PALMETTO RAILWAYS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

August 14, 2019

Mr. Robert M. Hitt, III, Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways, for the fiscal year ended December 31, 2018, was issued by Greene Finney, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

803-253-4160 803-343-0723 OSA.SC.GOV

PALMETTO RAILWAYS

TABLE OF CONTENTS

YEAR ENDED DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the "Division") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, for the year ended December 31, 2018 the Division adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not present fairly the financial position of the State of South Carolina or the South Carolina Department of Commerce as of December 31, 2018, the changes in their financial position, or, where applicable, their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and OPEB schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2019 on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
August 14, 2019

Our discussion and analysis of South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the "Division") financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2018. Please read these comments in conjunction with the financial statements.

USING THIS ANNUAL REPORT

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

The four operating subdivisions of the Division are:

Charleston Subdivision (CHS)
North Charleston Subdivision (NCS)
Charity Church Subdivision (CCS)
Hampton & Branchville Subdivision (H&B)

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

These statements provide information on the Division's net position, operations, and cash flows for the year ended December 31, 2018. This discussion and analysis is intended to serve as an introduction to the financial statements. The notes to the financial statements also contain details on some of the information presented in the financial statements.

REPORTING ON THE DIVISION AS A WHOLE

The subdivisions are enterprise funds for accounting and reporting purposes. Enterprise funds are used when governmental entities charge customers for services. Enterprise funds very closely resemble the financial statements of business entities. These statements offer short and long-term financial information about the Division's activities. The Statement of Net Position presents information on all of the Division's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources.

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

FINANCIAL HIGHLIGHTS

- Operating revenues increased in 2018 by $1,983,816 or 10.6% due primarily to increases of $968,040, $627,395, and $425,634 in storage revenue, freight charges and switching fees.

- Earnings on investments increased in 2018 by $69,660 or 205.4% due to an increase in state investment income.

- Gain on the sale of fixed assets increased $54,746 or 1.9% due to the sale of two buildings and approximately 26 acres of undeveloped land on the former Navy Base.

FINANCIAL HIGHLIGHTS (CONTINUED)

- Other non-operating revenue decreased $6,254 or 0.5%.

- Maintenance of way expenses decreased $157,501 or 7.4%. The decrease is primarily due to decreased contract labor in 2018.

- Maintenance of equipment expenses increased $73,325 or 4.0% due primarily to increases in salaries and related benefits resulting from personnel changes and mandated benefit increases.

- Car repair expenses decreased by $345,845 or 11.9% primarily due to the decreased parts expense.

- Transportation expenses increased $407,649 or 6.8% due primarily to increases in salaries and related benefits resulting from personnel changes and mandated benefit increases.

- General expenses decreased $755,345 or 17.5% primarily due to a portion of administrative salaries allocated to ongoing projects as well as a decrease in facilities repairs and maintenance.

- Other non-operating expenses increased $376,294 or 135.5% primarily due to a portion of administrative salaries allocated to ongoing projects.

- Current assets increased $3,550,650 or 26.1% due to an increase in cash from the sale of two buildings and approximately 26 acres of land on the former Navy base and an increase in accounts receivable related to operations. The majority of the cash from the sale will be used for the Navy Base Intermodal Facility project as noted below.

- Capital assets increased by $3,830,278 or 1.4% due to further developments of both the Navy Base Intermodal Facility and Camp Hall.

- Deferred OPEB charges increased $169,526 or 107.6% primarily due to differences in the actual results compared to the actuarially projected results for the net OPEB liability.

- Deferred pension charges decreased $876,992 or 33.0% due amortization of the outstanding deferred pension charges from the prior year.

- Current liabilities decreased $1,535,523 or 2.8% primarily due to a decrease in accounts payable of $1,801,014 or 72.2% due to the completion of the North Charleston Sewer District pump station in 2018.

- The net OPEB liability increased $373,596 or 4.6% due to the Division's increase in the proportionate share of the net OPEB liability related to the state OPEB plan.

- The net pension liability increased $36,790 or 0.3% due to the Division's increase in the proportionate share of the net pension liability related to the state pension plans partially offset by the decrease in the total net pension liability of the plan as a result of a change in the discount rate.

FINANCIAL HIGHLIGHTS (CONTINUED)

- Other liabilities decreased $255,850 or 2.1% primarily due to the payment made in 2018 on the Tax Increment Financing ("TIF") bonds payable.

- Deferred OPEB credits decreased $70,637 or 9.2% primarily due to amortization of the outstanding deferred OPEB credits from the prior year.

- Deferred pension credits increased $112,727 or 1,710.1% due to differences in the actual results compared to the actuarially projected results for the net pension liability and changes in the Division's proportionate share of the net pension liability.

- Net position increased $8,012,359 or 3.8% from the prior year net position adjusted for the implementation of GASB #75 as discussed below. Net investment in capital assets increased $4,010,278 or 1.9% and the deficit in unrestricted net position decreased $4,002,081 or 55.7% from the prior year unrestricted net position.

- The Division adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB #75") for the year ended December 31, 2018. GASB #75 requires the Division to recognize a net other postemployment benefits ("OPEB") liability and any related deferred outflows/inflows of resources for any material amounts related to its participation in the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund, cost-sharing multiple-employer defined benefit OPEB plans ("OPEB Plans"), on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

  The adoption of GASB #75 has resulted in the restatement of the Division's net position as of January 1, 2017 for its financial statements to reflect the reporting of a net OPEB liability, deferred outflows of resources, and deferred inflows of resources for its OPEB Plans in accordance with the provisions of GASB #75. Net position as of January 1, 2017 was decreased by $8,777,729, which consisted of $5,266,638 for CHS-NCS and $3,511,091 for CCS, reflecting the cumulative change in accounting principle related to the adoption of GASB #75. See Note 11 in the notes to the financial statements for more information regarding the Division's OPEB Plans.

FINANCIAL ANALYSIS

The following are the condensed financial statements of the Division for fiscal years 2018 and 2017, including information concerning the events and circumstances regarding the balances and changes:

Condensed Statement of Net Position

	2018	2017*	Amount Change	% Change
Current assets	$ 17,139,002	13,588,352	$ 3,550,650	26.1%
Capital assets, net of depreciation	282,199,040	278,368,762	3,830,278	1.4%
Total Assets	299,338,042	291,957,114	7,380,928	2.5%
Deferred OPEB charges	327,075	157,549	169,526	107.6%
Deferred pension charges	1,779,690	2,656,682	(876,992)	-33.0%
Total Deferred Outflows of Resources	2,106,765	2,814,231	(707,466)	-25.1%
Total Assets & Deferred Outflows of Resources	$ 301,444,807	294,771,345	$ 6,673,462	2.3%
Current liabilities	$ 53,597,610	55,133,133	$ (1,535,523)	-2.8%
Net OPEB liability	8,537,069	8,163,473	373,596	4.6%
Net pension liability	10,658,304	10,621,514	36,790	0.3%
Other liabilities	11,685,000	11,940,850	(255,850)	-2.1%
Total Liabilities	84,477,983	85,858,970	(1,380,987)	-1.6%
Deferred OPEB credits	701,168	771,805	(70,637)	-9.2%
Deferred pension credits	119,319	6,592	112,727	1710.1%
Total Deferred Inflows of Resources	820,487	778,397	42,090	5.4%
Net Position:				
Net investment in capital assets	219,324,040	215,313,762	4,010,278	1.9%
Unrestricted	(3,177,703)	(7,179,784)	4,002,081	-55.7%
Total Net Position	216,146,337	208,133,978	8,012,359	3.8%
Total Liabilities, Deferred Inflows of Resources, & Net Position	$ 301,444,807	294,771,345	$ 6,673,462	2.3%

*Adjusted for the implementation of GASB #75. See discussion above and Note 2 for more information.

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

FINANCIAL ANALYSIS (CONTINUED)

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

	2018	2017	Amount Change	% Change
Revenues:				
Operating revenues	$ 20,615,624	18,631,808	$ 1,983,816	10.6%
Earnings on investments	103,575	33,915	69,660	205.4%
Gain on sale of fixed assets	2,954,198	2,899,452	54,746	1.9%
Other non-operating revenues	1,366,316	1,372,570	(6,254)	-0.5%
Total Revenues	25,039,713	22,937,745	2,101,968	9.2%
Expenses:				
Maintenance of way	1,976,246	2,133,747	(157,501)	-7.4%
Maintenance of equipment	1,885,194	1,811,869	73,325	4.0%
Car repair	2,555,381	2,901,226	(345,845)	-11.9%
Transportation	6,399,789	5,992,140	407,649	6.8%
General	3,556,817	4,312,162	(755,345)	-17.5%
Total Railroad	16,373,427	17,151,144	(777,717)	-4.5%
Other non-operating expenses	653,927	277,633	376,294	135.5%
Total Expenses	17,027,354	17,428,777	(401,423)	-2.3%
Change in Net Position	8,012,359	5,508,968	2,503,391	45.4%
Net Position, Beginning of Year	216,911,707	211,402,739	5,508,968	2.6%
Cumulative Change in Accounting Principle - See Note 2	(8,777,729)	-	(8,777,729)	
Net Position, Beginning of Year - Restated	208,133,978	211,402,739	(3,268,761)	-1.5%
Net Position, End of Year	$ 216,146,337	216,911,707	$ (765,370)	-0.4%

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

Detailed Information on the Funds

The Economic Development Project Fund is used to account for land and land improvement contributions received from the South Carolina Department of Commerce which purchased the land and funded the land improvements using proceeds from the State of South Carolina's General Obligation Bond Fund. There were no contributions received for the years ended December 31, 2018 and 2017, respectively.

CHS and NCS had a combined increase in net position of $6,401,305 or 8.3% from the adjusted beginning net position primarily due from transfers in of $2,000,000 received from CCS and income of $4,401,305. Net investment in capital assets increased $3,789,130 or 4.6% and the deficit in unrestricted net position decreased $2,612,175 or 46.8%. These changes in net position are primarily due to the acquisition and construction of capital assets and the result of operations. Major changes in assets include an increase in capital assets of $3,609,130 or 2.6% related primarily to the continuation of the construction of the Navy Base Intermodal Facility and the Camp Hall projects and an increase of $1,053,183 or 59.2% in accounts receivable due to operations and a lease acquired through land swaps. Major changes in liabilities include a decrease of $1,800,092 or 72.1% primarily due to construction projects completed in 2018 resulting in less accrued invoices. Revenues and expense variances were as previously discussed.

FINANCIAL ANALYSIS (CONTINUED)

Detailed Information on the Funds (Continued)

CCS had an increase in net position of $1,540,466 or 14.3% from the adjusted beginning net position primarily due to income before transfers of $3,540,466 and transfers out of $2,000,000 made to CHS and NCS. Net investment in capital assets increased $102,309 or 0.9% while the deficit in unrestricted net position changed by $1,438,157 to create a surplus. Major changes in assets and liabilities include a $1,926,178 or 34.8% increase in cash and cash equivalents and a $209,300 or 99.9% increase in accounts payable to CHS and NCS. Revenues and expenses variances were as previously discussed.

H&B had an increase in net position of $70,588 or 5.0% from the beginning net position primarily due to income before transfers of $70,588. Net investment in capital assets increased by $118,839 or 23.7% while unrestricted net position decreased by $48,251 or 13.4%. Major changes in assets included decreases of $33,193 or 22.8% and $141,527 or 93.4% in cash and cash equivalents and accounts receivable, respectively, partially offset by an increase of $118,839 in property, plant and equipment. Major changes in liabilities included decreases of $106,844 or 19.1% and $19,625 or 20.2% in accounts payable to other divisions and interest payable, respectively.

FINANCING ACTIVITIES

As the Navy Base Intermodal Facility capital project continues, the loan from the South Carolina Department of Commerce – SC Coordinating Council for Economic Development had an outstanding balance at December 31, 2018 of $51,000,000.

As part of the settlement agreement with the City of North Charleston, the Division assumed responsibility for payment of $6,360,000 in Tax Increment Financing ("TIF") Bonds. Principal and interest are payable in annual installments beginning September 2013 through September 2037 with variable interest (1.53% at June 30, 2018), as determined by the remarketing agent, payable each month. The balance outstanding at December 31, 2018 was $5,375,000.

The Division used a loan from the Colleton County Intermodal Corporation to purchase the H&B railroad in May 2017 in the amount of $6,500,000. The loan matures in May 2047 but may be extended in four increments of five years each if certain conditions are met.

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

CAPITAL ASSET ACTIVITIES

Capital assets consist of land, land improvements, buildings, machinery and equipment, depreciable roads, non-depreciable roads, leasehold improvements, and projects under construction. The Division had $282,199,040 invested in capital assets, net of accumulated depreciation, as of December 31, 2018, compared to $278,368,762 as of December 31, 2017. The table below provides a summary.

	2018	2017
Land	$ 69,281,842	$ 76,220,870
Land improvements	80,553,102	80,494,002
Buildings	17,967,946	12,701,640
Machinery and equipment	7,997,072	8,101,593
Depreciable road	1,192,360	1,192,360
Non-depreciable road	19,714,338	19,714,338
Leasehold improvements	700,665	700,665
Projects under construction	94,110,675	88,469,771
Total Capital Assets	291,518,000	287,595,239
Less: Accumulated Depreciation	(9,318,960)	(9,226,477)
Capital Assets, Net	$ 282,199,040	$ 278,368,762

Major additions in 2018 include the acquisition of several buildings through property swaps with the City of North Charleston and further developments of both the Navy Base Intermodal Facility and Camp Hall.

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

ECONCOMIC FACTORS AND NEXT YEAR'S OPERATIONS

- Freight traffic is expected to remain fairly stable in 2019.
- Administrative expenses are expected to be higher due to financing costs for the construction of various capital projects.
- Capital expenditures will continue to be incurred as the construction begins on the Navy Base Intermodal Facility and design & property acquisition continues on the Camp Hall project.
- Properties located on the Navy Base will continue to be sent to state surplus to be sold.

BASIC FINANCIAL STATEMENTS

PALMETTO RAILWAYS
STATEMENT OF NET POSITION - ENTERPRISE FUNDS
DECEMBER 31, 2018

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	H&B	INTERDIVISION ELIMINATIONS	TOTAL
ASSETS						
Current Assets:						
Cash and cash equivalents	$ -	5,111,289	7,467,427	112,407	-	$ 12,691,123
Restricted cash - security deposits	-	21,167	-	-	-	21,167
Accounts receivable	-	2,831,096	369,979	10,000	-	3,211,075
Accounts receivable from other divisions	-	870,757	-	-	(870,757)	-
Interest receivable	-	57	6,375	-	-	6,432
Deposits to purchase land	-	239,376	-	-	-	239,376
Inventories	-	654,312	51,300	-	-	705,612
Prepayments	-	264,217	-	-	-	264,217
Total Current Assets	-	9,992,271	7,895,081	122,407	(870,757)	17,139,002
Property, Plant and Equipment:						
Land and non-depreciable assets	120,000,000	126,418,338	10,158,405	6,972,636	-	263,549,379
Other depreciable assets, net of accumulated depreciation	-	16,574,907	1,927,132	147,622	-	18,649,661
Total Property, Plant and Equipment	120,000,000	142,993,245	12,085,537	7,120,258	-	282,199,040
TOTAL ASSETS	**120,000,000**	**152,985,516**	**19,980,618**	**7,242,665**	**(870,757)**	**299,338,042**
DEFERRED OUTFLOWS OF RESOURCES						
Deferred OPEB charges	-	196,245	130,830	-	-	327,075
Deferred pension charges	-	1,067,814	711,876	-	-	1,779,690
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**-**	**1,264,059**	**842,706**	**-**	**-**	**2,106,765**
LIABILITIES						
Current Liabilities:						
Accounts payable to other divisions	-	-	418,709	452,048	(870,757)	-
Accounts payable - other	-	695,021	-	-	-	695,021
Security deposits	-	21,167	-	-	-	21,167
Deposit in escrow	-	300,000	-	-	-	300,000
Interest payable	-	-	-	77,498	-	77,498
Accrued payroll	-	748,314	-	-	-	748,314
Payroll taxes withheld and accrued employee benefits	-	257,445	-	-	-	257,445
Accrued annual leave and benefits, current portion	-	164,898	109,933	-	-	274,831
Notes payable - Short-Term	-	51,000,000	-	-	-	51,000,000
TIF bonds payable - Short-Term	-	190,000	-	-	-	190,000
Unearned revenue	-	33,334	-	-	-	33,334
Total Current Liabilities	-	53,410,179	528,642	529,546	(870,757)	53,597,610
Non-current Liabilities:						
TIF bonds payable	-	5,185,000	-	-	-	5,185,000
Loan payable	-	-	-	6,500,000	-	6,500,000
Net OPEB liability	-	5,122,241	3,414,828	-	-	8,537,069
Net pension liability	-	6,394,982	4,263,322	-	-	10,658,304
Total Non-current Liabilities	-	16,702,223	7,678,150	6,500,000	-	30,880,373
TOTAL LIABILITIES	**-**	**70,112,402**	**8,206,792**	**7,029,546**	**(870,757)**	**84,477,983**
DEFERRED INFLOWS OF RESOURCES						
Deferred OPEB credits	-	420,701	280,467	-	-	701,168
Deferred pension credits	-	71,591	47,728	-	-	119,319
TOTAL DEFERRED INFLOWS OF RESOURCES	**-**	**492,292**	**328,195**	**-**	**-**	**820,487**
NET POSITION						
Net investment in capital assets	120,000,000	137,618,245	12,085,537	620,258	-	270,324,040
Unrestricted	-	(53,973,364)	202,800	(407,139)	-	(54,177,703)
TOTAL NET POSITION	**$ 120,000,000**	**83,644,881**	**12,288,337**	**213,119**	**-**	**$ 216,146,337**

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

PALMETTO RAILWAYS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - ENTERPRISE FUNDS
DECEMBER 31, 2018

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	H&B	TOTAL
Operating Revenues:					
Switching fees	$ -	6,926,949	285,119	98,200	$ 7,310,268
Freight charge	-	535,435	7,231,520	-	7,766,955
Rental revenue	-	338,714	1,600	17,080	357,394
Contractual services	-	105,685	37,495	-	143,180
Storage revenue	-	1,564,267	-	167,065	1,731,332
Dispatching service	-	-	58,786	-	58,786
Car repair	-	3,126,882	-	-	3,126,882
Other revenue	-	120,827	-	-	120,827
Total Operating Revenues	-	12,718,759	7,614,520	282,345	20,615,624
Operating Expenses:					
Maintenance of Way:					
Depreciation	-	128,230	44,475	11,003	183,708
Other maintenance of way expenses	-	1,003,353	719,915	69,270	1,792,538
Total Maintenance of Way	-	1,131,583	764,390	80,273	1,976,246
Maintenance of Equipment:					
Depreciation	-	333,668	189,711	-	523,379
Other equipment expenses	-	890,461	463,483	7,871	1,361,815
Total Maintenance of Equipment	-	1,224,129	653,194	7,871	1,885,194
Car Repair:					
Other car repair expenses	-	2,555,381	-	-	2,555,381
Total Car Repair	-	2,555,381	-	-	2,555,381
Transportation:					
Other transportation expenses	-	4,924,160	1,448,229	27,400	6,399,789
Total Transportation	-	4,924,160	1,448,229	27,400	6,399,789
General:					
Administration	-	1,931,823	1,201,621	63,224	3,196,668
Insurance	-	171,648	138,090	50,411	360,149
Total General	-	2,103,471	1,339,711	113,635	3,556,817
Total Operating Expenses	-	11,938,724	4,205,524	229,179	16,373,427
Operating Income	-	780,035	3,408,996	53,166	4,242,197
Non-operating Revenues (Expenses):					
Other rental income, net	-	1,149,098	-	-	1,149,098
Interest income and gain (loss) on investments	-	17,015	84,040	2,520	103,575
Interest expense	-	-	-	(77,498)	(77,498)
Gain (loss) on sale or disposal of fixed assets	-	2,946,134	8,064	-	2,954,198
Other income, net	-	85,452	39,366	92,400	217,218
Industrial development costs	-	(576,429)	-	-	(576,429)
Total Non-Operating Revenues (Expenses)	-	3,621,270	131,470	17,422	3,770,162
Income Before Capital Contributions	-	4,401,305	3,540,466	70,588	8,012,359
Transfers Between Divisions	-	2,000,000	(2,000,000)		-
Change in Net Position	-	6,401,305	1,540,466	70,588	8,012,359
Net Position, Beginning of Year - As Previously Reported	120,000,000	82,510,214	14,258,962	142,531	216,911,707
Cumulative Change in Accounting Principle - See Note 2	-	(5,266,638)	(3,511,091)	-	(8,777,729)
Net Position, Beginning of Year - Restated	120,000,000	77,243,576	10,747,871	142,531	208,133,978
Net Position, End of Year	$ 120,000,000	83,644,881	12,288,337	213,119	$ 216,146,337

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

PALMETTO RAILWAYS
STATEMENT OF CASH FLOWS
DECEMBER 31, 2018

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	H&B	TOTAL
Cash Flows from Operating Activities:					
Cash received from customers	$ -	11,224,406	7,573,673	406,792	$ 19,204,871
Cash payments to suppliers and employees	-	(11,116,225)	(3,511,215)	(347,025)	(14,974,465)
Rents received	-	2,039,221	1,600	17,080	2,057,901
Security deposits	-	(13,949)	-	-	(13,949)
Escrow deposits	-	(107)	-	-	(107)
Other income received	-	85,452	39,366	92,400	217,218
Net Cash Provided By (Used In) Operating Activities	-	2,218,798	4,103,424	169,247	6,491,469
Cash Flows from Non-Capital Financing Activities:					
Cash received from/paid to other divisions	-	2,000,000	(2,000,000)	-	-
Net Cash Provided By (Used In) Non-Capital Financing Activities	-	2,000,000	(2,000,000)	-	-
Cash Flows from Capital and Related Financing Activities:					
Cash received from sale of fixed assets	-	8,390,492	8,064	-	8,398,556
Interest paid on loan	-	-	-	(97,123)	(97,123)
Payments for TIF Bonds payable	-	(180,000)	-	-	(180,000)
Acquisition and construction of capital assets	-	(11,736,209)	(266,988)	(107,837)	(12,111,034)
Net Cash Provided By (Used In) Capital and Related Financing Activities	-	(3,525,717)	(258,924)	(204,960)	(3,989,601)
Cash Flows from Investing Activities:					
Investment income	-	17,004	81,678	2,520	101,202
Net Cash Provided By (Used In) Investing Activities	-	17,004	81,678	2,520	101,202
Net Increase (Decrease) in Cash and Cash Equivalents	-	710,085	1,926,178	(33,193)	2,603,070
Cash and Cash Equivalents, Beginning of Year	-	4,422,371	5,541,249	145,600	10,109,220
Cash and Cash Equivalents, End of Year	$ -	5,132,456	7,467,427	112,407	$ 12,712,290
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	$ -	780,035	3,408,996	53,166	$ 4,242,197
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	-	857,334	164,679	11,003	1,033,016
Non-Cash OPEB expense (contra-expense)	-	80,059	53,374	-	133,433
Non-Cash pension expense (contra-expense)	-	735,010	291,499	-	1,026,509
Non-operating revenues (expenses)	-	658,121	39,366	92,400	789,887
(Increase) decrease in assets:					
Accounts receivable	-	(1,053,183)	(39,247)	141,527	(950,903)
Accounts receivable from other division	-	(102,456)	-	-	(102,456)
Inventories	-	62,235	(37,867)	-	24,368
Prepayments	-	(17,765)	-	-	(17,765)
Increase (decrease) in liabilities:					
Accounts payable to other division	-	-	209,300	(128,849)	80,451
Accounts payable - other	-	24,388	(922)	-	23,466
Security deposits	-	(13,949)	-	-	(13,949)
Deposits in Escrow	-	(107)	-	-	(107)
Accrued payroll	-	171,277	-	-	171,277
Payroll taxes withheld and accrued employee benefits	-	37,310	-	-	37,310
Accrued annual leave	-	21,368	14,246	-	35,614
Unearned revenue	-	(20,879)	-	-	(20,879)
Net Cash Provided By (Used In) Operating Activities	$ -	2,218,798	4,103,424	169,247	$ 6,491,469
Schedule of Non-cash Investing, Capital and Financing Activities:					
Change in capital acquisitions included in accounts payable and deposits	$ -	(1,824,480)	-	22,005	$ -
Acquisition of capital assets through swaps	-	8,338,043	-	-	8,338,043
Disposition of capital assets through swaps	$ -	(8,338,043)	-	-	$ (8,338,043)

The accompanying notes to the financial statements are an integral part of this statement.

See accompanying independent auditor's report.

NOTE 1 - REPORTING ENTITY

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

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

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

1. To sue or be sued, and make contracts.

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

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

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

5. To issue revenue bonds and other obligations, subject to approval by the State Fiscal Accountability Authority (SFAA), to defray the cost of acquisition of other railroads.

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

The South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto Railways consists of four separate operating subdivisions: 1) the Charleston Subdivision (CHS) and the North Charleston Subdivision (NCS), 2) the Charity Church Subdivision (CCS), 3) the Hampton and Branchville Subdivision (H&B) and 4) the Economic Development Project Fund. The functions of each of the subdivisions are outlined as follows:

a. The Charleston Subdivision and the North Charleston Subdivision (CHS-NCS) have the responsibility of operations of the railroad yards at Charleston Harbor, Cosgrove Yard and the former Navy Base. Switching activity between privately owned railroad lines, industry tracks and seagoing vessels is the primary operation and revenue source.

b. Operation and maintenance of the railroad line constructed in Berkeley County, South Carolina is the primary responsibility of the Charity Church Subdivision (CCS). The railroad was constructed with financing by BP Amoco Chemicals Corporation, its major customer. This came after requests from the Division and the SFAA 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 1 - REPORTING ENTITY (CONTINUED)

c. Operation and maintenance of a railroad line in both Hampton & Colleton County (the Counties) in South Carolina is the primary responsibility of the Hampton and & Branchville Subdivision (H&B). The railroad had lost its only customer when a SCE&G coal plant on the line ceased operations. The Division worked with the Counties to develop a plan to purchase the railroad and bring new industry to it and the Counties.

d. The Economic Development Project Fund is used to account for land and land improvement contributions received from the South Carolina Department of Commerce which were purchased using proceeds from the State of South Carolina's General Obligation Bond Fund.

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

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

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

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

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

3. Issue bonded debt without approval by another government.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

The Division maintains separate accounting of its four sub-divisions: 1) the Charleston Subdivision and the North Charleston Subdivision, 2) the Charity Church Subdivision, 3) the H&B Subdivision and 4) the Economic Development Project Fund. Presented here are the financial statements of the four funds of the South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto Railways.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

The Division utilizes the accrual basis of accounting. Under the accrual basis of governmental accounting for enterprise funds, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable. Net position is reported in three components: (1) net investment in capital assets, (2) restricted and (3) unrestricted. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The accounting principles utilized by the Division are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles.

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

Fund Accounting

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

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

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The Division reports activities of the enterprise "fund type" under the proprietary fund category. Enterprise funds account for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services.

Property, Plant, and Equipment

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

Buildings	15 - 40 years
Depreciable Road	75 years
Machinery and Equipment	3 - 25 years
Leasehold Improvements	5 - 20 years

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

Inventories

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Policy for Uncollectible Accounts

Management reviews past due accounts receivable and records an allowance for any amounts deemed to be uncollectible, if any. All receivables are shown net of any allowance for uncollectibles.

Intra-division Transactions and Balances

Transactions among the subdivisions of the Division have been eliminated for purposes of the combined financial statements presented herein. Administration overhead incurred is divided between CHS-NCS, CCS and H&B. Overhead of the subdivisions is split, 40% to CCS and 60% to CHS-NCS. Of the 60% to CHS-NCS, $3,500 in overhead is allocated to the H&B monthly. Overhead expense includes superintendence, general administrative, and insurance.

Statement of Cash Flows

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

Cash and Cash Equivalents

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

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

Cash equivalents: The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and the State's internal cash management pool. The State's internal cash management pool is comprised of the general deposit account and several special deposit accounts. The State records each agency's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Agencies record and report their deposits in the general deposit account at cost. However, agencies report their deposits in the special deposit accounts at fair value. Investments in the pool are recorded at fair value. Interest earned by the agencies' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value.

The Division only has special deposit accounts. Realized gains and losses are allocated 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Division currently has two types of deferred outflows of resources: (1) The Division reports *deferred pension charges* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. (2) The Division reports *deferred OPEB charges* in its Statement of Net Position in connection with its participation in the South Carolina Retiree Health Insurance Trust Fund. The *deferred pension and OPEB charges* are either (a) recognized in the subsequent period as a reduction of the net position/OPEB liability (which includes contributions made after the measurement date) or (b) amortized in a systematic and ration method as pension/OPEB expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Division currently has two types of deferred inflows of resources: (1) The Division reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System. (2) The Division reports *deferred OPEB credits* in its Statement of Net Position in connection with its participation in the South Carolina Retiree Health Insurance Trust Fund. The *deferred pension and OPEB credits* are amortized in a systematic and rational method and recognized as a reduction of pension/OPEB expense in future periods in accordance with GAAP.

Net Position

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions and Other Postemployment Benefits ("OPEB")

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

Change in Accounting Principle

The Division adopted GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* ("Statement") for the year ended December 31, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for other postemployment benefits. It also improves information provided by state and local government employers about financial support for OPEB that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple-employer plan will now be required to recognize their proportionate share of the net OPEB liability of that plan. It is GASB's intention that this new Statement will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Division's financial obligations to current and former employees for past services rendered.

In particular, this Statement requires the Division to recognize a net OPEB liability, any related deferred outflows/inflows of resources, and a more comprehensive measure of OPEB expense for any material amounts related to its participation in the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund, cost-sharing multiple-employer defined benefit OPEB plans ("OPEB Plans"), on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

The adoption has resulted in the restatement of the Division's net position as of January 1, 2018 for its financial statements to reflect the reporting of a net OPEB liability, deferred outflows of resources, and deferred inflows of resources for its OPEB Plans in accordance with the provisions of this Statement. Net position of the Division's financial statements as of January 1, 2018 was decreased by $8,777,729, which consisted of $5,266,638 for CHS-NCS and $3,511,091 for CCS. See Note 11 for more information regarding the Division's OPEB Plans.

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, 2018, 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.

NOTE 3 – DEPOSITS (CONTINUED)

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

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

Property, plant, and equipment are stated at original cost with the exception of certain assets received from the South Carolina Ports Authority (SCPA). Assets of $451,136 acquired by the Division from SCPA during the organization of the South Carolina Department of Commerce - Division of Public Railways are stated at the cost to SCPA, less accumulated depreciation at the time of organization. Also, in 1997 CHS-NCS exchanged certain assets with the SCPA. The assets received from the SCPA were recorded on CHS-NCS's books at book value of assets as recorded by the SCPA. Amounts recorded included track and land improvements of $1,324,462 and an engine house in the amount of $1,182,402. Depreciation is computed on the straight-line method. In 2005 a capital contribution was recorded for land, land improvements and track on CCS. The amounts recorded were $201,000 for land, $308,229 for land improvements and $749,746 for non-depreciable road.

On July 26, 2010, the Division entered into a Purchase and Sales Agreement with Greystar GP, LLC. The agreement required the Division to provide the necessary funds to Greystar to purchase loan documents and the right to foreclosure under a Mortgage Loan and Sale agreement Greystar had entered into with Capmark Finance Inc., also on that date. The purchase price was $21,390,500. On August 27, 2010, Greystar assigned the Mortgage Loan and Sale agreement to CHSA, LLC, and also assigned 100% of CHSA, LLC to the Division. On December 7, 2010, the mortgage was satisfied by foreclosure at the former Navy Base. The property, which included approximately 240 acres of land and 65 buildings, was deeded to the Division for nominal consideration on December 15, 2010 and is reported on CHS-NCS's books at the fair value as of the date of acquisition. CHSA, LLC had no ongoing operations during the year ended December 31, 2018.

On December 5, 2012 the Division agreed to sign a Settlement Agreement and Release (the "Agreement") to settle and release six civil actions in which the Division was the defendant. As part of the agreement, the Division assumed $6,360,000 in Tax Increment Financing ("TIF") Bonds for the Navy Base Redevelopment Project. The Division also agreed to pay $8,000,000 to the City of North Charleston (the "City") to mitigate rail access impacts. The $6,360,000 and $8,000,000 are included as projects under construction for the proposed Navy Base Intermodal Facility. The Agreement also required the Division and the City to transfer property to one another. The first transfer occurred in August 2014 and the second and final in May 2018. See Notes 14 and 15 for more information.

On October 9, 2013, the Division purchased land and several office and warehouse buildings on the former Navy Yard from the Noisette Company, LLC, Navy Yard New Market I, LLC and 10 Storehouse Row, LLC. The purchase price was $10,668,000. Three of these office buildings were sold in October 2017 for $9,232,827. The proceeds will be used to fund the Navy Base Intermodal Facility project.

During 2013, the Division acquired approximately 468 acres of related to a lease agreement with the Boeing Company. See Note 6 for more information. The land purchase price of $49,092,711 and the land improvement costs of $70,907,289 were paid by the South Carolina Department of Commerce, who subsequently donated the assets to the Division.

On May 5, 2017, the Division purchased the assets of the H&B Railroad Company for $6,500,000 not including $507,837 in acquisition costs. Financing for the acquisition was provided to the Division by the Colleton County Intermodal Corporation ("CCIC"), which obtained the funds from its issuance of taxable economic development revenue bonds. See Note 15 for more information.

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

During 2018, the Division sold two additional buildings on the former Navy base for $1,895,084 and approximately 26 acres of undeveloped land in North Charleston for $6,379,665. The proceeds will be used to fund the Navy Base Intermodal Facility project. In addition, the Division transferred approximately $8,338,000 in land and buildings to the City of North Charleston and received land and buildings from the City of the same approximate value. See Note 14 for more information.

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

CHS-NCS

	Balance 12/31/2017	Transfers In (Out)	Additions	Deletions	Balance 12/31/2018
Non-depreciable capital assets:					
Land	$ 26,070,976	-	-	7,068,870	$ 19,002,106
Land improvements	3,507,686	-	-	-	3,507,686
Non-depreciable road	9,797,871	-	-	-	9,797,871
Projects under construction	88,469,771	(650,702)	9,968,119	3,676,513	94,110,675
Total non-depreciable capital assets	127,846,304	(650,702)	9,968,119	10,745,383	126,418,338
Depreciable capital assets:					
Land improvements	51,478	59,100	-	-	110,578
Buildings	11,421,032	404,663	8,338,043	3,476,400	16,687,338
Machinery and equipment	5,873,697	(59,100)	188,742	457,649	5,545,690
Depreciable road	246,509	-	-	-	246,509
Leasehold improvements	700,665	-	-	184,106	516,559
Total depreciable capital assets	18,293,381	404,663	8,526,785	4,118,155	23,106,674
Accumulated depreciation:					
Land improvements	51,478	41,370	-	-	92,848
Buildings	2,263,765	-	388,595	439,385	2,212,975
Machinery and equipment	4,057,315	(41,370)	415,828	457,646	3,974,127
Depreciable road	78,375	-	1,255	-	79,630
Leasehold improvements	304,637	-	51,656	184,106	172,187
Total accumulated depreciation	6,755,570	-	857,334	1,081,137	6,531,767
Net depreciable capital assets	11,537,811	404,663	7,669,451	3,037,018	16,574,907
Net capital assets	$139,384,115	(246,039)	17,637,570	13,782,401	$142,993,245

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

CCS

	Balance 12/31/2017	Transfers In (Out)	Additions	Deletions	Balance 12/31/2018
Non-depreciable capital assets:					
Land	$ 627,419	-	-	-	$ 627,419
Land improvements	6,027,549	-	-	-	6,027,549
Non-depreciable road	3,503,437	-	-	-	3,503,437
Total non-depreciable capital assets	10,158,405	-	-	-	10,158,405
Depreciable capital assets:					
Buildings	1,115,565	-	-	-	1,115,565
Machinery and equipment	2,227,896	246,039	20,949	43,502	2,451,382
Depreciable road	945,851	-	-	-	945,851
Total depreciable capital assets	4,289,312	246,039	20,949	43,502	4,512,798
Accumulated depreciation:					
Buildings	916,311	-	22,626	-	938,937
Machinery and equipment	1,082,975	-	128,640	43,502	1,168,113
Depreciable road	465,203	-	13,413	-	478,616
Total accumulated depreciation	2,464,489	-	164,679	43,502	2,585,666
Net depreciable capital assets	1,824,823	246,039	(143,730)	-	1,927,132
Net capital assets	$ 11,983,228	246,039	(143,730)	-	$ 12,085,537

Economic Development Project Fund

	Balance 12/31/2017	Transfers In (Out)	Additions	Deletions	Balance 12/31/2018
Non-depreciable capital assets:					
Land	$ 49,092,711	-	-	-	$ 49,092,711
Land Improvements	70,907,289	-	-	-	70,907,289
Total non-depreciable capital assets	120,000,000	-	-	-	120,000,000
Net capital assets	$ 120,000,000	-	-	-	$ 120,000,000

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

H&B

	Balance 12/31/2017	Transfers In (Out)	Additions	Deletions	Balance 12/31/2018
Non-depreciable capital assets:					
Land	$ 429,764	-	129,842	-	$ 559,606
Non-depreciable road	6,413,030	-	-	-	6,413,030
Total non-depreciable capital assets	6,842,794	-	129,842	-	6,972,636
Depreciable capital assets:					
Buildings	165,043	-	-	-	165,043
Total depreciable capital assets	165,043	-	-	-	165,043
Accumulated depreciation:					
Buildings	6,418	-	11,003	-	17,421
Total accumulated depreciation	6,418	-	11,003	-	17,421
Net depreciable capital assets	158,625	-	(11,003)	-	147,622
Net capital assets	$ 7,001,419	-	118,839	-	$ 7,120,258

COMBINED

	Balance 12/31/2017	Transfers In (Out)	Additions	Deletions	Balance 12/31/2018
Non-depreciable capital assets:					
Land	$ 76,220,870	-	129,842	7,068,870	$ 69,281,842
Land improvements	80,442,524	-	-	-	80,442,524
Non-depreciable road	19,714,338	-	-	-	19,714,338
Projects under construction	88,469,771	(650,702)	9,968,119	3,676,513	94,110,675
Total non-depreciable capital assets	264,847,503	(650,702)	10,097,961	10,745,383	263,549,379
Depreciable capital assets:					
Land improvements	51,478	59,100	-	-	110,578
Buildings	12,701,640	404,663	8,338,043	3,476,400	17,967,946
Machinery and equipment	8,101,593	186,939	209,691	501,151	7,997,072
Depreciable road	1,192,360	-	-	-	1,192,360
Leasehold improvements	700,665	-	-	-	700,665
Total depreciable capital assets	22,747,736	650,702	8,547,734	3,977,551	27,968,621
Accumulated depreciation:					
Land improvements	51,478	41,370	-	-	92,848
Buildings	3,186,494	-	422,224	439,385	3,169,333
Machinery and equipment	5,140,290	(41,370)	544,468	501,148	5,142,240
Depreciable road	543,578	-	14,668	-	558,246
Leasehold improvements	304,637	-	51,656	-	356,293
Total accumulated depreciation	9,226,477	-	1,033,016	940,533	9,318,960
Net depreciable capital assets	13,521,259	650,702	7,514,718	3,037,018	18,649,661
Net capital assets	$ 278,368,762	-	17,612,679	13,782,401	$ 282,199,040

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

Depreciation expense for the period by subdivision and in total was as follows: CHS-NCS $857,334, CCS $164,679, and H&B $11,003, Total - $1,033,016. Included in other rental income-net and leased track is $274,273 of depreciation on buildings that are held for rent and $51,656 in amortization of leased track, respectively. The majority of the leased buildings were sold in September 2017. The cost of the remaining leased buildings is $13,503,504 and net book value is $12,675,807. The majority of these assets were acquired as part of the Greystar purchase noted in paragraph 2 above. See Note 9 for more information. The Division also acquired two new buildings in May 2018 through a property exchange with the City of North Charleston in accordance with the settlement agreement discussed in paragraph 2 above and in Note 14.

As of December 31, 2018, the Division had remaining construction commitments of $45,773 relating to construction at the Navy Base Intermodal Facility and $4,442,662 related to the Camp Hall project. The Camp Hall project consists of building a rail connection from a new industrial site located in Berkeley County to the CSX Transportation mainline.

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 liability. The net change in the liability is recorded in the current year in the applicable operating department.

NOTE 6 – UNEARNED REVENUE/OPERATING LEASES/OPERATING RENTAL REVENUE

Effective March 4, 1994, CHS-NCS began leasing land and improvements in Spartanburg County, South Carolina for $200,000 a year. The lease is for ten years with two ten-year options to renew. During the lease term the lessee has the right to purchase the land and improvements for CHS-NCS's cost not to exceed $5,000,000. The rent is paid at the beginning of each year's anniversary for one-year effective March 4, 1994 and will be adjusted annually based on 90-day Treasury bill rates. The initial rent was based on a 4% annual return on the initial investment of $2,000,000, which is why Treasury bill rates will be used to determine changes in the annual rent. The Division's total investment in this project ended up being $4,365,595 which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 2017 was $200,000 and at March 4, 2018 was $200,000. The land is used as a railroad spur to the BMW plant. In February 2014, this lease was extended for the final 10-year renewal term through March 3, 2024. During 2018, $200,000 was recognized as operating rental revenue and $33,334 was unearned 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 $535,435 in 2018 and is included in freight income.

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

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

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

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

Year Ended December 31,	Future Minimum Rentals
2019	$ 1,265,122
2020	1,166,802
2021	1,187,723
2022	1,209,271
2023	1,231,465
2024-2027	753,471
Total	$ 6,813,854

NOTE 7 – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligation activity for the year ended December 31, 2018:

	January 1, 2018	Increases	Decreases	December 31, 2018	Due Within One Year
Compensated absences:					
CHS-NCS	$ 143,530	165,520	144,152	164,898	$ 164,898
CCS	95,687	110,347	96,101	109,933	109,933
	239,217	275,867	240,253	274,831	274,831
Note Payable	51,000,000	-	-	51,000,000	51,000,000
TIF Bonds Payable	5,555,000	-	180,000	5,375,000	190,000
H&B Loan	6,500,000	-	-	6,500,000	-
Total long-term obligations	$ 63,294,217	275,867	420,253	63,149,831	$ 51,464,831

NOTE 7 – LONG-TERM OBLIGATIONS (CONTINUED)

The note payable represents an interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development in an amount not to exceed $55 million. The loan was amended for the second time in May 2018 to extend the loan until October 31, 2018 and for the third time in February 2019 to extend the loan until October 31, 2019. The loan matures and must be repaid in full by October 31, 2019 but is payable on demand with sixty days written notice from the Coordinating Council or the Division. The loan proceeds are being used for civil work costs related to the Navy Base Intermodal Facility until the Division secures long-term financing for the project. Once obtained, the proceeds from the long-term financing will be used to repay the loan. As of the issuance of these financial statements, the long-term financing has not been obtained.

See Notes 14 and 15 for a detailed description of the TIF bonds payable and the H&B loan payable.

NOTE 8 – OTHER REVENUE

The category under "Operating Revenues" entitled "Other Revenue," is used to report miscellaneous income. For the year ended December 31, 2018 it consists of offset charges of $120,827 received by CHS-NCS from the SCPA - see Note 12.

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

The Division leases several buildings and parking spaces. The revenue and expenses for 2018 were as follows:

Rental revenue	$ 1,686,070
Property tax reimbursements	273,903
	1,959,973
Less: expenses	
Depreciation	274,273
Landscaping and janitorial	190,502
Utilities	41,147
Maintenance	57,504
Property tax and disposal fees	111,281
Insurance	26,720
Other Services	109,448
	810,875
Net Income	$ 1,149,098

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS

South Carolina Retirement Systems

The Division participates in the State of South Carolina's retirement plans, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors ("PEBA Board"), appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission ("RSIC") as co-trustees of the Retirement Trust Funds.

The PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the System's Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. The PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System ("SCRS"), a cost–sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for employees of state agencies, public school districts, higher education institutions, and other participating local subdivisions of government and individuals elected to the South Carolina General Assembly at or after the 2012 general election.

The State Optional Retirement Program ("State ORP") is a defined contribution plan that is offered as an alternative to the SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts, and individuals first elected to the General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party record keepers.

The South Carolina Police Officers Retirement System ("PORS"), a cost–sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. The PORS also covers peace officers, coroners, probate judges and magistrates.

Plan Membership

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

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

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

Plan Membership (Continued)

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

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

Plan Benefits

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

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

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

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

Plan Benefits (Continued)

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

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

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in the statute, or the rates last adopted by the board, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rate as necessary.

After June 30, 2027, if the most recent actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than eighty-five percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than eighty-five percent. If contribution rates are decreased pursuant to this provision, and the most recent actuarial valuation of the system shows a funded ratio of less than eighty-five percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than eighty-five percent.

The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS, respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization schedule.

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

Plan Contributions (Continued)

Required employer and employee contribution rates for the past three years are as follows:

	SCRS and State ORP Rates				PORS Rates			
	Effective Date				Effective Date			
	7/1/2015	7/1/2016	7/1/2017	7/1/2018	7/1/2015	7/1/2016	7/1/2017	7/1/2018
Employer Contribution Rate:^								
Retirement*	10.91%	11.41%	13.41%	14.41%	13.34%	13.84%	15.84%	16.84%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%	0.20%
	11.06%	11.56%	13.56%	14.56%	13.74%	14.24%	16.24%	17.24%
Employee Contribution Rate	8.16%	8.66%	9.00%	9.00%	8.74%	9.24%	9.75%	9.75%

^ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

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

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

Year Ended	SCRS Contributions		State ORP Contributions		PORS Contributions	
December 31,	Required	% Contributed	Required	% Contributed	Required	% Contributed
2018	$ 661,493	100%	89,740	100%	$ -	100%
2017	547,914	100%	99,574	100%	6,285	100%
2016	$ 476,541	100%	68,637	100%	$ 7,695	100%

In an effort to help offset a portion of the burden of the increased contribution requirement for employers, the State General Assembly ("State") funded 1 percent of the SCRS and PORS contribution increases for the year ended June 30, 2018. The State's budget appropriated these funds directly to the PEBA for the South Carolina Retirement System Trust Fund and the Police Officers Retirement System Trust Fund. The amount of funds appropriated by the State (nonemployer contributing entity) for the year ended June 30, 2018 (measurement date) to the Division were approximately $47,000 and $1,000 for the SCRS and PORS, respectively.

The Division recognized contributions from the State of approximately $47,000 for the year ended December 31, 2018.

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

Year Ended December 31,	SCRS Payroll	State ORP Payroll	PORS Payroll	Total Payroll
2018	$ 4,698,204	638,972	-	$ 5,337,176
2017	4,358,236	793,855	42,144	5,194,235
2016	$ 4,211,589	606,014	55,000	$ 4,872,603

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

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires than an experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2015.

The June 30, 2018 total pension liability ("TPL"), net pension liability ("NPL"), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2017 actuarial valuations as adopted by the PEBA Board and the SFAA which utilized membership data as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the Plan's fiscal year ended June 30, 2018 using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2018.

	SCRS	PORS
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Investment Rate of Return*	7.25%	7.25%
Projected Salary Increases*	3.0% to 12.5% (varies by service)	3.5% to 9.5% (varies by service)
Benefit Adjustments	Lesser of 1% or $500 annually	Lesser of 1% or $500 annually

* Includes inflation at 2.25%.

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality Table ("2016 PRSC"), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016. Assumptions used in the determination of the June 30, 2018 TPL are as follows.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

Net Pension Liability

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of the June 30, 2018 measurement date, for the SCRS and PORS are presented below.

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

Net Pension Liability (Continued)

System	Total Pension Liability		Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)		Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$	48,821,730,067	26,414,916,370	$	22,406,813,697	54.1%
PORS	$	7,403,972,673	4,570,430,247	$	2,833,542,426	61.7%

The TPL is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the Plans' funding requirements.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon the 30-year capital market assumptions. The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

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

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	**47.0%**		
Global Public Equity	33.0%	6.99%	2.31%
Private Equity	9.0%	8.73%	0.79%
Equity Options Strategies	5.0%	5.52%	0.28%
Real Assets	**10.0%**		
Real Estate (Private)	6.0%	3.54%	0.21%
Real Estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
Opportunistic	**13.0%**		
GTAA/Risk Parity	8.0%	3.75%	0.30%
Hedge Funds (non-PA)	2.0%	3.45%	0.07%
Other Opportunistic Strategies	3.0%	3.75%	0.11%
Diversified Credit	**18.0%**		
Mixed Credit	6.0%	3.05%	0.18%
Emerging Markets Debt	5.0%	3.94%	0.20%
Private Debt	7.0%	3.89%	0.27%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	0.94%	0.09%
Cash and Short Duration (Net)	2.0%	0.34%	0.01%
Total Expected Real Return	100.0%		5.03%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.28%

Discount Rate

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in the SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Sensitivity Analysis

The following table presents the sensitivity of the Division's proportionate share of the NPL of the Plans to changes in the discount rate, calculated using the discount rate of 7.25 percent, as well as what it would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

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

Sensitivity Analysis

System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
The Division's proportionate share of the net pension liability of the SCRS	$ 13,582,285	10,629,311	$ 8,518,217
The Division's proportionate share of the net pension liability of the PORS	39,086	28,993	20,726
Total Pension Liability	$ 13,621,371	10,658,304	$ 8,538,943

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At December 31, 2018, the Division reported liabilities of approximately $10,629,000 and $29,000 for its proportionate share of the net pension liabilities for the SCRS and PORS (“Plans”), respectively. The net pension liabilities were measured as of June 30, 2018, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2017 that was projected forward to the measurement date. The Division’s proportion of the net pension liabilities were based on a projection of the Division’s long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2018 measurement date, the Division’s SCRS proportion was 0.047438 percent, which was an increase of 0.000757 percent from its proportion measured as of June 30, 2017. At the June 30, 2018 measurement date, the Division’s PORS proportion was 0.001023 percent, which was a decrease of 0.003097 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Division recognized pension expense of approximately $735,000 and $291,000 for the SCRS and PORS, respectively. At December 31, 2018, the Division reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	$ 19,187	$ 62,551
Changes in Assumptions	421,712	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	168,846	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	780,716	-
Division Contributions Subsequent to the Measurement Date	385,107	-
Total SCRS	1,775,568	62,551
PORS		
Differences Between Expected and Actual Experience	893	-
Changes in Assumptions	1,912	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	580	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	737	56,768
Total PORS	4,122	56,768
Total SCRS and PORS	$ 1,779,690	$ 119,319

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

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Approximately $385,000 that was reported as deferred outflows of resources related to the Division's contributions subsequent to the measurement date to the SCRS will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS and PORS will increase (decrease) pension expense as follows:

Year Ended December 31,	SCRS	PORS	Total
2018	$ 983,693	(14,763)	$ 968,930
2019	433,583	(15,440)	418,143
2020	(74,800)	(16,638)	(91,438)
2021	(14,566)	(5,805)	(20,371)
Total	$ 1,327,910	(52,646)	$ 1,275,264

Plans Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plans administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

Payable to Plans

The Division reported a payable of approximately $129,000 to the PEBA as of December 31, 2018, representing required employer and employee contributions for the month of December 2018 for the SCRS. This amount is included in Accounts Payable on the financial statements and was paid in January 2019.

Railroad Retirement System

The Division contributed $1,096,493 this year to the U.S. Railroad Retirement System, which covers all employees. CHS-NCS contributed $797,708, CCS $290,887, and H&B $7,898. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2018, wages up to $128,400 were funded at 6.2 percent by the Division and 6.2 percent by the employee to meet Tier 1 funding requirements and all wages were funded at 1.45 percent by the Division to meet Tier I Medicare funding requirements. The Division funded wages up to $95,400 at 13.1 percent to meet Tier II funding requirements. Employees paid 4.9 percent on wages up to $95,400.

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

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

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

The PEBA is the state agency responsible for the administration and management of the state's employee insurance programs, other postemployment benefits trusts, and retirement systems. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to all activities of the PEBA. By law, the SFAA also reviews certain PEBA Board decisions in administering the State Health Plan and other postemployment benefits ("OPEB"). See Note 10 for more details on the PEBA and the SFAA.

The PEBA, Insurance Benefits issues audited financial statements and required supplementary information for the OPEB trust funds. This information is publicly available through the Insurance Benefits' link on the PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to the PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. The PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Descriptions

The Other Postemployment Benefits Trust Funds ("OPEB Trusts" or "OPEB Plans"), collectively refers to the South Carolina Retiree Health Insurance Trust Fund ("SCRHITF") and the South Carolina Long-Term Disability Insurance Trust Fund ("SCLTDITF"), were established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability ("BLTD") Income Benefit Plan.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA, Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The PEBA Board has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides postemployment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

Plan Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability. Since the employer contribution/premium paid and the proportionate share of the net OPEB liability and related deferred outflows and inflows of resources related to the SCLTDITF are not material to the Division, no SCLTDITF OPEB amounts have been recorded in these financial statements and only limited note disclosures have been provided related to these benefits.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The South Carolina Retirement System collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs.

The covered payroll surcharge rates for the past three years were as follows:

	Effective Date			
	7/1/2015	7/1/2016	7/1/2017	7/1/2018
Employer Contribution Rate^	5.33%	5.33%	5.50%	6.05%

^ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

The required payroll surcharge, percentages of amounts contributed, and eligible payroll by the Division covered by the SCRHITF for the past three years were as follows:

Year Ended	Contributions		
December 31,	Required	% Contributed	Eligible Payroll
2018	$ 308,677	100%	$ 5,337,176
2017	281,289	100%	5,194,235
2016	$ 259,710	100%	$ 4,872,603

The State (via state appropriations) and the PEBA-Insurance Benefits (via state statute to transfer amounts above 140% of incurred but not reported claims) contributed to the SCRHITF on behalf of the Division $64,431 for the year ended June 30, 2018 (measurement period). The contributions from these nonemployer contributing entities were not considered material to the Division and have not been recorded in these financial statements.

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Contributions and Funding Policies (Continued)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The total OPEB liability, net OPEB liability, and sensitivity information were determined by the consulting actuary and are based on the June 30, 2017 actuarial valuation. The total OPEB liability was rolled-forward from the valuation date to the OPEB plan's fiscal year ended June 30, 2018 using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used in the latest valuation for the SCRHITF:

Valuation Date:	June 30, 2017
Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
Inflation:	2.25%
Investment Rate of Return:	4.00%, net of OPEB plan investment expense, including inflation
Single Discount Rate:	3.62% as of June 30, 2018
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement System for the five-year period ending June 30, 2015
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the based tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 6.75% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 14 years
Aging Factors	Based on plan specific experience
Retiree Participation:	79% for retirees who are eligible for funded premiums
Notes:	There were no benefit changes during the year; the discount rate changed from 3.59% as of June 30, 2017 to 3.62% as of June 30, 2018

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. For actuarial purposes, the 4.00 percent assumed annual investment rate of return includes a 1.75 percent real rate of return and a 2.25 percent inflation component. This information is summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Conservative Fixed Income	**100.0%**		
US Domestic Fixed Income	80.0%	2.09%	1.67%
Cash	20.0%	0.84%	0.17%
Total Expected Real Return	100.0%		1.84%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			4.09%
Investment Return Assumption			4.00%

Single Discount Rate

The Single Discount Rate of 3.62% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the SCRHITF's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

The net OPEB liability ("NOL") is calculated separately for each system and represents that particular system's total OPEB liability determined in accordance with GASB No. 74 less its fiduciary net position. NOL totals, as of the June 30, 2018 measurement date for the SCRHITF , are presented in the following table:

System	Total OPEB Liability	OPEB Plan Fiduciary Net Position	Employers' Net OPEB Liability (Asset)	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
SCRHITF	$ 15,387,115,010	1,216,530,062	$ 14,170,584,948	7.9%

The total OPEB liability is calculated by PEBA's actuary, and the fiduciary net position is reported in the PEBA's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB No. 74 in the PEBA's notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 are not applicable for other purposes, such as determining the OPEB Plans' funding requirements.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

At December 31, 2018, the Division reported a liability of $8,537,069 for its proportionate share of the net OPEB liability for the SCRHITF. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability for the SCRHITF used to calculate the net OPEB liability was determined based on the most recent actuarial valuation report of June 30, 2017 that was projected forward to the measurement date. The Division's proportion of the net OPEB liability was based on a projection of the Division's long-term share of contributions to the SCRHITF relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2018 measurement date, the Division's proportion was 0.06025 percent, which was a decrease of 0.00002 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Division recognized OPEB expense of $498,518 for the SCRHITF. At December 31, 2018, the Division reported deferred outflows of resources (deferred OPEB charges) and deferred inflows of resources (deferred OPEB credits) related to OPEBs from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 127,889	$ 2,975
Change in Assumptions	-	695,175
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	32,734	-
Changes in Proportion and Differences Between the Employer's Contributions and Proportionate Share of Contributions	-	3,018
Employer Contributions Subsequent to the Measurement Date	166,452	-
Total	$ 327,075	$ 701,168

The Division reported $166,452 of deferred outflows of resources related to its contributions subsequent to the measurement date to the SCRHITF, which will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources (deferred OPEB charges) and deferred inflows of resources (deferred OPEB credits) related to the SCRHITF will increase (decrease) OPEB expense as follows:

Year Ended December 31,	Increase (Decrease) OPEB Expense
2019	$ (102,416)
2020	(102,416)
2021	(102,416)
2022	(105,922)
2023	(111,476)
Thereafter	(15,899)
Total	$ (540,545)

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

The following table presents the sensitivity of the Division's net OPEB liability for the SCRHITF to changes in the discount rate, calculated using the discount rate of 3.62%, as well as what it would be if it were calculated using a discount rate that is 1% point lower (2.62%) or 1% point higher (4.62%) than the current rate:

	1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
Net OPEB Liability	$ 10,057,487	8,537,069	$ 7,311,491

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following table presents the sensitivity of the Division's net OPEB liability to changes in the healthcare cost trend rate, calculated using the healthcare cost trend rate of 6.75% decreasing to 4.15%, as well as what it would be if it were calculated using a healthcare cost trend rate that is 1% point lower (5.75% decreasing to 3.15%) or 1% point higher (7.75% decreasing to 5.15%) than the current rate:

	1% Decrease (5.75% decreasing to 3.15%)	Current Healthcare Cost Trend Rate (6.75% decreasing to 4.15%)	1% Increase (7.75% decreasing to 5.15%)
Net OPEB Liability	$ 7,024,629	8,537,069	$ 10,492,373

OPEB Plans' Fiduciary Net Position

Detailed information regarding the fiduciary net position of the OPEB Plans administered by the PEBA is available in the separately issued financial statements and required supplementary information for the South Carolina Public Employee Benefit Authority, Insurance Benefits and Other Post Employment Benefits Trust Funds. This information is publicly available through the Insurance Benefits' link on the PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to the PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223.

NOTE 12 - TRANSACTIONS WITH STATE ENTITIES

During 2015 and amended in 2018, the Division entered into an interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development in an amount not to exceed $55 million. The loan matures and must be repaid in full by October 31, 2019 but is payable on demand with sixty days written notice from the Coordinating Council or the Division. The loan proceeds are being used for civil work costs related to the Navy Base Intermodal Facility until the Division secures long-term financing for the project. Once obtained, the proceeds from the long-term financing will be used to repay the loan. See Note 7 regarding long-term obligations.

The SCPA pays CHS-NCS monthly offset charges. In 1988, the SCPA took possession of a certain area of trackage at the Port Terminal Railroad which caused CHS-NCS to lose operating revenues. The SCPA continues to pay CHS-NCS for the loss of revenue, which equals the initial annual base amount of $58,615 adjusted for changes in the consumer price index. The amount paid to CHS-NCS was $120,827 in 2018 and is included in other operating revenues. See Note 8 regarding other revenue.

Services received at no cost from State agencies include banking and investment functions from the State Treasurer and retirement and insurance plan administration from the PEBA. The Division had financial transactions with various State agencies during the year ended December 31, 2018 as listed below:

NOTE 12 - TRANSACTIONS WITH STATE ENTITIES (CONTINUED)

State Entity	Payments	Description
SC Deferred Compensation	$ 22,837	Employee Payroll Deductions
SC Department of Administration	353	Telephone
SC Department of Health and Environmental Control	23,901	Advertisement Reimbursements
SC Department of Motor Vehicles	75	Driver Records
SC Department of Revenue	298,577	Employee Payroll Deductions and Sales Tax
SC Public Employee Benefit Authority	494,787	Health Insurance
SC Retirement Systems	1,403,725	Employee and Employer Match
SC Secretary of State	25	Notary Application
SC State Fiscal Accountability Authority	87,818	Property, Casualty and Tort Insurance
SC State Ports Authority	11,872	Electric and Rent
	$ 2,343,970	

NOTE 13 - OPERATING LEASES

The Division and the SCPA entered into an agreement, effective July 1, 1976, allowing the Division to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The Division is now occupying these premises on a month-to-month lease. The monthly rental charge is $300. The Division incurred $3,600 for rental of this building in 2018. The Division is required to carry insurance for property damage and to maintain and repair the leased building. This amount is included in general administration expenses.

On August 29, 2017, the Division entered into a lease with Southeastern Value Puritan Mill, LLC to lease office space for a project office. The monthly rent is $2,083 and the Division incurred $23,392 of rent expense in 2018. This amount is included in general administration expenses.

NOTE 14 – SETTLEMENT AGREEMENT AND RELEASE

On December 5, 2012 the Division, the City of North Charleston ("North Charleston") and the North Charleston Sewer District ("Sewer District") agreed to sign the Settlement Agreement and Release (the "Agreement") to settle and release six civil actions in which North Charleston or the Sewer District were the plaintiff and the Division was the defendant. The effective date of the agreement was March 25, 2013, the date on which the consent order was entered adopting and incorporating the terms of the Agreement. The Agreement was necessary to obtain land in order for the Division to plan and construct a Navy Base Intermodal Facility on the former Navy Base.

The terms of the agreement are as follows:

1. The Division will pay North Charleston $8,000,000 over 4 years to mitigate rail access impacts. The first payment of $2,000,000 was made on March 23, 2013. Thereafter, the $2,000,000 payments will be made no later than the anniversary date of the first payment in 2014, 2015 and 2016. This was paid in full during the year ended December 31, 2016.
2. The Division will assume approximately $6,500,000 in TIF Bonds for the Navy Base Redevelopment Project. See Note 15 for more information.
3. The Division will transfer to North Charleston certain buildings and land on the former Navy Yard as soon as practicable after the effective date.
4. North Charleston will transfer to the Division certain buildings and land on the former Navy Yard as soon as practicable after the effective date.
5. Before December 31, 2017, the Division will transfer to North Charleston additional buildings and land on the former Navy Yard.
6. Before December 31, 2017, North Charleston will transfer to the Division additional buildings and land on the former Navy Base.

NOTE 14 – SETTLEMENT AGREEMENT AND RELEASE (CONTINUED)

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

In December 2017, the agreement was amended to allow an extension to May 31, 2018 for the December 31, 2017 property transfers noted above. In May 2018, the Division transferred approximately $8,338,000 in land and buildings to the City of North Charleston and the Division received land and buildings from the City of the same approximate value.

NOTE 15 – NONCURRENT LIABILITIES

As part of the Settlement Agreement and Release, see Note 14, the Division assumed responsibility for payment of $6,360,000 in TIF Bonds from the City of North Charleston. Principal and interest are payable in annual installments beginning September 2013 through September 2037 with variable interest (1.53% at June 30, 2018), as determined by the remarketing agent, payable each month. The balance outstanding at December 31, 2018 was $5,375,000.

Future principal payments of the TIF bonds are as follows:

2019	$ 190,000
2020	195,000
2021	205,000
2022	215,000
2023	225,000
2024-2028	1,275,000
2029-2033	1,560,000
2034-2037	1,510,000
Total	$ 5,375,000

On May 5, 2017, the Division purchased the assets of the Hampton and Branchville Railroad Company ("H&B") for $6,500,000. Financing for the acquisition was provided to the Division by the Colleton County Intermodal Corporation ("CCIC"), which obtained the funds from its issuance of taxable economic development revenue bonds.

CCIC loaned the Division $11,663,086, which is equal to the CCIC's payments for the taxable development revenue bonds. There were no principal and interest components stipulated in the loan; however, the principal amount is considered to be the exchange price of the property with the remaining payments relating to interest. These payments will allow CCIC to fulfill its obligations under its taxable economic development revenue bonds.

Payments on the loan are payable only from the revenues and net income generated from the operation of H&B. Payments are limited to 10% of annual revenues of H&B and 25% of net income generated by H&B.

The loan matures on May 12, 2047 and may be extended in four increments of five years each, if certain conditions are met and the loan has not been paid in full by the maturity date. The loan has a put option beginning at the end of five years under which the Division may relinquish its rights to the H&B railroad in exchange for the loan being considered paid in full. The loan also contains a call option exercisable after five years under which CCIC can demand payment in full or repossess the H&B railroad if the loan payments in the preceding fiscal year are less than CCIC's payment obligations on its taxable economic development revenue bonds for that year.

NOTE 15 – NONCURRENT LIABILITIES (CONTINUED)

As noted above, the loan requires total payments of $11,663,086, which includes $6,500,000 of principal that was borrowed to fund the acquisition of H&B. This leaves the remaining $5,163,086 allocated to interest expense. Because of the variable nature of the payments (see above), the effective interest rate will vary depending on the timing and amount of the loan repayments. Assuming a level stream of payments over the life of the loan, the effective interest rate is calculated to be 4.2798%.

The loan is collateralized by H&B assets.

The Division is obligated to operate H&B and maintain the tracks even if revenues are insufficient. Operations of H&B can only be ceased with written consent from CCIC.

Interest expense for the loan in 2018 was $77,498. Interest payable at December 31, 2018 was $77,498.

NOTE 16 - RISK MANAGEMENT

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

1. Claims of covered public employees for health and dental insurance benefits (PEBA – Insurance Benefits Division); and

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

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

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

1. Real property, its contents and other equipment - Coverage per loss for real property is based on current valuation with a $10,000 deductible. Eighty percent of each loss is covered by the IRF.

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

3. Torts

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

State agencies are the primary participants in the PEBA – Insurance Benefits Division and in IRF.

NOTE 16 - RISK MANAGEMENT (CONTINUED)

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

The Division has purchased insurance, which covers all subdivisions, from a private carrier for liability under the Federal Employers Liability Act (FELA), which is similar to workmen's' compensation insurance and covers all employees. The Division has elected to retain the risk of loss on this coverage for up to the first $100,000 of costs per claim. Management has elected to retain this amount of risk because it feels that it is more economical than paying additional premiums for increased coverage. In the current year, no expenses were incurred on claims under the policy. Also, a tax is paid to the U.S. Railroad Retirement System to cover all the Division employees for unemployment benefits. The Division has recorded insurance premium expenses in the applicable operating department corresponding to the employees for whom contributions are made or in insurance expense under administrative costs.

The Division's management believes risk of loss from business interruption is a remote likelihood, however the Division does have $250,000 coverage through their equipment liability coverage policy for this risk.

The Division did not incur any significant losses in 2018 for self-insured risks. Also, no reserves have been established for potential losses for self-insured risks. The Division reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired, or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 17 – COMMITMENTS, CONTINGENCIES AND LITIGATION

The Division is party to a number of civil lawsuits and other legal proceedings. At the current time management and legal counsel are unable to determine any ultimate outcome of existing and potential legal actions. The Division has undertaken condemnation actions on certain properties in connection with the Navy Base Intermodal Facility to be constructed in North Charleston, South Carolina. The Division has begun condemnation actions on several properties that have been filed and paid in the amount of approximately $5,637,000 and anticipated condemnation cases are expected to be approximately $1,375,000. In addition, there is one pending condemnation case that could ultimately result in a loss; however, the outcome of the case and any associated loss are currently undeterminable.

On October 18, 2016, Palmetto Railways signed a Memorandum of Agreement (MOA) with the Chicora-Cherokee Neighborhood Association, The Union Heights Community Council, The Lowcountry Alliance for Model Communities, and the Metanoia Community Development Corporation to take certain mitigation and enhancement actions that will reduce, avoid or offset potential impacts associated with the Navy Base Intermodal Facility being built close to these communities. The MOA is contingent upon Palmetto Railways receiving all permits and records of decision necessary to begin construction of the facility. Palmetto Railways will fund $3,000,000 to build a new recreation center and an additional $1,000,000 over nine years to fund various community programs in the affected communities. Once all necessary permits and records of decisions have been received, Palmetto Railways will make progress payments when construction begins on the recreation center up to the $3,000,000 committed. The payments to fund the various community programs will be paid as follows: $200,000 within 60 days after the issuance of records of decisions by the Army Corps of Engineers and the Federal Railroad Administration with annual $100,000 payments until the $1,000,000 has been paid.

NOTE 18 – INTERFUND BALANCES

Interfund balances at December 31, 2018 (which are expected to be received or paid within one year, except for $452,048 due from the H&B to CHS-NCS related to the 2017 H&B purchase), consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
CHS-NCS	$ 870,757	$ -
CCS	-	418,709
H&B	-	452,048
Totals	$ 870,757	$ 870,757

Other than the $452,048 noted above, receivables and payables are primarily the result of expenses for CCS and H&B being paid using the CHS-NCS cash account. These interfund receivables and payables were relieved subsequent to December 31, 2018.

NOTE 19 – INTERFUND TRANSFERS

Transfers from (to) other funds for the year ended December 31, 2018 consisted of the following:

Fund	Transfers from	Transfers to
CHS-NCS	$ 2,000,000	$ -
CCS	-	2,000,000
Totals	$ 2,000,000	$ 2,000,000

These transfers were made in order to help fund operations of the CHS-NCS Division.

NOTE 20 – ENTERPRISE FUND INFORMATION

Charges for services	$ 21,764,722
Less: expenses	(17,027,354)
Net program revenue	4,737,368
Interest income and gain (loss) on sale of investments	103,575
Miscellaneous revenue	217,218
Gain (loss) on sale or disposal of fixed assets	2,954,198
Net general revenue	3,274,991
Change in net position	8,012,359
Net position, beginning of year - as previously reported	216,911,707
Cumulative change in accounting principle	(8,777,729)
Net position, beginning of year - restated	208,133,978
Net position, end of year	$ 216,146,337

NOTE 20 – ENTERPRISE FUND INFORMATION (CONTINUED)

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

NOTE 21 – SUBSEQUENT EVENTS

Subsequent to December 31, 2018 the Division entered into $7,727,040 in contracts related to a crossing project and design services for the Camp Hall project.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

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

LAST FIVE FISCAL YEARS

	Year Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Palmetto Railways' Proportion of the Net Pension Liability	0.04744%	0.04668%	0.04501%	0.03567%	0.03140%
Palmetto Railways' Proportionate Share of the Net Pension Liability	$ 10,629,311	10,508,644	9,613,642	6,765,556	$ 5,406,556
Palmetto Railways' Covered Payroll	$ 5,181,225	5,026,978	4,064,539	3,157,875	$ 2,748,612
Palmetto Railways' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	205.2%	209.0%	236.5%	214.2%	196.7%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.1%	53.3%	52.9%	57.0%	59.9%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the year presented.
Palmetto Railways implemented GASB #68/71 during the year ended December 31, 2015. Information before 2014 is not available.
The discount rate was lowered from 7.50% to 7.25% for the year ended December 31, 2018.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM

LAST FIVE FISCAL YEARS

	Year Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 719,285	607,795	514,877	426,759	$ 330,236
Contributions in Relation to the Contractually Required Contribution	719,285	607,795	514,877	426,759	330,236
Contribution Deficiency (Excess)	$ -	-	-	-	$ -
Palmetto Railways' Covered Payroll	$ 5,337,176	5,152,091	4,211,589	3,626,806	$ 2,961,075
Contributions as a Percentage of Covered Payroll	13.48%	11.80%	12.23%	11.77%	11.15%

Notes to Schedule:

Palmetto Railways implemented GASB #68/71 during the year ended December 31, 2015. Information before 2014 is not available. The contractually required contribution rate was increased from 13.56% to 14.56% of eligible payroll as of July 1, 2018.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

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

LAST FIVE FISCAL YEARS

	Year Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Palmetto Railways' Proportion of the Net Pension Liability	0.00102%	0.00412%	0.00416%	0.00407%	0.00406%
Palmetto Railways' Proportionate Share of the Net Pension Liability	$ 28,993	112,870	105,619	88,706	$ 77,745
Palmetto Railways' Covered Payroll	$ 14,163	55,481	53,086	504,255	$ 48,840
Palmetto Railways' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	204.7%	203.44%	198.96%	17.59%	159.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.7%	60.94%	60.44%	64.57%	67.55%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the year presented.
Palmetto Railways implemented GASB #68/71 during the year ended December 31, 2015. Information before 2014 is not available.
The discount rate was lowered from 7.50% to 7.25% for the year ended December 31, 2018.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' CONTRIBUTIONS
POLICE OFFICERS RETIREMENT SYSTEM

LAST FIVE FISCAL YEARS

	Year Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ -	6,285	7,695	6,947	$ 6,521
Contributions in Relation to the Contractually Required Contribution	-	6,285	7,695	6,947	6,521
Contribution Deficiency (Excess)	$ -	-	-	-	$ -
Palmetto Railways' Covered Payroll	$ -	42,144	55,000	51,171	$ 49,680
Contributions as a Percentage of Covered Payroll	0.00%	14.91%	13.99%	13.58%	13.13%

Notes to Schedule:

Palmetto Railways implemented GASB #68/71 during the year ended December 31, 2015. Information before 2014 is not available. The contractually required contribution rate was increased from 16.24% to 17.24% of eligible payroll as of July 1, 2018.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

LAST THREE FISCAL YEARS

	Year Ended December 31,		
	2018	**2017**	**2016**
Palmetto Railways' Proportion of the Net OPEB Liability	0.06025%	0.06027%	0.06027%
Palmetto Railways' Proportionate Share of the Net OPEB Liability	$ 8,537,069	8,163,473	$ 8,720,244
Palmetto Railways' Covered Payroll	$ 5,195,387	5,082,459	$ 4,654,037
Palmetto Railways' Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	164.32%	160.62%	187.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	7.91%	7.60%	6.62%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the year presented (measurement date).
Palmetto Railways adopted GASB #75 during the year ended December 31, 2018. Information prior to 2016 is not available.
The discount rate changed from 3.56% as of the June 30, 2017 measurement date to 3.62% for the June 30, 2018 measurement date.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' CONTRIBUTIONS
SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

LAST THREE FISCAL YEARS

	Year Ended December 31,		
	2018	**2017**	**2016**
Contractually Required Contribution	$ 308,677	281,289	$ 259,710
Contributions in Relation to the Contractually Required Contribution	308,677	281,289	259,710
Contribution Deficiency (Excess)	$ -	-	$ -
Palmetto Railways' Covered Payroll	$ 5,337,176	5,194,235	$ 4,872,603
Contributions as a Percentage of Covered Payroll	5.78%	5.42%	5.33%

Notes to Schedule:

Palmetto Railways adopted GASB #75 during the year ended December 31, 2018. Information prior to 2016 is not available.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the "Division") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated August 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
August 14, 2019