
**MANAGEMENT'S DISCUSSION
AND ANALYSIS—
Required Supplementary Information
(Unaudited)**

Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2007. Please read it together with (1) the Comptroller's *Letter of Transmittal* at the front of this report and (2) the financial statements, which follow this section.

Overview of the Financial Statements

This discussion and analysis provides an introduction to the State of South Carolina's basic financial statements, which include the following parts: (1) *government-wide financial statements*, (2) *fund financial statements*, (3) *component unit financial statements*, and (4) *notes to the financial statements*. This annual report also contains certain *required supplementary information* and other *supplementary information*.

Government-wide Financial Statements

The government-wide statements present a long-term view of the State's finances *as a whole*, using *accrual-basis accounting*—the same accounting methods that most businesses use. The basic government-wide financial statements are presented on pages 36 through 41 of this report.

There are two government-wide financial statements:

Statement of net assets: This statement presents information on *all* of the State's assets and liabilities, both short-term (*current*) and long-term (*non-current*). In addition, the statement reports the difference between assets and liabilities as *net assets*. Over time, the comparison of net assets to liabilities may indicate whether the State's financial health is strengthening or weakening. However, the statement of net assets does not tell the whole story. To assess the State's overall financial health, you would also need to consider factors such as the State's economy and the condition of its *capital assets* such as its buildings and *infrastructure* (roads and bridges).

Statement of activities: This statement presents information showing how the State's overall net assets changed during the year. The State reports a change in its net assets as soon as an underlying event occurs that would cause a change. The statement of activities accounts for all current-year revenues and expenses, regardless of when the State received or paid cash. Although governments compile the statement of activities using accounting methods similar to businesses, the format of this statement is quite different from the format of a business's income statement. The statement of activities can help to show how much it costs the State to provide various services. It also can help to show the extent to which each government function covers its own costs through user fees, charges, or grants. The net *revenue (expense)* column on the far right of this statement page 40 shows how much a particular function relies on taxes and other general revenues to finance its programs.

The government-wide statements present three different kinds of *activities*:

Governmental activities: Most of the State's basic services are included here, such as general government, education, health and environment, social services, administration of justice, and transportation. Taxes (primarily income and sales taxes) and federal grants finance most of these services.

Business-type activities: These activities usually recover all, or a significant portion, of the costs of their services or goods by charging fees to customers. Higher education (State-supported colleges and universities), unemployment compensation benefits, financing of housing facilities, and financing of student loans are the most significant of South Carolina's business-type activities.

Component units: Although component units are legally separate from the State, the State's elected officials are financially accountable for them. The Public Service Authority (Santee-Cooper, an electric utility company), the State Ports Authority, the Connector 2000 Association, Inc. (which operates the Southern Connector, a toll road), and the Lottery Commission are the State's major component units. Some financial information for these component units is included in this report. You also can obtain complete financial statements for these component units from their respective administrative offices (see Note 1a of the notes to the financial statements).

Fund Financial Statements

The fund financial statements on pages 42 through 65 of this report provide detailed information about the State's most significant funds—not the State as a whole. Funds are accounting designations that the State uses to track specific funding sources and spending for particular purposes. South Carolina, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State reports three types of *funds*:

State of South Carolina

Governmental funds: The State reports most of its basic services in governmental funds. Governmental funds account for activities that the State reports as *governmental activities* in its government-wide statements. These funds focus on *short-term* inflows and outflows of expendable resources. The balances remaining at the end of the year help determine whether a fund has more or less financial resources available to spend in the near future. Because the governmental fund statements lack the additional long-term focus of the government-wide statements, we provide a reconciliation that explains the relationship (or differences) between the two kinds of statements. By comparing the two kinds of statements and examining the reconciliation, you may better understand the long-term impact of the State's near-term financing decisions.

The basic governmental fund statements are on pages 42 through 49 of this report.

Proprietary funds: Proprietary funds charge customers for the services they provide—whether they are outside customers (*enterprise funds*) or other State agencies and other governments (*internal service funds*). Proprietary funds use the *accrual basis of accounting* like businesses use. The State reports all of its enterprise funds (proprietary funds providing services to outside customers) as *business-type activities* in the government-wide statements. However, because our internal service fund operations primarily benefit other State agencies or other governments, these proprietary funds are included as *governmental activities* in the government-wide financial statements.

The basic proprietary fund statements are on pages 50 through 63 of this report.

Fiduciary funds: The State is the trustee, or *fiduciary*, for its employees' retirement plans. The State also is responsible for other assets that, because of a trust agreement, it is to use only for trust beneficiaries such as an investment pool operated on behalf of local governments. We *exclude* these activities from the State's government-wide financial statements because the State is not to use these assets to finance its operations. The State has an obligation to ensure that the net assets it reports in fiduciary funds are used for their intended purposes.

The basic fiduciary fund statements are on pages 64 and 65 of this report.

Component Unit Financial Statements

The *Government-wide Financial Statements* section on the preceding page identifies the State's major component units under the *Component units* subheading. More detailed financial statements which include these component units are on pages 66 through 69 of this report.

Notes to the Financial Statements

Immediately following the financial statements are *notes* that help explain some of the information in the financial statements and provide more detailed data. The notes on pages 73 through 138 are necessary to fully understand the financial statements.

Required Supplementary Information

This section addresses budgetary matters and provides certain *required* reporting information that supplements the basic financial statements. Included in this section is a schedule that compares the State's legally adopted General Fund budget with actual revenues collected and expenditures paid for the year. Note 5 to the required supplementary information is a reconciliation that helps explain differences between the changes in fund balance of certain funds when presented on the budgetary-basis and the changes in fund balance of these funds when presented on the GAAP-basis as reported in the governmental fund statements. This required supplementary information is on pages 140 through 145 of this report.

Government-wide Financial Analysis

Exhibits 1 and 2 summarize the State's overall financial position and results of operations for the past two years based on information included in the government-wide financial statements.

Exhibit 1
Government-wide Net Assets
As of June 30, 2007, with Restated Comparative Data as of June 30, 2006
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change 2006-2007
	2007	2006	2007	2006	2007	2006	
Assets							
Current and other assets.....	\$ 9,770,290	\$ 8,874,046	\$ 5,241,492	\$ 4,876,142	\$ 15,011,782	\$ 13,750,188	9.2%
Capital assets.....	13,393,469	13,047,645	3,538,949	3,174,806	16,932,418	16,222,451	4.4%
Total assets.....	23,163,759	21,921,691	8,780,441	8,050,948	31,944,200	29,972,639	6.6%
Liabilities							
Long-term liabilities.....	5,233,071	5,178,649	3,758,680	3,476,631	8,991,751	8,655,280	3.9%
Other liabilities.....	4,122,957	3,836,837	887,398	905,140	5,010,355	4,741,977	5.7%
Total liabilities.....	9,356,028	9,015,486	4,646,078	4,381,771	14,002,106	13,397,257	4.5%
Net Assets							
Invested in capital assets, net of debt.....	9,706,055	9,371,744	2,133,862	1,973,060	11,839,917	11,344,804	4.4%
Restricted.....	3,498,173	3,089,099	1,406,468	1,253,359	4,904,641	4,342,458	12.9%
Unrestricted.....	603,503	445,362	594,033	442,758	1,197,536	888,120	34.8%
Total net assets.....	\$ 13,807,731	\$ 12,906,205	\$ 4,134,363	\$ 3,669,177	\$ 17,942,094	\$ 16,575,382	8.2%

Net Assets

As we noted earlier, the comparison of net assets to liabilities may serve, over time, as a useful indicator of the State's financial strength. At the end of the 2006-2007 accounting year, the State's net assets totaled \$17.942 billion.

The largest portion of the State's net assets reflects its *investment in capital assets* (for example, buildings, roads, and bridges), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, they are *not* available for future spending. Further, the State cannot sell the capital assets themselves to repay the related debt because it needs the assets for its operations; so it must find other resources to repay the debt.

Restricted net assets generally are available for future spending but are subject to external restrictions, such as bond covenants, federal government grant restrictions, or restrictions imposed by enabling State legislation or through State constitutional provisions. The State's largest restricted balances include capital improvement bond proceeds (restricted for various capital projects), and loan program funds (restricted primarily for local government water and sewer projects).

Unrestricted net assets—resources available for future spending without restrictions—reported a balance of \$1.198 billion at June 30, 2007. This represents an improvement of \$309.416 million over the prior year. Much of this improvement resulted from a \$158.141 million increase in the unrestricted net assets reported for the State's *governmental activities*, which reported a \$603.503 million balance in unrestricted net assets for the current fiscal year versus a \$445.362 million balance in the prior year.

The State's *business-type activities* also reported a \$594.033 million unrestricted net asset balance. This resulted from net positive balances of \$830.380 million associated with higher education and certain other business-type activities. However, that positive balance was partially offset by a \$208.165 million accumulated deficit in the State-run medical malpractice insurance program and a \$28.182 million accumulated deficit in the State-run college tuition prepayment program.

Exhibit 2
Government-wide Changes in Net Assets
 For the Fiscal Year Ended June 30, 2007, with Restated Comparative Data for the Fiscal Year Ended June 30, 2006^a
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change
	2007	2006	2007	2006	2007	2006	2006-2007
Revenues							
Program revenues:							
Charges for services.....	\$ 2,071,357	\$ 2,003,181	\$ 3,614,333	\$ 3,415,687	\$ 5,685,690	\$ 5,418,868	4.9%
Operating grants and contributions.....	5,848,554	5,773,902	577,625	478,462	6,426,179	6,252,364	2.8%
Capital grants and contributions.....	503,633	621,512	86,807	74,224	590,440	695,736	(15.1%)
General revenues:							
Individual income tax.....	3,349,358	3,156,028	—	—	3,349,358	3,156,028	6.1%
Retail sales and use tax.....	3,803,732	3,613,754	—	—	3,803,732	3,613,754	5.3%
Other taxes.....	1,787,974	1,753,214	—	—	1,787,974	1,753,214	2.0%
Unrestricted grants and contributions.....	15,642	18,664	—	—	15,642	18,664	(16.2%)
Unrestricted investment income.....	134,196	69,438	—	—	134,196	69,438	93.3%
Tobacco legal settlement.....	79,912	67,841	—	—	79,912	67,841	17.8%
Other.....	61,926	67,012	—	—	61,926	67,012	(7.6%)
Total revenues.....	17,656,284	17,144,546	4,278,765	3,968,373	21,935,049	21,112,919	3.9%
Expenses							
Governmental activities:							
General government.....	3,434,216	2,650,722	—	—	3,434,216	2,650,722	29.6%
Education.....	4,078,954	2,452,623	—	—	4,078,954	2,452,623	66.3%
Health and environment.....	4,897,060	6,025,626	—	—	4,897,060	6,025,626	(18.7%)
Social services.....	1,152,324	1,347,522	—	—	1,152,324	1,347,522	(14.5%)
Administration of justice.....	742,064	873,911	—	—	742,064	873,911	(15.1%)
Resources and economic development.....	371,918	276,968	—	—	371,918	276,968	34.3%
Transportation.....	1,018,800	1,166,910	—	—	1,018,800	1,166,910	(12.7%)
Other.....	108,401	100,109	—	—	108,401	100,109	8.3%
Business-type activities:							
Higher education.....	—	—	3,120,278	2,871,493	3,120,278	2,871,493	8.7%
Higher education institution support ^a	—	—	965,686	881,583	965,686	881,583	9.5%
Unemployment compensation benefits.....	—	—	390,087	365,091	390,087	365,091	6.8%
Financing of housing facilities.....	—	—	158,031	150,626	158,031	150,626	4.9%
Medical malpractice insurance.....	—	—	24,809	52,598	24,809	52,598	(52.8%)
Financing of student loans.....	—	—	61,537	61,472	61,537	61,472	0.1%
Tuition prepayment program.....	—	—	8,100	38,849	8,100	38,849	(79.2%)
Other.....	—	—	36,072	32,619	36,072	32,619	10.6%
Total expenses.....	15,803,737	14,894,391	4,764,600	4,454,331	20,568,337	19,348,722	6.3%
Excess (deficiency) before transfers and extraordinary items.....	1,852,547	2,250,155	(485,835)	(485,958)	1,366,712	1,764,197	(22.5%)
Extraordinary items.....	—	—	—	(539)	—	(539)	100.0%
Net transfers.....	(951,021)	(784,746)	951,021	784,746	—	—	—
Increase in net assets.....	901,526	1,465,409	465,186	298,249	1,366,712	1,763,658	(22.5%)
Net assets, beginning of year (restated)^b	12,906,205	11,440,796	3,669,177	3,370,928	16,575,382	14,811,724	11.9%
Net assets, end of year.....	\$ 13,807,731	\$ 12,906,205	\$ 4,134,363	\$ 3,669,177	\$ 17,942,094	\$ 16,575,382	8.2%

^a The higher education institution support activity represents certain associations, foundations, and authorities created for the benefit of the State's higher education institutions.
^b Revenues and expenses of governmental activities were restated for 2006 by a net amount of \$2.633 million for the Governor's School for the Arts Foundation. (See Note 2c to the financial statements.) Revenues of business-type activities were restated for 2006 by \$4.887 million for the State Housing and Finance Development Authority. (See Note 2a to the financial statements.) Expenses of governmental activities were reclassified for 2006 to report expenses previously reported as intergovernmental expenses in their respective functional category.

Changes in Net Assets

The State's total net assets increased \$1.367 billion (8.2%) over the prior year's net assets as a result of its governmental activities and its business-type activities.

Governmental Activities

Net assets of the State's governmental activities increased by \$901.526 million (7.0%), partly due to a \$418.068 million increase in general tax revenues over last year. Revenues that support governmental activities are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the comparative sources of revenues that support governmental activities.

Expenses associated with governmental activities increased by \$909.346 million (6.1%) for the fiscal year ended June 30, 2007. These expenses were mostly associated with services provided for health and environment, education, general government, social services, and transportation. *Exhibit 4* compares the cost of these services with their *program revenues*—revenues derived directly from the program itself or from parties outside the State’s taxpayers or citizenry. The difference between the two represents the *net cost* of these services that taxes and other general revenues financed. For the fiscal year ended June 30, 2007, the State used \$9.233 billion in tax and other general revenues to finance the net cost of all services that the State’s governmental activities provided. Governmental activities reported \$951.021 million in net transfers to the State’s business-type activities, most of which represents support provided to the State’s public colleges and universities.

The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2006-2007 fiscal year:

- Individual income taxes and sales taxes increased by a combined \$383.308 million (5.7%). The increase in individual income tax revenue corresponds to the growth in South Carolina’s per capita income. Sales tax revenue increased as capital investment and new job creation continued to bring increased business to the State.
- General government expenses increased \$783.494 million (29.6%) due in part to restoration of trust funds from unobligated General Fund revenues and increased spending in insurance-related internal service funds.
- Expenses for education increased \$1.626 billion (66.3%) because of spending for new early childhood programs for at-risk students, school bus replacement, and increased funding over prior year levels for various other educational programs.

Exhibit 3
Sources of Revenues Supporting Governmental Activities
For the Fiscal Year Ended June 30, 2007

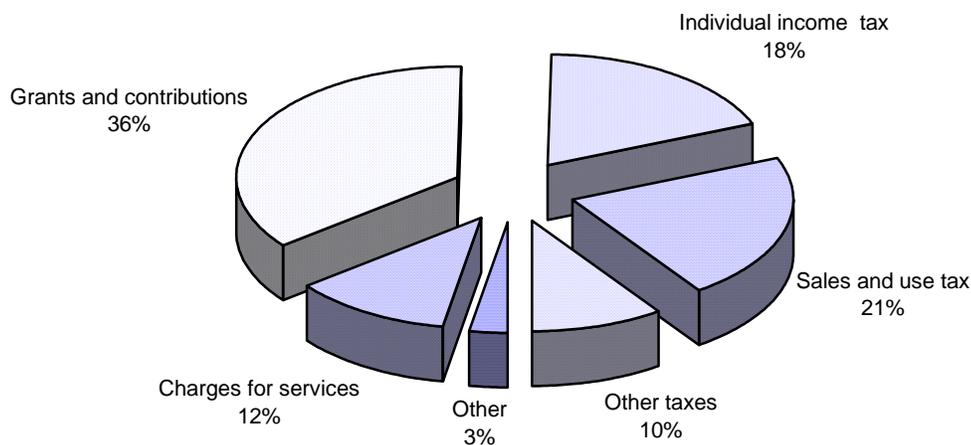
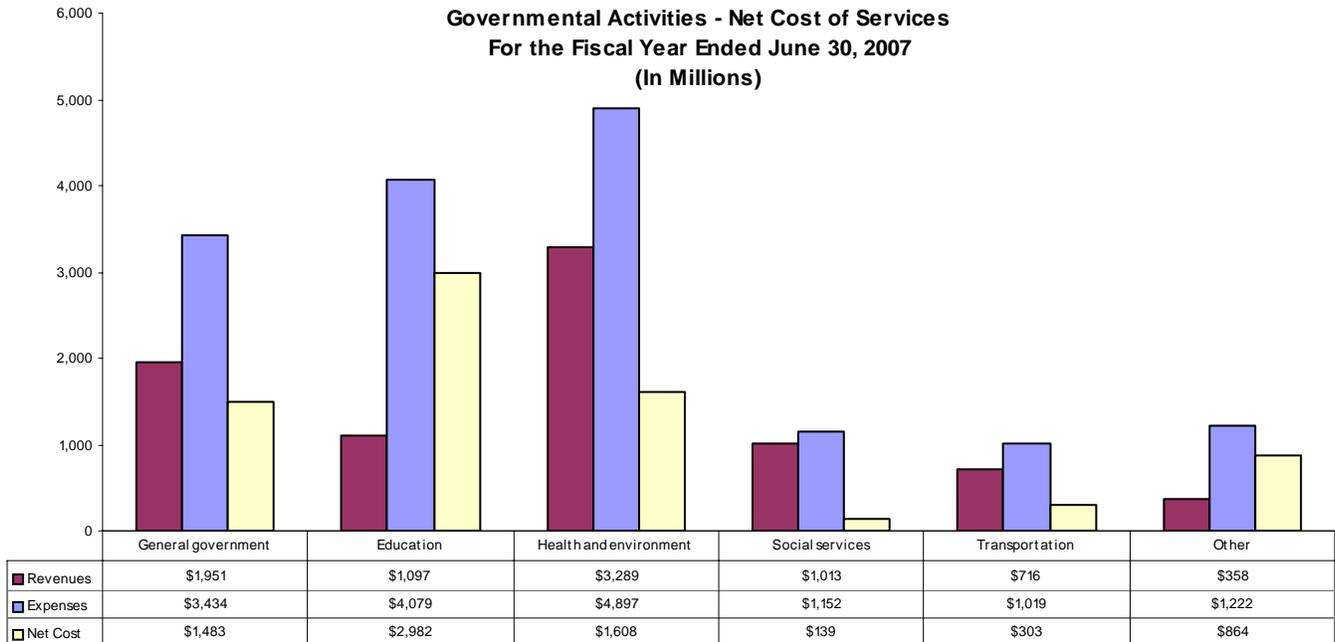


Exhibit 4

**Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2007
(In Millions)**



Business-type Activities

Net assets of the State’s business-type activities increased \$465.186 million (12.7%).

Revenues from business-type activities included charges for services (84.5%) and grants and contributions (including federal aid) (15.5%). Expenses from business-type activities were mostly to provide higher education services and support (85.8%), unemployment compensation benefits (8.2%), and financing of housing facilities (3.3%).

Most business-type activities are self-supporting. Tuition and student fees, research and other grants (both private and governmental), and other charges primarily pay for the services that the Higher Education Fund provides. However, the Higher Education Fund receives substantial resources (primarily transfers of annual appropriations) from the State’s governmental activities. Essentially, net transfers to the Higher Education Fund, which totaled \$978.900 million for the year ended June 30, 2007, represent the cost of educational services that taxes and other general revenues of governmental activities support.

Higher education and related institution support expense increased \$332.888 million during the 2006-2007 fiscal year. This increase resulted primarily from a rise in general operations and administrative costs.

Financial Analysis of the State's Funds

The State of South Carolina uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the fund financial statements, the focus is on reporting major funds.

Governmental Funds

Exhibit 5 shows the components of fund balance for the State's various governmental funds as of June 30, 2007.

Exhibit 5
Governmental Fund Balances
As of June 30, 2007
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	State Tobacco Settlement	Nonmajor Governmental Funds	Total Governmental Funds
Reserved.....	\$ 413,157	\$ 22,534	\$ 1,901,091	\$ 12,220	\$ —	\$ 217,241	\$ 2,566,243
Unreserved, designated.....	679,780	—	—	—	—	255,851	935,631
Unreserved, undesignated.....	—	522,029	(182,655)	(53,951)	510,900	643,513	1,439,836
Totals.....	\$ 1,092,937	\$ 544,563	\$ 1,718,436	\$ (41,731)	\$ 510,900	\$ 1,116,605	\$ 4,941,710
Change from prior year...	\$ (20,908)	\$ 13,370	\$ 284,878	\$ 9,135	\$ 15,535	\$ 80,048	\$ 382,058
Percentage change.....	(1.9%)	2.5%	19.9%	18.0%	3.1%	7.7%	8.4%

At June 30, 2007, total ending fund balance for the State's governmental funds was \$4.942 billion, which represents an increase of \$382.058 million (8.4%) from the prior year. Approximately half of this total (48.1%) consists of *unreserved* fund balance—the amount available for spending in the coming year. The remaining fund balance is *reserved* and is *not* available for future appropriation because it is accessible only for specific purposes. The following paragraphs discuss the activities of the General Fund and other major governmental funds that had significant changes in fund balance:

The *General Fund* is one of two large State operating funds. This fund includes resources that pay for the services that the State traditionally has provided to its citizens. These resources, such as taxes, are accounted for in the General Fund unless State law requires them to be accounted for in another fund. During the 2006-2007 accounting year, the total fund balance of the General Fund decreased \$20.908 million (1.9%) from last year. Individual income taxes increased \$207.758 million (6.7%); sales and use taxes increased \$100.022 million (4.0%); and corporate and other taxes increased \$3.900 million (0.50%). In addition, interest earnings increased \$66.554 million (106%) due to increased cash balances and higher interest rates. Overall, revenues were \$378.195 million (5.2%) greater than the previous year. However, total expenditures increased by \$712.573 million (12.3%) over the prior year. The most significant expenditure increases were attributable to general government, up \$200.933 million (65.5%), and health and environment, up \$143.431 million (9.0%). Operating transfers out of the General Fund increased \$290.541 million (31.9%). This increase was attributable in part to legislation that distributed increased tax revenues to certain State agencies.

The *Local Government Infrastructure Special Revenue Fund* accounts for grants, loans, and other financial assistance to local governments for infrastructure purposes. Fund balance increased \$284.878 million during 2006-2007 primarily due to the issuance of revenue bonds, which are reported as an other financing source for governmental funds.

The *Department of Transportation (DOT) Special Revenue Fund* accounts for various gasoline taxes, fees, fines, and federal grant resources. The DOT uses these resources to pay for its general operations, which include maintenance, regulation, and construction of public highways and bridges. While this fund had a negative fund balance at the beginning of the fiscal year, the fund balance increased \$9.135 million during 2006-2007 leaving a negative fund balance of \$41.731 million at the end of the fiscal year. The negative fund balance occurred primarily because of long-term commitments by DOT to provide funding to local governments for highway construction projects administered by the State Infrastructure Bank (included within the Local Government Infrastructure Fund, a major governmental fund). These commitments are recorded as interfund payables by the DOT Special Revenue Fund and as interfund receivables by the Local Government Infrastructure Fund. The commitments are discharged (i.e., reduced) as DOT provides construction services to the Bank.

Proprietary Funds

Exhibit 6 shows the components of net assets for the State’s various proprietary funds at June 30, 2007.

Exhibit 6
Proprietary Fund Net Assets
 As of June 30, 2007
 (Expressed in Thousands)

Fund Net Assets	Enterprise Funds							Internal Service Funds
	Higher Education	Unemployment Compensation	Housing Authority	Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Total Enterprise	
Invested in capital assets (net of related debt).....	\$ 2,026,122	\$ —	\$ 771	\$ 56,688	\$ 257	\$ 50,024	\$ 2,133,862	\$ 102,315
Restricted, expendable.....	418,314	355,433	264,126	71,975	136,496	43,952	1,290,296	447,805
Restricted, nonexpendable.....	85,890	—	—	—	—	30,282	116,172	—
Unrestricted.....	518,058	—	19,532	128,841	1,173	(78,196)	589,408	(20,658)
Totals.....	\$ 3,048,384	\$ 355,433	\$ 284,429	\$ 257,504	\$ 137,926	\$ 46,062	\$ 4,129,738	\$ 529,462
Change from prior year.....	\$ 368,153	\$ (31,499)	\$ 17,199	\$ 26,379	\$ 7,485	\$ 88,980	\$ 476,697	\$ 228,496
Percentage change.....	13.7%	(8.1%)	6.4%	11.4%	5.7%	207.3%	13.0%	75.9%

The State has two kinds of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are reported as business-type activities in the government-wide financial statements. Enterprise funds sell goods or services primarily to parties outside of State government.

The *Higher Education Fund*, a major enterprise fund, increased by \$368.153 million (13.7%) primarily due to an increase in its sources of revenues such as charges for services, contributions, and investment income.

The *Medical University Hospital Authority*, another enterprise fund, manages and operates the hospitals and clinics associated with the Medical University of South Carolina (MUSC). MUSC is included in the *Higher Education Fund* described above. The Authority’s net assets increased \$26.379 million (11.4%) primarily due to increases in patient activity and comprehensive rate increases.

South Carolina’s *internal service funds* provide certain services (including maintenance, insurance, printing, information technology, and motor pool services) and some goods (such as office supplies) primarily to other State funds but sometimes to local governments as well. The objective of an internal service fund is to charge its customers for the costs of the services or goods that it provides. Because internal service funds primarily benefit State government, South Carolina reports them as governmental activities in the government-wide financial statements.

Budgetary General Fund Highlights

Original estimated revenues for the 2006–2007 accounting year were \$6.089 billion. The BEA revised upward its original revenue estimate three separate times during the course of the year by a total of \$586.285 million. The upward revisions resulted from the BEA’s review of tax revenue collections and economic conditions as the year progressed. Actual revenues at June 30, 2007, were \$569.631 million (9.4%) over the BEA’s original revenue estimate yet they were \$16.654 million less than the BEA’s final revised estimate. Actual revenues also exceeded prior year revenue collections by \$432.476 million (6.9%). Individual income and sales taxes, the fund’s primary revenue sources, were greater than expected because of favorable economic conditions that lead to increased job growth and consumer spending.

Furthermore, actual revenues were \$541.192 million greater than actual expenditures because conservative revenue estimates limited increases in agency spending. Transfers out during the year totaled \$447.983 million, which included \$102.326 million of 2006–2007 Capital Reserve Appropriations, \$171.541 million of Contingency Reserve transfers, and \$174.116 million of Trust Fund Repayment. The State was able to end the year with an accumulated budgetary general fund balance of \$1.081 billion.

See the *Required Supplementary Information* section on pages 140 through 145 of this report for a detailed budgetary comparison schedule.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2006-2007 accounting year, the State had \$16.932 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$709.959 million, or 4.4%, over the previous accounting year (see *Exhibit 7*).

Exhibit 7
Capital Assets, Net of Depreciation
As of June 30 for the Years Indicated
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government	
	2007	2006	2007	2006	2007	2006
Land and improvements.....	\$ 1,589,510	\$ 1,522,999	\$ 330,991	\$ 223,495	\$ 1,920,501	\$ 1,746,494
Infrastructure.....	6,476,211	6,423,305	—	—	6,476,211	6,423,305
Buildings and improvements.....	1,019,474	1,009,521	2,339,054	2,150,777	3,358,528	3,160,298
Vehicles.....	197,595	155,527	13,634	12,391	211,229	167,918
Machinery and equipment.....	138,454	123,424	270,777	238,105	409,231	361,529
Works of art and historical treasures.....	3,957	3,596	25,975	23,666	29,932	27,262
Construction in progress.....	3,961,700	3,800,167	555,545	522,507	4,517,245	4,322,674
Intangible assets.....	6,568	9,114	2,973	3,865	9,541	12,979
Total.....	\$ 13,393,469	\$ 13,047,653	\$ 3,538,949	\$ 3,174,806	\$ 16,932,418	\$ 16,222,459

The State’s investment in land and improvements increased significantly, primarily because of the public colleges and universities expanding their campus facilities. The University of South Carolina improved land sites for several major building projects in progress that are expected to be completed in 2008, including two additional parking garages, and Tri-County Technical College established a new campus requiring site, parking lot, and infrastructure development.

State vehicles increased significantly due to the Department of Education increasing its bus fleet by \$46.155 million.

As in prior years, machinery and equipment increased significantly due, in large part, to acquisitions by public universities. Clemson University, The Medical University of South Carolina, and the University of South Carolina all made significant investments in computing, testing, medical, scientific, and laboratory equipment and equipping newly-established facilities.

Intangible assets decreased from last fiscal year primarily because state-wide depreciation expense exceeded investment in additional intangible assets.

See Note 7 in the notes to the financial statements within this report for additional information on the State’s capital assets.

Long-term Debt

At June 30, 2007, the State had \$8.539 billion in bonds and notes outstanding—an increase of \$322.439 million, or 3.9%, over last year (see *Exhibit 8*).

Exhibit 8
Outstanding Bonds and Notes
As of June 30 for the Years Indicated
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2006-2007
	2007	2006	2007	2006	2007	2006	
Backed by the State:							
General obligation bonds.....	\$ 2,214,865	\$ 2,405,119	\$ 356,795	\$ 249,514	\$ 2,571,660	\$ 2,654,633	(3.1%)
Backed by specific revenues:							
Revenue bonds and notes.....	56,666	43,190	2,962,501	2,782,026	3,019,167	2,825,216	6.9%
Infrastructure Bank bonds.....	2,162,973	1,917,706	—	—	2,162,973	1,917,706	12.8%
Tobacco Authority bonds.....	769,755	796,900	—	—	769,755	796,900	(3.4%)
Limited obligation bonds.....	10,985	15,291	—	—	10,985	15,291	(28.2%)
Bond anticipation notes.....	—	—	4,500	6,855	4,500	6,855	(34.4%)
Total.....	\$ 5,215,244	\$ 5,178,206	\$ 3,323,796	\$ 3,038,395	\$ 8,539,040	\$ 8,216,601	3.9%

New debt reported in governmental activities resulted primarily from the issuance of revenue bonds by the South Carolina Transportation Infrastructure Bank. The Bank issued \$388.370 million in revenue bonds, including refunding bonds to advance refund \$98.855 million in bonds. Also, the Department of Natural Resources issued \$20.295 million in Heritage Trust Revenue Bonds. New debt reported in business-type activities resulted mainly from the issuance of revenue bonds by the *enterprise funds*. The Housing Authority issued \$83.540 million in bonds for housing programs, the Education Assistance Authority issued \$172.700 million in bonds to provide financing for student loans, and the Medical University of South Carolina issued \$38.000 million in facilities revenue bonds.

Three bond rating services assign ratings to bonds that the State backs with its own taxing authority (*general obligation bonds*). Fitch Ratings rated these bonds as “AAA” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2007, the highest ratings that these services assign. Standard & Poor’s rated these bonds as “AA+” during the same period.

The State limits the amount of annual payments for principal and interest on general obligation bonds and notes rather than directly limiting the amount of those bonds and notes that the State may have outstanding. At June 30, 2007, the State legally could issue additional bonds as long as the new debt would not increase the State’s annual principal and interest payments by more than the following amounts: \$50.249 million for institution bonds (*Institution bonds* are general obligation bonds that benefit the State’s Higher Education Fund.), \$24.362 million for highway bonds, \$145.086 million for general obligation bonds, excluding institution and highway bonds, \$9.591 million for economic development bonds, and \$16.993 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements for additional information about the State’s long-term debt.

Economic Factors and Next Year’s Budget

The “Rainy Day Account”

At June 30, 2007, the General Reserve Fund, sometimes called the *rainy day account*, was fully funded at \$167.732 million. The State’s Constitution requires restoration of the reserve to full funding within three years after a withdrawal. State law defines full funding for the reserve as 3% of the Budgetary General Fund’s revenues for the latest completed accounting year. The 2006-2007 Appropriations Act passed by the General Assembly appropriated \$14.244 million to fully fund the rainy day account.

Budgetary General Fund for the 2007-2008 Accounting Year

For fiscal year 2007-2008, estimated revenues in the 2007-2008 Appropriations Act were \$6.622 billion, or \$36 million less than 2006–2007 revenue collections. This estimate may be subsequently revised.

Economic Conditions

Budgetary General Fund revenues for the first three months of the 2007-2008 fiscal year were \$26.011 million, 1.7% higher than during the same period for fiscal year 2006-2007. South Carolina's three major revenue sources continue to experience modest gains, indicating that the State economy, while not showing the same vibrant growth as seen in the past three fiscal years, has not slipped into recession. For the first three months, individual income taxes are up \$33.930 million (3.7%), as withholdings increased 3.1% and estimated tax payments increased 11.1%. Corporate income taxes have decreased by \$17.485 million (23.5%); although a preliminary analysis of October 2007 corporate income tax remittances reveals a significant recovery in this category of revenues. Sales taxes have increased \$12.495 million (2.8%) despite higher gasoline prices experienced during this period.

The BEA has adopted a preliminary Budgetary General Fund revenue estimate of \$7.336 billion for the 2008-2009 accounting year. This revenue forecast represents a 3.2% increase under the original base for 2007-2008. The BEA will review this estimate in February 2008 and adjust or finalize it then.

Other Issues Expected to Impact Future Operations

In June 2004, the Governmental Accounting Standards Board (GASB) adopted Statement No. 43 and No. 45 which are new accounting and reporting standards for other post employment benefits (OPEB). OPEB include post employment benefits such as medical, prescription drug, and dental insurance benefits provided for retired State government and school district employees. Currently, the State funds these benefits on a pay-as-you-go basis. The new standards, which the State will adopt during 2007-2008, will require the State to record the annual required cost to fund these benefits and disclose in the notes to the basic financial statements the actuarially determined unfunded liability (an estimate of accumulated benefits expected to be paid in future years) along with current costs associated with these benefits.

Requests For Information

The primary purpose of this financial report is to provide South Carolina's citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Please address any questions concerning information in this report to:

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