BASIC
FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2004
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,229,317	$ 1,252,891	$ 3,482,208	$ 166,245
Investments	287	57,912	58,199	182,850
Invested securities lending collateral	383,582	124,411	507,993	19,030
Receivables, net:				
Accounts	252,968	44,266	297,234	182,958
Contributions	—	5,281	5,281	18,100
Participants	—	5,778	5,778	—
Accrued interest	19,511	5,281	24,792	3,400
Income taxes	267,731	—	267,731	—
Sales and other taxes	426,453	—	426,453	—
Student accounts	—	28,075	28,075	—
Patient accounts	16,286	112,560	128,846	—
Loans and notes	27,564	106,573	134,137	—
Assessments	—	53,031	53,031	—
Due from Federal government and other grantors	664,358	104,591	768,949	—
Internal balances	9,428	(9,428)	—	—
Due from component units	18,125	82,623	100,748	—
Inventories	44,098	28,365	72,463	111,382
Restricted assets:				
Cash and cash equivalents	51,110	243,986	295,096	194,263
Investments	113,196	17,854	131,050	13,740
Loans receivable	—	295	295	—
Other	66,330	2,161	68,491	—
Prepaid items	17,224	24,632	41,856	7,428
Other current assets	—	3,066	3,066	5,038
Deferred charges	—	—	—	1,415
Total current assets	4,607,568	2,294,204	6,901,772	905,849
Long-term assets:				
Receivables, net:				
Accounts	74,896	429	75,325	2,311
Contributions	—	2,950	2,950	29,710
Participants	—	17,935	17,935	—
Income taxes	37,129	—	37,129	—
Sales and other taxes	46,412	—	46,412	—
Patient accounts	7,185	—	7,185	—
Loans and notes	355,050	485,242	840,292	—
Investments	278,156	14,715	292,871	520,061
Restricted assets:				
Cash and cash equivalents	524,768	321,801	846,569	40,060
Investments	—	64,368	64,368	265,271
Accounts receivable	426,426	—	426,426	7
Loans receivable	—	522,487	522,487	—
Other	5,718	7,268	12,986	510
Prepaid items	163	15,329	15,492	—
Other long-term assets	774	12,465	13,239	5,139
Deferred charges	16,864	8,868	25,732	374,560
Investment in joint venture	—	—	—	9,096
Non-depreciable capital assets	4,679,297	556,761	5,236,058	828,096
Depreciable capital assets, net	6,990,873	2,032,505	9,023,378	2,721,407
Total long-term assets	13,443,711	4,063,123	17,506,834	4,796,228
Total assets	**18,051,279**	**6,357,327**	**24,408,606**	**5,702,077**

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets (Continued)

June 30, 2004
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
LIABILITIES				
Current liabilities:				
Accounts payable	$ 670,514	$ 135,560	$ 806,074	$ 116,013
Accrued salaries and related expenses	109,421	64,279	173,700	9,312
Accrued interest payable	38,318	9,995	48,313	68,986
Retainages payable	4,260	10,303	14,563	449
Tax refunds payable	492,534	3,610	496,144	—
Payables-aid to individuals/families	579	—	579	—
Prizes payable	—	—	—	47,497
Unemployment benefits payable	—	5,082	5,082	—
Intergovernmental payables	341,638	4,166	345,804	32
Tuition benefits payable	—	6,456	6,456	—
Policy claims	471,133	37,500	508,633	37,228
Due to primary government	—	—	—	100,748
Unearned revenues and deferred credits	209,607	108,233	317,840	22,885
Deposits	—	5,051	5,051	9
Amounts held in custody for others	—	3,525	3,525	—
Securities lending collateral	383,582	124,411	507,993	19,030
Liabilities payable from restricted assets:				
Accounts payable	—	108	108	18
Accrued interest payable	28,570	17,396	45,966	1,766
Bonds payable	27,855	28,905	56,760	—
Other	—	89,775	89,775	—
Notes payable	1,513	29,639	31,152	5,407
Revenue bonds anticipation notes payable	—	44,310	44,310	—
General obligation bonds payable	188,313	12,315	200,628	—
Revenue bonds payable	1,190	14,605	15,795	74,175
Limited obligation bonds payable	3,930	—	3,930	—
Capital leases payable	875	8,951	9,826	2,799
Commercial paper notes	—	—	—	345,050
Compensated absences payable	120,552	57,487	178,039	2,207
Other current liabilities	43,944	7,867	51,811	33,651
Total current liabilities	3,138,328	829,529	3,967,857	887,262
Long-term liabilities:				
Retainages payable	—	294	294	11,105
Intergovernmental payables	400	—	400	—
Tuition benefits payable	—	136,823	136,823	—
Policy claims	60,512	166,100	226,612	128,452
Unearned revenues and deferred credits	—	—	—	276,296
Amounts held in custody for others	—	—	—	2,157
Liabilities payable from restricted assets:				
Other	—	12,068	12,068	—
Notes payable	7,371	177,637	185,008	5,837
General obligation bonds payable	2,077,948	230,425	2,308,373	—
Tobacco Authority bonds payable	845,630	—	845,630	—
Infrastructure Bank bonds payable	1,697,659	—	1,697,659	—
Revenue bonds payable	23,612	1,499,318	1,522,930	2,535,346
Limited obligation bonds payable	19,374	—	19,374	—
Capital leases payable	2,381	45,634	48,015	18,848
Compensated absences payable	73,639	44,718	118,357	14,138
Other long-term liabilities	85,410	62,235	147,645	46,464
Total long-term liabilities	4,893,936	2,375,252	7,269,188	3,038,643
Total liabilities	**8,032,264**	**3,204,781**	**11,237,045**	**3,925,905**

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Statement of Net Assets (Continued)

June 30, 2004
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
NET ASSETS				
Invested in capital assets, net of related debt	$ 8,534,931	$ 1,695,208	$ 10,230,139	$ 816,533
Restricted:				
Expendable:				
Unemployment compensation benefits	—	431,072	431,072	—
Education	365,545	138,235	503,780	138,487
Health	9,109	—	9,109	—
Transportation	139,785	—	139,785	—
Capital projects	225,070	140,020	365,090	202,911
Debt service	1,128,281	339,596	1,467,877	115,012
Loan programs	402,532	78,365	480,897	—
Waste management	95,864	—	95,864	—
Insurance programs	13,229	—	13,229	—
Other	63,319	—	63,319	55,168
Nonexpendable:				
Education	354	59,670	60,024	267,410
Other	1,945	—	1,945	—
Unrestricted	(960,949)	270,380	(690,569)	180,651
Total net assets	**$ 10,019,015**	**$ 3,152,546**	**$ 13,171,561**	**$ 1,776,172**

The Notes to the Financial Statements are an integral part of this statement.

Statement of Activities

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions					
Primary government:					
Governmental activities:					
General government	$ 1,587,442	$ 1,231,619	$ 271,586	$ 1,753	$ (82,484)
Education	1,228,354	31,850	971,403	2,581	(222,520)
Health and environment	4,588,137	121,094	3,436,873	16	(1,030,154)
Social services	942,591	4,605	767,341	5	(170,640)
Administration of justice	628,227	88,888	41,128	—	(498,211)
Resources and economic development	192,000	48,136	53,157	40,885	(49,822)
Transportation	531,667	73,667	114,885	539,482	196,367
Intergovernmental	3,813,383	—	—	—	(3,813,383)
Unallocated interest expense	67,614	—	—	—	(67,614)
Total governmental activities	**13,579,415**	**1,599,859**	**5,656,373**	**584,722**	**(5,738,461)**
Business-type activities:					
Higher education	2,527,649	1,724,447	219,715	44,655	(538,832)
Higher education institution support	757,252	769,117	44,075	2,481	58,421
Unemployment compensation benefits	493,619	367,633	24,746	—	(101,240)
Financing of housing facilities	137,671	40,673	108,641	—	11,643
Medical malpractice insurance	30,733	40,291	51	—	9,609
Financing of student loans	39,641	28,628	7,013	—	(4,000)
Tuition prepayment program	30,620	2	17,715	—	(12,903)
Patriots Point development	6,976	7,514	277	—	815
Insurance claims processing	1,586	1,583	—	—	(3)
Other	22,659	30,136	738	—	8,215
Total business-type activities	**4,048,406**	**3,010,024**	**422,971**	**47,136**	**(568,275)**
Total primary government	**$ 17,627,821**	**$ 4,609,883**	**$ 6,079,344**	**$ 631,858**	**$ (6,306,736)**
Component units:					
Public Service Authority	$ 999,224	$ 1,049,044	$ 8,542	$ —	$ 58,362
State Ports Authority	106,419	116,817	977	3,216	14,591
Connector 2000 Association, Inc.	22,346	3,336	1,055	—	(17,955)
Lottery Commission	950,008	953,163	225	—	3,380
Other	104,397	34,022	116,545	—	46,170
Total component units	**$ 2,182,394**	**$ 2,156,382**	**$ 127,344**	**$ 3,216**	**$ 104,548**

The Notes to the Financial Statements are an integral part of this statement.

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net assets:				
Net (expense) revenue	$ (5,738,461)	$ (568,275)	$ (6,306,736)	$ 104,548
General revenues:				
Taxes:				
Individual income	2,416,437	—	2,416,437	—
Retail sales and use	3,009,485	—	3,009,485	—
Other	1,390,893	—	1,390,893	—
Total taxes	6,816,815	—	6,816,815	—
Unrestricted grants and contributions	80,333	—	80,333	—
Unrestricted investment income	18,723	—	18,723	—
Tobacco legal settlement	74,180	—	74,180	—
Extraordinary loss on debt extinguishment	—	(773)	(773)	—
Other revenues	75,967	—	75,967	—
Transfers–internal activities	(668,515)	668,515	—	—
Total general revenues and transfers	**6,397,503**	**667,742**	**7,065,245**	**—**
Change in net assets	**659,042**	**99,467**	**758,509**	**104,548**
Net assets at beginning of year (restated)	**9,359,973**	**3,053,079**	**12,413,052**	**1,671,624**
Net assets at end of year	**$ 10,019,015**	**$ 3,152,546**	**$ 13,171,561**	**$ 1,776,172**

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2004
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
ASSETS				
Cash and cash equivalents	$ 213,156	$ 259,243	$ 228,860	$ 137,205
Investments	17,229	374	—	—
Invested securities lending collateral	26,566	28,364	160,156	15,963
Receivables, net:				
Accounts	5,158	127,514	57,469	10,351
Accrued interest	3,054	335	5,397	1,264
Income taxes	304,860	—	—	—
Sales and other taxes	332,316	8,321	—	6,266
Patient accounts	8,306	15,165	—	—
Loans and notes	11	572	343,342	12,873
Due from Federal government and other grantors	11,929	519,085	—	131,699
Due from other funds	49,621	33,924	11,620	3,874
Due from component units	—	41	—	—
Interfund receivables	7,067	580	279,235	—
Inventories	12,625	18,720	—	5,313
Restricted assets:				
Cash and cash equivalents	—	—	574,714	1,163
Investments	—	—	—	—
Accounts receivable	—	—	426,426	—
Other	—	—	32,400	—
Prepaid items	—	339	—	5,891
Other assets	—	—	—	774
Total assets	**$ 991,898**	**$ 1,012,577**	**$ 2,119,619**	**$ 332,636**
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable	$ 152,390	$ 311,355	$ 36,771	$ 91,285
Accrued salaries and related expenditures	60,178	27,938	72	16,027
Accrued interest payable	—	—	—	4
Retainages payable	—	906	—	2,392
Tax refunds payable	491,722	—	—	—
Payable–aid to individuals/families	579	—	—	—
Intergovernmental payables	24,081	172,660	453	—
Due to other funds	101,476	56,754	2,695	18,286
Interfund payables	—	4,916	5,750	279,235
Deferred revenues	105,568	54,942	501,002	19,043
Securities lending collateral	26,566	28,364	160,156	15,963
Other liabilities	36,365	17	—	—
Total liabilities	**998,925**	**657,852**	**706,899**	**442,235**
Fund balances (deficits):				
Reserved	90,605	972	1,716,773	10,508
Unreserved, designated reported in:				
Special revenue funds	—	—	—	—
Capital Projects Fund	—	—	—	—
Unreserved, undesignated reported in:				
General Fund	(97,632)	—	—	—
Special revenue funds	—	353,753	(304,053)	(120,107)
Permanent funds	—	—	—	—
Total fund balances (deficits)	**(7,027)**	**354,725**	**1,412,720**	**(109,599)**
Total liabilities and fund balances	**$ 991,898**	**$ 1,012,577**	**$ 2,119,619**	**$ 332,636**

The Notes to the Financial Statements are an integral part of this statement.

State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ 497,613	$ 763,661	$ 2,099,738
—	581	18,184
8,703	78,021	317,773
—	6,235	206,727
401	5,224	15,675
—	—	304,860
—	125,962	472,865
—	—	23,471
—	25,816	382,614
—	1,645	664,358
—	5,524	104,563
—	18,083	18,124
2,250	1,983	291,115
—	25	36,683
—	1	575,878
—	113,196	113,196
—	—	426,426
—	39,648	72,048
—	—	6,230
—	—	774
$ 508,967	**$ 1,185,605**	**$ 6,151,302**
$ 1,191	$ 14,621	$ 607,613
—	1,396	105,611
—	—	4
—	935	4,233
—	812	492,534
—	—	579
202	144,143	341,539
—	14,937	194,148
—	24,553	314,454
—	17,900	698,455
8,703	78,021	317,773
—	1,026	37,408
10,096	**298,344**	**3,114,351**
—	174,737	1,993,595
—	16,878	16,878
—	178,711	178,711
—	—	(97,632)
498,871	515,965	944,429
—	970	970
498,871	**887,261**	**3,036,951**
$ 508,967	**$ 1,185,605**	**$ 6,151,302**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2004
(Expressed in Thousands)

Total fund balances–governmental funds		**$**	**3,036,951**
Amounts reported for governmental activities in the statement of net assets are different because:			
Certain assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Capital assets:			
Non-depreciable capital assets	$ 4,670,868		
Depreciable capital assets	9,789,025		
Accumulated depreciation	(2,940,149)		
Total capital assets	11,519,744		
Food commodities	265		
Total assets			11,520,009
Bond issue costs are reported as current expenditures in the funds. However, issue costs are deferred and amortized over the life of the bonds and are included in governmental activities in the statement of net assets			16,701
Certain State revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds			608,022
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets			17,129
Eliminations relating to the consolidation of internal service funds resulted in an amount due from business-type activities to governmental activities in the statement of net assets			15,630
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Bonds payable	(4,837,405)		
Notes payable	(8,771)		
Accrued interest on bonds	(66,030)		
Capital leases	(863)		
Compensated absences	(188,329)		
Intergovernmental payable	(499)		
Policy claims	(5,635)		
Other	(87,895)		
Total long-term liabilities			(5,195,427)
Net assets of governmental activities		**$**	**10,019,015**

The Notes to the Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
Revenues:				
Taxes:				
Individual income	$ 2,398,475	$ —	$ 10,281	$ —
Retail sales and use	2,196,906	667	—	—
Other	737,590	19,289	18,000	488,164
Licenses, fees, and permits	129,521	118,292	54,597	—
Interest and other investment income	11,925	1,066	38,649	778
Federal	180,916	4,853,031	18,216	568,349
Local and private grants	—	8,601	—	—
Departmental services	409,128	146,519	72,346	23,644
Contributions	12,134	176,246	50,658	—
Fines and penalties	25,531	57,787	—	—
Tobacco legal settlement	—	—	—	—
Other	28,556	50,419	550	4,399
Total revenues	**6,130,682**	**5,431,917**	**263,297**	**1,085,334**
Expenditures:				
Current:				
General government	277,279	153,172	464	—
Education	324,233	149,346	—	—
Health and environment	1,398,048	3,450,096	—	—
Social services	79,178	789,112	—	—
Administration of justice	455,045	106,305	—	—
Resources and economic development	78,087	69,404	2,701	—
Transportation	—	—	15,714	598,506
Capital outlay	—	—	—	463,321
Debt service:				
Principal retirement	144,345	417	26,195	25,043
Interest and fiscal charges	69,372	72	79,076	33,073
Intergovernmental	2,521,840	707,568	405,058	75,328
Total expenditures	**5,347,427**	**5,425,492**	**529,208**	**1,195,271**
Excess (deficiency) of revenues over (under) expenditures	**783,255**	**6,425**	**(265,911)**	**(109,937)**
Other financing sources (uses):				
Bonds and notes issued	900	—	335,435	2,200
Refunding bonds issued	156,560	—	368,300	—
Premiums on bonds issued	1,723	—	8,833	6
Payment to refunded bond escrow agent	(156,360)	—	(368,246)	—
Transfers in	250,448	119,090	3,950	16
Transfers out	(897,183)	(67,392)	(5)	(4,980)
Total other financing sources (uses)	**(643,912)**	**51,698**	**348,267**	**(2,758)**
Net change in fund balances	**139,343**	**58,123**	**82,356**	**(112,695)**
Fund balances (deficits) at beginning of year (restated)	**(146,370)**	**296,602**	**1,330,364**	**3,096**
Fund balances (deficits) at end of year	**$ (7,027)**	**$ 354,725**	**$ 1,412,720**	**$ (109,599)**

The Notes to the Financial Statements are an integral part of this statement.

State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ —	$ —	$ 2,408,756
—	798,500	2,996,073
—	110,425	1,373,468
—	113,035	415,445
9,260	13,671	75,349
—	39,416	5,659,928
—	582	9,183
—	16,615	668,252
—	295,417	534,455
—	22,283	105,601
—	74,180	74,180
—	2,872	86,796
9,260	**1,486,996**	**14,407,486**
2,357	99,955	533,227
—	178,523	652,102
6,783	76,178	4,931,105
—	6,413	874,703
—	13,054	574,404
3	3,871	154,066
—	—	614,220
—	68,501	531,822
—	24,265	220,265
—	57,960	239,553
40,482	844,463	4,594,739
49,625	**1,373,183**	**13,920,206**
(40,365)	**113,813**	**487,280**
—	129,260	467,795
—	—	524,860
—	772	11,334
—	—	(524,606)
—	179,070	552,574
(5)	(236,546)	(1,206,111)
(5)	**72,556**	**(174,154)**
(40,370)	**186,369**	**313,126**
539,241	**700,892**	**2,723,825**
$ 498,871	**$ 887,261**	**$ 3,036,951**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

Net change in fund balances–total governmental funds		**$ 313,126**
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	$ 620,405	
Depreciation expense	(197,642)	
Excess of capital outlay over depreciation expense		422,763
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources		283,846
Losses on disposals of capital assets are reported as an expense in the statement of activities		(4,948)
Expenses for food commodities in the statement of activities do not provide current financial resources and are not reported as expenditures in the governmental funds		(387)
Bond and note proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Bonds and notes issued	(467,795)	
Refunding bonds issued	(524,860)	
Bond premiums	(11,334)	
Net bond and note proceeds		(1,003,989)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets		8,458
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement	218,630	
Note principal retirement	1,103	
Capital lease payments	301	
Payment to bond refunding agent	524,606	
Total long-term debt repayment		744,640
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is included in governmental activities in the statement of activities		(93,278)
Because certain receivables will not be collected within one year after the State's fiscal year ends, the related revenues are not considered "available" and are deferred in the governmental funds.		
Increase in deferred revenues		31,590

The Notes to the Financial Statements are an integral part of this statement.

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Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

Eliminations relating to the consolidation of internal service funds resulted in a net increase in expenses for the business-type activities in the statement of activities		$ 3,923
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Net increase in accrued interest	$ (1,208)	
Interest accreted on capital appreciation debt	(1,275)	
Amortization of bond issuance costs	(562)	
Net amortization of bond premiums and discounts	494	
Amortization of deferred losses on refunding of debt	(5,912)	
Increase in compensated absences payable	(4,225)	
Decrease in intergovernmental payable	1,161	
Decrease in policy claims payable	1,035	
Net increase in other payables	(36,210)	
Total additional expenses		(46,702)
Change in net assets of governmental activities		**$ 659,042**

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2004
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
ASSETS			
Current assets:			
Cash and cash equivalents	$ 469,765	$ 391,433	$ 15,415
Investments	41,004	—	—
Invested securities lending collateral	78,302	—	6,388
Receivables, net:			
Accounts	11,555	8,717	100
Contributions	5,088	—	—
Participants	—	—	—
Accrued interest	4,329	124	13
Student accounts	28,075	—	—
Patient accounts	—	—	—
Loans and notes	40	—	41,733
Assessments	—	53,031	—
Due from Federal government and other grantors	100,366	331	3,894
Due from other funds	50,133	—	—
Due from component units	82,623	—	—
Inventories	14,357	—	—
Restricted assets:			
Cash and cash equivalents	89,936	—	29,317
Investments	65	—	—
Loans receivable	204	—	—
Other	286	—	—
Prepaid items	14,220	—	—
Other current assets	2,034	—	—
Total current assets	992,382	453,636	96,860
Long-term assets:			
Investments	14,115	—	600
Receivables, net:			
Accounts	429	—	—
Contributions	2,625	—	—
Participants	—	—	—
Loans and notes	4,296	—	22,197
Interfund receivables	—	—	—
Restricted assets:			
Cash and cash equivalents	117,941	—	183,694
Investments	16	—	3,998
Loans receivable	48,978	—	458,278
Other	711	—	5,224
Prepaid items	436	—	—
Other long-term assets	3,196	—	—
Deferred charges	1,110	—	4,073
Capital assets:			
Land and improvements	208,204	—	—
Buildings and improvements	2,576,481	—	—
Construction in progress	308,597	—	—
Vehicles	36,368	—	—
Machinery and equipment	401,869	—	327
Works of art and historical treasures	16,810	—	—
Intangible assets	9,427	—	—
Less: accumulated depreciation	(1,303,946)	—	(262)
Total capital assets, net	2,253,810	—	65
Total long-term assets	2,447,663	—	678,129
Total assets	**3,440,045**	**453,636**	**774,989**

The Notes to the Financial Statements are an integral part of this statement.

FUNDS Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ 194,404	$ 181,874	$ 1,252,891	$ 129,579
—	16,908	57,912	—
—	39,721	124,411	65,809
9,510	14,384	44,266	94,726
—	193	5,281	—
—	5,778	5,778	—
142	673	5,281	3,836
—	—	28,075	—
—	112,560	112,560	—
64,800	—	106,573	—
—	—	53,031	—
—	—	104,591	—
—	11,528	61,661	38,979
—	—	82,623	1
—	14,008	28,365	7,150
30,937	93,796	243,986	—
—	17,789	17,854	—
—	91	295	—
—	1,875	2,161	—
—	10,412	24,632	11,157
—	1,032	3,066	—
299,793	522,622	2,365,293	351,237
—	—	14,715	260,259
—	—	429	152
—	325	2,950	—
—	17,935	17,935	—
458,749	—	485,242	—
—	19,340	19,340	46,403
—	20,166	321,801	—
551	59,803	64,368	—
—	15,231	522,487	—
—	1,333	7,268	—
—	14,893	15,329	—
—	9,269	12,465	—
2,021	1,664	8,868	161
—	28,341	236,545	8,631
—	291,843	2,868,324	186,501
—	64,886	373,483	964
17	2,359	38,744	44,030
293	170,504	572,993	59,892
—	6,987	23,797	—
—	5,497	14,924	9,386
(85)	(235,251)	(1,539,544)	(158,978)
225	335,166	2,589,266	150,426
461,546	495,125	4,082,463	457,401
761,339	**1,017,747**	**6,447,756**	**808,638**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2004
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
LIABILITIES			
Current liabilities:			
Accounts payable	$ 61,974	$ 191	$ —
Accrued salaries and related expenses	42,942	—	511
Accrued interest payable	6,214	—	—
Retainages payable	9,620	—	—
Tax refunds payable	—	3,610	—
Unemployment benefits payable	—	5,082	—
Intergovernmental payables	—	3,989	177
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	15,983	9,692	30
Deferred revenues	95,273	—	—
Deposits	5,051	—	—
Amounts held in custody for others	3,525	—	—
Securities lending collateral	78,302	—	6,388
Liabilities payable from restricted assets:			
Accounts payable	78	—	—
Accrued interest payable	—	—	13,763
Bonds payable	—	—	7,910
Other	—	—	7,644
Notes payable	4,940	—	—
Revenue bond anticipation notes payable	44,310	—	—
General obligation bonds payable	12,315	—	—
Revenue bonds payable	13,672	—	—
Limited obligation bonds payable	—	—	—
Capital leases payable	2,835	—	—
Compensated absences payable	41,255	—	314
Other current liabilities	5,045	—	118
Total current liabilities	443,334	22,564	36,855
Long-term liabilities:			
Retainages payable	294	—	—
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Interfund payables	21,483	—	—
Liabilities payable from restricted assets:			
Other	—	—	—
Notes payable	29,461	—	—
General obligation bonds payable	230,425	—	—
Revenue bonds payable	311,050	—	502,786
Limited obligation bonds payable	—	—	—
Capital leases payable	31,028	—	—
Compensated absences payable	43,325	—	319
Other long-term liabilities	58,111	—	—
Total long-term liabilities	725,177	—	503,105
Total liabilities	**1,168,511**	**22,564**	**539,960**

The Notes to the Financial Statements are an integral part of this statement.

FUNDS			
Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ 28,907	$ 39,591	$ 130,663	$ 7,014
—	20,826	64,279	3,810
—	3,781	9,995	854
—	683	10,303	27
—	—	3,610	—
—	—	5,082	—
—	—	4,166	—
—	6,456	6,456	—
—	37,500	37,500	468,333
—	17,525	43,230	2,348
—	12,960	108,233	119,174
—	—	5,051	—
—	—	3,525	—
—	39,721	124,411	65,809
—	30	108	—
3,133	500	17,396	—
20,995	—	28,905	—
—	82,131	89,775	—
—	24,699	29,639	113
—	—	44,310	—
—	—	12,315	—
—	933	14,605	1,190
—	—	—	3,930
—	6,116	8,951	579
174	15,744	57,487	3,323
859	1,845	7,867	4,051
54,068	311,041	867,862	680,555
—	—	294	—
—	136,823	136,823	—
—	166,100	166,100	57,677
—	14,983	36,466	5,938
12,068	—	12,068	—
—	148,176	177,637	—
—	—	230,425	—
568,889	116,593	1,499,318	23,612
—	—	—	19,374
—	14,606	45,634	1,814
—	1,074	44,718	2,539
1,855	2,269	62,235	—
582,812	600,624	2,411,718	110,954
636,880	**911,665**	**3,279,580**	**791,509**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2004
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
NET ASSETS			
Invested in capital assets, net of related debt	$ 1,557,142	$ —	$ 65
Restricted:			
Expendable:			
Unemployment compensation benefits	—	431,072	—
Education	114,156	—	—
Capital projects	128,991	—	—
Debt service	38,788	—	186,400
Loan programs	—	—	47,296
Insurance programs	—	—	—
Nonexpendable:			
Education	38,044	—	—
Unrestricted	394,413	—	1,268
Total net assets	**$ 2,271,534**	**$ 431,072**	**$ 235,029**

Adjustment in Higher Education Fund related to consolidation of internal service funds

Net assets of business-type activities

The Notes to the Financial Statements are an integral part of this statement.

FUNDS				
	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
	$ 225	$ 137,776	$ 1,695,208	$ 124,730
	—	—	431,072	—
	—	24,079	138,235	—
	—	11,029	140,020	—
	92,110	22,298	339,596	—
	31,069	—	78,365	20,000
	—	—	—	13,229
	—	21,626	59,670	354
	1,055	(110,726)	286,010	(141,184)
	$ 124,459	**$ 106,082**	**3,168,176**	**$ 17,129**
....			(15,630)	
....			**$ 3,152,546**	

Statement of Revenues, Expenses, and Changes in Fund Net Assets

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Operating revenues:			
Assessments	$ —	$ 257,159	$ —
Charges for services	735,774	—	8,045
Contributions	—	—	—
Interest and other investment income	—	283	38,862
Operating revenues pledged for revenue bonds	120,805	—	—
Federal operating grants and contracts	485,714	87,329	—
State operating grants and contracts	198,071	—	—
Local/private operating grants and contracts	49,156	—	—
Other operating revenues	180,160	24,217	55
Total operating revenues	**1,769,680**	**368,988**	**46,962**
Operating expenses:			
General operations and administration	2,229,739	70	9,446
Benefits and claims	—	493,549	—
Tuition plan disbursements	—	—	—
Interest	—	—	29,415
Depreciation and amortization	107,666	—	318
Scholarships and fellowships	150,947	—	—
Other operating expenses	513	—	2,345
Total operating expenses	**2,488,865**	**493,619**	**41,524**
Operating income (loss)	**(719,185)**	**(124,631)**	**5,438**
Nonoperating revenues (expenses):			
Federal and local government appropriations	53,906	—	—
Interest income	20,110	23,391	—
Contributions	74,466	—	—
Federal grants and contracts	5,307	—	102,317
Local/private grants and contracts	7,626	—	—
Interest expense	(29,592)	—	—
Other nonoperating revenues (expenses)	2,719	—	(96,099)
Total nonoperating revenues (expenses)	**134,542**	**23,391**	**6,218**
Income (loss) before other revenues, expenses, losses, and transfers	**(584,643)**	**(101,240)**	**11,656**
Capital contributions	—	—	—
Federal capital grants and contracts	33,218	—	—
Local/private capital grants and contracts	8,972	—	—
Additions to endowments	7,544	—	—
Extraordinary loss on early extinguishment of debt	(209)	—	(564)
Special item	—	—	—
Transfers in	710,617	40	—
Transfers out	(18,326)	(3,402)	(29)
Change in net assets	**157,173**	**(104,602)**	**11,063**
Net assets at beginning of year	**2,114,361**	**535,674**	**223,966**
Net assets at end of year	**$ 2,271,534**	**$ 431,072**	**$ 235,029**

Adjustment in Higher Education Fund related to consolidation of internal service funds……………………………………………………

Change in net assets of business-type activities……………………………………………………………………………………

The Notes to the Financial Statements are an integral part of this statement.

FUNDS Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ —	$ —	$ 257,159	$ —
28,628	267,007	1,039,454	1,494,529
—	14,172	14,172	613
2,569	3,743	45,457	1,671
—	580,377	701,182	—
—	—	573,043	—
—	—	198,071	—
—	—	49,156	—
—	34,557	238,989	14,715
31,197	**899,856**	**3,116,683**	**1,511,528**
27,368	747,626	3,014,249	287,698
—	29,812	523,361	1,297,081
—	30,609	30,609	—
9,802	18	39,235	—
229	25,190	133,403	13,231
—	—	150,947	—
2,242	238	5,338	4,184
39,641	**833,493**	**3,897,142**	**1,602,194**
(8,444)	**66,363**	**(780,459)**	**(90,666)**
—	—	53,906	—
—	3,559	47,060	10,437
—	1,435	75,901	—
—	—	107,624	512
—	65	7,691	—
—	(14,320)	(43,912)	(2,406)
4,444	3,901	(85,035)	2,588
4,444	**(5,360)**	**163,235**	**11,131**
(4,000)	**61,003**	**(617,224)**	**(79,535)**
—	—	—	3,635
—	—	33,218	—
—	2,480	11,452	—
—	503	8,047	—
—	—	(773)	—
—	155	155	—
—	136	710,793	5,602
—	(20,521)	(42,278)	(22,980)
(4,000)	**43,756**	**103,390**	**(93,278)**
128,459	**62,326**		**110,407**
$ 124,459	**$ 106,082**		**$ 17,129**

....	(3,923)
..	**$ 99,467**

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from operating activities:			
Receipts from customers, patients, and third-party payers	$ 925,206	$ —	$ —
Assessments received	—	249,832	—
Grants received	710,827	87,568	—
Receipts from collection of loans and notes	355,936	—	128,825
Internal activity–payments from other funds	52,946	—	—
Tuition plan contributions received	—	—	—
Other operating cash receipts	70,809	23,880	6,285
Claims and benefits paid	—	(492,641)	(1,987)
Payments to suppliers for goods and services	(868,372)	—	(5,751)
Payments to employees	(1,411,451)	—	(4,886)
Payments for scholarships and fellowships	(104,562)	—	—
Loans issued to students	(327,975)	—	—
Program loans issued	—	—	(70,964)
Internal activity–payments to other funds	—	—	—
Other operating cash payments	(41,295)	(70)	—
Net cash provided by (used in) operating activities	**(637,931)**	**(131,431)**	**51,522**
Cash flows from noncapital financing activities:			
State, county, and local appropriations	46,548	—	—
Federal appropriations	9,700	—	—
Funds held for others	(169)	—	—
Principal payments received from other funds	20	—	—
Principal payments made to other funds	—	—	—
Receipt of interest from other funds	—	—	—
Interest payments made to other funds	—	—	—
Loans received from other funds	—	—	—
Loans made to other funds	—	—	—
Proceeds from sale of revenue bonds	—	—	50,000
Principal payments on revenue bonds	—	—	(40,910)
Early retirement of bonds payable	—	—	(54,250)
Proceeds from issuance of noncapital debt	1,150	—	—
Principal paid on noncapital debt	(230)	—	—
Interest payments on noncapital debt	(305)	—	(29,968)
Payment of bond issuance costs	—	—	(574)
Gifts and grants for other than capital purposes	108,881	—	—
Federal revenue	—	—	102,317
Payments from Federal grants	—	—	(98,132)
Other cash receipts	7,345	—	—
Other cash payments	(87)	(5,320)	—
Transfers in	710,617	40	—
Transfers out	(18,326)	(3,402)	(29)
Net cash provided by (used in) noncapital financing activities	**865,144**	**(8,682)**	**(71,546)**

The Notes to the Financial Statements are an integral part of this statement.

FUNDS			
Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ 32,293	$ 770,902	$ 1,728,401	$ 1,076,971
—	129,003	378,835	—
—	—	798,395	—
425,475	—	910,236	—
—	—	52,946	443,771
—	14,255	14,255	—
—	34,139	135,113	15,407
—	(161,119)	(655,747)	(1,261,682)
(41,782)	(278,641)	(1,194,546)	(206,421)
(2,875)	(348,433)	(1,767,645)	(64,266)
—	—	(104,562)	—
—	—	(327,975)	—
(648,162)	—	(719,126)	—
—	(52,946)	(52,946)	(15,508)
—	(4,673)	(46,038)	(146)
(235,051)	**102,487**	**(850,404)**	**(11,874)**
—	—	46,548	—
—	—	9,700	—
—	—	(169)	—
—	—	20	1,098
—	(510)	(510)	(700)
—	—	—	1,293
—	(1,239)	(1,239)	—
—	—	—	528
—	—	—	(1,000)
100,150	—	150,150	—
(13,750)	—	(54,660)	—
—	—	(54,250)	—
—	20,500	21,650	—
—	(39,501)	(39,731)	—
(9,751)	(4,898)	(44,922)	—
(570)	(74)	(1,218)	—
—	1,936	110,817	—
—	—	102,317	—
—	—	(98,132)	—
—	377	7,722	—
(497)	—	(5,904)	—
—	136	710,793	5,602
—	(20,521)	(42,278)	(22,980)
75,582	**(43,794)**	**816,704**	**(16,159)**

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from capital and related financing activities:			
Capital appropriations	$ 6,254	$ —	$ —
Acquisition of capital assets	(241,068)	—	(26)
Principal payments received from other funds	—	—	—
Loans made to other funds	—	—	—
Principal payments on notes payable	(1,174)	—	—
Principal payments on limited obligation bonds	—	—	—
Proceeds from issuance of capital debt	151,334	—	—
Principal paid on capital debt and lease	(62,465)	—	—
Interest payments on capital debt	(29,269)	—	—
Payment of agent and broker fees	(3)	—	—
Proceeds from sale or disposal of capital assets	1,582	—	—
Capital grants and gifts received	38,628	—	—
Net cash used in capital and related financing activities	**(136,181)**	**—**	**(26)**
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	75,316	—	—
Purchase of investments	(78,409)	—	—
Interest and dividends on investments	12,100	30,992	6,773
Collection of escrow payments from borrower	—	—	—
Net cash provided by (used in) investing activities	**9,007**	**30,992**	**6,773**
Net increase (decrease) in cash and cash equivalents	**100,039**	**(109,121)**	**(13,277)**
Cash and cash equivalents at beginning of year (restated)	**577,603**	**500,554**	**241,703**
Cash and cash equivalents at end of year	**$ 677,642**	**$ 391,433**	**$ 228,426**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (719,185)	$ (124,631)	$ 5,438
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	107,666	—	318
Provision for bad debts	404	—	—
Net increase in the fair value of investments	(254)	—	—
Realized gains and losses on investments	—	—	—
Issuance of loans and notes	—	—	(70,964)
Collection of loans and notes	—	—	95,403
Interest payments reclassified as noncapital financing activities	—	—	29,415
Interest and dividends on investments and interfund loans	—	(283)	(6,555)
Amounts received for payment of claims	—	—	—
Payment of claims	—	—	—
Other nonoperating revenues	—	—	—
Other nonoperating expenses	—	—	—
Other	—	(1)	47

The Notes to the Financial Statements are an integral part of this statement.

FUNDS Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ —	$ —	$ 6,254	$ —
(206)	(43,898)	(285,198)	(5,148)
—	—	—	1,140
—	—	—	(2,348)
—	(18)	(1,192)	(108)
—	—	—	(3,755)
—	33,169	184,503	—
—	(15,886)	(78,351)	(549)
—	(9,620)	(38,889)	(2,406)
—	(1,291)	(1,294)	—
—	277	1,859	181
—	2,481	41,109	—
(206)	**(34,786)**	**(171,199)**	**(12,993)**
—	56,390	131,706	93,457
—	(79,679)	(158,088)	(147,935)
4,006	12,372	66,243	18,130
—	1,681	1,681	—
4,006	**(9,236)**	**41,542**	**(36,348)**
(155,669)	**14,671**	**(163,357)**	**(77,374)**
381,010	**281,165**	**1,982,035**	**206,953**
$ 225,341	**$ 295,836**	**$ 1,818,678**	**$ 129,579**
$ (8,444)	$ 66,363	$ (780,459)	$ (90,666)
229	25,190	133,403	13,231
—	—	404	—
97	—	(157)	—
—	(5,557)	(5,557)	—
(662,305)	—	(733,269)	—
400,106	—	495,509	—
10,515	2,384	42,314	—
(2,665)	(6,117)	(15,620)	—
—	127,438	127,438	—
—	(124,327)	(124,327)	—
—	6,019	6,019	1,082
—	(1,111)	(1,111)	(130)
(279)	(3,056)	(3,289)	(2,598)

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Change in assets—decreases (increases):			
Accounts receivable, net	$ (20,034)	$ (350)	$ 1,328
Receivable from participants, net	—	—	—
Patient accounts receivable, net	—	—	—
Assessments receivable, net	—	(6,952)	—
Accrued interest	—	—	27
Loans receivable	(898)	—	—
Due from Federal government and other grantors	—	2,986	(2,409)
Due from other funds	—	14	—
Inventories	—	—	—
Interfund receivables	—	—	—
Other assets	(13,906)	—	—
Change in liabilities—increases (decreases):			
Accounts payable	9,111	(230)	—
Accrued salaries and related expenses	—	—	39
Accrued interest payable	—	—	—
Retainages payable	—	—	—
Tax refunds payable	—	(375)	—
Unemployment benefits payable	—	(177)	—
Intergovernmental payables	—	904	—
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	—	(2,336)	3
Deferred revenues	(970)	—	—
Deposits	2,490	—	—
Liabilities payable from restricted assets	—	—	168
Compensated absences payable	1,630	—	60
Other liabilities	(3,985)	—	(796)
Net cash provided by (used in) operating activities	**$ (637,931)**	**$ (131,431)**	**$ 51,522**
Noncash capital, investing, and financing activities:			
Acquisition of capital assets through:			
Assumption of liabilities	$ 86	$ —	$ —
Donations	3,292	—	—
Disposal of capital assets	(271)	—	—
Assignment of Perkins Loans	653	—	—
Increase (decrease) in fair value of investments	3,963	—	(425)
Accrual of arbitrage income	—	—	—
Principal amount of bonds refunded	—	—	—
Long-term debt forgiven	225	—	—
Assumption of debt	36	—	—
Total noncash capital, investing, and financing activities	**$ 7,984**	**$ —**	**$ (425)**

The Notes to the Financial Statements are an integral part of this statement.

FUNDS Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ (1,460)	$ (6,906)	$ (27,422)	$ (17,349)
—	594	594	—
—	(15,152)	(15,152)	—
—	—	(6,952)	—
—	41	68	64
—	—	(898)	—
—	—	577	—
—	4,133	4,147	4,634
—	780	780	(389)
—	1,245	1,245	—
—	(9,888)	(23,794)	246
28,566	4,950	42,397	456
—	4,169	4,208	329
—	(28)	(28)	(81)
—	(576)	(576)	(112)
—	—	(375)	—
—	—	(177)	—
—	—	904	—
—	29,274	29,274	—
—	(6,712)	(6,712)	54,326
—	8,155	5,822	250
—	210	(760)	24,449
—	—	2,490	—
—	27	195	—
23	1,151	2,864	384
566	(206)	(4,421)	—
$ (235,051)	**$ 102,487**	**$ (850,404)**	**$ (11,874)**
$ —	$ —	$ 86	$ —
—	—	3,292	—
—	—	(271)	—
—	—	653	—
—	4,610	8,148	(9,141)
4,445	—	4,445	—
8,150	—	8,150	—
—	—	225	718
—	—	36	—
$ 12,595	**$ 4,610**	**$ 24,764**	**$ (8,423)**

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2004
(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
ASSETS				
Cash and cash equivalents	$ 2,800,794	$ 461,597	$ 26,397	$ 174,981
Receivables, net:				
Accounts	—	—	30	7,950
Contributions	118,707	—	—	—
Employer long-term	2,017	—	—	—
Accrued interest	122,337	8,988	404	1,061
Unsettled investment sales	48,874	—	428	—
Taxes	—	—	—	3,012
Total receivables	291,935	8,988	862	12,023
Due from other funds	5,515	—	—	55,964
Investments, at fair value:				
United States government securities	1,711,502	—	—	—
United States government agencies and government-insured securities	2,626,821	188,233	—	—
Corporate bonds	4,441,928	1,342,517	—	—
Financial and other	2,385,195	24,038	323,455	23,931
Equities	10,261,899	—	—	—
Total investments	21,427,345	1,554,788	323,455	23,931
Securities held in lieu of surety bonds	—	—	—	354,702
Invested securities lending collateral	3,700,507	1,029,576	2,683	29,717
Capital assets, net	3,933	—	—	—
Other assets	611	—	4,245	—
Total assets	**28,230,640**	**3,054,949**	**357,642**	**651,318**
LIABILITIES				
Accounts payable	5,002	—	748	27,276
Accounts payable–unsettled investment purchases	50,203	—	251	—
Due to other funds	26,956	—	—	—
Tax refunds payable	—	—	—	139
Intergovernmental payables	—	—	—	2,680
Deposits	—	—	—	1,097
Amounts held in custody for others	—	—	—	590,409
Deferred retirement benefits	649,385	—	—	—
Securities lending collateral	3,700,507	1,029,576	2,683	29,717
Other liabilities	4,336	—	—	—
Total liabilities	**4,436,389**	**1,029,576**	**3,682**	**651,318**
NET ASSETS				
Held in trust for:				
Pension benefits	23,794,251	—	—	—
External investment pool participants	—	2,025,373	—	—
Other purposes	—	—	353,960	—
Total net assets	**$ 23,794,251**	**$ 2,025,373**	**$ 353,960**	**$ —**

The Notes to the Financial Statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets

FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits	$ —	$ —	$ 250
Contributions:			
Employer	614,724	—	—
Employee	473,688	—	—
Deposits from pool participants	—	5,133,836	—
Tuition plan deposits	—	—	151,706
Total contributions	1,088,412	5,133,836	151,706
Investment income:			
Interest income and net appreciation in investments	1,992,106	22,009	29,432
Securities lending income	57,141	10,095	—
Total investment income	2,049,247	32,104	29,432
Less investment expense:			
Investment expense	23,199	—	—
Securites lending expense	40,510	8,120	—
Net investment income	1,985,538	23,984	29,432
Transfers between pension trust funds	2,832	—	—
Transfers in	2,400	—	—
Total additions	**3,079,182**	**5,157,820**	**181,388**
Deductions:			
Regular retirement benefits	1,259,981	—	—
Supplemental retirement benefits	2,400	—	—
Deferred retirement benefits	300,294	—	—
Refunds of retirement contributions to members	78,423	—	—
Group life insurance claims	15,202	—	—
Accidental death benefits	1,072	—	—
Withdrawals, pool participants	—	5,199,763	—
Distributions to pool participants	—	30,606	—
Depreciation	119	—	—
Administrative expense	15,444	79	5,344
Transfers between pension trust funds	2,832	—	—
Other expenses	—	—	2,642
Total deductions	**1,675,767**	**5,230,448**	**7,986**
Change in net assets	**1,403,415**	**(72,628)**	**173,402**
Net assets at beginning of year	**22,390,836**	**2,098,001**	**180,558**
Net assets at end of year	**$ 23,794,251**	**$ 2,025,373**	**$ 353,960**

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2004
(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	$ 27,916	$ 91,292	$ 387	$ 18,266	$ 28,384	$ 166,245
Investments	147,747	—	150	—	34,953	182,850
Invested securities lending collateral	—	18,849	—	—	181	19,030
Receivables, net						
Accounts	117,885	17,885	—	46,667	521	182,958
Contributions	—	—	—	—	18,100	18,100
Accrued interest	2,902	—	—	—	498	3,400
Inventories	105,623	3,681	72	2,006	—	111,382
Restricted assets:						
Cash and cash equivalents	187,557	—	1,496	402	4,808	194,263
Investments	12,993	—	747	—	—	13,740
Prepaid items	3,202	4,156	45	—	25	7,428
Other current assets	3,636	1,308	—	94	—	5,038
Deferred charges	—	—	—	—	1,415	1,415
Total current assets	609,461	137,171	2,897	67,435	88,885	905,849
Long-term assets:						
Receivables, net:						
Accounts	—	—	—	—	2,311	2,311
Contributions	—	—	—	—	29,710	29,710
Investments	49,766	5,804	—	—	464,491	520,061
Restricted assets:						
Cash and cash equivalents	40,060	—	—	—	—	40,060
Investments	247,060	—	17,945	—	266	265,271
Accounts receivable	—	—	7	—	—	7
Other	—	—	510	—	—	510
Other long-term assets	—	—	—	5,127	12	5,139
Deferred charges	352,961	17,193	4,406	—	—	374,560
Investment in joint venture	9,096	—	—	—	—	9,096
Non-depreciable capital assets	609,055	210,070	—	—	8,971	828,096
Depreciable capital assets, net	2,315,360	214,712	178,531	12,236	568	2,721,407
Total long-term assets	3,623,358	447,779	201,399	17,363	506,329	4,796,228
Total assets	**4,232,819**	**584,950**	**204,296**	**84,798**	**595,214**	**5,702,077**

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2004

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
LIABILITIES						
Current liabilities:						
Accounts payable	$ 104,600	$ 6,372	$ 48	$ 3,957	$ 1,036	$ 116,013
Accrued salaries and related expenses	4,877	3,435	—	943	57	9,312
Accrued interest payable	65,862	3,124	—	—	—	68,986
Retainages payable	—	449	—	—	—	449
Prizes payable	—	—	—	47,497	—	47,497
Intergovernmental payables	—	32	—	—	—	32
Policy claims	2,228	—	—	—	35,000	37,228
Due to primary government	—	—	—	18,083	82,665	100,748
Deferred revenues and deferred credits	—	—	90	767	22,028	22,885
Deposits	—	—	9	—	—	9
Securities lending collateral	—	18,849	—	—	181	19,030
Liabilities payable from restricted assets:						
Accounts payable	—	—	18	—	—	18
Accrued interest payable	—	—	1,766	—	—	1,766
Notes payable	—	4,174	—	1,233	—	5,407
Revenue bonds payable	71,270	2,905	—	—	—	74,175
Capital leases payable	2,761	38	—	—	—	2,799
Commercial paper notes	345,050	—	—	—	—	345,050
Compensated absences payable	—	2,032	—	117	58	2,207
Other current liabilities	30,250	2,932	45	62	362	33,651
Total current liabilities	626,898	44,342	1,976	72,659	141,387	887,262
Long-term liabilities:						
Retainages payable	11,105	—	—	—	—	11,105
Policy claims	—	—	—	—	128,452	128,452
Deferred revenues and deferred credits	276,296	—	—	—	—	276,296
Amounts held in custody for others	—	—	—	—	2,157	2,157
Notes payable	—	3,320	—	2,217	300	5,837
Revenue bonds payable	2,141,790	140,515	253,041	—	—	2,535,346
Capital leases payable	18,754	94	—	—	—	18,848
Compensated absences payable	13,370	—	—	733	35	14,138
Other long-term liabilities	22,126	14,048	—	—	10,290	46,464
Total long-term liabilities	2,483,441	157,977	253,041	2,950	141,234	3,038,643
Total liabilities	**3,110,339**	**202,319**	**255,017**	**75,609**	**282,621**	**3,925,905**
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt	548,452	272,882	(23,126)	8,786	9,539	816,533
Restricted:						
Expendable:						
Education	—	—	—	—	138,487	138,487
Capital projects	202,111	—	800	—	—	202,911
Debt service	109,208	5,804	—	—	—	115,012
Other	52,550	—	—	403	2,215	55,168
Nonexpendable, education	—	—	—	—	267,410	267,410
Unrestricted	210,159	103,945	(28,395)	—	(105,058)	180,651
Total net assets (deficit)	**$ 1,122,480**	**$ 382,631**	**$ (50,721)**	**$ 9,189**	**$ 312,593**	**$ 1,776,172**

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Public Service Authority	$ 999,224	$ 1,049,044	$ 8,542	$ —
State Ports Authority	106,419	116,817	977	3,216
Connector 2000 Association, Inc.	22,346	3,336	1,055	—
Lottery Commission	950,008	953,163	225	—
Nonmajor component units	104,397	34,022	116,545	—
Totals	**$ 2,182,394**	**$ 2,156,382**	**$ 127,344**	**$ 3,216**

The Notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue	Net Assets (Deficit) Beginning of Year (Restated)	Net Assets (Deficit) End of Year
$ 58,362	$ 1,064,118	$ 1,122,480
14,591	368,040	382,631
(17,955)	(32,766)	(50,721)
3,380	5,809	9,189
46,170	266,423	312,593
$ 104,548	**$ 1,671,624**	**$ 1,776,172**

Notes to the Financial Statements—Contents

Notes to the Financial Statements—Contents (Continued)

Notes to the Financial Statements—Contents (Continued)

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Scope of Reporting Entity

The South Carolina General Assembly (an elected legislative body) and several elected executives govern the State of South Carolina. The accompanying financial statements present the activities of the State of South Carolina's primary government and its component units.

Component units are legally separate organizations for which the State is financially accountable. Blended component units, although legally separate from the State, are part of the State's operations in substance. Accordingly, the State presents them as funds in its fund financial statements and as activities in its government-wide financial statements. In contrast, the State excludes its discretely presented component units from the fund financial statements included within its basic financial statements and it reports the discretely presented component units separately in its government-wide financial statements.

As explained more fully below, the State's primary government and its component units include various State funds, agencies, departments, institutions, authorities, and other organizations.

Primary Government

The State's primary government includes all constitutional offices, departments, agencies, commissions, and authorities unless otherwise noted below. Most of these have executives or boards appointed by the Governor, the General Assembly, or a combination thereof. These entities are financially accountable to, and fiscally dependent on, the State.

Although they operate somewhat autonomously, the entities listed below are included in the State's primary government because they lack full corporate powers.

Fiscal year ended June 30, 2004:
- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 2003:
- The Public Railways Division of the Department of Commerce

The State's five retirement systems are part of the State's primary government. The State Budget and Control Board, which consists of five elected officials, serves as trustee of the systems. The State Treasurer is custodian of the funds.

The State reports ten State-supported universities and sixteen area technical colleges within its Higher Education Fund, part of the primary government. Although the universities and colleges operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and the General Assembly appoint most of their boards and budget a significant portion of their funds.

The accompanying financial statements exclude the related foundations listed in Note 20 because the State does not significantly influence operations of the related foundations nor are the related foundations accountable to the State for fiscal matters.

Blended Component Units

Unless otherwise indicated below, the blended component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2004.

Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority, a blended component unit accounted for as a governmental fund, commenced operations in August 2000. Its creation was in accordance with an act of the General Assembly that resulted from South Carolina's participation in a settlement (the Master Settlement Agreement or MSA) that arose out of litigation that a group of state governments brought against the tobacco industry. The legally separate Authority's primary purposes are (a) to receive all receipts due to South Carolina under the MSA after June 30, 2001, and (b) to issue the Authority's revenue bonds payable solely from, and secured solely by, those receipts. The Authority's governing board is composed of the Governor or his designee, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The State receives the funding from the bond issuances, except in the event that the Authority issues bonds expressly to refund its outstanding bonds.

State Housing Corporation

The State Housing Corporation, a blended component unit accounted for as an enterprise fund, was organized to lease, operate, manage, and contract for the construction of office facilities for the South Carolina State Housing Finance and Development Authority and for affordable housing facilities for members of the beneficiary classes of the Authority. The Corporation was dissolved during the fiscal year ended June 30, 2004, and the assets were used to partially repay a loan from the Authority. The Authority forgave the remaining loan balance.

Notes to the Financial Statements

Governor's School for the Arts Foundation, Inc.

The State's internal service funds include the Governor's School for the Arts Foundation, Inc., a blended component unit. The Foundation exists solely to support the South Carolina Governor's School for the Arts and Humanities.

Blended Component Units Associated with the Higher Education Fund

The State's nonmajor enterprise funds include the following blended component units, all of which are associated with the Higher Education Fund, a major enterprise fund:

The Citadel Trust, Inc., was formed for the purpose of investing funds in order to provide scholarship and other financial assistance or support to the Citadel.

The *University of South Carolina Trust (the Trust)* operates exclusively for the benefit of the University's School of Medicine to augment and aid education, research, and service in the field of health sciences. The financial information presented in the accompanying financial statements is for the Trust's fiscal year ended December 31, 2003.

The *Medical University Hospital Authority* (the Authority) was created to manage and operate the Medical University of South Carolina's hospitals and clinics. The legislation establishing the Authority requires that the members of the Medical University's Board of Trustees also constitute the Authority's Board of Trustees.

University Medical Associates (UMA) was established to promote and support educational, medical, scientific, and research purposes of the Medical University of South Carolina (MUSC). UMA promotes the recruitment and retention of superior faculty at MUSC. UMA is a blended component unit because it almost exclusively benefits MUSC even though UMA does not provide all of its services directly to MUSC.

The *Medical University Facilities Corporation* was established to obtain financing for the Medical University of South Carolina to purchase land, an office building, and a parking garage.

The *CHS Development Company* was established during fiscal year 2003-2004 to provide financing services for the Medical University of South Carolina by developing and leasing property.

The *Pharmaceutical Education and Development Foundation (PEDF)* promotes educational, research, clinical, and other facilities and programs of the Medical University of South Carolina's College of Pharmacy. PEDF is a nongovernmental component unit.

Obtaining More Information about Blended Component Units

One may obtain complete financial statements for the above blended component units from the following administrative offices:

South Carolina Tobacco Settlement
Management Revenue Authority
122 Wade Hampton Office Building
Capitol Complex
Columbia, South Carolina 29201

State Housing Corporation
c/o South Carolina State Housing
Finance and Development Authority
300-C Outlet Pointe Boulevard
Columbia, South Carolina 29210

Governor's School for the Arts
Foundation, Inc.
15 University Street
Greenville, South Carolina 29601

The Citadel Trust
c/o The Citadel
171 Moultrie Street
Charleston, South Carolina 29409

University of South Carolina School of
Medicine Educational Trust
Post Office Box 413
Columbia, South Carolina 29202

Medical University Hospital Authority
Fiscal Services Offices
Post Office Box 250603
Charleston, South Carolina 29425

University Medical Associates
Suite 355
1180 Sam Rittenberg Boulevard
Charleston, South Carolina 29407

Medical University Facilities
Corporation
c/o Medical University of South Carolina
Controller's Office
Suite 805
19 Hagood Avenue
Post Office Box 250817
Charleston, South Carolina 29425

CHS Development Company
c/o Medical University of South Carolina
Controller's Office
Suite 805
19 Hagood Avenue
Post Office Box 250817
Charleston, South Carolina 29425

Pharmaceutical Education and
Development Foundation
c/o Health Sciences Foundation
18 Bee Street
Post Office Box 250450
Charleston, South Carolina 29425

Discretely Presented Component Units

Unless otherwise indicated below, the discretely presented component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2004.

Public Service Authority

The State General Assembly created the South Carolina Public Service Authority (Santee Cooper), a public utility company, in 1934. The Authority's primary purpose is to provide electric power and wholesale water to the people of South Carolina. The Governor appoints the Authority's Board of Directors. The Governor has the ability to remove the appointed members at will. By law, the

Notes to the Financial Statements

Authority must annually transfer to the State's General Fund any net earnings not necessary for prudent business operations. The financial information presented in the accompanying financial statements is for the Authority's fiscal year ended December 31, 2003.

State Ports Authority

The State General Assembly created the South Carolina State Ports Authority in 1942 to develop and improve the State's harbors and seaports. The State Ports Authority owns and operates seven ocean terminals that handle import and export cargo. The Governor appoints the members of the Authority's governing board. The Governor has the ability to remove the appointed members at will. The State's primary government has provided financial support to the Authority in the past, and State law grants the primary government access to the Authority's surplus net revenues.

Connector 2000 Association, Inc.

Connector 2000 Association, Inc., was created in 1996 to assist the Department of Transportation in financing, acquiring, constructing, and operating turnpikes and other transportation projects, primarily the project known as the Southern Connector in Greenville County. The Department of Transportation initially set the toll rates for the Southern Connector and has the right, but not the obligation, to revise the rates as long as they are within 90.0% to 120.0% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. The rates also must be in compliance with revenue covenants of the Association's financing agreements. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2003.

Lottery Commission

The South Carolina Lottery Commission commenced operations in July 2001 in accordance with an act of the General Assembly. The Commission, established to serve the State's citizens, is governed by a nine-member board with three members appointed by the Governor, three appointed by the President Pro Tempore of the Senate, and three appointed by the Speaker of the House of Representatives. State law requires that the Commission transfer its net proceeds to the State to support improvements and enhancements for educational purposes and programs.

Other Discretely Presented Component Units

The State considers the four discretely presented component units described above as its major component units. The State's government-wide financial statements also include the following non-major discretely presented component units:

The Clemson Foundation (the Foundation) is a non-profit, tax-exempt public charity that was established to raise and manage private gifts for the advancement and benefit of Clemson University. The Foundation is governed by an independent, forty-three member volunteer board of directors, with additional honorary and ex-officio directors as approved.

The University of South Carolina Eduational Foundation (the Foundation) is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. The Foundation establishes and implements long-range fund raising programs to assist in the expansion and improvement of the educational functions of the University. The Foundation is governed by a self-perpetuating board of directors consisting of at least twenty-four members, including four ex-officio directors.

The South Carolina Medical Malpractice Liability Joint Underwriting Association (the Association) was established to provide medical malpractice insurance on a self-supporting basis. The Association is governed by a board of thirteen directors, all of whom are appointed by the Governor. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2003.

The South Carolina First Steps to School Readiness Board of Trustees was established in 1999 as a non-profit, tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The corporation was created specifically to carry out the objectives of The South Carolina First Steps to School Readiness Act and to lessen the burdens on government by overseeing the South Carolina First Steps to School Readiness initiative for improving early childhood development. The corporation's governing board is composed of two classes of members, voting and nonvoting. The Board's voting members include the Governor, State Superintendent of Education, ten Governor appointees, four members appointed by the President Pro Tempore of the Senate, four members appointed by the Speaker of the House of Representatives, the Chairman of the Senate Education Committee, and the Chairman of the House Education and Public Works Committee.

The Children's Trust Fund of South Carolina, Inc. (the Fund), is a non-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Fund's purpose is to stimulate innovative prevention and treatment programming to meet critical needs of South Carolina's children by awarding grants to private non-profit organizations. The Governor appoints the Board of Trustees' nine members. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Fund's fiscal year ended December 31, 2003.

The Savannah Lakes Regional Loan Fund (the Fund) was established in 1990. It maintained a revolving loan fund to promote economic development in the State's Savannah Lakes Region. The Fund's Board of Directors consisted of three members from each of two State agencies, the Department of Commerce and the Jobs—Economic Development Authority (JEDA). The State's primary government initially capitalized the fund. The primary government regularly provided gratis administrative services to the fund. The Fund was dissolved during the fiscal year ended June 30, 2004, and the assets of the Fund were transferred to the

Notes to the Financial Statements

Savannah Valley Development of the South Carolina Department of Commerce.

Obtaining More Information about Discretely Presented Component Units

One may obtain complete financial statements for the discretely presented component units from the following administrative offices:

South Carolina Public Service Authority (Santee Cooper)
One Riverwood Drive
Moncks Corner, South Carolina 29461

South Carolina State Ports Authority
Post Office Box 22287
Charleston, South Carolina 29413

Connector 2000 Association, Inc.
Post Office Box 408
Piedmont, South Carolina 29673

The South Carolina Lottery Commission
Post Office Box 11949
Columbia, South Carolina 29211

Clemson University Foundation
110 Daniel Drive
Clemson, South Carolina 29634

University of South Carolina Educational Foundation
208 Osborne Building
University of South Carolina
Columbia, South Carolina 29208

The South Carolina Medical Malpractice Liability Joint Underwriting Association
c/o Marsh USA
Post Office Box 128
Greenville, South Carolina 29161

The Children's Trust Fund
1205 Pendleton Street, Suite 506
Columbia, South Carolina 29201

Savannah Lakes Regional Loan Fund
c/o Jobs-Economic Development Authority
Post Office Box 8327
Columbia, South Carolina 29202

Fund financial statements for The First Steps to School Readiness Board of Trustees are included in the Supplementary Information section of the State's Comprehensive Annual Financial Report. This entity does not issue separate financial statements.

Related Organizations

A related organization is one for which the primary government is accountable but not *financially accountable.* The South Carolina Reinsurance Facility, the Associated Auto Insurers Plan, regional housing authorities, and the Rural Crossroads Institute are related organizations because the State is not financially accountable for them despite the fact that the Governor appoints a voting majority of their governing boards. County boards of mental retardation and redevelopment authorities are related organizations if the Governor appoints a voting majority of the members.

Jointly Governed Organizations

The Governor, in conjunction with officials of certain local governments, appoints the board members of two military facility redevelopment authorities. The State does not have an ongoing financial interest in these authorities. The Governor appoints one out of seven board members of the Charleston Naval Complex Redevelopment Authority and three out of nine board members of the Myrtle Beach Air Force Base Redevelopment Authority.

During the 2001-2002 fiscal year, the State joined the Atlantic Low-Level Radioactive Waste Compact, a voluntary association of states that, by federal law, is legally separate from each of the party states. South Carolina does not have an ongoing financial interest in the Compact.

b. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and the statement of activities report information about all activities of the primary government and its component units, except for fiduciary activities. These statements distinguish between the State's *governmental* and *business-type activities.* Taxes, federal revenues, and other nonexchange transactions primarily finance the governmental activities whereas fees charged to external parties finance, in whole or in part, the business-type activities. All of the State's governmental and internal service funds are reported in the government-wide financial statements as governmental activities and all of its enterprise funds are reported as business-type activities. (See the *Fund Financial Statements* subsection below for more information about fund types.)

Statement of Activities and Eliminations

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The State does not eliminate direct expenses and does not allocate indirect expenses to functions in the statement of activities. In the statement of activities, reimbursements under indirect cost plans for federal reimbursement purposes are reported as program revenues of the function that includes the reimbursed expenses.

Eliminations have been made to minimize the double-counting of internal activities. For example, the State eliminates payments the Department of Health and Human Services makes to the Department of Mental Health for providing Medicaid services because it reports both departments in its health and environment function. An exception to this general rule is that interfund services provided or used between functions have

Notes to the Financial Statements

not been eliminated in the statement of activities because to do so would distort the net cost data for functional activities as reported in the total column of that statement. The State treats these internal payments as program revenues and treats interfund reimbursements in the statement of activities in the same manner as described below for fund financial statements. For example, when the Department of Health and Human Services purchases computer services from one of the State's higher education institutions, the health and environment governmental function reports an expense, and the higher education business-type activity reports program revenue (charges for services).

Program revenues include: (a) fees, fines, and charges paid by the recipients of goods, services, or privileges offered by the programs; (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and (c) investment earnings that are legally restricted for a specific program. The State classifies as *general revenues* all revenues that are not program revenues, including all taxes.

Major Component Units

The State's management designates the Public Service Authority, the State Ports Authority, the Connector 2000 Association, Inc., and the Lottery Commission as major component units. The nonmajor component units include aggregate totals of all remaining discretely presented component units. In determining which discretely presented component units to designate as major, the State considered each component unit's significance relative to the other discretely presented component units and the nature and significance of its relationship to the primary government.

The Public Service Authority is a regulated electric utility that uses accounting principles established by the Federal Energy Regulatory Commission and reports in accordance with Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation.*

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. The State presents separate statements for each fund category—governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds, with each displayed in a separate column. The State aggregates and reports as nonmajor funds all remaining governmental and enterprise funds.

The State eliminates material intrafund activity. It also treats interfund reimbursements (repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them) as reductions of expenditure/expense in the initial fund. For example, during the fiscal year ended June 30, 2004, the Department of Motor Vehicles (reported within the general government function) used office supplies and postage provided by the Department of Public Safety (reported within the administration of justice function). The Department of Public Safety initially recorded expenditures for the office supplies and postage in the General Fund. The Department of Motor Vehicles later reimbursed the Department of Public Safety with special revenue monies. That is, the Department of Motor Vehicles recorded special revenue fund expenditures while the Department of Public Safety reduced its General Fund expenditures by the same amount.

Governmental Funds

Governmental funds focus primarily on the sources, uses, and balances of current financial resources. The governmental fund category includes the General Fund, special revenue funds, the Capital Projects Fund, and permanent funds. The State reports the following major governmental funds:

The General Fund is the State's general operating fund. It accounts for resources that fund the services South Carolina's State government traditionally has provided to its citizens, except those required to be accounted for in another fund.

The Departmental General Operating Fund accounts for resources, other than General Fund resources, that State agencies may use for operating purposes. These resources include significant amounts of federal grant receipts.

The Local Governmental Infrastructure Fund accounts for grants, loans, and other financial assistance to local governments for infrastructure purposes. Certain motor fuel taxes, federal funds, and transfers from other funds are the fund's primary resources. This fund includes operations of the South Carolina Transportation Infrastructure Bank.

The Department of Transportation Special Revenue Fund accounts for the various gasoline taxes, fees, fines, and federal grant resources that the Department of Transportation uses in its general operations. Those operations include highway maintenance and repair as well as most of the Department's administrative activities.

The State Tobacco Settlement Fund accounts for revenues received from the General Fund and from the Tobacco Settlement Revenue Management Authority, a blended component unit and nonmajor governmental fund designated to receive and manage South Carolina's share of the multi-state legal settlement with the tobacco industry. Various healthcare and local government programs use these funds and the related interest.

The State aggregates other nonmajor governmental funds in a single column in its fund financial statements.

Enterprise Funds

Enterprise funds (which are reported as business-type activities in the government-wide financial statements) report activities that charge fees to external users for goods or services. The State reports the following major enterprise funds:

The Higher Education Fund accounts for the general operations of ten four-year higher education institutions and sixteen area technical colleges, all of which are part of the State's primary government.

The Unemployment Compensation Fund accounts for the State's unemployment compensation benefits. Revenues consist of

Notes to the Financial Statements

assessments on employers to pay benefits to qualified unemployed persons.

The Housing Authority Fund facilitates medium-income and low-income housing opportunities by providing reasonable financing to the State's citizens. To provide such financing, the Fund issues bonds and notes and administers federal grants and contracts. Mortgage interest is a primary resource for the Fund.

The Education Assistance Authority Fund issues bonds to make loans to individuals to enable students to attend higher education institutions. Resources include interest charges, subsidies from the United States Department of Education, loan repayments, and investment earnings.

The State aggregates other nonmajor enterprise funds in a single column in its fund financial statements.

Other Fund Types

The State reports the following fund types in addition to governmental and enterprise funds:

Internal service funds account for various goods and services provided to other State departments or agencies (primarily to governmental funds), or to other governments, on a cost-reimbursement basis. Services provided by these funds include several risk management activities for which the State is the primary participant, including underwriting related to the following risks: public buildings and their contents, torts, medical malpractice, automobile use by public employees in the performance of their official duties, employee health and disability, and workers' compensation benefits. Other services include those relating to telecommunications, computer operations, office rental, janitorial, building maintenance, lease and repair of fleet vehicles, procurement, employee training, and management of public employee retirement systems. The internal service funds also sell goods produced with prison inmate labor. In addition, the internal service funds purchase selected supplies and equipment in bulk and sell these items to other State funds (primarily governmental funds) and to local governmental units. The State's internal service funds are considered to be governmental activities because they primarily serve governmental funds.

Pension trust funds account for the pension benefits of the South Carolina Retirement System, the Police Officers' Retirement System, the General Assembly Retirement System, the Judges' and Solicitors' Retirement System, and the National Guard Pension System.

The State's *investment trust fund* accounts for a local government investment pool that the State Treasurer operates.

Private-purpose trust funds include a tuition savings plan benefiting college students. Another private-purpose trust fund sets aside assets for site stabilization and closure of a nuclear waste site operated by a private company within the State's borders in the event that the company ceases operations or loses its license to operate. The private-purpose trust funds also include miscellaneous other trust agreements holding assets that benefit non-State parties.

Agency funds account for assets that the State holds as an agent. These assets include deposits of insurance companies in lieu of surety bonds; employee and employer payroll deductions and contributions for the short period of time between the issuance of payroll checks and payment to the recipients; and various other assets held for prisoners, patients of State institutions, and other external parties.

Operating and Nonoperating Revenues and Expenses in Proprietary Fund Financial Statements

Enterprise and internal service funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally are limited to items resulting from the provision of services and goods in connection with the fund's principal ongoing operations. The State generally classifies revenues and expenses as operating only if the related cash flows appear in the operating section on the statement of cash flows. Accordingly, grants and grant-like transactions are reportable as operating revenues only if they are essentially the same as contracts for services (i.e., exchange transactions) and they finance programs that the proprietary fund would not otherwise undertake (i.e., the activity of the grant is inherently part of the operations of the grantor). Conversely, the State classifies nonexchange transactions as nonoperating. This includes all grant revenues except those reportable as operating revenue as described above and those restricted by the grantor for use exclusively for capital purposes. The State reports as operating most expenses it pays from operating revenues but usually reports interest expense as nonoperating.

In accordance with the general policy stated in the preceding paragraph, the *Higher Education Fund's* principal operating revenues include tuition; student fees; student loans; scholarships and grants (including Pell grants) where the provider has identified the student recipients; sales of miscellaneous goods and services; and certain research grants that, in substance, are contracts for services rather than nonexchange revenues. However, the Higher Education Fund generally does not report as revenue third-party loan amounts that it receives and disburses. (In a third-party loan, a student or a student's parents secure(s) a student loan from a governmental fund or from another lender such as the federal government; the Higher Education Fund then receives funds from the lender and disburses the funds to the student or applies amounts to the student's account.)

For the *Unemployment Compensation Fund*, principal operating revenues include amounts received from covered employers and from federal agencies. The amounts received from federal agencies are classified as operating revenues because they are provided to the State primarily to provide unemployment benefits, although amounts not needed for that purpose may be used for other purposes. This fund's operating expenses consist primarily of unemployment compensation benefits paid. Interest income is classified as nonoperating revenue.

For the *Housing Authority Fund* and the *Education Assistance Authority Fund*, principal operating items include revenues and expenses associated with program loans that provide direct benefits to individuals.

Notes to the Financial Statements

The principal ongoing operation of *The Citadel Trust, Inc.*, a nonmajor enterprise fund, is investing. Accordingly, the State reports its investment-related transactions as operating rather than nonoperating.

Component Unit Financial Statements

The State presents a statement of net assets and a statement of activities for each of its major discretely presented component units and for the aggregate of its nonmajor discretely presented component units.

Use of Private-Sector Accounting and Financial Reporting Principles

The government-wide and proprietary fund financial statements reflect the State's compliance with private-sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Goverments also may opt to follow private-sector guidance issued after November 30, 1989, for their business-type activities (enterprise funds) and for their discretely presented component units that follow enterprise fund accounting, subject to the same limitation. Only the Public Service Authority and the State Ports Authority, major discretely presented component units, have selected this option.

c. Measurement Focus and Basis of Accounting

A particular measurement focus determines *what* resources are measured. The State reports its government-wide, proprietary, and fiduciary fund financial statements using the *economic resources* measurement focus. Business enterprises use this same measurement focus. The State reports its governmental funds using the *current financial resources* measurement focus.

The basis of accounting determines *when* the State recognizes revenues and expenditures/expenses as well as the related assets and liabilities, regardless of measurement focus. Generally accepted accounting principles for governments require the use of the accrual and the modified accrual bases of accounting as described below.

Accrual Basis

The State uses the accrual basis of accounting in reporting its government-wide financial statements, as well as its proprietary and fiduciary fund financial statements and its major component unit financial statements. Under the accrual basis, the State generally records revenues when earned and reasonably measurable and records expenses when a liability is incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, donations, fines, and penalties. On the accrual basis, the State recognizes income, sales, and similar taxes in the period when the underlying income or sales transactions occur. The State recognizes grants, donations, and similar items as revenue as soon as it meets all eligibility requirements. Fines and penalties are recognized in the period when an enforceable legal claim to the related assets has arisen. Pledges are recognized as receivables and revenues, net of estimated uncollectible amounts, if all eligibility requirements are met, the promise is verifiable, and the resources are measurable and probable of collection. Note 17b provides additional details regarding pledges that were not measurable at June 30, 2004.

Modified Accrual Basis

The State uses the modified accrual basis of accounting to report its governmental funds. Under the modified accrual basis, revenues, net of estimated uncollectible amounts, are recognized in the fiscal year when they become susceptible to accrual—that is, as soon as they become both measurable and available to finance expenditures of the fiscal year. Deferred revenue is recorded for receivables that are measurable but not available at year-end.

Under the modified accrual basis, the State's governmental funds consider receivables collected within one year after year-end to be available and recognize them as revenues of the current year if measurable. Interest on investments is recorded as earned because it is deemed available when earned. Taxes, grants, donations, revenue resulting from the provision of material services and commodities, interest on investments, fines, and penalties associated with the current fiscal year are considered susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items in governmental funds are considered to be available only when the State receives the related cash.

Under the modified accrual basis, expenditures generally are recorded when a liability is incurred, as under accrual accounting. An exception, however, is that principal and interest on general long-term debt, claims and judgments, and compensated absences, are recognized as expenditures only to the extent they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures (rather than as assets) in governmental funds.

Recognition of Specific Grant and Shared Revenue Transactions

The State's governmental funds do not report the receipt of food commodities as revenue and do not report the distribution of commodities as expenditures because there is no flow of *financial* resources in conjunction with these transactions. However, the State does record these receipts and distributions as revenues and expenses on the accrual basis of accounting.

The State recognizes the face value of food stamp benefits distributed as revenue and expenditures/expenses under both the accrual and modified accrual bases of accounting.

The State shares certain of its revenues with municipalities, counties, and districts within its

Notes to the Financial Statements

borders, recognizing expenditure or expense when the recipient government has met all eligibility requirements.

d. Cash and Cash Equivalents

The amounts shown in the accompanying financial statements as *cash and cash equivalents* represent petty cash, cash on deposit in banks, restricted cash and cash equivalents on deposit with external parties, and cash invested in various instruments as a part of the State's cash management pool, an internal investment pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

Most entities in the primary government and the discretely presented governmental component units participate in the cash management pool. Significant exceptions, however, are: retirement plans, the Local Government Investment Pool (an external investment pool), the Tobacco Settlement Revenue Management Authority (a blended component unit and a nonmajor governmental fund), the Housing Authority (a major enterprise fund), and certain activities of the Higher Education Fund (a major enterprise fund). Of the discretely presented component units, the State Ports Authority, the Lottery Commission, and the First Steps to School Readiness Board of Trustees participate in the pool. For activities excluded from the pool, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

e. Cash Management Pool–Allocation of Interest

The State's cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. All earnings on that account, however, are recorded in the General Fund. In contrast, each special deposit account retains its own earnings.

f. Investments

The State Treasurer is authorized by statute to invest all State funds. The State Treasurer's investment objectives are preservation of capital, maintenance of adequate liquidity, and obtaining the best yield possible within prescribed parameters. To meet those objectives, the State Treasurer uses various resources including an investment advisory service, electronic financial quotation and information services, various economic reports, and daily communication with brokers and financial institution investment officers.

To insure safety of principal, the State Treasurer's policy is to limit liquid investments (i.e., those with maturities not exceeding one year) to cash, repurchase agreements (when collateralized by United States Treasury, federal agency or other federally guaranteed obligations with a market value in excess of 100.0% of funds advanced), United States Treasury bills, federal agency discount notes, and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities (i.e., those rated at least A by two leading national rating services). In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

Under State law, the State Retirement Systems Investment Panel (the Panel) may make limited investments in equity securities for the State's pension trust funds. Each member of the State Budget and Control Board appoints one member of the five-member Panel. The Panel's objective is to optimize the long-term performance of equity investments consistent with a prudent level of portfolio risk, considering the liabilities and liquidity needs of the pension trust funds.

Substantially all of the State's investments are presented at fair value; securities are valued at the last reported sales price as provided by an independent pricing service. In contrast, however, the State has presented at historical cost the investment securities and other instruments that the Chief Insurance Commissioner holds for insurance companies in lieu of surety bonds. These securities are separately classified in the accompanying financial statements as *securities held in lieu of surety bonds*. These instruments are recorded in the State's agency funds and are not held for investment purposes.

The State sponsors the Local Government Investment Pool (LGIP), an external investment pool reported as an investment trust fund. The LGIP's complete financial statements may be obtained by writing to the following address:

The State Treasurer's Office
Local Government Investment Pool
Post Office Box 11778
Columbia, South Carolina 29211

g. Receivables and Payables

The State records amounts receivable from parties outside the primary government net of allowances for uncollectible amounts and contractual adjustments. It estimates uncollectible amounts based on past collection experience. The State discloses the gross amounts of these receivables and the amounts of related allowances and adjustments, as well as any significant receivable balances not expected to be collected within one year, in Note 5. Further, the State disaggregates its receivable balances in Note 5 if any significant components thereof have been obscured in the financial statements by aggregation or if

Notes to the Financial Statements

different components of receivables have significantly different liquidity characteristics.

The State presents balances outstanding at the end of the fiscal year that relate to lending/borrowing arrangements between funds as interfund receivables and payables and reports all other outstanding balances between funds as due to/from other funds. The government-wide statement of net assets displays internal balances that involve fiduciary funds as accounts receivable and accounts payable. The State reports as internal balances any residual balances outstanding between the governmental and business-type activities in the government-wide financial statements.

h. Inventories

The State values its inventories at cost, predominantly using the first-in, first-out methodology for its proprietary funds and its business-type activities and predominantly using the average cost methodology for its other funds and activities and its discretely presented component units. The State records expenditures in governmental funds when it consumes inventory items rather than when it purchases them.

i. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. The State records these payments as prepaid items in both the government-wide and fund financial statements.

j. Capital Assets

The State reports its capital assets in the following categories in the applicable governmental or business-type activities in the government-wide financial statements: land and land improvements, infrastructure (i.e., highways and bridges), buildings and improvements, construction in progress, vehicles, machinery and equipment, works of art and historical treasures, and intangible assets.

Capital assets are valued at historical cost or at estimated historical cost if actual historical cost data are not available. Donated capital assets are recorded at estimated fair market value on the donation date. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized. Cumulative costs incurred on major capital assets under construction but not yet placed in service are capitalized and reported in the construction in progress account. Net interest incurred by a proprietary fund during the construction phase of a major capital asset is included as part of the capitalized value of such asset.

An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost as follows: more than $5 thousand for vehicles, machinery and equipment, and works of art and historical treasures; more than $100 thousand for buildings and improvements, depreciable land improvements, and intangible assets; and more than $500 thousand for roads and bridges. All land and non-depreciable land improvements are capitalized and reported, regardless of cost. Certain State agencies also capitalize those assets with a useful life between one and two years that meet the preceding dollar thresholds, and the Lottery Commission, a major discretely presented component unit, capitalizes all property and equipment purchases of $1 thousand or more.

Once the State or one of its discretely presented component units places a depreciable capital asset in service, depreciation is recorded using the straight-line method over the following estimated useful lives:

Asset Category	Years
Land improvements...............................	3 - 60
Infrastructure—highways......................	75
Infrastructure—bridges.........................	50
Buildings and improvements.................	5 - 55
Vehicles...	3 - 20
Machinery and equipment....................	2 - 25
Works of art; historical treasures...........	10 - 25
Intangible assets.................................	3 - 38

In addition, certain capitalized works of art and historical treasures are not depreciated because they are considered to be inexhaustible.

The State does not capitalize certain collections of works of art and historical treasures that are held for public use, are protected and preserved, and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These non-capitalized collections include portraits of political leaders, historical relics, antiques, fossils, and other South Carolina artifacts.

The State reports losses on disposals of capital assets as expenses of its General Government function and gains on such disposals as general revenues in the government-wide statement of activities.

The State reports the Southern Connector toll road as a capital asset of the Connector 2000 Association, Inc., the major discretely presented component unit that financed, constructed, and is responsible for maintaining and operating the toll road. Under an agreement between the Association and the State Department of Transportation (DOT), the DOT retains fee simple title to the road.

Notes to the Financial Statements

k. Deferred Charges

Deferred costs to be recovered from future revenues of the South Carolina Public Service Authority (a regulated utility reported as a major discretely presented component unit) are recorded as deferred charges. Deferred costs include unrealized gains and losses related to the Authority's gas hedging activities. The Authority's rates are based upon debt service and operating fund requirements. The Authority recognizes differences between debt principal maturities and straight-line depreciation as costs to be recovered from future revenue. The recovery of outstanding amounts recorded as costs to be recovered from future revenue will coincide with the repayment of the outstanding long-term debt of the Authority.

Deferred charges also include the cost of a buy-out option on a coal contract exercised by the Authority. The cost was amortized as a component of fuel costs over the remaining life of the former contract. The balance was fully amortized as of December 31, 2003. Unamortized bond issuance costs are reported as deferred charges and are amortized as described in Note 1m.

The South Carolina Medical Malpractice Liability Joint Underwriting Association, a non-major discretely presented component unit, defers certain policy acquisition costs for new and renewal business. The Association amortizes these costs based on the related written and unearned premiums.

l. Tax Refunds Payable

Most of the tax refunds payable balance in the General Fund relates to individual income tax. During the calendar year, the State collects employee withholdings and taxpayers' payments. Taxpayers file returns by April 15 for the preceding calendar year. At June 30, the State estimates the amount it owes taxpayers for overpayments during the preceding six months. The State records this estimated payable as tax refunds payable and a reduction of tax revenues.

m. Long-Term Obligations

The State records general long-term debt and other long-term obligations of the primary government's governmental funds in the governmental activities reported in its government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are recorded as liabilities in the appropriate funds.

The State defers and amortizes bond premiums and discounts, as well as issuance costs, over the life of the bonds predominantly using the effective interest method. For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is also deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The State reports bonds payable net of the applicable bond premium or discount and deferred amount on refunding. Unamortized issuance costs are reported as deferred charges.

n. Compensated Absences

During their first ten years of service, most full-time permanent State employees annually earn 15 days of vacation leave and 15 days of sick leave. After ten years, most employees earn an additional 1.25 days of vacation leave for each year of service over ten until they reach the maximum of 30 days per year. Employees may carry forward up to 45 days of vacation leave and 180 days of sick leave from one calendar year to the next. Upon termination of employment, the State pays employees for accumulated vacation leave at the pay rate then in effect. Employees do not receive pay for accumulated sick leave when they terminate. However, at retirement, employees participating in the South Carolina Retirement System and the South Carolina Police Officers' Retirement System may receive additional service credit for up to 90 days of accumulated unused sick leave.

The government-wide and proprietary fund statements record an expense and a liability when employees earn compensated absence credits. Governmental fund financial statements record a liability for compensated absences payable at June 30 only if the liability has matured but has not yet been paid at that date (for example, as a result of employee resignations and retirements). The State does not record a liability for unpaid accumulated sick leave.

o. Perkins Loan Liability

The Higher Education Fund, a major enterprise fund, records a liability related to the Perkins student loan program and certain other federal student loan programs to reflect the amount of capital contributions received to date from the federal government plus any other amounts that ultimately are refundable to the federal government under the programs. The State has recorded this liability as part of its other liabilities account.

p. Restricted Net Assets

The State reports a portion of its net assets in its government-wide financial statements as restricted. In this context, *restricted* means that, as of June 30, 2004, this portion of net assets was restricted for a particular purpose either by external parties, by provisions of the State Constitution, or by enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the General Assembly. If the General Assembly subsequently removes restrictions from amounts reported as restricted net assets at June 30, 2004, the State reclassifies such amounts as *unrestricted* net assets when the change becomes effective.

Notes to the Financial Statements

q. Flow Assumption, Net Assets

The State's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

r. Escheat Property

The State accounts for its escheat property in the General Fund, the fund to which the property ultimately escheats. To the extent it is probable that such property will be reclaimed and paid to claimants, the State records a liability and reduces revenue in the General Fund.

NOTE 2: ACCOUNTING AND REPORTING CHANGES

a. Tobacco Settlement Revenues

The State implemented the Governmental Accounting Standards Board's (GASB) Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, effective July 1, 2003. The Bulletin requires the State to recognize tobacco settlement revenues (TSR's) in the government-wide financial statements when the event giving rise to recognition (the domestic shipment of cigarettes) occurs by the tobacco manufacturers, and in the fund financial statements when the event occurs and the TSR payments become available.

As a result of adopting the Bulletin, the Tobacco Settlement Revenue Management Authority, a nonmajor governmental fund, accrued six months of estimated TSR payments as of July 1, 2003. This had the effect of increasing both the beginning net assets of governmental activities in the government-wide statements and the beginning fund balance of the nonmajor governmental funds by $36.885 million.

b. Change in Reporting Entity: Discretely Presented Component Units

The State implemented the Governmental Accounting Standards Board's (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units,* effective July 1, 2003. This Statement provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government. Based on these criteria, the State now reports the Clemson University Foundation and the University of South Carolina Educational Foundation as nonmajor discretely presented component units.

For the fiscal year ended June 30, 2004, the change in reporting entity described above had the following effects on the financial statements of the State's other (i.e., nonmajor) discretely presented component units: increased net revenue by $65.823 million; increased net assets, beginning of year, by $386.309 million; and increased net assets, end of year, by $452.132 million.

NOTE 3: DEFICITS OF INDIVIDUAL FUNDS AND NEGATIVE UNRESTRICTED NET ASSETS

a. Deficits of Individual Funds

The accompanying fund financial statements display deficit fund balances and deficit net asset balances for individual major funds, if applicable. Other funds had the following deficit net asset balances (expressed in thousands) at June 30, 2004:

Nonmajor Enterprise Funds:	
Patients' Compensation	$ 208,905
Tuition Prepayment Program	30,636
CHS Development Company	995
Pharmaceutical Education and Development Foundation (PEDF) of the Medical University of South Carolina	7,998
Internal Service Funds:	
Employee Insurance Programs	75,507
State Accident Fund	107,083
Pension Administration	351

b. Negative Unrestricted Net Assets

The government-wide statement of net assets displays a $960.949 million deficit unrestricted net assets balance for governmental activities. This deficit is due, in large part, to bonds that the State has issued to finance projects of other governments or to finance its own non-capital repairs and maintenance projects.

The State disburses the proceeds of its general obligation school facilities bonds to local school districts. These districts capitalize and report in their own financial statements the school facilities that they construct with these proceeds. Therefore, the State reports these bonds but not the capital assets in unrestricted net assets.

The State disburses some of the proceeds of its general obligation capital improvement bonds to local governments for construction and redevelopment projects. In addition, the State uses some capital improvement bond proceeds for State repairs and maintenance projects. Accordingly, the State reports in unrestricted net assets the portion of capital improvement bonds payable that is associated with these local government and non-capital projects.

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The amount of the unrestricted net assets deficit attributable to debt issued for non-capitalized purposes is as follows (expressed in thousands):

State school facilities bonds.........	$ 650,565
Capital improvement bonds,	
non-capital purposes..................	145,635
Total	$ 796,200

A portion of the deficit unrestricted net assets balance is due to bonds issued by the Tobacco Settlement Revenue Management Authority Fund, a blended component unit accounted for as a non-major governmental fund. The Authority transferred a portion of the bond proceeds to the State Tobacco Settlement Fund, a major governmental fund. The bonds will be retired using future tobacco settlement revenues. The net assets balances of the State Tobacco Settlement Fund and the Tobacco Settlement Revenue Management Authority Fund produce a net deficit of $200.474 million in governmental activities.

NOTE 4: DEPOSITS AND INVESTMENTS

By law, all deposits and investments are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units.

The following display reconciles the details included within this note to the accompanying financial statements at June 30, 2004 (expressed in thousands):

	State Treasurer's Deposits and Investments	Other	Total
Primary Government			
Deposits, carrying value............	$ 239,075	$ 281,294	$ 520,369
Investments, reported amount......................................	24,518,633	12,169,942	36,688,575
Cash on hand.............................	—	9,555	9,555
Totals, primary government.........................	**$ 24,757,708**	**$ 12,460,791**	**$ 37,218,499**
Component Units			
Deposits, carrying value............	$ 2,153	$ 92,103	$ 94,256
Investments, reported amount......................................	165,796	1,141,468	1,307,264
Totals, component units.....	**$ 167,949**	**$ 1,233,571**	**$ 1,401,520**

	Primary Government			
	Govern-ment-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total	Component Units
Current assets:				
Cash and cash equivalents.......	$ 3,482,208	$ 3,463,769	$ 6,945,977	$ 166,245
Less: Unemployment Compensation Fund deposits with United States Treasury..............................	(370,328)	—	(370,328)	—
Investments...........................	58,199	23,329,519	23,387,718	182,850
Securities held in lieu of surety bonds........................	—	354,702	354,702	—
Invested securities lending collateral..............................	507,993	4,762,483	5,270,476	19,030
Restricted assets:				
Cash and cash equivalents.....	295,096	—	295,096	194,263
Investments..........................	131,050	—	131,050	13,740
Long-term assets:				
Investments...........................	292,871	—	292,871	520,061
Restricted assets:				
Cash and cash equivalents.....	846,569	—	846,569	40,060
Investments..........................	64,368	—	64,368	265,271
Totals..............................	**$ 5,308,026**	**$ 31,910,473**	**$ 37,218,499**	**$ 1,401,520**

Amounts on deposit with the United States Treasury that relate to the Unemployment Compensation Fund, a major enterprise fund, are not categorized because they are neither deposits with financial institutions nor investments. The Lottery Commission, a major discretely presented component unit, is required to maintain funds on deposit with the Multi-State Lottery (MUSL). This account serves as a source for prize payouts should MUSL games not generate sufficient funds to pay prize winners. Those account deposits are recorded as restricted cash and cash equivalents on the government-wide statement of net assets and are disclosed as deposits in the following subsection.

a. Deposits

Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. At June 30, 2004, the State's deposits (expressed in thousands) were as follows:

	Category			Total Bank	Carrying
	1	2	3	Balance	Amount
Primary government	$ 558,180	$ 60,503	$ 239,626	$ 858,309	$ 520,369
Discretely presented component units......	$ 41,340	$ 29,919	$ 19,339	$ 90,598	$ 94,256

Notes to the Financial Statements

Category 1 deposits are those covered by federal depository insurance or by collateral held by a State entity or by its agent in the entity's name. Category 2 deposits are collateralized with securities held by the pledging financial institution's trust department or agent in a State entity's name. Category 3 deposits are uncollateralized.

State law requires that a bank or savings and loan association receiving State funds deposited by the State Treasurer must secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss.

Certain State deposits with one bank, totaling $118.929 million, were not fully insured or collateralized at June 30, 2004. During the 2003-2004 fiscal year, the maximum level of State deposits that were not fully insured or collateralized by this bank was $369.016 million. Effective November 3, 2004, the State Treasurer signed an agreement with the financial institution requiring end of day balances be invested in overnight repurchase agreements. In addition, the State Treasurer signed an agreement with an independent third-part safekeeping agent to monitor the sufficiency of collateral maintained by the financial institution.

b. Investments

Legally authorized investments vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper. According to State law, up to 40.0% of the Pension Trust Funds' investments may be in equities. Substantially all of the State's investments are presented at fair value. Securities are valued at the last reported sales price as provided by an independent pricing service. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest income earned.

The State has classified its investments into three risk categories. Category 1 includes investments that were insured or registered or for which the securities were held by a State entity or its agent in the entity's name. Category 1 also includes investments for which a State entity has safekeeping responsibilities but no equity or ownership interest or control. Category 2 includes uninsured and unregistered investments for which the securities were held by the counterparty's trust department or agent in a State entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a State entity's name. The State's investments by risk category (expressed in thousands) at June 30, 2004, were as follows:

Notes to the Financial Statements

Primary Government	Category 1	Category 2	Category 3	Reported Amount	Fair Value
U.S. government securities	$ 2,867,922	$ 392,212	$ 2,523	$ 3,262,657	$ 3,262,657
Corporate bonds	7,018,383	15,917	102	7,034,402	7,034,402
Municipal bonds	454,716	—	23,463	478,179	478,179
Equity securities	9,021,019	—	21,434	9,042,453	9,042,453
Repurchase agreements	3,346,032	7,872	529	3,354,433	3,354,433
Collateralized mortgage obligations	377,352	—	—	377,352	377,352
Asset-backed securities	1,460,130	—	—	1,460,130	1,460,130
Commercial paper	624,566	—	8,894	633,460	633,460
Securities lending program:					
Investments from cash collateral					
Corporate bonds	—	—	3,653,467	3,653,467	3,653,467
Negotiable certificates of deposit	—	—	856,510	856,510	856,510
Repurchase agreements	—	—	564,908	564,908	564,908
Asset backed securities	—	—	150,946	150,946	150,946
Non-cash collateral					
U.S. government securities	—	—	191,884	191,884	191,884
Other	35,457	49,932	7,343	92,732	92,732
Subtotals				31,153,513	31,153,513
Not categorized:					
Mutual funds				343,327	343,327
Securities lending program:					
U.S. government securities				3,629,326	3,629,326
Corporate bonds				155,530	155,530
Equity securities				1,406,879	1,406,879
Totals—primary government	**$ 25,205,577**	**$ 465,933**	**$ 5,482,003**	**$ 36,688,575**	**$ 36,688,575**

Notes to the Financial Statements

Discretely Presented Component Units	Category 1	Category 2	Category 3	Reported Amount	Fair Value
U.S. government securities	$ 565,708	$ —	$ 18,408	$ 584,116	$ 584,116
Corporate bonds	—	—	20,176	20,176	20,176
Equity securities	—	—	48,161	48,161	48,161
Municipal bonds	—	—	815	815	815
Repurchase agreements	117,600	18,692	—	136,292	136,292
Securities lending program:					
Investments from cash collateral					
Corporate bonds	—	—	82,898	82,898	82,898
Other	97	9,397	2,257	11,751	11,751
Subtotals				884,209	884,209
Not categorized:					
Securities lending program:					
U.S. government securities				180	180
Investment in primary government's investment pool				82,718	82,718
Mutual funds				340,157	340,157
Totals—discretely presented component units	**$ 683,405**	**$ 28,089**	**$ 172,715**	**$ 1,307,264**	**$ 1,307,264**

The fiscal year for the Public Service Authority, a major discretely presented component unit, ends December 31. Included in the Public Service Authority's investments, carried at fair value, are nuclear decommissioning funds of $100.800 million with related unrealized holding gains of $17.400 million. All of the Authority's investments, with the exception of decommissioning funds, are limited to a maturity of ten years or less.

c. Securities Lending Programs

By law, the State's primary government may lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions, with a simultaneous agreement to return the collateral for the same securities in the future. The State may lend United States Government securities, corporate bonds, other securities and equities for collateral in the form of cash or other securities. The contracts with the State's custodians require them to indemnify the State if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the State for income distributions by the securities' issuers while the securities are on loan.

The weighted average maturity of the State's collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2004. At June 30, 2004, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. Either the State or the borrower can terminate all securities loans on demand. There are no restrictions on the amount of the loans that can be made. For the fiscal year ended June 30, 2004, the State experienced no losses on its securities lending transactions because of borrower defaults.

The State receives primarily cash as collateral for its loaned securities. A small portion of the collateral received by the State at June 30, 2004, was in the form of securities. The market value of the required collateral must meet or exceed 102.0% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. During the fiscal year ended June 30, 2004, the State met the 102.0% requirement. The State cannot pledge or sell collateral securities unless the borrower defaults. The lending agent, on behalf of the State, invests cash collateral received. Accordingly, at June 30, 2004, the State recorded these investments of cash collateral as assets in the accompanying financial statements. Corresponding liability amounts also have been recorded because the State must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2004, the fair value of the State's securities on loan was $5.192 billion, and they are uncategorized as to custodial credit risk in the table in subsection b (Investments) above. For the State's cash collateral investments, the table includes the reported amount, fair value, and custodial credit risk by investment type.

Notes to the Financial Statements

NOTE 5: RECEIVABLES

Receivable balances are disaggregated by type according to their liquidity characteristics and are presented separately in the financial statements, net of applicable allowances. Allowances for uncollectible receivables (expressed in thousands) at June 30, 2004, for the primary government were as follows:

	Governmental Activities				
	Governmental Funds				
Allowances for Uncollectibles	**General**	**Departmental General Operating**	**Nonmajor Governmental Funds**	**Internal Service Funds**	**Total Governmental Activities**
Income taxes receivable	$ 32,091	$ —	$ —	$ —	$ 32,091
Sales and other taxes receivable	14,588	39	18,184	—	32,811
Patient accounts receivable	14,597	24,764	—	—	39,361
Loans and notes receivable	23	4	290	—	317
Other receivables	16	8,609	7	56	8,688
Total allowances for uncollectibles	**$ 61,315**	**$ 33,416**	**$ 18,481**	**$ 56**	**$ 113,268**

	Business-type Activities (Enterprise Funds)			
Allowances for Uncollectibles	**Higher Education**	**Unemployment Compensation Benefits**	**Nonmajor Enterprise Funds**	**Total Business-type Activities**
Contributions receivable	$ 925	$ —	$ —	$ 925
Student accounts receivable	5,124	—	—	5,124
Patient accounts receivable	—	—	78,849	78,849
Loans and notes receivable	471	—	—	471
Loans and notes receivable—restricted	189	—	379	568
Assessments receivable	—	5,259	—	5,259
Other receivables	275	1,570	—	1,845
Total allowances for uncollectibles	**$ 6,984**	**$ 6,829**	**$ 79,228**	**$ 93,041**

Notes to the Financial Statements

The enterprise fund financial statements separately present long-term receivables (net receivable balances not expected to be collected within one year). Net receivables not expected to be collected within one year in governmental and internal service funds (expressed in thousands) at June 30, 2004, were as follows:

	Governmental Activities						
	Governmental Funds						
Net Long-term Receivables	**General**	**Departmental General Operating**	**Local Government Infrastructure**	**Department of Transportation Special Revenue**	**Nonmajor Governmental Funds**	**Internal Service Funds**	**Total Governmental Activities**
Accounts receivable	$ 344	$ 18,180	$ 56,220	$ —	$ —	$ 152	$ 74,896
Income taxes receivable	37,129	—	—	—	—	—	37,129
Sales and other taxes receivable	32,327	187	—	—	13,898	—	46,412
Patient accounts receivable	1,214	5,971	—	—	—	—	7,185
Loans and notes receivable	7	572	328,421	9,344	16,706	—	355,050
Accounts receivable—restricted	—	—	426,426	—	—	—	426,426
Total long-term receivables, net	**$ 71,021**	**$ 24,910**	**$ 811,067**	**$ 9,344**	**$ 30,604**	**$ 152**	**$ 947,098**

Notes to the Financial Statements

NOTE 6: DETAILS OF RESTRICTED ASSETS

The purposes and amounts of the State's restricted assets (including the major discretely presented component units) at June 30, 2004 (expressed in thousands) were as follows:

Asset/Restricted For	Govern-mental Activities	Business-type Activities	Major Component Units
Current:			
Cash and Cash Equivalents			
Debt service	$ 51,110	$ 86,049	$ 123,901
Capital projects	—	62,660	65,053
Student loan programs	—	334	—
Donor/sponsor specified	—	12,742	—
Endowments	—	29	—
Second Injury Fund claims	—	81,266	—
Other	—	906	501
Total Cash and Cash Equivalents	**$ 51,110**	**$ 243,986**	**$ 189,455**
Investments			
Debt service	$ 113,196	$ 11,489	$ 12,993
Capital projects	—	—	747
Donor/sponsor specified	—	6,300	—
Endowments	—	65	—
Total Investments	**$ 113,196**	**$ 17,854**	**$ 13,740**
Loans Receivable			
Student loan programs	$ —	$ 295	$ —
Other			
Debt service	$ 66,330	$ 283	$ —
Donor/sponsor specified	—	732	—
Second Injury Fund claims	—	1,083	—
Other	—	63	—
Total Other	**$ 66,330**	**$ 2,161**	**$ —**

Asset/Restricted For	Govern-mental Activities	Business-type Activities	Major Component Units
Noncurrent:			
Cash and Cash Equivalents			
Debt service	$ 312,917	$ 194,264	$ 7,644
Capital projects	211,851	90,302	31,084
Student loan programs	—	7,618	—
Endowments	—	27,676	—
Other	—	1,941	1,332
Total Cash and Cash Equivalents	**$ 524,768**	**$ 321,801**	**$ 40,060**
Investments			
Debt service	$ —	$ 25,170	$ 100,018
Capital projects	—	2,032	106,028
Student loan programs	—	531	—
Endowments	—	36,635	58,959
Total Investments	**$ —**	**$ 64,368**	**$ 265,005**
Accounts Receivable			
Debt service	**$ 426,426**	**$ —**	**$ 7**
Loans Receivable			
Debt service	$ —	$ 473,261	$ —
Student loan programs	—	49,226	—
Total Loans Receivable	**$ —**	**$ 522,487**	**$ —**
Other			
Debt service	$ 5,718	$ 5,312	$ 509
Capital projects	—	405	—
Donor/sponsor specified	—	1,178	—
Endowments	—	369	—
Other	—	4	1
Total Other	**$ 5,718**	**$ 7,268**	**$ 510**

Notes to the Financial Statements

NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2004, for the primary government was as follows:

	Beginning Balances July 1, 2003	Increases	Decreases	Ending Balances June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 840,434	$ 509,413	$ (858)	$ 1,348,989
Construction in progress	3,258,002	358,995	(290,349)	3,326,648
Works of art and historical treasures	3,660	—	—	3,660
Total capital assets not being depreciated	4,102,096	868,408	(291,207)	4,679,297
Capital assets being depreciated:				
Depreciable land improvements	52,022	1,098	—	53,120
Infrastructure (road and bridge network)	7,404,029	236,247	(4,242)	7,636,034
Buildings and improvements	1,371,225	50,229	(231)	1,421,223
Vehicles	536,242	19,557	(18,575)	537,224
Machinery and equipment	394,900	25,238	(19,372)	400,766
Depreciable works of art and historical treasures	8	—	—	8
Intangibles	39,056	2,569	—	41,625
Total capital assets being depreciated, at historical cost	9,797,482	334,938	(42,420)	10,090,000
Less accumulated depreciation for:				
Depreciable land improvements	(33,642)	(1,573)	—	(35,215)
Infrastructure (road and bridge network)	(1,756,332)	(107,665)	3,767	(1,860,230)
Buildings and improvements	(480,906)	(30,246)	110	(511,042)
Vehicles	(354,816)	(34,979)	16,043	(373,752)
Machinery and equipment	(282,720)	(25,230)	17,826	(290,124)
Depreciable works of art and historical treasures	(1)	—	—	(1)
Intangibles	(17,658)	(11,105)	—	(28,763)
Total accumulated depreciation	(2,926,075)	(210,798)	37,746	(3,099,127)
Total capital assets being depreciated, net	6,871,407	124,140	(4,674)	6,990,873
Capital assets for governmental activities, net	**$ 10,973,503**	**$ 992,548**	**$ (295,881)**	**$ 11,670,170**

Notes to the Financial Statements

	Beginning Balances July 1, 2003	Increases	Decreases	Ending Balances June 30, 2004
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 163,978	$ 4,372	$ (1,881)	$ 166,469
Construction in progress	288,409	210,103	(125,029)	373,483
Works of art and historical treasures	16,809	—	—	16,809
Total capital assets not being depreciated	469,196	214,475	(126,910)	556,761
Capital assets being depreciated:				
Depreciable land improvements	65,989	4,087	—	70,076
Buildings and improvements	2,723,614	147,331	(2,621)	2,868,324
Vehicles	37,183	3,664	(2,103)	38,744
Machinery and equipment	542,289	54,405	(23,701)	572,993
Depreciable works of art and historical treasures	6,967	21	—	6,988
Intangibles	14,867	1,463	(1,406)	14,924
Total capital assets being depreciated, at historical cost	3,390,909	210,971	(29,831)	3,572,049
Less accumulated depreciation for:				
Depreciable land improvements	(28,949)	(2,768)	—	(31,717)
Buildings and improvements	(1,013,824)	(81,783)	1,728	(1,093,879)
Vehicles	(28,084)	(2,022)	1,937	(28,169)
Machinery and equipment	(343,714)	(44,290)	17,339	(370,665)
Depreciable works of art and historical treasures	(4,747)	(137)	—	(4,884)
Intangibles	(9,831)	(1,747)	1,348	(10,230)
Total accumulated depreciation	(1,429,149)	(132,747)	22,352	(1,539,544)
Total capital assets being depreciated, net	1,961,760	78,224	(7,479)	2,032,505
Capital assets for business-type activities, net	**$ 2,430,956**	**$ 292,699**	**$ (134,389)**	**$ 2,589,266**

Notes to the Financial Statements

Capital asset activity (expressed in thousands) for the State's major discretely presented component units was as follows:

	Beginning Balances January 1, 2003	Increases	Decreases	Ending Balances December 31, 2003
Public Service Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 93,203	$ 9,819	$ (7,136)	$ 95,886
Construction in progress	221,784	493,533	(202,148)	513,169
Total capital assets not being depreciated	314,987	503,352	(209,284)	609,055
Capital assets being depreciated:				
Buildings and improvements (utility plant)	3,778,123	323,791	(212,957)	3,888,957
Vehicles	28,906	6,733	(2,827)	32,812
Machinery and equipment	18,651	2,905	(1,819)	19,737
Intangibles	40,360	2,280	(1,834)	40,806
Total capital assets being depreciated, at historical cost	3,866,040	335,709	(219,437)	3,982,312
Less accumulated depreciation for:				
Buildings and improvements (utility plant)	(1,515,296)	(137,576)	46,056	(1,606,816)
Vehicles	(14,576)	(3,680)	646	(17,610)
Machinery and equipment	(7,225)	(1,588)	457	(8,356)
Intangibles	(33,268)	(902)	—	(34,170)
Total accumulated depreciation	(1,570,365)	(143,746)	47,159	(1,666,952)
Total capital assets being depreciated, net	2,295,675	191,963	(172,278)	2,315,360
Public Service Authority, net	**$ 2,610,662**	**$ 695,315**	**$ (381,562)**	**$ 2,924,415**

	Beginning Balances January 1, 2003	Increases	Decreases	Ending Balances December 31, 2003
Connector 2000 Association:				
Capital assets being depreciated:				
Infrastructure (toll road)	$ 191,759	$ 713	$ —	$ 192,472
Machinery and equipment	440	108	(1)	547
Total capital assets being depreciated, at historical cost	192,199	821	(1)	193,019
Less accumulated depreciation for:				
Infrastructure (toll road)	(8,972)	(5,238)	—	(14,210)
Machinery and equipment	(176)	(103)	1	(278)
Total accumulated depreciation	(9,148)	(5,341)	1	(14,488)
Total capital assets being depreciated, net	183,051	(4,520)	—	178,531
Connector 2000 Association, net	**$ 183,051**	**$ (4,520)**	**$ —**	**$ 178,531**

Notes to the Financial Statements

	Beginning Balances July 1, 2003	Increases	Decreases	Ending Balances June 30, 2004
State Ports Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 139,362	$ 2,437	$ (39)	$ 141,760
Construction in progress	53,589	13,346	(1,855)	65,080
Intangibles	—	3,230	—	3,230
Total capital assets not being depreciated	192,951	19,013	(1,894)	210,070
Capital assets being depreciated:				
Depreciable land improvements	150,252	2,898	—	153,150
Buildings and improvements	247,590	5,837	(3,882)	249,545
Machinery and equipment	76,501	5,018	(1,479)	80,040
Intangibles	—	692	—	692
Total capital assets being depreciated, at historical cost	474,343	14,445	(5,361)	483,427
Less accumulated depreciation for:				
Depreciable land improvements	(86,079)	(6,301)	—	(92,380)
Buildings and improvements	(125,509)	(10,581)	3,882	(132,208)
Machinery and equipment	(38,757)	(6,583)	1,288	(44,052)
Intangibles	—	(75)	—	(75)
Total accumulated depreciation	(250,345)	(23,540)	5,170	(268,715)
Total capital assets being depreciated, net	223,998	(9,095)	(191)	214,712
State Ports Authority, net	**$ 416,949**	**$ 9,918**	**$ (2,085)**	**$ 424,782**

	Beginning Balances July 1, 2003	Increases	Decreases	Ending Balances June 30, 2004
Lottery Commission:				
Capital assets being depreciated:				
Buildings and improvements	$ 624	$ 18	$ —	$ 642
Vehicles	69	—	—	69
Machinery and equipment	19,271	576	(11)	19,836
Total capital assets being depreciated, at historical cost	19,964	594	(11)	20,547
Less accumulated depreciation for:				
Buildings and improvements	(142)	(128)	—	(270)
Vehicles	(26)	(23)	—	(49)
Machinery and equipment	(4,624)	(3,371)	3	(7,992)
Total accumulated depreciation	(4,792)	(3,522)	3	(8,311)
Total capital assets being depreciated, net	15,172	(2,928)	(8)	12,236
Lottery Commission, net	**$ 15,172**	**$ (2,928)**	**$ (8)**	**$ 12,236**

Notes to the Financial Statements

During the fiscal year ended June 30, 2004, depreciation expense was charged to functions of the primary government and its major discretely presented component units as follows (expressed in thousands):

	Governmental Funds	Internal Service Funds	Total Governmental Activities
General government	$ 16,618	$ 7,889	$ 24,507
Education	18,996	1,312	20,308
Health and environment	14,615	1,051	15,666
Social services	719	1,526	2,245
Administration of justice	18,040	1,167	19,207
Resources and economic development	5,012	211	5,223
Transportation	123,642	—	123,642
Total depreciation expense, governmental activities	**$ 197,642**	**$ 13,156**	**$ 210,798**

	Business-type Activities
Higher Education	$ 107,636
Housing Authority	35
Education Assistance Authority	76
Other	25,000
Total depreciation expense, business-type activities	**$ 132,747**

	Major Component Units
Public Service Authority	$ 143,746
State Ports Authority	23,540
Connector 2000 Association, Inc.	5,341
South Carolina Lottery Commission	3,522

At June 30, 2004, the primary government had outstanding construction commitments totaling $737.233 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $52.601 million for significant permanent improvement projects that will not increase State assets. Projects that will not be capitalized as State assets upon completion include projects for replacements, repairs, and/or renovations to existing facilities. In addition, the primary government had outstanding commitments totaling $4.222 million at June 30, 2004, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: $363.828 million for the Public Service Authority at December 31, 2003, and $22.658 million for the State Ports Authority at June 30, 2004.

The total interest expense incurred by the State's enterprise and internal service funds during the current fiscal year was $83.147 million and $2.406 million, respectively. Of the amount incurred by the State's enterprise funds, $5.246 million was included as part of the cost of capital assets under construction, net of interest earnings.

The Public Service Authority, a major discretely presented component unit, incurred total interest costs of $155.516 million during its fiscal year ended December 31, 2003, none of which was included in the cost of capital assets under construction. The State Ports Authority, a major discretely presented component unit, incurred total interest costs of $6.465 million during its fiscal year ended June 30, 2004, of which $870 thousand was included as part of the cost of capital assets under construction.

In accordance with the provisions of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the State Ports Authority recorded an impairment charge of approximately $2.400 million related to certain buildings and equipment for the fiscal year ended June 30, 2004. The impairment charge is included in expenses on the statement of activities.

NOTE 8: RETIREMENT PLANS

a. Plan Descriptions

The South Carolina Retirement Systems (the System), a part of the State Budget and Control Board, administers four defined benefit retirement plans: the South Carolina Retirement System (SCRS), the South Carolina Police Officers' Retirement System (PORS), the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), and the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS). The System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for all four plans. The report may be obtained by writing to:

The South Carolina Retirement System
Fontaine Business Center
202 Arbor Lake Drive
Columbia, South Carolina 29223

SCRS, established by Section 9-1-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits employees of public schools, the State, and its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. Vested members who retire at age sixty-five or with twenty-eight

Notes to the Financial Statements

years of service at any age receive an annual benefit, payable monthly, for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 1.82% of average final compensation times years of service. Reduced benefits are payable as early as age fifty-five.

PORS, established by Section 9-11-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits police officers and fire fighters employed by the State or its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. An annual benefit is payable at age fifty-five for members who retire with a minimum of five years service. Vested members who retire with twenty-five years of service receive an annual benefit, payable monthly for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 2.14% of average final compensation times years of service.

GARS, established by Section 9-9-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits members of the South Carolina General Assembly. Membership is required as a condition of taking office as a member of the General Assembly, unless exempted by State law. Both the members of the General Assembly and the State must contribute. Benefits vest after eight years of service. Vested members who retire at age sixty or at any age with thirty years of service receive an annual benefit, payable monthly, for life. Effective January 1, 2003, a member at age seventy or with thirty years of service is eligible to retire and draw an annuity while continuing to serve in the General Assembly. The annual benefit amount is 4.82% of earnable compensation times years of service. Earnable compensation is defined as forty days' pay at the rate currently paid to members of the General Assembly plus $12 thousand.

JSRS, established by Section 9-8-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits the judges of the State's Supreme Court, Court of Appeals, circuit courts, family courts, and the State's circuit solicitors. Membership is required as a condition of taking office, unless exempted by State law. Both judges and the State must contribute. Benefits vest after ten years of service in a position as a judge and eight years in a position as a solicitor. Members may retire at age seventy with fifteen years of service, at age sixty-five with twenty years of service, at age sixty-five with four years in a JSRS position and twenty-five years other service with the State, twenty-five years service regardless of age for a judge or twenty-four years of service for a solicitor regardless of age. Members receive a retirement benefit equal to 71.3% of the current active salary of the position occupied at retirement.

Information regarding the number of participating employers (dollars expressed in thousands) at June 30, 2004, is as follows:

	SCRS	PORS	GARS	JSRS
State and school				
Number of employers	98	5	1	1
Annual covered payroll	$ 4,561,973	$ 293,476	$ 3,179	$ 14,190
Average number of contributing members	140,987	10,038	170	128
Other participating employers				
Number of employers	557	264	—	—
Annual covered payroll	$ 1,423,356	$ 485,007	$ —	$ —
Average number of contributing members	49,784	14,390	—	—

The plans provide retirement, death, and disability benefits to State employees; public school employees; and employees of counties, municipalities, and certain other State political subdivisions. Each plan is independent. Assets of each plan may be used only to benefit participants of that plan.

b. Summary of Significant Accounting Policies—Basis of Accounting and Valuation of Investments

The financial statements of the previously-described plans are prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period in which the contributions are due. Retirement benefits and refund expenses are recognized when due and payable in accordance with the terms of each plan.

Note 4b specifies the method used to value pension trust fund investments.

c. Funding Policies

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws prescribes requirements relating to membership, benefits, and employee/employer contributions for each plan. The following paragraphs summarize those requirements.

By law, employee contribution requirements for the fiscal year ended June 30, 2004, were as follows:

Plan	Rate
SCRS	6.0% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10.0% of earnable compensation
JSRS	7.0% of earnable compensation

Notes to the Financial Statements

Actuarially determined employer contribution rates for the four plans, expressed as percentages of compensation, for the fiscal year ended June 30, 2004, were as follows:

Plan	Rate
SCRS	7.70%
PORS	10.70%
GARS	85.90%
JSRS	41.66%

Under certain conditions, new employers entering the plans are allowed up to ten years to remit matching employer contributions resulting from their employees' purchase of prior service credits. Interest is assessed annually on the unpaid balance. The amounts outstanding at June 30, 2004, were $2.007 million for SCRS and $10 thousand for PORS.

d. Annual Pension Cost

Annual pension cost (dollars expressed in thousands) and related actuarial data for the State's single-employer defined benefit pension plans were as follows:

	GARS	JSRS
Annual pension cost................	$2,731	$6,078
Employer contributions made..................................	$2,731	$6,078
Actuarial valuation date............	July 1, 2003	July 1, 2003
Actuarial cost method.............	Entry age	Entry age
Amortization method..............	Level percent, closed	Level percent, open
Remaining amortization period.................................	24 years	27 years
Asset valuation method...........	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Investment rate of return........	7.25%	7.25%
Projected salary increases.....	None	3.25%
Assumed inflation rate...........	3.00%	3.00%
Assumed cost-of-living adjustments.......................	None	3.25%

Notes to the Financial Statements

e. Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due.

For the cost-sharing multiple-employer defined benefit pension plans in which the State participates, the State's required contributions in dollars (expressed in thousands) and the percentages of those amounts contributed for the three latest available years were as follows. Also see Note 8f for funding status and progress.

	Fiscal Year Ended					
	June 30, 2004		June 30, 2003		June 30, 2002	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS–State:						
Primary government.....	$ 172,258	100%	$ 176,152	100%	$ 181,217	100%
Component units..........	9,852	100%	9,595	100%	9,089	100%
PORS–State:						
Primary government.....	$ 33,220	100%	$ 34,566	100%	$ 39,495	100%
Component units..........	40	100%	30	100%	25	100%

Notes to the Financial Statements

The following table presents (dollars expressed in thousands) the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the three latest available years for the State's single-employer defined benefit plans. Also see Note 8f for funding status and progress:

Plan	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
GARS	2002	$ 2,627	100%	$ —
	2003	2,577	100%	—
	2004	2,731	100%	—
JSRS	2002	$ 5,993	100%	$ —
	2003	6,014	100%	—
	2004	6,078	100%	—

f. Funding Status and Progress (Unaudited)

The following schedule (dollars expressed in thousands) describes the funding progress for the SCRS and the PORS, cost-sharing multiple-employer defined benefit plans, for the three latest available years:

Plan	Actuarial Valuation Date July 1	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability (AAL) Entry Age *(b)*	Unfunded AAL (UAAL) *(b-a)*	Funded Ratio *(a/b)*	Covered Payroll *(c)*	UAAL as a Percentage of Covered Payroll *((b-a)/c)*
SCRS	2001	$ 18,486,773	$ 21,162,147	$ 2,675,374	87.4%	$ 6,017,537	44.5%
	2002	19,298,174	22,446,574	3,148,400	86.0%	6,147,712	51.2%
	2003	20,197,936	24,398,931	4,200,995	82.8%	6,240,768	67.3%
PORS	2001	$ 2,197,982	$ 2,324,257	$ 126,275	94.6%	$ 757,335	16.7%
	2002	2,351,100	2,527,876	176,776	93.0%	757,393	23.3%
	2003	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%

Notes to the Financial Statements

The following schedule (dollars expressed in thousands) describes the funding progress for the State's single-employer defined benefit plans for the three latest available years:

Plan	Actuarial Valuation Date July 1	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability (AAL) Entry Age *(b)*	Unfunded AAL (UAAL) *(b-a)*	Funded Ratio *(a/b)*	Covered Payroll *(c)*	UAAL as a Percentage of Covered Payroll *((b-a)/c)*
GARS	2001	$ 42,788	$ 68,291	$ 25,503	62.7%	$ 4,761	535.7%
	2002	43,841	73,046	29,205	60.0%	4,515	646.8%
	2003	44,682	66,619	21,937	67.1%	3,844	570.7%
JSRS	2001	$ 94,795	$ 159,246	$ 64,451	59.5%	$ 14,109	456.8%
	2002	100,074	166,440	66,366	60.1%	14,211	467.0%
	2003	106,114	166,655	60,541	63.7%	14,437	419.3%

Notes to the Financial Statements

Included among the measurements of long-term funding progress for defined benefit pension plans are whether a plan's funding ratio is increasing and whether a plan's unfunded liability (UAAL) as a percentage of covered payroll is decreasing. The tables above present the results of those measurements.

The State records the pension liability for cost of living adjustments (COLAs) in the SCRS and PORS only as COLAs are granted. Accordingly, because COLA benefits are not automatically guaranteed, the plans exclude from their actuarial accrued liability calculations and from their funding formulas the costs of providing future COLA benefits.

While the State Budget and Control Board is annually authorized under certain conditions to defer granting COLAs, the Board historically has granted COLAs, even in years when those conditions permitted a deferral. Plan actuaries have determined that the unfunded liabilities for SCRS and PORS would be significantly higher than amounts presented in the table above if the estimated costs of providing future COLA benefits were included in each plan's actuarial accrued liability calculation.

g. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2004, for the four plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	Totals
Receivables:					
Contributions	$ 105,278	$ 13,099	$ 45	$ 285	$ 118,707
Employer long-term	2,007	10	—	—	2,017
Accrued interest	108,379	12,853	281	700	122,213
Unsettled investment sales	43,356	5,195	99	224	48,874
Total receivables	**$ 259,020**	**$ 31,157**	**$ 425**	**$ 1,209**	**$ 291,811**
Due from other funds	**$ 4,712**	**$ 713**	**$ 2**	**$ 88**	**$ 5,515**
Investments and invested securities lending collateral:					
United States government securities	$ 1,543,220	$ 164,834	$ 1,928	$ 1,520	$ 1,711,502
United States government agencies and government-insured securities	2,217,241	394,421	3,747	11,412	2,626,821
Corporate bonds	3,941,559	464,919	9,803	25,647	4,441,928
Financial and other	2,093,851	278,308	3,871	9,165	2,385,195
Equities	9,109,714	1,084,315	20,997	46,873	10,261,899
Invested securities lending collateral	3,272,155	407,560	5,979	13,055	3,698,749
Total investments	**$ 22,177,740**	**$ 2,794,357**	**$ 46,325**	**$ 107,672**	**$ 25,126,094**

Notes to the Financial Statements

h. Teacher and Employee Retention Incentive Program

The Teacher and Employee Retention Incentive (TERI) program, established by State law, became effective January 1, 2001. The program is a deferred retirement option available to SCRS members eligible for service retirement. Upon entering the TERI program, a member's status changes from active to retired. A TERI participant agrees to continue employment with an employer participating in the system for a specified period, not to exceed five years.

TERI participants retain the same status and employment rights they held upon entering the program but are not considered active employees for purposes of the group life insurance and disability retirement programs. A TERI retiree's monthly benefits are accrued and remain in the SCRS trust account during the TERI participation period, but no interest is accrued or paid thereon. Upon termination of employment or at the end of the TERI participation period (whichever is earlier), a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution.

A total of 12,593 members were participating in the TERI program at June 30, 2004. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2004, was as follows:

Beginning balance of TERI trust accounts..	$	424,906
Additions		300,294
TERI distributions at termination..................		(75,815)
Ending balance of TERI trust accounts.......	$	649,385

i. National Guard Pension System

Plan Description

The National Guard Pension System (NGPS) is a single-employer defined benefit pension plan administered by the State Adjutant General's Office.

The NGPS, established by Section 25-1-3210 of the South Carolina Code of Laws, provides benefits to National Guard members who served in South Carolina prior to July 1, 1993. National Guard members are considered to be federal government employees. The federal government pays Guard members' drill pay and summer camp pay. In accordance with State law, the State's General Fund pays Guard members' salaries only if the Governor activates the National Guard for service to the State. The pension benefit that the State provides is intended only to supplement the retirement benefit that Guard members receive from the federal government. Members who retire at age sixty with twenty years of military service, including at least fifteen years of South Carolina National Guard duty, ten of which immediately precede retirement, and who have received an honorable discharge, are entitled to monthly pension benefits. The pension amount is equal to $50 per month for twenty years of creditable service with an additional $5 per month for each additional year of service, provided that the total pension shall not exceed $100 per month.

The following table shows the number of employees by type of membership as of June 30, 2004, the date of the latest biennial actuarial valuation:

	NGPS
Retirees and beneficiaries receiving benefits........................	2,535
Terminated employees entitled to benefits but not yet receiving them.......................	2,974
Active employees..........................	3,425
Total participants...........................	8,934

National Guard members who served in South Carolina prior to July 1, 1993, are covered by the plan. NGPS is closed to new entrants.

Basis of Accounting

The financial statements of the NGPS are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due. Retirement benefits are recognized when due and payable in accordance with the terms of the plan.

Receivables and Investments

The assets of the NGPS consist of cash and cash equivalents, accrued interest receivable, and invested securities lending collateral. Note 4b specifies the method used to value pension trust fund investments.

Contributions and Reserves

The South Carolina Code of Laws prescribes requirements relating to NGPS membership, plan benefits, and employer contributions. The plan, which is administered by the Office of the State Adjutant General, requires no contributions from its members.

Article X, Section 16 of the State Constitution requires that all State-operated retirement plans (NGPS is a State-operated retirement plan) be funded on a sound actuarial basis. For plan years following 1996, NGPS has been annually funded in amounts that have been inadequate to comply with its minimum actuarial contribution requirements. Because of these uncorrected funding deficiencies, plan actuaries report that NGPS is not being operated in an actuarially sound manner.

At June 30, 2004, under the accrual basis of accounting the plan has $11.512 million of net assets for paying supplemental retirement benefits to its members. By comparison, plan actuaries have determined that the plan has $47.281 million in actuarial accrued liabilities at June 30, 2004. Additional information is provided in the following subsections of Note 8i.

Notes to the Financial Statements

Funding Policy and Annual Pension Cost

The following table provides information concerning funding policies and annual pension cost (dollars expressed in thousands):

	NGPS
Annual pension cost....................	$2,978
Employer contributions made.......	$1,997
Actuarial valuation date................	June 30, 2004
Actuarial cost method..................	Entry age
Amortization method....................	Level dollar, open
Remaining amortization period......	30 years
Asset valuation method................	5-year smoothed market
Actuarial assumptions:	
Investment rate of return............	7.25%
Projected salary increases........	Not applicable
Assumed inflation rate	4.25%
Assumed cost-of-living adjustments...........................	Not applicable

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2004 (expressed in thousands):

	NGPS
Actuarially required contribution (ARC)......	$ 2,870
Interest on the NPO....................................	532
Adjustment to the ARC..............................	(424)
Annual pension cost..................................	2,978
Contributions made....................................	1,997
Increase in NPO..	981
NPO beginning of year................................	7,151
NPO end of year..	$ 8,132

The State recognized $1.997 million of expenditures in the General Fund to pay a portion of the current fiscal years' actuarially determined contribution.

The following schedule (dollars expressed in thousands) describes the funding progress for the NGPS for each of the three most recent actuarial valuations:

Biennial Actuarial Valuation Date June 30	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability (AAL) Entry Age *(b)*	Unfunded AAL (UAAL) *(b-a)*	Funded Ratio *(a/b)*	Covered Payroll *(c)*	UAAL as a Percentage of Covered Payroll *((b-a)/c)*
2000	$ 11,089	$ 43,427	$ 32,338	25.5%	$ 40,789	79.3%
2002	12,608	44,678	32,070	28.2%	45,711	70.2%
2004	13,567	47,281	33,714	28.7%	42,391	79.5%

Notes to the Financial Statements

Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. The following table presents the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the latest three fiscal years for the plan (dollars expressed in thousands):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	$ 3,060	73.7%	$ 6,525
2003	2,759	77.3%	7,151
2004	2,796	71.4%	8,132

Financial Statements

The NGPS does not issue separate financial statements. Accordingly, the financial statements for the NGPS are presented below:

Statement of Plan Net Assets
National Guard Pension System
June 30, 2004
(Expressed in Thousands)

ASSETS	
Cash and cash equivalents	$ 11,388
Accrued interest receivable	124
Invested securities lending collateral	1,758
Total assets	**13,270**
LIABILITIES	
Securities lending collateral	1,758
Total liabilities	**1,758**
NET ASSETS	
Held in trust for pension benefits	**$ 11,512**

Statement of Changes in Plan Net Assets
National Guard Pension System
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

Additions:	
Employer retirement contributions	$ 1,997
Investment income	429
Total additions	**2,426**
Deductions:	
Regular retirement benefits	2,376
Administrative expense	4
Total deductions	**2,380**
Net increase in plan net assets	**46**
Net assets held in trust for pension benefits:	
Beginning of year	**11,466**
End of year	**$ 11,512**

j. Defined Contribution Plan

As an alternative to membership in SCRS, certain State and public school employees may elect to participate in State ORP. Participants in State ORP direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts that those providers issue. Accordingly, balances of the State ORP are not reported in the accompanying financial statements.

Under State law, contributions to the State ORP are at the same rates as for the SCRS (see Subsection c, Funding Policies). Covered payroll amounts as well as the amounts of actual employer and employee contributions to the State ORP are summarized in the following schedule (expressed in thousands) for the fiscal year ended June 30, 2004:

Covered payroll	$ 386,470
Employee contributions	23,188
Employer contributions	19,323

Notes to the Financial Statements

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State provides post-employment health and dental benefits to certain former State employees and to certain of their surviving dependents. Generally, retirees are eligible for the benefits if they have established at least ten years of retirement service credit, whereas other former employees are eligible only if they have established at least twenty years of retirement service credit. Benefits become effective when the former employee retires under a State retirement system. Currently, 26,351 retirees meet these eligibility requirements.

Eligible retirees choose among two health insurance plans and two Health Maintenance Organization (HMO) options, all of which are underwritten by the State. The two health insurance plans are the Economy Plan and the Standard Plan. In accordance with contractual provisions of these plans, participants must meet specified annual deductible requirements. The Standard Plan pays 80.0% of allowable claims in excess of deductibles, and the Economy Plan pays 75.0% of allowable claims in excess of deductibles. There are no annual deductible requirements for the HMO options. The Companion HMO pays 90.0% of allowable claims and the CIGNA HMO pays 80.0% of allowable claims, both after co-payments. Participants in the health insurance plans and the HMO options must pay co-payments for prescriptions. The State pays 100.0% of allowable claims after the participant has paid the specified annual out-of-pocket limit prescribed by each option. All options disallow claims in excess of specified annual and lifetime maximums. Participants entitled to receive Medicare benefits may, in some cases, receive reduced State health benefits, although total benefits (State plus Medicare) are equivalent to those received by retirees not entitled to Medicare.

The State also underwrites a dental care plan. Contractual provisions of the plan specify deductible requirements as well as annual and lifetime maximums.

The State finances all health plan options and the dental plan on a pay-as-you-go basis. During the fiscal year ended June 30, 2004, the State recognized expenses (net of participant contributions) of $103.685 million to provide health and dental benefits to State participants in post-employment status.

Effective January 1, 2005, the State health insurance plans will increase annual co-insurance maximums for non-network providers, increase prescription drug copayments, and revise coverage for elective surgeries.

NOTE 10: INSURANCE ACTIVITIES

a. Insurance Reserve Fund

The State generally does not purchase commercial insurance for the risks of losses for property damage, including theft of, damage to, and destruction of assets; automobile liability; tort liability; and medical professional liability. Instead, State management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its Insurance Reserve Fund (IRF), within the internal service funds. The IRF services claims for risk of loss to which the State is exposed, including the following: property insurance on government owned buildings, the contents of such buildings, equipment, and automobiles; automobile liability insurance on government owned vehicles and school buses; tort liability insurance for government premises and operations; and medical professional liability for hospitals. Although the State is the predominant participant in the IRF, county and municipal governments, school districts and special purpose political subdivisions also participate. The IRF allocates the cost of providing claims servicing and claims payment by charging each participant an actuarially determined "premium."

The IRF reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of the unpaid claims liability. The liability is reported net of receivables for salvage, subrogation, and reinsurance. The unpaid policy claims liability of $235.253 million at June 30, 2004, includes a provision for claims in the process of review and for claims incurred but not reported. The liability for claims incurred but not reported is an actuarial estimate based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. This process does not necessarily result in an exact amount. The IRF continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003	$ 185,004	$ 51,752	$ (29,872)	$ 206,884
2004	206,884	65,143	(36,774)	235,253

Notes to the Financial Statements

The IRF purchases aircraft and ocean marine insurance, areas in which the IRF has limited expertise.

The IRF purchases reinsurance to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability. The IRF purchases reinsurance for catastrophic losses in the area of property insurance for losses above $2.000 million per location and $10.000 million per occurrence. Reinsurance permits partial recovery of losses from reinsurers; but the IRF, as direct insurer of the risks, remains primarily liable.

b. Employee Insurance Programs Fund

State law established the Employee Insurance Programs Fund, part of the State's internal service funds, to provide health and dental insurance coverage for eligible employees and retirees of State agencies and school districts and to provide group life and long-term disability insurance coverage to eligible active State and public school employees. The State, the predominant participant, retains the risk of loss. Under the health insurance program, participants elect coverage through either a self-insured health maintenance organization (HMO) or another State self-insured plan. All dental, group life, and long-term disability coverages are provided through the State's self-insured plans. State funds and payroll deductions pay health and dental premiums for eligible State and public school employees. Agencies and school districts pay the employer share of premiums for retirees. Retirees directly pay their own share of premiums. Agencies and school districts pay the premiums for group life and long-term disability for their employees.

The Employee Insurance Programs Fund establishes claims liabilities when information before the issuance of the financial statements indicates that it is probable that the Fund has incurred a reasonably estimable liability at the date of the financial statements. The calculation of the unpaid claims liability includes amounts for allocated and unallocated claims adjustment expenses. The unpaid policy claims liability of $179.872 million at June 30, 2004, includes a provision for claims in the process of review and for claims incurred but not reported. The Fund actuarially estimates the liability for claims incurred but not reported based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, award trends, and estimates of health care trend changes (cost, utilization, and intensity of services). This process does not necessarily result in an exact amount. The Fund continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

Claim costs for long-term disability coverage are actuarially calculated using the one-year term cost method; the cost of coverage is the present value of all benefit payments that will be made on expected claims incurred during the year following the valuation date. Claim liabilities are equal to the present value, as of the valuation date, of all future payments to be made for disabilities and deaths up to that date. Actuarial assumptions include an interest rate of 6.25% for 2004, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2004, $26.654 million relates to group life and long-term disability insurance coverage and $3.440 million relates to the HMO self-insured managed care plan liability. The State does not discount its claims liabilities for health and dental insurance coverage to present value.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003	$ 155,069	$ 1,075,485	$ (1,042,401)	$ 188,153
2004	188,153	1,143,209	(1,151,490)	179,872

c. State Accident Fund

State law established the State Accident Fund (the Fund), an internal service fund, to provide workers' compensation insurance coverage to State entities. Although the State is the Fund's predominant participant, counties, municipalities, and other political subdivisions of the State may also elect to participate. The State assumes the full risk for workers' compensation claims.

The Fund investigates, adjusts, and pays workers' compensation claims as awarded by the Workers' Compensation Commission for job-related accidental injury, disease, or death to covered individuals. The Fund annually bills participating entities for estimated premiums based on the entity's estimated payroll. After the policy period ends, policyholders submit the details of the actual salaries paid. The Fund then adjusts the premium using the actual payroll data and a rating modifier based on claims experience.

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The claims liabilities include specific incremental claims adjustment expenses but not administrative expenses. The Fund deducts reasonably estimable amounts of salvage and subrogation and reinsurance recoverable, if any, on both settled and unsettled claims from the liability for unpaid claims. The Fund periodically recomputes claims liabilities using a variety of actuarial and statistical techniques to produce current estimates. The Fund charges or credits expense in the period when it adjusts claims liabilities. At June 30, 2004, the Fund's policy claims liability was $110.885 million. Policy claims in the financial statements include the liabilities for claims reported but not yet paid and for claims incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in legal doctrines, and damage awards, computation of the claims liability does not necessarily result in an exact amount.

Notes to the Financial Statements

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003	$ 68,321	$ 58,808	$ (50,280)	$ 76,849
2004	76,849	78,818	(44,782)	110,885

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of $600 thousand are covered up to limits of statutory liability; the Fund retains the risk for the first $600 thousand of loss. Reinsurance reduces the Fund's exposure to losses on insured events related to State-owned aircraft in excess of $1.000 million per occurrence up to a limit of $9.000 million. The Fund also purchased reinsurance covering losses from an Act of Terrorism up to $2.000 million per claimant for calendar year 2004. Reinsurance permits partial recovery of losses from reinsurers; but the Fund, as direct insurer of the risks, remains primarily liable.

d. Patients' Compensation Fund and Medical Malpractice Liability Insurance Joint Underwriting Association

The South Carolina Medical Malpractice Patients' Compensation Fund (PCF) and the South Carolina Medical Malpractice Liability Insurance Joint Underwriting Association (JUA) were created by State law. The PCF is accounted for as a nonmajor enterprise fund, and the JUA is a nonmajor discretely presented component unit of the State. The State accounts for the PCF and the JUA as insurance enterprises because they primarily cover non-governmental entities. Accordingly, the PCF and JUA follow the guidance of FASB Statement 60, *Accounting and Reporting by Insurance Enterprises*, and collectively are referred to below as "the insurance enterprises."

The JUA is responsible for payment of that portion of any covered entity's medical malpractice claim, settlement, or judgment up to $200 thousand per incident or $600 thousand in the aggregate for one year. The PCF is responsible for payments exceeding these thresholds. In the event that the PCF incurs a liability exceeding $200 thousand to any person under a single occurrence, the PCF may ultimately pay the claim in full, but it generally may not pay more than $200 thousand per year on such claim (although the PCF's Board of Governors may authorize payments in excess of $200 thousand per year to avoid payment of interest).

Licensed health care providers include physicians and surgeons, directors, officers and trustees of hospitals, nurses, oral surgeons, dentists, pharmacists, chiropractors, hospitals, nursing homes, and any similar category of licensed health care providers. All providers licensed in South Carolina are eligible to participate upon remittance of the annual assessment fees.

The State actuarially establishes claims liabilities for the insurance enterprises based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. At June 30, 2004, the policy claims liabilities were $203.600 million for the PCF and $163.452 million for the JUA, and these amounts include a provision for claims reported but not settled and for claims incurred but not reported. Amounts for claims adjustment expenses, when applicable, have been included in the calculation of the unpaid claims liabilities of the insurance enterprises. The enterprises charge or credit expense, as appropriate, in the period when they adjust claims liabilities. The length of time for which claims costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as medical technology, changes in doctrines of legal liability, and damage awards, the process for computing claims liabilities does not necessarily result in an exact amount. The insurance enterprises and their actuaries recompute claims liabilities annually, using a variety of actuarial and statistical techniques, to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit because the insurance enterprises and their actuaries rely both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience.

e. Second Injury Fund

The State accounts for the South Carolina Second Injury Fund, a nonmajor enterprise fund, as a public benefit program rather than an insurance program primarily because its participants—workers' compensation insurance carriers and self-insured employers—do not transfer their risk to the Fund. The Fund services claims in cases where an individual with a preexisting permanent physical impairment incurs a subsequent disability from injury or accident arising out of and in the course of employment. Participants of the Fund, rather than the State, are ultimately responsible for these liabilities.

The Fund collects and invests assessments received from its participants and pays claims on behalf of its participants to the extent that Fund resources are available to pay such claims. The Fund reports these activities in its statement of cash flows. In accordance with accounting principles used by claims processors, however, the Fund reports as revenue only that portion of assessments and interest earnings intended to cover the Fund's administrative costs, including capital costs. Likewise, the Fund records no claims expense, and it records claims liabilities only to the extent that Fund assets are available to pay such claims.

Notes to the Financial Statements

f. Discretely Presented Component Unit—Public Service Authority (Santee Cooper)

The Public Service Authority (Santee Cooper), a major discretely presented component unit with a fiscal year ended December 31, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions. The Authority purchases commercial insurance to cover these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Policies are subject to deductibles ranging from $5 thousand to $1.000 million with the exception of Rainey Generating Station, which carries an approximate $1.700 million deductible, and named storm losses, which carry deductibles from $1.000 million up to $15.000 million. In addition, a $1.400 million self-insured layer exists between the Authority's primary and excess liability policies.

The Authority self-insures its risks related to auto, dental, and environmental incidents that do not arise out of an insured event. Automotive exposure is up to $2.000 million per incident. Risk exposure for the dental plan is limited by plan provisions. There have not been any third-party claims for environmental damages for calendar year 2003.

The State reports all of the Authority's risk management activities within the Public Service Authority's accounts. The State reports the Authority's claims expenses and liabilities when it is probable that a loss has occurred and the amount of the loss is reasonably estimable.

At December 31, 2003, the policy claims liabilities were $2.228 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

Fiscal Year Ended December 31	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2002	$ 1,426	$ 1,574	$ (1,434)	$ 1,566
2003	1,566	2,167	(1,505)	2,228

NOTE 11: LEASES

a. Lease Commitments

The State leases land, office facilities, equipment, and other assets under both capital and operating leases. The present value of future minimum capital lease payments and total minimum annual lease payments for capital leases recorded in the government-wide statement of net assets at June 30, 2004 (expressed in thousands), follow for the primary government and for the State's major discretely presented component units, respectively:

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities	Totals
2005	$ 1,250	$ 11,785	$ 13,035
2006	1,218	11,261	12,479
2007	1,161	10,322	11,483
2008	510	6,604	7,114
2009	131	3,311	3,442
2010 - 2014	60	14,313	14,373
2015 - 2019	—	13,105	13,105
Total minimum payments................	**4,330**	**70,701**	**75,031**
Less: interest and executory costs......	(1,074)	(16,116)	(17,190)
Present value of net minimum payments..	**$ 3,256**	**$ 54,585**	**$ 57,841**

Fiscal Year Ending December 31	Public Service Authority
2004	$ 3,708
2005	3,603
2006	3,388
2007	3,335
2008	3,038
2009 - 2013	8,648
2014 - 2018	290
Total minimum payments................	**26,010**
Less: interest and executory costs......	(4,495)
Present value of net minimum payments..	**$ 21,515**

Fiscal Year Ending June 30	State Ports Authority
2005	$ 46
2006	33
2007	33
2008	33
2009	6
Total minimum payments................	**151**
Less: interest and executory costs......	(19)
Present value of net minimum payments..	**$ 132**

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2004, were as follows (expressed in thousands):

Notes to the Financial Statements

Assets Acquired Under Capital Leases	Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Totals	Component Units: Public Service Authority	Component Units: State Ports Authority
Land and non-depreciable improvements................	$ —	$ 5,479	$ 5,479	$ —	$ —
Buildings and improvements....................................	6,540	54,019	60,559	90,900	—
Machinery and equipment..	2,401	43,953	46,354	—	185
Works of art and historical treasures......................	—	1,130	1,130	—	—
Assets acquired under capital leases before accumulated amortization...............................	**8,941**	**104,581**	**113,522**	**90,900**	**185**
Less: accumulated amortization.............................	(3,275)	(27,102)	(30,377)	(75,500)	(57)
Assets acquired under capital leases, net......	**$ 5,666**	**$ 77,479**	**$ 83,145**	**$ 15,400**	**$ 128**

For the primary government's fiscal year ended June 30, 2004, minimum rental payments under operating leases were $73.049 million and contingent rental payments were $8.639 million. The State's contingent rental payments are for copiers, with expense being determined on a cost-per-copy basis.

For the Public Service Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $6.100 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $1.063 million. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $781 thousand.

At June 30, 2004, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) were as follows:

Fiscal Year Ending June 30	Primary Government	Component Unit Lottery Commission
2005	$ 35,318	$ 717
2006	29,958	340
2007	23,890	66
2008	18,775	4
2009	12,958	—
2010 - 2014	30,547	—
2015 - 2019	11,802	—
2020 - 2024	4,569	—
2025 - 2029	244	—
Total minimum payments.......	**$ 168,061**	**$ 1,127**

At December 31, 2003, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) for the Public Service Authority, a major discretely presented component unit, were as follows:

Fiscal Year Ending December 31	Component Unit Public Service Authority
2004	$ 4,600
2005	4,600
Total minimum payments...........	**$ 9,200**

b. Facilities Leased to Others

At June 30, 2004, the State Ports Authority, a major discretely presented component unit, had leased to non-State parties certain land and facilities having a cost of approximately $433.009 million and related accumulated depreciation of $137.641 million. Future minimum rental payments to be received at June 30, 2004, under these operating leases (expressed in thousands) were as follows:

Fiscal Year Ending June 30	Component Unit State Ports Authority
2005	$ 17,665
2006	2,899
2007	1,211
2008	961
2009	849
2010-2014	135
2015-2019	995
2020-2024	2,396
2025-2029	—
2030-2034	—
2035-2039	2,517
Total..................	**$ 29,628**

Notes to the Financial Statements

NOTE 12: BONDS AND NOTES PAYABLE

a. General Obligation Bonds

General obligation bonds are backed by the full faith, credit, and taxing power of the State. General obligation bonds (expressed in thousands) outstanding at June 30, 2004, were:

Governmental Activities	
Capital improvement bonds, 1.375% to 5.90%..............	$ 917,949
State highway bonds, 2.00% to 6.50%..........................	609,939
State school facilities bonds, 3.00% to 5.75%................	650,565
Infrastructure Bank bonds, 3.00% to 5.00%....................	60,333
State economic development bonds, 2.75% to 5.00%...	27,475
Subtotal—governmental activities...............................	**2,266,261**
Business-type Activities, Higher Education Fund	
State institution bonds, 2.50% to 7.00%...........................	242,740
Total—general obligation bonds payable.....................	**$ 2,509,001**

At June 30, 2004, $6.344 million of capital improvement bonds were authorized but unissued.

At June 30, 2004, future debt service requirements (expressed in thousands) for general obligation bonds were:

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities (Higher Education Fund) Principal	Business-type Activities (Higher Education Fund) Interest
2005	$ 188,313	$ 99,888	$ 12,315	$ 10,598
2006	181,389	92,478	12,910	10,022
2007	168,975	84,980	13,470	9,441
2008	175,430	77,621	13,375	8,861
2009	179,889	69,762	13,705	8,297
2010-2014	764,650	234,856	72,250	32,699
2015-2019	500,415	77,728	70,780	16,069
2020-2024	85,765	11,440	33,845	3,257
2025-2029	19,615	1,878	—	—
Total debt service requirements.........................	**2,264,441**	**$ 750,631**	**242,650**	**$ 99,244**
Unamortized premiums.............	12,569		90	
Deferred amount on refunding...	(10,749)		—	
Total principal outstanding...........................	**$ 2,266,261**		**$ 242,740**	

The Department of Transportation Special Revenue Fund, a major governmental fund, pays the debt service for the State highway bonds. The Local Government Infrastructure Fund, a major governmental fund, pays the debt service for the Infrastructure Bank bonds. The General Fund pays the debt service for the other general obligation bonds recorded for governmental activities. The Higher Education Fund, a major enterprise fund, pays the debt service for general obligation bonds recorded in that fund.

Rather than directly limiting the amount of outstanding general obligation debt, State law imposes a limitation on annual debt service expenditures. The legal annual debt service margin at June 30, 2004, was $23.012 million in total for all institution bonds, $23.162 million for highway bonds, $37.059 million for general obligation bonds excluding institution and highway bonds, and $22.378 million for economic development bonds.

b. Limited Obligation Bonds

Limited obligation bonds are not backed by the full faith, credit, and taxing power of the State. Limited obligation bonds outstanding at June 30, 2004, which are reported in the internal service funds, totaled $23.304 million. Interest rates on these bonds ranged from 4.00% to 6.10%.

At June 30, 2004, there were no limited obligation bonds authorized but unissued.

The State issued limited obligation lease revenue bonds to finance the cost of capital facilities for use by certain State agencies. Pledges of lease rental payments that the agencies will pay from their governmental funds secure the bonds.

At June 30, 2004, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Governmental Activities (Internal Service Funds) Principal	Governmental Activities (Internal Service Funds) Interest
2005	$ 3,930	$ 1,111
2006	4,120	924
2007	4,320	725
2008	1,640	542
2009	1,730	465
2010-2014	6,740	1,257
2015-2019	920	41
Total debt service requirements..................	**23,400**	**$ 5,065**
Unamortized discounts..........	(96)	
Total principal outstanding.....................	**$ 23,304**	

The internal service funds pay all debt service for the lease revenue bonds.

c. Revenue, Tobacco Authority, Infrastructure Bank, and Other Bonds and Notes

Revenue debt is not backed by the full faith, credit, and taxing power of the State. Revenue, Tobacco Settlement Revenue Management Authority (Tobacco Authority), Infrastructure Bank, and other bonds and notes (expressed in thousands) outstanding at June 30, 2004, were:

Notes to the Financial Statements

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 3.00% to 6.00%	$ 1,725,514	$ —
Tobacco Authority bonds, 6.00% to 7.67%	845,630	—
Educational Television Network note, 3.29%	—	2,897
Natural Resources Department note, 4.59%	—	188
Judicial Department note, 3.98%	—	207
Education Department note, 3.29%	—	900
Corrections Department note, 3.34%	—	1,632
Budget and Control Board internal service fund bond and notes, 3.00% to 5.00%	24,802	3,060
Totals—governmental activities	**2,595,946**	**8,884**
Business-type Activities:		
Higher Education Fund bonds and notes, 2.00% to 8.5%	324,722	34,401
Housing Authority Fund bonds, 1.60% to 8.30%	510,696	—
Education Assistance Authority Fund bonds, 3.50% to 6.30%	589,884	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 1.54% to 8.00%	117,526	78,325
Direct note obligations, 5.82% to 6.82%	—	94,550
Totals—business-type activities	**1,542,828**	**207,276**
Totals—primary government	**$ 4,138,774**	**$ 216,160**
Major Discretely Presented Component Units:		
Public Service Authority bonds, 3.00% to 7.42%	$ 2,213,060	$ —
State Ports Authority bonds and notes, 1.35% to 6.20%	$ 143,420	$ 7,494
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%	$ 253,041	$ —
Lottery Commission notes, 8.00%	$ —	$ 3,450

During the prior fiscal year, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate swap agreement with a termination date of October 1, 2013 to reduce net interest costs on certain revenue bonds. Under this fixed-to-variable interest-rate swap, the Bank receives a fixed rate of 3.595% semi-annually while paying a variable rate monthly based on the TBMA Municipal SWAP Index. The notional amount for this agreement is $49.440 million. Through June 30, 2004, the Bank had interest income of $2.523 million and interest expense of $716 thousand attributable to the agreement. The June 30, 2004, mark to market value of this swap was a negative $240 thousand. The Bank is exposed to credit risk and market risk.

On October 1, 2003, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate exchange agreement with a termination date of October 1, 2031, to reduce net interest costs on certain revenue bonds. Under this variable-to-fixed interest rate exchange, the Bank pays a 3.825% fixed rate on a notional amount, having an amortization schedule equal to that of the revenue bonds. In return, the counterparties of the agreement pay the Bank a variable rate equal to 67.0% of the one-month London Interbank Offered Rate on such notional amount. For the fiscal year ended June 30, 2004, the Bank made variable bond interest payments of $1.905 million and fixed rate payments on the exchange agreement of $7.044 million. The Bank received variable swap payments on the exchange agreement of $1.406 million. The June 30, 2004, mark to market value of this swap was a negative $4.536 million.

University Medical Associates of the Medical University of South Carolina (UMA) is a blended component unit and nonmajor enterprise fund. UMA has issued several direct note obligations, select auction variable rate securities. In prior years, UMA entered into interest-rate swap agreements to modify interest rates on a portion of its Series 1994, and all of the 1999A and 1999B direct note obligations in an effort to convert its variable-rate debt to a fixed rate of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations. These agreements were required by the municipal bond insurance company MBIA, at a time when UMA was experiencing operating losses. The note obligations and related swap agreements mature on May 15, 2024, for the 1994 and 1999A portions and May 15, 2027, for the 1999B portion. The notional amounts as of June 30, 2004, are as follows: Series 1994 obligations—$9.300 million; Series 1999A obligations—$36.550 million; and Series 1999B obligations—$42.150 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of $10.700 million. Under the swap agreements, UMA pays the counterparty a fixed interest payment of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations, and receives a variable payment based upon the auction rate every thirty-five days. The variable rates in effect at June 30, 2004, were 1.37% for the 1994 obligations, 1.25% for the 1999A obligations, and 1.288% for the 1999B obligations. On May 1, 2000, these swap agreements were amended to mitigate adverse income tax consequences to the counterparty should certain triggering events occur in the future, resulting in a payment to UMA of $1.850 million for the remaining life of the agreements. UMA has recorded this amount in deferred revenue and is amortizing it as a reduction of interest expense over the terms of the related obligations on the straight-line method. For the fiscal year ended June 30, 2004, interest expense was reduced by amortization of approximately $77 thousand. Interest rates have declined since execution of the swap agreements resulting in the swaps having negative fair values of approximately $2.473 million on the 1994 obligations, $9.317 million on the 1999A obligations, and $7.314 million for the 1999B obligations as of June 30, 2004. The fair value was estimated using the zero-coupon method. UMA will be exposed to the risk of fluctuating interest rates of the variable-rate debt agreements if the swap agreements are terminated.

In the prior year, the Medical University Facilities Corporation, a blended component unit and nonmajor enterprise fund, entered into an interest-rate swap agreement to hedge its interest-rate exposure and establish a fixed-rate payment in connection with a $13.500 million loan. The swap agreement provides that the Corporation will pay the swap provider interest on a notional amount equal to the aggregate principal amount of the loan at a fixed rate of 3.37%, and the swap provider will pay the Corporation a variable rate of interest on such notional amount in an amount sufficient to pay the variable rate of interest on the loan. The notional amount at June 30, 2004, was $12.500 million, and the variable rate in effect at that date was 1.07%.

Notes to the Financial Statements

The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal of the note is scheduled to be paid upon redemption or maturity. The loan and the related swap agreement mature on January 1, 2013. As of June 30, 2004, the swap had a fair value of $86 thousand. Termination of the agreement would subject the Corporation to the risk of fluctuating interest rates.

As of June 30, 2004, debt service requirements of the UMA and the Corporation variable rate debt and net swap payments (expressed in thousands), assuming current interest rates remain the same for their term, were as follows:

Year Ending June 30	Variable Rate Notes Principal	Variable Rate Notes Interest	Interest Rate Swaps, Net	Totals
2005	$ 2,750	$ 1,254	$ 4,720	$ 8,724
2006	3,350	1,220	4,602	9,172
2007	3,445	1,179	4,461	9,085
2008	3,595	1,136	4,316	9,047
2009	4,045	1,092	4,161	9,298
2010 - 2014	23,415	4,655	18,002	46,072
2015 - 2019	19,600	3,311	12,986	35,897
2020 - 2024	31,300	1,788	6,910	39,998
2025 - 2029	9,000	220	777	9,997
Totals..........	**$ 100,500**	**$ 15,855**	**$ 60,935**	**$ 177,290**

Certain revenue bonds require the individual business-type activities to provide sufficient revenue to pay debt service and to fund all necessary expenses of the activities. The funds that receive the proceeds of revenue, Tobacco Authority, Infrastructure Bank, and other bonds and notes have pledged revenues for payment of debt service as follows:

Primary Government:

Governmental Activities:

- Infrastructure Bank bonds: Infrastructure Bank revenues recorded in the Local Government Infrastructure Fund, a major governmental fund
- Tobacco Authority bonds: tobacco settlement revenues recorded in the nonmajor governmental funds
- Corrections Department note: farm facility revenues
- Budget and Control Board bonds: loan repayments

Business-type Activities:

- Higher education bonds and notes: various specific higher education revenues
- State Housing Authority bonds: revenues of the Housing Authority Fund, a major enterprise fund
- Education Assistance Authority bonds: loan repayments and United States Commissioner of Education funds in the Education Assistance Authority Fund, a major enterprise fund

Major Discretely Presented Component Units:

- Public Service Authority bonds: Public Service Authority revenues
- State Ports Authority bonds: State Ports Authority revenues
- Connector 2000 Association, Inc., bonds: toll revenues
- Lottery Commission notes: lottery revenues

For its business-type activities, the State separately identifies amounts of pledged revenues available at June 30, 2004, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2004, future debt service requirements (expressed in thousands) for revenue, Tobacco Authority, Infrastructure Bank, and other bonds and notes of the primary government were as follows:

	Primary Government			
	Governmental Activities		Business-type Activities	
Year Ending June 30	Principal	Interest	Principal	Interest
2005	$ 30,558	$ 139,276	$ 73,189	$ 74,235
2006	37,662	137,599	82,871	73,072
2007	39,751	135,689	39,704	70,850
2008	48,403	133,561	74,755	68,275
2009	41,027	131,271	134,386	64,312
2010 - 2014	339,368	608,605	269,610	280,234
2015 - 2019	394,290	502,214	320,870	212,200
2020 - 2024	468,155	390,672	432,804	140,245
2025 - 2029	669,875	238,626	178,020	67,725
2030 - 2034	545,900	62,467	136,015	21,118
2035 - 2039	—	—	17,745	853
Total debt service requirements..............................	**2,614,989**	**$ 2,479,980**	**1,759,969**	**$ 1,073,119**
Unamortized premiums(discounts)...	16,948		(1,733)	
Deferred amount on refunding.........	(27,107)		(8,132)	
Total principal outstanding.........	**$ 2,604,830**		**$ 1,750,104**	

The fiscal year for the Public Service Authority ends December 31 while the fiscal year for the State Ports Authority ends June 30. Both entities are major discretely presented component units. At December 31, 2003, the carrying value of the Public Service Authority's debt was $2.443 billion while the fair value was approximately $2.900 billion. At June 30, 2004, the carrying value of the State Ports Authority debt was $150.216 million while the fair value was approximately $143.829 million. The fair values were estimated using current rates available to the entities for similar borrowing arrangements and on the market rate of comparable traded debt.

At June 30, 2004, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

	Major Component Units			
	Public Service Authority		Connector 2000 Assoc.	
Year Ending December 31	Principal	Interest	Principal	Interest
2004	$ 71,270	$ 128,310	$ —	$ 3,531
2005	76,825	123,009	—	3,531
2006	74,925	119,157	—	3,531
2007	70,990	115,208	—	3,531
2008	80,395	111,314	6,200	3,508
2009 - 2013	413,130	495,025	42,500	16,776
2014 - 2018	524,875	361,313	67,200	15,214
2019 - 2023	612,475	201,865	99,600	13,211
2024 - 2028	157,410	105,464	135,800	10,605
2029 - 2033	194,160	62,067	177,500	7,149
2034 - 2038	144,715	15,390	217,300	2,661
Total debt service requirements..............................	**2,421,170**	**$ 1,838,122**	**746,100**	**$ 83,248**
Unamortized premiums (discounts)...	44,740		(493,059)	
Deferred amount on refunding..........	(252,850)		—	
Total principal outstanding..........	**$ 2,213,060**		**$ 253,041**	

Notes to the Financial Statements

	Major Component Units			
	State Ports Authority		Lottery Commission	
Year Ending June 30	Principal	Interest	Principal	Interest
2005	$ 7,079	$ 6,553	$ 1,233	$ 232
2006	3,468	6,397	1,335	129
2007	3,600	6,257	882	25
2008	3,777	6,073	—	—
2009	3,860	5,882	—	—
2010 - 2014	22,320	26,185	—	—
2015 - 2019	26,845	19,939	—	—
2020 - 2024	34,535	12,249	—	—
2025 - 2029	44,600	2,407	—	—
Total debt service requirements.......................	**150,084**	**$ 91,942**	**3,450**	**$ 386**
Unamortized premium................	830		—	
Total principal outstanding...	**$ 150,914**		**$ 3,450**	

Borrowing is essential to the continuation of programs associated with certain entities reported within the primary government's governmental activities. The primary government reported interest expense during the fiscal year ended June 30, 2004, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government........................	$ 56,061
Transportation................................	118,580
Total allocated interest expense..	**$ 174,641**

The amount shown above in the general government function relates to bonds that a blended component unit issued.

d. Bond Anticipation Notes

At June 30, 2004, $44.310 million in short-term revenue bond anticipation notes were outstanding in the Higher Education Fund, a major enterprise fund. These notes are due on or before June 30, 2005.

e. Defeased Bonds and Certificates of Participation

During September 2003, the State issued $156.560 million in general obligation State capital improvement refunding bonds with an average interest rate of 2.35%. Of the $156.560 million, $154.993 million was to refund $150.725 million of general obligation State capital improvement bonds with an average interest rate of 4.68% and $1.567 million was to fund an irrevocable escrow account for future debt service payments. The net proceeds of $156.360 million applicable to the refunding, including $1.723 million in premiums (after payment of $356 thousand in issuance costs), were used to purchase $154.046 million in United States government securities and deposit an additional $2.314 million in cash with the escrow agent. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5.635 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2008 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next six years by approximately $4.938 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $6.445 million.

During September 2003, the Infrastructure Bank, included in the Local Government Infrastructure major governmental fund, issued $368.300 million in Infrastructure Bank revenue refunding bonds to refund $338.115 million of Infrastructure Bank revenue bonds. The net proceeds of $364.378 million (after payment of $3.922 million in issuance costs), plus an additional $3.868 million in excess debt service reserve fund monies were used to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $30.185 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2012 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next twenty-seven years by approximately $53.000 million and to obtain an economic gain of approximately $28.000 million.

During June 2004, Coastal Carolina University, included in the Higher Education major enterprise fund, issued $3.885 million in auxiliary facilities revenue bonds with an average interest rate of 4.09% to refund $3.780 million of auxiliary revenue bonds with an average interest rate of 6.50%. The net proceeds (after payment of $76 thousand for a redemptive premium and $29 thousand in accrued interest and issuance costs) were used to purchase United States government securities. The bonds were refunded to reduce total debt service payments by approximately $545 thousand and to obtain an economic gain of approximately $499 thousand.

During its fiscal year ended December 31, 2003, the Public Service Authority, a major discretely presented component unit, issued $335.030 million in refunding revenue bonds with an average interest rate of 4.926% to refund $352.135 million in revenue bonds with an average interest rate of 5.139%. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $57.064 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next twenty-eight years by approximately $42.600 million and to obtain an economic gain of approximately $17.700 million.

During July 2003, the Medical University Facilities Corporation, a blended component unit and nonmajor enterprise fund, used proceeds from a $13.500 million loan received in the prior year plus funds from the certificates of participation trusteed accounts to redeem the remaining $13.525 million in certificates of participation. As a result of the current refunding, the Corporation reduced total debt

Notes to the Financial Statements

service payments by approximately $3.126 million and obtained an economic gain of approximately $1.345 million.

In addition, during prior years the State defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the State placed the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the State has not recorded the defeased bonds in the accompanying financial statements. At June 30, 2004, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	Governmental Activities	Business-type Activities	Totals—Primary Government
State highway bonds................	$ 39,675	$ —	$ 39,675
Infratructure Bank bonds..........	338,115	—	338,115
Higher Education Fund bonds...	—	75,433	75,433
Totals.......................................	**$ 377,790**	**$ 75,433**	**$ 453,223**

In addition, at December 31, 2003, $12.345 million of bonds associated with the Public Service Authority, a major discretely presented component unit, were considered defeased.

f. Arbitrage Rebate Payable

The Internal Revenue Code and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. The Local Government Infrastructure Fund (a major governmental fund), and the Education Assistance Authority Fund (a major enterprise fund) have incurred arbitrage rebate liabilities in connection with student loan and revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 2004, are reported as other liabilities of $123 thousand in the Local Government Infrastructure Fund, and as other liabilities payable from restricted assets of $12.068 million and other liabilities of $1.000 million in the Education Assistance Authority Fund.

g. Conduit Debt

State law authorizes issuance of certain bonds for which the State assumes no responsibility for repayment. These bonds, therefore, do not appear as liabilities in the accompanying financial statements.

The Educational Facilities Authority, reported in the General Fund, issues bonds to assist nonprofit educational institutions that do not receive State appropriations in the acquisition, construction, and financing of facilities for educational programs. The bonds are payable solely from, and secured by, a lease agreement on the facilities between the Authority and the institution. When the bonds have been fully paid, the Authority conveys the title for the facility to the institution. At June 30, 2004, the outstanding balance of bonds issued was $184.386 million.

The Jobs-Economic Development Authority, a nonmajor governmental fund, issues industrial revenue bonds to develop and benefit business enterprises. The bonds are payable solely by revenues of the business enterprise and generally are secured by an irrevocable letter of credit. At June 30, 2004, the outstanding balance of bonds issued after June 30, 1995, was $2.655 billion. The original amount of bonds issued prior to that date is not available.

The Housing Authority Fund, a major enterprise fund, issues certain mortgage loan notes and housing revenue bonds for developers to construct moderate to low income housing projects. The bonds are payable solely from housing rental payments received by the developer and generally are secured by an irrevocable letter of credit or bond insurance. At June 30, 2004, the outstanding balance of bonds issued was $254.278 million.

h. Resources Authority Debt

In prior years, the Resources Authority, reported in the General Fund, issued bonds and used the proceeds to purchase obligations of local governmental entities. The local governmental entities used the proceeds received from the Authority to fund water and sewer projects. Periodic principal and interest payments received from the local governmental entities are used by the Authority to retire its own debt. The debt issued by the Authority is not a debt of the State and is not recorded in the accompanying financial statements. The Authority's outstanding debt at June 30, 2004, was $3.920 million. Effective October 1994, the General Assembly enacted legislation that prohibits the Authority from issuing bonds except to refund bonds previously issued.

Beginning in fiscal year 1993-1994, one local governmental entity has been unable to meet its financial obligation under the terms of a $5.025 million revenue bond that the Authority purchased. In June 1990, when the local governmental entity issued its debt, it estimated that the related sewer project would be completed and operational by calendar year 1992. Revenue generated by the sewer system is pledged for debt retirement. The State paid a total of $ 3.827 million in the 1993-1994 through 2002-2003 fiscal years, and $420 thousand in the 2003-2004 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated $400 thousand in the 2004-2005 fiscal year for use, if needed, to offset the loss of revenues from the delinquent local entity.

i. Commercial Paper Notes and Letters of Credit

Note 13 Changes in Liabilities, displays the activity of commercial paper notes and lines of credit during the fiscal year ended June 30, 2004, including beginning and ending balances (if any) as

Notes to the Financial Statements

well as all draws and repayments. The Public Service Authority presents its outstanding amounts as commercial paper notes, but all other amounts outstanding on lines of credit at June 30, 2004, are reported as notes payable. Other relevant information regarding these accounts is provided below.

The Medical University Hospital Authority, a blended component unit and nonmajor enterprise fund, has an agreement with a commercial bank for working capital lines of credit totaling approximately $23.800 million. The University Medical Associates of the Medical University of South Carolina (UMA), a blended component unit and nonmajor enterprise fund, has a line of credit with a financial institution with a maximum borrowing limit of $13.500 million.

The Public Service Authority, a discretely presented component unit, has recorded a $345.050 million liability for commercial paper notes at its fiscal year ended December 31, 2003. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a $400.000 million revolving credit agreement to support the issuance of commercial paper.

The Ports Authority, a discretely presented component unit, has a $10.000 million revolving line of credit from a commercial bank.

j. Subsequent Events

Since June 30, 2004, the State has issued bonds and notes as indicated in the table below (expressed in thousands).

Primary Government

Description	Governmental Activities	Business-type Activities
Revenue bonds........................	$ 382,390	$ 340,600
Revenue notes.........................	—	36,500
Totals..................................	$ 382,390	$ 377,100

Component Units

Description	Revenue Bonds
Public Service Authority............	$ 452,505

Of the total revenue bonds that the primary government issued, $153.450 million of the governmental activities bonds were to refund prior issues.

The State's primary government plans to issue $523.000 million in business-type activities revenue bonds and notes prior to December 31.

NOTE 13: CHANGES IN LIABILITIES

a. Long-Term Liabilities

Changes in major classes of long-term liabilities (expressed in thousands) for the fiscal year ended June 30, 2004, were:

Notes to the Financial Statements

	Balances at July 1, 2003	Increases	Decreases	Balances at June 30, 2004	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims	$ 478,556	$ 1,289,324	$ (1,236,235)	$ 531,645	$ 471,133
Notes payable	$ 7,395	$ 2,700	$ (1,211)	$ 8,884	$ 1,513
General obligation bonds payable	$ 2,237,141	$ 346,220	$ (318,920)	$ 2,264,441	$ 188,313
Unamortized discounts and premiums	10,068	2,833	(332)	12,569	—
Deferred amount on refunding	(8,002)	(5,636)	2,889	(10,749)	—
Total general obligation bonds payable	$ 2,239,207	$ 343,417	$ (316,363)	$ 2,266,261	$ 188,313
Tobacco Authority bonds payable	$ 869,870	$ —	$ (24,240)	$ 845,630	$ —
Revenue bonds payable	$ 24,705	$ —	$ (1,140)	$ 23,565	$ 1,190
Unamortized discounts and premiums	1,329	—	(92)	1,237	—
Total revenue bonds payable	$ 26,034	$ —	$ (1,232)	$ 24,802	$ 1,190
Infrastructure Bank bonds payable	$ 1,457,485	$ 643,735	$ (364,310)	$ 1,736,910	$ 27,855
Unamortized discounts and premiums	6,097	8,500	1,114	15,711	—
Deferred amount on refunding	—	(30,131)	3,024	(27,107)	—
Total Infrastructure Bank bonds payable	$ 1,463,582	$ 622,104	$ (360,172)	$ 1,725,514	$ 27,855
Limited obligation bonds payable	$ 27,155	$ —	$ (3,755)	$ 23,400	$ 3,930
Unamortized discounts and premiums	(115)	—	19	(96)	—
Total limited obligation bonds payable	$ 27,040	$ —	$ (3,736)	$ 23,304	$ 3,930
Capital leases payable	$ 4,106	$ —	$ (850)	$ 3,256	$ 875
Compensated absences payable	$ 189,581	$ 106,437	$ (101,827)	$ 194,191	$ 120,552
National Guard Pension System net pension obligation payable	$ 7,151	$ 981	$ —	$ 8,132	$ —
Judgments and contingencies payable	$ 35,438	$ 55,224	$ (19,402)	$ 71,260	$ 26,006
Arbitrage payable	$ 611	$ 123	$ (611)	$ 123	$ 2

The National Guard Pension System net pension obligation payable, judgments and contingencies payable, and arbitrage payable are included in *other liabilities* in the accompanying financial statements.

The governmental fund that pays an employee's salary also is responsible for liquidating the employee's related compensated absence liability. The General Fund is responsible for liquidating the National Guard Pension System liability. Historically, the State has paid most judgments related to governmental funds from its General Fund unless an identifiable amount was directly attributable to another specific fund.

Notes to the Financial Statements

	Balances at July 1, 2003	Increases	Decreases	Balances at June 30, 2004	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims	$ 210,312	$ 30,081	$ (36,793)	$ 203,600	$ 37,500
Notes payable	$ 148,681	$ 62,092	$ (16,104)	$ 194,669	$ 16,139
Unamortized discounts and premiums	—	106	(3)	103	—
Deferred amount on refunding	(1,047)	—	51	(996)	—
Total notes payable	$ 147,634	$ 62,198	$ (16,056)	$ 193,776	$ 16,139
General obligation bonds payable	$ 208,965	$ 45,500	$ (11,815)	$ 242,650	$ 12,315
Unamortized discounts and premiums	3	89	(2)	90	—
Total general obligation bonds payable	$ 208,968	$ 45,589	$ (11,817)	$ 242,740	$ 12,315
Revenue bonds payable	$ 1,491,533	$ 192,125	$ (131,858)	$ 1,551,800	$ 43,510
Unamortized discounts and premiums	(3,345)	827	682	(1,836)	—
Deferred amount on refunding	(8,134)	(247)	1,245	(7,136)	—
Total revenue bonds payable	$ 1,480,054	$ 192,705	$ (129,931)	$ 1,542,828	$ 43,510
Certificates of participation payable	$ 13,525	$ —	$ (13,525)	$ —	$ —
Capital leases payable	$ 65,445	$ 822	$ (11,682)	$ 54,585	$ 8,951
Compensated absences payable	$ 99,389	$ 47,012	$ (44,196)	$ 102,205	$ 57,487
Judgments and contingencies payable	$ 950	$ —	$ (950)	$ —	$ —
Arbitrage payable	$ 18,039	$ 2	$ (4,973)	$ 13,068	$ 293

	Balances at January 1, 2003	Increases	Decreases	Balances at December 31, 2003	Amounts Due Within One Year
Major Component Units:					
Public Service Authority					
Policy claims	$ 1,566	$ 2,167	$ (1,505)	$ 2,228	$ 2,228
Revenue bonds payable	$ 2,520,015	$ 335,030	$ (433,875)	$ 2,421,170	$ 71,270
Unamortized discounts and premiums	15,958	23,073	5,709	44,740	—
Deferred amount on refunding	(250,525)	(57,064)	54,739	(252,850)	—
Total revenue bonds payable	$ 2,285,448	$ 301,039	$ (373,427)	$ 2,213,060	$ 71,270
Capital leases payable	$ 24,278	$ —	$ (2,763)	$ 21,515	$ 2,761
Compensated absences payable	$ 12,929	$ 2,104	$ (1,663)	$ 13,370	$ —
Connector 2000 Association, Inc.					
Revenue bonds payable	$ 746,100	$ —	$ —	$ 746,100	$ —
Unamortized discounts and premiums	(503,923)	—	10,864	(493,059)	—
Total revenue bonds payable	$ 242,177	$ —	$ 10,864	$ 253,041	$ —

Notes to the Financial Statements

	Balances at July 1, 2003	Increases	Decreases	Balances at June 30, 2004	Amounts Due Within One Year
Major Component Units:					
State Ports Authority					
Notes payable	$ 537	$ 7,349	$ (392)	$ 7,494	$ 4,174
Revenue bonds payable	$ 145,375	$ —	$ (2,785)	$ 142,590	$ 2,905
Unamortized discounts and premiums	876	—	(46)	830	—
Total revenue bonds payable	$ 146,251	$ —	$ (2,831)	$ 143,420	$ 2,905
Capital leases payable	$ 84	$ 140	$ (92)	$ 132	$ 38
Compensated absences payable	$ 2,124	$ 2,032	$ (2,124)	$ 2,032	$ 2,032
Lottery Commission					
Notes payable	$ 9,725	$ —	$ (6,275)	$ 3,450	$ 1,233
Compensated absences payable	$ 784	$ 474	$ (408)	$ 850	$ 117

Notes to the Financial Statements

b. Short-Term Debt

The State's Higher Education Fund sometimes issues Bond Anticipation Notes (BANS) in advance of issuing bonds. Short-term debt for the fiscal year ended June 30, 2004, included: BANS in the Higher Education Fund, a major enterprise fund; commercial paper notes in the Public Service Authority, a major discretely presented component unit; and letters of credit in the nonmajor enterprise funds. Short-term debt activity during the fiscal year (expressed in thousands) was as follows:

	Balances at July 1, 2003	Increases	Decreases	Balances at June 30, 2004
Primary Government:				
Business-type Activities				
Revenue bond anticipation notes payable....................	$ 28,025	$ 44,310	$ (28,025)	$ 44,310
Notes payable (letters of credit)....................................	$ 15,500	$ 13,500	$ (15,500)	$ 13,500

	Balances at January 1, 2003	Increases	Decreases	Balances at December 31, 2003
Major Component Unit:				
Public Service Authority				
Commercial paper notes...	$ 303,177	$ 121,447	$ (79,574)	$ 345,050

Notes to the Financial Statements

NOTE 14: RESERVATIONS AND DESIGNATIONS OF FUND BALANCES IN GOVERNMENTAL FUNDS

Reserved components of fund balances represent amounts in governmental funds that are legally segregated or that the State cannot appropriate. Designated portions of unreserved fund balances reflect tentative plans for future use of available financial resources.

The unreserved component of fund balance equals the total fund balance less reserved amounts.

At June 30, 2004, the following amounts of fund balance in governmental funds (expressed in thousands) were reserved:

	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Governmental Funds
Fund balances reserved for:						
General reserve fund	$ 25,155	$ —	$ —	$ —	$ —	$ 25,155
Interfund receivables	4,282	400	261,235	—	1,676	267,593
Appropriations to be carried forward	54,696	—	—	—	—	54,696
Endowments	—	—	—	—	1,945	1,945
Long-term loans and notes receivable	7	572	328,420	9,344	16,416	354,759
Debt requirements	—	—	1,127,118	1,164	152,845	1,281,127
School building aid	6,465	—	—	—	1,855	8,320
Total reserved fund balances	**$ 90,605**	**$ 972**	**$ 1,716,773**	**$ 10,508**	**$ 174,737**	**$ 1,993,595**

Notes to the Financial Statements

The following subsections contain further descriptive information regarding the reserved and designated components of fund balance.

a. Reserved

General Reserve Fund

The South Carolina Constitution requires that the State maintain a reserve to prevent deficits in the Budgetary General Fund. The reserve is fully funded whenever it equals three percent of the Budgetary General Fund's revenue (budgetary basis) of the latest completed fiscal year.

If the State withdraws funds from the reserve to cover a year-end deficit, it must replace the funds within three years. The Constitution requires that at least one percent of the Budgetary General Fund revenue (budgetary basis) of the latest completed fiscal year, if so much is necessary, be restored each year following the deficit until full funding is achieved.

At June 30, 2004, the Reserve's balance was $25.155 million, $123.879 million below the full-funding amount. In accordance with the 2004-2005 Appropriation Act, the State added $50.000 million to the Reserve in July 2004. This brought the Reserve's balance to $75.155 million.

Reserved for Interfund Receivables and Reserved for Long-Term Loans and Notes Receivable

Long-term loans and notes receivable and long-term interfund receivables are assets that do not represent expendable available resources. Governmental funds, therefore, reserve a corresponding portion of fund balance.

Reserved for Appropriations to be Carried Forward

The General Fund does not use encumbrance accounting. It uses the reserve for appropriations to be carried forward, however, if the General Assembly has authorized the carry-forward of General Fund appropriations to the next fiscal year.

Reserved for Endowments

This reserve recognizes restrictions on donated resources.

Reserved for Debt Requirements

When financing agreements or bond indentures require a reservation, the State records an amount as reserved for debt requirements.

Reserved for School Building Aid

If the State promises to pay a school district to build school buildings or to retire debt on such buildings, it records an amount as reserved for school building aid. The State has recorded such amounts, which are not available for appropriation, in its General Fund and its nonmajor governmental funds.

b. Designated, Reported in Special Revenue Funds

The total designated amount reported on the governmental funds balance sheet for nonmajor special revenue funds is designated for scholarships. The amount is for the Teacher Loan Program, reported within the nonmajor governmental funds. This program makes loans to students. The State cancels 20.0% to 33.0% of the loan for each year that the borrower teaches in a critical-need area. Borrowers who do not teach in such an area, however, must repay their loans.

c. Designated, Reported in the Capital Projects Fund

The total designated amount reported on the governmental funds balance sheet for the State's Capital Projects Fund, a nonmajor governmental fund, is designated for capital expenditures.

NOTE 15: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2004 (expressed in thousands):

Notes to the Financial Statements

Description	Due From/To
Receivable fund: General	
Payable funds:	
Departmental General Operating	$ 34,804
Unemployment Compensation	9,692
Other	5,125
Receivable fund: Departmental General Operating	
Payable funds:	
General	32,619
Internal service	380
Fiduciary	13
Other	912
Receivable fund: Local Government Infrastructure	
Payable funds:	
General	4,408
Department of Transportation Special Revenue	7,212
Receivable fund: Department of Transportation Special Revenue Fund	
Payable funds:	
General	568
Departmental General Operating	395
Local Government Infrastructure	2,659
Internal service	251
Other	1
Receivable fund: Higher Education	
Payable funds:	
General	22,604
Departmental General Operating	4,198
Department of Transportation Special Revenue	25
Other	23,306
Receivable funds: Internal Service	
Payable funds:	
General	8,327
Departmental General Operating	3,135
Department of Transportation Special Revenue	39
Higher Education	271
Housing Authority	30
Internal service	257
Fiduciary	26,245
Other	675
Receivable funds: Fiduciary	
Payable funds:	
General	29,083
Departmental General Operating	13,640
Local Government Infrastructure	36
Department of Transportation Special Revenue	11,007
Higher Education	4,808
Internal service	1,446
Fiduciary	698
Other	761
Receivable funds: Other	
Payable Funds:	
General	3,867
Departmental General Operating	582
Department of Transportation Special Revenue	3
Higher Education	10,904
Internal service	14
Other	1,682
Total	**$ 266,682**

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30 for which payment was received/made after June 30.

Description	Interfund Receivables Payables	Long-term Portion
Receivable fund: General		
Payable funds:		
Departmental General Operating	$ 1,630	$ —
Higher Education	831	723
Internal service	4,316	3,559
Other	290	—
Receivable fund: Departmental General Operating		
Payable funds:		
Higher Education	400	400
Other	180	—
Receivable fund: Local Government Infrastructure		
Payable funds:		
Department of Transportation Special Revenue	279,235	261,235
Receivable fund: State Tobacco Settlement		
Payable funds: Local Govt Infrastructure	2,250	—
Receivable funds: Internal Service		
Payable funds:		
Departmental General Operating	3,000	3,000
Local Government Infrastructure	3,500	3,500
Internal service	933	847
Other	38,970	37,578
Receivable funds: Other		
Payable Funds:		
Departmental General Operating	286	221
Higher Education	20,252	20,157
Internal service	689	548
Other	96	96
Totals	**$ 356,858**	**$ 331,864**

The preceding interfund receivables and payables generally include loans for building improvements, economic development initiatives, and initial funding for new programs. Additional balances include the following:

- $279.235 million owed by the Department of Transportation Special Revenue Fund, a major governmental fund, to the Local Government Infrastructure Fund, a major governmental fund. The Department of Transportation has entered into various agreements to provide assistance for highway and transportation facilities projects being constructed by the Local Government Infrastructure Fund.
- $14.983 million owed by the nonmajor enterprise funds to the internal service funds. The nonmajor enterprise funds lent the money received to a county for infrastructure within a residential development.
- $23.565 million owed by the nonmajor governmental funds to the internal service funds. The nonmajor governmental funds borrowed the money to purchase and renovate new headquarters facilities for the State Department of Public Safety.
- $19.340 million owed by the Medical University of South Carolina reported within the Higher Education Fund, a major enterprise fund, to the nonmajor enterprise funds, in relation to an internal leasing arrangement.

Notes to the Financial Statements

The following table summarizes interfund transfers during the fiscal year ended June 30, 2004 (expressed in thousands):

Description/Fund(s)	Transfers From/To
Transfers from the General Fund	
Transfers to:	
Departmental General Operating	$ 73,200
Local Government Infrastructure	3,950
Department of Transportation Special Revenue	16
Higher Education	652,989
Unemployment Compensation	40
Internal service	727
Fiduciary	2,400
Other	163,861
Transfers from Departmental General Operating	
Transfers to:	
General	57,916
Higher Education	699
Internal service	1,074
Other	7,703
Transfers from Local Government Infrastructure	
Transfers to:	
Departmental General Operating	5
Transfer from Department of Transportation Special Revenue	
Transfer to:	
General	4,940
Departmental General Operating	40
Transfers from State Tobacco Settlement	
Transfers to:	
Departmental General Operating	5
Transfers from Higher Education	
Transfers to:	
General	902
Departmental General Operating	17,310
Other	114
Transfer from Unemployment Compensation	
Transfer to General	3,402
Transfer from Housing Authority	
Transfer to Other	29
Transfers from Internal Service	
Transfers to:	
General	11,596
Departmental General Operating	7,743
Internal service	2,230
Other	1,411
Transfers from Fiduciary	
Transfers to:	
Fiduciary	2,832
Transfers from Other	
Transfers to:	
General	171,692
Departmental General Operating	20,787
Higher Education	56,929
Internal service	1,571
Other	6,088
Total	**$ 1,274,201**

The State uses transfers to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move State grant monies from grantor funds to grantee funds, and (3) transfer bond proceeds from the capital projects fund to other funds authorized to execute the projects. The following is a description of significant (i.e., $5.000 million or more) transfers that occurred during the fiscal year ended June 30, 2004, that either (a) were non-routine or (b) were inconsistent with the normal activities of the fund making the transfer.

Proviso 73.2 of the 2003-2004 Appropriations Act redirected funds to the General Fund for operating expenditures of that fund. The following table summarizes these transfers during the fiscal year ended June 30, 2004 (expressed in thousands):

Fund	Amount
Departmental General Operating	$ 149
Unemployment Compensation	2,400
Internal service	11,596
Other	12,096
Total	**$ 26,241**

NOTE 16: REVENUES AND EXPENDITURES OR EXPENSES

a. Proprietary Fund Revenues—Allowances and Discounts

In the financial statements, the State presents its revenues net of allowances for uncollectible accounts receivable and contractual adjustments. Note 5 reports these allowances.

Scholarship allowances in the Higher Education Fund represent the sum of differences between stated charges for goods and services provided to students and amounts billed to students and/or third parties making payments on behalf of students. For the fiscal year ended June 30, 2004, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	Scholarship Allowances
Charges for services	$ 249,188
Operating revenues pledged for revenue bonds	15,814
Other operating revenues	19,520
Total	**$ 284,522**

Notes to the Financial Statements

For the fiscal year ended June 30, 2004, the State's nonmajor enterprise funds presented $160.682 million included in net charges for services and $578.827 million included in net operating revenues pledged for revenue bonds after reductions for the following applicable discounts and allowances (expressed in thousands):

	Provision for Contractual and Other Adjustments	Provision for Uncollectible Accounts
Charges for services..................	$ 206,351	$ 29,269
Operating revenues pledged for revenue bonds..........................	372,779	50,598
Totals.................................	**$ 579,130**	**$ 79,867**

b. Extraordinary and Special Items

Extraordinary items generally are transactions or other events that are both unusual in nature and infrequent in occurrence. However, generally accepted accounting principles require that the State report any gains or losses on the early extinguishment of debt, other than refundings, in its proprietary funds as extraordinary even if they do not meet the preceding description. The State reports significant transactions or other events within the control of management that are *either* unusual in nature *or* infrequent in occurrence as *special items*.

Extraordinary Loss on Early Extinguishment of Debt

The State recorded the following extraordinary items in both its government-wide and fund financial statements for the fiscal year ended June 30, 2004.

The $209 thousand extraordinary loss on early extinguishment of debt in the Higher Education Fund, a major enterprise fund, resulted from the early redemption of bonds.

The $564 thousand extraordinary loss on early extinguishment of debt in the Housing Authority Fund, a major enterprise fund, resulted from the early redemption of bonds ($162 thousand from writing off unamortized discounts and $402 thousand from writing off unamortized bond issuance costs).

Special Item

The State recorded the following special item in the fund financial statements for the fiscal year ended June 30, 2004.

The $155 thousand special item (i.e., a gain) in the nonmajor enterprise funds resulted from the Patriots Point Development Authority's sale of a property easement to an electrical company.

NOTE 17: DONOR-RESTRICTED ENDOWMENTS AND PLEDGES

a. Donor-Restricted Endowments

The State's permanent funds (nonmajor governmental funds) and the Higher Education Fund, a major enterprise fund, maintain donor-restricted endowments. Net appreciation consists of realized and unrealized increases in the fair value of an endowment's assets over the historic dollar value of the assets.

At June 30, 2004, $6.200 million of the amount reported as *restricted net assets, expendable for education*, represented net appreciation on investments of donor-restricted endowments available for authorization for expenditure by governing boards of the higher education institutions. In addition, $165 thousand of the amount reported as *restricted net assets, expendable for other*, represented net appreciation on investments of donor-restricted endowments of permanent funds.

The South Carolina Uniform Management of Institutional Funds Act (Title 34, Chapter 6, of the South Carolina Code of Laws, which is referred to below as "the Act") permits an agency's/institution's governing board to authorize for expenditure all of an endowment's net appreciation, unless the applicable gift instrument indicates the donor's intention that net appreciation not be expended. The Act requires, however, that the authorized expenditure be limited to the uses and purposes for which the endowment was established and that the institution's governing board exercise ordinary business care and prudence in authorizing the expenditure of net appreciation.

Specific policies for authorizing and spending endowment investment income vary among the agencies and institutions that hold endowments. Generally, the governing boards establish these policies. Among those agencies/institutions that recorded investment income in donor-restricted endowments during the fiscal year ended June 30, 2004, the predominant policy was to authorize the spending of 4.75% to 6.00% of the fair value of total endowment assets annually.

b. Pledges

The State's Higher Education Fund, a major enterprise fund, and related blended component units reported as nonmajor enterprise funds, recognize receivables and revenues for pledges or promises of cash or other assets from nongovernmental entities when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable of collection. The

Notes to the Financial Statements

financial statements report these amounts as accounts receivable. However, various benefactors have established split interest agreements with The Citadel Trust, Inc., a nonmajor enterprise fund. Among these agreements are a charitable remainder uni-trust and a charitable remainder trust. The Citadel, a higher education institution reported in the Higher Education Fund, will receive a specified portion of the assets remaining under these agreements at the benefactors' deaths. The parties who manage the assets associated with these agreements are not included within the State of South Carolina's financial reporting entity. The State's financial statements do not report these trust assets because the ultimate amounts that the State will receive were not deemed to be measurable at June 30, 2004, and the eligibility requirements for the gifts have not been met.

NOTE 18: SEGMENT INFORMATION

The Housing Authority provides low-cost housing to the State's citizens by issuing bonds/notes and by administering federal contracts and grants. The State issues various separate revenue bonds to finance activities within the Single Family Finance program of its Housing Authority Fund, a major enterprise fund. Covenants of the following revenue bonds within the Single Family Finance program require separate accounting and financial reporting: (a) Single Family, (b) Home Ownership, and (c) Mortgage Revenue. Investors in these bonds rely solely on the revenue generated by the individual activities for repayment. Accordingly, condensed financial statements (expressed in thousands) for these segments for the fiscal year ended June 30, 2004, are presented below:

CONDENSED STATEMENT OF NET ASSETS

	Single Family	Home Ownership	Mortgage Revenue
Assets			
Current restricted assets	$ 9,060	$ 586	$ 18,395
Other current assets	12,132	707	27,927
Noncurrent restricted assets	209,279	20,567	397,032
Other assets	923	9	3,025
Total assets	231,394	21,869	446,379
Liabilities			
Current liabilities payable from restricted assets	9,060	586	18,395
Noncurrent liabilities	108,168	6,481	377,663
Total liabilities	117,228	7,067	396,058
Net assets			
Restricted and expendable for:			
Debt service	110,957	13,635	43,633
Bond reserves	3,209	1,167	6,688
Total net assets	**$ 114,166**	**$ 14,802**	**$ 50,321**

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Single Family	Home Ownership	Mortgage Revenue
Operating revenues:			
Pledged revenues:			
Interest on loans	$ 8,283	$ 1,471	$ 20,686
Income on deposit	603	(36)	5,526
Other revenues:			
Bond premium amortization	38	—	17
Total operating revenues	8,924	1,435	26,229
Operating expenses:			
Bond issuance cost amortization	41	3	228
Other operating expenses	5,942	526	23,537
Total operating expenses	5,983	529	23,765
Operating income	2,941	906	2,464
Loss on early extinguishment of debt (extraordinary item)	—	(25)	(422)
Transfers:			
Transfers in	—	—	3,441
Transfers out	(4,121)	(3,148)	—
Increase (decrease) in net assets	(1,180)	(2,267)	5,483
Beginning net assets	115,346	17,069	44,838
Ending net assets	**$ 114,166**	**$ 14,802**	**$ 50,321**

CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Home Ownership	Mortgage Revenue
Net cash provided (used) by:			
Operating activities	$ 5,646	$ 5,960	$ 36,146
Noncapital financing activities	(9,711)	(7,171)	(55,814)
Investing activities	615	246	5,690
Net decrease	(3,450)	(965)	(13,978)
Beginning cash and cash equivalents	88,715	4,078	135,893
Ending cash and cash equivalents	**$ 85,265**	**$ 3,113**	**$ 121,915**

Because the above separately identifiable activities provide essentially similar services to the Authority's customers, they are not considered to be different activities for financial reporting purposes. Accordingly, all of the Housing Authority's activities are reported as a single fund and as a single business-type activity in the accompanying financial statements.

NOTE 19: JOINT VENTURE AND JOINT OPERATION

a. Joint Venture

In May 1997, the Public Service Authority (the Authority), a major discretely presented component unit, along with two unrelated publicly owned

Notes to the Financial Statements

electric utilities formed a wholesale power marketing joint venture called The Energy Authority (TEA). Subsequently, three additional unrelated entities joined TEA. The Authority engages in gas hedging activities through TEA to reduce the cost of fuel inventories. The Authority now has a 21.0% ownership interest, which it records as an equity investment. TEA provides services to its member organizations, as well as to certain non-member organizations, and allocates transaction savings and operating expenses to its member organizations pursuant to a settlement agreement.

During its fiscal year ended December 31, 2003, the Authority received distributions of \$32.172 million from TEA and recognized \$34.377 million in reductions to power costs and increases in electric revenues.

The Authority has provided certain guarantees and has pledged certain collateral to support TEA's transactions. The Authority's Board of Directors has approved the use of up to \$68.700 million to support TEA's activities. During its fiscal year ended December 31, 2003, the TEA gas trading account was closed and \$15.611 million in funds was transferred to the Authority. Also during 2003, the Authority recorded \$8.106 million in realized gains from natural gas hedging transactions. The Authority deferred \$4.975 million in unrealized losses at December 31, 2003, as regulatory liabilities; it will recognize and recover these unrealized losses through its rates as the hedged power delivery occurs and it records fuel expense.

Interested parties may obtain a copy of TEA's financial statements by writing to:

The Energy Authority
76 South Laura Street, Suite 1500
Jacksonville, Florida 32202

b. Joint Operation

The Summer Nuclear Station is a joint operation owned by the Public Service Authority (the Authority), a major discretely presented component unit and regulated electric utility, and the South Carolina Electric and Gas Company (SCE&G), a non-governmental electric utility. The Authority owns an undivided one-third interest in the Station while SCE&G owns an undivided two-thirds interest. SCE&G is solely responsible for the Station's design, construction, management, budgeting, operation, maintenance, and decommissioning; and the Authority is obligated to pay its ownership share of all costs relating thereto. The Authority receives one-third of the net electricity generated.

In accordance with regulatory accounting practices, the Authority reported capital assets of \$487.000 million and expenses of \$54.100 million, which represent its interest in this joint operation. The Summer Nuclear Station is not a separate legal entity and does not prepare separate financial statements.

Nuclear fuel costs are being amortized based on energy expended, which includes a component for estimated disposal costs of spent nuclear fuel. This amortization is included in fuel expense and is recovered through the Authority's rates.

In 2002, SCE&G commenced a re-racking project of the on-site spent fuel pool. The new pool storage capability will permit full core off-load through 2018. Further on-site storage, if required, will be accomplished through dry cask storage or other technology as it becomes available.

The Nuclear Regulatory Commission (NRC) requires a licensee of a nuclear reactor to provide minimum financial assurance of its ability to decommission its nuclear facilities. A site-specific decommissioning study completed in 2000 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as \$143.400 million in 1999 dollars. The Authority accrues its share of the estimated decommissioning costs over the remaining life of the facility. These costs are being recovered through the Authority's rates.

To comply with the NRC regulations, the Authority established an external trust fund and has been making deposits into this fund since September 1990. In addition, the Authority established an internal decommissioning account. The Authority makes deposits into this fund in the amount necessary to fund the difference between the 2000 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled \$107.700 million (adjusted to market) at December 31, 2003, along with future deposits into both the external and internal decommissioning accounts and investment earnings, are expected to provide sufficient funds for the Authority's share of the estimated decommissioning costs.

The Energy Policy Act of 1992 gave the Department of Energy (DOE) the authority to assess utilities for the decommissioning of its facilities used for the enrichment of uranium included in nuclear fuel costs. In order to decommission these facilities, the DOE estimates that it would need to charge utilities \$150.000 million, indexed for inflation, annually for 15 years based on enrichment services used by utilities in past periods. Based on an estimate provided by SCE&G, the Authority's one-third share of this liability at December 31, 2003, totaled \$765 thousand. The Authority has deferred this amount and will recover it through rates as paid. These costs are included in deferred charges, and deferred revenues and deferred credits on the face of the accompanying financial statements.

The Price-Anderson Indemnification Act has established the maximum liability for public claims arising from any nuclear incident as \$10.900 billion. Nuclear liability insurance of approximately \$300.000 million per site would cover this amount, with potential retrospective assessments of up to \$100.600 million per licensee for each nuclear incident occurring at any reactor in the United States (payable at a rate not to exceed \$10.000 million per incident per year). Based on its one-third interest in the Summer Nuclear Station, the Authority would be responsible for a maximum assessment of \$33.500 million, not to exceed approximately \$3.300 million per incident per year. This amount is subject to further increases to reflect (i) inflation, (ii) increases in the licensing for operation of additional nuclear reactors, and (iii) any increase in the amount of commercial liability insurance that the Authority must maintain to comply with the NRC.

Notes to the Financial Statements

SCE&G and the Authority maintain, with Nuclear Electric Insurance Limited (NEIL), $500.000 million primary and $1.500 billion excess property and decontamination insurance to cover the costs of facility cleanup in the event of an accident. In addition to the premiums paid on the excess policy, SCE&G and the Authority also could be assessed a retroactive premium, not to exceed five times the annual premium, in the event of property damage to any nuclear generating facility covered by NEIL. Based on the current annual premium and the Authority's one-third interest, the Authority's maximum retroactive premium would be $3.100 million for the primary policy and $3.400 million for the excess policy.

SCE&G and the Authority also maintain accidental outage insurance to cover replacement power costs (within policy limits) associated with an insured property loss. This policy carries a potential retrospective assessment of $1.400 million.

The Authority does not purchase insurance for any retrospective premium assessments, claims in excess of stated coverage, or cost increases due to the purchase of replacement power.

NOTE 20: RELATED PARTY TRANSACTIONS

These financial statements exclude certain related foundations and other organizations, including those discussed below. (See also Note 1a, Scope of Reporting Entity.)

During the fiscal year ended June 30, 2004, the Educational Television Endowment of South Carolina, Inc., disbursed $4.731 million on behalf of the Departmental General Operating Fund, a major governmental fund, for programs, development, advertising, and other costs.

The following organizations are related to the Higher Education Fund, a major enterprise fund: the University of South Carolina Development Foundation; the University of South Carolina Business Partnership Foundation; the University of South Carolina Research Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the Lancaster County Educational Foundation, Inc.; the Clemson University Research Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the Health Sciences Foundation of the Medical University of South Carolina; the Medical University of South Carolina Foundation for Research Development; the Coastal Educational Foundation, Inc.; the Coastal Carolina University Student Housing Foundation; the Horry County Higher Education Commission; the College of Charleston Foundation; the Winthrop University Foundation; the Winthrop University Real Estate Foundation; the Francis Marion University Foundation; the Francis Marion University Student Housing LLC; The Citadel Foundation; The Citadel Alumni Association; The Citadel's Brigadier Foundation; South Carolina State Educational Foundation; the Lander Foundation; Aiken Technical College Foundation, Inc.; Florence-Darlington Technical College Foundation; Horry-Georgetown Technical College Foundation; Greenville Tech Foundation, Inc.; Midlands Technical College Foundation; Orangeburg-Calhoun Technical College Foundation; Piedmont Technical College Foundation; Tri-County Technical College Foundation; Trident Technical College Foundation; and York Technical College Foundation. During the fiscal year ended June 30, 2004, the State entered into various transactions with these organizations. Approximate amounts within the State's Higher Education Fund that represent transactions with these related parties include: receivable from foundations–$9.259 million; donations of cash and other assets from foundations–$99.762 million; expenditures paid to foundations–$2.941 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations–$3.844 million.

The Education Assistance Authority Fund, a major enterprise fund, has designated the South Carolina Student Loan Corporation (SLC) as the entity to administer the enterprise fund's student loan program. During the fiscal year ended June 30, 2004, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC–$8.214 million; notes receivable from SLC–$523.549 million; program revenue from SLC–$21.541 million; reimbursements to SLC for administrative costs–$3.902 million; and payable to SLC–$28.808 million.

NOTE 21: MAJOR DISCRETELY PRESENTED COMPONENT UNITS

a. Significant Transactions of Major Component Units with the Primary Government

The Public Service Authority makes payments to the General Fund in lieu of taxes each year based on requirements under bond indentures. These payments totaled $10.486 million during the Authority's fiscal year ended December 31, 2003.

During the fiscal year ended June 30, 2002, the State Ports Authority resolved to contribute a total of $45.000 million over twenty-six years to the Local Government Infrastructure Fund, a major governmental fund, for the Cooper River Bridge project in Charleston. The Authority made a payment of $9.000 million during the fiscal year ended June 30, 2004.

The South Carolina Lottery for Education Act requires the Lottery Commission to transfer all proceeds from lottery ticket sales and other revenues net of expenses to the Education Lottery Fund, a nonmajor governmental fund. The Commission transferred $286.487 million during the fiscal year ended June 30, 2004; the Commission owed an additional $18.083 million to the Fund at June 30, 2004.

Notes to the Financial Statements

b. Concentrations of Credit Risk

The Public Service Authority and State Ports Authority have chosen to present their statements in accordance with applicable pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. Accordingly, these component units present disclosures regarding concentrations of credit risk.

Public Service Authority

Concentrations of credit risk with respect to the Public Service Authority's receivables are limited due to its large number of customers and their dispersion across different industries. The Authority maintains an allowance for uncollectible accounts based on the expected collectibility of all accounts receivable. The Authority's sales to its two major customers for its fiscal year ended December 31, 2003, were as follows (expressed in thousands):

Customer	Revenue	% of Total Operating Revenue
Central Electric Power Cooperative, Inc..........	$ 511,000	49.5%
Alumax of South Carolina, Inc................	107,000	10.4%

No other customer accounted for more than 10.0% of the Authority's sales.

State Ports Authority

During the fiscal year ended June 30, 2004, two customers accounted for approximately 16.0% and 10.0% of the State Ports Authority's revenues. The Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Authority maintains reserves for potential credit losses.

NOTE 22: CONTINGENCIES AND COMMITMENTS

a. Litigation

Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2004, are several that challenge the legality of certain taxes. The challenged revenues include the sales tax on diabetic supplies and the use of certain income tax credits. In the event of unfavorable outcomes for these cases, the State does not expect the ultimate liability to exceed $65.000 million. Although State losses in these cases also could reduce future revenues, the preceding estimates do not include any impact on future revenues.

The South Carolina Retirement Systems are involved in two related lawsuits involving the calculation of retirement benefits. In 2001, two employees and an employer filed a putative class action lawsuit against the South Carolina Retirement Systems and the South Carolina Budget and Control Board. The suit alleged that the Retirement Systems wrongfully denied benefits to members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) due to misinterpretation of the definition of average final compensation. The plaintiffs allege that SCRS and PORS collected over $2.000 billion and $500.000 million, respectively, in excess contributions. Plaintiffs seek a declaratory judgment that a benefit was wrongfully denied and/or that excess contributions were collected and request that contributions be reduced in the future. Plaintiffs further seek a refund of over $2.000 billion to members and employers. Finally, plaintiffs seek to impose a constructive trust on monies overpaid by plaintiffs and/or wrongfully withheld by the Systems. The case is pending under the original jurisdiction of the Supreme Court of South Carolina. A trial was held in March 2003 before a special referee. In February 2004, the referee issued proposed findings and a recommendation that the plaintiffs' claims be dismissed. The plaintiffs filed exceptions to the recommendation and briefs have been submitted to the Supreme Court of South Carolina. In the second suit, in October 2002, four members of the Retirement Systems filed an action against the parties of the first suit alleging that certain facts were withheld from the plaintiffs and the court in an earlier case in which the Supreme Court of South Carolina had ruled against those plaintiffs. The plaintiffs are seeking to set aside the previous Supreme Court Order. If the plaintiffs were to prevail, damages would be similar to the other case.

Another lawsuit relating to the taxation of retirement benefits pending against the State challenges the State's law imposing income taxes upon benefits paid to retired government employees by the South Carolina Retirement Systems. The State Circuit Court granted the State's motion to dismiss. The State Supreme Court also dismissed the case and required the plaintiff to pursue the claim administratively. In April 2004, the Administrative Law Court denied the petitioner's refund claim. The matter is now on appeal at the Circuit Court. In the event of an unfavorable outcome, the State's liability for retroactive relief could exceed $581.000 million. The estimated unfavorable impact on future year revenues could be approximately $50.000 million to $60.000 million per year.

The State is involved in other legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes cases involving claims asserted against the State arising from alleged torts, breach of contract, and possible violations of State laws. In the event of unfavorable outcomes in all of the above matters, the State's estimated liability would be approximately $9.100 million.

While the State is uncertain as to the ultimate outcome of any of the above-described lawsuits, it believes its positions are meritorious and it is vigorously defending its position in each case.

Notes to the Financial Statements

The State is involved in a number of cases in which the amounts of potential losses, if any, are not presently determinable. These cases include one contending that the funding of public education in South Carolina is inequitable and inadequate. The State moved to dismiss the case, and the Circuit Court granted that motion. The plaintiffs appealed, and the State Supreme Court affirmed part of the Circuit Court's order but remanded the case to the Circuit Court for further proceedings as to the issue of alleged inadequate educational opportunity. The Court denied the plaintiffs' request to add a damage claim. The trial is scheduled to end prior to December 31, 2004, with a trial court decision probably sometime in 2005. In a second unrelated case involving an Indian tribe and a school district, the State is a party added as an intervener or defendant. The Circuit Court previously entered an order favorable to the State on a Constitutional issue in the case, and in April 2004, issued a supplemental order on the issue of credit for certain taxes paid to the school district. The tribe moved for reconsideration of the supplemental order, but the Court denied that motion. The tribe has served a notice of appeal of orders in this case, but has not yet stated the issues to be raised on appeal. An unfavorable ruling as to an issue in the case pertaining to the State potentially could have a considerable financial impact on the State. In a third unrelated case, the plaintiffs allege that a State board's actions interfered with their businesses. The State has filed a motion for summary judgment. In the event the State loses this case, the loss amount may not be limited by the State Tort Claims Act and it may exceed the allowable reimbursement from the State's self-insurance fund.

Due to the uncertainty involving the ultimate outcome of the several previously discussed unresolved lawsuits, no provision for potential liability has been made for them in the accompanying financial statements.

Generally, liabilities recorded by the State's Insurance Reserve Fund (see Note 10a), an internal service fund, are sufficient to cover claims arising from alleged torts, up to the liability limits established by the South Carolina Tort Claims Act. Currently, except as described above, no tort claims are pending that are expected to result in any significant liability in excess of the provision for policy claims recorded by the Insurance Reserve Fund.

Major Discretely Presented Component Unit—Public Service Authority

A group of customers of the Public Service Authority, a major discretely presented component unit and electric utility company, filed suit against the Authority seeking monetary damages arising out of a change in the Authority's "Good Cents" rate. The Authority denied the material allegations and opposed the request for class certification, but the court granted a class certification to the plaintiffs. Partial summary judgment was granted to the Authority. The parties subsequently settled the case and the court gave final approval to the settlement. The settlement terms have no material adverse effect on the Authority's financial position or operations.

The Authority is a party to, or has an indirect interest in, several lawsuits in which the amounts of potential losses, if any, are not presently determinable. The following paragraph discusses the most significant of these cases.

Landowners located along the Santee River contend that the Authority is liable for damage to their real estate because of flooding that has occurred since the U. S. Army Corps of Engineers completed its Cooper River Rediversion Project in 1985. A 1997 trial returned a jury verdict against the Authority on certain causes of action. The District Court has not set a separate trial on the case's damages phase. Due to the uncertainty involving the ultimate outcome of the lawsuit, the Authority has not recorded any liability in the accompanying financial statements.

b. Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority (the Authority), a blended component unit and nonmajor governmental fund established in 2001, is a public body and an instrumentality of the State. State law transferred to the Authority all of the State's rights and interests under the Master Settlement Agreement (the MSA) and the Consent Decree and Final Judgment between all participating states and the participating tobacco manufacturers. These rights include the State of South Carolina's share of all tobacco settlement revenues (TSRs) actually received after June 30, 2001, or to be received in the future under the MSA.

The Authority issued asset-backed term bonds in 2001. The payment of such bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors, including cigarette consumption and the continued financial capability of the original participating manufacturers. Such bonds are secured by, and payable solely from, TSRs and investment earnings pledged under the bond indenture and amounts established and held in accordance with the bond indenture. The term bonds are payable only from the Authority's assets. If the Authority has no assets, it will not pay any principal or interest on the bonds. The TSRs represent the Authority's only source of funds for payments on the bonds; the Authority has no taxing power.

Various parties have instituted litigation alleging, among other things, that the MSA violates certain provisions of federal and State laws. Certain of these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. In the event of an adverse court ruling, the Authority may not have adequate financial resources to make payment on the bonds.

c. Federal Grants

The State receives significant federal grant and entitlement revenues. Compliance audits of federal programs may identify disallowed expenditures.

Notes to the Financial Statements

Disallowances by federal program officials as a result of these audits may become liabilities of the State. The State records a liability for pending disallowances if settlement is probable and the settlement amount is reasonably estimable. Otherwise, the liability is recorded only when the State and the federal government agree on reimbursement terms. Based on an analysis of historical data, however, the State believes that any such disallowance reimbursements relating to the fiscal year ended June 30, 2004, or earlier years will not have a material impact on the State's financial statements.

d. Other Loan Guarantees

The South Carolina Education Assistance Authority, a major enterprise fund, guarantees student loans. At June 30, 2004, these loans totaled $1.903 billion. The United States Department of Education reinsures 100.0% of losses under these guarantees for loans made prior to October 1, 1993; 98.0% of losses for loans made on or after October 1, 1993, but before October 1, 1998; and 95.0% for loans made on or after October 1, 1998. If the loan default rate exceeds 5.0% of the loans in repayment status, however, the United States Department of Education decreases the reinsurance rate. The State's default rate during the fiscal year ended June 30, 2004, was less than 1.0%.

The nonmajor enterprise funds guarantee a portion of a mortgage debt up to a maximum of $1.503 million.

e. Purchase Commitments

Major Discretely Presented Component Unit—Public Service Authority

At December 31, 2003, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $576.607 million for coal. In addition, minimum obligations under purchased power contracts were approximately $80.600 million at December 31, 2003, with a remaining term of thirty-one years. Also, the Authority has commitments for nuclear fuel enrichment and fabrication contracts that are contingent upon the operating life of its nuclear unit. As of December 31, 2003, these commitments totaled approximately $54.200 million over the next eight years.

The Authority has entered into a service agreement in the approximate amount of $93.100 million. The agreement provides a service director, initial spare parts, parts and services for specified maintenance outages, remote monitoring and diagnostics of the turbine generators, and combustion tuning for the gas turbines. In exchange for reduced pricing and added features, the contract term was extended to 2025, but can be terminated in 2008.

Major Discretely Presented Component Unit—Lottery Commission

At June 30, 2004, the Lottery Commission had a remaining commitment of $17.550 million under a service contract with a term that extends through September 2007. The contract provides, among other things, services and equipment to operate the on-line lottery.

f. Commitments to Provide Grants and Other Financial Assistance

The South Carolina Transportation Infrastructure Bank, reported within the Local Government Infrastructure Fund (a major governmental fund), has agreements with various counties to provide financial assistance totaling $1.701 billion for certain highway and transportation facilities projects. At June 30, 2004, the remaining commitments for these agreements totaled $692.539 million.

At June 30, 2004, the Department of Commerce had outstanding commitments of $55.676 million to provide funds to local governmental entities from various State governmental funds. These commitments included grants for water and wastewater infrastructure projects, airport construction projects, and rural infrastructure projects.

At June 30, 2004, the Budget and Control Board had outstanding commitments of $84.415 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects.

The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of $7.635 million at June 30, 2004, for affordable housing projects and developments.

g. Major Discretely Presented Component Unit—Regulatory Matters

The Public Service Authority (the Authority), a major discretely presented component unit and electric utility company, endeavors to ensure that its facilities comply with applicable environmental regulations and standards. Congress has promulgated comprehensive amendments to the Clean Air Act (the Act), including provisions that relate to acid precipitation as well as to sulfur dioxide and nitrogen oxide emissions.

In July 2000, the Authority received a request for information from the United States Environmental Protection Agency (EPA) pursuant to Section 114 of the Act. The Authority received an additional request for information from the EPA in December 2002. The requests were part of the EPA's ongoing enforcement initiative involving the power-generating sector, with particular emphasis on coal-fired units. In May 2003, the Authority received notice that the EPA and the State's

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Department of Health and Environmental Concern (DHEC) also were investigating an alleged violation of the Act involving the Authority's Cross Generating Station. The Authority responded to the requests for information, and in March 2004 the Authority, EPA, and DHEC agreed on the terms of a settlement regarding these issues. The settlement was approved by the U.S. District Court for South Carolina and a Consent Decree was entered in June 2004. The settlement involves the payment of a civil penalty, an agreement to perform certain environmentally beneficial projects, and the expenditure of capital costs of approximately $140.000 million to achieve emissions reductions over a period ending in the year 2013. These capital costs are expected to be offset largely by savings resulting from a reduced need to purchase emission credits.

In 2001, the Authority executed an agreement with other public electric utilities to investigate the development of a Regional Transmission Organization (RTO), currently referred to as SeTrans, in the Southeastern United States. In February 2003, the Authority provided written notice to the SeTrans sponsors of its withdrawal from the SeTrans development process. In December 2003, the remaining SeTrans sponsors announced their decision to suspend the SeTrans effort. Whether a new RTO development effort will occur in the Southeastern United States is unknown at this time. Any potential impact on the Authority of such a new effort is also unknown.

h. Major Discretely Presented Component Unit—Deregulation of Electric Utilities

The Public Service Authority, a major discretely presented component unit, currently is a regulated electric utility. The electric industry is increasingly competitive due to regulatory changes and market developments. As utilities move to a deregulated environment where rates are based on market forces, there may be costs that cannot be recovered by charging the market rate. Some proposed deregulation measures allow for recovery of some portion of these costs, but the ultimate regulatory treatment of such costs cannot be predicted.

The Authority has developed and is implementing a long-term strategic plan designed to position it to compete effectively in the changing competitive environment. Although the Authority is preparing for a deregulated market, it cannot predict the effects of increased competition on its operations and financial condition.

i. Major Discretely Presented Component Unit—Connector 2000 Association, Inc.

During its fiscal year ended December 31, 2001, the Connector 2000 Association, Inc., a major discretely presented component unit, opened the Southern Connector toll road to public traffic and began toll collections. Since commencing operations, the Southern Connector has experienced significantly lower traffic counts than those projected during the planning phase of the project. Because the Association pledged these toll collections for debt service payments on its toll road revenue bonds, the Association's debt service capability also is affected. The Association used a portion of its debt service reserve fund to help fund interest payments during its fiscal year ended December 31, 2003. Unless revenues increase sharply in the future, the Association will continue to draw monies from its debt service reserve funds to meet scheduled debt service payments.