# PALMETTO RAILWAYS

## FINANCIAL STATEMENTS

## YEAR ENDED DECEMBER 31, 2020

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

August 11, 2021

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, 2020, 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

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PALMETTO RAILWAYS
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## 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, 2020, 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, 2020, 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.

***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, 2020, 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 Governmental Accounting Standards Board 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 11, 2021 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 11, 2021

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, 2020. 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)
Salkehatchie Subdivision (SALKS)

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, 2020. 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 decreased in 2020 by $617,193 or 2.7% due primarily to decreases of $922,424 and $193,681 in car repair and switching fees, respectively, partially offset by increases of $295,451 and $203,421 in freight charges and storage revenue, respectively.

- Grant revenue increased $16,679,558 due to projects being partially reimbursed by grant proceeds.

- Earnings on investments decreased in 2020 by $147,418 or 57.0% due to a decrease in state investment income.

**FINANCIAL HIGHLIGHTS (CONTINUED)**

- Gain on the sale of fixed assets decreased $1,903,089 or 95.7% due to the sale of a house and an office building on the former navy base in 2019 compared to equipment sales in 2020.

- Other non-operating revenues decreased by $226,870 or 13.0% due to the sale of a rental property on the former navy base in 2019.

- Maintenance of way expenses decreased $276,808 or 10.8%. This decrease is primarily due to significant maintenance at SALKS in 2019 and a soil stabilization project at CCS in 2019.

- Maintenance of equipment expenses decreased $355,928 or 16.7% due to three locomotives painted in 2019 and decreases in locomotive repair costs.

- Car repair expenses decreased by $540,402 or 22.2% primarily due to less repair activity in 2020.

- Transportation expenses decreased $710,997 or 10.5% due primarily to decreases in salaries and related benefits resulting from personnel changes and less locomotive usage as switching revenues were down.

- General expenses decreased $306,865 or 7.7% due primarily to decreases in professional fees, travel, and business development.

- Interest expense increased $58,005 or 58.2% primarily due to increased net income at SALKS, which is included in the calculation of the principal and interest payment.

- Industrial development costs decreased $9,953 or 1.2% primarily due to decreased professional services related to the NBIF and Camp Hall projects.

- Current assets decreased $1,332,678 or 6.0% due to a decrease in accounts receivable related to grant reimbursements outstanding in the prior year.

- Other non-current assets increased $671,886 due to a new contract receivable in 2020.

- Capital assets increased by $29,357,164 or 10.1% due to further developments of both the Navy Base Intermodal Facility and Camp Hall.

- Deferred OPEB charges increased $1,073,415 or 79.0% primarily due to changes in actuarial assumptions related to the state OPEB plan.

- Deferred pension charges increased $360,624 or 24.2% primarily due to an increase in deferred losses on investments.

- Current liabilities decreased $51,149,012 or 92.8% due to the reclassification of a loan from short-term to long-term as well as a decrease in accounts payable related to the Navy Base Intermodal Facility ("NBIF") and Camp Hall projects.

- The net OPEB liability increased $1,133,184 or 11.8% due to changes in actuarial assumptions related to the state OPEB plan.

- The net pension liability increased $580,494 or 5.0% due to an increase in the net pension liability of the state pension plan.

- Deferred OPEB credits increased $323,680 or 35.6% primarily due to a decrease in the Division's proportionate share of the net OPEB liability related to the state OPEB plan.

## FINANCIAL HIGHLIGHTS (CONTINUED)

- Deferred pension credits increased $462,760 or 334.7% 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 $27,937,465 or 12.2% from the prior year net position. Net investment in capital assets increased $29,552,164 or 12.9% and the deficit in unrestricted net position increased $1,614,699 or 145.9% from the prior year unrestricted net position.

## FINANCIAL ANALYSIS

The following are the condensed financial statements of the Division for fiscal years 2020 and 2019, including information concerning the events and circumstances regarding the balances and changes:

**Condensed Statement of Net Position**

| | 2020 | 2019 | Amount Change | % Change |
|---|---|---|---|---|
| Current assets | $ 20,928,488 | 22,261,166 | $ (1,332,678) | -6.0% |
| Other non-current assets | 671,886 | - | 671,886 | 100.0% |
| Capital assets, net of depreciation | 321,304,522 | 291,947,358 | 29,357,164 | 10.1% |
| Total Assets | 342,904,896 | 314,208,524 | 28,696,372 | 9.1% |
| Deferred OPEB charges | 2,431,926 | 1,358,511 | 1,073,415 | 79.0% |
| Deferred pension charges | 1,849,363 | 1,488,739 | 360,624 | 24.2% |
| Total Deferred Outflows of Resources | 4,281,289 | 2,847,250 | 1,434,039 | 50.4% |
| Total Assets & Deferred Outflows of Resources | $ 347,186,185 | 317,055,774 | $ 30,130,411 | 9.5% |
| Current liabilities | $ 3,997,814 | 55,146,826 | $ (51,149,012) | -92.8% |
| Net OPEB liability | 10,739,889 | 9,606,705 | 1,133,184 | 11.8% |
| Net pension liability | 12,153,903 | 11,573,409 | 580,494 | 5.0% |
| Other liabilities | 62,366,840 | 11,525,000 | 50,841,840 | 441.1% |
| Total Liabilities | 89,258,446 | 87,851,940 | 1,406,506 | 1.6% |
| Deferred OPEB credits | 1,233,377 | 909,697 | 323,680 | 35.6% |
| Deferred pension credits | 601,031 | 138,271 | 462,760 | 334.7% |
| Total Deferred Inflows of Resources | 1,834,408 | 1,047,968 | 786,440 | 75.0% |
| Net Position: | | | | |
| Net investment in capital assets | 258,814,522 | 229,262,358 | 29,552,164 | 12.9% |
| Unrestricted | (2,721,191) | (1,106,492) | (1,614,699) | 145.9% |
| Total Net Position | 256,093,331 | 228,155,866 | 27,937,465 | 12.2% |
| Total Liabilities, Deferred Inflows of Resources, & Net Position | $ 347,186,185 | 317,055,774 | $ 30,130,411 | 9.5% |

## FINANCIAL ANALYSIS (CONTINUED)

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

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

| | 2020 | 2019 | Amount Change | % Change |
|---|---|---|---|---|
| Revenues: | | | | |
| Operating revenues | $ 21,894,860 | 22,512,053 | $ (617,193) | -2.7% |
| Earnings on investments | 111,152 | 258,570 | (147,418) | -57.0% |
| Gain on sale of fixed assets | 84,529 | 1,987,618 | (1,903,089) | -95.7% |
| Grant revenue | 20,966,160 | 4,286,602 | 16,679,558 | 389.1% |
| Other non-operating revenues | 1,512,008 | 1,738,878 | (226,870) | -13.0% |
| Total Revenues | 44,568,709 | 30,783,721 | 13,784,988 | 44.8% |
| Expenses: | | | | |
| Maintenance of way | 2,281,937 | 2,558,745 | (276,808) | -10.8% |
| Maintenance of equipment | 1,776,107 | 2,132,035 | (355,928) | -16.7% |
| Car repair | 1,891,379 | 2,431,781 | (540,402) | -22.2% |
| Transportation | 6,054,769 | 6,765,766 | (710,997) | -10.5% |
| General | 3,654,545 | 3,961,410 | (306,865) | -7.7% |
| Total Railroad | 15,658,737 | 17,849,737 | (2,191,000) | -12.3% |
| Other non-operating expenses | 972,507 | 924,455 | 48,052 | 5.2% |
| Total Expenses | 16,631,244 | 18,774,192 | (2,142,948) | -11.4% |
| Change in Net Position | 27,937,465 | 12,009,529 | 15,927,936 | 132.6% |
| Net Position, Beginning of Year | 228,155,866 | 216,146,337 | 12,009,529 | 5.6% |
| Net Position, End of Year | $ 256,093,331 | 228,155,866 | $ 27,937,465 | 12.2% |

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, 2020 and 2019, respectively.

CHS and NCS had a combined increase in net position of $27,356,861 or 29.2% primarily due to net income of $23,524,361 and transfers in of $3,832,500 received from CCS. Net investment in capital assets increased $29,479,990 or 30.4% and the deficit in unrestricted net position increased $2,123,129 or 66.0%. 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 net capital assets of $29,284,990 or 19.1% related primarily to the continued construction of the Navy Base Intermodal Facility and the Camp Hall projects. Total liabilities remained fairly consistent with the prior year showing a decrease of $40,060 or 0.1%. 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 $366,541 or 2.6% primarily due to income before transfers of $4,199,041 and transfers out of $3,832,500 made to CHS and NCS. Net investment in capital assets decreased $101,668 or 0.9% while unrestricted net position increased by $468,209 or 18.7%. Major changes in assets and liabilities include a $677,444 or 6.5% increase in cash and cash equivalents and a $290,362 or 10.8% decrease in accounts payable to CHS and NCS. Revenues and expenses variances were as previously discussed.

SALKS had an increase in net position of $214,063 or 91.8% due to net income of $214,063. Net investment in capital assets increased by $173,842 or 27.9% while the deficit in unrestricted net position decreased by $40,221 or 10.3%. Major changes in assets include an increase in net capital assets of $173,842 or 2.4%. Major changes in liabilities include a decrease of $81,116 or 25.9% in accounts payable to other divisions partially offset by an increase of $58,005 or 58.2% in interest payable.

## 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, 2020 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 (1.7% at September 1, 2020), as determined by the remarketing agent, payable each month. The balance outstanding at December 31, 2020 was $4,990,000.

The Division used a loan from the Colleton County Intermodal Corporation to purchase the Hampton & Branchville railroad, currently the Salkehatchie subdivision, 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 $321,304,522 invested in capital assets, net of accumulated depreciation, as of December 31, 2020, compared to $291,947,358 as of December 31, 2019. The table below provides a summary.

## CAPITAL ASSET ACTIVITIES (CONTINUED)

| | 2020 | 2019 |
|---|---|---|
| Land | $ 69,235,356 | $ 69,296,105 |
| Land improvements | 84,166,963 | 80,553,102 |
| Buildings | 17,151,497 | 17,051,084 |
| Machinery and equipment | 8,944,844 | 8,470,135 |
| Depreciable road | 3,302,958 | 1,484,251 |
| Non-depreciable road | 35,285,101 | 20,361,850 |
| Leasehold improvements | 516,559 | 516,559 |
| Projects under construction | 114,081,583 | 104,488,219 |
| Total Capital Assets | 332,684,861 | 302,221,305 |
| Less: Accumulated Depreciation | (11,380,339) | (10,273,947) |
| Capital Assets, Net | $ 321,304,522 | $ 291,947,358 |

Major additions in 2020 include construction of the North Lead of the Navy Base Intermodal Facility, four vehicles, two crossings, various lighting upgrades, and further developments of 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 2021.
- Switching revenue is expected to increase due to changes in rates as well as increased volume.
- Storage revenue is expected to decrease primarily due to changes in customer operations.
- Salaries and benefits are expected to increase due to full staffing and budgeted merit increases.
- 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.
- COVID-19 began impacting the United States in February 2020 with a significant impact on supply chains. Although the impacts to the Division were fairly minimal, we expect moderate growth in 2021 as the economy continues to recover and rely on supply chains to deliver the goods necessary for recovery.
- In June 2021, the SC State Legislature approved the 2021-2022 State Appropriations Act, which included $200,000,000 in non-recurring revenue to the South Carolina State Ports Authority (SCSPA) for the Navy Base Intermodal Facility and waterborne cargo infrastructure. As a result, the Division signed an interagency agreement with the SCSPA requiring the Division to transfer ownership of certain property and operations of the container handling portion of the Navy Base Intermodal Facility to the SCSPA. The Division will retain ownership and operation of the supporting rail infrastructure. Remaining funding for the projects is expected to be approved through future appropriations.
- The Division entered into an agreement to manage construction of track for the new Mark Anthony Brewing manufacturing site in Richland County. The Division will own and maintain the track but will not be responsible for operations. Design on the project is underway.

**BASIC FINANCIAL STATEMENTS**

**PALMETTO RAILWAYS**
**STATEMENT OF NET POSITION - ENTERPRISE FUNDS**
**DECEMBER 31, 2020**

| | ECONOMIC DEVELOPMENT PROJECT FUND | CHS-NCS | CCS | SALKS | INTERDIVISION ELIMINATIONS | TOTAL |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current Assets:** | | | | | | |
| Cash and cash equivalents | $ - | 4,439,928 | 11,106,992 | 39,713 | - | $ 15,586,633 |
| Restricted cash - security deposits | - | 12,167 | - | - | - | 12,167 |
| Accounts receivable | - | 3,776,737 | 449,506 | - | - | 4,226,243 |
| Accounts receivable from other divisions | - | 543,175 | - | - | (543,175) | - |
| Interest receivable | - | 67 | 7,637 | - | - | 7,704 |
| Contract receivable - current portion | - | 175,275 | - | - | - | 175,275 |
| Inventories | - | 465,463 | 36,391 | - | - | 501,854 |
| Prepayments | - | 418,612 | - | - | - | 418,612 |
| Total Current Assets | - | 9,831,424 | 11,600,526 | 39,713 | (543,175) | 20,928,488 |
| **Non-current Assets:** | | | | | | |
| Contract receivable - non-current portion | - | 671,886 | - | - | - | 671,886 |
| Land and non-depreciable assets | 120,000,000 | 161,890,460 | 10,158,405 | 6,995,699 | - | 299,044,564 |
| Other depreciable assets, net of accumulated depreciation | - | 20,420,556 | 1,537,741 | 301,661 | - | 22,259,958 |
| Total Non-current Assets | 120,000,000 | 182,982,902 | 11,696,146 | 7,297,360 | - | 321,976,408 |
| **TOTAL ASSETS** | **120,000,000** | **192,814,326** | **23,296,672** | **7,337,073** | **(543,175)** | **342,904,896** |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred OPEB charges | - | 1,459,156 | 972,770 | - | - | 2,431,926 |
| Deferred pension charges | - | 1,109,618 | 739,745 | - | - | 1,849,363 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | **-** | **2,568,774** | **1,712,515** | **-** | **-** | **4,281,289** |
| **LIABILITIES** | | | | | | |
| **Current Liabilities:** | | | | | | |
| Accounts payable to other divisions | - | - | 311,154 | 232,021 | (543,175) | - |
| Accounts payable - other | - | 2,002,643 | - | - | - | 2,002,643 |
| Security deposits | - | 12,167 | - | - | - | 12,167 |
| Deposit in escrow | - | 300,000 | - | - | - | 300,000 |
| Interest payable | - | - | - | 157,704 | - | 157,704 |
| Accrued payroll, taxes, and employee benefits | - | 1,008,633 | - | - | - | 1,008,633 |
| Accrued annual leave and benefits, current portion | - | 167,000 | 111,333 | - | - | 278,333 |
| TIF bonds payable - short-term | - | 205,000 | - | - | - | 205,000 |
| Unearned revenue | - | 33,334 | - | - | - | 33,334 |
| Total Current Liabilities | - | 3,728,777 | 422,487 | 389,725 | (543,175) | 3,997,814 |
| **Non-current Liabilities:** | | | | | | |
| Accrued annual leave and benefits, non-current portion | - | 49,104 | 32,736 | - | - | 81,840 |
| TIF bonds payable | - | 4,785,000 | - | - | - | 4,785,000 |
| Notes payable | - | 51,000,000 | - | - | - | 51,000,000 |
| Loan payable | - | - | - | 6,500,000 | - | 6,500,000 |
| Net OPEB liability | - | 6,443,933 | 4,295,956 | - | - | 10,739,889 |
| Net pension liability | - | 7,292,342 | 4,861,561 | - | - | 12,153,903 |
| Total Non-current Liabilities | - | 69,570,379 | 9,190,253 | 6,500,000 | - | 85,260,632 |
| **TOTAL LIABILITIES** | **-** | **73,299,156** | **9,612,740** | **6,889,725** | **(543,175)** | **89,258,446** |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Deferred OPEB credits | - | 740,026 | 493,351 | - | - | 1,233,377 |
| Deferred pension credits | - | 360,619 | 240,412 | - | - | 601,031 |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | **-** | **1,100,645** | **733,763** | **-** | **-** | **1,834,408** |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 120,000,000 | 126,321,016 | 11,696,146 | 797,360 | - | 258,814,522 |
| Unrestricted | - | (5,337,717) | 2,966,538 | (350,012) | - | (2,721,191) |
| **TOTAL NET POSITION** | **$ 120,000,000** | **120,983,299** | **14,662,684** | **447,348** | **-** | **$ 256,093,331** |

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, 2020**

| | ECONOMIC DEVELOPMENT PROJECT FUND | CHS-NCS | CCS | SALKS | TOTAL |
|---|---|---|---|---|---|
| Operating Revenues: | | | | | |
| Switching fees | $ - | 8,190,327 | 312,235 | 128,580 | $ 8,631,142 |
| Freight charge | - | 583,720 | 7,607,912 | - | 8,191,632 |
| Rental revenue | - | 348,572 | 5,500 | 21,254 | 375,326 |
| Contractual services | - | 138,276 | 87,049 | 4,000 | 229,325 |
| Storage revenue | - | 2,248,189 | - | 353,318 | 2,601,507 |
| Dispatching service | - | - | 60,181 | - | 60,181 |
| Car repair | - | 1,784,211 | - | - | 1,784,211 |
| Other revenue | - | 21,536 | - | - | 21,536 |
| Total Operating Revenues | - | 13,314,831 | 8,072,877 | 507,152 | 21,894,860 |
| Operating Expenses: | | | | | |
| Maintenance of Way: | | | | | |
| Depreciation | - | 232,536 | 43,063 | 19,163 | 294,762 |
| Other maintenance of way expenses | - | 1,315,478 | 486,877 | 184,820 | 1,987,175 |
| Total Maintenance of Way | - | 1,548,014 | 529,940 | 203,983 | 2,281,937 |
| Maintenance of Equipment: | | | | | |
| Depreciation | - | 322,425 | 179,459 | - | 501,884 |
| Other equipment expenses | - | 813,569 | 445,146 | 15,508 | 1,274,223 |
| Total Maintenance of Equipment | - | 1,135,994 | 624,605 | 15,508 | 1,776,107 |
| Car Repair: | | | | | |
| Other car repair expenses | - | 1,890,457 | - | 922 | 1,891,379 |
| Total Car Repair | - | 1,890,457 | - | 922 | 1,891,379 |
| Transportation: | | | | | |
| Other transportation expenses | - | 4,453,644 | 1,520,464 | 80,661 | 6,054,769 |
| Total Transportation | - | 4,453,644 | 1,520,464 | 80,661 | 6,054,769 |
| General: | | | | | |
| Administration | - | 1,869,909 | 1,242,324 | 99,741 | 3,211,974 |
| Insurance | - | 213,475 | 190,471 | 38,625 | 442,571 |
| Total General | - | 2,083,384 | 1,432,795 | 138,366 | 3,654,545 |
| Total Operating Expenses | - | 11,111,493 | 4,107,804 | 439,440 | 15,658,737 |
| Operating Income | - | 2,203,338 | 3,965,073 | 67,712 | 6,236,123 |
| Non-operating Revenues (Expenses): | | | | | |
| Other rental income, net | - | 1,193,272 | - | - | 1,193,272 |
| Interest income and gain (loss) on investments | - | 34,375 | 76,610 | 167 | 111,152 |
| Interest expense | - | - | - | (157,704) | (157,704) |
| Gain (loss) on sale or disposal of fixed assets | - | 84,529 | - | - | 84,529 |
| Grant revenue | - | 20,754,672 | - | 211,488 | 20,966,160 |
| Other income, net | - | 68,978 | 157,358 | 92,400 | 318,736 |
| Industrial development costs | - | (814,803) | - | - | (814,803) |
| Total Non-operating Revenues (Expenses) | - | 21,321,023 | 233,968 | 146,351 | 21,701,342 |
| Income Before Capital Contributions | - | 23,524,361 | 4,199,041 | 214,063 | 27,937,465 |
| Transfers Between Divisions | - | 3,832,500 | (3,832,500) | - | - |
| Change in Net Position | - | 27,356,861 | 366,541 | 214,063 | 27,937,465 |
| Net Position, Beginning of Year | 120,000,000 | 93,626,438 | 14,296,143 | 233,285 | 228,155,866 |
| Net Position, End of Year | $ 120,000,000 | 120,983,299 | 14,662,684 | 447,348 | $ 256,093,331 |

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 - ENTERPRISE FUNDS**
**DECEMBER 31, 2020**

| | ECONOMIC DEVELOPMENT PROJECT FUND | CHS-NCS | CCS | SALKS | TOTAL |
|---|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | | |
| Cash received from customers | $ - | 13,269,904 | 8,116,067 | 485,898 | $ 21,871,869 |
| Cash payments to suppliers and employees | - | (10,961,002) | (3,786,055) | (515,657) | (15,262,714) |
| Rents received | - | 2,317,501 | 5,500 | 21,254 | 2,344,255 |
| Security deposits | - | (9,000) | - | - | (9,000) |
| Other income received | - | 68,978 | 157,358 | 92,400 | 318,736 |
| Net Cash Provided By (Used In) Operating Activities | - | 4,686,381 | 4,492,870 | 83,895 | 9,263,146 |
| Cash Flows from Non-Capital Financing Activities: | | | | | |
| Cash received from/paid to other divisions | - | 3,832,500 | (3,832,500) | - | - |
| Net Cash Provided By (Used In) Non-Capital Financing Activities | - | 3,832,500 | (3,832,500) | - | - |
| Cash Flows from Capital and Related Financing Activities: | | | | | |
| Cash received from sale of fixed assets | - | 258,676 | - | - | 258,676 |
| Cash received from capital grants | - | 22,047,060 | - | 211,488 | 22,258,548 |
| Payments related to contract receivable | - | (847,161) | - | - | (847,161) |
| Interest paid on loan | - | - | - | (99,699) | (99,699) |
| Payments for TIF Bonds payable | - | (195,000) | - | - | (195,000) |
| Acquisition and construction of capital assets | - | (30,444,483) | (59,382) | (178,741) | (30,682,606) |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | - | (9,180,908) | (59,382) | (66,952) | (9,307,242) |
| Cash Flows from Investing Activities: | | | | | |
| Investment income | - | 34,374 | 76,456 | 167 | 110,997 |
| Net Cash Provided By (Used In) Investing Activities | - | 34,374 | 76,456 | 167 | 110,997 |
| Net Increase (Decrease) in Cash and Cash Equivalents | - | (627,653) | 677,444 | 17,110 | 66,901 |
| Cash and Cash Equivalents, Beginning of Year | - | 5,079,748 | 10,429,548 | 22,603 | 15,531,899 |
| Cash and Cash Equivalents, End of Year | $ - | 4,452,095 | 11,106,992 | 39,713 | $ 15,598,800 |
| Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities: | | | | | |
| Operating Income (Loss) | $ - | 2,203,338 | 3,965,073 | 67,712 | $ 6,236,123 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation | - | 995,390 | 161,050 | 19,162 | 1,175,602 |
| Non-Cash OPEB expense (contra-expense) | - | 230,069 | 153,380 | - | 383,449 |
| Non-Cash pension expense (contra-expense) | - | 409,578 | 273,052 | - | 682,630 |
| Non-operating revenues (expenses) | - | 447,447 | 157,358 | 92,400 | 697,205 |
| (Increase) decrease in assets: | | | | | |
| Accounts receivable | - | (67,833) | 48,690 | - | (19,143) |
| Accounts receivable from other division | - | 371,478 | - | - | 371,478 |
| Inventories | - | 202,572 | 1,449 | - | 204,021 |
| Prepayments | - | 97,743 | - | - | 97,743 |
| Increase (decrease) in liabilities: | | | | | |
| Accounts payable to other division | - | - | (290,362) | (95,379) | (385,741) |
| Accounts payable - other | - | (285,629) | - | - | (285,629) |
| Security deposits | - | (9,000) | - | - | (9,000) |
| Accrued payroll, taxes, and employee benefits | - | 56,458 | - | - | 56,458 |
| Accrued annual leave | - | 34,770 | 23,180 | - | 57,950 |
| Net Cash Provided By (Used In) Operating Activities | $ - | 4,686,381 | 4,492,870 | 83,895 | $ 9,263,146 |
| Schedule of Non-cash Investing, Capital and Financing Activities: | | | | | |
| Change in capital acquisitions included in accounts payable and deposits | $ - | 10,044 | - | 14,263 | $ - |
| Change in proceeds from grants included in accounts receivable | $ - | 1,292,388 | - | - | $ 1,292,388 |

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 Salkehatchie Subdivision (SALKS) 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 State of South Carolina 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 Salkehatchie Subdivision (SALKS). The railroad had lost its only customer when the 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 Salkehatchie 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 exceeding $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 SALKS. 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 SALKS monthly. Overhead expense includes superintendence, depreciation, and general administrative expenses.

### 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, deferred outflows of resources, 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 rational 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 assets and deferred outflows of resources less 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.

## 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, 2020, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's cash management pool, all 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 – CONTRACT RECEIVABLE

On February 20, 2018, the Division entered into a development and rail service agreement requiring the Division to provide materials, equipment, and labor to construct rail tracks and switches (collectively "Improvements") as an incentive for warehouse construction. The Division will retain ownership of the Improvements until a certain number of railcars have been serviced through the Improvements. The Improvements were completed and placed in service in the last quarter of 2020 at a total cost of $876,373. The cost is being amortized over five years or the period for which the railcar volume service is expected to be reached. Accumulated amortization as of December 31, 2020 was $29,212. Expected annual amortization for 2021-2024 is $175,275 with final amortization in 2025 of $146,061.

## NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at original cost except for certain assets received from the South Carolina State Ports Authority (SCSPA), which are recorded at net book value at the time of receipt. Depreciation is computed on the straight-line method.

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. See Notes 15 and 16 for more information.

## NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

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

**Economic Development Project Fund**

| | Balance 12/31/2019 | Transfers In (Out) | Additions | Deletions | Balance 12/31/2020 |
|---|---|---|---|---|---|
| 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 |

**CHS-NCS**

| | Balance 12/31/2019 | Transfers In (Out) | Additions | Deletions | Balance 12/31/2020 |
|---|---|---|---|---|---|
| Non-depreciable capital assets: | | | | | |
| Land | $ 19,002,106 | - | - | 69,549 | $ 18,932,557 |
| Land improvements | 3,507,686 | - | - | - | 3,507,686 |
| Non-depreciable road | 10,445,383 | 14,923,251 | - | - | 25,368,634 |
| Projects under construction | 104,488,219 | (20,272,028) | 29,969,990 | 104,598 | 114,081,583 |
| Total non-depreciable capital assets | 137,443,394 | (5,348,777) | 29,969,990 | 174,147 | 161,890,460 |
| Depreciable capital assets: | | | | | |
| Land improvements | 110,578 | 3,613,861 | - | - | 3,724,439 |
| Buildings | 15,758,479 | 78,848 | - | - | 15,837,327 |
| Machinery and equipment | 6,520,554 | - | 506,102 | 69,210 | 6,957,446 |
| Depreciable road | 538,400 | 1,634,503 | - | - | 2,172,903 |
| Leasehold improvements | 516,559 | - | - | - | 516,559 |
| Total depreciable capital assets | 23,444,570 | 5,327,212 | 506,102 | 69,210 | 29,208,674 |
| Accumulated depreciation: | | | | | |
| Land improvements | 98,758 | - | 39,523 | - | 138,281 |
| Buildings | 2,460,596 | - | 441,857 | - | 2,902,453 |
| Machinery and equipment | 4,942,892 | - | 427,685 | 69,210 | 5,301,367 |
| Depreciable road | 135,850 | - | 34,669 | - | 170,519 |
| Leasehold improvements | 223,842 | - | 51,656 | - | 275,498 |
| Total accumulated depreciation | 7,861,938 | - | 995,390 | 69,210 | 8,788,118 |
| Net depreciable capital assets | 15,582,632 | 5,327,212 | (489,288) | - | 20,420,556 |
| Net capital assets | $153,026,026 | (21,565) | 29,480,702 | 174,147 | $182,311,016 |

## NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

**CCS**

| | Balance 12/31/2019 | Transfers In (Out) | Additions | Deletions | Balance 12/31/2020 |
|---|---|---|---|---|---|
| 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 | 1,127,562 | 21,565 | - | - | 1,149,127 |
| Machinery and equipment | 1,949,581 | - | 37,817 | - | 1,987,398 |
| Depreciable road | 945,851 | - | - | - | 945,851 |
| Total depreciable capital assets | 4,022,994 | 21,565 | 37,817 | - | 4,082,376 |
| Accumulated depreciation: | | | | | |
| Buildings | 952,171 | - | 11,624 | - | 963,795 |
| Machinery and equipment | 939,385 | - | 136,013 | - | 1,075,398 |
| Depreciable road | 492,029 | - | 13,413 | - | 505,442 |
| Total accumulated depreciation | 2,383,585 | - | 161,050 | - | 2,544,635 |
| Net depreciable capital assets | 1,639,409 | 21,565 | (123,233) | - | 1,537,741 |
| Net capital assets | $ 11,797,814 | 21,565 | (123,233) | - | $ 11,696,146 |

**SALKS**

| | Balance 12/31/2019 | Transfers In (Out) | Additions | Deletions | Balance 12/31/2020 |
|---|---|---|---|---|---|
| Non-depreciable capital assets: | | | | | |
| Land | $ 573,869 | - | 8,800 | - | $ 582,669 |
| Non-depreciable road | 6,413,030 | - | - | - | 6,413,030 |
| Total non-depreciable capital assets | 6,986,899 | - | 8,800 | - | 6,995,699 |
| Depreciable capital assets: | | | | | |
| Buildings | 165,043 | - | - | - | 165,043 |
| Depreciable road | - | - | 184,204 | - | 184,204 |
| Total depreciable capital assets | 165,043 | - | 184,204 | - | 349,247 |
| Accumulated depreciation: | | | | | |
| Buildings | 28,424 | - | 11,002 | - | 39,426 |
| Depreciable road | - | - | 8,160 | - | 8,160 |
| Total accumulated depreciation | 28,424 | - | 19,162 | - | 47,586 |
| Net depreciable capital assets | 136,619 | - | 165,042 | - | 301,661 |
| Net capital assets | $ 7,123,518 | - | 173,842 | - | $ 7,297,360 |

## NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

**COMBINED**

| | Balance 12/31/2019 | Transfers In (Out) | Additions | Deletions | Balance 12/31/2020 |
|---|---|---|---|---|---|
| Non-depreciable capital assets: | | | | | |
| Land | $ 69,296,105 | - | 8,800 | 69,549 | $ 69,235,356 |
| Land improvements | 80,442,524 | - | - | - | 80,442,524 |
| Non-depreciable road | 20,361,850 | 14,923,251 | - | - | 35,285,101 |
| Projects under construction | 104,488,219 | (20,272,028) | 29,969,990 | 104,598 | 114,081,583 |
| Total non-depreciable capital assets | 274,588,698 | (5,348,777) | 29,978,790 | 174,147 | 299,044,564 |
| Depreciable capital assets: | | | | | |
| Land improvements | 110,578 | 3,613,861 | - | - | 3,724,439 |
| Buildings | 17,051,084 | 100,413 | - | - | 17,151,497 |
| Machinery and equipment | 8,470,135 | - | 543,919 | 69,210 | 8,944,844 |
| Depreciable road | 1,484,251 | 1,634,503 | 184,204 | - | 3,302,958 |
| Leasehold improvements | 516,559 | - | - | - | 516,559 |
| Total depreciable capital assets | 27,632,607 | 5,348,777 | 728,123 | 69,210 | 33,640,297 |
| Accumulated depreciation: | | | | | |
| Land improvements | 98,758 | - | 39,523 | - | 138,281 |
| Buildings | 3,441,191 | - | 464,483 | - | 3,905,674 |
| Machinery and equipment | 5,882,277 | - | 563,698 | 69,210 | 6,376,765 |
| Depreciable road | 627,879 | - | 56,242 | - | 684,121 |
| Leasehold improvements | 223,842 | - | 51,656 | - | 275,498 |
| Total accumulated depreciation | 10,273,947 | - | 1,175,602 | 69,210 | 11,380,339 |
| Net depreciable capital assets | 17,358,660 | 5,348,777 | (447,479) | - | 22,259,958 |
| Net capital assets | $291,947,358 | - | 29,531,311 | 174,147 | $321,304,522 |

Depreciation expense for the period by subdivision and in total was as follows: CHS-NCS $995,390, CCS $161,050, and SALKS $19,162, Total - $1,175,602. Depreciation on assets used across multiple divisions is allocated as discussed in Note 2. Included in other rental income-net and other transportation expenses is $327,303 of depreciation on buildings that are held for rent and $51,656 in amortization of leased track, respectively. The cost of the leased buildings is $12,418,021 and net book value is $11,012,359. See Note 10 for more information.

As of December 31, 2020, the Division had remaining commitments of $4,836,263 relating to construction and mitigation at the Navy Base Intermodal Facility and $6,473,367 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 6 – ACCRUED ANNUAL LEAVE

Non-union employees are entitled to accrue and carry forward at calendar year end a maximum of 195 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 28 days annual vacation leave per year, but do not earn any sick leave. Union employees do not carry forward any unused vacation leave; however, unusual vacation leave is paid out at year-end. Upon termination of employment, union employees are entitled to be paid for accumulated unused annual vacation leave up to 28 days. Union employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

**NOTE 6 – ACCRUED ANNUAL LEAVE (CONTINUED)**

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 7 – 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, 2019 was $200,000 and at March 4, 2020 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; however, the lessee notified the Division on October 29, 2020 of their intent to exercise their right to purchase the land and improvements on October 30, 2021. During 2020, $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 the lessee. This amounted to $583,720 in 2020 and is included in freight charges for CHS-NCS.

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. The property has several commercial leases ranging from month to month leases to nine-year leases. See Note 10 for total revenue and expenses related to the property.

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 |
|---|---|
| 2021 | $ 760,567 |
| 2022 | 252,928 |
| 2023 | 145,563 |
| 2024 | 136,053 |
| 2025 | 136,366 |
| 2026-2027 | 262,304 |
| Total | $ 1,693,781 |

## NOTE 7 – UNEARNED REVENUE/OPERATING LEASES/OPERATING RENTAL REVENUE (CONTINUED)

In June 2018, the Division acquired a federal building through a property transfer with the City of North Charleston as discussed in Note 15. The lease was originally executed in January 2002 by the Charleston Redevelopment Authority ("RDA") for a period of 50 years and was assumed by the Division through the property transfer discussed previously. The rent due under the lease is $1.00 annually; however, the Division receives a portion of South Carolina income tax withholdings from federal employees working in the building under SC Code of Laws Section 12-10-88 passed through the RDA. The funding authorization for the RDA expires in December 2027 but may be extended. As a result of the variability of payments, the future minimum rentals for this lease are not included in the future minimum rentals above. Revenues in the years ended December 31, 2018, 2019, and 2020 were $598,197, $972,230, and $971,735, respectively, and are included in other rental income, net.

## NOTE 8 – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligation activity for the year ended December 31, 2020:

| | January 1, 2020 | Increases | Decreases | December 31, 2020 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences: | | | | | |
| CHS-NCS | $ 181,334 | 174,900 | 140,130 | 216,104 | $ 167,000 |
| CCS | 120,889 | 116,600 | 93,420 | 144,069 | 111,333 |
| | 302,223 | 291,500 | 233,550 | 360,173 | 278,333 |
| Note Payable | 51,000,000 | - | - | 51,000,000 | - |
| TIF Bonds Payable | 5,185,000 | - | 195,000 | 4,990,000 | 205,000 |
| Salkehatchie Loan | 6,500,000 | - | - | 6,500,000 | - |
| Total long-term obligations | $ 62,987,223 | 291,500 | 428,550 | 62,850,173 | $ 483,333 |

The note payable represents an interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development ("Coordinating Council") in an amount not to exceed $55 million. The loan was amended for the sixth time in August 2021 to establish semi-annual payments for 25 years from the beginning of the first year of operation of the Navy Base Intermodal Facility. Payments will be generated from $2.50 to be included in the transaction fee paid by SCSPA to the Division for services rendered. Repayment shall be reduced by any amount of funds approved by the General Assembly to Commerce and/or the Coordinating Council for the direct or indirect purpose of restoring Coordinating Council funds expended in support of the Navy Base Intermodal Facility or any other funds made available for the same purpose. The loan proceeds were used to fund costs related to the Navy Base Intermodal Facility until the project is fully funded.

See Notes 15 and 16 for a detailed description of the TIF bonds payable and the Salkehatchie loan payable.

## NOTE 9 – OTHER REVENUE

The category under "Operating Revenues" entitled "Other Revenue," is used to report miscellaneous income. For the year ended December 31, 2020 it consists of offset charges of $12,500 related to encroachment and $9,036 from the sale of scrap metal from operations for CHS-NCS.

## NOTE 10 – OTHER RENTAL INCOME, NET, NON-OPERATING REVENUES

The Division leases several buildings and parking spaces. The revenue and expenses for 2020 were as follows:

| | |
|---|---|
| Rental revenue | $ 1,968,929 |
| Less: expenses | |
| Depreciation | 327,303 |
| Landscaping and janitorial | 211,638 |
| Utilities | 25,120 |
| Maintenance | 57,558 |
| Property tax and disposal fees | 40,245 |
| Insurance | 32,814 |
| Other Services | 80,979 |
| Total expenses | 775,657 |
| Net Income | $ 1,193,272 |

## NOTE 11 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS

### South Carolina Retirement Systems ("Systems")

The Division participates in the State of South Carolina's retirement plans. The South Carolina Public Employee Benefit Authority ("PEBA"), created July 1, 2012, is the state agency responsible for the administration and management of the various retirement systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit plans. PEBA has an 11-member Board of Directors ("PEBA Board"), appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with GAAP. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

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.

## NOTE 11 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

*Plan Descriptions*

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 teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly 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 South Carolina 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 service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

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. 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.

- State ORP - As an alternative to membership in the SCRS, newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. 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 service provider 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; be a coroner in a full-time permanent position; or be 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.

**NOTE 11 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)**

*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.

- 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 the 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.

**NOTE 11 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)**

*Plan Contributions (Continued)*

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; however, the General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. 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.

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 | | | |
| | 7/1/2017 | 7/1/2018 | 7/1/2019 | 7/1/2020 | 7/1/2017 | 7/1/2018 | 7/1/2019 | 7/1/2020 |
| Employer Contribution Rate:^ | | | | | | | | |
| Retirement* | 13.41% | 14.41% | 15.41% | 15.41% | 15.84% | 16.84% | 17.84% | 17.84% |
| 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% |
| | 13.56% | 14.56% | 15.56% | 15.56% | 16.24% | 17.24% | 18.24% | 18.24% |
| Employee Contribution Rate | 9.00% | 9.00% | 9.00% | 9.00% | 9.75% | 9.75% | 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 |
| 2020 | $ 751,746 | 100% | 95,147 | 100% | $ - | 100% |
| 2019 | 759,563 | 100% | 82,864 | 100% | - | 100% |
| 2018 | $ 661,493 | 100% | 89,740 | 100% | $ - | 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, 2020. 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, 2020 (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, 2020; however, the Division was unable to recognize the $1,000 appropriated for the PORS as the Division no longer participates in the PORS.

## NOTE 11 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

*Plan Contributions (Continued)*

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 |
|---|---|---|---|---|
| 2020 | $ 4,831,274 | 611,485 | - | $ 5,442,759 |
| 2019 | 5,023,667 | 551,374 | - | 5,575,041 |
| 2018 | $ 4,698,204 | 638,972 | - | $ 5,337,176 |

*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 that 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, 2019 for first use in the July 1, 2021 actuarial valuation.

The June 30, 2020 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, 2019 actuarial valuations as adopted by the PEBA Board and the SFAA. The total pension liability was rolled-forward from the valuation date to the Plan's fiscal year ended June 30, 2020 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, 2020.

| | 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, 2020 TPL are as follows.

## NOTE 11 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

*Actuarial Assumptions and Methods (Continued)*

| 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, 2020 measurement date, for the SCRS and PORS are presented below.

| 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 | $ 51,844,187,763 | 26,292,418,682 | $ 25,551,769,081 | 50.7% |
| PORS | $ 8,046,386,629 | 4,730,174,642 | $ 3,316,211,987 | 58.8% |

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 20-year capital market assumptions. The long-term expected rate of return 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 2020 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 11 – 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** | **51.0%** | | |
| Global Public Equity | 35.0% | 7.81% | 2.73% |
| Private Equity | 9.0% | 8.91% | 0.80% |
| Equity Options Strategies | 7.0% | 5.09% | 0.36% |
| **Real Assets** | **12.0%** | | |
| Real Estate (Private) | 8.0% | 5.55% | 0.44% |
| Real Estate (REITs) | 1.0% | 7.78% | 0.08% |
| Infrastructure (Private) | 2.0% | 4.88% | 0.10% |
| Infrastructure (Public) | 1.0% | 7.05% | 0.07% |
| **Opportunistic** | **8.0%** | | |
| GTAA/Risk Parity | 7.0% | 3.56% | 0.25% |
| Other Opportunistic Strategies | 1.0% | 4.41% | 0.04% |
| **Credit** | **15.0%** | | |
| High Yield Bonds/Bank Loans | 4.0% | 4.21% | 0.17% |
| Emerging Markets Debt | 4.0% | 3.44% | 0.14% |
| Private Debt | 7.0% | 5.79% | 0.40% |
| **Rate Sensitive** | **14.0%** | | |
| Core Fixed Income | 13.0% | 1.60% | 0.21% |
| Cash and Short Duration (Net) | 1.0% | 0.56% | 0.01% |
| Total Expected Real Return | 100.0% | | 5.80% |
| Inflation for Actuarial Purposes | | | 2.25% |
| Total Expected Nominal Return | | | 8.05% |

*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 11 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

*Sensitivity Analysis (Continued)*

| 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 | $ 15,055,131 | 12,147,334 | $ 9,719,288 |
| The Division's proportionate share of the net pension liability of the PORS | 8,696 | 6,569 | 4,861 |
| Total Pension Liability | $ 15,063,827 | 12,153,903 | $ 9,724,149 |

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

At December 31, 2020, the Division reported liabilities of approximately $12,147,000 and $7,000 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, 2020, 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, 2019 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, 2020 measurement date, the Division's SCRS proportion was 0.047540 percent, which was a decrease of 0.003117 percent from its proportion measured as of June 30, 2019. At the June 30, 2020 measurement date, the Division's PORS proportion was 0.000198 percent, which was a decrease of 0.000020 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the Division recognized pension expense of approximately $703,000 and contra-expense of approximately $21,000 for the SCRS and PORS, respectively. At December 31, 2020, 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 | $ 140,164 | $ 45,934 |
| Changes in Assumptions | 14,882 | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 893,538 | - |
| Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions | 390,718 | 521,311 |
| Division Contributions Subsequent to the Measurement Date | 409,168 | - |
| Total SCRS | 1,848,470 | 567,245 |
| **PORS** | | |
| Differences Between Expected and Actual Experience | 140 | 29 |
| Changes in Assumptions | 80 | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 673 | - |
| Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions | - | 33,757 |
| Total PORS | 893 | 33,786 |
| Total SCRS and PORS | $ 1,849,363 | $ 601,031 |

## NOTE 11 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

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

Approximately $409,000 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, 2021. 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 |
|---|---|---|---|
| 2021 | $ 220,060 | (21,558) | $ 198,502 |
| 2022 | 280,514 | (10,536) | 269,978 |
| 2023 | 143,470 | (949) | 142,521 |
| 2024 | 228,013 | 150 | 228,163 |
| Total | $ 872,057 | (32,893) | $ 839,164 |

*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 $143,000 to the PEBA as of December 31, 2020, representing required employer and employee contributions for the month of December 2020 for the SCRS. This amount is included in Accounts Payable - Other on the financial statements and was paid in January 2021.

**Railroad Retirement System**

The Division contributed $1,148,403 in the year ended December 31, 2020 to the U.S. Railroad Retirement System, which covers all employees. CHS-NCS contributed $834,372, CCS $293,270, and SALKS $20,761. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2020, wages up to $137,700 were funded at 6.2 percent by the Division and 6.2 percent by the employee to meet Tier I funding requirements and all wages were funded at 1.45 percent by the Division to meet Tier I Medicare funding requirements. The Division funded wages up to $102,300 at 13.1 percent to meet Tier II funding requirements. Employees paid 4.9 percent on wages up to $102,300.

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 12 – 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 11 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 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 OPEB 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.

*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 non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves.

## NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

*Plan Contributions and Funding Policies (Continued)*

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF 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. Non-employer contributions include the mandatory transfer of accumulated PEBA – Insurance Benefits' reserves and the annual appropriation budgeted by the General Assembly. It is also funded through investment income.

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

| | Effective Date | | | |
|---|---|---|---|---|
| | 7/1/2017 | 7/1/2018 | 7/1/2019 | 7/1/2020 |
| Employer Contribution Rate^ | 5.50% | 6.05% | 6.25% | 6.25% |

^ 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 |
| 2020 | $ 340,172 | 100% | $ 5,442,759 |
| 2019 | 342,830 | 100% | 5,575,042 |
| 2018 | $ 308,677 | 100% | $ 5,337,176 |

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 $79,344 for the year ended June 30, 2020 (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.

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.

## NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

*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, 2019 actuarial valuation. The total OPEB liability was rolled-forward from the valuation date to the OPEB plan's fiscal year ended June 30, 2020 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, 2019 |
| Actuarial Cost Method: | Individual Entry - Age Normal |
| Actuarial Assumptions: | |
| Inflation: | 2.25% |
| Investment Rate of Return: | 2.75%, net of OPEB plan investment expense, including inflation |
| Single Discount Rate: | 2.45% as of June 30, 2020 |
| 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 6.40% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years |
| Aging Factors: | Based on plan specific experience |
| Retiree Participation: | 79% for retirees who are eligible for funded premiums; 59% for retirees who are eligible for partial funded premiums; 20% for retirees who are eligible for non-funded premiums |
| Notes: | The discount rate changed from 3.13% as of June 30, 2019 to 2.45% as of June 30, 2020; updates were also made to the healthcare trend rate assumption, including an adjustment to reflect the repeal of the "Cadillac Tax". |

## NOTE 12 – 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 2.75 percent assumed annual investment rate of return includes a 0.50 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% | 0.60% | 0.48% |
| Cash equivalents | 20.0% | 0.35% | 0.07% |
| Total Expected Real Return | 100.0% | | 0.55% |
| Inflation for Actuarial Purposes | | | 2.25% |
| Total Expected Nominal Return | | | 2.80% |
| Investment Return Assumption | | | 2.75% |

*Single Discount Rate*

The Single Discount Rate of 2.45% 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, 2020 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 | $ 19,703,745,672 | 1,652,299,185 | $ 18,051,446,487 | 8.4% |

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 12 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

At December 31, 2020, the Division reported a liability of $10,739,889 for its proportionate share of the net OPEB liability for the SCRHITF. The net OPEB liability was measured as of June 30, 2020, 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, 2019 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, 2020 measurement date, the Division's proportion was 0.05950 percent, which was a decrease of 0.00403 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the Division recognized OPEB expense of $383,449 for the SCRHITF. At December 31, 2020, 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 | $ 307,171 | $ 244,586 |
| Change in Assumptions | 1,598,229 | 427,717 |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | - | 25,050 |
| Changes in Proportion and Differences Between the Employer's Contributions and Proportionate Share of Contributions | 355,984 | 536,024 |
| Employer Contributions Subsequent to the Measurement Date | 170,542 | - |
| Total | $ 2,431,926 | $ 1,233,377 |

The Division reported $170,542 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, 2021. 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 |
|---|---|
| 2021 | $ 135,594 |
| 2022 | 132,132 |
| 2023 | 126,647 |
| 2024 | 221,836 |
| 2025 | 249,832 |
| Thereafter | 161,966 |
| Total | $ 1,028,007 |

## NOTE 12 – 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 2.45%, as well as what it would be if it were calculated using a discount rate that is 1% point lower (1.45%) or 1% point higher (3.45%) than the current rate:

| | 1% Decrease (1.45%) | Current Discount Rate (2.45%) | 1% Increase (3.45%) |
|---|---|---|---|
| Net OPEB Liability | $ 12,814,843 | 10,739,889 | $ 9,081,845 |

*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 6.40% decreasing to 4.00%, as well as what it would be if it were calculated using a healthcare cost trend rate that is 1% point lower (5.40% decreasing to 3.00%) or 1% point higher (7.40% decreasing to 5.00%) than the current rate:

| | 1% Decrease (5.40% decreasing to 3.00%) | Current Healthcare Cost Trend Rate (6.40% decreasing to 4.00%) | 1% Increase (7.40% decreasing to 5.00%) |
|---|---|---|---|
| Net OPEB Liability | $ 8,692,909 | 10,739,889 | $ 13,428,162 |

*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 13 - TRANSACTIONS WITH STATE ENTITIES

During 2015, 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. See Note 22 for more information on funding for the project. See Note 8 regarding long-term obligations.

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 stopped paying CHS-NCS for the loss of revenue in April 2019.

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, 2020 as listed below:

## NOTE 13 - TRANSACTIONS WITH STATE ENTITIES (CONTINUED)

| State Entity | Payments | Description |
|---|---|---|
| SC Deferred Compensation | $ 69,369 | Employee Payroll Deductions |
| SC Department of Administration | 326 | Telephone |
| SC Department of Health and Environmental Control | 150 | Stormwater Fee Permits |
| SC Department of Revenue | 306,307 | Employee Payroll Deductions and Sales Tax |
| SC Department of Social Services | 27,497 | Employee Payroll Deductions |
| SC Public Employee Benefit Authority | 523,700 | Health Insurance |
| SC Retirement Systems | 1,542,707 | Employee and Employer Match |
| SC State Fiscal Accountability Authority | 138,902 | Property, Casualty and Tort Insurance |
| SC State Ports Authority | 9,365 | Electric and Rent |
| | $ 2,618,323 | |

## NOTE 14 - 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 of $300 was paid through March 2019 and has been waived in subsequent months. The Division did not incur any expense related to the rental of this building in 2020. 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 $2,921 and the Division incurred $35,046 of rent expense in 2020. This amount is included in non-operating expenses.

## NOTE 15 – SETTLEMENT AGREEMENT AND RELEASE

The City of North Charleston ("North Charleston") and the North Charleston Sewer District ("Sewer District") agreed to sign a 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 in December 2012 with an effective date of March 2013. The Agreement was necessary to obtain land for the Division to plan and construct a Navy Base Intermodal Facility on the former Navy Base. The terms of the agreement included the following:

1. The Division paid North Charleston $8,000,000 to mitigate rail access impacts with the last of the 4 installments paid in March 2016.
2. The Division assumed approximately $6,500,000 in TIF Bonds for the Navy Base Redevelopment Project. See Note 16 for more information.
3. The Division transferred to North Charleston certain buildings and land on the former Navy Yard as soon as practicable after the effective date.
4. North Charleston transferred 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 transferred to North Charleston additional buildings and land on the former Navy Yard.
6. Before December 31, 2017, North Charleston transferred to the Division additional buildings and land on the former Navy Base.

All terms of the agreement outlined above have been met as of December 31, 2018 excluding the assumption of $6,500,000 in TIF bonds. A portion of the TIF Bonds assumed by the Division are still outstanding as of December 31, 2020 as discussed in Note 16.

## NOTE 16 – NONCURRENT LIABILITIES

As part of the Settlement Agreement and Release, see Note 15, 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 (1.7% at September 1, 2020), as determined by the remarketing agent, payable each month. The balance outstanding at December 31, 2020 was $4,990,000.

Future principal payments of the TIF bonds are as follows:

| Year Ending December 31, | Principal Payments |
|---|---|
| 2021 | $ 205,000 |
| 2022 | 215,000 |
| 2023 | 225,000 |
| 2024 | 235,000 |
| 2025 | 245,000 |
| 2025-2029 | 1,380,000 |
| 2030-2034 | 1,700,000 |
| 2035-2037 | 785,000 |
| Total | $ 4,990,000 |

On May 5, 2017, the Division purchased the assets of the Hampton and Branchville Railroad Company, currently known as the Salkehatchie Subdivision ("SALKS") 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 SALKS. Payments are limited to 10% of annual revenues of SALKS and 25% of net income generated by SALKS.

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 SALKS 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 SALKS 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.

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 SALKS. 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 SALKS assets.

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

Interest expense for the loan in 2020 was $157,704. Interest payable at December 31, 2020 was $157,704.

## NOTE 17 - 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.

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. Subsequent to December 31, 2020, the Division incurred $100,000 in expenses related to a claim under this 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.

**NOTE 17 - RISK MANAGEMENT (CONTINUED)**

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.

**NOTE 18 – 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 and the Camp Hall Rail Project to be constructed in Berkeley County, South Carolina. The Division has begun condemnation actions on several properties that have been filed and paid in the amount of approximately $3,037,000. 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, the Division 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 and funding secured, 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. The $200,000 payment was made during the year ended December 31, 2019 and the first annual $100,000 payment was made during the year ended December 31, 2020. These amounts are included in Land and non-depreciable assets in the Statement of Net Position. The remaining payments are contingent upon project funding and completion; thus, they are not recorded as a liability until due.

On October 9, 2017, the Division signed a Memorandum of Agreement (MOA) with the U.S. Army Corps of Engineers – Charleston District, Federal Railroad Administration, Advisory Council on Historic Preservation, Muscogee (Creek) Nation, and the South Carolina State Historical Preservation Office to reduce, avoid or offset potential impacts associated with the Navy Base Intermodal Facility being built close to historic properties on the Charleston Naval Base. This MOA requires the Division to establish and fund the Charleston Naval Base Historical Trust in the amount of $2,000,000. The MOA requires an initial $500,000 payment to be made within 30 days of the commencement of work requiring Corps authorization with five subsequent annual payments of $300,000 due on the anniversary date of the initial payment. During the year ended December, 31, 2020, the Division created and subsequently signed an agreement with the Charleston Naval Base Historical Trust for the purpose of rehabilitating the historic structures of the Charleston Naval Hospital and the United States Marine Corps Barracks at the Charleston Naval Base. The initial $500,000 payment was made on January 11, 2021. This amount is included in Land and non-depreciable assets in the Statement of Net Position. The remaining payments are contingent upon project funding and completion; thus, they are not recorded as a liability until due.

## NOTE 19 – INTERFUND BALANCES

Interfund balances at December 31, 2020 (which are expected to be received or paid within one year, except for $232,021 due from the SALKS to CHS-NCS related to the 2017 SALKS purchase), consisted of the following individual fund receivables and payables:

| Fund | Receivables | Payables |
|---|---|---|
| CHS-NCS | $ 543,175 | $ - |
| CCS | - | 311,154 |
| SALKS | - | 232,021 |
| Totals | $ 543,175 | $ 543,175 |

Other than the $232,021 noted above, receivables and payables are primarily the result of expenses for CCS and SALKS being paid using the CHS-NCS cash account. These interfund receivables and payables were relieved subsequent to December 31, 2020.

## NOTE 20 – INTERFUND TRANSFERS

Transfers from (to) other funds for the year ended December 31, 2020 consisted of the following:

| Fund | Transfer In | Transfers Out |
|---|---|---|
| CHS-NCS | $ 3,832,500 | $ - |
| CCS | - | 3,832,500 |
| Totals | $ 3,832,500 | $ 3,832,500 |

These transfers were made in order to help fund construction projects.

## NOTE 21 – ENTERPRISE FUND INFORMATION

| | |
|---|---|
| Charges for services | $ 23,088,132 |
| Capital grants | 20,966,160 |
| Less: expenses | (16,631,244) |
| Net program revenue | 27,423,048 |
| Interest income and gain (loss) on sale of investments | 111,152 |
| Miscellaneous revenue | 318,736 |
| Gain (loss) on sale or disposal of fixed assets | 84,529 |
| Net general revenue | 514,417 |
| Change in net position | 27,937,465 |
| Net position, beginning of year | 228,155,866 |
| Net position, end of year | $ 256,093,331 |

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 22 – SUBSEQUENT EVENTS

In June 2021, the SC State Legislature approved the 2021-2022 State Appropriations Act, which included $200,000,000 in non-recurring revenue to the SCSPA for the Navy Base Intermodal Facility and waterborne cargo infrastructure. As a result, the Division signed an interagency agreement with the SCSPA requiring the Division to transfer ownership of certain property and operations of the container handling portion of the Navy Base Intermodal Facility to the SCSPA. The Division will retain ownership and operation of the supporting rail infrastructure. Remaining funding for the projects is expected to be approved through future appropriations.

In June 2021, the US Department of Transportation announced a proposed $25,000,000 INFRA grant award to the Division related to the Camp Hall rail project. The proposed award will become final on August 25, 2021 after a 60-day Congressional Review Process and the US Department of Transportation will then begin negotiations with the Division.

Subsequent to December 31, 2020, the Division entered into two contracts totaling $3,556,119 related to the design and construction of a new rail spur in Richland County at the Pineview Industrial Complex. This project will be funded through an incentive agreement with Richland County that includes up to $4,500,000 in funding provided through state grants for rail construction.

In July 2021, the Division sold several parcels of land on the old navy base for $20,232,460 including the infirmary, barracks and several warehouses.

In August 2021, the note payable to the Coordinating Council was amended for a sixth time. See Note 8 for additional information.

**PALMETTO RAILWAYS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES**

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

**LAST SEVEN FISCAL YEARS**

| | Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** | **2014** |
| Palmetto Railways' Proportion of the Net Pension Liability | 0.04754% | 0.05066% | 0.04744% | 0.04668% | 0.04501% | 0.03567% | 0.03140% |
| Palmetto Railways' Proportionate Share of the Net Pension Liability | $ 12,147,334 | 11,567,154 | 10,629,311 | 10,508,644 | 9,613,642 | 6,765,556 | $ 5,406,556 |
| Palmetto Railways' Covered Payroll | $ 5,484,211 | 5,556,201 | 5,181,225 | 5,026,978 | 4,600,952 | 3,482,403 | $ 2,942,411 |
| Palmetto Railways' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 221.5% | 208.2% | 205.2% | 209.0% | 208.9% | 194.3% | 183.7% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 50.7% | 54.4% | 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 SEVEN FISCAL YEARS**

| | Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** | **2014** |
| Contractually Required Contribution | $ 816,319 | 811,859 | 719,285 | 607,795 | 514,877 | 426,759 | $ 330,236 |
| Contributions in Relation to the Contractually Required Contribution | 816,319 | 811,859 | 719,285 | 607,795 | 514,877 | 426,759 | 330,236 |
| Contribution Deficiency (Excess) | $ - | - | - | - | - | - | $ - |
| Palmetto Railways' Covered Payroll | $ 5,442,759 | 5,575,041 | 5,337,176 | 5,152,091 | 4,817,603 | 4,098,528 | $ 3,165,527 |
| Contributions as a Percentage of Covered Payroll | 15.00% | 14.56% | 13.48% | 11.80% | 10.69% | 10.41% | 10.43% |

**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 14.56% to 15.56% of eligible payroll as of July 1, 2019.

**PALMETTO RAILWAYS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES**

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

**LAST SEVEN FISCAL YEARS**

| | Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** | **2014** |
| Palmetto Railways' Proportion of the Net Pension Liability | 0.00020% | 0.00022% | 0.00102% | 0.00412% | 0.00416% | 0.00407% | 0.00406% |
| Palmetto Railways' Proportionate Share of the Net Pension Liability | $ 6,569 | 6,255 | 28,993 | 112,870 | 105,619 | 88,706 | $ 77,745 |
| Palmetto Railways' Covered Payroll | $ - | - | 14,163 | 55,481 | 53,086 | 50,425 | $ 48,840 |
| Palmetto Railways' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 0.0% | 0.0% | 204.7% | 203.44% | 198.96% | 175.92% | 159.18% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 58.8% | 62.7% | 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 SEVEN FISCAL YEARS**

| | Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | **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% | 0.00% | 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 17.24% to 18.24% 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 FIVE FISCAL YEARS**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| Palmetto Railways' Proportion of the Net OPEB Liability | 0.05950% | 0.06353% | 0.06025% | 0.06027% | 0.06027% |
| Palmetto Railways' Proportionate Share of the Net OPEB Liability | $ 10,739,889 | 9,606,705 | 8,537,069 | 8,163,473 | $ 8,720,244 |
| Palmetto Railways' Covered Payroll | $ 5,484,211 | 5,556,201 | 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 | 195.83% | 172.90% | 164.32% | 160.62% | 187.37% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 8.44% | 7.91% | 7.60% | 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.
The discount rate changed from 3.62% as of the June 30, 2018 measurement date to 3.13% for the June 30, 2019 measurement date.
The discount rate changed from 3.13% as of the June 30, 2019 measurement date to 2.45% for the June 30, 2020 measurement date.

**PALMETTO RAILWAYS**

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN SCHEDULES**

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

**LAST FIVE FISCAL YEARS**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| Contractually Required Contribution | $ 340,172 | $ 342,830 | $ 308,677 | $ 281,289 | $ 259,710 |
| Contributions in Relation to the Contractually Required Contribution | 340,172 | 342,830 | 308,677 | 281,289 | 259,710 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| Palmetto Railways' Covered Payroll | $ 5,442,759 | $ 5,575,042 | $ 5,337,176 | $ 5,194,235 | $ 4,872,603 |
| Contributions as a Percentage of Covered Payroll | 6.25% | 6.15% | 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.

Greene Finney, LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

**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, 2020, 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 11, 2021.

**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 11, 2021