interest method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Risk Management

The Ports Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees and natural disasters. The Ports Authority has obtained commercial insurance to cover the risk of these losses, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

Concentration of Credit Risk

The Ports Authority provides services and facilities usage for companies located throughout the world. During fiscal year 2005, one customer accounted for approximately 16% of the Ports Authority's revenues while during fiscal year 2004, two customers accounted for approximately 16% and 10%. The Ports Authority generally provides credit to its customers. The Ports Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Ports Authority maintains reserves for potential credit losses.

Unemployment Compensation

The Ports Authority is liable under the South Carolina Employment Security Law for unemployment compensation to its employees. The Ports Authority has elected to reimburse the Employment Security Commission for benefits paid by the Commission in connection with claims. The Ports Authority records a liability for estimated future unemployment compensation claims.

Reclassification

For comparative purposes, certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

2. CASH, INVESTMENTS AND POOLED INVESTMENTS

The Ports Authority's total cash and investments at June 30, 2005 and 2004 were approximately \$124,927,000 and \$97,096,000, respectively. Periodically, cash on deposit in federally insured institutions exceeds the limit on insured deposits, and may not be specifically collateralized.

At June 30, 2005 and 2004, the Ports Authority's funds held by trustees totaled \$6,091,000 and \$5,804,000, respectively. The State Treasurer held approximately \$110,871,000 and \$80,711,000 of the Ports Authority's funds at June 30, 2005 and 2004, respectively. As of June 30, 2005 and 2004, approximately \$5,850,000 and \$2,007,000 was invested with third party investment banking institutions.

The bond trustees invest in government securities, repurchase agreements and money market accounts collateralized by U.S. government securities. These investments are carried at cost plus accrued interest, which approximates market value.

The Ports Authority purchases participation units in the State Treasurer's fund. Funds deposited with the State Treasurer as part of an investment pool are invested in U.S. government securities, federal agency securities, repurchase agreements secured by U.S. government securities and commercial paper. The pool operates like a demand deposit account and includes primarily short term investments. The investments are carried at cost plus accrued interest, dividends and realized gains and losses, which approximates market value.

At June 30, the Ports Authority had bank balances as follows:

<i>(in thousands of dollars)</i>	2005	2004
Insured (FDIC) or collateralized by securities held by the pledging financial institution's agent in the Ports Authority's name	\$ 3,090	\$ 2,748
Carrying value of cash	\$ 2,115	\$ 8,574

Investments at June 30 consist of the following:

<i>(in thousands of dollars)</i>	2005	2004
Funds deposited with the State Treasurer	\$ 110,871	\$ 80,711
Funds deposited with third party banks	5,850	2,007
U.S. government obligations, held by trustee	6,091	5,804
	122,812	88,522
Less: Amounts currently available for operating funds	61,582	41,967
Amounts held by trustee	6,091	5,804
Internally designated investments	\$ 55,139	\$ 40,751

The carrying values of cash and investments are included in the balance sheets as follows:

<i>(in thousands of dollars)</i>	2005	2004
Carrying value		
Cash	\$ 2,115	\$ 8,574
Investments	122,812	88,522
	\$ 124,927	\$ 97,096
Included in the following balance sheet captions		
Cash	\$ 2,115	\$ 8,574
Investments, current assets	61,582	41,967
Internally designated for capital acquisitions	55,139	40,751
Held by trustee for debt service	6,091	5,804
	\$ 124,927	\$ 97,096

Investments internally designated for capital acquisitions are included in the following funds at June 30:

<i>(in thousands of dollars)</i>	2005	2004
Capital improvement fund		
Cash	\$ 2,181	\$ 1,013
Funds invested	48,845	34,645
	51,026	35,658
Construction funds		199
Funds invested	-	
Depreciation fund		
Cash	104	787
Funds invested	2,705	2,890
	2,809	3,677
Other - State Port Construction Fund		
Cash	259	206
Funds invested	1,045	1,011
	1,304	1,217
	\$ 55,139	\$ 40,751

In connection with outstanding revenue bonds, (1) the Ports Authority's net revenues (defined as the portion of revenues remaining after providing for the proper operation and maintenance of facilities) are pledged for payment of bond principal and interest, (2) a statutory lien on the Ports Authority's facilities exists and (3) the Ports Authority is required to maintain Revenue Bond Debt Service Funds; Revenue Bond Debt Service Reserve Funds; a Construction Fund and a Capital Improvement Fund (for improvement of Ports Authority facilities); and a Depreciation Fund (for operating equipment).

General provisions regarding these Funds are as follows:

The assets of the Revenue Bond Debt Service Funds and Revenue Bond Debt Service Reserve Funds are to be used for the redemption of bonds and payment of interest on the bonds. Additions to the Revenue Bond Debt Service Funds are required from operating funds in amounts equal to the annual principal and interest payments. *Additions to the Reserve Funds are required from operating funds when the Reserve Fund's assets are less than the sum of the largest annual interest payment for each issue of revenue bonds outstanding.* When the assets of the Reserve Fund exceed the requirements, the Ports Authority is permitted to use the Reserve Fund investment income for principal and interest payments and thereby reduce the amount of operating funds required to be transferred to the Debt Service Fund. Moneys in the Debt Service Reserve Funds can be invested and reinvested in investments collateralized by U.S. government or agency obligations, with maturities consistent with the need for moneys in the funds. *The Reserve Fund Requirement applicable to the Series 1998 Bonds is funded through the purchase of a debt service reserve insurance policy.*

The Construction Fund was established with the proceeds from the 1998 revenue bonds. This fund is used as needed to pay the costs of facilities improvements and equipment for which the bonds were established. Maturities of investments in the Construction Fund are limited to be consistent with the anticipated need for money from the Construction Fund.

Additions to the Capital Improvement Fund and Depreciation Fund are required in amounts equal to the annual budget for facilities improvements and equipment. Proceeds from the sale of real and personal property also are required to be deposited to these Funds. The Funds can be used for improvements, betterments and extensions of facilities, restoration of depreciated or obsolete property, operating equipment, unforeseen contingencies, and payment of principal or interest on outstanding bonds if the assets of the Debt Service or Debt Service Reserve Funds are not sufficient to make such payments.

The assets of the State Port Construction Fund are unexpended contributions to the Fund and net harbor-master fees required to be transferred to the Fund. The assets are internally restricted for improvements and expansion of the Ports Authority's facilities.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following amounts:

<i>(in thousands of dollars)</i>	Balance at June 30, 2004	Additions	Write-offs/ Disposals	Transfers/ Retirements	Balance at June 30, 2005
Land	\$ 141,760	\$ 3,488	\$ -	\$ -	\$ 145,248
Land improvements	148,549	121	-	2,679	151,349
Buildings and structures	249,545	-	(2,556)	20,246	267,235
Railroad tracks	4,601	-	-	-	4,601
Terminal equipment	74,125	384	(1,017)	9,284	82,776
Furniture and fixtures	5,915	-	-	12,456	18,371
Capital projects in progress	68,262	29,954	(95)	(44,665)	53,456
	692,757	33,947	(3,668)	-	723,036
Less: Accumulated depreciation	268,640	23,579	(3,341)	-	288,878
Property and equipment, net	\$ 424,117	\$ 10,368	\$ (327)	\$ -	\$ 434,158

<i>(in thousands of dollars)</i>	Balance at June 30, 2003	Additions	Write-offs/ Disposals	Transfers/ Retirements	Balance at June 30, 2004
Land	\$ 139,362	\$ 2,437	\$ -	\$ (39)	\$ 141,760
Land improvements	145,651	1,494	-	1,404	148,549
Buildings and structures	247,590	-	(3,882)	5,837	249,545
Railroad tracks	4,601	-	-	-	4,601
Terminal equipment	70,714	305	(1,374)	4,480	74,125
Furniture and fixtures	5,787	-	-	128	5,915
Capital projects in progress	53,589	28,482	-	(13,809)	68,262
	667,294	32,718	(5,256)	(1,999)	692,757
Less: Accumulated depreciation	250,345	24,367	(4,735)	(1,337)	268,640
Property and equipment, net	\$ 416,949	\$ 8,351	\$ (521)	\$ (662)	\$ 424,117

Leases

During the years ended June 30, 2005 and 2004, the Ports Authority leased container handlers and other equipment under operating leases, generally for a term of 12 months or less, incurring expenses of approximately \$1,033,000 and \$1,063,000, respectively.

4. INTANGIBLE ASSETS AND GOODWILL

On August 30, 1999, the Ports Authority entered into a license agreement with Charleston International Ports, LLC ("CIP") related to the joint operation of an ocean terminal located in Charleston, SC. The license agreement allowed for license fees to be paid to the Ports Authority equal to 50% of the net income generated by CIP. The Ports Authority leased the terminal and associated land from an unrelated party and subsequently subleased the property and the use of the terminal to CIP.

On January 7, 2004, CIP and the Ports Authority reached an agreement to terminate the relationship and the license agreement. As a result of this termination agreement, the Ports Authority agreed to acquire all rights and benefits under the license agreement. The purchase price paid by the Ports Authority was \$1.5 million, which included a cash payment of \$1.1 million and a note payable of \$400,000. In addition, the Authority assumed liabilities as of the date of the purchase equal to approximately \$4,507,000, which consisted primarily of a line of credit and amounts due to the Authority under the terminal land lease. The purchase price for the business and the assumed liabilities have been allocated to certain tangible assets including cash of \$229,000, accounts receivable of \$357,000 and property and equipment of \$1,499,000 as well as intangible assets totaling approximately \$692,000 and goodwill of \$3,230,000.

On June 1, 2005, the lessor of the CIP terminal and associated land amended the lease agreement, canceling the Ports Authority's obligation to pay rent from the inception of the lease and forward. At June 30, 2004, the Ports Authority had a liability of approximately \$1,040,000 payable to the lessor for rental payments due under the lease agreement. As of June 30, 2005, the liability has been cancelled and the goodwill associated with the purchase of CIP has been reduced by \$1,040,000.

The intangible assets and goodwill consist of the following at June 30:

<i>(in thousands of dollars)</i>	2005	2004
Intangible assets subject to amortization		
Customer contracts, amortized over two years	\$ 47	\$ 47
Customer relationships, amortized over eighteen years	645	645
	692	692
Accumulated amortization	(210)	(75)
Intangible assets subject to amortization, net	482	617
Goodwill, not subject to amortization	2,190	3,230
	\$ 2,672	\$ 3,847

The intangible assets are amortized using an accelerated method based on the estimated useful lives of the assets. Amortization expense for the next five years and thereafter is as follows:

<i>(in thousands of dollars)</i>	
2006	\$ 71
2007	65
2008	58
2009	39
2010	19
Thereafter	230
	\$ 482

5. LONG-TERM DEBT

Borrowings and payments on long-term debt are as follows:

<i>(in thousands of dollars)</i>	June 30, 2004	Additions	Reductions	June 30, 2005	Current Portion
Revenue bonds – 1998B	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ -
Revenue bonds – 1998	117,590	-	(2,905)	114,685	3,025
Credit agreement	3,671	-	(3,671)	-	-
Notes payable	3,955	44	(545)	3,454	482
	150,216	44	(7,121)	143,139	3,507
Plus unamortized premium	830	-	(45)	785	-
	\$ 151,046	\$ 44	\$ (7,166)	\$ 143,924	\$ 3,507

<i>(in thousands of dollars)</i>	June 30, 2003	Additions	Reductions	June 30, 2004	Current Portion
Revenue bonds – 1998B	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ -
Revenue bonds – 1998	120,375	-	(2,785)	117,590	2,905
Credit agreement	422	3,499	(250)	3,671	3,671
Notes payable	199	3,989	(233)	3,955	541
	145,996	7,488	(3,268)	150,216	7,117
Plus unamortized premium	876	-	(46)	830	-
	\$ 146,872	\$ 7,488	\$ (3,314)	\$ 151,046	\$ 7,117

Series 1998

During fiscal year 1999, the Ports Authority issued Series 1998 bonds to provide funds to finance the expansion and improvement of the Ports Authority's facilities. The bonds, issued at a premium of approximately \$1,105,000, consist of serial bonds totaling \$70,865,000 maturing July 1, 2018 and term bonds of \$54,135,000 maturing on July 1, 2026. The bond premium is amortized using the effective interest method over 28 years, the life of the bonds. Unamortized bond issue costs at June 30, 2005 and 2004 were approximately \$1,290,000 and \$1,352,000, respectively. Interest is payable each January 1 and July 1 at rates ranging from 3.8% to 5.5%.

The Series 1998 Bonds maturing on July 1, 2013 and thereafter are subject to optional redemption prior to maturity at the option of the Ports Authority, on or after July 1, 2008. The redemption prices as a percentage of principal amounts are as follows (plus interest accrued to date):

Redemption Date (Inclusive)	Redemption Price
July 1, 2008 to June 30, 2009	101.0%
July 1, 2009 to June 30, 2010	100.5%
July 1, 2010 and thereafter	100.0%

The Series 1998 Bonds maturing on July 1, 2026 are subject to mandatory sinking fund redemption by lot on July 1 in each of the following years and will be redeemed at 100% of the principal amount plus accrued interest at the redemption date:

(in thousands of dollars)

Redemption Period	Redemption Price
2019	\$ 6,210
2020	6,540
2021	6,890
2022	7,255
2023	7,640
2024	8,040
2025	8,470
2026	3,090

Series 1998B

During fiscal year 1999, the Ports Authority issued Series 1998B bonds to refund the Ports Authority's outstanding \$24,800,000 1994 Junior Lien Revenue Bonds. The bonds, issued at cost, consist of term bonds of \$25,000,000 maturing on July 1, 2028. Interest is payable each January 1, and July 1 at variable rates, with a maximum rate of 18%. The interest rate at June 30, 2005 and 2004 was 2.45% and 2.1%, respectively. The 1998B bonds are generally redeemable prior to maturity on interest payment dates with a 30 or 60-day notice from the Ports Authority, depending on which interest rate applies at the time. Some interest rates require a no-call period during which the bonds are not redeemable. Unamortized bond issue costs at June 30, 2005 and 2004 were approximately \$314,000 and \$327,000, respectively.

The 1998B bonds are collateralized by an irrevocable letter of credit that had a value of \$27,219,000 at June 30, 2005 and 2004. This letter of credit equals the aggregate principal amount of the bonds outstanding plus 270 days of interest computed at a rate of 12% per annum. The letter of credit has a termination clause based on a 13 month notification period.

The 1998B bonds may also be subject to redemption at the option of the Ports Authority without premium at any time as a whole at the principal amount thereof if the project, or any substantial portion thereof, is damaged or destroyed, or if any public authority condemns or exercises the power of eminent domain over the project.

Credit Agreement

During fiscal year 2001, the Ports Authority obtained a \$10,000,000 revolving line of credit from a bank. Under the credit agreement, the Ports Authority and the lender will agree on the maturity date, the interest rate and the interest payment dates for each borrowing at the time of such borrowing. The interest rate on the borrowings is not to exceed the prime rate. Use of the borrowings is unrestricted. The Ports Authority did not borrow against the line of credit in 2005, but withdrew \$3,499,000 against the line of credit in 2004, at LIBOR plus 1.25%, which was 2.67% at June 30, 2004. The balance under the credit agreement was paid in full at June 30, 2005.

Maturities of long-term debt are summarized as follows:

(in thousands of dollars)	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2006	\$ 3,025	\$ 6,718	\$ 482	\$ 98
2007	3,155	6,588	484	84
2008	3,330	6,414	488	70
2009	3,515	6,231	359	56
2010	3,705	6,038	345	45
2011 – 2015	21,810	26,907	1,296	74
2016 – 2020	28,220	20,497	-	-
2021 – 2025	36,365	12,357	-	-
2026 – 2030	36,560	1,539	-	-
	\$139,685	\$ 93,289	\$ 3,454	\$ 427

Various debt obligations, including the 1998B revenue bonds, have variable interest rates. Related future interest costs have been estimated based on the interest rates in effect at June 30, 2005.

Interest cost incurred in 2005 and 2004 was approximately \$6,641,000 and \$6,465,000, respectively. Interest of approximately \$807,000 and \$870,000 was capitalized in 2005 and 2004, respectively, in connection with the construction of various Port facilities.

6. COMMITMENTS

Construction

In addition to routine commitments for repairs and maintenance, the Ports Authority had commitments for construction of approximately \$18,820,000 at June 30, 2005.

Harbor Deepening

The Federal Water Resources Development Act of 1986 authorized the deepening of the Charleston Harbor to a depth of 40 feet and the project was completed in 1994. The Federal government and the State of South Carolina provided all of the funding for this \$125 million project.

An Army Corps of Engineers study of the Charleston harbor completed in 1996 concluded that a further deepening of Charleston Harbor would lower transportation costs. Based on the 1996 study, Congress in 1996 approved a channel depth of 45 feet.

The Ports Authority and the Army Corp of Engineers (Federal entity) entered into a cooperation agreement to further deepen the Charleston Harbor to its present depth of 45 feet. The agreement was entered into on June 5, 1998.

The Army Corps of Engineers has estimated the total cost of this deepening project to be approximately \$134.9 million over a six-year period. Funding sources include anticipated Federal appropriations totaling approximately \$85.2 million and a local share of approximately \$49.7 million. Of this local share, the Authority had received \$32.1 million from the State of South Carolina through June 30, 2003. To meet the balance of the local share of the project, the Authority has requested the remaining \$17.6 million from the State of South Carolina. During June 2004, the State approved the transfer of \$2.1 million to the Ports Authority. The \$2.1 million was approved in the State budget and the payment was received by the Authority in August of 2004. However, the remaining portion of the local share equal to approximately \$15.5 million is the legal obligation of the Authority. The State has not committed any funds for the current project beyond the \$34.2 million already received, nor is there any assurance as to any such commitment. Since 1957, the State has financially supported certain projects including terminal expansion and has provided the local share for previous harbor deepening projects.

During the year ended June 30, 2005, the Ports Authority received reimbursement from the State of \$200,000 related to the Harbor Deepening project. As of June 30, 2005 and 2004, the Ports Authority has

recorded a liability of \$15,314,000 and \$15,514,000 equal to the remaining portion of the local share of which \$1,766,000 and \$1,466,000 of this balance is included in construction accounts payable. In addition, the Ports Authority has recorded deferred harbor deepening costs of \$15,314,000 and \$15,514,000 as of June 30, 2005 and 2004, respectively. Should the Authority determine that the deferred harbor deepening costs cannot be recovered, the amount will be expensed in the fiscal year that the costs are determined unrecoverable.

To facilitate payments to the Federal government for the State's share of the Harbor Deepening Project and the Daniel Island Fill Material Project, the Ports Authority established two letter of credit arrangements with a regional bank. The contracting Federal agency is authorized to draw against the letters of credit as construction progresses. During fiscal years 2005 and 2004, the total credit issued under the letters of credit was approximately \$33.9 million and \$41.2 million, respectively. A total of \$32.5 million has been drawn by the contracting Federal agency leaving \$397,000 in available funds at June 30, 2005. There were no outstanding draws against the letters of credit as of June 30, 2005 and 2004.

BMW Land

In 1994, the Ports Authority purchased certain land in Greer, South Carolina, for a cost of approximately \$37 million. The purchase was funded by \$5 million from the Ports Authority and the balance from the State of South Carolina and related entities. The land purchase was the result of a State effort that resulted in Bavarian Motor Works ("BMW") locating an automobile manufacturing facility in South Carolina. The Ports Authority entered into a lease of the aforementioned land and land improvements with BMW under a lease agreement that covers a 30-year period. BMW leases the land for \$1 per year with an option to acquire the property at the end of the lease term for a price equal to the Ports Authority's original cost. BMW was required to build an automobile production facility on the property. If BMW should discontinue operations of the facility, BMW is required to purchase the site from the Ports Authority at original cost. BMW can also elect to purchase all or part of the land at any time during the lease term at original cost.

From 1994 through June 30, 2005, the Ports Authority has been granted approximately \$16.6 million in land for use by BMW and the Department of Transportation which carries the same provisions as the land under lease mentioned above.

The Ports Authority and BMW have entered into a Service Agreement establishing a unit fee per each vehicle handled and stored by the Ports Authority. The term of the Service Agreement ends September 30, 2014.

7. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

Employees of the Ports Authority participate in the South Carolina Retirement System's employees retirement plan ("SCRS"), a defined benefit, cost-sharing, multiple-employer, public employee retirement system. Substantially all full-time permanent Ports Authority employees are required to participate in SCRS. The wages covered by SCRS for the years ended June 30, 2005 and 2004 were approximately \$31,968,000 and \$30,484,000, respectively. The wages not covered by SCRS for the years ended June 30, 2005 and 2004 were approximately \$1,568,000 and \$1,395,000, respectively.

Under SCRS, employees who retire at or after age 65 or have 28 years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.82% of average final compensation times years of credited service. Final average compensation is the employ's average salary over the twelve highest consecutive quarters. Benefits are fully vested after five years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. SCRS also provides death and disability benefits. Benefits are established by state statute.

The South Carolina Retirement System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for SCRS. The report may be obtained by writing to: The South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960, or at www.retirement.sc.gov.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws (as amended) prescribes requirements relating to membership, benefits, and employee/employer contributions for the plan. By law, employee contribution requirements at July 1, 2004 (the latest available) were 6% of the employee's salary. Actuarially determined employer contribution rates for SCRS, expressed as a percentage of compensation, at July 1, 2004 (the latest available) were 7.55%. The total contribution for the years ended June 30, 2005 and 2004 was approximately \$2,469,000 and \$2,346,000 from the Ports Authority and approximately \$1,798,000 and \$1,698,000 from employees, respectively.

The "accrued liability" is a standardized disclosure measure of the actuarial present value of the projected benefits of each individual allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The measure is intended to help users assess SCRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and

make comparisons among public employee retirement systems. SCRS does not make separate measurements of assets and benefits payable for individual employers. The unfunded accrued liability at July 1, 2004, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately \$5.1 billion. Ten-year historical trend information showing SCRS's progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2005 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

In addition to pension benefits, the Ports Authority provides post-retirement health care benefits to retirees. As a governmental entity the Ports Authority has the option to account for postretirement benefits other than pensions using the "pay as you go" or "advance funding on an actuarially determined basis" method. In accordance with GASB 12, the Ports Authority has elected to follow the "pay as you go" method and expenses costs as incurred. At June 30, 2005 and 2004, 202 and 205 retirees were receiving benefits, respectively. During the years ended June 30, 2005 and 2004, expenses for the post-retirement health care benefits were approximately \$719,000 and \$760,000, respectively. The plan under which this benefit is provided may be terminated, amended or modified at any time at the sole discretion of the Ports Authority.

8. FACILITATING AGREEMENTS

The Ports Authority has entered into agreements to provide future port services with tenants whereby it assigns certain land areas and certain of its facilities for their use for terms ranging from one month to eighteen years. These agreements are accounted for as operating leases; revenue for port services provided and for facilities used is recorded as operating revenue when earned.

In 2005 and 2004, operating revenue recorded for facilitating agreements by the Ports Authority was approximately \$100,008,000 and \$83,215,000, respectively.

The approximate total cost and related accumulated depreciation of facilities assigned to others at June 30 were:

<i>(in thousands of dollars)</i>	2005	2004
Cost	\$ 472,127	\$ 433,009
Accumulated depreciation	205,203	137,641

Minimum future operating revenue and rentals, excluding contracts that do not have minimum volume guarantees, to be received under noncancelable agreements as of June 30, 2005 were:

<i>(in thousands of dollars)</i>	
2006	\$ 4,563
2007	1,787
2008	980
2009	864
2010	569
Thereafter	5,571
	\$ 14,334

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, investments, accounts and retainage payable, credit agreement and other debt approximate fair value. At June 30, 2005, the fair values of long-term debt were estimated using discounted cash flows based on current rates available to the Ports Authority for similar borrowing arrangements and the market rate of comparable traded debt. The fair market value at June 30, 2005 was approximately \$145,328,000.

10. LITIGATION

In the ordinary course of business, the Ports Authority becomes involved in litigation, claims and administrative proceedings. Certain litigation, claims and proceedings were pending at June 30, 2005, and management intends to vigorously defend the Ports Authority in such matters. While the ultimate results cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial position of the Ports Authority.

11. OTHER MATTERS

Cooper River Bridge

In 1998, the Ports Authority consulted with its bond counsel concerning a request that the Ports Authority contribute to the cost of a new bridge over the Cooper River at the Port of Charleston. By its opinion dated

June 3, 1998, that firm noted that no argument had been advanced that the bridge would be a "Port Facility" within the meaning of the Ports Authority Master Bond Resolution, and stated: "Under the circumstances, in our opinion, it is highly doubtful that the Ports Authority has the legal right to divert a portion of its Revenues to a project outside of any port facility, such as the Cooper River Bridge." On April 13, 2001, the legal counsel for the revenue bond underwriter advised the Ports Authority to a similar effect.

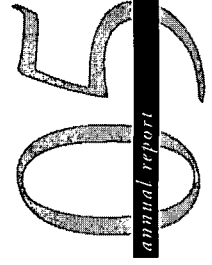
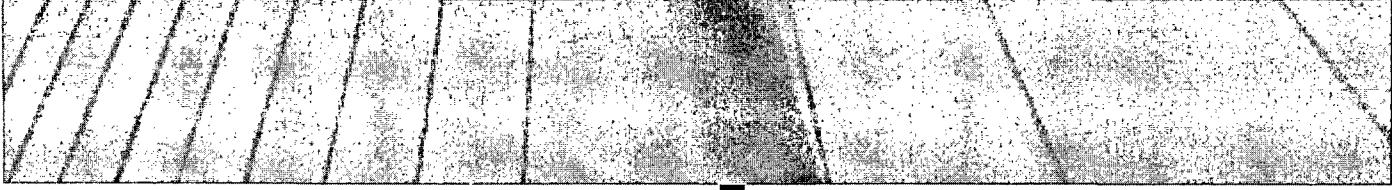
On March 13, 2002, the Ports Authority Board resolved to make a contribution to the bridge on the condition that a study be conducted demonstrating that the bridge would constitute a "Port Facility." At its meeting held on June 18, 2002, the Ports Authority Board received studies conducted by Norbridge, Inc., Moffatt & Nichol, and HNTB which led the Board to conclude that the future benefit to the Ports Authority that would be derived from the bridge height and width increase would constitute a Port Facility and resolved to make the contribution described below.

The Ports Authority Board contributed \$8 million during each of the years ended June 30, 2004 and 2003 toward the building of the new Cooper River Bridge. Additionally, the Port Authority will pay \$1,000,000 per year beginning in fiscal year 2004 for 25 years. These payments have been treated as non-operating expenses to the State of South Carolina and therefore have reduced the Ports Authority's net assets.

On June 24, 2005, the Ports Authority and the State of South Carolina finalized an agreement regarding the remaining contributions to the Cooper River Bridge. The agreement stated that each contribution is a separate non-exchange transaction and the Ports Authority has only the obligation to pay the \$1,000,000 annual amount at any given time for the remaining 25 years. Payments to the State of South Carolina totaled \$1,000,000 and \$9,000,000 for the year ended June 30, 2005 and 2004, respectively.

Department of Defense Appropriations Act for 2002

During 2004 and 2003, the Ports Authority was awarded grants from the Department of Transportation, Maritime Administration ("DOT") (as an agent of the Transportation Security Administration) for approximately \$7.3 million to be used for port security. During 2003, no amounts were received or expended related to this grant. As of June 30, 2005 and 2004, the Ports Authority has expended approximately \$4,919,000 and \$779,000, respectively, related to these grant agreements.



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south carolina state ports authority
p.o. box 22287

charleston, south carolina 29413-2287, USA

843.723.8651 fax: 843.577.8127

www.scsipa.com

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