BASIC
FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2006
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 4,069,811	$ 1,326,683	$ 5,396,494	$ 260,549
Investments	—	110,859	110,859	140,666
Invested securities lending collateral	623,382	81,435	704,817	17,709
Receivables, net:				
Accounts	257,243	73,688	330,931	209,904
Contributions	—	3,020	3,020	10,139
Participants	—	8,336	8,336	—
Accrued interest	29,457	15,343	44,800	2,445
Income taxes	366,016	—	366,016	—
Sales and other taxes	595,676	—	595,676	—
Student accounts	—	34,850	34,850	—
Patient accounts	11,734	150,285	162,019	—
Loans and notes	26,746	127,895	154,641	—
Assessments	—	53,415	53,415	—
Due from Federal government and other grantors	866,408	91,837	958,245	—
Internal balances	(17,936)	17,936	—	—
Due from component units	18,778	106,991	125,769	—
Due from primary government	—	—	—	3
Inventories	43,826	28,548	72,374	147,854
Restricted assets:				
Cash and cash equivalents	91,608	273,473	365,081	153,740
Investments	87,559	9,660	97,219	23,248
Loans receivable	—	470	470	—
Other	61,342	2,375	63,717	—
Prepaid items	22,483	24,778	47,261	8,601
Other current assets	—	6,644	6,644	57,831
Deferred charges	—	—	—	1,616
Total current assets	7,154,133	2,548,521	9,702,654	1,034,305

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

Statement of Net Assets (Continued)

June 30, 2006
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
Long-term assets:				
Receivables, net:				
Accounts	$ 62,670	$ 479	$ 63,149	$ 2,125
Contributions	—	524	524	27,438
Participants	—	18,068	18,068	—
Income taxes	62,207	—	62,207	—
Sales and other taxes	20,668	—	20,668	—
Patient accounts	14,324	—	14,324	—
Loans and notes	450,037	911,864	1,361,901	—
Investments	245,730	21,496	267,226	639,279
Restricted assets:				
Cash and cash equivalents	410,964	596,646	1,007,610	37,901
Investments	—	106,695	106,695	223,304
Accounts receivable	429,130	—	429,130	—
Loans receivable	—	588,388	588,388	—
Other	3,399	26,569	29,968	—
Prepaid items	—	14,496	14,496	—
Other long-term assets	771	31,926	32,697	19,231
Deferred charges	22,638	10,470	33,108	493,432
Investment in joint venture	—	—	—	6,567
Non-depreciable capital assets	5,307,755	718,979	6,026,734	1,392,950
Depreciable capital assets, net	7,739,898	2,455,827	10,195,725	2,769,824
Total long-term assets	14,770,191	5,502,427	20,272,618	5,612,051
Total assets	**21,924,324**	**8,050,948**	**29,975,272**	**6,646,356**

Continued on Next Page

Statement of Net Assets (Continued)

June 30, 2006
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
LIABILITIES				
Current liabilities:				
Accounts payable	$ 1,071,674	$ 240,858	$ 1,312,532	$ 192,935
Accrued salaries and related expenses	117,262	67,906	185,168	9,539
Accrued interest payable	38,338	14,982	53,320	66,790
Retainages payable	4,236	15,836	20,072	1,167
Tax refunds payable	541,839	4,760	546,599	—
Payables-aid to individuals/families	764	—	764	—
Prizes payable	—	—	—	29,523
Unemployment benefits payable	—	6,976	6,976	—
Intergovernmental payables	339,984	3,661	343,645	1,073
Tuition benefits payable	—	12,528	12,528	—
Policy claims	461,251	32,000	493,251	42,597
Due to component units	3	—	3	—
Due to primary government	—	—	—	119,881
Unearned revenues and deferred credits	209,899	138,997	348,896	28,609
Deposits	—	4,933	4,933	12
Amounts held in custody for others	—	3,401	3,401	—
Securities lending collateral	623,382	81,435	704,817	17,709
Liabilities payable from restricted assets:				
Accounts payable	—	629	629	328
Accrued interest payable	29,729	25,572	55,301	1,766
Bonds payable	41,070	34,465	75,535	—
Other	—	83,336	83,336	—
Notes payable	4,175	13,477	17,652	1,327
Letter of credit	—	2,000	2,000	—
Revenue bonds anticipation notes payable	—	6,855	6,855	—
General obligation bonds payable	191,950	14,785	206,735	—
Revenue bonds payable	1,320	21,167	22,487	67,990
Limited obligation bonds payable	4,320	—	4,320	—
Capital leases payable	954	9,828	10,782	2,713
Commercial paper notes	—	—	—	285,449
Compensated absences payable	125,861	62,370	188,231	2,486
Other current liabilities	28,826	7,270	36,096	90,990
Total current liabilities	3,836,837	910,027	4,746,864	962,884

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

Statement of Net Assets (Continued)

June 30, 2006
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
Long-term liabilities:				
Retainages payable	$ —	$ 297	$ 297	$ 48,380
Intergovernmental payables	300	—	300	—
Tuition benefits payable	—	189,211	189,211	—
Policy claims	88,205	185,407	273,612	149,067
Unearned revenues and deferred credits	—	—	—	322,358
Amounts held in custody for others	—	—	—	2,463
Other liabilities payable from restricted assets	—	5,909	5,909	—
Notes payable	16,846	234,197	251,043	2,429
General obligation bonds payable	2,213,169	234,729	2,447,898	—
Tobacco Authority bonds payable	796,900	—	796,900	—
Infrastructure Bank bonds payable	1,876,636	—	1,876,636	—
Revenue bonds payable	20,849	2,476,720	2,497,569	2,922,724
Limited obligation bonds payable	10,971	—	10,971	—
Capital leases payable	940	35,159	36,099	9,322
Compensated absences payable	76,207	54,232	130,439	15,114
Other long-term liabilities	77,626	60,770	138,396	70,790
Total long-term liabilities	5,178,649	3,476,631	8,655,280	3,542,647
Total liabilities	**9,015,486**	**4,386,658**	**13,402,144**	**4,505,531**
NET ASSETS				
Invested in capital assets, net of related debt	9,371,744	1,973,060	11,344,804	1,108,211
Restricted:				
Expendable:				
Unemployment compensation benefits	—	386,932	386,932	—
Education	325,804	165,548	491,352	168,211
Health	21,439	—	21,439	—
Transportation	153,371	—	153,371	—
Capital projects	283,021	122,887	405,908	3,090
Debt service	1,121,187	248,156	1,369,343	77,338
Loan programs	779,514	226,492	1,006,006	—
Waste management	130,300	—	130,300	—
Insurance programs	215,643	—	215,643	—
Other	57,137	—	57,137	144,764
Nonexpendable:				
Education	109	98,457	98,566	306,234
Other	2,256	—	2,256	—
Unrestricted	447,313	442,758	890,071	332,977
Total net assets	**$ 12,908,838**	**$ 3,664,290**	**$ 16,573,128**	**$ 2,140,825**

Statement of Activities

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues
Functions					
Primary government:					
Governmental activities:					
General government	$ 1,768,034	$ 1,530,670	$ 310,786	$ 3,749	$ 77,171
Education	1,402,446	35,427	1,072,811	1,204	(293,004)
Health and environment	4,766,947	133,033	3,172,066	7,304	(1,454,544)
Social services	1,051,343	2,992	941,596	—	(106,755)
Administration of justice	683,180	121,338	36,597	137	(525,108)
Resources and economic development	181,375	55,596	111,160	7,415	(7,204)
Transportation	905,050	124,125	129,746	601,703	(49,476)
Intergovernmental	4,061,996	—	—	—	(4,061,996)
Unallocated interest expense	72,247	—	—	—	(72,247)
Total governmental activities	**14,892,618**	**2,003,181**	**5,774,762**	**621,512**	**(6,493,163)**
Business-type activities:					
Higher education	2,871,493	2,000,940	238,868	72,926	(558,759)
Higher education institution support	881,583	905,000	65,825	40	89,282
Unemployment compensation benefits	365,091	333,423	19,335	—	(12,333)
Financing of housing facilities	150,626	41,678	127,662	—	18,714
Medical malpractice insurance	52,598	42,177	301	—	(10,120)
Financing of student loans	61,472	49,544	12,433	—	505
Tuition prepayment program	38,849	—	13,263	—	(25,586)
State maritime museum	6,911	7,318	154	—	561
Insurance claims processing	1,536	1,540	—	—	4
Other	24,172	29,180	621	1,258	6,887
Total business-type activities	**4,454,331**	**3,410,800**	**478,462**	**74,224**	**(490,845)**
Total primary government	**$ 19,346,949**	**$ 5,413,981**	**$ 6,253,224**	**$ 695,736**	**$ (6,984,008)**
Component units:					
Public Service Authority	$ 1,247,004	$ 1,365,317	$ 17,078	$ —	$ 135,391
State Ports Authority	108,028	157,823	8,288	2,040	60,123
Connector 2000 Association, Inc.	25,265	4,661	931	—	(19,673)
Lottery Commission	1,150,865	1,147,852	1,246	—	(1,767)
Other	98,500	47,682	103,119	—	52,301
Total component units	**$ 2,629,662**	**$ 2,723,335**	**$ 130,662**	**$ 2,040**	**$ 226,375**

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

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net assets:				
Net (expense) revenue	$ (6,493,163)	$ (490,845)	$ (6,984,008)	$ 226,375
General revenues:				
Taxes:				
Individual income	3,156,028	—	3,156,028	—
Retail sales and use	3,613,754	—	3,613,754	—
Other	1,753,214	—	1,753,214	—
Total taxes	8,522,996	—	8,522,996	—
Unrestricted grants and contributions	18,664	—	18,664	—
Unrestricted investment income	69,438	—	69,438	—
Tobacco legal settlement	67,841	—	67,841	—
Other revenues	67,012	—	67,012	—
Extraordinary loss on debt extinguishment	—	(539)	(539)	—
Transfers–internal activities	(784,746)	784,746	—	—
Total general revenues, extraordinary item, and transfers	**7,961,205**	**784,207**	**8,745,412**	**—**
Change in net assets	**1,468,042**	**293,362**	**1,761,404**	**226,375**
Net assets at beginning of year (restated)	**11,440,796**	**3,370,928**	**14,811,724**	**1,914,450**
Net assets at end of year	**$ 12,908,838**	**$ 3,664,290**	**$ 16,573,128**	**$ 2,140,825**

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2006
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
ASSETS				
Cash and cash equivalents	$ 1,183,208	$ 480,889	$ 262,445	$ 206,747
Investments	40,005	394	—	—
Invested securities lending collateral	332,360	6,609	67,180	26,880
Receivables, net:				
Accounts	2,886	109,626	41,039	17,673
Accrued interest	9,624	429	7,576	1,597
Income taxes	428,223	—	—	—
Sales and other taxes	342,326	12,601	—	8,541
Patient accounts	15,925	10,133	—	—
Loans and notes	14	450	439,784	10,732
Due from Federal government and other grantors	3,944	758,927	—	101,371
Due from other funds	41,775	26,650	14,740	2,157
Due from component units	7,838	—	—	—
Interfund receivables	5,711	580	306,055	—
Inventories	13,014	16,315	—	6,525
Restricted assets:				
Cash and cash equivalents	—	—	388,619	88,469
Investments	—	—	—	—
Accounts receivable	—	—	429,130	—
Other	—	—	30,222	—
Prepaid items	—	—	—	6,661
Other assets	—	—	—	771
Total assets	**$ 2,426,853**	**$ 1,423,603**	**$ 1,986,790**	**$ 478,124**
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable	$ 134,163	$ 565,185	$ 9,908	$ 133,426
Accrued salaries and related expenditures	62,298	31,432	68	17,542
Retainages payable	—	159	—	2,207
Tax refunds payable	541,307	—	—	—
Payable–aid to individuals/families	764	—	—	—
Intergovernmental payables	14,641	160,980	8,720	—
Due to other funds	81,111	70,085	33	21,537
Due to component units	3	—	—	—
Interfund payables	—	4,815	—	306,055
Deferred revenues	104,777	53,124	467,323	21,343
Securities lending collateral	332,360	6,609	67,180	26,880
Other liabilities	41,584	21	—	—
Total liabilities	**1,313,008**	**892,410**	**553,232**	**528,990**
Fund balances (deficits):				
Reserved	280,169	16,911	1,820,493	13,503
Unreserved, designated reported in:				
General Fund	555,378	—	—	—
Special revenue funds	—	—	—	—
Capital Projects Fund	—	—	—	—
Unreserved, undesignated reported in:				
General Fund	278,298	—	—	—
Special revenue funds	—	514,282	(386,935)	(64,369)
Permanent funds	—	—	—	—
Total fund balances	**1,113,845**	**531,193**	**1,433,558**	**(50,866)**
Total liabilities and fund balances	**$ 2,426,853**	**$ 1,423,603**	**$ 1,986,790**	**$ 478,124**

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

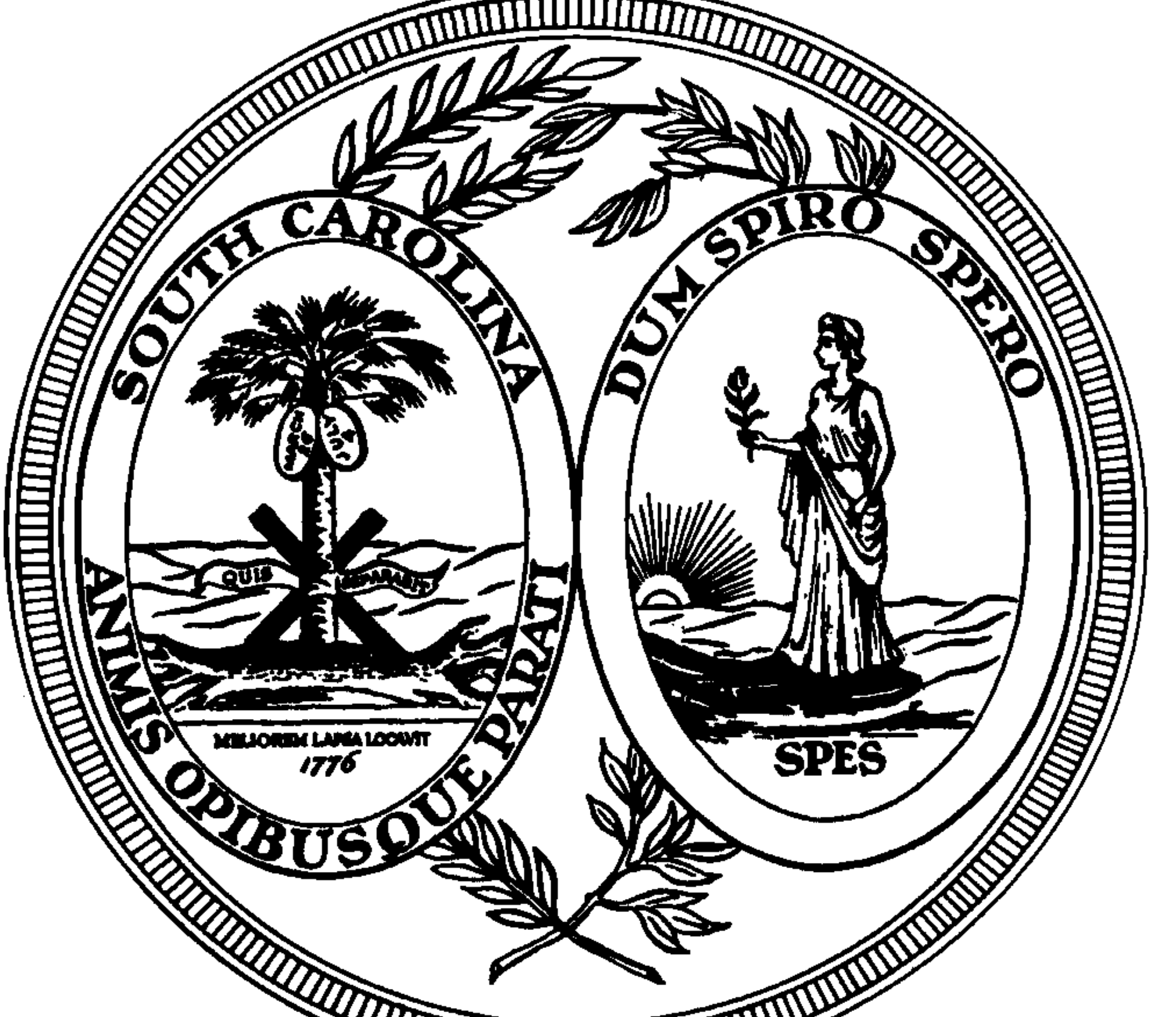
State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ 495,097	$ 950,506	$ 3,578,892
—	—	40,399
2,340	89,177	524,546
—	929	172,153
202	6,542	25,970
—	—	428,223
—	252,876	616,344
—	—	26,058
—	25,803	476,783
—	2,166	866,408
99	20,733	106,154
—	10,940	18,778
—	3,961	316,307
—	44	35,898
—	25,484	502,572
—	87,559	87,559
—	—	429,130
—	34,519	64,741
—	—	6,661
—	—	771
$ 497,738	**$ 1,511,239**	**$ 8,324,347**
$ 7	$ 161,393	$ 1,004,082
—	1,741	113,081
—	1,837	4,203
—	532	541,839
—	—	764
25	155,618	339,984
1	28,039	200,806
—	—	3
—	21,673	332,543
—	14,042	660,609
2,340	89,177	524,546
—	630	42,235
2,373	**474,682**	**3,764,695**
—	176,476	2,307,552
—	—	555,378
—	14,703	14,703
—	307,633	307,633
—	—	278,298
495,365	536,820	1,095,163
—	925	925
495,365	**1,036,557**	**4,559,652**
$ 497,738	**$ 1,511,239**	**$ 8,324,347**

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

June 30, 2006
(Expressed in Thousands)

Total fund balances–governmental funds		**$ 4,559,652**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Non-depreciable capital assets	$ 5,301,458	
Depreciable capital assets	10,860,644	
Accumulated depreciation	(3,258,464)	
Total capital assets		12,903,638
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		22,501
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		597,471
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		303,599
Eliminations relating to the consolidation of internal service funds resulted in an amount due from governmental activities to business-type activities in the statement of net assets		(16,136)
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	(5,119,725)	
Notes payable	(6,118)	
Accrued interest on bonds	(67,255)	
Capital leases	(691)	
Compensated absences	(195,976)	
Intergovernmental payable	(300)	
Policy claims	(13,536)	
Other	(58,286)	
Total long-term liabilities		(5,461,887)
Net assets of governmental activities		**$ 12,908,838**

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


SOUTH CAROLINA
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Statement of Revenues, Expenditures, and Changes in Fund Balances

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
Revenues:				
Taxes:				
Individual income	$ 3,115,907	$ —	$ 11,827	$ —
Retail sales and use	2,533,540	928	—	—
Other	873,247	44,256	19,000	490,326
Licenses, fees, and permits	125,673	160,128	76,860	—
Interest and other investment income	62,766	2,107	42,054	6,395
Federal	82,366	5,053,686	28,066	764,645
Local and private grants	2,418	9,030	—	—
State grants	—	65	—	—
Departmental services	425,893	161,965	42,230	86,381
Contributions	14,955	26,058	36,556	—
Fines and penalties	22,311	65,391	—	—
Tobacco legal settlement	—	—	—	—
Other	30,134	61,704	—	3,941
Total revenues	**7,289,210**	**5,585,318**	**256,593**	**1,351,688**
Expenditures:				
Current:				
General government	306,933	198,677	517	—
Education	278,760	164,212	—	—
Health and environment	1,600,693	3,243,657	—	—
Social services	82,502	955,300	—	—
Administration of justice	513,531	110,874	—	—
Resources and economic development	85,595	105,987	1,952	—
Transportation	—	—	3,526	776,459
Capital outlay	35	—	—	576,492
Debt service:				
Principal retirement	158,947	465	39,545	27,823
Interest and fiscal charges	70,761	56	97,405	35,897
Intergovernmental	2,705,648	951,312	177,437	68,445
Total expenditures	**5,803,405**	**5,730,540**	**320,382**	**1,485,116**
Excess (deficiency) of revenues over (under) expenditures	**1,485,805**	**(145,222)**	**(63,789)**	**(133,428)**
Other financing sources (uses):				
Bonds and notes issued	21,000	—	—	—
Refunding bonds issued	—	—	221,045	—
Premiums on bonds issued	—	—	21,651	—
Capital leases	—	250	—	—
Payment to refunded bond escrow agent	—	—	(241,235)	—
Transfers in	29,970	258,046	5,390	30,773
Transfers out	(911,029)	(72,021)	(44)	(5,007)
Total other financing sources (uses)	**(860,059)**	**186,275**	**6,807**	**25,766**
Net change in fund balances	**625,746**	**41,053**	**(56,982)**	**(107,662)**
Fund balances at beginning of year	**488,099**	**490,140**	**1,490,540**	**56,796**
Fund balances (deficit) at end of year	**$ 1,113,845**	**$ 531,193**	**$ 1,433,558**	**$ (50,866)**

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

State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ —	$ —	$ 3,127,734
—	1,096,882	3,631,350
—	313,444	1,740,273
—	130,866	493,527
17,020	26,673	157,015
—	21,142	5,949,905
—	—	11,448
—	—	65
—	10,782	727,251
—	328,462	406,031
—	23,778	111,480
—	67,841	67,841
—	2,678	98,457
17,020	**2,022,548**	**16,522,377**
88	127,607	633,822
—	310,008	752,980
7,383	291,857	5,143,590
—	10,918	1,048,720
—	13,039	637,444
—	4,911	198,445
—	—	779,985
—	46,838	623,365
—	24,005	250,785
—	53,490	257,609
3,510	1,079,280	4,985,632
10,981	**1,961,953**	**15,312,377**
6,039	**60,595**	**1,210,000**
—	268,475	289,475
—	—	221,045
—	571	22,222
—	—	250
—	—	(241,235)
—	164,654	488,833
(1,315)	(281,158)	(1,270,574)
(1,315)	**152,542**	**(489,984)**
4,724	**213,137**	**720,016**
490,641	**823,420**	**3,839,636**
$ 495,365	**$ 1,036,557**	**$ 4,559,652**

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, 2006
(Expressed in Thousands)

Net change in fund balances–total governmental funds		**$ 720,016**
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	$ 778,429	
Depreciation expense	(215,018)	
Excess of capital outlay over depreciation expense		563,411
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		133,991
Losses on disposals of capital assets are reported as an expense in the statement of activities		(8,377)
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	(289,475)	
Refunding bonds issued	(221,045)	
Bond premiums	(22,222)	
Net bond and note proceeds		(532,742)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets		2,582
Certain capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability		(250)
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	248,930	
Note principal retirement	1,253	
Capital lease payments	602	
Payment to bond refunding agent	241,235	
Total long-term debt repayment		492,020
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		203,442

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

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, 2006
(Expressed in Thousands)

Because certain receivables will not be collected soon enough after the State's fiscal year ends, the related revenues are not considered "available" and are deferred in the governmental funds. Decrease in deferred revenues		$ (85,707)
Eliminations relating to the consolidation of internal service funds resulted in a net decrease in expenses for the business-type activities in the statement of activities		(12,484)
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	$ (492)	
Interest accreted on capital appreciation debt	(314)	
Amortization of bond issuance costs	(1,049)	
Net amortization of bond premiums and discounts	1,746	
Amortization of deferred losses on refunding of debt	(12,030)	
Net increase in compensated absences payable	(1,509)	
Increase in policy claims payable	(5,901)	
Net decrease in other payables	11,689	
Total additional expenses		(7,860)
Change in net assets of governmental activities		**$ 1,468,042**

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2006
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
ASSETS			
Current assets:			
Cash and cash equivalents	$ 554,217	$ 343,467	$ 18,442
Investments	50,933	—	—
Invested securities lending collateral	52,510	2,751	2,340
Receivables, net:			
Accounts	37,859	7,887	370
Contributions	2,841	—	—
Participants	—	—	—
Accrued interest	13,991	187	23
Student accounts	34,850	—	—
Patient accounts	—	—	—
Loans and notes	47	—	50,348
Assessments	—	53,415	—
Due from Federal government and other grantors	90,561	227	1,049
Due from other funds	35,329	1	—
Due from component units	106,991	—	—
Inventories	13,632	—	—
Restricted assets:			
Cash and cash equivalents	89,411	—	55,087
Investments	69	—	—
Loans receivable	381	—	—
Other	135	—	—
Prepaid items	20,535	—	—
Other current assets	4,739	—	3
Total current assets	1,109,031	407,935	127,662
Long-term assets:			
Investments	18,463	—	—
Receivables, net:			
Accounts	479	—	—
Contributions	424	—	—
Participants	649	—	—
Loans and notes	—	—	55,510
Interfund receivables	—	—	—
Restricted assets:			
Cash and cash equivalents	176,176	—	246,582
Investments	16	—	2,374
Loans receivable	52,706	—	522,042
Other	20,550	—	5,461
Prepaid items	1,179	—	—
Other long-term assets	4,102	—	—
Deferred charges	1,301	—	5,662
Non-depreciable capital assets	507,739	—	—
Depreciable capital assets, net	2,186,739	—	865
Total long-term assets	2,970,523	—	838,496
Total assets	**4,079,554**	**407,935**	**966,158**

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

FUNDS				
Medical University Hospital Authority	**Education Assistance Authority**	**Nonmajor Enterprise**	**Totals**	**INTERNAL SERVICE FUNDS**
$ 42,156	$ 187,027	$ 181,374	$ 1,326,683	$ 490,919
—	—	59,926	110,859	—
—	32	23,802	81,435	98,836
12,003	13,225	2,344	73,688	117,769
—	—	179	3,020	—
—	—	8,336	8,336	—
—	349	793	15,343	3,487
—	—	—	34,850	—
119,682	—	30,603	150,285	—
—	77,500	—	127,895	—
—	—	—	53,415	—
—	—	—	91,837	—
1,459	—	10,194	46,983	48,549
—	—	—	106,991	1
11,285	—	3,631	28,548	7,928
21,877	29,960	77,138	273,473	—
—	—	9,591	9,660	—
—	—	89	470	—
—	—	2,240	2,375	—
3,282	—	961	24,778	15,822
—	—	1,902	6,644	—
211,744	308,093	413,103	2,577,568	783,311
—	—	3,033	21,496	205,331
—	—	—	479	82
—	—	100	524	—
—	—	17,419	18,068	—
—	856,354	—	911,864	—
—	—	39,434	39,434	38,412
162,095	—	11,793	596,646	—
43,769	—	60,536	106,695	—
—	—	13,640	588,388	—
—	—	558	26,569	—
—	—	13,317	14,496	—
17,929	—	9,895	31,926	—
—	3,507	—	10,470	137
186,959	—	24,281	718,979	6,297
192,894	223	75,106	2,455,827	137,718
603,646	860,084	269,112	5,541,861	387,977
815,390	**1,168,177**	**682,215**	**8,119,429**	**1,171,288**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2006
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
LIABILITIES			
Current liabilities:			
Accounts payable	$ 73,734	$ 1,193	$ —
Accrued salaries and related expenses	44,014	—	435
Accrued interest payable	8,350	—	—
Retainages payable	8,887	—	—
Tax refunds payable	—	4,760	—
Unemployment benefits payable	—	6,976	—
Intergovernmental payables	—	3,647	14
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	18,258	1,676	455
Unearned revenues	124,798	—	—
Deposits	4,933	—	—
Amounts held in custody for others	3,401	—	—
Securities lending collateral	52,510	2,751	2,340
Liabilities payable from restricted assets:			
Accounts payable	177	—	—
Accrued interest payable	—	—	14,687
Bonds payable	—	—	30,720
Other	—	—	10,174
Notes payable	7,480	—	—
Letter of credit	—	—	—
Revenue bond anticipation notes payable	6,855	—	—
General obligation bonds payable	14,785	—	—
Revenue bonds payable	20,147	—	—
Limited obligation bonds payable	—	—	—
Capital leases payable	5,674	—	—
Compensated absences payable	43,120	—	440
Other current liabilities	1,756	—	330
Total current liabilities	438,879	21,003	59,595
Long-term liabilities:			
Retainages payable	297	—	—
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Interfund payables	43,004	—	—
Other liabilities payable from restricted assets	—	—	—
Notes payable	85,926	—	13,090
General obligation bonds payable	234,729	—	—
Revenue bonds payable	453,254	—	630,859
Limited obligation bonds payable	—	—	—
Capital leases payable	32,358	—	—
Compensated absences payable	52,787	—	271
Other long-term liabilities	58,089	—	—
Total long-term liabilities	960,444	—	644,220
Total liabilities	**1,399,323**	**21,003**	**703,815**

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

FUNDS				
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ 41,316	$ 111,559	$ 6,807	$ 234,609	$ 7,781
14,949	—	8,508	67,906	4,181
5,288	—	1,344	14,982	812
6,949	—	—	15,836	33
—	—	—	4,760	—
—	—	—	6,976	—
—	—	—	3,661	—
—	—	12,528	12,528	—
—	—	32,000	32,000	454,551
9,475	—	4,433	34,297	2,732
—	—	14,199	138,997	146,761
—	—	—	4,933	—
—	—	—	3,401	—
—	32	23,802	81,435	98,836
—	—	452	629	—
—	10,885	—	25,572	—
—	3,745	—	34,465	—
—	—	73,162	83,336	—
1,272	—	4,725	13,477	2,879
—	—	2,000	2,000	—
—	—	—	6,855	—
—	—	—	14,785	—
—	—	1,020	21,167	1,320
—	—	—	—	4,320
3,953	—	201	9,828	643
15,534	237	3,039	62,370	3,255
221	3,358	1,605	7,270	5,934
98,957	129,816	189,825	938,075	734,038
—	—	—	297	—
—	—	189,211	189,211	—
—	—	185,407	185,407	81,369
—	—	13,565	56,569	5,041
—	5,909	—	5,909	—
8,124	—	127,057	234,197	12,024
—	—	—	234,729	—
474,865	900,988	16,754	2,476,720	20,849
—	—	—	—	10,971
2,319	—	482	35,159	560
—	—	1,174	54,232	2,837
—	1,023	1,658	60,770	—
485,308	907,920	535,308	3,533,200	133,651
584,265	**1,037,736**	**725,133**	**4,471,275**	**867,689**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2006
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
NET ASSETS			
Invested in capital assets, net of related debt	$ 1,867,185	$ —	$ 865
Restricted:			
Expendable:			
Unemployment compensation benefits	—	386,932	—
Education	137,131	—	—
Capital projects	119,527	—	—
Debt service	21,826	—	49,745
Loan programs	—	—	192,671
Insurance programs	—	—	—
Nonexpendable:			
Education	72,889	—	—
Unrestricted	461,673	—	19,062
Total net assets (deficit)	**$ 2,680,231**	**$ 386,932**	**$ 262,343**

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					
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals		INTERNAL SERVICE FUNDS
$ 61,407	$ 223	$ 43,380	$ 1,973,060		$ 113,486
—	—	—	386,932		—
—	—	28,417	165,548		573
—	—	3,360	122,887		—
67,781	95,284	13,520	248,156		—
—	33,821	—	226,492		20,000
—	—	—	—		215,643
—	—	25,568	98,457		109
101,937	1,113	(157,163)	426,622		(46,212)
$ 231,125	**$ 130,441**	**$ (42,918)**	**3,648,154**		**$ 303,599**
			16,136		
			$ 3,664,290		

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

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Operating revenues:			
Assessments	$ —	$ 287,011	$ —
Charges for services	939,887	—	9,074
Contributions	—	—	—
Interest and other investment income	—	—	41,831
Operating revenues pledged for revenue bonds	139,196	—	—
Federal operating grants and contracts	485,532	31,386	—
State operating grants and contracts	212,610	—	—
Local/private operating grants and contracts	57,254	—	—
Other operating revenues	195,313	20,070	—
Total operating revenues	**2,029,792**	**338,467**	**50,905**
Operating expenses:			
General operations and administration	2,559,442	262	9,410
Benefits and claims	—	364,829	—
Tuition plan disbursements	—	—	—
Interest	—	—	30,888
Depreciation and amortization	126,531	—	395
Scholarships and fellowships	158,233	—	—
Other operating expenses	—	—	2,480
Total operating expenses	**2,844,206**	**365,091**	**43,173**
Operating income (loss)	**(814,414)**	**(26,624)**	**7,732**
Nonoperating revenues (expenses):			
Federal and local government appropriations	61,930	—	—
Interest income	30,126	14,291	—
Contributions	85,138	—	—
Federal grants and contracts	4,305	—	118,435
Local/private grants and contracts	6,167	—	—
Interest expense	(35,194)	—	—
Net other nonoperating revenues (expenses)	(1,673)	—	(107,453)
Total nonoperating revenues (expenses)	**150,799**	**14,291**	**10,982**
Income (loss) before other revenues, expenses, losses, and transfers	**(663,615)**	**(12,333)**	**18,714**
Capital contributions	—	—	—
Federal capital grants and contracts	18,199	—	—
Local/private capital grants and contracts	55,040	—	—
Additions to endowments	19,133	—	—
Extraordinary loss on early extinguishment of debt	—	—	(539)
Transfers in	826,161	—	400
Transfers out	(17,554)	(1,214)	(125)
Change in net assets	**237,364**	**(13,547)**	**18,450**
Net assets at beginning of year (restated)	**2,442,867**	**400,479**	**243,893**
Net assets (deficit) at end of year	**$ 2,680,231**	**$ 386,932**	**$ 262,343**

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				
Medical University Hospital Authority	**Education Assistance Authority**	**Nonmajor Enterprise**	**Totals**	**INTERNAL SERVICE FUNDS**
$ —	$ —	$ —	$ 287,011	$ —
681,348	49,544	301,595	1,981,448	1,773,731
—	—	9,481	9,481	743
—	9,835	3,782	55,448	1,114
—	—	2,443	141,639	—
—	—	—	516,918	—
—	—	—	212,610	—
—	—	—	57,254	—
16,743	5	27,228	259,359	38,901
698,091	**59,384**	**344,529**	**3,521,168**	**1,814,489**
638,067	29,325	231,770	3,468,276	319,669
—	—	51,625	416,454	1,297,671
—	—	38,849	38,849	—
—	27,671	—	58,559	11
21,158	302	4,613	152,999	11,538
—	—	—	158,233	—
—	4,174	202	6,856	5,513
659,225	**61,472**	**327,059**	**4,300,226**	**1,634,402**
38,866	**(2,088)**	**17,470**	**(779,058)**	**180,087**
—	—	—	61,930	—
1,810	—	4,056	50,283	22,087
—	—	2,293	87,431	—
—	—	—	122,740	—
—	—	215	6,382	—
(9,499)	—	(7,398)	(52,091)	(2,098)
—	2,593	11,093	(95,440)	7,311
(7,689)	**2,593**	**10,259**	**181,235**	**27,300**
31,177	**505**	**27,729**	**(597,823)**	**207,387**
—	—	2,325	2,325	95
—	—	—	18,199	—
—	—	40	55,080	—
—	—	823	19,956	—
—	—	—	(539)	—
—	—	2,816	829,377	20,080
(552)	—	(26,252)	(45,697)	(24,120)
30,625	**505**	**7,481**	**280,878**	**203,442**
200,500	**129,936**	**(50,399)**		**100,157**
$ 231,125	**$ 130,441**	**$ (42,918)**		**$ 303,599**
			12,484	
			$ 293,362	

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from operating activities:			
Receipts from customers, patients, and third-party payers	$ 1,132,618	$ —	$ —
Assessments received	—	287,736	—
Grants received	742,836	33,816	—
Receipts from collection of loans and notes	349,930	—	102,462
Receipts of funds held for others	140,655	—	—
Internal activity–payments from other funds	70,156	—	—
Tuition plan contributions received	—	—	—
Other operating cash receipts	33,480	20,043	4,059
Claims and benefits paid	—	(365,447)	(690)
Payments to suppliers for goods and services	(973,950)	—	(5,307)
Payments to employees	(1,626,647)	—	(5,146)
Payments for scholarships and fellowships	(131,761)	—	—
Loans issued to students	(347,326)	—	—
Payments of funds held for others	(111,776)	—	—
Program loans issued	—	—	(142,495)
Internal activity–payments to other funds	—	—	—
Other operating cash payments	(1,229)	(262)	—
Net cash provided by (used in) operating activities	**(723,014)**	**(24,114)**	**(47,117)**
Cash flows from noncapital financing activities:			
State, county, and local appropriations	54,473	—	—
Federal appropriations	11,331	—	—
Funds held for others	29	—	—
Principal payments received from other funds	—	—	—
Principal payments made to other funds	—	—	—
Receipt of interest from other funds	—	—	—
Interest payments made to other funds	—	—	—
Loans received from other funds	—	—	3,100
Proceeds from sale of revenue bonds	—	—	113,985
Principal payments on revenue bonds	—	—	(70,715)
Proceeds from issuance of noncapital debt	—	—	—
Principal paid on noncapital debt	—	—	—
Interest payments on noncapital debt	(61)	—	(30,892)
Payment of bond issuance costs	—	—	(706)
Gifts and grants for other than capital purposes	147,384	—	—
Federal revenue	—	—	118,435
Payments from Federal grants	—	—	(107,453)
Other cash receipts	2,532	—	—
Other cash payments	(919)	(656)	—
Transfers in	826,161	—	400
Transfers out	(17,554)	(1,214)	(125)
Net cash provided by (used in) noncapital financing activities	**1,023,376**	**(1,870)**	**26,029**

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

FUNDS Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ 655,519	$ 67,164	$ 288,862	$ 2,144,163	$ 1,307,554
—	—	176,801	464,537	—
—	—	—	776,652	—
—	814,103	—	1,266,495	—
—	—	—	140,655	—
—	—	—	70,156	474,868
—	—	8,799	8,799	—
18,210	—	39,347	115,139	47,023
—	—	(190,356)	(556,493)	(1,248,454)
(287,856)	(57,753)	(77,617)	(1,402,483)	(338,402)
(280,392)	(3,213)	(148,774)	(2,064,172)	(74,270)
—	—	—	(131,761)	—
—	—	—	(347,326)	—
—	—	—	(111,776)	—
—	(945,083)	—	(1,087,578)	—
(70,156)	—	—	(70,156)	(16,842)
—	—	(9,156)	(10,647)	(36)
35,325	**(124,782)**	**87,906**	**(795,796)**	**151,441**
—	—	—	54,473	—
—	—	—	11,331	—
—	—	—	29	—
—	—	—	—	4,617
—	—	(1,833)	(1,833)	(191)
—	—	—	—	734
—	—	(1,144)	(1,144)	—
—	—	—	3,100	500
—	208,300	—	322,285	—
—	(48,035)	—	(118,750)	—
—	—	3,000	3,000	—
—	—	(3,869)	(3,869)	—
—	(24,063)	(3,814)	(58,830)	—
—	(997)	—	(1,703)	—
—	—	3,821	151,205	—
—	—	—	118,435	—
—	—	—	(107,453)	—
—	—	446	2,978	—
—	(310)	(7,020)	(8,905)	—
—	—	2,816	829,377	20,080
(552)	—	(26,252)	(45,697)	(24,120)
(552)	**134,895**	**(33,849)**	**1,148,029**	**1,620**

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from capital and related financing activities:			
Capital appropriations	$ 4,035	$ —	$ —
Acquisition of capital assets	(330,559)	—	(152)
Principal payments received from other funds	—	—	—
Principal payments on notes payable	(3,864)	—	—
Principal payments on limited obligation bonds	—	—	—
Proceeds from issuance of capital debt	182,147	—	—
Principal paid on capital debt and lease	(121,336)	—	—
Interest payments on capital debt	(36,571)	—	—
Payment of agent and broker fees	(1)	—	—
Proceeds from sale or disposal of capital assets	854	—	—
Capital grants and gifts received	28,886	—	—
Net cash used in capital and related financing activities	**(276,409)**	**—**	**(152)**
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	58,086	—	1,998
Purchase of investments	(74,658)	—	—
Interest and dividends on investments	19,428	14,369	9,343
Transfer of endowment funds	(9,848)	—	—
Collection of escrow payments from borrower	—	—	—
Net cash provided by (used in) investing activities	**(6,992)**	**14,369**	**11,341**
Net increase (decrease) in cash and cash equivalents	**16,961**	**(11,615)**	**(9,899)**
Cash and cash equivalents at beginning of year	**802,843**	**355,082**	**330,010**
Cash and cash equivalents at end of year	**$ 819,804**	**$ 343,467**	**$ 320,111**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (814,414)	$ (26,624)	$ 7,732
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	126,531	—	395
Provision for bad debts	(3)	—	—
Realized gains and losses on investments	—	—	7
Issuance of loans and notes	—	—	(142,495)
Collection of loans and notes	—	—	67,037
Interest payments reclassified as noncapital financing activities	—	—	30,888
Interest and dividends on investments and interfund loans	—	—	(9,194)
Amounts received for payment of claims	—	—	—
Payment of claims	—	—	—
Other nonoperating revenues	—	—	—
Other nonoperating expenses	—	—	—
Other	988	1	(1,483)

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

FUNDS

Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ —	$ —	$ —	$ 4,035	$ —
(115,014)	(69)	(6,501)	(452,295)	(9,692)
—	—	—	—	1,260
—	—	—	(3,864)	—
—	—	—	—	(4,120)
10,000	—	—	192,147	12,509
(7,680)	—	(2,019)	(131,035)	(610)
(26,337)	—	(4,804)	(67,712)	(1,961)
(2,006)	—	(26)	(2,033)	—
9	—	125	988	2,378
—	—	63	28,949	—
(141,028)	**(69)**	**(13,162)**	**(430,820)**	**(236)**
31,125	395	61,764	153,368	107,229
(16,399)	—	(86,273)	(177,330)	(115,419)
14,141	9,619	14,059	80,959	27,803
—	—	—	(9,848)	—
—	—	1,554	1,554	—
28,867	**10,014**	**(8,896)**	**48,703**	**19,613**
(77,388)	**20,058**	**31,999**	**(29,884)**	**172,438**
303,516	**196,929**	**238,306**	**2,226,686**	**318,481**
$ 226,128	**$ 216,987**	**$ 270,305**	**$ 2,196,802**	**$ 490,919**
$ 38,866	$ (2,088)	$ 17,470	$ (779,058)	$ 180,087
21,158	302	4,613	152,999	11,538
98,819	(35)	37,111	135,892	—
—	—	(5,182)	(5,175)	—
—	(974,963)	—	(1,117,458)	—
—	817,086	—	884,123	—
—	28,056	—	58,944	—
—	(9,897)	(3,782)	(22,873)	—
—	—	175,254	175,254	—
—	—	(145,771)	(145,771)	—
—	—	1,991	1,991	2,281
—	—	(1,531)	(1,531)	(500)
86	—	5,270	4,862	955

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Change in assets—decreases (increases):			
Accounts receivable, net	$ (38,191)	$ (4)	$ 4,094
Receivable from participants, net	—	—	—
Accrued interest	—	—	(10)
Loans receivable	226	—	(6,856)
Due from Federal government and other grantors	—	(892)	356
Due from other funds	—	(23)	—
Inventories	—	—	—
Other assets	(7,706)	(17)	(3)
Change in liabilities—increases (decreases):			
Accounts payable	(1,954)	(656)	—
Accrued salaries and related expenses	(7,164)	—	(25)
Accrued interest payable	—	—	—
Retainages payable	—	—	—
Tax refunds payable	—	742	—
Unemployment benefits payable	—	422	—
Intergovernmental payables	—	(385)	(720)
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	—	3,322	428
Deferred revenues	16,589	—	—
Deposits	3	—	—
Liabilities payable from restricted assets	—	—	2,489
Compensated absences payable	4,893	—	97
Other liabilities	(2,812)	—	146
Net cash provided by (used in) operating activities	**$ (723,014)**	**$ (24,114)**	**$ (47,117)**
Noncash capital, investing, and financing activities:			
Acquisition of capital assets through:			
Assumption of liabilities	$ 3,727	$ —	$ —
Donations	36,200	—	—
Disposal of capital assets	(3,857)	—	—
Increase (decrease) in fair value of investments	3,205	—	(276)
Accrual of arbitrage rebate	—	—	—
Long-term debt forgiven	266	—	—
Total noncash capital, investing, and financing activities	**$ 39,541**	**$ —**	**$ (276)**

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

FUNDS				
Medical University Hospital Authority	**Education Assistance Authority**	**Nonmajor Enterprise**	**Totals**	**INTERNAL SERVICE FUNDS**
$ (114,220)	$ (1,570)	$ (39,563)	$ (189,454)	$ (21,221)
—	—	(551)	(551)	—
—	—	(5)	(15)	(49)
—	—	—	(6,630)	—
—	—	—	(536)	—
—	—	(364)	(387)	(7,023)
—	—	280	280	(1,132)
(15,804)	—	(741)	(24,271)	(5,944)
4,301	18,061	805	20,557	(298)
—	—	(46)	(7,235)	130
—	—	—	—	(29)
—	—	—	—	(3)
—	—	—	742	—
—	—	—	422	—
—	—	—	(1,105)	—
—	—	34,381	34,381	—
—	—	7,041	7,041	(27,235)
—	—	254	4,004	344
—	—	885	17,474	19,587
—	—	—	3	—
—	—	(2)	2,487	—
2,119	26	194	7,329	(47)
—	240	(105)	(2,531)	—
$ 35,325	**$ (124,782)**	**$ 87,906**	**$ (795,796)**	**$ 151,441**
$ —	$ —	$ 114	$ 3,841	$ —
—	—	—	36,200	—
—	—	—	(3,857)	—
—	—	(907)	2,022	5,800
—	2,594	—	2,594	—
—	—	—	266	807
$ —	**$ 2,594**	**$ (793)**	**$ 41,066**	**$ 6,607**

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2006
(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
ASSETS				
Cash and cash equivalents	$ 1,729,183	$ 1,295,316	$ 25,624	$ 165,276
Receivables, net:				
Accounts	—	—	—	8,750
Contributions	146,076	—	—	—
Employer long-term	1,461	—	—	—
Accrued interest	142,437	5,238	730	808
Unsettled investment sales	51,857	—	488	—
Taxes	—	—	—	2,667
Total receivables	341,831	5,238	1,218	12,225
Due from other funds	7,167	—	—	59,771
Investments, at fair value:				
United States government securities	713,525	60,165	—	—
United States government agencies and government-insured securities	3,830,546	286,262	—	—
Corporate bonds	4,289,977	312,932	—	—
Financial and other	1,751,809	14,987	692,524	32,026
Equities	13,529,089	—	—	—
Total investments	24,114,946	674,346	692,524	32,026
Securities held in lieu of surety bonds	—	—	—	329,611
Invested securities lending collateral	4,372,175	191,136	1,170	14,989
Capital assets, net	3,696	—	—	—
Prepaid items	213	—	—	—
Other assets	—	—	5,104	—
Total assets	**30,569,211**	**2,166,036**	**725,640**	**613,898**
LIABILITIES				
Accounts payable	7,274	—	1,551	18,563
Accounts payable–unsettled investment purchases	44,162	—	402	—
Due to other funds	30,789	—	—	—
Tax refunds payable	—	—	—	1,082
Intergovernmental payables	—	—	—	2,252
Deposits	—	—	—	3,271
Amounts held in custody for others	—	—	—	573,741
Deferred retirement benefits	670,527	—	—	—
Securities lending collateral	4,372,175	191,136	1,170	14,989
Other liabilities	62,336	817	—	—
Total liabilities	**5,187,263**	**191,953**	**3,123**	**613,898**
NET ASSETS				
Held in trust for:				
Pension benefits	25,381,948	—	—	—
External investment pool participants	—	1,974,083	—	—
Other purposes	—	—	722,517	—
Total net assets	**$ 25,381,948**	**$ 1,974,083**	**$ 722,517**	**$ —**

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, 2006
(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private Purpose Trust
Additions:			
Licenses, fees, and permits	$ —	$ —	$ 177
Contributions:			
Employer	690,373	—	—
Employee	567,908	—	—
Deposits from pool participants	—	5,222,280	—
Tuition plan deposits	—	—	147,753
Total contributions	1,258,281	5,222,280	147,753
Investment income:			
Interest income and net appreciation in investments	1,301,134	80,647	60,875
Securities lending income	194,823	12,769	—
Total investment income	1,495,957	93,416	60,875
Less investment expense:			
Investment expense	29,837	—	—
Securites lending expense	183,825	12,049	—
Net investment income	1,282,295	81,367	60,875
Transfers between pension trust funds	3,298	—	—
Transfers in	2,101	—	—
Total additions	**2,545,975**	**5,303,647**	**208,805**
Deductions:			
Regular retirement benefits	1,500,061	—	—
Supplemental retirement benefits	1,801	—	—
Deferred retirement benefits	321,374	—	—
Refunds of retirement contributions to members	121,841	—	—
Group life insurance claims	16,837	—	—
Accidental death benefits	1,183	—	—
Withdrawals, pool participants	—	5,116,030	—
Distributions to pool participants	—	81,984	—
Depreciation	118	—	—
Administrative expense	17,482	110	5,526
Payments in accordance with trust agreements	—	—	1,297
Transfers between pension trust funds	3,298	—	—
Total deductions	**1,983,995**	**5,198,124**	**6,823**
Change in net assets	**561,980**	**105,523**	**201,982**
Net assets at beginning of year	**24,819,968**	**1,868,560**	**520,535**
Net assets at end of year	**$ 25,381,948**	**$ 1,974,083**	**$ 722,517**

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2006
(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	$ 79,068	$ 146,392	$ 637	$ 4,997	$ 29,455	$ 260,549
Investments	78,427	—	313	—	61,926	140,666
Invested securities lending collateral	—	17,582	—	32	95	17,709
Receivables, net						
Accounts	157,722	22,142	—	29,019	1,021	209,904
Contributions	—	—	—	—	10,139	10,139
Accrued interest	1,807	—	7	—	631	2,445
Due from primary government	—	—	—	—	3	3
Inventories	139,959	4,426	87	3,382	—	147,854
Restricted assets:						
Cash and cash equivalents	136,101	—	1,690	495	15,454	153,740
Investments	22,323	—	925	—	—	23,248
Prepaid items	3,963	4,551	87	—	—	8,601
Other current assets	56,996	—	—	835	—	57,831
Deferred charges	—	—	—	—	1,616	1,616
Total current assets	676,366	195,093	3,746	38,760	120,340	1,034,305
Long-term assets:						
Receivables, net:						
Accounts	—	—	—	—	2,125	2,125
Contributions	—	—	—	—	27,438	27,438
Investments	54,062	6,209	—	—	579,008	639,279
Restricted assets:						
Cash and cash equivalents	37,901	—	—	—	—	37,901
Investments	207,014	—	16,290	—	—	223,304
Other long-term assets	10	11,710	—	7,425	86	19,231
Deferred charges	472,654	16,650	4,128	—	—	493,432
Investment in joint venture	6,567	—	—	—	—	6,567
Non-depreciable capital assets	1,156,109	227,870	—	—	8,971	1,392,950
Depreciable capital assets, net	2,372,519	223,180	167,865	5,568	692	2,769,824
Total long-term assets	4,306,836	485,619	188,283	12,993	618,320	5,612,051
Total assets	**4,983,202**	**680,712**	**192,029**	**51,753**	**738,660**	**6,646,356**

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2006
(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
LIABILITIES						
Current liabilities:						
Accounts payable	$ 176,394	$ 12,290	$ 51	$ 2,370	$ 1,830	$ 192,935
Accrued salaries and related expenses	7,094	1,718	—	659	68	9,539
Accrued interest payable	63,718	3,072	—	—	—	66,790
Retainages payable	—	1,167	—	—	—	1,167
Prizes payable	—	—	—	29,523	—	29,523
Intergovernmental payables	—	755	—	—	318	1,073
Policy claims	2,597	—	—	—	40,000	42,597
Due to primary government	—	—	1,950	10,940	106,991	119,881
Deferred revenues and deferred credits	—	—	137	885	27,587	28,609
Deposits	—	—	12	—	—	12
Securities lending collateral	—	17,582	—	32	95	17,709
Liabilities payable from restricted assets:						
Accounts payable	—	—	3	—	325	328
Accrued interest payable	—	—	1,766	—	—	1,766
Notes payable	—	445	—	882	—	1,327
Revenue bonds payable	64,835	3,155	—	—	—	67,990
Capital leases payable	2,673	40	—	—	—	2,713
Commercial paper notes	285,449	—	—	—	—	285,449
Compensated absences payable	—	2,356	—	41	89	2,486
Other current liabilities	90,018	98	—	406	468	90,990
Total current liabilities	692,778	42,678	3,919	45,738	177,771	962,884
Long-term liabilities:						
Retainages payable	48,380	—	—	—	—	48,380
Policy claims	—	—	—	—	149,067	149,067
Deferred revenues and deferred credits	322,358	—	—	—	—	322,358
Amounts held in custody for others	—	—	—	—	2,463	2,463
Notes payable	—	2,429	—	—	—	2,429
Revenue bonds payable	2,511,893	134,244	276,587	—	—	2,922,724
Capital leases payable	9,264	58	—	—	—	9,322
Compensated absences payable	14,224	—	—	834	56	15,114
Other long-term liabilities	47,735	13,548	—	—	9,507	70,790
Total long-term liabilities	2,953,854	150,279	276,587	834	161,093	3,542,647
Total liabilities	**3,646,632**	**192,957**	**280,506**	**46,572**	**338,864**	**4,505,531**
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt	814,282	315,232	(35,651)	4,686	9,662	1,108,211
Restricted:						
Expendable:						
Education	—	—	—	—	168,211	168,211
Capital projects	3,079	—	11	—	—	3,090
Debt service	70,263	6,229	846	—	—	77,338
Other	141,967	—	—	495	2,302	144,764
Nonexpendable, education	—	—	—	—	306,234	306,234
Unrestricted	306,979	166,294	(53,683)	—	(86,613)	332,977
Total net assets (deficit)	**$ 1,336,570**	**$ 487,755**	**$ (88,477)**	**$ 5,181**	**$ 399,796**	**$ 2,140,825**

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Public Service Authority	$ 1,247,004	$ 1,365,317	$ 17,078	$ —
State Ports Authority	108,028	157,823	8,288	2,040
Connector 2000 Association, Inc.	25,265	4,661	931	—
Lottery Commission	1,150,865	1,147,852	1,246	—
Nonmajor component units	98,500	47,682	103,119	—
Totals	**$ 2,629,662**	**$ 2,723,335**	**$ 130,662**	**$ 2,040**

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

Net (Expense) Revenue	Net Assets (Deficit) Beginning of Year	Net Assets (Deficit) End of Year
$ 135,391	$ 1,201,179	$ 1,336,570
60,123	427,632	487,755
(19,673)	(68,804)	(88,477)
(1,767)	6,948	5,181
52,301	347,495	399,796
$ 226,375	**$ 1,914,450**	**$ 2,140,825**

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, 2006:
- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 2005:
- 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, 2006.

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.

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

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. The Authority also is a major enterprise fund.

The *Citadel Trust, Inc.*, was formed 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, 2005.

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 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.

The *Enterprise Campus Authority* was established to provide for the management, development, and operation of the Enterprise Campus of Midlands Technical College.

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

Governor's School for the Arts
Foundation, Inc.
700 East North Street
Suite 11
Greenville, South Carolina 29601

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

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

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

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

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

CHS Development Company
c/o Medical University of South Carolina
Controller's Office
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

Enterprise Campus Authority
c/o Midlands Technical College
Vice President for Business Affairs
Post Office Box 2408
Columbia, South Carolina 29202

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, 2006.

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 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, 2005.

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 eight 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. The rates 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, 2005.

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 Educational 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, 2005.

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, 2005.

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
Post Office Box 2946101
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 Patient's Compensation Fund
121 Executive Center Drive
Suite 110
Columbia, South Carolina 29210

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

Fund financial statements for the South Carolina 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 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.

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, 2006, 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 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 *Medical University Hospital Authority* manages and operates the Medical University of South Carolina's hospitals and clinics. Revenues consist of payments from patients and third-party payors including Medicare and Medicaid.

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 Retirement 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.

For the *Medical University Hospital Authority*, principal operating items include revenues and expenses associated with managing and operating the Medical University of South Carolina's hospitals and clinics.

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 (other than agency fund) financial statements using the *economic resources* measurement focus. Agency funds report only assets and liabilities; and therefore cannot be said to have a measurement focus. Business enterprises also use the economic resources 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. Revenues collected in advance are deferred until the period in which it is earned.

Significant nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, and donations. On the accrual basis, the State recognizes income, sales, and similar taxes in the period when the underlying income or sales transactions occur, net of estimated overpayments (refunds).

The State recognizes grants, donations, and similar items as revenue as soon as it meets all eligibility requirements. 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, 2006.

Modified Accrual Basis

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the

State considers revenues to be available if they are collected within one month of the end of the current fiscal period with the following exceptions—tax and grant revenues are considered available if collected within one year; interest on investments is recorded as earned because it is deemed available when earned. Receivables not expected to be collected within the established availability periods are offset by deferred revenues.

Recognition of Specific Grant and Shared Revenue Transactions

The State reports the receipt of food commodities as revenue and the distribution of commodities as expenditures/expenses. The fair value of the donated commodities is recognized as revenues when all eligibility requirements are met.

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 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 South Carolina 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.

On the Statement of Cash Flows – Proprietary Funds, the Higher Education Fund reflects a reclassification of investment amounts as cash and cash equivalents at the beginning of the fiscal year.

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.

Certain agencies and component units have specific authority to manage deposits and investments under their control. The investment policies of these entities may differ from those of the State Treasurer.

State law has established a six-member Investment Commission with fiduciary responsibility for all of the State Retirement Systems' investments. The chief investment officer may invest no more than 70.0% of the Systems' investment portfolio in equity securities.

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.

Pursuant to State law, the primary government and its discrete component units do not maintain deposits or make investments in foreign currencies.

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 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. Infrastructure assets acquired prior to fiscal years ended after June 30, 1980, are reported at cost beginning in the year 1917. 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.

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. 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.

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.

Unamortized bond issuance costs are reported as deferred charges and are amortized as described in Note 1m.

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 shorter of the remaining life of the old debt or the life of the new debt. 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 statements as restricted. Net assets are reported as restricted when constraints placed on net assets use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulation of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the State to assess, levy, charge, or otherwise mandate payments of resources (from resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable requirement is one that an outside party (such as citizens, public interest groups, or the judiciary) can compel the government to honor. At June 30, 2006, $1.048 billion was reported as restricted net assets because of restrictions imposed by enabling legislation.

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. Adoption of New Accounting Standards

Effective July 1, 2005, the State adopted the following Governmental Accounting Standards Board (GASB) Statements that had no effect on the balances of State accounts.

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46, *Net Assets Restricted by Legislation – an amendment of GASB Statement 34*, clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary, can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration.

Statement No. 47, *Accounting for Termination Benefits*, establishes accounting standards for voluntary and involuntary termination benefits.

b. Correction of Error: Unemployment Compensation Fund

During the fiscal year ended June 30, 2006, the Unemployment Compensation Fund determined that $4.274 million in interest received on its U.S. Treasury deposit account for the quarter ending June 30, 2005 had not been recorded. This amount is reported as an increase to beginning net assets for the Fund's business-type activity in the government-wide statements and major enterprise fund in the proprietary fund statements.

NOTE 3: DEFICITS OF INDIVIDUAL FUNDS

The accompanying fund financial statements display deficit fund balances and deficit net asset balances for individual major funds, if applicable. Nonmajor funds had the following deficit net asset balances (expressed in thousands) at June 30, 2006:

Nonmajor Enterprise Funds:	
Patients' Compensation..................	$ 223,033
Tuition Prepayment Program...........	61,694
CHS Development Company...........	188
Internal Service Funds:	
State Accident Fund......................	112,758
Pension Administration.................	773

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 deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

a. Deposits

The following deposits disclosure excludes the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection d.

Policy

The State's policy by law, requires all banks or savings and loan associations that receive State funds deposited by the State Treasurer, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss. Agencies with specific authority manage their deposits outside of the State Treasurer and may have custodial credit risk policies that differ from the State Treasurer. Therefore, some deposits presented below have custodial credit risk. Note 1, subsections d and e explain other policies concerning deposits.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the State will not be able to recover collateral securities that are in the possession of an outside party. Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. All deposits under the control of the State Treasurer are fully insured or collateralized. The reported amount of the State Treasurer's deposits as of June 30, 2006 was $386.050 million and the bank balance was $664.929 million. As of June 30, 2006, the reported amount of the primary government's deposits outside of the State Treasurer was $244.142 million and the bank balance was $272.501 million. Of the $194.834 million bank balance exposed to custodial credit risk, $85.343 million was uninsured and uncollateralized, $32.317 million was uninsured and collateralized with securities held by the counterparty's trust department or agent in the State's name, and $77.174 million was uninsured and collateralized with securities held by the counterparty's trust department or agent but not in the State's name.

As of June 30, 2006, the reported amount of the major discretely presented component units' deposits was $40.862 million and the bank balance was $43.468 million. Of the $9.107 million bank balance exposed to custodial credit risk, $1.268 million was uninsured and uncollateralized; $3.997 million was uninsured and collateralized with securities held by the counterparty's trust department or agent in a State entity's name; and $3.842 million was uninsured and collateralized with securities held by the counterparty's trust department or agent, but not in the State's name.

b. Investments

The investment disclosures exclude the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection d.

Investment Policy

The State's investment policy by law authorizes investments that 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. 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. Other investment policies for the State and its component units are explained in Note 1, subsection f.

Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of investments or collateral securities that are in possession of an outside party. All of the State Treasurer's investments are fully insured or collateralized. Certain agencies with specific authority manage their own investments and may have custodial credit risk policies that differ from the State Treasurer. The primary government's investments and the major discretely presented component unit's investments that are exposed to custodial credit risk have been classified into two categories of custodial credit risk. Category A includes investment securities that are uninsured, not registered in the name of the State, and are held by a counterparty. Category B includes investment securities that are uninsured, not registered in the name of the State, and are held by a counterparty's trust department or agent but not in a State entity's name. The portion of the primary government's investments with custodial credit risk is classified by risk category (expressed in thousands) at June 30, 2006, as follows:

Primary Government	Category		
Investment Type	A	B	Reported Amount
U.S. Treasuries	$ 279,210	$ 8,881	$ 288,091
U.S. agencies	7,539	21,268	28,807
Corporate bonds	16,984	3,698	20,682
Municipal bonds	37,606	—	37,606
Equity securities	4,791	4,234	9,025
Repurchase agreements	432	68,508	68,940
Asset backed securities	3,000	—	3,000
Commercial paper	13,044	—	13,044
Totals	**$ 362,606**	**$ 106,589**	**$ 469,195**

The reported amount of the State's major discretely presented component unit investments that are exposed to custodial credit risk in Category B is $6.209 million of U.S. Treasuries.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the State. The State Treasurer's credit risk policy mitigates potential for loss of principal by purchasing only high investment grade fixed-income securities. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. Certain agencies with specific authority to manage their own investments outside of the State Treasurer have credit risk policies that differ from that of the State Treasurer. The majority of the debt investments for the primary government were rated as of June 30, 2006, and are listed below using the Standard and Poor's rating scale (expressed in thousands):

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	A-1	A-2	Not Rated
Corporate bonds	$ 170,733	$ 164,244	$ 548,746	$ 125,242	$ 2,773	$ 695	$ —	$ —	$ 18,907
Municipal bonds	402,471	57,039	20,564	4,754	55	—	—	—	51,195
Repurchase agreements	—	—	—	—	—	—	2,789,075	—	148,370
Asset backed securities	378,660	—	1,609	—	—	—	30,045	—	—
Commercial paper	—	—	—	—	—	—	114,580	8,081	—
Mutual funds	10,635	—	—	—	—	—	—	—	784,516
Yankee bonds	9,837	—	34,829	—	—	—	—	—	—
Non U.S. fixed income - developed corporate markets	—	—	540	—	—	—	—	—	—
Corporate private placements	4,561	25,584	32,017	2,639	—	—	—	—	—
Guaranteed investment contracts	295,681	—	—	—	—	—	—	—	—
Totals	**$ 1,272,578**	**$ 246,867**	**$ 638,305**	**$ 132,635**	**$ 2,828**	**$ 695**	**$ 2,933,700**	**$ 8,081**	**$ 1,002,988**

At June 30, 2006, the Public Service Authority, the State Ports Authority, and the Connector 2000 Association, Inc., all major discretely presented component units, held investments in U.S. government securities which do not require disclosure of credit quality. In addition to U.S. government securities, the State Ports Authority and the Connector 2000 Association, Inc. held investments in money market funds rated “AAAm”, “AAm”, “AAAmG”, or better by a nationally recognized rating agency.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Treasurer manages interest rate sensitivity by investing in securities with a range of maturities from one day to thirty years using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates. At June 30, 2006, the effective duration and fair value of the State Treasurer's investments by investment type, are as follows (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government		
U.S. Treasuries	$ 119,880	0.50
U.S. agencies	706,825	0.79
Mortgage Backed		
Government pass-through	1,340,694	5.09
Corporate		
Corporate bonds	852,025	1.50
Corporate asset backed	228,419	0.83
Private placements	60,693	3.37
Municipals	4,754	6.77
Yankee bonds	44,332	0.96
Short Term Investments		
Commercial paper	49,950	0.04
Repurchase agreements	1,475,238	0.00
U.S. Treasuries	49,613	0.17
U.S. agencies	206,403	0.44
Total Invested Assets	**$ 5,138,826**	

Agencies that manage their own investments have interest rate risk polices that differ from the State Treasurer. Some of these agencies do not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. At June 30, 2006, agencies within the State's primary government that manage their own investments limited the maturities of their securities according to the following segmented time distribution (expressed in thousands):

		Investment Maturities (in years)				
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**	**No Maturity**
U.S. Treasuries	$ 391,828	$ 57,118	$ 334,034	$ 495	$ 181	$ —
U.S. agencies	460,479	449,586	10,204	652	37	—
Mortgage backed securities	21,151	—	—	—	21,151	—
Collateralized mortgage obligations	1,242	—	—	—	1,242	—
Corporate bonds	179,315	139,031	22,049	3,428	14,807	—
Municipal bonds	531,324	25,541	185,290	20,539	299,954	—
Equity securities	126,895	—	—	—	104	126,791
Repurchase agreements	1,462,207	1,462,207	—	—	—	—
Asset backed securities	181,895	—	177,904	—	3,991	—
Commercial paper	72,711	72,711	—	—	—	—
Mutual funds	795,151	52,061	5,147	—	—	737,943
Yankee bonds	334	—	—	—	334	—
Non U.S. fixed income - developed corporate markets	540	—	—	—	540	—
Corporate private placements	4,108	758	278	—	3,072	—
Guaranteed investment contracts	295,681	155,819	—	—	—	139,862
Totals	$ 4,524,861	$ 2,414,832	$ 734,906	$ 25,114	$ 345,413	$ 1,004,596

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2006, these major discretely presented component units had the following investments with maturities disclosed by investment category and segmented time distribution stated with fair value (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
U.S. Treasuries	**$** 116,045	**$** 115,326	**$** 719	**$** —	**$** —
U.S. agencies	309,955	—	—	309,955	—
Repurchase agreements	181,516	165,021	—	—	16,495
Mutual funds	5,485	5,485	—	—	—
Totals	$ 613,001	$ 285,832	$ 719	$ 309,955	$ 16,495

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The State's policy for reducing the risk is to diversify and limit exposure to any single issuer to no more than 5.0%, except for United States Treasury and agency obligations. As of June 30, 2006, the State Treasurer had approximately 25.97% of its investments in an overnight repurchase agreement with a South Carolina bank that were fully collateralized by U.S. Treasuries and U.S. agency obligations. The State sponsors the Local Government Investment Pool (LGIP), an external investment pool reported as an investment trust fund. As of June 30, 2006, the State Treasurer had approximately 65.19% of the LGIP investment portfolio in an overnight repurchase agreement with a South Carolina bank that was fully collateralized by U.S. Treasuries and U.S. agency obligations.

c. Securities Lending Program

The following securities lending disclosures exclude the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection d.

By law, the State Treasurer 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, 2006. At June 30, 2006, 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, 2006, 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. 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, 2006, 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, 2006, 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. The following table presents the fair value (expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2006:

	Amount
Securities lent for cash collateral:	
U.S. Treasuries	$ 849,924
U.S. agencies	35,403
Corporate bonds	19,380
Total for cash collateral	**$ 904,707**
Cash collateral invested:	
Repurchase agreements	$ 162,457
Corporate bonds	484,357
Asset backed securities	245,451
Bank obligations	37,556
Total collateral invested	**$ 929,821**

d. South Carolina Retirement Systems

Custodial Credit Risk`

Deposits

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the Systems' deposits may not be recovered. As prescribed by law, the State Treasurer is the custodian of all deposits and is responsible for securing all deposits held by banks or savings and loan associations. These deposits must be secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution, or for any other cause. All deposits are required to be insured by the Federal Deposit Insurance Corporation (FDIC) up to $100 thousand or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. As of June 30, 2006, the reported amount of the Systems' deposits was a negative $27.221 million and the bank balance was a positive $24.184 million. The reported amount of the Systems' deposits was negative due to timing differences for refund checks issued to participants in the Teacher and Employee Retention Incentive (TERI) Program at fiscal year end. Additional details related to these refund checks can be found in Note 22.

Investments

Investing for the Systems is governed by State law allowing investments to be made in a variety of instruments including obligations of the United States and its agencies, securities fully guaranteed by the United States, certain corporate obligations, collateralized repurchase agreements, and equity securities. The market value must not be less than the amount of either the certificate of deposit so secured, including interest, or the amount of the repurchase agreement so collateralized, including interest.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Systems will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Collateral held for certificates of deposit or repurchase agreements must be obligations of the United States or investment grade corporate obligations held by a third party as escrow agent or custodian. At June 30, 2006, all of the Systems' investments were insured or collateralized.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates. The Systems' investment policy requires that the weighted average maturity and weighted average duration of the actively managed fixed income portfolio should not exceed 175 percent of the benchmark index averages. The effective duration and the fair value of the Systems' investments by investment type at June 30, 2006 (expressed in thousands), is as follows:

Investment Type	Fair Value	Effective Duration
U.S. Government		
U.S. Treasuries	$ 720,034	4.51
U.S. agencies	739,502	0.75
Other U. S. Government	4,120	8.05
Mortgage Backed		
Government pass-through	3,109,500	4.81
Collateralized Mortgage Obligations		
Government CMO's	290,726	4.30
Corporate		
Corporate bonds	4,262,336	8.07
Corporate asset backed	165,481	6.58
Private placements	1,224,002	9.86
Dollar denominated bonds	160,008	8.42
Short Term Investments		
Commercial paper	29,685	0.02
Repurchase agreements	1,722,131	0.00
Equity		
Domestic	5,964,178	Not Required
American depository receipts	252,519	Not Required
Commingled Funds		
Common trust funds	7,317,384	Not Required
Money market funds	2,241	Not Required
Total Invested Assets	**$ 25,963,847**	

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. The investment policy for credit quality of debt securities states that securities must bear an investment grade rating from at least two of the national rating agencies. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least two nationally recognized rating services. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. As of

June 30, 2006, the Systems' applicable debt investments (expressed in thousands) were rated by Standard & Poor's and are presented below:

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	CCC and Below	A-1	Not Rated
Fixed Income									
Corporate:									
Corporate bonds	$ 73,929	$ 184,394	$ 1,796,287	$ 1,867,704	$ 318,793	$ 3,717	$ 162	$ —	$ 17,350
Corporate asset backed	120,286	—	—	39,804	—	—	—	5,391	—
Private placements	100,032	252,833	487,624	302,362	—	—	—	—	81,151
Dollar denominated bonds	—	—	160,008	—	—	—	—	—	—
Short Term Investments									
Commercial paper	—	29,685	—	—	—	—	—	—	—
Repurchase agreements	—	—	—	—	—	—	—	1,722,131	—
Totals	**$ 294,247**	**$ 466,912**	**$ 2,443,919**	**$ 2,209,870**	**$ 318,793**	**$ 3,717**	**$ 162**	**$ 1,727,522**	**$ 98,501**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Systems' policy for reducing this risk is to comply with State law requiring that the fixed income portfolio shall contain no more than 5.0% exposure to any single issuer, except for United States Treasury and agency obligations. At June 30, 2006, the Systems had approximately 5.63% of its investments in an overnight repurchase agreement with a South Carolina bank that was fully collateralized by United States Treasury and Agency obligations.

Securities Lending Program

Through a custodial agent, the South Carolina Retirement System (SCRS), the Police Officers' Retirement System (PORS), the General Assembly Retirement System (GARS), the Judges' and Solicitors' Retirement System (JSRS), and the National Guard Retirement System (NGPS) participate in a securities lending program whereby securities are loaned for the purpose of generating additional income to the Systems. The Systems lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially 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, and requires additional collateral if the collateral value falls below 100.0%.

There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2006, included U.S. Government securities, U.S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodian provides indemnification in the event the borrower fails to return the loaned securities or fails to pay the Systems' income distribution by the securities issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The Systems cannot pledge or sell collateral securities without a borrower default. The Systems invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded, as the Systems must return the cash collateral to the borrower upon the expiration of the loan. With regard to custodial credit risk, the Systems' cash collateral invested is held by the counterparty and is uninsured. The weighted average maturity of the Systems' collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2006. At June 30, 2006, there had been no losses resulting from borrower defaults and the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

The following table presents the fair value (expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2006:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
Securities lent for cash collateral:						
U.S. Treasuries	$ 337,040	$ 25,974	$ 1,097	$ 10,653	$ —	$ 374,764
U.S. agencies	2,323,444	198,740	606	5,581	—	2,528,371
Corporate bonds	40,768	7,827	—	—	84	48,679
Common stock	1,154,743	140,455	2,542	6,005	—	1,303,745
Total securities lent	**$ 3,855,995**	**$ 372,996**	**$ 4,245**	**$ 22,239**	**$ 84**	**$ 4,255,559**
Cash collateral invested:						
Repurchase agreements	$ 444,341	$ 66,529	$ 2,186	$ 8,971	$ 87	$ 522,114
Corporate bonds	1,630,151	182,746	992	7,381	—	1,821,270
Asset backed securities	1,366,349	103,391	803	4,717	—	1,475,260
Bank notes	520,598	30,674	373	1,886	—	553,531
Total collateral invested	**$ 3,961,439**	**$ 383,340**	**$ 4,354**	**$ 22,955**	**$ 87**	**$ 4,372,175**

Equity Investments

The Systems retain a consultant to provide investment-consulting services necessary to fulfill the duties for investing in equity securities. As of June 30, 2006, twenty individual agreements were in place between the Systems and equity investment managers.

The State Retirement System Preservation and Investment Reform Act became effective July 1, 2005, and established a six-member Investment Commission made up of financial experts, the State Treasurer, and a nonvoting retired member. Fiduciary responsibility for all investments was moved to the Commission. This Act also created the position of chief investment officer and stated that equity investments cannot exceed 70.0% of the Systems' total portfolio.

Collateral Mortgage Obligations (CMOs) and Asset Backed Securities

On June 30, 2006, the Systems held collateralized mortgage obligations (CMOs) in its portfolios. The CMOs in these portfolios consist of the planned amortizations class-1 (PAC-1) and the very accurately defined maturity (VADM) tranches of these issues. These securities are all rated AAA by the major rating agencies and are highly marketable.

On June 30, 2006, the Systems also held asset-backed securities in its portfolios. These securities had an average life of one to three years with a legal final maturity of two to five years. These securities represent an undivided ownership interest in a trust consisting of auto loan receivables. These securities are rated AAA by the major rating agencies. In addition, under the asset-backed securities category, the Systems held bonds issued by the South Carolina Tobacco Settlement Revenue Management Authority, a non-major governmental fund. These securities are rated Baa2/BBB and have an average life of 4.12 years with a legal maturity of 2016.

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, 2006, for the primary government were as follows:

	Governmental Activities					
	Governmental Funds					
Allowances for Uncollectibles	**General**	**Departmental General Operating**	**Department of Transportation Special Revenue**	**Nonmajor Governmental Funds**	**Internal Service Funds**	**Total Governmental Activities**
Income taxes receivable	$ 26,922	$ —	$ —	$ —	$ —	$ 26,922
Sales and other taxes receivable	5,638	3	—	2,299	—	7,940
Patient accounts receivable	13,972	32,277	2,638	—	—	48,887
Loans and notes receivable	16	13	—	837	—	866
Other receivables	—	13,424	—	—	87	13,511
Total allowances for uncollectibles	**$ 46,548**	**$ 45,717**	**$ 2,638**	**$ 3,136**	**$ 87**	**$ 98,126**

Allowances for Uncollectibles	Business-type Activities (Enterprise Funds) Higher Education	Unemployment Compensation Benefits	Medical University Hospital Authority	Nonmajor Enterprise Funds	Total Business-type Activities
Contributions receivable	$ 324	$ —	$ —	$ —	$ 324
Student accounts receivable	7,279	—	—	—	7,279
Patient accounts receivable	—	—	83,200	67,301	150,501
Loans and notes receivable—restricted	567	—	—	327	894
Assessments receivable	—	5,245	—	—	5,245
Other receivables	627	2,074	—	—	2,701
Total allowances for uncollectibles	**$ 8,797**	**$ 7,319**	**$ 83,200**	**$ 67,628**	**$ 166,944**

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, 2006, 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	$ 210	$ 22,489	$ 39,889	$ —	$ —	$ 82	$ 62,670
Income taxes receivable	62,207	—	—	—	—	—	62,207
Sales and other taxes receivable	14,569	—	—	—	6,099	—	20,668
Patient accounts receivable	9,302	5,022	—	—	—	—	14,324
Loans and notes receivable	12	450	418,851	6,978	23,746	—	450,037
Accounts receivable—restricted	—	—	429,130	—	—	—	429,130
Total long-term receivables, net	**$ 86,300**	**$ 27,961**	**$ 887,870**	**$ 6,978**	**$ 29,845**	**$ 82**	**$ 1,039,036**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. The components of deferred revenue and unearned revenue in the governmental funds (expressed in thousands) at June 30, 2006, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes	$ 82,875	$ 5,526	$ 88,401
Federal grants	—	30,614	30,614
Contributions	464,235	24,431	488,666
Departmental services	50,361	2,567	52,928
Total deferred revenues	**$ 597,471**	**$ 63,138**	**$ 660,609**

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, 2006 (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	$ 91,608	$ 56,079	$ 126,234
Capital projects	—	75,459	11
Student loan programs	—	551	—
Donor/sponsor specified	—	23,740	—
Second Injury Fund claims	—	73,629	—
Other	—	44,015	12,041
Total cash and cash equivalents	**$ 91,608**	**$ 273,473**	**$ 138,286**
Investments			
Debt service	$ 87,559	$ 316	$ 3,935
Donor/sponsor specified	—	9,275	—
Endowments	—	69	—
Other	—	—	19,313
Total investments	**$ 87,559**	**$ 9,660**	**$ 23,248**
Loans receivable			
Student loan programs	**$ —**	**$ 470**	**$ —**
Other			
Debt service	$ 61,342	$ 1,005	$ —
Donor/sponsor specified	—	259	—
Second Injury Fund claims	—	659	—
Other	—	452	—
Total other	**$ 61,342**	**$ 2,375**	**$ —**

Asset/Restricted For	Govern-mental Activities	Business-type Activities	Major Component Units
Noncurrent:			
Cash and cash equivalents			
Debt service	$ 300,432	$ 164,307	$ 10,313
Capital projects	100,532	293,057	27,268
Student loan programs	—	8,817	—
Endowments	—	29,578	—
Other	10,000	100,887	320
Total cash and cash equivalents	**$ 410,964**	**$ 596,646**	**$ 37,901**
Investments			
Debt service	$ —	$ 62,481	$ 70,055
Capital projects	—	2,781	31,037
Student loan programs	—	622	—
Endowments	—	40,795	—
Other	—	16	122,212
Total investments	**$ —**	**$ 106,695**	**$ 223,304**
Accounts receivable			
Debt service	**$ 429,130**	**$ —**	**$ —**
Loans receivable			
Debt service	$ —	$ 548,343	$ —
Student loan programs	—	40,045	—
Total loans receivable	**$ —**	**$ 588,388**	**$ —**
Other			
Debt service	$ 3,399	$ 5,830	$ —
Capital projects	—	117	—
Donor/sponsor specified	—	545	—
Endowments	—	20,077	—
Total other	**$ 3,399**	**$ 26,569**	**$ —**

NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2006, for the primary government was as follows:

	Beginning Balances July 1, 2005	Increases	Decreases	Ending Balances June 30, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 1,441,905	$ 66,905	$ (4,812)	$ 1,503,998
Construction in progress	3,833,664	779,388	(812,885)	3,800,167
Works of art and historical treasures	3,705	19	(134)	3,590
Intangibles	46	—	(46)	—
Total capital assets not being depreciated	5,279,320	846,312	(817,877)	5,307,755
Capital assets being depreciated:				
Land improvements	54,661	2,680	(264)	57,077
Infrastructure (road and bridge network)	7,844,098	661,414	(13,315)	8,492,197
Buildings and improvements	1,444,138	149,566	(10,291)	1,583,413
Vehicles	544,568	35,456	(24,833)	555,191
Machinery and equipment	411,828	39,612	(21,732)	429,708
Works of art and historical treasures	8	—	—	8
Intangibles	44,592	7,900	(102)	52,390
Total capital assets being depreciated, at historical cost	10,343,893	896,628	(70,537)	11,169,984
Less accumulated depreciation for:				
Land improvements	(36,713)	(1,592)	229	(38,076)
Infrastructure (road and bridge network)	(1,960,677)	(119,945)	11,730	(2,068,892)
Buildings and improvements	(540,542)	(39,387)	6,037	(573,892)
Vehicles	(389,350)	(30,897)	20,583	(399,664)
Machinery and equipment	(295,222)	(31,073)	20,011	(306,284)
Works of art and historical treasures	(1)	(1)	—	(2)
Intangibles	(39,789)	(3,589)	102	(43,276)
Total accumulated depreciation	(3,262,294)	(226,484)	58,692	(3,430,086)
Total capital assets being depreciated, net	7,081,599	670,144	(11,845)	7,739,898
Capital assets for governmental activities, net	**$ 12,360,919**	**$ 1,516,456**	**$ (829,722)**	**$ 13,047,653**

	Beginning Balances July 1, 2005	Increases	Decreases	Ending Balances June 30, 2006
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 172,525	$ 7,277	$ (112)	$ 179,690
Construction in progress	404,255	333,020	(214,768)	522,507
Works of art and historical treasures	16,809	12	(39)	16,782
Total capital assets not being depreciated	593,589	340,309	(214,919)	718,979
Capital assets being depreciated:				
Land improvements	71,541	10,354	—	81,895
Buildings and improvements	3,139,984	281,209	(3,636)	3,417,557
Vehicles	41,102	3,601	(2,462)	42,241
Machinery and equipment	602,839	87,971	(27,238)	663,572
Works of art and historical treasures	7,956	4,206	—	12,162
Intangibles	16,660	561	(361)	16,860
Total capital assets being depreciated, at historical cost	3,880,082	387,902	(33,697)	4,234,287
Less accumulated depreciation for:				
Land improvements	(34,714)	(3,376)	—	(38,090)
Buildings and improvements	(1,172,492)	(96,277)	1,989	(1,266,780)
Vehicles	(28,744)	(2,673)	1,567	(29,850)
Machinery and equipment	(397,349)	(49,840)	21,722	(425,467)
Works of art and historical treasures	(5,019)	(259)	—	(5,278)
Intangibles	(12,053)	(1,114)	172	(12,995)
Total accumulated depreciation	(1,650,371)	(153,539)	25,450	(1,778,460)
Total capital assets being depreciated, net	2,229,711	234,363	(8,247)	2,455,827
Capital assets for business-type activities, net	**$ 2,823,300**	**$ 574,672**	**$ (223,166)**	**$ 3,174,806**

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

	Beginning Balances January 1, 2005	Increases	Decreases	Ending Balances December 31, 2005
Public Service Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 96,412	$ 4,190	$ (1,686)	$ 98,916
Construction in progress	636,962	517,717	(97,486)	1,057,193
Total capital assets not being depreciated	733,374	521,907	(99,172)	1,156,109
Capital assets being depreciated:				
Buildings and improvements (utility plant)	4,159,726	174,157	(104,067)	4,229,816
Vehicles	35,943	4,633	(1,458)	39,118
Machinery and equipment	20,305	1,843	(1,200)	20,948
Intangibles	44,559	327	(1,447)	43,439
Total capital assets being depreciated, at historical cost	4,260,533	180,960	(108,172)	4,333,321
Less accumulated depreciation for:				
Buildings and improvements (utility plant)	(1,764,024)	(145,022)	14,421	(1,894,625)
Vehicles	(19,216)	(1,854)	1,439	(19,631)
Machinery and equipment	(8,963)	(1,093)	1,191	(8,865)
Intangibles	(36,445)	(2,683)	1,447	(37,681)
Total accumulated depreciation	(1,828,648)	(150,652)	18,498	(1,960,802)
Total capital assets being depreciated, net	2,431,885	30,308	(89,674)	2,372,519
Public Service Authority, net	**$ 3,165,259**	**$ 552,215**	**$ (188,846)**	**$ 3,528,628**

	Beginning Balances January 1, 2005	Increases	Decreases	Ending Balances December 31, 2005
Connector 2000 Association:				
Capital assets being depreciated:				
Infrastructure (toll road)	$ 192,472	$ —	$ —	$ 192,472
Machinery and equipment	590	—	(4)	586
Total capital assets being depreciated, at historical cost	193,062	—	(4)	193,058
Less accumulated depreciation for:				
Infrastructure (toll road)	(19,453)	(5,243)	—	(24,696)
Machinery and equipment	(388)	(113)	4	(497)
Total accumulated depreciation	(19,841)	(5,356)	4	(25,193)
Total capital assets being depreciated, net	173,221	(5,356)	—	167,865
Connector 2000 Association, net	**$ 173,221**	**$ (5,356)**	**$ —**	**$ 167,865**

	Beginning Balances July 1, 2005	Increases	Decreases	Ending Balances June 30, 2006
State Ports Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 145,248	$ 21,483	$ —	$ 166,731
Construction in progress	53,456	39,244	(33,751)	58,949
Intangibles	2,190	—	—	2,190
Total capital assets not being depreciated	200,894	60,727	(33,751)	227,870
Capital assets being depreciated:				
Land improvements	155,950	5,643	—	161,593
Buildings and improvements	267,235	2,529	—	269,764
Machinery and equipment	101,147	3,623	(978)	103,792
Intangibles	692	—	—	692
Total capital assets being depreciated, at historical cost	525,024	11,795	(978)	535,841
Less accumulated depreciation for:				
Land improvements	(98,760)	(6,522)	—	(105,282)
Buildings and improvements	(140,031)	(9,626)	19	(149,638)
Machinery and equipment	(50,087)	(8,317)	944	(57,460)
Intangibles	(210)	(71)	—	(281)
Total accumulated depreciation	(289,088)	(24,536)	963	(312,661)
Total capital assets being depreciated, net	235,936	(12,741)	(15)	223,180
State Ports Authority, net	**$ 436,830**	**$ 47,986**	**$ (33,766)**	**$ 451,050**

	Beginning Balances July 1, 2005	Increases	Decreases	Ending Balances June 30, 2006
Lottery Commission:				
Capital assets being depreciated:				
Buildings and improvements	$ 642	$ 58	$ —	$ 700
Vehicles	69	—	—	69
Machinery and equipment	19,888	481	(47)	20,322
Total capital assets being depreciated, at historical cost	20,599	539	(47)	21,091
Less accumulated depreciation for:				
Buildings and improvements	(398)	(130)	—	(528)
Vehicles	(65)	(4)	—	(69)
Machinery and equipment	(11,426)	(3,514)	14	(14,926)
Total accumulated depreciation	(11,889)	(3,648)	14	(15,523)
Total capital assets being depreciated, net	8,710	(3,109)	(33)	5,568
Lottery Commission, net	**$ 8,710**	**$ (3,109)**	**$ (33)**	**$ 5,568**

During the fiscal year ended June 30, 2006, 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	$ 13,134	$ 7,043	$ 20,177
Education	17,929	1,260	19,189
Health and environment	16,996	950	17,946
Social services	500	1,087	1,587
Administration of justice	18,661	927	19,588
Resources and economic development	12,460	199	12,659
Transportation	135,338	—	135,338
Total depreciation expense, governmental activities	$ 215,018	$ 11,466	$ 226,484

	Business-type Activities
Higher Education	$ 126,482
Housing Authority	139
Medical University Hospital Authority	21,158
Education Assistance Authority	85
Other	4,331
Total depreciation expense, business-type activities	**$ 152,195**

	Major Component Units
Public Service Authority	$ 150,652
State Ports Authority	24,536
Connector 2000 Association, Inc.	5,356
Lottery Commission	3,648

Total accumulated depreciation increases for business-type activities include $1.344 million in capital asset accumulated depreciation balances transferred in from governmental activities.

At June 30, 2006, the primary government had outstanding construction commitments totaling $680.251 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $60.104 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 $1.883 million at June 30, 2006, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: $506.531 million for the Public Service Authority at December 31, 2005, and $43.186 million for the State Ports Authority at June 30, 2006.

The total interest expense incurred by the State's enterprise and internal service funds during the current fiscal year was $155.383 million and $2.109 million, respectively. Of the amount incurred by the State's enterprise funds, $9.906 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 $166.596 million during its fiscal year ended December 31, 2005, 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 $6.793 million during its fiscal year ended June 30, 2006, of which $1.100 million was included as part of the cost of capital assets under construction.

NOTE 8: RETIREMENT PLANS

a. Plan Descriptions

The South Carolina Retirement Systems (the System), a part of the State Budget and Control Board, administers five 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), the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), and the National Guard Retirement System (NGPS). The System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for all five plans. The report may be obtained by writing to:

The South Carolina Retirement Systems
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 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.

NGPS was established by Section 25-1-3210 of the South Carolina Code of Laws. Effective January 1, 2006, Section 25-1-3210 was repealed and replaced by Section 9-10-30. This legislation transferred administrative responsibility of the plan from the Adjutant General's Office to the South Carolina Retirement Systems. NGPS provides benefits to National Guard members who served in South Carolina prior to July 1, 1993, and is closed to new entrants. 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.

Information regarding the number of participating employers (dollars expressed in thousands) at June 30, 2006, is as follows:

	SCRS	PORS	GARS	JSRS	NGPS
State and school					
Number of employers	101	5	1	1	1
Annual covered payroll	$ 4,799,085	$ 325,272	$ 3,090	$ 15,369	N/A [a]
Average number of contributing members	140,813	10,137	170	128	2,891
Other participating employers					
Number of employers	577	268	—	—	—
Annual covered payroll	$ 1,577,417	$ 548,528	$ —	$ —	$ —
Average number of contributing members	52,813	15,680	—	—	—

[a] Annual covered payroll is not applicable for NGPS because it is based on years of service rather than payroll.

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. The NGPS provides retirement benefits to members that served in the South Carolina National Guard. 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 1f 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, 2006, were as follows:

Plan	Rate
SCRS	6.25% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10.0% of earnable compensation
JSRS	9.0% of earnable compensation
NGPS	Non-contributory

Actuarially determined employer contribution rates, expressed as percentages of compensation, for the fiscal year ended June 30, 2006, were as follows:

Plan	Rate
SCRS	7.70%
PORS	10.70%
GARS	70.25%
JSRS	42.10%

The State appropriated $3.942 million to fund the NGPS actuarially determined employer contribution for the fiscal year ended June 30, 2006.

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, 2006, were $1.435 million for SCRS and $26 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	NGPS
Annual pension cost	$2,171	$6,511	$2,969
Employer contributions made	$2,171	$6,511	$3,942
Actuarial valuation date	July 1, 2005	July 1, 2005	June 30, 2005
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percent, closed	Level percent, open	Level dollar open
Remaining amortization period	20 years	36 years	30 years
Asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:			
Investment rate of return	7.25%	7.25%	7.25%
Projected salary increases	None	3.25%	Not applicable
Assumed inflation rate	3.00%	3.00%	4.25%
Assumed cost-of-living adjustments	None	3.25%	Not applicable

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2006 (expressed in thousands):

	NGPS
Actuarially required contribution (ARC)	$ 2,969
Interest on the NPO	651
Adjustment to the ARC	(790)
Annual pension cost	2,830
Contributions made	(3,942)
Decrease in NPO	(1,112)
NPO beginning of year	8,978
NPO end of year	**$ 7,866**

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, 2006		June 30, 2005		June 30, 2004	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS–State:						
Primary government	$ 184,109	100.0%	$ 177,112	100.0%	$ 172,258	100.0%
Component units	10,517	100.0%	10,253	100.0%	9,852	100.0%
PORS–State:						
Primary government	37,256	100.0%	32,813	100.0%	33,220	100.0%
Component units	54	100.0%	51	100.0%	40	100.0%

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	2004	$ 2,731	100.0%	$ —
	2005	2,890	100.0%	—
	2006	2,171	100.0%	—
JSRS	2004	6,078	100.0%	—
	2005	6,260	100.0%	—
	2006	6,511	100.0%	—
NGPS	2004	2,796	71.4%	8,132
	2005	2,842	70.2%	8,978
	2006	2,969	132.8%	7,866

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	2003	$ 20,197,936	$ 24,398,931	$ 4,200,995	82.8%	$ 6,240,768	67.3%
	2004	20,862,659	25,977,852	5,115,193	80.3%	6,180,599	82.8%
	2005	21,625,510	30,217,471	8,591,961	71.6%	6,356,489	135.2%
PORS	2003	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%
	2004	2,616,835	2,984,584	367,749	87.7%	822,448	44.7%
	2005	2,774,606	3,173,930	399,324	87.4%	850,610	46.9%

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	2003	$ 44,682	$ 66,619	$ 21,937	67.1%	$ 3,844	570.7%
	2004	45,087	68,332	23,245	66.0%	3,839	605.5%
	2005	46,316	69,161	22,845	67.0%	3,853	592.9%
JSRS	2003	106,114	166,655	60,541	63.7%	14,437	419.3%
	2004	112,016	185,052	73,036	60.5%	14,870	491.2%
	2005	118,888	204,847	85,959	58.0%	15,465	555.8%

Plan	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)*
NGPS	2002	$ 12,608	$ 44,678	$ 32,070	28.2%	$ N/A	N/A
	2004	13,567	47,281	33,714	28.7%	N/A	N/A
	2005	12,151	46,985	34,834	25.9%	N/A	N/A

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, 2006, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
Receivables:						
Contributions	$ 128,067	$ 17,222	$ 123	$ 664	$ —	$ 146,076
Employer long-term	1,435	26	—	—	—	1,461
Accrued interest	126,442	14,834	277	787	97	142,437
Unsettled investment sales	46,008	5,514	99	236	—	51,857
Total receivables	**$ 301,952**	**$ 37,596**	**$ 499**	**$ 1,687**	**$ 97**	**$ 341,831**
Due from other funds	**$ 6,192**	**$ 957**	**$ 7**	**$ 11**	**$ —**	**$ 7,167**
Investments and invested securities lending collateral:						
United States government securities	$ 626,753	$ 75,022	$ 1,096	$ 10,654	$ —	$ 713,525
United States government agencies and government-insured securities	3,444,199	361,927	6,583	15,021	2,816	3,830,546
Corporate bonds	3,759,322	499,010	8,317	21,121	2,207	4,289,977
Financial and other	1,545,494	193,419	3,037	7,340	2,519	1,751,809
Equities	12,004,816	1,437,296	25,106	61,871	—	13,529,089
Invested securities lending collateral	3,961,439	383,340	4,354	22,955	87	4,372,175
Total investments	**$ 25,342,023**	**$ 2,950,014**	**$ 48,493**	**$ 138,962**	**$ 7,629**	**$ 28,487,121**

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 10,025 members were participating in the TERI program at June 30, 2006. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2006, was as follows:

Beginning balance of TERI trust accounts......	$	884,776
Additions		321,374
TERI distributions at termination.....................		(535,623)
Ending balance of TERI trust accounts.......	**$**	**670,527**

i. 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, 2006:

Covered payroll.....................	$	593,231
Employee contributions.........		37,077
Employer contributions..........		29,662

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 and school district 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, 28,259 State retirees meet these eligibility requirements.

Effective January 1, 2006, eligible retirees choose among two health insurance plans and Health Maintenance Organization (HMO) options, all of which are underwritten by the State. The two health insurance plans are the Standard Plan and the Savings Plan. In accordance with contractual provisions of these plans, participants must meet specified annual deductible requirements. The Standard Plan and the Savings Plan pay 80.0% of allowable claims in excess of deductibles. The CIGNA HMO has no annual deductible requirements. The BlueChoice HMO pays 90.0% of allowable claims and the CIGNA HMO pays 80.0% of allowable claims, all 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, 2006, the State recognized expenses (net of participant contributions) of $113.593 million to provide health and dental benefits to State participants in post-employment status.

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 $214.651 million at June 30, 2006, 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
2005	$ 235,253	$ 42,065	$ (25,362)	$ 251,956
2006	251,956	11,205	(48,510)	214,651

The IRF purchases aircraft and ocean marine insurance, areas in which the IRF has limited expertise. The IRF also purchases reinsurance to limit losses in the areas of property, boiler and machinery, and automobile 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 self-insured health maintenance organizations (HMO) or State self-insured plans. 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 a liability is probable and estimable 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 $193.760 million at June 30, 2006, 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 2006, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2006, $25.594 million relates to group life and long-term disability insurance coverage and $7.728 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	Claims Payments	Balance at Fiscal Year-End
2005	$ 179,872	$ 1,161,986	$ (1,156,930)	$ 184,928
2006	184,928	1,222,827	(1,213,995)	193,760

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, 2006, the Fund's policy claims liability was $127.509 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.

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
2005	$ 110,885	$ 64,656	$ (48,175)	$ 127,366
2006	127,366	50,780	(50,637)	127,509

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of $1.000 million are covered up to limits of statutory liability; the Fund retains the risk for the first $1.000 million 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 2006. 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 unless agreed to by the PCF's Board of Governors 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, 2006, the policy claims liabilities were $217.407 million for the PCF and $189.067 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, 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.

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 named storm losses, which carry deductibles from $1.000 million up to $5.000 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 2005.

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, 2005, the policy claims liabilities were $2.597 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
2004	$ 2,228	$ 2,282	$ (2,135)	$ 2,375
2005	2,375	1,724	(1,502)	2,597

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, 2006 (expressed in thousands) for the primary government and the State's discretely presented component units were as follows:

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities	Totals
2007	$ 1,272	$ 11,590	$ 12,862
2008	663	8,675	9,338
2009	286	6,268	6,554
2010	144	5,231	5,375
2011	5	3,158	3,163
2012-2016	—	12,678	12,678
2017-2021	—	7,616	7,616
Total minimum payments....................	**2,370**	**55,216**	**57,586**
Less: interest and executory costs........	(476)	(10,229)	(10,705)
Present value of net minimum payments...	**$ 1,894**	**$ 44,987**	**$ 46,881**

Fiscal Year Ending December 31	Public Service Authority
2006	$ 3,388
2007	3,335
2008	3,038
2009	2,737
2010	1,934
2011-2015	4,228
Total minimum payments....................	**18,660**
Less: interest and executory costs........	(6,723)
Present value of net minimum payments...	**$ 11,937**

Fiscal Year Ending June 30	State Ports Authority
2007	$ 47
2008	47
2009	15
Total minimum payments...................	**109**
Less: interest and executory costs........	(11)
Present value of net minimum payments...	**$ 98**

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2006, were as follows (expressed in thousands):

	Primary Government			Component Units	
Assets Acquired Under Capital Leases	Governmental Activities	Business-type Activities	Totals	Public Service Authority	State Ports Authority
Land and non-depreciable improvements................	$ —	$ 5,479	$ 5,479	$ —	$ —
Buildings and improvements...................................	6,540	54,373	60,913	89,600	—
Machinery and equipment.......................................	2,648	49,636	52,284	—	185
Works of art and historical treasures.......................	—	330	330	—	—
Assets acquired under capital leases before accumulated amortization.................................	**9,188**	**109,818**	**119,006**	**89,600**	**185**
Less: accumulated amortization............................	(4,189)	(38,653)	(42,842)	(79,500)	(97)
Assets acquired under capital leases, net...........	**$ 4,999**	**$ 71,165**	**$ 76,164**	**$ 10,100**	**$ 88**

For the primary government's fiscal year ended June 30, 2006, minimum rental payments under operating leases were $71.956 million and contingent rental payments were $9.231 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 $6.500 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $881 thousand. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $648 thousand.

At June 30, 2006, 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
2007	$ 45,545	$ 287
2008	42,454	28
2009	28,323	24
2010	21,152	24
2011	13,738	14
2012-2016	35,187	—
2017-2021	14,219	—
2022-2026	5,665	—
2027-2031	624	—
2032-2036	500	—
2037-2041	200	—
Total minimum payments...........	**$ 207,607**	**$ 377**

b. Facilities Leased to Others

At June 30, 2006, 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 $451.759 million and related accumulated depreciation of $201.307 million. Future minimum rental payments to be received at June 30, 2006, under these operating leases (expressed in thousands) were as follows:

Fiscal Year Ending June 30	State Ports Authority
2007	$ 7,735
2008	6,480
2009	5,905
2010	5,377
2011	2,062
2012-2016	2,150
2017-2021	1,071
2022-2026	500
2027-2031	500
2032-2036	316
Total	**$ 32,096**

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, 2006, were:

Governmental Activities	
Capital improvement bonds, 1.75% to 5.90%, maturing serially through 2019	$ 693,815
State highway bonds, 2.00% to 6.50%, maturing serially through 2023	699,669
State school facilities bonds, 3.00% to 5.75%, maturing serially through 2018	567,873
Infrastructure Bank bonds, 3.00% to 5.00%, maturing through 2028	57,171
State economic development bonds, 1.00% to 6.75%, maturing serially through 2031	238,109
Research university infrastructure bonds, 3.00% to 6.25%, maturing serially through 2021	148,482
Subtotal—governmental activities	**2,405,119**
Business-type Activities, Higher Education Fund	
State institution bonds, 2.50% to 6.25%, maturing serially through 2016	249,514
Total—general obligation bonds payable	**$ 2,654,633**

At June 30, 2006, $6.344 million of capital improvement bonds, $42.185 million of State economic development bonds, and $22.000 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2006, 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
2007	$ 191,950	$ 105,910	$ 14,785	$ 10,602
2008	199,225	97,591	14,700	9,990
2009	204,699	88,593	15,080	9,372
2010	187,500	79,197	14,985	8,742
2011	184,485	70,408	15,415	8,121
2012-2016	884,290	228,054	85,930	30,287
2017-2021	462,245	65,415	64,625	12,622
2022-2026	61,520	9,684	24,905	1,974
2027-2031	25,210	2,009	—	—
Total debt service requirements.........................	**2,401,124**	**$ 746,861**	**250,425**	**$ 91,710**
Unamortized premiums.............	17,327		194	
Deferred amount on refunding...	(13,332)		(1,105)	
Total principal outstanding...........................	**$ 2,405,119**		**$ 249,514**	

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, 2006, was $46.990 million in total for all institution bonds, $18.335 million for highway bonds, $101.998 million for general obligation bonds excluding institution and highway bonds, $6.335 million for economic development bonds, and $13.697 million for research university infrastructure 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, 2006, which are reported in the internal service funds, totaled $15.291 million and mature serially through 2016. Interest rates on these bonds ranged from 4.0% to 6.1%.

At June 30, 2006, 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, 2006, 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
2007	$ 4,320	$ 725
2008	1,640	542
2009	1,730	465
2010	1,200	384
2011	1,280	322
2012-2016	5,180	593
Total debt service requirements.....................	**15,350**	**$ 3,031**
Unamortized discounts..........	(59)	
Total principal outstanding.......................	**$ 15,291**	

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, 2006, were:

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 3.00% to 6.00%, maturing serially through 2033	$ 1,917,706	$ —
Tobacco Authority bonds, 6.00% to 7.67%, maturing serially through 2030	796,900	—
Educational Television Network note, 3.29%, maturing in 2008	—	1,495
Judicial Department note, 3.98%, maturing in 2007	—	72
Education Department note, 3.29%, maturing in 2011	—	667
Corrections Department note, 3.34%, maturing in 2008	—	937
Budget and Control Board bond and notes, 3.00% to 5.00%, maturing through 2018	22,169	17,850
Totals—governmental activities	**2,736,775**	**21,021**
Business-type Activities:		
Higher Education Fund bonds and notes, 2.00% to 8.50%, maturing serially through 2035	473,401	93,406
Housing Authority Fund bonds, 1.60% to 8.30%, maturing serially through 2037	661,579	13,090
Medical University Hospital Authority bonds and note, 2.18% to 5.38%, maturing through 2027	474,865	9,396
Education Assistance Authority Fund bonds, 3.50% to 6.30%, maturing serially through 2033	904,733	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 2.34% to 7.50%, maturing through 2025	17,774	42,429
Direct note obligations, 5.82% to 6.82%, maturing serially through 2027	—	89,353
Totals—business-type activities	**2,532,352**	**247,674**
Totals—primary government	**$ 5,269,127**	**$ 268,695**
Major Discretely Presented Component Units:		
Public Service Authority bonds, 2.50% to 7.42%, maturing serially through 2039	$ 2,576,728	$ —
State Ports Authority bonds and notes, 3.80% to 5.50%, maturing serially through 2028	$ 137,399	$ 2,874
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%, maturing serially through 2038	$ 276,587	$ —
Lottery Commission notes, 8.00%, maturing in 2007	$ —	$ 882

During a 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 BMA Municipal Bond Index. The notional amount for this agreement is $49.440 million. Through June 30, 2006, the Bank had interest income of $6.080 million and interest expense of $3.100 million attributable to the agreement. During the fiscal year ended June 30, 2006, the Bank paid $1.470 million in variable rate monthly payments and received $1.777 million in fixed rate payments. The June 30, 2006, mark to market value of this swap was a negative $844 thousand. The Bank is exposed to credit risk and market risk.

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 exchange agreement with a termination date of October 1, 2031, to enhance savings and offset changes in tax-exempt variable interest rates 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, 2006, the Bank made variable bond interest payments of $10.569 million and fixed rate payments on the exchange agreement of $14.033 million. The Bank received variable swap payments on the exchange agreement of $9.423 million. The June 30, 2006, mark to market value of this swap was $1.939 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, 2006, are as follows: Series 1994 obligations—$8.900 million; Series 1999A obligations—$34.650 million; and Series 1999B obligations—$40.400 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of $10.250 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, 2006, were 3.30% for the 1994 obligations, 3.30% for the 1999A obligations, and 3.45% 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, 2006, 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 $1.885 million on the 1994 obligations, $6.987 million on the 1999A obligations, and $5.392 million for the 1999B obligations as of June 30, 2006. 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 a 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, 2006, was $10.450 million, and the variable rate in effect at that date was 2.45%. 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, 2006, the swap had a fair value of approximately $292 thousand. Termination of the agreement would subject the Corporation to the risk of fluctuating interest rates.

In December 2005, the State Ports Authority, a major discretely presented component unit, entered into two interest swap contracts intended to manage interest expense of fixed-rate debt. The contracts provide that the Authority will pay the swap provider interest on a notional amount at a fixed rate of 3.67%, and the swap provider will pay the Authority at a rate based on 70% of the one-month London Interbank Offered Rate on such notional amount. The notional amounts at June 30, 2006 were $61.443 million and $26.333 million. The payments begin August 1, 2008 and continue until the contracts expire on July 1, 2026. As of June 30, 2006, the swaps have fair values of approximately $1.551 million and $666 thousand.

As of June 30, 2006, 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:

	Variable Rate Notes			
Year Ending June 30	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Totals**
2007	$ 3,445	$ 3,219	$ 2,421	$ 9,085
2008	3,595	3,095	2,357	9,047
2009	4,045	2,965	2,288	9,298
2010	4,195	2,820	2,211	9,226
2011	4,450	2,669	2,126	9,245
2012-2016	23,270	10,842	9,234	43,346
2017-2021	22,250	7,337	6,347	35,934
2022-2026	29,150	2,822	2,241	34,213
Totals..........	**$ 94,400**	**$ 35,769**	**$ 29,225**	**$ 159,394**

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, 2006, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2006, 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**
2007	$ 46,565	$ 142,426	$ 69,109	$ 122,979
2008	55,443	140,009	97,715	126,021
2009	47,989	137,426	161,873	120,498
2010	48,951	135,018	120,135	115,132
2011	50,838	132,466	65,107	111,120
2012-2016	371,855	610,448	417,562	500,322
2017-2021	496,185	495,981	387,891	406,795
2022-2026	607,170	347,015	908,014	258,490
2027-2031	706,360	166,705	320,970	105,754
2032-2036	295,405	22,079	227,379	26,393
2037	—	—	11,875	569
Total debt service requirements	**2,726,761**	**$ 2,329,573**	**2,787,630**	**$ 1,894,073**
Net unamortized premiums	73,091		18,505	
Deferred amount on refunding	(42,056)		(26,109)	
Total principal outstanding	**$ 2,757,796**		**$ 2,780,026**	

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, 2005, the carrying value of the Public Service Authority's debt was $2.727 billion while the fair value was approximately $3.100 billion. At June 30, 2006, the carrying value of the State Ports Authority debt was $139.632 million while the fair value was approximately $139.797 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, 2006, 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**
2006	$ 64,835	$ 131,304	$ —	$ 3,532
2007	71,260	133,141	—	3,532
2008	84,860	129,175	6,200	3,508
2009	79,500	124,982	6,700	3,461
2010	93,270	120,492	7,300	3,411
2011 - 2015	549,882	519,089	51,200	16,198
2016 - 2020	760,799	362,076	78,900	14,470
2021 - 2025	505,731	178,731	115,200	12,258
2026 - 2030	187,750	104,536	154,000	9,333
2031 - 2035	216,070	52,206	187,100	5,493
2036 - 2039	100,940	6,527	139,500	989
Total debt service requirements................................	**2,714,897**	**$ 1,862,259**	**746,100**	**$ 76,185**
Unamortized premiums (discounts)...	101,141		(469,513)	
Deferred amount on refunding...........	(239,310)		—	
Total principal outstanding...........	**$ 2,576,728**		**$ 276,587**	

	Major Component Units			
	State Ports Authority		Lottery Commission	
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**
2007	$ 3,600	$ 7,080	$ 882	$ 25
2008	3,775	6,885	—	—
2009	3,860	6,682	—	—
2010	4,050	6,468	—	—
2011	4,255	6,244	—	—
2012 - 2016	23,944	27,525	—	—
2017 - 2021	29,665	20,773	—	—
2022 - 2026	38,295	11,917	—	—
2027 - 2028	28,090	555	—	—
Total debt service requirements.........................	**139,534**	**$ 94,129**	**882**	**$ 25**
Unamortized premium................	739		—	
Total principal outstanding.....	**$ 140,273**		**$ 882**	

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, 2006, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government........................	$ 52,254
Transportation.................................	139,489
Total allocated interest expense..	**$ 191,743**

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, 2006, $6.855 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, 2007.

e. Defeased Bonds

During October 2005, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, issued $221.045 million in revenue refunding bonds to refund $228.600 million of revenue bonds. The Bank used the $221.045 million plus $20.190 million of the premium received on the issue 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 $12.636 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2025 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next nineteen years by approximately $21.200 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $13.200 million.

During December 2005, Clemson University, included in the Higher Education major enterprise fund, issued $22.130 million in improvement and refunding revenue bonds to refund $15.170 million in revenue bonds and provide funding for building renovations. The net proceeds of $16.331 million plus $76 thousand in available debt service funds 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 $1.237 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2015. The University completed the advance refunding to reduce its total debt service payments over the next ten years by approximately $1.054 million and to obtain an economic gain of $873 thousand.

During September 2005, the University of South Carolina, included in the Higher Education major enterprise fund, issued $48.075 million in refunding revenue bonds to refund $46.415 million in revenue bonds. The net proceeds 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 $2.904 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2010. The University completed the advance refunding to reduce its total debt service payments by approximately $6.992 million and to obtain an economic gain of $4.767 million.

During its fiscal year ended December 31, 2005, the Public Service Authority, a major discretely presented component unit, issued $125.295 million in refunding revenue bonds with an average interest rate of 5.31% to refund $132.790 million in revenue bonds with an average interest rate of 6.09%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $23.864 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next sixteen years by approximately $20.100 million and to obtain an economic gain of approximately $11.600 million.

During its fiscal year ended December 31, 2005, the Public Service Authority, a major discretely presented component unit, issued $278.005 million in refunding revenue bonds with an average interest rate of 5.00% to refund $316.720 million in revenue bonds with an average interest rate of 5.77%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $73.749 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next eighteen years by approximately $58.300 million and to obtain an economic gain of approximately $29.600 million.

During its fiscal year ended December 31, 2005, the Public Service Authority, a major discretely presented component unit, issued $78.150 million in refunding revenue bonds with an average interest rate of 4.73% to refund $86.335 million in revenue bonds with an average interest rate of 5.00%. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $12.125 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next twenty years by approximately $14.600 million and to obtain an economic gain of approximately $6.000 million.

For all defeasances involving advance refundings in the current and prior years, the securities purchased were deposited in an irrevocable trust with an escrow agent 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, 2006, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	Governmental Activities	Business-type Activities	Totals-Primary Government
Capital improvement bonds......	$ 40,310	$ —	$ 40,310
State highway bonds...............	59,515	—	59,515
State school facilities bonds.....	39,675	—	39,675
Infrastructure Bank bonds.........	724,940	—	724,940
Higher Education Fund bonds..	—	219,005	219,005
Totals......................................	**$ 864,440**	**$ 219,005**	**$ 1,083,445**

In addition, at December 31, 2005, $461.855 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, 2006, are reported as other liabilities of $233 thousand in the Local Government Infrastructure Fund, and as other liabilities payable from restricted assets of $5.909 million and other liabilities of $2.075 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, 2006, the outstanding balance of bonds issued was $283.086 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, 2006, the outstanding balance of bonds issued after June 30, 1995, was $2.770 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, 2006, the outstanding balance of bonds issued was $270.316 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, 2006, was $3.160 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 approximately $4.667 million in the 1993-1994 through 2004-2005 fiscal years, and $420 thousand in the 2005-2006 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated $420 thousand in the 2006-2007 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, 2006, including beginning and ending balances (if any) as 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, 2006, are reported as notes payable. Other relevant information regarding these accounts is provided below.

The University Medical Associates of the Medical University of South Carolina, a blended component unit and nonmajor enterprise fund, has a $6.000 million line of credit from a commercial bank.

The Public Service Authority, a discretely presented component unit, has recorded a $285.449 million liability for commercial paper notes at its fiscal year ended December 31, 2005. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a $450.000 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, 2006, the State has issued bonds and notes as indicated in the table below (expressed in thousands).

Primary Government

Description	Governmental Activities	Business-type Activities
General obligation bonds......	$ —	$ 102,125
Revenue bonds....................	20,295	51,175
Revenue notes.....................	110	—
Totals...............................	$ 20,405	$ 153,300

Component Unit

Description	Revenue Bonds
Public Service Authority........	$ 724,534

Of the total revenue bonds that the primary government issued, $13.175 million of the business-type activities bonds were to refund prior issues. Of the total revenue bonds issued by the Public Service Authority, a major discretely presented component unit, $114.755 million were to refund prior issues.

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, 2006, were:

	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims	$ 571,885	$ 1,297,002	$ (1,319,431)	$ 549,456	$ 461,251
Notes payable	$ 10,311	$ 12,509	$ (1,799)	$ 21,021	$ 4,175
General obligation bonds payable	$ 2,298,393	$ 289,475	$ (186,744)	$ 2,401,124	$ 191,950
Unamortized discounts and premiums	18,133	571	(1,377)	17,327	—
Deferred amount on refunding	(18,273)	—	4,941	(13,332)	—
Total general obligation bonds payable	$ 2,298,253	$ 290,046	$ (183,180)	$ 2,405,119	$ 191,950
Tobacco Authority bonds payable	$ 820,905	$ —	$ (24,005)	$ 796,900	$ —
Revenue bonds payable	$ 22,375	$ —	$ (1,260)	$ 21,115	$ 1,320
Unamortized discounts and premiums	1,146	—	(92)	1,054	—
Total revenue bonds payable	$ 23,521	$ —	$ (1,352)	$ 22,169	$ 1,320
Infrastructure Bank bonds payable	$ 1,933,220	$ 221,045	$ (266,540)	$ 1,887,725	$ 41,070
Unamortized discounts and premiums	50,682	21,651	(296)	72,037	—
Deferred amount on refunding	(36,509)	(12,636)	7,089	(42,056)	—
Total Infrastructure Bank bonds payable	$ 1,947,393	$ 230,060	$ (259,747)	$ 1,917,706	$ 41,070
Limited obligation bonds payable	$ 19,470	$ —	$ (4,120)	$ 15,350	$ 4,320
Unamortized discounts and premiums	(78)	—	19	(59)	—
Total limited obligation bonds payable	$ 19,392	$ —	$ (4,101)	$ 15,291	$ 4,320
Capital leases payable	$ 2,856	$ 250	$ (1,212)	$ 1,894	$ 954
Compensated absences payable	$ 200,604	$ 115,644	$ (114,180)	$ 202,068	$ 125,861
National Guard Retirement System net pension obligation payable	$ 8,978	$ —	$ (1,112)	$ 7,866	$ —
Judgments and contingencies payable	$ 52,466	$ 10,122	$ (20,514)	$ 42,074	$ 7,074
Arbitrage payable	$ 187	$ 46	$ —	$ 233	$ —

The National Guard Retirement 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 Retirement 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.

	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims	$ 210,367	$ 52,601	$ (45,561)	$ 217,407	$ 32,000
Notes payable	$ 224,928	$ 42,100	$ (18,551)	$ 248,477	$ 13,477
Deferred amount on refunding	(946)	—	50	(896)	—
Unamortized discounts and premiums	98	—	(5)	93	—
Total notes payable	$ 224,080	$ 42,100	$ (18,506)	$ 247,674	$ 13,477
General obligation bonds payable	$ 231,535	$ 32,775	$ (13,885)	$ 250,425	$ 14,785
Deferred amount on refunding	(1,185)	—	80	(1,105)	—
Unamortized discounts and premiums	73	137	(16)	194	—
Total general obligation bonds payable	$ 230,423	$ 32,912	$ (13,821)	$ 249,514	$ 14,785
Revenue bonds payable	$ 2,321,817	$ 424,810	$ (207,474)	$ 2,539,153	$ 55,632
Deferred amount on refunding	(23,278)	(2,589)	654	(25,213)	—
Unamortized discounts and premiums	13,493	5,382	(463)	18,412	—
Total revenue bonds payable	$ 2,312,032	$ 427,603	$ (207,283)	$ 2,532,352	$ 55,632
Capital leases payable	$ 52,555	$ 5,236	$ (12,804)	$ 44,987	$ 9,828
Compensated absences payable	$ 110,178	$ 77,507	$ (71,083)	$ 116,602	$ 62,370
Arbitrage payable	$ 10,888	$ —	$ (2,904)	$ 7,984	$ 1,899

	Balances at January 1, 2005	Increases	Decreases	Balances at December 31, 2005	Amounts Due Within One Year
Major Component Units:					
Public Service Authority					
Policy claims	$ 2,375	$ 1,724	$ (1,502)	$ 2,597	$ 2,597
Revenue bonds payable	$ 2,830,515	$ 497,235	$ (612,853)	$ 2,714,897	$ 64,835
Deferred amount on refunding	(232,596)	(109,737)	103,023	(239,310)	—
Unamortized discounts and premiums	68,890	30,137	2,114	101,141	—
Total revenue bonds payable	$ 2,666,809	$ 417,635	$ (507,716)	$ 2,576,728	$ 64,835
Capital leases payable	$ 14,929	$ —	$ (2,992)	$ 11,937	$ 2,673
Compensated absences payable	$ 13,867	$ 1,308	$ (951)	$ 14,224	$ —
Connector 2000 Association, Inc.					
Revenue bonds payable	$ 746,100	$ —	$ —	$ 746,100	$ —
Unamortized discounts and premiums	(481,656)	12,143	—	(469,513)	—
Total revenue bonds payable	$ 264,444	$ 12,143	$ —	$ 276,587	$ —

	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Amounts Due Within One Year
State Ports Authority					
Notes payable	$ 3,319	$ —	$ (445)	$ 2,874	$ 445
Revenue bonds payable	$ 139,685	$ —	$ (3,025)	$ 136,660	$ 3,155
Unamortized discounts and premiums	785	—	(46)	739	—
Total revenue bonds payable	$ 140,470	$ —	$ (3,071)	$ 137,399	$ 3,155
Capital leases payable	$ 135	$ —	$ (37)	$ 98	$ 40
Compensated absences payable	$ 2,003	$ 1,982	$ (1,629)	$ 2,356	$ 2,356
Lottery Commission					
Notes payable	$ 2,217	$ —	$ (1,335)	$ 882	$ 882
Compensated absences payable	$ 854	$ 427	$ (406)	$ 875	$ 41

b. Short-Term Debt

The State's Higher Education Fund may issue Bond Anticipation Notes (BANS) to provide interim financing for capital projects while in the process of issuing bonds. The Public Service Authority, a major discretely presented component unit, may issue commercial paper as short-term financing for valid corporate purposes as allowed by the Authority's Board of Directors. Short-term debt for the fiscal year ended June 30, 2006, included: BANS in the Higher Education Fund, a major enterprise fund; commercial paper notes in the Public Service Authority; 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, 2005	Increases	Decreases	Balances at June 30, 2006
Primary Government:				
Business-type Activities				
Revenue bond anticipation notes payable	$ 9,345	$ 6,855	$ (9,345)	$ 6,855
Letter of credit	$ —	$ 2,000	$ —	$ 2,000

	Balances at January 1, 2005	Increases	Decreases	Balances at December 31, 2005
Major Component Unit:				
Public Service Authority				
Commercial paper notes	$ 193,317	$ 127,515	$ (35,383)	$ 285,449

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, 2006, 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 Govenrmental Funds	Total Governmental Funds
Fund balances reserved for:						
General reserve fund	$ 153,488	$ —	$ —	$ —	$ —	$ 153,488
Inventories	13,014	16,315	—	6,525	44	35,898
Interfund receivables	2,470	—	280,455	—	3,335	286,260
Appropriations to be carried forward	107,365	—	—	—	—	107,365
Endowments	—	—	—	—	2,256	2,256
Long-term loans and notes receivable	12	596	418,851	6,978	22,909	449,346
Debt requirements	—	—	1,121,187	—	147,563	1,268,750
School building aid	3,820	—	—	—	369	4,189
Total reserved fund balances	**$ 280,169**	**$ 16,911**	**$ 1,820,493**	**$ 13,503**	**$ 176,476**	**$ 2,307,552**

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 previous 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, 2006, the Reserve's balance was $153.488 million, the full funding amount.

Reserved for Inventories

Governmental funds reserve a portion of fund balance equal to year-end inventory balances to indicate that the funds are not available for appropriation.

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 the General Fund

Of the total designated amount reported on the governmental funds balance sheet for the General Fund, the General Assembly designated $102.326 million to be used in fiscal year 2006-2007 for specific capital projects.

The State also intends to use $453.052 million of the fund balance in the Budgetary General Fund to pay for selected recurring and nonrecurring items in fiscal year 2006-2007.

c. 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.

d. 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, 2006 (expressed in thousands):

Funds	Due From	Due To
General		
Departmental General Operating	$ 37,843	$ 24,997
Local Government Infrastructure	—	5,580
Department of Transportation Special Revenue	—	2,146
Nonmajor governmental funds	397	8,651
Higher Education	46	3,547
Unemployment Compensation	1,676	1
Nonmajor enterprise funds	1,290	—
Internal service	523	6,163
Fiduciary	—	30,026
	41,775	81,111
Departmental General Operating		
General	24,997	37,843
Local Government Infrastructure	—	8
Department of Transportation Special Revenue	363	—
Nonmajor governmental funds	806	10,457
Higher Education	—	1,479
Nonmajor enterprise funds	173	308
Internal service	311	4,606
Fiduciary	—	15,384
	26,650	70,085
Local Government Infrastructure		
General	5,580	—
Departmental General Operating	8	—
Department of Transportation Special Revenue	8,722	—
Housing Authority	430	—
Internal service	—	1
Fiduciary	—	32
	14,740	33

Funds	Due From	Due To
Department of Transportation Special Revenue Fund		
General	$ 2,146	$ —
Departmental General Operating	—	363
Local Government Infrastructure	—	8,722
Nonmajor governmental funds	—	7
Higher Education	—	26
Nonmajor enterprise funds	11	—
Internal service	—	469
Fiduciary	—	11,950
	2,157	21,537
State Tobacco Settlement		
Nonmajor enterprise funds	99	—
Internal service	—	1
	99	1
Nonmajor Governmental Funds		
General	8,651	397
Departmental General Operating	10,457	806
Department of Transportation Special Revenue	7	—
Nonmajor governmental funds	1,537	1,537
Higher Education	63	20,783
Nonmajor enterprise funds	14	—
Internal service	4	3,674
Fiduciary	—	842
	20,733	28,039
Higher Education		
General	3,547	46
Departmental General Operating	1,479	—
Department of Transportation Special Revenue	26	—
Nonmajor governmental funds	20,783	63
Hospital Authority	9,475	—
Nonmajor enterprise funds	19	9,886
Internal service	—	2,117
Fiduciary	—	6,146
	35,329	18,258
Unemployment Compensation Benefits		
General	1	1,676
Housing Authority		
Local Government Infrastructure	—	430
Internal service	—	25
	—	455
Medical University Hospital Authority		
Higher Education	—	9,475
Nonmajor enterprise funds	1,459	—
	1,459	9,475
Nonmajor Enterprise Funds		
General	—	1,290
Departmental General Operating	308	173
Department of Transportation Special Revenue	—	11
State Tobacco Settlement	—	99
Nonmajor governmental funds	—	14
Higher Education	9,886	19
Medical University Hospital Authority	—	1,459
Internal service	—	1,263
Fiduciary	—	105
	10,194	4,433

Funds	Due From	Due To
Internal Service		
General	$ 6,163	$ 523
Departmental General Operating	4,606	311
Local Government Infrastructure	1	—
Department of Transportation Special Revenue	469	—
State Tobacco Settlement	1	—
Nonmajor governmental funds	3,674	4
Higher Education	2,117	—
Housing Authority	25	—
Nonmajor enterprise funds	1,263	—
Internal service	319	319
Fiduciary	29,911	1,575
	48,549	2,732
Fiduciary		
General	30,026	—
Departmental General Operating	15,384	—
Local Government Infrastructure	32	—
Department of Transportation Special Revenue	11,950	—
Nonmajor governmental funds	842	—
Higher Education	6,146	—
Nonmajor enterprise funds	105	—
Internal service	1,575	29,911
Fiduciary	878	878
	66,938	30,789
Totals	**$ 268,624**	**$ 268,624**

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.

Funds	Interfund Receivables	Interfund Payables	Receivables Long-term Portion
General			
Departmental General Operating	$ 1,550	$ —	$ —
Nonmajor governmental funds	300	—	—
Higher Education	609	—	579
Internal service	3,252	—	1,891
	5,711	—	2,470
Departmental General Operating			
General	—	1,550	—
Nonmajor governmental funds	180	265	—
Higher Education	400	—	—
Internal service	—	3,000	—
	580	4,815	—
Local Government Infrastructure			
Department of Transportation Special Revenue	306,055	—	280,455
Department of Transportation Special Revenue Fund			
Local Government Infrastructure	—	306,055	—

Funds	Interfund Receivables	Interfund Payables	Long-term Portion
Nonmajor Governmental Funds			
General	$ —	$ 300	$ —
Departmental General Operating	265	180	211
Nonmajor governmental funds	78	78	59
Higher Education	2,561	—	2,220
Internal service	1,057	21,115	845
	3,961	21,673	3,335
Higher Education			
General	—	609	—
Departmental General Operating	—	400	—
Nonmajor governmental funds	—	2,561	—
Nonmajor enterprise funds	—	39,434	—
	—	43,004	—
Nonmajor Enterprise Funds			
Higher Education	39,434	—	39,434
Internal service	—	13,565	—
	39,434	13,565	39,434
Internal Service			
General	—	3,252	—
Departmental General Operating	3,000	400	3,000
Nonmajor governmental funds	21,115	1,057	19,795
Nonmajor enterprise funds	13,565	—	13,565
Internal service	732	732	636
	38,412	5,441	36,996
Totals	**$ 394,153**	**$ 394,553**	**$ 362,690**

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:

- $306.055 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.
- $21.115 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.
- $13.565 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.
- $39.434 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 internal leasing arrangements.

The following table summarizes interfund transfers during the fiscal year ended June 30, 2006 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental General Operating	$ 13,224	$ 79,058
Local Government Infrastructure	23	5,389
Department of Transportation Special Revenue	4,940	1,523
Nonmajor governmental funds	10,563	87,133
Higher Education	—	732,441
Unemployment Compensation Benefits	1,214	—
Nonmajor enterprise funds	—	1,600
Internal service	6	1,784
Fiduciary	—	2,101
	29,970	911,029
Departmental General Operating		
General	79,058	13,224
Local Government Infrastructure	21	1
Department of Transportation Special Revenue	67	338
State Tobacco Settlement	1,315	—
Nonmajor governmental funds	154,634	56,485
Higher Education	15,654	190
Housing Authority	125	—
Nonmajor enterprise funds	1,064	—
Internal service	6,108	1,783
	258,046	72,021
Local Government Infrastructure		
General	5,389	23
Departmental General Operating	1	21
	5,390	44
Department of Transportation Special Revenue Fund		
General	1,523	4,940
Departmental General Operating	338	67
Nonmajor governmental funds	28,912	—
	30,773	5,007
State Tobacco Settlement		
Departmental General Operating	—	1,315
Nonmajor Governmental Funds		
General	87,133	10,563
Departmental General Operating	56,485	154,634
Department of Transportation Special Revenue	—	28,912
Nonmajor governmental funds	9,443	9,443
Higher Education	1,374	69,210
Housing Authority	—	400
Nonmajor enterprise funds	730	—
Internal service	9,489	7,996
	164,654	281,158
Higher Education		
General	732,441	—
Departmental General Operating	190	15,654
Nonmajor governmental funds	69,210	1,374
Nonmajor enterprise funds	24,320	526
	826,161	17,554
Unemployment Compensation Benefits		
General	—	1,214

Funds	Transfers In	Transfers Out
Housing Authority		
Departmental General Operating	—	125
Nonmajor governmental funds	400	—
	400	125
Medical University Hospital Authority		
Nonmajor enterprise funds	—	552
Nonmajor Enterprise Funds		
General	1,600	—
Departmental General Operating	—	1,064
Nonmajor governmental funds	—	730
Higher Education	526	24,320
Medical University Hospital Authority	552	—
Nonmajor enterprise funds	138	138
	2,816	26,252
Internal Service		
General	1,784	6
Departmental General Operating	—	6,108
Nonmajor governmental funds	7,996	9,489
Higher Education	1,783	—
Internal service	8,517	8,517
	20,080	24,120
Fiduciary		
General	2,101	—
Fiduciary	3,298	3,298
	5,399	3,298
Totals	**$ 1,343,689**	**$ 1,343,689**

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 original fund to other funds authorized to receive portions of the proceeds. The following is a listing of significant transfers (i.e., $5.000 million or more) that occurred during the fiscal year ended June 30, 2006, that either were non-routine or inconsistent with the normal activities of the fund making the transfer.

- Proviso 8.20 of the 2005-2006 Appropriations Act required a change in the calculation and remittance of taxes on licensed hospitals. The Department of Health and Human Services transferred $10.000 million from the Departmental General Operating Fund, a major governmental fund, to the Medicaid Expansion Fund, a nonmajor governmental fund, as interim assistance during the transition period.
- Proviso 73.14 of the 2005-2006 Appropriations Act redirected $6.000 million from the Departmental General Operating Fund, a major governmental fund, to the General Fund for operating expenditures of that fund.
- Proviso 73.17 of the 2005-2006 Appropriations Act distributed $60.926 million in increased collections by the Department of Revenue to certain other State agencies. Of this amount, $37.549 million was transferred out of the General Fund to other funds within these financial statements. The Waste Management Fund, a nonmajor governmental fund, received a significant transfer of $20.472 million.

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, 2006, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	Scholarship Allowances
Charges for services..	$ 284,807
Operating revenues pledged for revenue bonds...........	19,973
Other operating revenues..	17,879
Total	**$ 322,659**

For the fiscal year ended June 30, 2006, the State's enterprise funds presented $875.736 million included in net charges for services after provisions for contractual and other adjustments in the amount of $852.323 million and uncollectible accounts in the amount of $135.931 million.

b. Extraordinary Item

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 recorded the following extraordinary item in both its government-wide and fund financial statements for the fiscal year ended June 30, 2006.

The $539 thousand extraordinary loss on early extinguishment of debt in the Housing Authority Fund, a major enterprise fund, resulted from the early redemption of bonds ($88 thousand from writing off unamortized discounts and $451 thousand from writing off unamortized bond issuance costs).

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, 2006, $10.148 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, $81 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, 2006, the predominant policy was to authorize the spending of 4.50% to 5.00% 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 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, 2006, 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, and (b) 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, 2006, are presented below:

CONDENSED STATEMENT OF NET ASSETS

	Single Family	Mortgage Revenue
Assets		
Current restricted assets	$ 15,620	$ 39,467
Other current assets	11,564	37,772
Noncurrent restricted assets	199,178	577,282
Other assets	844	4,818
Total assets	227,206	659,339
Liabilities		
Current liabilities payable from restricted assets	15,620	39,467
Other current liabilities	64	5,829
Noncurrent liabilities	102,742	541,207
Total liabilities	118,426	586,503
Net assets		
Restricted and expendable for:		
Debt service	5,940	35,651
Bond reserves	3,209	4,945
Special programs	99,631	32,240
Total net assets	**$ 108,780**	**$ 72,836**

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

	Single Family	Mortgage Revenue
Operating revenues:		
Pledged revenues:		
Interest on loans	$ 6,352	$ 25,660
Income on deposit	2,366	6,333
Other revenues:		
Bond premium amortization	39	92
Total operating revenues	8,757	32,085
Operating expenses:		
Bond issuance cost amortization	20	236
Other operating expenses	5,880	27,507
Total operating revenues	5,900	27,743
Operating expenses	2,857	4,342
Loss on early extinguishment of debt (extraordinary item)	(17)	(497)
Transfers:		
Transfers in	60	2,855
Transfers out	(6,765)	(1,548)
Increase in net assets	(3,865)	5,152
Beginning net assets	112,645	67,684
Ending net assets	**$ 108,780**	**$ 72,836**

CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Mortgage Revenue
Net cash provided (used) by:		
Operating activities	$ (1,194)	$ (17,487)
Noncapital financing activities	(13,812)	24,684
Investing activities	2,143	7,903
Net increase (decrease)	(12,863)	15,100
Beginning cash and cash equivalents	71,202	228,229
Ending cash and cash equivalents	**$ 58,339**	**$ 243,329**

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 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% 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, 2005, the Authority received distributions of $44.164 million from TEA and recognized $44.952 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 $96.000 million to support TEA's activities.

At December 31, 2005, the Authority had a payable to TEA of $30.200 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately $6.000 million for power sales and sales of excess gas capacity.

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 $488.100 million, accumulated depreciation of $258.600 million, and expenses of $52.600 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.

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 $123.100 million (adjusted to market) at December 31, 2005, 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.

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, 2006, the Educational Television Endowment of South Carolina, Inc., disbursed $4.603 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 Aiken Student Housing Foundation; the Clemson University Research Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the Clemson University Real Estate Foundation; 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 Coastal Carolina Booster Club, Inc.; 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; Spartanburg

Technical College Foundation; Tri-County Technical College Foundation; Trident Technical College Foundation; and York Technical College Foundation. During the fiscal year ended June 30, 2006, 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–$43.409 million; donations of cash and other assets from foundations–$118.519 million; expenditures paid to foundations–$3.916 million; reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations–$4.380 million; and purchase of capital assets from foundations–$14.300 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, 2006, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC–$10.890 million; notes receivable from SLC–$933.854 million; program revenue from SLC–$41.517 million; reimbursements to SLC for administrative costs–$4.571 million; and payable to SLC–$111.253 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 $12.422 million during the Authority's fiscal year ended December 31, 2005.

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 $1.000 million during the fiscal year ended June 30, 2006.

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 $330.934 million during the fiscal year ended June 30, 2006; the Commission owed an additional $10.940 million to the Fund at June 30, 2006.

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, 2005, were as follows (expressed in thousands):

Customer	Revenue	% of Total Sales Revenue
Central Electric Power Cooperative, Inc......	$ 676,000	50.5%
Alumax of South Carolina, Inc....................	143,000	10.7%

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

State Ports Authority

During the fiscal year ended June 30, 2006, one customer accounted for approximately 17% 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.

c. Inequality of Due from Component Units and Due to Primary Government

Due from Component Units was $125.769 million and Due to Primary Government was $119.881 million, a difference of $5.888 million. This situation occurred because the Public Service Authority and the Connector 2000 Association, Inc. report using a fiscal year ending December 31. At June 30, 2006, the Public Service Authority owed the General Fund its semi-annual payment of $7.838 in lieu of taxes, which is reported as Due from Component Units. At December 31, 2005, the

Connector 2000 Association, Inc. owed the Department of Transportation Special Revenue Fund $1.950 million for maintenance costs, which is reported as Due to Primary Government.

NOTE 22: CONTINGENCIES AND COMMITMENTS

a. Litigation

Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2006, are several that challenge the legality of certain taxes and the calculation of interest on tax refunds. 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 $28 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 has been involved in two lawsuits, which the plaintiffs assert are class action suits, involving new legislation requiring that all retirees working for a covered employer continue to pay employee contributions to the Systems. In the first suit, the plaintiffs alleged that requiring such contributions constitutes a breach of contract, an impairment of contractual rights, an unlawful taking of property and is precluded by promissory estoppel. The plaintiffs filed a motion for the case to be heard by the State Supreme Court in its original jurisdiction and the Court accepted jurisdiction. In August 2005, the Court certified a class of retirees affected by the new legislation and ordered the Systems to maintain an escrow account for the employee contributions remitted by members of the class. In May 2006, the Supreme Court ruled that the new legislation violated the contract rights of participants in the Teacher and Employee Retention Incentive Program (TERI) who began their participation in the program prior to July 1, 2005. The Court decertified the class but ordered that all contributions from these TERI participants should be refunded with interest, and that no future contributions should be collected from these participants. The Systems recorded refunds of approximately $38 million including $900 thousand in interest during the fiscal year 2005-2006, with approximately $7 million of that amount payable at June 30, 2006. The Supreme Court also remanded the question whether the Systems are liable for the plaintiffs' attorney fees. The plaintiffs are requesting $20 million to $30 million in attorney's fees and that issue is pending in the trial court at this time. The Court also remanded the claims of persons who have retired but have returned to covered employment prior to July 1, 2005, for determination by the trial court, although the Court found that the statute governing retirees who have returned to work did not create a contract between the State and these members. If the retirees who have returned to covered employment were to prevail, the Systems estimate its potential loss at approximately $13 million. Discovery regarding these issues is underway. The second suit is a putative class action case filed in August 2005, alleging the new requirement that working retirees make employee retirement contributions is unconstitutional and illegal. If the plaintiffs were to prevail, the Systems estimate its potential loss to be approximately $2 million in addition to the $13 million described above in the first case. The State believes its defense is meritorious and will vigorously contest the case.

A lawsuit relating to the taxation of retirement benefits 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 Circuit Court has affirmed the Administrative Law Court decision. The matter is now on appeal at the South Carolina Court of Appeals. In the event of an unfavorable outcome, the State's liability for retroactive relief could exceed $750 million. The estimated unfavorable impact on future year revenues could be approximately $60 million to $70 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 $29 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.

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 Court issued an order during December 2005 in which the Court found in favor of the State on most issues, but ruled that the State is failing to fund early childhood intervention programs adequately. Motions to alter or amend the Circuit Judge's Order are pending. In a second 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. In a third unrelated case, the plaintiffs contend that a lack of funding has resulted in the unconstitutional treatment of prison inmates with mental illnesses.

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

The Public Service Authority, a major discretely presented component unit and electric utility company, 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 paragraphs discuss the most significant of these cases.

The Central Electric Power Cooperative, Inc. is the Authority's major customer. Certain plaintiffs who are customers of members of Central filed suit against the Authority and members of Central seeking monetary damages arising out of a change in the "Good Cents" rate. The plaintiffs sought to represent a class of all "Good Cents" customers of Central's members. The Authority answered the complaint by denying the material allegations and opposing the request for class certification. The parties reached a settlement which has been approved by the court that had no material adverse impact on the Authority.

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. No estimate of potential loss to the Authority can be made at this time. The contract between the Corps and the Authority requires that the Corps indemnify the Authority for certain claims arising out of the construction and operation of the project.

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. 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, 2006, 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, 2006, these loans totaled $2.303 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, 2006, was less than 1.0%.

The nonmajor enterprise funds guarantee a portion of a mortgage debt up to a maximum of $1.531 million.

e. Purchase Commitments

Major Discretely Presented Component Unit—Public Service Authority

At December 31, 2005, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $936.231 million for coal. In addition, minimum obligations under purchased power contracts were approximately $80.700 million at December 31, 2005, with a remaining term of twenty-nine 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, 2005, these commitments totaled approximately $39.300 million over the next six years.

The Authority has entered into a service agreement in the approximate amount of $90.000 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, 2006, the Lottery Commission had a remaining commitment of $12.825 million under a service contract with a term that extends through November 2008. 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 $1.266 billion for certain highway and transportation facilities projects. At June 30, 2006, the remaining commitments for these agreements totaled $329.082 million.

At June 30, 2006, the Department of Commerce had outstanding commitments of $127.894 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, 2006, the Budget and Control Board had outstanding commitments of $51.309 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 $11.359 million at June 30, 2006, for affordable housing projects and developments.

g. 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, 2005. 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.