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**BASIC  
FINANCIAL STATEMENTS**

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# Statement of Net Assets

June 30, 2007

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents.....	\$ 4,550,543	\$ 1,586,925	\$ 6,137,468	\$ 312,189
Investments.....	—	147,083	147,083	104,511
Invested securities lending collateral.....	946,829	108,510	1,055,339	22,450
Receivables, net:				
Accounts.....	274,853	74,879	349,732	217,577
Contributions.....	—	8,674	8,674	2,689
Participants.....	—	23,324	23,324	—
Accrued interest.....	32,271	8,215	40,486	5,742
Income taxes.....	387,249	—	387,249	—
Sales and other taxes.....	545,720	—	545,720	—
Student accounts.....	10	39,827	39,837	—
Patient accounts.....	14,562	150,978	165,540	—
Loans and notes.....	27,929	94,948	122,877	—
Assessments.....	—	50,835	50,835	—
Due from Federal government and other grantors.....	655,341	107,482	762,823	19
Internal balances.....	(34,100)	34,100	—	—
Due from component units.....	21,856	129,592	151,448	—
Due from primary government.....	—	—	—	167,542
Inventories.....	51,094	31,993	83,087	238,530
Restricted assets:				
Cash and cash equivalents.....	71,971	307,455	379,426	95,832
Investments.....	111,750	10,585	122,335	110,683
Loans receivable.....	—	54,896	54,896	—
Other.....	71,165	10,130	81,295	3
Prepaid items.....	23,695	31,752	55,447	8,289
Other current assets.....	—	23,756	23,756	24,928
Deferred charges.....	—	—	—	1,704
Total current assets.....	<u>7,752,738</u>	<u>3,035,939</u>	<u>10,788,677</u>	<u>1,312,688</u>

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

## Statement of Net Assets (Continued)

June 30, 2007

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term assets:				
Receivables, net:				
Accounts.....	\$ 22,741	\$ 233	\$ 22,974	\$ 1,939
Contributions.....	—	595	595	38,229
Participants.....	—	12,618	12,618	—
Income taxes.....	74,410	—	74,410	—
Sales and other taxes.....	18,212	—	18,212	—
Patient accounts.....	12,768	—	12,768	—
Loans and notes.....	474,710	787,450	1,262,160	—
Investments.....	372,080	19,662	391,742	769,286
Restricted assets:				
Cash and cash equivalents.....	564,767	489,839	1,054,606	54,077
Investments.....	—	107,228	107,228	300,543
Accounts receivable.....	446,899	—	446,899	—
Loans receivable.....	—	705,872	705,872	—
Other.....	4,820	23,826	28,646	1
Prepaid items.....	—	13,448	13,448	—
Other long-term assets.....	771	33,665	34,436	20,267
Deferred charges.....	25,374	11,117	36,491	513,293
Investment in joint venture.....	—	—	—	7,672
Non-depreciable capital assets.....	5,536,175	787,534	6,323,709	1,655,705
Depreciable capital assets, net.....	7,857,294	2,751,415	10,608,709	2,899,262
Total long-term assets.....	<u>15,411,021</u>	<u>5,744,502</u>	<u>21,155,523</u>	<u>6,260,274</u>
<b>Total assets.....</b>	<b><u>23,163,759</u></b>	<b><u>8,780,441</u></b>	<b><u>31,944,200</u></b>	<b><u>7,572,962</u></b>

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**Statement of Net Assets (Continued)**

June 30, 2007

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable .....	\$ 721,928	\$ 174,673	\$ 896,601	\$ 234,273
Accrued salaries and related expenses.....	124,864	68,606	193,470	9,868
Accrued interest payable.....	35,471	12,288	47,759	82,722
Retainages payable.....	2,877	18,146	21,023	170
Tax refunds payable.....	598,572	6,169	604,741	—
Payables-aid to individuals/families.....	1,305	—	1,305	—
Prizes payable.....	—	—	—	25,692
Unemployment benefits payable.....	—	8,418	8,418	—
Intergovernmental payables.....	371,395	3,600	374,995	649
Tuition benefits payable.....	—	15,284	15,284	—
Policy claims.....	472,374	30,000	502,374	47,402
Due to component units.....	167,542	—	167,542	—
Due to primary government.....	—	—	—	155,174
Unearned revenues and deferred credits.....	240,938	159,763	400,701	25,962
Deposits.....	—	5,643	5,643	13
Amounts held in custody for others.....	—	7,303	7,303	—
Securities lending collateral.....	946,829	108,510	1,055,339	22,450
Liabilities payable from restricted assets:				
Accounts payable.....	—	414	414	226
Accrued interest payable.....	31,954	31,799	63,753	1,766
Bonds payable.....	44,355	28,550	72,905	—
Other.....	—	57,438	57,438	—
Notes payable.....	4,610	15,556	20,166	445
Revenue bonds anticipation notes payable.....	—	4,500	4,500	—
General obligation bonds payable.....	199,225	18,835	218,060	—
Revenue bonds payable.....	2,355	24,141	26,496	79,805
Limited obligation bonds payable.....	1,640	—	1,640	—
Capital leases payable.....	544	6,591	7,135	2,781
Commercial paper notes.....	—	—	—	195,072
Compensated absences payable.....	121,184	68,112	189,296	2,996
Other current liabilities .....	32,995	13,059	46,054	78,211
Total current liabilities.....	<u>4,122,957</u>	<u>887,398</u>	<u>5,010,355</u>	<u>965,677</u>

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

# Statement of Net Assets (Continued)

June 30, 2007

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term liabilities:				
Retainages payable.....	\$ —	\$ 677	\$ 677	\$ 63,582
Intergovernmental payables.....	200	—	200	—
Tuition benefits payable.....	—	188,267	188,267	—
Policy claims.....	106,746	168,622	275,368	157,368
Unearned revenues and deferred credits.....	—	638	638	277,920
Amounts held in custody for others.....	—	—	—	2,732
Other liabilities payable from restricted assets.....	—	5,650	5,650	—
Notes payable.....	11,012	237,801	248,813	1,984
General obligation bonds payable.....	2,015,640	337,960	2,353,600	—
Tobacco Authority bonds payable.....	769,755	—	769,755	—
Infrastructure Bank bonds payable.....	2,118,618	—	2,118,618	—
Revenue bonds payable.....	38,689	2,656,453	2,695,142	3,503,120
Limited obligation bonds payable.....	9,345	—	9,345	—
Capital leases payable.....	395	39,478	39,873	7,173
Compensated absences payable.....	94,437	59,134	153,571	15,936
Other long-term liabilities.....	68,234	64,000	132,234	41,263
Total long-term liabilities.....	5,233,071	3,758,680	8,991,751	4,071,078
<b>Total liabilities.....</b>	<b>9,356,028</b>	<b>4,646,078</b>	<b>14,002,106</b>	<b>5,036,755</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	9,706,055	2,133,862	11,839,917	1,125,093
Restricted:				
Expendable:				
Unemployment compensation benefits.....	—	355,433	355,433	—
Education.....	326,600	221,749	548,349	221,533
Health.....	20,814	—	20,814	—
Transportation.....	237,292	—	237,292	—
Capital projects.....	357,095	193,133	550,228	20,863
Debt service.....	1,180,967	263,435	1,444,402	91,230
Loan programs.....	631,558	256,546	888,104	—
Waste management.....	209,950	—	209,950	—
Insurance programs.....	427,805	—	427,805	—
Other.....	103,706	—	103,706	167,424
Nonexpendable:				
Education.....	—	116,172	116,172	311,777
Other.....	2,386	—	2,386	—
Unrestricted.....	603,503	594,033	1,197,536	598,287
<b>Total net assets.....</b>	<b>\$ 13,807,731</b>	<b>\$ 4,134,363</b>	<b>\$ 17,942,094</b>	<b>\$ 2,536,207</b>

# Statement of Activities

For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)

	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Functions</b>					
<b>Primary government:</b>					
Governmental activities:					
General government.....	\$ 3,434,216	\$ 1,617,400	\$ 325,630	\$ 8,247	\$ (1,482,939)
Education.....	4,078,954	37,539	1,056,484	2,825	(2,982,106)
Health and environment.....	4,897,060	136,792	3,146,444	5,360	(1,608,464)
Social services.....	1,152,324	2,436	1,010,925	—	(138,963)
Administration of justice.....	742,064	121,981	35,718	1,341	(583,024)
Resources and economic development.....	371,918	57,067	125,487	15,983	(173,381)
Transportation.....	1,018,800	98,142	147,866	469,877	(302,915)
Unallocated interest expense.....	108,401	—	—	—	(108,401)
<b>Total governmental activities.....</b>	<b>15,803,737</b>	<b>2,071,357</b>	<b>5,848,554</b>	<b>503,633</b>	<b>(7,380,193)</b>
Business-type activities:					
Higher education.....	3,120,278	2,116,206	295,063	86,750	(622,259)
Higher education institution support.....	965,686	984,723	74,444	—	93,481
Unemployment compensation benefits.....	390,087	339,715	18,323	—	(32,049)
Financing of housing facilities.....	158,031	48,871	124,600	—	15,440
Medical malpractice insurance.....	24,809	39,313	364	—	14,868
Financing of student loans.....	61,537	48,975	20,047	—	7,485
Tuition prepayment program.....	8,100	—	42,035	—	33,935
State maritime museum.....	7,061	7,709	1,332	—	1,980
Insurance claims processing.....	1,553	1,548	—	—	(5)
Other.....	27,458	27,273	1,417	57	1,289
<b>Total business-type activities.....</b>	<b>4,764,600</b>	<b>3,614,333</b>	<b>577,625</b>	<b>86,807</b>	<b>(485,835)</b>
<b>Total primary government.....</b>	<b>\$ 20,568,337</b>	<b>\$ 5,685,690</b>	<b>\$ 6,426,179</b>	<b>\$ 590,440</b>	<b>\$ (7,866,028)</b>
<b>Component units:</b>					
Public Service Authority.....	\$ 1,369,560	\$ 1,421,910	\$ 35,466	\$ —	\$ 87,816
State Ports Authority.....	110,241	161,244	7,372	168,263	226,638
Connector 2000 Association, Inc.....	25,994	5,085	956	—	(19,953)
Lottery Commission.....	995,109	991,739	1,245	—	(2,125)
Other.....	116,186	50,392	168,800	—	103,006
<b>Total component units.....</b>	<b>\$ 2,617,090</b>	<b>\$ 2,630,370</b>	<b>\$ 213,839</b>	<b>\$ 168,263</b>	<b>\$ 395,382</b>

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

## Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets:</b>				
Net (expense) revenue .....	\$ (7,380,193)	\$ (485,835)	\$ (7,866,028)	\$ 395,382
General revenues:				
Taxes:				
Individual income.....	3,349,358	—	3,349,358	—
Retail sales and use.....	3,803,732	—	3,803,732	—
Other.....	1,787,974	—	1,787,974	—
Total taxes.....	8,941,064	—	8,941,064	—
Unrestricted grants and contributions.....	15,642	—	15,642	—
Unrestricted investment income.....	134,196	—	134,196	—
Tobacco legal settlement.....	79,912	—	79,912	—
Other revenues.....	61,926	—	61,926	—
Transfers—internal activities.....	(951,021)	951,021	—	—
<b>Total general revenues and transfers.....</b>	<b>8,281,719</b>	<b>951,021</b>	<b>9,232,740</b>	<b>—</b>
<b>Change in net assets.....</b>	<b>901,526</b>	<b>465,186</b>	<b>1,366,712</b>	<b>395,382</b>
<b>Net assets at beginning of year (restated).....</b>	<b>12,906,205</b>	<b>3,669,177</b>	<b>16,575,382</b>	<b>2,140,825</b>
<b>Net assets at end of year.....</b>	<b>\$ 13,807,731</b>	<b>\$ 4,134,363</b>	<b>\$ 17,942,094</b>	<b>\$ 2,536,207</b>

**Balance Sheet**

## GOVERNMENTAL FUNDS

June 30, 2007

(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 1,413,878	\$ 474,017	\$ 274,303	\$ 232,109
Investments.....	48,988	416	—	—
Invested securities lending collateral.....	592,883	7,512	106,474	22,707
Receivables, net:				
Accounts.....	2,042	115,643	2,832	18,009
Accrued interest.....	10,106	474	5,101	1,316
Income taxes.....	461,659	—	—	—
Sales and other taxes.....	355,157	12,441	—	8,692
Student accounts.....	—	10	—	—
Patient accounts.....	13,281	14,049	—	—
Loans and notes.....	5	531	466,618	8,707
Due from Federal government and other grantors.....	5,463	551,882	—	94,427
Due from other funds.....	41,006	23,028	13,045	13,879
Due from component units.....	—	—	—	—
Interfund receivables.....	9,204	705	303,241	—
Inventories.....	15,385	22,003	—	5,511
Restricted assets:				
Cash and cash equivalents.....	—	—	626,731	10,000
Investments.....	—	—	—	—
Accounts receivable.....	—	—	446,899	—
Other.....	—	—	33,676	—
Prepaid items.....	—	—	—	6,770
Other assets.....	—	—	—	771
<b>Total assets.....</b>	<b>\$ 2,969,057</b>	<b>\$ 1,222,711</b>	<b>\$ 2,278,920</b>	<b>\$ 422,898</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>Liabilities:</b>				
Accounts payable.....	\$ 340,778	\$ 338,971	\$ 12,027	\$ 83,510
Accrued salaries and related expenditures.....	69,046	31,316	76	17,996
Retainages payable.....	18	176	—	1,988
Tax refunds payable.....	598,055	—	—	—
Payable—aid to individuals/families.....	1,305	—	—	—
Intergovernmental payables.....	25,403	164,697	2,237	—
Due to other funds.....	90,292	62,603	1,036	14,560
Due to component units.....	1	—	—	—
Interfund payables.....	—	8,859	—	303,241
Deferred revenues.....	111,314	63,995	438,634	20,627
Securities lending collateral.....	592,883	7,512	106,474	22,707
Other liabilities.....	47,025	19	—	—
<b>Total liabilities.....</b>	<b>1,876,120</b>	<b>678,148</b>	<b>560,484</b>	<b>464,629</b>
<b>Fund balances (deficits):</b>				
Reserved.....	413,157	22,534	1,901,091	12,220
Unreserved, designated reported in:				
General Fund.....	679,780	—	—	—
Special revenue funds.....	—	—	—	—
Capital Projects Fund.....	—	—	—	—
Unreserved, undesignated reported in:				
Special revenue funds.....	—	522,029	(182,655)	(53,951)
Permanent funds.....	—	—	—	—
<b>Total fund balances (deficits).....</b>	<b>1,092,937</b>	<b>544,563</b>	<b>1,718,436</b>	<b>(41,731)</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 2,969,057</b>	<b>\$ 1,222,711</b>	<b>\$ 2,278,920</b>	<b>\$ 422,898</b>

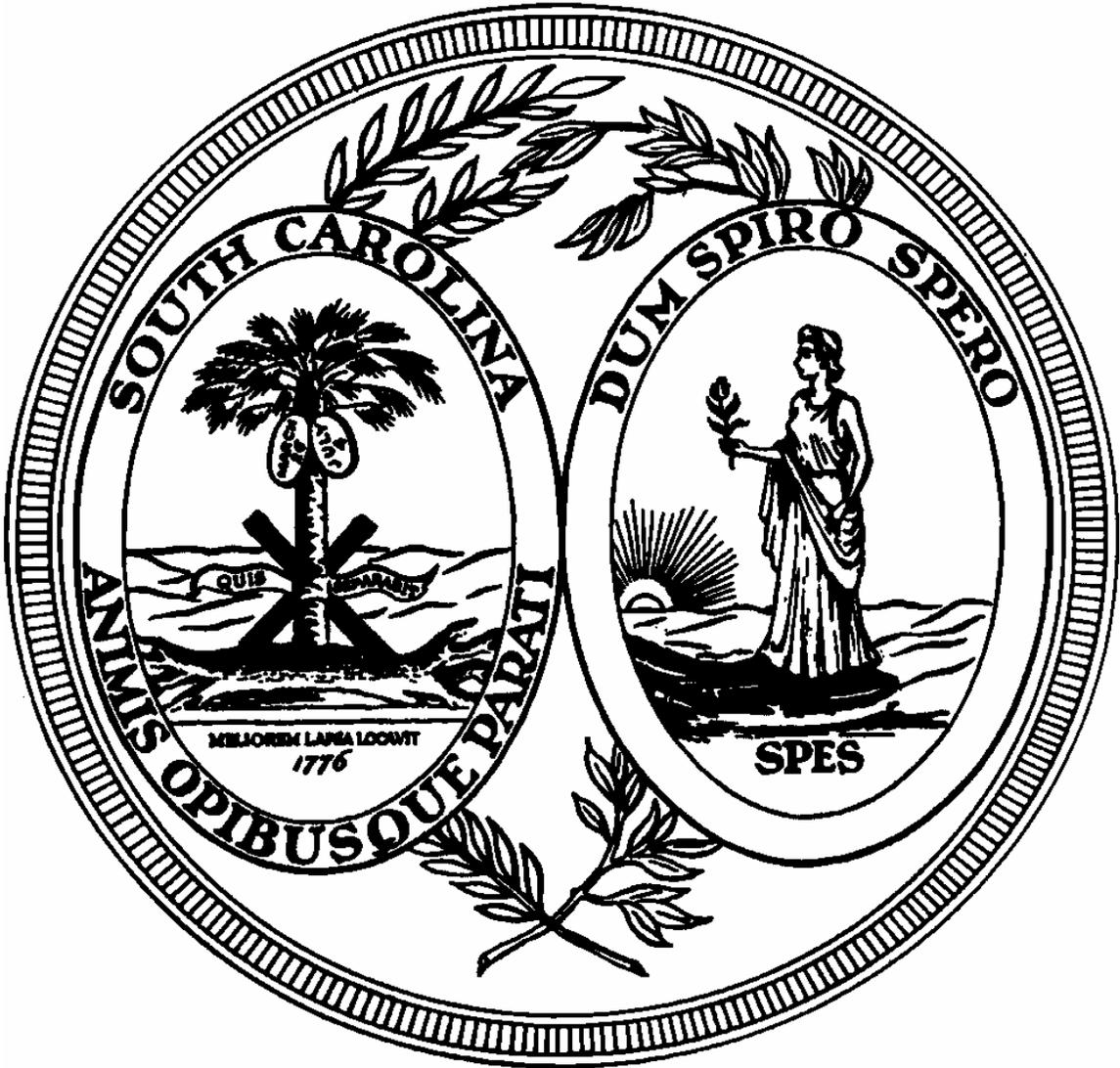
The Notes to the Financial Statements are an integral part of this statement.

State Tobacco Settlement	Nonmajor Governmental Funds	Totals
\$ 510,761	\$ 1,026,566	\$ 3,931,634
—	—	49,404
5,280	104,527	839,383
—	2,836	141,362
314	7,890	25,201
—	—	461,659
—	187,641	563,931
—	—	10
—	—	27,330
—	26,778	502,639
—	3,569	655,341
—	13,601	104,559
—	21,848	21,848
—	3,942	317,092
—	88	42,987
—	7	636,738
—	111,750	111,750
—	—	446,899
—	42,310	75,986
—	—	6,770
—	—	771
<b>\$ 516,355</b>	<b>\$ 1,553,353</b>	<b>\$ 8,963,294</b>
\$ 1	\$ 44,801	\$ 820,088
—	2,096	120,530
—	681	2,863
—	516	598,571
—	—	1,305
173	178,886	371,396
1	45,717	214,209
—	—	1
—	20,393	332,493
—	38,510	673,080
5,280	104,527	839,383
—	621	47,665
<b>5,455</b>	<b>436,748</b>	<b>4,021,584</b>
—	217,241	2,566,243
—	—	679,780
—	15,717	15,717
—	240,134	240,134
510,900	642,443	1,438,766
—	1,070	1,070
<b>510,900</b>	<b>1,116,605</b>	<b>4,941,710</b>
<b>\$ 516,355</b>	<b>\$ 1,553,353</b>	<b>\$ 8,963,294</b>

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

June 30, 2007  
(Expressed in Thousands)

<b>Total fund balances—governmental funds.....</b>		<b>\$ 4,941,710</b>
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.....	\$ 5,529,878	
Depreciable capital assets.....	11,159,957	
Accumulated depreciation.....	<u>(3,442,085)</u>	
Total capital assets.....		13,247,750
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.....		25,249
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.....		579,049
Interest receivable not due in the current period and therefore not reported in the funds.....		2,772
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.....		529,462
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.....		(4,625)
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.....	(5,167,880)	
Notes payable.....	(2,217)	
Accrued interest on bonds.....	(66,721)	
Capital leases.....	(379)	
Compensated absences.....	(209,162)	
Intergovernmental payable.....	(200)	
Policy claims.....	(19,967)	
Other.....	<u>(47,110)</u>	
Total long-term liabilities.....		<u>(5,513,636)</u>
<b>Net assets of governmental activities.....</b>		<b>\$ <u>13,807,731</u></b>



# Statement of Revenues, Expenditures, and Changes in Fund Balances

## GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
<b>Revenues:</b>				
Taxes:				
Individual income.....	\$ 3,323,665	\$ —	\$ 13,647	\$ —
Retail sales and use.....	2,633,562	1,625	—	—
Other.....	877,147	42,867	20,000	556,503
Licenses, fees, and permits.....	121,056	162,657	92,735	—
Interest and other investment income.....	129,320	3,648	61,617	11,806
Federal.....	91,041	5,062,968	21,245	557,489
Local and private grants.....	892	8,722	—	—
Departmental services.....	424,704	171,916	20,004	16,494
Contributions.....	14,999	32,467	43,482	—
Fines and penalties.....	21,393	68,086	—	—
Tobacco legal settlement.....	—	—	—	—
Other.....	29,626	86,882	—	8,124
<b>Total revenues.....</b>	<b>7,667,405</b>	<b>5,641,838</b>	<b>272,730</b>	<b>1,150,416</b>
<b>Expenditures:</b>				
Current:				
General government.....	507,866	218,946	509	—
Education.....	334,738	170,078	—	—
Health and environment.....	1,744,123	3,255,713	—	—
Social services.....	131,719	998,246	—	—
Administration of justice.....	561,717	120,343	—	—
Resources and economic development.....	111,216	112,534	1,337	—
Transportation.....	—	—	4,926	737,373
Capital outlay.....	—	—	—	262,286
Debt service:				
Principal retirement.....	158,318	485	42,740	36,279
Interest and fiscal charges.....	72,242	43	93,204	37,468
Intergovernmental.....	2,894,039	869,400	124,657	77,100
<b>Total expenditures.....</b>	<b>6,515,978</b>	<b>5,745,788</b>	<b>267,373</b>	<b>1,150,506</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>1,151,427</b>	<b>(103,950)</b>	<b>5,357</b>	<b>(90)</b>
<b>Other financing sources (uses):</b>				
Bonds and notes issued.....	—	100	286,355	—
Refunding bonds issued.....	—	—	102,015	—
Premiums on bonds issued.....	—	—	9,456	—
Discounts on bonds issued.....	—	—	—	—
Payment to refunded bond escrow agent.....	—	—	(118,350)	—
Transfers in.....	29,235	168,183	1,064	10,941
Transfers out.....	(1,201,570)	(50,963)	(1,019)	(1,716)
<b>Total other financing sources (uses).....</b>	<b>(1,172,335)</b>	<b>117,320</b>	<b>279,521</b>	<b>9,225</b>
<b>Net change in fund balances.....</b>	<b>(20,908)</b>	<b>13,370</b>	<b>284,878</b>	<b>9,135</b>
<b>Fund balances (deficit) at beginning of year.....</b>	<b>1,113,845</b>	<b>531,193</b>	<b>1,433,558</b>	<b>(50,866)</b>
<b>Fund balances (deficit) at end of year.....</b>	<b>\$ 1,092,937</b>	<b>\$ 544,563</b>	<b>\$ 1,718,436</b>	<b>\$ (41,731)</b>

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

<u>State Tobacco Settlement</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
\$ —	\$ —	\$ 3,337,312
—	1,170,441	3,805,628
—	266,191	1,762,708
—	143,259	519,707
17,513	50,045	273,949
—	38,168	5,770,911
—	101	9,715
—	5,323	638,441
—	282,290	373,238
—	23,861	113,340
—	79,912	79,912
5	2,220	126,857
<b>17,518</b>	<b>2,061,811</b>	<b>16,811,718</b>
80	129,958	857,359
—	306,649	811,465
28	243,808	5,243,672
—	14,002	1,143,967
—	16,369	698,429
—	6,381	231,468
—	—	742,299
—	80,571	342,857
—	27,145	264,967
—	51,981	254,938
1,959	1,145,937	5,113,092
<b>2,067</b>	<b>2,022,801</b>	<b>15,704,513</b>
<b>15,451</b>	<b>39,010</b>	<b>1,107,205</b>
—	20,536	306,991
—	—	102,015
—	—	9,456
—	(8)	(8)
—	—	(118,350)
399	174,933	384,755
(315)	(154,423)	(1,410,006)
<b>84</b>	<b>41,038</b>	<b>(725,147)</b>
<b>15,535</b>	<b>80,048</b>	<b>382,058</b>
<b>495,365</b>	<b>1,036,557</b>	<b>4,559,652</b>
<b>\$ 510,900</b>	<b>\$ 1,116,605</b>	<b>\$ 4,941,710</b>

# 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, 2007  
(Expressed in Thousands)

<b>Net change in fund balances--total governmental funds.....</b>		<b>\$ 382,058</b>
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.....	\$ 467,002	
Depreciation expense.....	(224,541)	
Excess of capital outlay over depreciation expense.....		242,461
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.....		107,947
Losses on disposals of capital assets are reported as an expense in the statement of activities.....		(6,296)
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.....	(306,991)	
Refunding bonds issued.....	(102,015)	
Bond premiums and discounts.....	(9,448)	
Net bond and note proceeds.....		(418,454)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets.....		3,887
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.....	260,312	
Note principal retirement.....	4,343	
Capital lease payments.....	312	
Payment to bond refunding agent.....	118,350	
Total long-term debt repayment.....		383,317
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.....		228,496
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.....		(18,422)
Interest receivable not due in the current period and therefore not reported in the funds.....		2,772

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, 2007  
(Expressed in Thousands)

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.....		\$	11,511
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.....	\$	(6,564)	
Interest accreted on capital appreciation debt.....		(1,026)	
Amortization of bond issuance costs.....		(1,139)	
Net amortization of bond premiums and discounts.....		2,409	
Amortization of deferred losses on refunding of debt.....		(3,090)	
Net increase in compensated absences payable.....		(13,186)	
Decrease in intergovernmental payable.....		100	
Increase in policy claims payable.....		(6,431)	
Net decrease in other payables.....		11,176	
Total additional expenses.....			<u>(17,751)</u>
<b>Change in net assets of governmental activities.....</b>			<b><u>\$ 901,526</u></b>

# Statement of Net Assets

## PROPRIETARY FUNDS

June 30, 2007

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 615,162	\$ 318,823	\$ 31,531
Investments.....	57,233	—	—
Invested securities lending collateral.....	70,530	4,464	2,103
Receivables, net:			
Accounts.....	34,674	7,862	82
Contributions.....	8,590	—	—
Participants.....	—	—	—
Accrued interest.....	5,613	268	104
Student accounts.....	39,827	—	—
Patient accounts.....	—	—	—
Loans and notes.....	15	—	2,933
Assessments.....	—	50,835	—
Due from Federal government and other grantors.....	106,267	491	554
Due from other funds.....	58,766	1	—
Due from component units.....	129,592	—	—
Inventories.....	13,942	—	—
Restricted assets:			
Cash and cash equivalents.....	155,147	—	45,741
Investments.....	73	—	—
Loans receivable.....	33	—	54,776
Other.....	4,052	—	5,315
Prepaid items.....	20,890	—	—
Other current assets.....	21,992	—	—
Total current assets.....	<u>1,342,398</u>	<u>382,744</u>	<u>143,139</u>
Long-term assets:			
Investments.....	16,172	—	—
Receivables, net:			
Accounts.....	233	—	—
Contributions.....	560	—	—
Participants.....	—	—	—
Loans and notes.....	700	—	65,067
Interfund receivables.....	—	—	—
Restricted assets:			
Cash and cash equivalents.....	235,003	—	152,469
Investments.....	17	—	2,397
Loans receivable.....	54,329	—	641,192
Other.....	23,169	—	—
Prepaid items.....	919	—	—
Other long-term assets.....	5,716	—	—
Deferred charges.....	1,401	—	5,767
Non-depreciable capital assets.....	536,908	—	—
Depreciable capital assets, net.....	2,435,086	—	771
Total long-term assets.....	<u>3,310,213</u>	<u>—</u>	<u>867,663</u>
<b>Total assets.....</b>	<b><u>4,652,611</u></b>	<b><u>382,744</u></b>	<b><u>1,010,802</u></b>

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

<b>FUNDS</b>					
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>		<b>INTERNAL SERVICE FUNDS</b>
\$ 63,165	\$ 354,855	\$ 203,389	\$ 1,586,925		\$ 618,908
—	—	89,850	147,083		—
—	—	31,413	108,510		107,446
14,309	14,239	3,713	74,879		121,856
—	—	84	8,674		—
—	—	23,324	23,324		—
—	1,053	1,177	8,215		4,298
—	—	—	39,827		—
118,713	—	32,265	150,978		—
—	92,000	—	94,948		—
—	—	—	50,835		—
—	—	170	107,482		—
1,583	146	9,686	70,182		46,824
—	—	—	129,592		8
14,319	—	3,732	31,993		8,108
18,195	34,955	53,417	307,455		—
—	—	10,512	10,585		—
—	—	87	54,896		—
—	—	763	10,130		—
9,900	—	962	31,752		16,926
—	—	1,764	23,756		—
<b>240,184</b>	<b>497,248</b>	<b>466,308</b>	<b>3,072,021</b>		<b>924,374</b>
—	—	3,490	19,662		322,676
—	—	—	233		118
—	—	35	595		—
—	—	12,618	12,618		—
—	721,683	—	787,450		—
—	—	37,641	37,641		33,290
88,405	—	13,962	489,839		—
38,842	—	65,972	107,228		—
—	—	10,351	705,872		—
—	—	657	23,826		—
—	—	12,529	13,448		—
18,787	—	9,162	33,665		—
—	3,949	—	11,117		125
224,271	—	26,355	787,534		6,297
237,488	257	77,813	2,751,415		139,422
<b>607,793</b>	<b>725,889</b>	<b>270,585</b>	<b>5,782,143</b>		<b>501,928</b>
<b>847,977</b>	<b>1,223,137</b>	<b>736,893</b>	<b>8,854,164</b>		<b>1,426,302</b>

Continued on Next Page

**Statement of Net Assets**

PROPRIETARY FUNDS (Continued)

June 30, 2007

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable.....	\$ 83,613	\$ 1,223	\$ —
Accrued salaries and related expenses.....	40,724	—	462
Accrued interest payable.....	9,645	—	—
Retainages payable.....	7,445	—	—
Tax refunds payable.....	—	6,169	—
Unemployment benefits payable.....	—	8,418	—
Intergovernmental payables.....	—	3,352	248
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	18,131	3,685	26
Unearned revenues.....	141,914	—	—
Deposits.....	5,643	—	—
Amounts held in custody for others.....	7,303	—	—
Securities lending collateral.....	70,530	4,464	2,103
Liabilities payable from restricted assets:			
Accounts payable.....	414	—	—
Accrued interest payable.....	—	—	18,255
Bonds payable.....	—	—	22,360
Other.....	—	—	5,126
Notes payable.....	7,459	—	—
Revenue bond anticipation notes payable.....	4,500	—	—
General obligation bonds payable.....	18,835	—	—
Revenue bonds payable.....	21,491	—	—
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	5,758	—	—
Compensated absences payable.....	46,820	—	452
Other current liabilities.....	8,077	—	397
Total current liabilities.....	<u>498,302</u>	<u>27,311</u>	<u>49,429</u>
Long-term liabilities:			
Retainages payable.....	677	—	—
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Interfund payables.....	41,149	—	—
Unearned revenues.....	—	—	—
Other liabilities payable from restricted assets.....	—	—	—
Notes payable.....	97,135	—	—
General obligation bonds payable.....	337,960	—	—
Revenue bonds payable.....	470,733	—	676,663
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	39,125	—	—
Compensated absences payable.....	57,574	—	281
Other long-term liabilities.....	61,572	—	—
Total long-term liabilities.....	<u>1,105,925</u>	<u>—</u>	<u>676,944</u>
<b>Total liabilities.....</b>	<b><u>1,604,227</u></b>	<b><u>27,311</u></b>	<b><u>726,373</u></b>

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

<b>FUNDS</b>				<b>INTERNAL SERVICE FUNDS</b>
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	
\$ 34,739	\$ 37,515	\$ 10,023	\$ 167,113	\$ 13,522
17,793	—	9,627	68,606	4,335
2,494	—	149	12,288	704
10,701	—	—	18,146	13
—	—	—	6,169	—
—	—	—	8,418	—
—	—	—	3,600	—
—	—	15,284	15,284	—
—	—	30,000	30,000	463,874
7,818	—	4,685	34,345	2,172
4,925	—	12,924	159,763	146,907
—	—	—	5,643	—
—	—	—	7,303	—
—	—	31,413	108,510	107,446
—	—	—	414	—
—	13,331	213	31,799	—
—	6,190	—	28,550	—
—	—	52,312	57,438	—
3,137	—	4,960	15,556	3,246
—	—	—	4,500	—
—	—	—	18,835	—
1,585	—	1,065	24,141	1,385
—	—	—	—	1,640
674	—	159	6,591	369
17,261	272	3,307	68,112	3,700
130	1,655	2,800	13,059	6,455
<u>101,257</u>	<u>58,963</u>	<u>178,921</u>	<u>914,183</u>	<u>755,768</u>
—	—	—	677	—
—	—	188,267	188,267	—
—	—	168,622	168,622	95,279
—	—	10,414	51,563	3,967
—	—	638	638	—
—	5,650	—	5,650	—
15,525	—	125,141	237,801	10,159
—	—	—	337,960	—
473,661	1,019,707	15,689	2,656,453	19,372
—	—	—	—	9,345
30	—	323	39,478	191
—	—	1,279	59,134	2,759
—	891	1,537	64,000	—
<u>489,216</u>	<u>1,026,248</u>	<u>511,910</u>	<u>3,810,243</u>	<u>141,072</u>
<b><u>590,473</u></b>	<b><u>1,085,211</u></b>	<b><u>690,831</u></b>	<b><u>4,724,426</u></b>	<b><u>896,840</u></b>

Continued on Next Page

# Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2007

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	\$ 2,026,122	\$ —	\$ 771
Restricted:			
Expendable:			
Unemployment compensation benefits.....	—	355,433	—
Education.....	191,784	—	—
Capital projects.....	189,590	—	—
Debt service.....	36,940	—	47,835
Loan programs.....	—	—	216,291
Insurance programs.....	—	—	—
Nonexpendable:			
Education.....	85,890	—	—
Unrestricted.....	518,058	—	19,532
<b>Total net assets.....</b>	<b><u>\$ 3,048,384</u></b>	<b><u>\$ 355,433</u></b>	<b><u>\$ 284,429</u></b>
Adjustment in Higher Education Fund related to consolidation of internal service funds .....			
<b>Net assets of business-type activities.....</b>			

<b>FUNDS</b>					<b>INTERNAL SERVICE FUNDS</b>
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>		
\$ 56,688	\$ 257	\$ 50,024	\$ 2,133,862		\$ 102,315
—	—	—	355,433		—
—	—	29,965	221,749		—
—	—	3,543	193,133		—
71,975	96,241	10,444	263,435		—
—	40,255	—	256,546		20,000
—	—	—	—		427,805
—	—	30,282	116,172		—
128,841	1,173	(78,196)	589,408		(20,658)
<b>\$ 257,504</b>	<b>\$ 137,926</b>	<b>\$ 46,062</b>	<b>4,129,738</b>		<b>\$ 529,462</b>
				4,625	
				<b>\$ 4,134,363</b>	

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

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
<b>Operating revenues:</b>			
Assessments.....	\$ —	\$ 281,783	\$ —
Charges for services.....	1,023,729	—	9,705
Contributions.....	—	—	—
Interest and other investment income.....	—	—	51,166
Licenses, fees, and permits.....	—	—	—
Operating revenues pledged for revenue bonds.....	156,893	—	—
Federal operating grants and contracts.....	467,027	40,631	—
State operating grants and contracts.....	207,468	—	—
Local/private operating grants and contracts.....	64,802	—	—
Other operating revenues.....	209,962	21,582	—
<b>Total operating revenues.....</b>	<b>2,129,881</b>	<b>343,996</b>	<b>60,871</b>
<b>Operating expenses:</b>			
General operations and administration.....	2,747,237	263	9,727
Benefits and claims.....	—	389,824	—
Tuition plan disbursements.....	—	—	—
Interest.....	—	—	35,331
Depreciation and amortization.....	145,153	—	877
Scholarships and fellowships.....	170,771	—	—
Other operating expenses.....	—	—	2,839
<b>Total operating expenses.....</b>	<b>3,063,161</b>	<b>390,087</b>	<b>48,774</b>
<b>Operating income (loss).....</b>	<b>(933,280)</b>	<b>(46,091)</b>	<b>12,097</b>
<b>Nonoperating revenues (expenses):</b>			
Federal and local government appropriations.....	62,525	—	—
Interest income.....	57,952	14,042	—
Contributions.....	102,017	—	—
Federal grants and contracts.....	16,802	—	112,600
Local/private grants and contracts.....	6,189	—	—
Interest expense.....	(37,760)	—	—
Net other nonoperating revenues (expenses).....	17,410	—	(109,257)
<b>Total nonoperating revenues (expenses).....</b>	<b>225,135</b>	<b>14,042</b>	<b>3,343</b>
<b>Income (loss) before other revenues, expenses, losses, and transfers.....</b>	<b>(708,145)</b>	<b>(32,049)</b>	<b>15,440</b>
Capital contributions.....	—	—	—
Federal capital grants and contracts.....	16,958	—	—
Local/private capital grants and contracts.....	68,635	—	—
Additions to endowments.....	11,805	—	—
Transfers in.....	1,004,685	2,400	2,009
Transfers out.....	(25,785)	(1,850)	(250)
<b>Change in net assets.....</b>	<b>368,153</b>	<b>(31,499)</b>	<b>17,199</b>
<b>Net assets (deficit) at beginning of year (restated).....</b>	<b>2,680,231</b>	<b>386,932</b>	<b>267,230</b>
<b>Net assets at end of year.....</b>	<b>\$ 3,048,384</b>	<b>\$ 355,433</b>	<b>\$ 284,429</b>

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

**Change in net assets of business-type activities.....**

**FUNDS**

<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	<b>INTERNAL SERVICE FUNDS</b>
\$ —	\$ —	\$ —	\$ 281,783	\$ —
733,301	48,975	325,339	2,141,049	1,839,201
—	—	18,878	18,878	—
—	20,920	23,157	95,243	959
—	—	—	—	5
—	—	2,281	159,174	—
—	—	—	507,658	—
—	—	—	207,468	—
—	—	—	64,802	—
15,749	750	39,071	287,114	78,463
<b>749,050</b>	<b>70,645</b>	<b>408,726</b>	<b>3,763,169</b>	<b>1,918,628</b>
690,850	19,174	261,929	3,729,180	344,432
—	—	23,577	413,401	1,439,099
—	—	8,100	8,100	—
—	38,383	—	73,714	9
22,945	494	4,148	173,617	14,008
—	—	—	170,771	—
—	3,486	219	6,544	5,715
<b>713,795</b>	<b>61,537</b>	<b>297,973</b>	<b>4,575,327</b>	<b>1,803,263</b>
<b>35,255</b>	<b>9,108</b>	<b>110,753</b>	<b>(812,158)</b>	<b>115,365</b>
—	—	—	62,525	—
3,164	—	8,916	84,074	43,508
—	—	3,635	105,652	—
—	—	—	129,402	—
—	—	254	6,443	—
(9,829)	—	(7,081)	(54,670)	(2,164)
—	(1,623)	(1,530)	(95,000)	210
<b>(6,665)</b>	<b>(1,623)</b>	<b>4,194</b>	<b>238,426</b>	<b>41,554</b>
<b>28,590</b>	<b>7,485</b>	<b>114,947</b>	<b>(573,732)</b>	<b>156,919</b>
—	—	57	57	98
—	—	—	16,958	—
—	—	—	68,635	—
—	—	1,436	13,241	—
—	—	3,648	1,012,742	94,281
(2,211)	—	(31,108)	(61,204)	(22,802)
<b>26,379</b>	<b>7,485</b>	<b>88,980</b>	<b>476,697</b>	<b>228,496</b>
<b>231,125</b>	<b>130,441</b>	<b>(42,918)</b>		<b>300,966</b>
<b>\$ 257,504</b>	<b>\$ 137,926</b>	<b>\$ 46,062</b>		<b>\$ 529,462</b>
			(11,511)	
			<b>\$ 465,186</b>	

# Statement of Cash Flows

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>Cash flows from operating activities:</b>			
Receipts from customers, patients, and third-party payers.....	\$ 1,243,072	\$ —	\$ —
Assessments received.....	—	285,771	—
Grants received.....	716,791	42,376	—
Receipts from collection of loans and notes.....	365,130	—	112,112
Receipts of funds held for others.....	158,373	—	—
Internal activity—payments from other funds.....	72,610	—	—
Tuition plan contributions received.....	—	—	—
Other operating cash receipts.....	43,398	21,607	11,598
Claims and benefits paid.....	—	(388,646)	(613)
Payments to suppliers for goods and services.....	(1,077,643)	—	(5,425)
Payments to employees.....	(1,716,766)	—	(6,869)
Payments for scholarships and fellowships.....	(145,701)	—	—
Loans issued to students.....	(366,942)	—	—
Payments of funds held for others.....	(133,653)	—	—
Program loans issued.....	—	—	(206,845)
Internal activity—payments to other funds.....	—	—	—
Other operating cash payments.....	(1,598)	(263)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>(842,929)</b>	<b>(39,155)</b>	<b>(96,042)</b>
<b>Cash flows from noncapital financing activities:</b>			
State, county, and local appropriations.....	54,227	—	—
Federal appropriations.....	20,928	—	—
Funds held for others.....	(105)	—	—
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.....	—	—	(2,653)
Proceeds from sale of noncapital revenue bonds.....	—	—	83,540
Principal payments on noncapital revenue bonds.....	—	—	(59,186)
Proceeds from issuance of noncapital debt.....	—	—	—
Principal paid on noncapital debt.....	—	—	—
Interest payments on noncapital debt.....	(89)	—	(31,764)
Payment of bond issuance costs.....	—	—	(856)
Gifts and grants for other than capital purposes.....	147,478	—	—
Federal revenue.....	—	—	112,600
Payments from Federal grants.....	—	—	(109,257)
Other cash receipts.....	9,506	—	—
Other cash payments.....	(2,935)	—	—
Transfers in.....	1,003,060	2,400	17,149
Transfers out.....	(28,295)	(1,850)	(15,391)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>1,203,775</b>	<b>550</b>	<b>(5,818)</b>

<b>FUNDS</b>				<b>INTERNAL SERVICE FUNDS</b>
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	
\$ 737,406	\$ 91,649	\$ 309,875	\$ 2,382,002	\$ 1,366,252
—	—	94,208	379,979	—
—	—	—	759,167	—
—	645,962	—	1,123,204	—
—	—	—	158,373	—
—	—	—	72,610	494,902
—	—	8,822	8,822	—
15,232	—	47,580	139,415	67,365
—	—	(160,850)	(550,109)	(1,418,906)
(313,550)	(147,987)	(98,642)	(1,643,247)	(269,728)
(310,122)	(3,575)	(149,886)	(2,187,218)	(73,608)
—	—	—	(145,701)	—
—	—	—	(366,942)	—
—	—	—	(133,653)	—
—	(514,200)	—	(721,045)	—
(72,610)	—	—	(72,610)	(11,844)
—	—	(15,646)	(17,507)	(327)
<b>56,356</b>	<b>71,849</b>	<b>35,461</b>	<b>(814,460)</b>	<b>154,106</b>
—	—	—	54,227	—
—	—	—	20,928	—
—	—	—	(105)	—
—	—	—	—	3,371
—	—	(3,976)	(3,976)	(196)
—	—	(929)	(929)	(755)
—	—	—	(2,653)	7,027
—	172,700	—	256,240	—
—	(51,770)	—	(110,956)	—
—	—	1,700	1,700	—
—	—	(4,051)	(4,051)	—
—	(35,936)	(4,024)	(71,813)	—
—	(843)	—	(1,699)	—
—	—	4,044	151,522	—
—	—	—	112,600	—
—	—	—	(109,257)	—
—	—	1,654	11,160	—
—	(3,266)	(18)	(6,219)	—
—	—	3,751	1,026,360	94,281
(552)	—	(31,108)	(77,196)	(22,802)
<b>(552)</b>	<b>80,885</b>	<b>(32,957)</b>	<b>1,245,883</b>	<b>80,926</b>

Continued on Next Page

# Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>Cash flows from capital and related financing activities:</b>			
Capital appropriations.....	\$ 12,978	\$ —	\$ —
Acquisition of capital assets .....	(363,874)	—	(32)
Principal payments on notes payable .....	(3,998)	—	—
Principal payments on limited obligation bonds.....	—	—	—
Proceeds from issuance of capital debt.....	203,428	—	—
Principal paid on capital debt and lease.....	(58,215)	—	—
Interest payments on capital debt.....	(36,177)	—	—
Payment of agent and broker fees.....	(897)	—	—
Proceeds from sale or disposal of capital assets.....	20,950	—	—
Capital grants and gifts received.....	23,850	—	—
<b>Net cash provided by (used in) capital and related financing activities.....</b>	<b>(201,955)</b>	<b>—</b>	<b>(32)</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sales and maturities of investments.....	451,500	—	(23)
Purchase of investments .....	(451,214)	—	—
Interest and dividends on investments.....	33,331	13,961	12,478
Transfer of endowment funds.....	(7,000)	—	—
Collection of escrow payments from borrower.....	—	—	—
<b>Net cash provided by (used in) investing activities.....</b>	<b>26,617</b>	<b>13,961</b>	<b>12,455</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>185,508</b>	<b>(24,644)</b>	<b>(89,437)</b>
<b>Cash and cash equivalents at beginning of year (restated).....</b>	<b>819,804</b>	<b>343,467</b>	<b>319,178</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 1,005,312</b>	<b>\$ 318,823</b>	<b>\$ 229,741</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income (loss) .....	\$ (933,280)	\$ (46,091)	\$ 12,097
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	145,153	—	1,141
Provision for bad debts.....	5	—	—
Realized gains and losses on investments.....	—	—	—
Issuance of loans and notes.....	—	—	(206,845)
Collection of loans and notes.....	—	—	72,766
Interest payments reclassified as noncapital financing activities.....	—	—	35,332
Interest and dividends on investments and interfund loans.....	—	—	(12,272)
Amounts received for payment of claims.....	—	—	—
Payment of claims.....	—	—	—
Other nonoperating revenues.....	323	—	—
Other nonoperating expenses.....	—	—	—
Other.....	(67)	—	—

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

<b>FUNDS</b>				
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	<b>INTERNAL SERVICE FUNDS</b>
\$ —	\$ —	\$ —	\$ 12,978	\$ —
(101,509)	(126)	(10,115)	(475,656)	(17,475)
—	—	—	(3,998)	—
—	—	—	—	(4,320)
10,675	—	—	214,103	1,385
(6,978)	—	(1,894)	(67,087)	(11,769)
(27,348)	—	(4,928)	(68,453)	—
(2,006)	—	(28)	(2,931)	—
3	—	1	20,954	819
—	—	—	23,850	—
<b>(127,163)</b>	<b>(126)</b>	<b>(16,964)</b>	<b>(346,240)</b>	<b>(31,360)</b>
13,022	—	90,911	555,410	230,012
(7,830)	—	(116,102)	(575,146)	(366,237)
9,804	20,215	38,071	127,860	60,784
—	—	—	(7,000)	—
—	—	2,043	2,043	—
<b>14,996</b>	<b>20,215</b>	<b>14,923</b>	<b>103,167</b>	<b>(75,441)</b>
<b>(56,363)</b>	<b>172,823</b>	<b>463</b>	<b>188,350</b>	<b>128,231</b>
<b>226,128</b>	<b>216,987</b>	<b>270,305</b>	<b>2,195,869</b>	<b>490,677</b>
<b>\$ 169,765</b>	<b>\$ 389,810</b>	<b>\$ 270,768</b>	<b>\$ 2,384,219</b>	<b>\$ 618,908</b>

\$ 35,255	\$ 9,108	\$ 110,753	\$ (812,158)	\$ 115,365
22,945	494	4,148	173,881	14,008
82,588	(73)	36,786	119,306	—
—	—	(9,663)	(9,663)	—
—	(33,612)	—	(240,457)	—
—	32,744	—	105,510	—
—	38,616	—	73,948	—
—	(20,868)	(23,157)	(56,297)	—
—	—	92,659	92,659	—
—	—	(118,488)	(118,488)	—
—	—	2,599	2,922	1,720
—	—	—	—	(1,244)
664	—	1,779	2,376	—

Continued on Next Page

# Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>Effect of change in operating assets and liabilities:</b>			
Accounts receivable, net.....	\$ (58,031)	\$ 25	\$ 288
Receivable from participants, net.....	—	—	—
Accrued interest.....	—	—	(81)
Loans receivable.....	(1,770)	—	52,787
Due from Federal government and other grantors.....	—	(264)	495
Due from other funds.....	—	—	—
Inventories.....	—	—	—
Other assets.....	197	2,579	(54,812)
Accounts payable.....	(11,477)	30	—
Accrued salaries and related expenses.....	2,129	—	26
Accrued interest payable.....	—	—	—
Retainages payable.....	—	—	—
Tax refunds payable.....	—	1,409	—
Unemployment benefits payable.....	—	1,443	—
Intergovernmental payables.....	—	(295)	234
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	—	2,009	(429)
Unearned revenues.....	15,145	—	—
Deposits.....	387	—	—
Liabilities payable from restricted assets.....	—	—	(1,480)
Compensated absences payable.....	7,769	—	23
Other liabilities.....	(9,412)	—	4,688
<b>Net cash provided by (used in) operating activities.....</b>	<b><u>\$ (842,929)</u></b>	<b><u>\$ (39,155)</u></b>	<b><u>\$ (96,042)</u></b>
<b>Noncash capital, investing, and financing activities:</b>			
Acquisition of capital assets through:			
Assumption of liabilities.....	\$ 5,849	\$ —	\$ —
Donations.....	30,277	—	—
Disposal of capital assets.....	(1,296)	—	—
Increase (decrease) in fair value of investments.....	14,235	—	66
Decrease in investments for amortization and accretion.....	—	—	—
Accrual of arbitrage income.....	—	—	—
Long-term debt forgiven.....	284	—	—
<b>Total noncash capital, investing, and financing activities.....</b>	<b><u>\$ 49,349</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 66</u></b>

<b>FUNDS</b>				<b>INTERNAL SERVICE FUNDS</b>
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	
\$ (83,925)	\$ (343)	\$ (39,045)	\$ (181,031)	\$ (2,197)
—	—	(10,187)	(10,187)	—
—	—	—	(81)	14
—	120,171	—	171,188	—
—	—	—	231	—
—	—	13	13	(1,758)
—	—	(102)	(102)	(180)
(9,776)	—	81	(61,731)	(1,105)
5,336	(74,045)	5,087	(75,069)	6,260
—	—	1,763	3,918	153
—	—	—	—	(100)
—	—	—	—	(20)
—	—	—	1,409	—
—	—	—	1,443	—
—	—	—	(61)	—
—	—	(172)	(172)	—
—	—	(18,784)	(18,784)	23,233
—	—	(495)	1,085	(557)
4,925	—	(690)	19,380	147
—	—	—	387	—
—	—	—	(1,480)	—
—	35	373	8,200	367
(1,656)	(378)	203	(6,555)	—
<b>\$ 56,356</b>	<b>\$ 71,849</b>	<b>\$ 35,461</b>	<b>\$ (814,460)</b>	<b>\$ 154,106</b>
\$ —	\$ —	\$ —	\$ 5,849	\$ —
—	—	—	30,277	—
—	—	—	(1,296)	—
—	—	5,029	19,330	3,200
—	—	—	—	(13,472)
—	(1,623)	—	(1,623)	—
—	—	—	284	1,290
<b>\$ —</b>	<b>\$ (1,623)</b>	<b>\$ 5,029</b>	<b>\$ 52,821</b>	<b>\$ (8,982)</b>

# Statement of Fiduciary Net Assets

## FIDUCIARY FUNDS

June 30, 2007

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 6,064,921	\$ 1,559,065	\$ 27,490	\$ 175,425
Receivables, net:				
Accounts.....	—	—	—	5,924
Contributions.....	159,370	—	—	—
Employer long-term.....	867	—	—	—
Accrued interest.....	131,741	6,170	966	1,478
Unsettled investment sales.....	471,858	—	414	—
Other investment receivables.....	18,054	—	—	—
Taxes.....	—	—	—	2,866
Total receivables.....	<u>781,890</u>	<u>6,170</u>	<u>1,380</u>	<u>10,268</u>
Due from other funds.....	<u>8,153</u>	<u>—</u>	<u>—</u>	<u>55,941</u>
Investments, at fair value:				
United States government securities.....	563,024	—	—	—
United States government agencies and government-insured securities.....	3,611,347	224,894	—	—
Corporate bonds.....	3,543,185	434,671	—	—
Financial and other.....	1,314,164	88,828	975,221	29,598
Equities.....	13,156,728	—	—	—
Total investments.....	<u>22,188,448</u>	<u>748,393</u>	<u>975,221</u>	<u>29,598</u>
Securities held in lieu of surety bonds.....	—	—	—	293,468
Invested securities lending collateral.....	5,085,506	133,569	1,244	18,329
Capital assets, net .....	3,577	—	—	—
Prepaid items.....	495	—	—	—
Other assets.....	—	—	5,027	—
<b>Total assets.....</b>	<b><u>34,132,990</u></b>	<b><u>2,447,197</u></b>	<b><u>1,010,362</u></b>	<b><u>583,029</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	7,605	2	809	17,006
Accounts payable—unsettled investment purchases.....	282,602	—	239	—
Due to other funds.....	34,933	—	—	—
Tax refunds payable.....	—	—	—	629
Intergovernmental payables.....	—	—	—	2,492
Deposits.....	—	—	—	2,838
Amounts held in custody for others.....	—	—	—	541,484
Deferred retirement benefits.....	641,750	—	—	—
Securities lending collateral.....	5,085,506	133,569	1,244	18,329
Other liabilities.....	31,814	642	—	251
<b>Total liabilities.....</b>	<b><u>6,084,210</u></b>	<b><u>134,213</u></b>	<b><u>2,292</u></b>	<b><u>583,029</u></b>
<b>NET ASSETS</b>				
Held in trust for:				
Pension benefits.....	28,048,780	—	—	—
External investment pool participants.....	—	2,312,984	—	—
Other purposes.....	—	—	1,008,070	—
<b>Total net assets.....</b>	<b><u>\$ 28,048,780</u></b>	<b><u>\$ 2,312,984</u></b>	<b><u>\$ 1,008,070</u></b>	<b><u>\$ —</u></b>

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, 2007  
(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
<b>Additions:</b>			
Licenses, fees, and permits.....	\$ —	\$ —	\$ 159
Contributions:			
Employer.....	764,115	—	—
Employee.....	578,019	—	—
Deposits from pool participants.....	—	5,615,337	—
Tuition plan deposits.....	—	—	169,583
Total contributions.....	1,342,134	5,615,337	169,583
Investment income:			
Interest income and net appreciation in investments.....	3,422,258	110,636	121,684
Securities lending income.....	293,125	10,954	—
Total investment income.....	3,715,383	121,590	121,684
Less investment expense:			
Investment expense.....	36,147	—	—
Securities lending expense.....	281,435	10,706	—
Net investment income.....	3,397,801	110,884	121,684
Transfers between pension trust funds.....	1,745	—	—
Transfers in.....	1,637	—	597
<b>Total additions.....</b>	<b>4,743,317</b>	<b>5,726,221</b>	<b>292,023</b>
<b>Deductions:</b>			
Regular retirement benefits.....	1,704,424	—	—
Supplemental retirement benefits.....	1,587	—	—
Deferred retirement benefits.....	240,580	—	—
Refunds of retirement contributions to members.....	89,825	—	—
Group life insurance claims.....	18,253	—	—
Accidental death benefits.....	1,198	—	—
Withdrawals, pool participants.....	—	5,278,207	—
Distributions to pool participants.....	—	109,011	—
Depreciation.....	119	—	—
Administrative expense.....	18,754	102	6,250
Payments in accordance with trust agreements.....	—	—	143
Other expenses.....	—	—	77
Transfers between pension trust funds.....	1,745	—	—
<b>Total deductions.....</b>	<b>2,076,485</b>	<b>5,387,320</b>	<b>6,470</b>
<b>Change in net assets.....</b>	<b>2,666,832</b>	<b>338,901</b>	<b>285,553</b>
Net assets at beginning of year.....	25,381,948	1,974,083	722,517
Net assets at end of year.....	<b>\$ 28,048,780</b>	<b>\$ 2,312,984</b>	<b>\$ 1,008,070</b>

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

# Statement of Net Assets

## DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2007

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents.....	\$ 106,179	\$ 157,802	\$ 704	\$ 14,332	\$ 33,172	\$ 312,189
Investments.....	18,326	—	321	—	85,864	104,511
Invested securities lending collateral.....	—	21,506	—	43	901	22,450
Receivables, net						
Accounts .....	167,798	18,611	—	29,679	1,489	217,577
Contributions .....	—	—	—	—	2,689	2,689
Accrued interest .....	4,437	—	—	494	811	5,742
Due from Federal government and other grantors..	—	—	—	—	19	19
Due from primary government.....	—	167,541	—	—	1	167,542
Inventories.....	231,481	4,716	89	2,244	—	238,530
Restricted assets:						
Cash and cash equivalents.....	76,995	—	1,501	411	16,925	95,832
Investments.....	109,666	—	1,017	—	—	110,683
Other.....	—	—	3	—	—	3
Prepaid items.....	3,933	4,172	38	—	146	8,289
Other current assets.....	23,770	—	—	840	318	24,928
Deferred charges.....	—	—	—	—	1,704	1,704
<b>Total current assets.....</b>	<b>742,585</b>	<b>374,348</b>	<b>3,673</b>	<b>48,043</b>	<b>144,039</b>	<b>1,312,688</b>
Long-term assets:						
Receivables, net:						
Accounts.....	—	—	—	—	1,939	1,939
Contributions.....	—	—	—	—	38,229	38,229
Investments.....	79,758	6,206	—	—	683,322	769,286
Restricted assets:						
Cash and cash equivalents.....	53,510	—	567	—	—	54,077
Investments.....	284,664	—	15,879	—	—	300,543
Other.....	—	—	1	—	—	1
Other long-term assets.....	2,424	11,669	—	6,162	12	20,267
Deferred charges.....	493,589	15,715	3,989	—	—	513,293
Investment in joint venture.....	7,672	—	—	—	—	7,672
Non-depreciable capital assets.....	1,387,409	259,325	—	—	8,971	1,655,705
Depreciable capital assets, net.....	2,488,882	244,348	162,651	2,645	736	2,899,262
<b>Total long-term assets.....</b>	<b>4,797,908</b>	<b>537,263</b>	<b>183,087</b>	<b>8,807</b>	<b>733,209</b>	<b>6,260,274</b>
<b>Total assets.....</b>	<b>5,540,493</b>	<b>911,611</b>	<b>186,760</b>	<b>56,850</b>	<b>877,248</b>	<b>7,572,962</b>

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

# Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2007

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable.....	\$ 209,858	\$ 18,267	\$ 70	\$ 3,863	\$ 2,215	\$ 234,273
Accrued salaries and related expenses.....	7,654	1,379	—	771	64	9,868
Accrued interest payable.....	79,742	2,980	—	—	—	82,722
Retainages payable.....	—	170	—	—	—	170
Prizes payable.....	—	—	—	25,692	—	25,692
Intergovernmental payables.....	—	636	—	—	13	649
Policy claims.....	2,402	—	—	—	45,000	47,402
Due to primary government.....	—	—	3,726	21,848	129,600	155,174
Deferred revenues and deferred credits.....	—	—	158	431	25,373	25,962
Deposits.....	—	—	13	—	—	13
Securities lending collateral.....	—	21,506	—	43	901	22,450
Liabilities payable from restricted assets:						
Accounts payable.....	—	—	—	—	226	226
Accrued interest payable.....	—	—	1,766	—	—	1,766
Notes payable.....	—	445	—	—	—	445
Revenue bonds payable.....	76,475	3,330	—	—	—	79,805
Capital leases payable.....	2,738	43	—	—	—	2,781
Commercial paper notes.....	195,072	—	—	—	—	195,072
Compensated absences payable.....	—	2,531	—	425	40	2,996
Other current liabilities.....	64,488	13,064	—	212	447	78,211
<b>Total current liabilities.....</b>	<b>638,429</b>	<b>64,351</b>	<b>5,733</b>	<b>53,285</b>	<b>203,879</b>	<b>965,677</b>
Long-term liabilities:						
Retainages payable.....	63,582	—	—	—	—	63,582
Policy claims.....	—	—	—	—	157,368	157,368
Deferred revenues and deferred credits.....	277,920	—	—	—	—	277,920
Amounts held in custody for others.....	—	—	—	—	2,732	2,732
Notes payable.....	—	1,984	—	—	—	1,984
Revenue bonds payable.....	3,082,795	130,868	289,457	—	—	3,503,120
Capital leases payable.....	7,158	15	—	—	—	7,173
Compensated absences payable.....	15,393	—	—	509	34	15,936
Other long-term liabilities.....	30,830	—	—	—	10,433	41,263
<b>Total long-term liabilities.....</b>	<b>3,477,678</b>	<b>132,867</b>	<b>289,457</b>	<b>509</b>	<b>170,567</b>	<b>4,071,078</b>
<b>Total liabilities.....</b>	<b>4,116,107</b>	<b>197,218</b>	<b>295,190</b>	<b>53,794</b>	<b>374,446</b>	<b>5,036,755</b>
<b>NET ASSETS (DEFICITS)</b>						
Invested in capital assets, net of related debt.....	787,362	366,209	(40,829)	2,645	9,706	1,125,093
Restricted:						
Expendable:						
Education.....	—	—	—	—	221,533	221,533
Capital projects.....	20,854	—	9	—	—	20,863
Debt service.....	84,804	6,227	199	—	—	91,230
Other.....	164,677	—	—	411	2,336	167,424
Nonexpendable, education.....	—	—	—	—	311,777	311,777
Unrestricted.....	366,689	341,957	(67,809)	—	(42,550)	598,287
<b>Total net assets (deficit).....</b>	<b>\$ 1,424,386</b>	<b>\$ 714,393</b>	<b>\$ (108,430)</b>	<b>\$ 3,056</b>	<b>\$ 502,802</b>	<b>\$ 2,536,207</b>

## Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Public Service Authority.....	\$ 1,369,560	\$ 1,421,910	\$ 35,466	\$ —
State Ports Authority.....	110,241	161,244	7,372	168,263
Connector 2000 Association, Inc.....	25,994	5,085	956	—
Lottery Commission.....	995,109	991,739	1,245	—
Nonmajor component units.....	116,186	50,392	168,800	—
<b>Totals.....</b>	<b>\$ 2,617,090</b>	<b>\$ 2,630,370</b>	<b>\$ 213,839</b>	<b>\$ 168,263</b>

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

<b>Net (Expense) Revenue</b>	<b>Net Assets (Deficit) Beginning of Year</b>	<b>Net Assets (Deficit) End of Year</b>
\$ 87,816	\$ 1,336,570	\$ 1,424,386
226,638	487,755	714,393
(19,953)	(88,477)	(108,430)
(2,125)	5,181	3,056
103,006	399,796	502,802
<b>\$ 395,382</b>	<b>\$ 2,140,825</b>	<b>\$ 2,536,207</b>

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## 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, 2007:

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

#### Fiscal year ended December 31, 2006:

- 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 as 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, 2007.

#### *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.

### *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, 2006.

*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

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

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## 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, 2007.

### *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, 2006.

### *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, 2006.

### *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, 2006.

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.

## State of South Carolina

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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, 2006.

### *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 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, 2007, 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. Governments 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, 2007.

##### 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.

### 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 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 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

The State does not depreciate capitalized individual works of art and historical treasures determined to have inexhaustible useful lives and does not capitalize 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, 2007, \$1.269 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. Correction of Error: Housing Authority**

During the fiscal year ended June 30, 2007, the State Housing and Finance Development Authority, a major enterprise fund, determined that revenues and expenses related to its in-house single family mortgage servicing operations were not properly reported in the Authority's financial statements in past fiscal years. In prior years, all activity of the servicing operations was included in the Single Family Finance Programs Fund through increases or decreases to cash with corresponding entries to the mortgage escrow liability account. As a result, certain amounts earned under these servicing activities were not properly recognized by the Authority. These amounts were not significant to the Authority on a year by year basis; however, the single family mortgage servicing activities have grown significantly in recent years and the amounts have now (in aggregate) been deemed significant by the Authority. Additionally, the Authority believes that all associated revenues and expenses (as well as the amounts that the Authority holds in escrow on behalf of the borrowers) should be reported in the Authority's General Operating Fund. The adjustment of \$4.887 million 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.

**b. Change in Reporting Entity: Non-major Enterprise Fund**

Effective June 30, 2006, the board of directors of the MUSC Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF), a non-major enterprise fund, gave consent for dissolution of PEDF and revalued PEDF's assets and liabilities to the amounts expected to be paid during the liquidation. The dissolution of PEDF was subsequently approved by the South Carolina Attorney General on August 21, 2006. The accounting for the dissolution was recorded as of June 30, 2006; however, in the current year there was limited cash flow activity related to the dissolution

of the entity. Therefore, no financial information other than the statement of cash flows for fiscal year 2006-2007 is presented for PEDF.

**c. Change in Reporting Entity: Internal Service Fund**

In prior fiscal years, the Governor’s School for the Arts Foundation was reported as a blended component unit of the South Carolina Governor’s School for the Arts and Humanities and was included in the State’s internal service funds. Due to changes in the organization and operation of the Foundation, it is no longer considered a component unit of the Governor’s School. The removal of the Foundation from the State’s reporting entity resulted in a \$2.633 million decrease to beginning net assets for the governmental activities in the government-wide statements and internal service funds in the proprietary fund statements. Capital assets for governmental activities have been restated by \$8 thousand for machinery and equipment and related accumulated depreciation to reflect this change in reporting entity.

**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, 2007:

<b>Nonmajor Enterprise Funds:</b>	
Patients' Compensation.....	\$ 208,165
Tuition Prepayment Program.....	28,182
<b>Internal Service Funds:</b>	
State Accident Fund.....	107,010
Pension Administration.....	883

Actions taken to eliminate deficits include increase of existing fees, assessment of additional fees, purchase of excess loss reinsurance, and implementation of cost containment programs.

**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 (the 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, 2007 was \$437.461 million and the bank balance was \$812.197 million. As of June 30, 2007, the reported amount of the primary government’s deposits outside of the State Treasurer was \$289.899 million and the bank balance was \$311.040 million. Of the \$197.742 million bank balance exposed to custodial credit risk, \$99.036 million was uninsured and uncollateralized, and \$98.706 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, 2007, the reported amount of the major discretely presented component units' deposits was \$35.298 million and the bank balance was \$36.812 million. Of the \$11.911 million bank balance exposed to custodial credit risk, \$449 thousand was uninsured and uncollateralized; and \$11.462 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, 2007, as follows:

Primary Government Investment Type	Category		Reported Amount
	A	B	
U.S. Treasuries.....	\$ 2,397	\$ 15,079	\$ 17,476
U.S. agencies.....	8,759	8,334	17,093
Corporate bonds.....	—	200	200
Equity securities.....	—	8,996	8,996
Repurchase agreements.....	58,850	36,911	95,761
Asset backed securities.....	4,400	—	4,400
Commercial paper.....	—	32,943	32,943
<b>Totals.....</b>	<b>\$ 74,406</b>	<b>\$ 102,463</b>	<b>\$ 176,869</b>

The State's major discretely presented component units hold investments in U.S. Treasuries that are exposed to custodial credit risk. At June 30 investments with a reported value of \$6.206 million were classified as Category B.

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. Debt investments for the primary government were rated as of June 30, 2007 using the Standard and Poor's rating scale. The following table provides information on investment ratings (expressed in thousands):

## State of South Carolina

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	A-1	Not Rated
Corporate bonds.....	\$ 61,527	\$ 170,418	\$ 532,573	\$ 175,184	\$ 1,893	\$ 462	\$ 11,000	\$ 18,893
Municipal bonds.....	415,761	54,215	24,172	—	—	—	—	33,134
Repurchase agreements.....	1,364,295	—	—	—	—	—	1,128,426	219,946
Asset backed securities.....	498,743	—	13,694	2,909	—	—	—	42,390
Commercial paper.....	—	—	16,000	—	—	—	1,072,180	683
Mutual funds.....	11,290	—	—	—	—	—	—	1,109,123
Yankee bonds.....	20,067	—	10,073	—	—	—	—	—
Corporate private placements.....	14,543	40,276	2,539	1,788	—	—	—	4,411
Guaranteed investment contracts.....	151,009	—	—	—	—	—	—	—
<b>Totals.....</b>	<b>\$ 2,537,235</b>	<b>\$ 264,909</b>	<b>\$ 599,051</b>	<b>\$ 179,881</b>	<b>\$ 1,893</b>	<b>\$ 462</b>	<b>\$ 2,211,606</b>	<b>\$ 1,428,580</b>

At fiscal year end, the State Ports Authority (June 30, 2007), the Public Service Authority (December 31, 2006), and the Connector 2000 Association, Inc. (December 31, 2006), 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 as listed below using the Standard and Poor's rating scale (expressed in thousands):

Investment Type and Fair Value	AAA	A-1	Not Rated
Repurchase agreements.....	\$ 130,337	\$ —	\$ 16,175
Mutual funds.....	2,068	5,246	—
<b>Totals.....</b>	<b>\$ 132,405</b>	<b>\$ 5,246</b>	<b>\$ 16,175</b>

### 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, 2007, 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>U.S. Government</u>		
U.S. Treasuries.....	\$ 19,164	1.00
U.S. agencies.....	2,668,364	3.57
<u>Corporate</u>		
Corporate bonds.....	728,915	2.23
Corporate asset backed.....	526,210	3.39
Private placements.....	40,337	2.72
Yankee bonds.....	30,140	0.43
<u>Short Term Investments</u>		
Commercial paper.....	449,986	0.11
Repurchase agreements.....	1,453,050	0.00
<b>Total Invested Assets.....</b>	<b>\$ 5,916,166</b>	

Agencies that manage their own investments have interest rate risk policies 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, 2007, 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 Type	Fair Value	Investment Maturities (in years)				No Maturity
		Less than 1	1 - 5	6 - 10	More than 10	
U.S. Treasuries.....	\$ 537,114	\$ 274,449	\$ 261,746	\$ 770	\$ 149	\$ —
U.S. agencies.....	400,402	364,431	13,546	1,615	20,810	—
Collateralized mortgage obligations..	1,377	—	—	—	1,377	—
Corporate bonds.....	252,509	191,735	22,640	2,638	34,910	586
Municipal bonds.....	527,282	48,402	155,277	40,127	283,476	—
Equity securities.....	112,810	—	—	—	—	112,810
Repurchase agreements.....	1,259,617	1,259,617	—	—	—	—
Asset backed securities.....	250,511	—	244,591	436	5,484	—
Commercial paper.....	638,877	638,830	—	—	—	47
Mutual funds.....	1,120,413	41,016	4,303	86	55	1,074,953
Corporate private placements.....	23,220	19,783	—	—	3,437	—
Guaranteed investment contracts.....	151,009	88,716	—	—	—	62,293
<b>Totals.....</b>	<b>\$ 5,275,141</b>	<b>\$ 2,926,979</b>	<b>\$ 702,103</b>	<b>\$ 45,672</b>	<b>\$ 349,698</b>	<b>\$ 1,250,689</b>

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2007, 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 Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasuries.....	\$ 251,902	\$ 185,719	\$ 66,183	\$ —	\$ —
U.S. agencies.....	337,272	—	337,272	—	—
Repurchase agreements.....	146,513	130,337	—	—	16,176
Mutual funds.....	7,314	7,314	—	—	—
<b>Totals.....</b>	<b>\$ 743,001</b>	<b>\$ 323,370</b>	<b>\$ 403,455</b>	<b>\$ —</b>	<b>\$ 16,176</b>

#### 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%, except for United States Treasury and 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, 2007, the State Treasurer had approximately 44.9% 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, 2007. At June 30, 2007, 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

## State of South Carolina

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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, 2007, 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% 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, 2007, the State met the 102% 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, 2007, 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, 2007:

	<u>Amount</u>
Securities lent for cash collateral:	
U.S. Treasuries.....	\$ 945,773
U.S. agencies.....	253,458
Corporate bonds.....	1,353
<b>Total for cash collateral.....</b>	<b><u>\$ 1,200,584</u></b>
Cash collateral invested:	
Repurchase agreements.....	\$ 202,935
Corporate bonds.....	574,299
Asset backed securities.....	312,666
Bank obligations.....	141,031
<b>Total collateral invested.....</b>	<b><u>\$ 1,230,931</u></b>

### 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, 2007, the reported amount of the Systems' deposits was \$16.692 million.

##### *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, 2007, 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, 2007 (expressed in thousands), is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
<u>U.S. Government</u>		
U.S. Treasuries.....	\$ 340,536	2.84
U.S. agencies.....	47,793	0.66
<u>Mortgage Backed</u>		
Collateralized mortgage obligations.....	267,543	3.70
Government National Mortgage Association.....	3,558,312	4.79
Federal National Mortgage Association.....	5,254	5.91
<u>Corporate</u>		
Corporate bonds.....	3,655,568	8.73
Corporate asset backed.....	150,927	1.95
Private placements.....	847,150	9.40
<u>Short Term Investments</u>		
Commercial paper.....	313,109	0.08
Repurchase agreements .....	5,413,509	0.00
U.S. Treasury Bills.....	228,244	0.24
U.S. Government Agencies.....	325,941	0.06
<u>Equity</u>		
Domestic.....	4,901,266	Not Required
<u>Commingled Funds</u>		
Common equity funds.....	8,284,196	Not Required
Money market funds.....	2,657	Not Required
<b>Total Invested Assets.....</b>	<b>\$ 28,342,005</b>	

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, 2007, the Systems' applicable debt investments (expressed in thousands) were rated by Standard & Poor's and are presented below:

# State of South Carolina

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	A-1	Not Rated
<b>Fixed Income</b>								
Corporate:								
Corporate bonds.....	\$ 55,840	\$ 156,357	\$ 1,533,349	\$ 1,762,631	\$ 121,171	\$ 6,140	\$ —	\$ 11,942
Corporate asset backed.....	106,245	—	13,439	31,243	—	—	—	—
Private placements.....	50,447	138,622	357,197	242,948	2,996	—	—	54,940
<b>Short Term Investments</b>								
Money market funds.....	343	—	—	—	—	—	—	2,314
Commercial paper.....	—	—	—	—	—	—	313,109	—
Repurchase agreements.....	—	—	—	—	—	—	5,413,509	—
<b>Totals.....</b>	<b>\$ 212,875</b>	<b>\$ 294,979</b>	<b>\$ 1,903,985</b>	<b>\$ 2,036,822</b>	<b>\$ 124,167</b>	<b>\$ 6,140</b>	<b>\$ 5,726,618</b>	<b>\$ 69,196</b>

## 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% exposure to any single issuer, except for United States Treasury and agency obligations. At June 30, 2007, the Systems had approximately 18.43% of its investments in an overnight repurchase agreement with a South Carolina bank that was fully collateralized by United States Treasury and Agency obligations.

## Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Systems participates in foreign markets to diversify assets, reduce risk and enhance returns. Exposure to foreign investments has, to date, been achieved synthetically using financial futures and forwards. Currency forwards are used to manage currency fluctuations and are permitted by investment policy. The policy forbids speculating in forwards and other derivatives. The table below presents the Systems' exposure to foreign currency risk in U.S. dollars as of June 30, 2007, (amounts expressed in thousands):

Currency	Cash	Cash Equivalents	Forward Contracts
Australian Dollar.....	\$ (1,849)	\$ 501	\$ 97,382
British Pound Sterling.....	2,278	(4,277)	431,236
Canadian Dollar.....	1,487	(1,980)	163,639
Euro Currency	17,785	(439)	1,558,815
Hong Kong Dollar.....	236	1,440	—
Japanese Yen.....	(961)	(965)	689,183
<b>Totals.....</b>	<b>\$ 18,976</b>	<b>\$ (5,720)</b>	<b>\$ 2,940,255</b>

## Derivatives

Derivatives are financial instruments whose value is derived from underlying assets or data. They generally take the form of contracts in which two parties agree to make payments at a later date based on the value of the underlying assets or data. The main types of derivatives that are common in today's financial markets are futures, forwards, options, and swaps.

Futures are contractual obligations that require the buyer (seller) to buy (sell) assets at a predetermined date at a predetermined price. These contracts are standardized and traded on an organized exchange with gains and losses settled daily thereby minimizing credit and default risk. To comply with the requirements of multiple exchanges, \$230.000 million in performance bonds (U.S. Treasury Bills) were held in trust by the clearing broker on June 30, 2007. These assets represent the required margin amount to establish the Systems' futures exposure. As of June 30, 2007, the Systems had the following exposure to futures contracts:

<u>Futures Contracts</u>	<u>Expiration</u>	<u>Long/Short</u>	<u>Quantity</u>	<u>Notional Value*</u>
MTF CAC40 10EU	July	Long	1,710	\$ 140,585
EURX DAX INDEX	September	Long	470	128,544
EURX ER STX 50	September	Long	7,181	439,061
NEW FTSE 100	September	Long	2,783	371,097
HKFE - HIS	July	Long	264	36,934
IBEX 35 PLUS	July	Long	250	50,187
IDEM S&P/MIB	September	Long	175	50,199
TSE TOPIX	September	Long	2,370	341,512
ME S&P CAN 60	September	Long	935	141,277
SFE SPI 200	September	Long	745	99,291
Total International Equity				<u>1,798,687</u>
CAN GOVT BOND	September	Long	227	23,612
EURX EUR-BOBL	September	Long	1,185	170,213
EURX EUR-BUND	September	Long	2,440	365,946
EURX E-SHATZ	September	Long	1,631	226,381
TSE 10 YR JGB	September	Long	325	348,297
LIF LONG GILT	September	Long	328	68,346
Total International Fixed Income				<u>1,202,795</u>
S&P 500 INDEX	September	Short	(546)	(206,852)
EMINI S&P 500	September	Short	(9,020)	(683,445)
Total Large Cap Equity				<u>(890,297)</u>
IMM MINI RUSL	September	Short	(181)	(15,242)
IMM EMINI MDCP	September	Short	(179)	(16,185)
Total Small/Mid Cap Equity				<u>(31,427)</u>
<b>Totals</b>				<b><u>\$ 2,079,758</u></b>

\*Notional value is the nominal or face amount that is used to calculate payments made on derivative instruments (futures, forwards, swaps, etc.). This amount generally does not change hands and is thus referred to as notional. The notional amount represents the economic equivalent to an investment in the physical securities represented by the derivative contract.

Forwards are contractual obligations that require the delivery of assets at a fixed price on a predetermined date. These contracts are "over-the-counter" instruments, meaning they are not traded on an organized exchange. As of June 30, 2007, the Systems had the following forward exposures, listed by counterparty:

<u>Broker</u>	<u>Notional Value*</u>	<u>Base Gain/(Loss)</u>	<u>Base Exposure</u>
Morgan Stanley.....	\$ 575,904	\$ (791)	19.33%
Bank of America.....	557,859	417	18.72%
UBS.....	472,028	1,410	15.84%
Royal Bank of Scotland.....	407,331	1,877	13.67%
Brown Brothers Harriman.....	247,756	(1,007)	8.32%
HSBC.....	240,663	1,457	8.08%
Deutsche Bank.....	189,027	(535)	6.34%
Lehman Brothers.....	175,218	531	5.88%
State Street Global Advisors....	92,861	584	3.12%
Goldman Sachs.....	20,966	28	0.70%
<b>Totals.....</b>	<b><u>\$ 2,979,613</u></b>	<b><u>\$ 3,971</u></b>	<b><u>100.00%</u></b>

Counterparty risk, or default risk, is the risk that either party will not honor its contractual obligations. The Systems seeks to actively manage its counterparty risk by thorough analysis and evaluation of all potential counterparties by investment staff and the independent overlay manager. Risk is further minimized through diversification among counterparties with high credit ratings.

As of June 30, 2007, the Systems was exposed to counterparty risk through currency forwards. The Systems does not anticipate any default in our contractual positions.

### Limited Partnerships

To further diversify Systems assets, the Commission approved commitments in private equities. These investments are legally structured as limited partnerships. In this structure, the Systems is one of several limited partners, while the investment manager serves as the general partner. Investing in limited partnerships legally obligates the Systems to invest the committed amount until the investment is fully funded. As of June 30, 2007, the Systems had completed an initial funding of one limited partnership to Aquiline Capital Partners, LP, for \$25.900 million.

### Commitments

During the year and subsequent to year-end, the Systems entered into commitment agreements with numerous investment managers for future funding of various asset classes including private equity, hedge fund and global fixed income investments. There are varying degrees and understandings regarding the commitments across the individual managers. The total amount of investment commitments outstanding as of June 30, 2007 was \$6.457 billion and €55.750 million (Euros), with additional commitments of \$3.030 billion subsequent to year-end. The commitment agreements represent the Investment Commission's continued reallocation and transition efforts for investments.

### 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 (NGRS) 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% 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%.

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, 2007, 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, 2007. At June 30, 2007, 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, 2007:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
Securities lent for cash collateral:						
U.S. Treasuries.....	\$ 282,335	\$ 41,811	\$ 542	\$ 1,671	\$ 214	\$ 326,573
U.S. agencies.....	2,779,436	411,604	5,335	16,454	2,102	3,214,931
Corporate bonds.....	23,198	3,435	45	137	18	26,833
Common stock.....	1,202,491	178,076	2,308	7,118	910	1,390,903
<b>Total securities lent.....</b>	<b>\$ 4,287,460</b>	<b>\$ 634,926</b>	<b>\$ 8,230</b>	<b>\$ 25,380</b>	<b>\$ 3,244</b>	<b>\$ 4,959,240</b>
Cash collateral invested:						
Repurchase agreements.....	\$ 876,952	\$ 129,867	\$ 1,683	\$ 5,191	\$ 664	\$ 1,014,357
Corporate bonds.....	2,008,446	297,428	3,856	11,890	1,519	2,323,139
Asset backed securities.....	1,215,006	179,929	2,332	7,193	919	1,405,379
Bank notes.....	296,218	43,867	569	1,753	224	342,631
<b>Total collateral invested.....</b>	<b>\$ 4,396,622</b>	<b>\$ 651,091</b>	<b>\$ 8,440</b>	<b>\$ 26,027</b>	<b>\$ 3,326</b>	<b>\$ 5,085,506</b>

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, 2007, nineteen 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, 2007, 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, 2007, 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, 2007, for the primary government were as follows:

Allowances for Uncollectibles	Governmental Activities					
	Governmental Funds					Total Governmental Activities
	General	Departmental General Operating	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	
Income taxes receivable.....	\$ 58,649	\$ —	\$ —	\$ —	\$ —	\$ 58,649
Sales and other taxes receivable.....	6,268	25	—	2,847	—	9,140
Patient accounts receivable.....	15,598	35,839	—	—	—	51,437
Loans and notes receivable.....	24	—	—	837	—	861
Other receivables.....	—	12,781	4,397	—	229	17,407
<b>Total allowances for uncollectibles.....</b>	<b>\$ 80,539</b>	<b>\$ 48,645</b>	<b>\$ 4,397</b>	<b>\$ 3,684</b>	<b>\$ 229</b>	<b>\$ 137,494</b>

Business-type Activities (Enterprise Funds)					
Allowances for Uncollectibles	Higher Education	Unemployment Compensation Benefits	Medical University Hospital Authority	Nonmajor Enterprise Funds	Total Business-type Activities
Contributions receivable.....	\$ 543	\$ —	\$ —	\$ 53	\$ 596
Student accounts receivable.....	7,824	—	—	—	7,824
Patient accounts receivable.....	—	—	87,500	72,060	159,560
Loans and notes receivable—restricted.....	723	—	—	296	1,019
Assessments receivable.....	—	6,511	—	—	6,511
Other receivables.....	467	2,430	—	31	2,928
<b>Total allowances for uncollectibles.....</b>	<b>\$ 9,557</b>	<b>\$ 8,941</b>	<b>\$ 87,500</b>	<b>\$ 72,440</b>	<b>\$ 178,438</b>

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, 2007, were as follows:

Governmental Activities							
Governmental Funds							
Net Long-term Receivables	Department of						
	General	Departmental General Operating	Local Government Infrastructure	Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts receivable.....	\$ 177	\$ 21,395	\$ 1,051	\$ —	\$ —	\$ 118	\$ 22,741
Income taxes receivable.....	74,410	—	—	—	—	—	74,410
Sales and other taxes receivable.....	12,204	—	—	—	6,008	—	18,212
Patient accounts receivable.....	8,651	4,117	—	—	—	—	12,768
Loans and notes receivable.....	4	531	442,483	6,709	24,983	—	474,710
Accounts receivable—restricted.....	—	—	446,899	—	—	—	446,899
<b>Total long-term receivables, net.....</b>	<b>\$ 95,446</b>	<b>\$ 26,043</b>	<b>\$ 890,433</b>	<b>\$ 6,709</b>	<b>\$ 30,991</b>	<b>\$ 118</b>	<b>\$ 1,049,740</b>

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, 2007, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes .....	\$ 92,622	\$ 32,475	\$ 125,097
Federal grants.....	—	36,472	36,472
Contributions.....	436,598	22,663	459,261
Departmental services.....	49,829	2,421	52,250
<b>Total deferred revenues.....</b>	<b>\$ 579,049</b>	<b>\$ 94,031</b>	<b>\$ 673,080</b>

**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, 2007 (expressed in thousands) were as follows:

Asset/Restricted For	Govern- mental Activities	Business- type Activities	Major Component Units
<b>Current:</b>			
<b>Cash and cash equivalents</b>			
Debt service.....	\$ 71,971	\$ 87,434	\$ 78,487
Capital projects.....	—	113,951	9
Student loan programs.....	—	238	—
Donor/sponsor specified.....	—	42,341	—
Second Injury Fund claims.....	—	51,775	—
Other.....	—	11,716	411
<b>Total cash and cash equivalents.....</b>	<b>\$ 71,971</b>	<b>\$ 307,455</b>	<b>\$ 78,907</b>
<b>Investments</b>			
Debt service.....	\$ 111,750	\$ 316	\$ 82,583
Donor/sponsor specified.....	—	10,196	—
Endowments.....	—	73	—
Other.....	—	—	28,100
<b>Total investments.....</b>	<b>\$ 111,750</b>	<b>\$ 10,585</b>	<b>\$ 110,683</b>
<b>Loans receivable</b>			
Debt service.....	—	54,776	—
Student loan programs.....	—	120	—
<b>Total loans receivable.....</b>	<b>\$ —</b>	<b>\$ 54,896</b>	<b>\$ —</b>
<b>Other</b>			
Debt service.....	\$ 71,165	\$ 5,315	\$ 3
Donor/sponsor specified.....	—	264	—
Endowments.....	—	3,932	—
Second Injury Fund claims.....	—	619	—
<b>Total other.....</b>	<b>\$ 71,165</b>	<b>\$ 10,130</b>	<b>\$ 3</b>

Asset/Restricted For	Govern- mental Activities	Business- type Activities	Major Component Units
<b>Noncurrent:</b>			
<b>Cash and cash equivalents</b>			
Debt service.....	\$ 354,743	\$ 93,481	\$ 9,633
Capital projects.....	200,024	254,527	44,440
Student loan programs.....	—	10,407	—
Endowments.....	—	53,257	—
Other.....	10,000	78,167	4
<b>Total cash and cash equivalents....</b>	<b>\$ 564,767</b>	<b>\$ 489,839</b>	<b>\$ 54,077</b>
<b>Investments</b>			
Debt service.....	\$ —	\$ 59,646	\$ 62,844
Capital projects.....	—	6	151,171
Student loan programs.....	—	1,038	—
Endowments.....	—	46,521	—
Other.....	—	17	86,528
<b>Total investments.....</b>	<b>\$ —</b>	<b>\$ 107,228</b>	<b>\$ 300,543</b>
<b>Accounts receivable</b>			
Debt service.....	\$ 446,899	\$ —	\$ —
<b>Loans receivable</b>			
Debt service.....	\$ —	\$ 651,481	\$ —
Student loan programs.....	—	54,391	—
<b>Total loans receivable.....</b>	<b>\$ —</b>	<b>\$ 705,872</b>	<b>\$ —</b>
<b>Other</b>			
Debt service.....	\$ 4,820	\$ 353	\$ 1
Capital projects.....	—	24	—
Donor/sponsor specified.....	—	627	—
Endowments.....	—	22,822	—
<b>Total other.....</b>	<b>\$ 4,820</b>	<b>\$ 23,826</b>	<b>\$ 1</b>

**NOTE 7: CAPITAL ASSETS**

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2007, for the primary government was as follows:

	Restated <sup>*</sup> Beginning Balances July 1, 2006	Increases	Decreases	Ending Balances June 30, 2007
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 1,503,998	\$ 66,721	\$ (195)	\$ 1,570,524
Construction in progress.....	3,800,167	344,135	(182,602)	3,961,700
Works of art and historical treasures.....	3,590	361	—	3,951
<i>Total capital assets not being depreciated....</i>	<u>5,307,755</u>	<u>411,217</u>	<u>(182,797)</u>	<u>5,536,175</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	57,077	1,640	—	58,717
Infrastructure (road and bridge network).....	8,492,197	176,612	(5,245)	8,663,564
Buildings and improvements.....	1,583,413	50,974	(3,324)	1,631,063
Vehicles.....	555,191	84,684	(33,024)	606,851
Machinery and equipment.....	429,699	48,597	(23,219)	455,077
Works of art and historical treasures.....	8	—	—	8
Intangibles.....	52,390	1,356	—	53,746
Total capital assets being depreciated, at historical cost.....	<u>11,169,975</u>	<u>363,863</u>	<u>(64,812)</u>	<u>11,469,026</u>
Less accumulated depreciation for:				
Land improvements.....	(38,076)	(1,655)	—	(39,731)
Infrastructure (road and bridge network).....	(2,068,892)	(122,547)	4,086	(2,187,353)
Buildings and improvements.....	(573,892)	(39,948)	2,251	(611,589)
Vehicles.....	(399,664)	(38,827)	29,235	(409,256)
Machinery and equipment.....	(306,283)	(31,604)	21,264	(316,623)
Works of art and historical treasures.....	(2)	—	—	(2)
Intangibles.....	(43,276)	(3,902)	—	(47,178)
Total accumulated depreciation.....	<u>(3,430,085)</u>	<u>(238,483)</u>	<u>56,836</u>	<u>(3,611,732)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>7,739,890</u>	<u>125,380</u>	<u>(7,976)</u>	<u>7,857,294</u>
<b>Capital assets for governmental activities, net.....</b>	<u><b>\$ 13,047,645</b></u>	<u><b>\$ 536,597</b></u>	<u><b>\$ (190,773)</b></u>	<u><b>\$ 13,393,469</b></u>

\* Beginning balances were restated due to removal of capital assets and accumulated depreciation for the Governor's School for the Arts Foundation. See Note 2c.

	Beginning Balances July 1, 2006	Increases	Decreases	Ending Balances June 30, 2007
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 179,690	\$ 35,740	\$ (372)	\$ 215,058
Construction in progress.....	522,507	386,495	(353,457)	555,545
Works of art and historical treasures.....	16,782	164	(15)	16,931
<i>Total capital assets not being depreciated.....</i>	<u>718,979</u>	<u>422,399</u>	<u>(353,844)</u>	<u>787,534</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	81,895	82,666	(5)	164,556
Buildings and improvements.....	3,417,557	293,268	(11,831)	3,698,994
Vehicles.....	42,241	4,166	(2,027)	44,380
Machinery and equipment.....	663,572	96,730	(26,957)	733,345
Works of art and historical treasures.....	12,162	2,548	—	14,710
Intangibles.....	16,860	444	(400)	16,904
Total capital assets being depreciated, at historical cost.....	<u>4,234,287</u>	<u>479,822</u>	<u>(41,220)</u>	<u>4,672,889</u>
Less accumulated depreciation for:				
Land improvements.....	(38,090)	(10,680)	147	(48,623)
Buildings and improvements.....	(1,266,780)	(97,258)	4,098	(1,359,940)
Vehicles.....	(29,850)	(2,801)	1,905	(30,746)
Machinery and equipment.....	(425,467)	(60,372)	23,271	(462,568)
Works of art and historical treasures.....	(5,278)	(388)	—	(5,666)
Intangibles.....	(12,995)	(1,230)	294	(13,931)
Total accumulated depreciation.....	<u>(1,778,460)</u>	<u>(172,729)</u>	<u>29,715</u>	<u>(1,921,474)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,455,827</u>	<u>307,093</u>	<u>(11,505)</u>	<u>2,751,415</u>
<b>Capital assets for business-type activities, net.....</b>	<u><b>\$ 3,174,806</b></u>	<u><b>\$ 729,492</b></u>	<u><b>\$ (365,349)</b></u>	<u><b>\$ 3,538,949</b></u>

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

	Beginning Balances January 1, 2006	Increases	Decreases	Ending Balances December 31, 2006
<b>Public Service Authority:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 98,916	\$ 2,194	\$ (340)	\$ 100,770
Construction in progress.....	1,057,193	577,839	(348,393)	1,286,639
<i>Total capital assets not being depreciated.....</i>	<u>1,156,109</u>	<u>580,033</u>	<u>(348,733)</u>	<u>1,387,409</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements (utility plant).....	4,229,816	332,146	(77,586)	4,484,376
Vehicles.....	39,118	212	(1,225)	38,105
Machinery and equipment.....	20,948	986	(528)	21,406
Intangibles.....	43,439	5,141	(519)	48,061
Total capital assets being depreciated, at historical cost.....	<u>4,333,321</u>	<u>338,485</u>	<u>(79,858)</u>	<u>4,591,948</u>
Less accumulated depreciation for:				
Buildings and improvements (utility plant).....	(1,894,625)	(154,792)	15,616	(2,033,801)
Vehicles.....	(19,631)	(1,856)	1,222	(20,265)
Machinery and equipment.....	(8,865)	(1,056)	526	(9,395)
Intangibles.....	(37,681)	(2,443)	519	(39,605)
Total accumulated depreciation.....	<u>(1,960,802)</u>	<u>(160,147)</u>	<u>17,883</u>	<u>(2,103,066)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,372,519</u>	<u>178,338</u>	<u>(61,975)</u>	<u>2,488,882</u>
<b>Public Service Authority, net.....</b>	<b><u>\$ 3,528,628</u></b>	<b><u>\$ 758,371</u></b>	<b><u>\$ (410,708)</u></b>	<b><u>\$ 3,876,291</u></b>
	Beginning Balances January 1, 2006	Increases	Decreases	Ending Balances December 31, 2006
<b>Connector 2000 Association:</b>				
<i>Capital assets being depreciated:</i>				
Infrastructure (toll road).....	\$ 192,472	\$ 9	\$ —	\$ 192,481
Machinery and equipment.....	586	45	(5)	626
Total capital assets being depreciated, at historical cost.....	<u>193,058</u>	<u>54</u>	<u>(5)</u>	<u>193,107</u>
Less accumulated depreciation for:				
Infrastructure (toll road).....	(24,696)	(5,243)	—	(29,939)
Machinery and equipment.....	(497)	(25)	5	(517)
Total accumulated depreciation.....	<u>(25,193)</u>	<u>(5,268)</u>	<u>5</u>	<u>(30,456)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>167,865</u>	<u>(5,214)</u>	<u>—</u>	<u>162,651</u>
<b>Connector 2000 Association, net.....</b>	<b><u>\$ 167,865</u></b>	<b><u>\$ (5,214)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 162,651</u></b>

	Beginning Balances July 1, 2006	Increases	Decreases	Ending Balances June 30, 2007
<b>State Ports Authority:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 166,731	\$ 3,002	\$ (2,378)	\$ 167,355
Construction in progress.....	58,949	78,202	(47,371)	89,780
Intangibles.....	2,190	—	—	2,190
<i>Total capital assets not being depreciated.....</i>	<u>227,870</u>	<u>81,204</u>	<u>(49,749)</u>	<u>259,325</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	161,593	7,345	—	168,938
Buildings and improvements.....	269,764	1,484	(617)	270,631
Machinery and equipment.....	103,792	37,538	(2,405)	138,925
Intangibles.....	692	184	—	876
Total capital assets being depreciated, at historical cost.....	<u>535,841</u>	<u>46,551</u>	<u>(3,022)</u>	<u>579,370</u>
Less accumulated depreciation for:				
Land improvements.....	(105,282)	(6,349)	—	(111,631)
Buildings and improvements.....	(149,638)	(9,992)	581	(159,049)
Machinery and equipment.....	(57,460)	(8,892)	2,405	(63,947)
Intangibles.....	(281)	(114)	—	(395)
Total accumulated depreciation.....	<u>(312,661)</u>	<u>(25,347)</u>	<u>2,986</u>	<u>(335,022)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>223,180</u>	<u>21,204</u>	<u>(36)</u>	<u>244,348</u>
<b>State Ports Authority, net.....</b>	<b><u>\$ 451,050</u></b>	<b><u>\$ 102,408</u></b>	<b><u>\$ (49,785)</u></b>	<b><u>\$ 503,673</u></b>

	Beginning Balances July 1, 2006	Increases	Decreases	Ending Balances June 30, 2007
<b>Lottery Commission:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and improvements.....	\$ 700	\$ 255	\$ —	\$ 955
Vehicles.....	69	—	—	69
Machinery and equipment.....	20,322	551	(19)	20,854
Total capital assets being depreciated, at historical cost.....	<u>21,091</u>	<u>806</u>	<u>(19)</u>	<u>21,878</u>
Less accumulated depreciation for:				
Buildings and improvements.....	(528)	(133)	—	(661)
Vehicles.....	(69)	—	—	(69)
Machinery and equipment.....	(14,926)	(3,593)	16	(18,503)
Total accumulated depreciation.....	<u>(15,523)</u>	<u>(3,726)</u>	<u>16</u>	<u>(19,233)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>5,568</u>	<u>(2,920)</u>	<u>(3)</u>	<u>2,645</u>
<b>Lottery Commission, net.....</b>	<b><u>\$ 5,568</u></b>	<b><u>\$ (2,920)</u></b>	<b><u>\$ (3)</u></b>	<b><u>\$ 2,645</u></b>

During the fiscal year ended June 30, 2007, depreciation expense was charged to functions of the primary government and its major discretely presented component units as shown on the following page (expressed in thousands):

	<b>Governmental Funds</b>	<b>Internal Service Funds</b>	<b>Total Governmental Activities</b>
General government.....	\$ 14,876	\$ 8,928	\$ 23,804
Education.....	23,006	1,303	24,309
Health and environment.....	11,458	1,130	12,588
Social services.....	367	1,349	1,716
Administration of justice.....	22,160	1,026	23,186
Resources and economic development.....	14,958	206	15,164
Transportation.....	137,716	—	137,716
Total depreciation expense, governmental activities.....	<u>\$ 224,541</u>	<u>\$ 13,942</u>	<u>\$ 238,483</u>

	<b>Business- type Activities</b>
Higher Education.....	\$ 145,049
Housing Authority.....	126
Medical University Hospital Authority...	22,945
Education Assistance Authority.....	92
Other.....	4,517
<b>Total depreciation expense, business-type activities.....</b>	<b><u>\$ 172,729</u></b>

Included in the \$4.517 million for other business-type activities is depreciation expense of \$866 thousand that is reported in nonoperating revenues (expenses) in the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds.

	<b>Major Component Units</b>
Public Service Authority.....	\$ 160,147
State Ports Authority.....	25,347
Connector 2000 Association, Inc.....	5,268
Lottery Commission.....	3,726

At June 30, 2007, the primary government had outstanding construction commitments totaling \$700.243 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled \$60.445 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 \$184 thousand at June 30, 2007, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: \$556.180 million for the Public Service Authority at December 31, 2006, and \$10.274 million for the State Ports Authority at June 30, 2007.

The total interest expense incurred by the State’s enterprise and internal service funds during the current fiscal year was \$142.723 million and \$2.173 million, respectively. Of the amount incurred by the State’s enterprise funds, \$14.339 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 \$185.505 million during its fiscal year ended December 31, 2006, 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 \$6.789 million during its fiscal year ended June 30, 2007, of which \$1.611 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 Systems), 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 South Carolina National Guard members. The plan had been closed to new entrants since July 1, 1993; however, legislation reopened the plan effective January 1, 2007. 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

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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, 2007, is as follows:

	SCRS	PORS	GARS	JSRS	NGPS
<b>State and school</b>					
Number of employers.....	105	5	1	1	1
Annual covered payroll.....	\$ 5,055,714	\$ 350,845	\$ 3,191	\$ 15,894	N/A <sup>a</sup>
Average number of contributing members....	143,283	10,500	170	128	N/A <sup>b</sup>
<b>Other participating employers</b>					
Number of employers.....	579	270	—	—	—
Annual covered payroll.....	\$ 1,666,090	\$ 580,962	\$ —	\$ —	\$ —
Average number of contributing members....	52,823	15,861	—	—	—

<sup>a</sup> Annual covered payroll is not applicable for NGPS because it is based on years of service rather than payroll.

<sup>b</sup> Members do not contribute; average number of members is 11,088.

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, 2007, were as follows:

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

Actuarially determined employer contribution rates, expressed as percentages of compensation, for the fiscal year ended June 30, 2007, were as follows:

Plan	Rate
SCRS	8.20%
PORS	10.70%
GARS	73.90%
JSRS	42.10%

The State appropriated \$3.948 million to fund the NGPS actuarially determined employer contribution for the fiscal year ended June 30, 2007.

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, 2007, were \$845 thousand for SCRS and \$22 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:

	<u>GARS</u>	<u>JSRS</u>	<u>NGPS</u>
Annual pension cost.....	\$2,358	\$6,706	\$3,022
Employer contributions made.....	\$2,358	\$6,706	\$3,948
Actuarial valuation date.....	July 1, 2006	July 1, 2006	July 1, 2006
Actuarial cost method.....	Entry age	Entry age	Entry age
Amortization method.....	Level percent, closed	Level percent, open	Level dollar open
Remaining amortization period.....	19 years	29 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%	None
Assumed inflation rate.....	3.00%	3.00%	3.00%
Assumed cost-of-living adjustments...	None	3.25%	None

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2007 (expressed in thousands):

	<u>NGPS</u>
Actuarially required contribution (ARC).....	\$ 3,022
Interest on the NPO.....	574
Adjustment to the ARC.....	(643)
Annual pension cost.....	2,953
Contributions made.....	(3,948)
Decrease in NPO.....	(995)
NPO beginning of year.....	7,866
<b>NPO end of year.....</b>	<b>\$ 6,871</b>

**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.

	<u>Fiscal Year Ended</u>					
	<u>June 30, 2007</u>		<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	Required	Contributed	Required	Contributed	Required	Contributed
SCRS–State:		%		%		%
Primary government.....	\$ 202,865	100.0%	\$ 184,109	100.0%	\$ 177,112	100.0%
Component units.....	11,614	100.0%	10,517	100.0%	10,253	100.0%
PORS–State:						
Primary government.....	39,589	100.0%	37,256	100.0%	32,813	100.0%
Component units.....	72	100.0%	54	100.0%	51	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	2005	\$ 2,890	100.0%	\$ —
	2006	2,171	100.0%	—
	2007	2,358	100.0%	—
JSRS	2005	6,260	100.0%	—
	2006	6,511	100.0%	—
	2007	6,706	100.0%	—
NGPS	2005	2,887	69.2%	8,978
	2006	2,969	132.8%	7,866
	2007	3,948	130.6%	6,871

**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	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%
	2006	22,293,446	32,018,519	9,725,073	69.6%	6,733,379	144.4%
PORS	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%
	2006	2,935,841	3,466,281	530,440	84.7%	931,815	56.9%

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	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%
	2006	46,075	69,734	23,659	66.1%	3,854	613.9%
JSRS	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%
	2006	124,837	211,384	86,547	59.1%	15,929	543.3%

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	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
	2006	14,046	48,755	34,709	28.8%	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, 2007, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
<b>Receivables:</b>						
Contributions.....	\$ 143,392	\$ 15,348	\$ 61	\$ 569	\$ —	\$ 159,370
Employer long-term.....	845	22	—	—	—	867
Accrued interest.....	114,178	16,592	222	669	80	131,741
Unsettled investment sales.....	418,554	50,017	787	2,160	340	471,858
Other investment receivables..	15,987	1,948	33	83	3	18,054
<b>Total receivables.....</b>	<b>\$ 692,956</b>	<b>\$ 83,927</b>	<b>\$ 1,103</b>	<b>\$ 3,481</b>	<b>\$ 423</b>	<b>\$ 781,890</b>
<b>Due from other funds.....</b>	<b>\$ 7,487</b>	<b>\$ 526</b>	<b>\$ 4</b>	<b>\$ 136</b>	<b>\$ —</b>	<b>\$ 8,153</b>
<b>Investments and invested securities lending collateral:</b>						
United States government securities.....	\$ 489,589	\$ 69,349	\$ 960	\$ 2,822	\$ 304	\$ 563,024
United States government agencies and government-insured securities.....	3,122,153	462,357	5,993	18,482	2,362	3,611,347
Corporate bonds.....	3,063,224	453,630	5,880	18,134	2,317	3,543,185
Financial and other.....	1,136,519	167,886	2,183	6,719	857	1,314,164
Equities.....	11,668,536	1,398,188	22,514	60,219	7,271	13,156,728
Invested securities lending collateral.....	4,396,622	651,091	8,440	26,027	3,326	5,085,506
<b>Total investments.....</b>	<b>\$ 23,876,643</b>	<b>\$ 3,202,501</b>	<b>\$ 45,970</b>	<b>\$ 132,403</b>	<b>\$ 16,437</b>	<b>\$ 27,273,954</b>

#### 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 9,049 members were participating in the TERI program at June 30, 2007. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2007, was as follows:

Beginning balance of TERI trust accounts..	\$	670,527
Additions .....		240,580
TERI distributions at termination.....		(269,357)
<b>Ending balance of TERI trust accounts</b>	<b>\$</b>	<b>641,750</b>

**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, 2007:

Covered payroll.....	\$	715,979
Employee contributions.....		46,539
Employer contributions.....		35,799

**NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

In accordance with the South Carolina Code of Laws and the annual Appropriations 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, 30,246 State retirees meet these eligibility requirements.

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, 2007, the State recognized expenses (net of participant contributions) of \$130.003 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 \$201.183 million at June 30, 2007, 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):

<u>Fiscal Year Ended June 30</u>	<u>Beginning-of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2006	\$ 251,956	\$ 11,205	\$ (48,510)	\$ 214,651
2007	214,651	20,518	(33,986)	201,183

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 \$198.778 million at June 30, 2007, 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.

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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 2007, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2007, \$25.611 million relates to group life and long-term disability insurance coverage and \$7.854 million relates to the HMO self-insured managed care plan liability. The State does not discount its claims liabilities for health and dental insurance coverage to present value.

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

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2006	\$ 184,928	\$ 1,222,827	\$ (1,213,995)	\$ 193,760
2007	193,760	1,329,600	(1,324,582)	198,778

### 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, 2007, the Fund's policy claims liability was \$159.191 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
2006	\$ 127,366	\$ 50,780	\$ (50,637)	\$ 127,509
2007	127,509	81,970	(50,287)	159,192

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. 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. The policy claims liabilities were \$198.622 million for the PCF at June 30, 2007, and \$202.368 million for the JUA at December 31, 2006, 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 2006.

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, 2006, the policy claims liabilities were \$2.402 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

<u>Fiscal Year Ended December 31</u>	<u>Beginning-of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2005	\$ 2,375	\$ 1,724	\$ (1,502)	\$ 2,597
2006	2,597	1,375	(1,570)	2,402

**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, 2007 (expressed in thousands) for the primary government and the State’s discretely presented component units were as follows:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
2008	\$ 663	\$ 8,773	\$ 9,436
2009	286	7,739	8,025
2010	144	6,816	6,960
2011	5	4,422	4,427
2012	—	3,268	3,268
2013-2017	—	21,180	21,180
2018-2022	—	5,568	5,568
2023-2027	—	493	493
2028-2032	—	394	394
<b>Total minimum payments.....</b>	<b>1,098</b>	<b>58,653</b>	<b>59,751</b>
Less: interest and executory costs.....	(159)	(12,584)	(12,743)
<b>Present value of net minimum payments.....</b>	<b>\$ 939</b>	<b>\$ 46,069</b>	<b>\$ 47,008</b>

<u>Fiscal Year Ending December 31</u>	<u>Public Service Authority</u>
2007	\$ 3,335
2008	3,038
2009	2,737
2010	1,934
2011	1,610
2012-2016	2,619
<b>Total minimum payments.....</b>	<b>15,273</b>
Less: interest and executory costs.....	(5,377)
<b>Present value of net minimum payments.....</b>	<b>\$ 9,896</b>

Fiscal Year Ending June 30	State Ports Authority
2008	\$ 47
2009	15
<b>Total minimum payments.....</b>	<b>62</b>
Less: interest and executory costs.....	(4)
<b>Present value of net minimum payments.....</b>	<b>\$ 58</b>

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2007, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Primary Government			Component Units	
	Governmental Activities	Business- type Activities	Totals	Public Service Authority	State Ports Authority
Land and non-depreciable improvements.....	\$ —	\$ 9,497	\$ 9,497	\$ —	\$ —
Buildings and improvements.....	6,540	67,766	74,306	89,500	—
Machinery and equipment.....	2,648	46,120	48,768	—	185
Works of art and historical treasures.....	—	330	330	—	—
<b>Assets acquired under capital leases before accumulated amortization.....</b>	<b>9,188</b>	<b>123,713</b>	<b>132,901</b>	<b>89,500</b>	<b>185</b>
Less: accumulated amortization.....	(4,373)	(42,810)	(47,183)	(81,900)	(136)
<b>Assets acquired under capital leases, net.....</b>	<b>\$ 4,815</b>	<b>\$ 80,903</b>	<b>\$ 85,718</b>	<b>\$ 7,600</b>	<b>\$ 49</b>

For the primary government's fiscal year ended June 30, 2007, minimum rental payments under operating leases were \$78.992 million and contingent rental payments were \$9.814 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 \$7.300 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$1.064 million. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$717 thousand.

At June 30, 2007, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) were as follows:

<u>Fiscal Year Ending June 30</u>	<u>Primary Government</u>	<u>Component Unit Lottery Commission</u>
2008	\$ 43,411	\$ 665
2009	39,877	685
2010	31,555	701
2011	23,389	705
2012	16,891	640
2013-2017	30,225	2,173
2018-2022	13,160	—
2023-2027	4,796	—
2028-2032	567	—
2033-2037	500	—
2038-2042	100	—
<b>Total minimum payments.....</b>	<b>\$ 204,471</b>	<b>\$ 5,569</b>

<u>Fiscal Year Ending December 31</u>	<u>Public Service Authority</u>
2007	\$ 5,200
2008	4,900
2009	296
<b>Total minimum payments.....</b>	<b>\$ 10,396</b>

**b. Facilities Leased to Others**

At June 30, 2007, 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 \$479.280 million and related accumulated depreciation of \$214.423 million. Future minimum rental payments to be received at June 30, 2007, under these operating leases (expressed in thousands) were as follows:

<u>Fiscal Year Ending June 30</u>	<u>State Ports Authority</u>
2008	\$ 35,315
2009	34,267
2010	23,153
2011	9,563
2012	6,770
2013-2017	1,722
2018-2022	908
2023-2027	500
2028-2032	500
2033-2037	217
<b>Total.....</b>	<b>\$ 112,915</b>

**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, 2007, were:

<b>Governmental Activities</b>	
Capital improvement bonds, 1.75% to 5.90%, maturing serially through 2019.....	\$ 603,762
State highway bonds, 2.00% to 6.50%, maturing serially through 2023.....	663,582
State school facilities bonds, 3.00% to 5.75%, maturing serially through 2018.....	523,305
Infrastructure Bank bonds, 3.00% to 5.00%, maturing through 2028.....	55,491
State economic development bonds, 1.00% to 6.75%, maturing serially through 2031.....	227,992
Research university infrastructure bonds, 3.00% to 6.25%, maturing serially through 2021.....	140,733
<b>Subtotal—governmental activities.....</b>	<b><u>2,214,865</u></b>
<b>Business-type Activities, Higher Education Fund</b>	
State institution bonds, 2.50% to 6.25%, maturing serially through 2027.....	356,795
<b>Total—general obligation bonds payable.....</b>	<b><u>\$ 2,571,660</u></b>

At June 30, 2007, \$6.344 million of capital improvement bonds, \$42.185 million of State economic development bonds, and \$35.850 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2007, future debt service requirements (expressed in thousands) for general obligation bonds were:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities (Higher Education Fund)</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 199,225	\$ 97,591	\$ 18,835	\$ 15,314
2009	204,699	88,593	19,370	14,495
2010	187,500	79,197	19,440	13,654
2011	184,485	70,409	20,030	12,813
2012	175,205	61,765	20,580	11,935
2013-2017	837,220	188,929	113,880	45,374
2018-2022	355,775	45,807	91,835	21,449
2023-2027	47,480	7,530	53,580	5,117
2028-2031	17,585	1,131	—	—
<b>Total debt service requirements.....</b>	<b><u>2,209,174</u></b>	<b><u>\$ 640,952</u></b>	<b><u>357,550</u></b>	<b><u>\$ 140,151</u></b>
Unamortized premiums.....	15,933		269	
Deferred amount on refunding...	(10,242)		(1,024)	
<b>Total principal outstanding.....</b>	<b><u>\$ 2,214,865</u></b>		<b><u>\$ 356,795</u></b>	

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, 2007, was \$50.249 million in total for all institution bonds, \$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. South Carolina State University exceeded its legal debt service limit on its State institution bonds by approximately \$530 thousand at June 30, 2007. The University will adjust tuition fees in subsequent years to cover the debt requirement.

**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, 2007, which are reported in the internal service funds, totaled \$10.985 million and mature serially through 2016. Interest rates on these bonds ranged from 4.00% to 6.10%.

At June 30, 2007, 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, 2007, future debt service requirements (expressed in thousands) for limited obligation bonds were:

<u>Year Ending June 30</u>	<b>Governmental Activities (Internal Service Funds)</b>	
	<b>Principal</b>	<b>Interest</b>
2008	\$ 1,640	\$ 542
2009	1,730	465
2010	1,200	384
2011	1,280	322
2012	1,345	256
2013-2016	3,835	337
<b>Total debt service requirements.....</b>	<b>11,030</b>	<b>\$ 2,306</b>
Unamortized discounts.....	(45)	
<b>Total principal outstanding.....</b>	<b>\$ 10,985</b>	

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, 2007, were:

	<u>Bonds</u>	<u>Notes</u>
<b>Primary Government:</b>		
<b>Governmental Activities:</b>		
Infrastructure Bank bonds, 3.00% to 6.00%, maturing serially through 2033.....	\$ 2,162,973	\$ —
Tobacco Authority bonds, 6.00% to 7.67%, maturing serially through 2030...	769,755	—
Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022.....	20,287	—
Educational Television Network note, 3.29%, maturing in 2008.....	—	760
Education Department note, 3.29%, maturing in 2011.....	—	545
Corrections Department note, 3.34%, maturing in 2008.....	—	571
Probation Parole and Pardon Department note, 4.04%, maturing in 2012.....	—	241
Budget and Control Board bond and notes, 3.00% to 5.00%, maturing through 2018.....	20,757	13,505
<b>Totals—governmental activities.....</b>	<b><u>2,973,772</u></b>	<b><u>15,622</u></b>
<b>Business-type Activities:</b>		
Higher Education Fund bonds and notes, 2.00% to 7.75%, maturing serially through 2035.....	492,224	104,594
Housing Authority Fund bonds, 2.60% to 8.30%, maturing serially through 2037.....	699,023	—
Medical University Hospital Authority bonds and note, 3.92% to 5.38%, maturing through 2034.....	475,246	18,662
Education Assistance Authority Fund bonds, 3.50% to 6.30%, maturing serially through 2026.....	1,025,897	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 3.00% to 8.00%, maturing through 2025.....	16,754	43,198
Direct note obligations, 5.82% to 6.82%, maturing serially through 2027.....	—	86,903
<b>Totals—business-type activities.....</b>	<b><u>2,709,144</u></b>	<b><u>253,357</u></b>
<b>Totals—primary government.....</b>	<b><u>\$ 5,682,916</u></b>	<b><u>\$ 268,979</u></b>
<b>Major Discretely Presented Component Units:</b>		
Public Service Authority bonds, 2.50% to 7.42%, maturing serially through 2039.....	<u>\$ 3,159,270</u>	<u>\$ —</u>
State Ports Authority bonds and notes, 3.78% to 5.92%, maturing serially through 2028.....	<u>\$ 134,198</u>	<u>\$ 2,429</u>
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%, maturing serially through 2038.....	<u>\$ 289,457</u>	<u>\$ —</u>

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. The swap agreement was terminated on December 7, 2006 at a termination value of \$692 thousand. As of that date, the Bank had received net revenues of \$2.900 million since the inception of the interest rate swap.

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 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, 2007, the Bank made variable bond interest payments of \$13.379 million and fixed rate payments on the exchange agreement of \$13.998 million. The Bank received variable swap payments on the exchange agreement of \$13.049 million. The June 30, 2007, mark to market value of this swap was \$1.740 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

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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, 2007, are as follows: Series 1994 obligations—\$8.650 million; Series 1999A obligations—\$33.650 million; and Series 1999B obligations—\$39.300 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$9.950 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, 2007, were 3.75% for the 1994 obligations, 3.75% for the 1999A obligations, and 3.84% 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, 2007, 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 \$1.770 million on the 1994 obligations, \$6.561 million on the 1999A obligations, and \$5.131 million for the 1999B obligations as of June 30, 2007. 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, 2007, was \$9.355 million, and the variable rate in effect at that date was 3.77%. 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, 2007, the swap had a fair value of approximately \$175 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, 2007 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, 2007, the swaps have fair values of approximately \$1.484 million and \$637 thousand.

As of June 30, 2007, debt service requirements of the UMA and the Corporation variable rate debt and net swap payments (expressed in thousands), assuming current interest rates remain the same for their term, were as follows:

Year Ending June 30	Variable Rate Notes		Interest Rate	Totals
	Principal	Interest	Swaps, Net	
2008	\$ 3,595	\$ 3,418	\$ 2,034	\$ 9,047
2009	4,045	3,279	1,973	9,297
2010	4,195	3,125	1,906	9,226
2011	4,450	2,965	1,831	9,246
2012	4,310	2,796	1,757	8,863
2013-2017	21,960	11,289	7,451	40,700
2018-2022	25,550	7,386	4,853	37,789
2023-2027	22,850	2,080	1,212	26,142
<b>Totals.....</b>	<b>\$ 90,955</b>	<b>\$ 36,338</b>	<b>\$ 23,017</b>	<b>\$ 150,310</b>

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  
 Heritage Trust bonds: revenues derived from portion of State Deed Recording Fee dedicated to the Heritage Land Trust Fund  
 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, 2007, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2007, 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:

Year Ending June 30	Primary Government			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 51,320	\$ 150,830	\$ 68,247	\$ 118,585
2009	47,070	148,435	151,537	137,831
2010	52,605	145,976	123,623	127,572
2011	54,655	143,258	68,691	122,414
2012	57,997	140,325	83,557	118,992
2013-2017	410,980	646,684	412,270	540,295
2018-2022	584,255	517,756	490,856	442,467
2023-2027	674,710	352,839	1,012,614	271,589
2028-2032	724,330	156,981	352,825	101,272
2033-2037	272,640	22,761	196,818	20,290
2038	17,370	391	5,640	154
<b>Total debt service requirements.....</b>	<b>2,947,932</b>	<b>\$ 2,426,236</b>	<b>2,966,678</b>	<b>\$ 2,001,461</b>
Net unamortized premiums.....	80,344		20,152	
Deferred amount on refunding.....	(38,882)		(24,329)	
<b>Total principal outstanding.....</b>	<b>\$ 2,989,394</b>		<b>\$ 2,962,501</b>	

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, 2006, the carrying value of the Public Service Authority's debt was \$3.270 billion while the fair value was approximately \$3.600 billion. At June 30, 2007, the carrying value of the State Ports Authority debt was \$135.992 million while the fair value was approximately \$132.446 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, 2007, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

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Year Ending December 31	Major Component Units					
	Public Service Authority		Connector 2000 Assoc.		State Ports Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 76,475	\$ 159,642	\$ —	\$ 3,530	\$ 3,775	\$ 6,640
2008	100,420	157,447	6,200	3,508	3,860	6,426
2009	95,225	152,583	6,700	3,461	4,050	6,202
2010	110,695	147,341	7,300	3,411	4,255	5,966
2011	112,985	141,220	8,100	3,358	4,470	5,719
2012-2016	730,820	607,930	55,400	15,886	24,839	24,645
2017-2021	903,357	394,955	87,700	14,072	31,190	17,320
2022-2026	448,546	216,486	122,000	11,740	34,495	7,184
2027-2031	317,185	133,067	161,600	8,643	25,000	—
2032-2036	267,235	57,542	192,000	4,598	—	—
2037-2040	96,987	5,380	99,100	446	—	—
<b>Total debt service requirements.....</b>	<b>3,259,930</b>	<b>\$ 2,173,593</b>	<b>746,100</b>	<b>\$ 72,653</b>	<b>135,934</b>	<b>\$ 80,102</b>
Unamortized premiums (discounts)...	124,502		(456,643)		693	
Deferred amount on refunding.....	(225,162)		—		—	
<b>Total principal outstanding.....</b>	<b>\$ 3,159,270</b>		<b>\$ 289,457</b>		<b>\$ 136,627</b>	

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, 2007, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government.....	\$ 50,386
Transportation.....	102,698
<b>Total allocated interest expense..</b>	<b>\$ 153,084</b>

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, 2007, \$4.500 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 February 2007, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, issued \$102.015 million in revenue refunding bonds to refund \$98.855 million of revenue bonds. The Bank used the net proceeds 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 \$4.017 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2033 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next 25 years by approximately \$12.563 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$8.548 million.

During November 2006, Coastal Carolina University, included in the Higher Education major enterprise fund, issued bonds to refund portions of earlier issues. Proceeds from the sale were placed in an irrevocable trust that is to be used to service the future debt requirements of the earlier bond issues. This refunding resulted in an economic gain and reduced future cash requirements to pay off the debt. The economic gain realized in this refunding was \$603 thousand, and cash flow savings netted to \$954 thousand. In prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2007, \$12.240 million of bonds outstanding are considered defeased, which includes the bonds considered defeased during the current year.

During its fiscal year ended December 31, 2006, the Public Service Authority, a major discretely presented component unit, issued \$114.800 million in refunding revenue bonds with an average interest rate of 4.87% to refund \$115.005 million in revenue bonds with an average interest rate of 5.53%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7.054 million. This difference, reported in the accompanying financial

statements as a deduction from bonds payable, is being charged to operations through the year 2035 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next 30 years by approximately \$11.200 million and to obtain an economic gain of approximately \$8.100 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, 2007, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Totals— Primary Government</b>
Capital improvement bonds.....	\$ 40,310	\$ —	\$ 40,310
State highway bonds.....	46,175	—	46,175
State school facilities bonds.....	59,515	—	59,515
Infrastructure Bank bonds.....	837,500	—	837,500
Higher Education Fund bonds...	—	224,305	224,305
<b>Totals.....</b>	<b>\$ 983,500</b>	<b>\$ 224,305</b>	<b>\$ 1,207,805</b>

In addition, at December 31, 2006, \$115.005 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, 2007, are reported as other liabilities of \$503 thousand in the Local Government Infrastructure Fund, and as other liabilities payable from restricted assets of \$5.650 million and other liabilities of \$691 thousand 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, 2007, the outstanding balance of bonds issued was \$285.767 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, 2007, the outstanding balance of bonds issued after June 30, 1995, was \$3.156 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, 2007, the outstanding balance of bonds issued was \$268.470 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, 2007, was \$2.870 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 \$5.087 million in the 1993-1994 through 2005-2006 fiscal years, and \$420 thousand in the 2006-2007 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity.

The 2007-2008 Appropriations Act directs the State Treasurer's Office to carry forward \$3.500 million of Excess Debt Service funds from fiscal year 2006-2007 to provide for retirement of the entire outstanding amount of Series 1990 South Carolina Resources Authority Revenue Bonds. This retirement shall not discharge the Town of New Ellenton of its requirement to make court ordered payments to the South Carolina Resources Authority.

### **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, 2007, 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, 2007 are reported as notes payable. Other relevant information regarding these accounts is provided below.

The State Housing Finance and Development Authority, a major enterprise fund, executed a revolving Mortgage Prepayment Refunding Note with a commercial bank, the purpose of which is to function as a vehicle to preserve the federally limited tax-exempt private activity volume cap pursuant to the federal tax code. The Authority expects to draw down on the note twice each year at or near debt service payment dates. The amount outstanding at any given time is not to exceed \$21.000 million. No amounts had been drawn on the note as of June 30, 2007.

The University Medical Associates of the Medical University of South Carolina, a blended component unit and nonmajor enterprise fund, has a \$10.000 million line of credit from a commercial bank. There were no advances under this line of credit during the year ended June 30, 2007.

The Public Service Authority, a discretely presented component unit, has recorded a \$195.072 million liability for commercial paper notes at its fiscal year ended December 31, 2006. 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. There were no borrowings under the agreement during 2006.

The Ports Authority, a discretely presented component unit, has a \$10.000 million revolving line of credit from a commercial bank. There are no borrowings under the line of credit as of June 30, 2007.

### **j. Subsequent Events**

Since June 30, 2007, the State's primary government has issued \$360.870 million in revenue bonds, which are reported in the State's business-type activities.

Since June 30, 2007, the Public Service Authority, a major discretely presented component unit, issued \$440.495 in revenue bonds. Of the total revenue bonds issued by the Public Service Authority, \$97.970 million were to refund prior issues.

On July 2, 2007, the State Housing Finance and Development Authority, a major enterprise fund, drew down \$9.850 million from the Mortgage Prepayment Refunding Note entered into on June 28, 2007. The draw was redeemed on September 28, 2007.

**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, 2007, were:

	Balances at July 1, 2006	Increases	Decreases	Balances at June 30, 2007	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities</b>					
Policy claims.....	\$ 549,456	\$ 1,444,805	\$ (1,415,141)	\$ 579,120	\$ 472,374
Notes payable.....	\$ 21,021	\$ 1,726	\$ (7,125)	\$ 15,622	\$ 4,610
General obligation bonds payable.....	\$ 2,401,124	\$ —	\$ (191,950)	\$ 2,209,174	\$ 199,225
Unamortized discounts and premiums.....	17,327	—	(1,394)	15,933	—
Deferred amount on refunding.....	(13,332)	—	3,090	(10,242)	—
Total general obligation bonds payable....	\$ 2,405,119	\$ —	\$ (190,254)	\$ 2,214,865	\$ 199,225
Tobacco Authority bonds payable.....	\$ 796,900	\$ —	\$ (27,145)	\$ 769,755	\$ —
Revenue bonds payable.....	\$ 21,115	\$ 20,295	\$ (1,320)	\$ 40,090	\$ 2,355
Unamortized discounts and premiums.....	1,054	(8)	(92)	954	—
Total revenue bonds payable.....	\$ 22,169	\$ 20,287	\$ (1,412)	\$ 41,044	\$ 2,355
Infrastructure Bank bonds payable.....	\$ 1,887,725	\$ 388,370	\$ (153,630)	\$ 2,122,465	\$ 44,355
Unamortized discounts and premiums.....	72,037	9,456	(2,103)	79,390	—
Deferred amount on refunding.....	(42,056)	(4,149)	7,323	(38,882)	—
Total Infrastructure Bank bonds payable....	\$ 1,917,706	\$ 393,677	\$ (148,410)	\$ 2,162,973	\$ 44,355
Limited obligation bonds payable.....	\$ 15,350	\$ —	\$ (4,320)	\$ 11,030	\$ 1,640
Unamortized discounts and premiums.....	(59)	—	14	(45)	—
Total limited obligation bonds payable.....	\$ 15,291	\$ —	\$ (4,306)	\$ 10,985	\$ 1,640
Capital leases payable.....	\$ 1,894	\$ —	\$ (955)	\$ 939	\$ 544
Compensated absences payable.....	\$ 202,068	\$ 122,313	\$ (108,760)	\$ 215,621	\$ 121,184
National Guard Retirement System net pension obligation payable.....	\$ 7,866	\$ —	\$ (995)	\$ 6,871	\$ —
Judgments and contingencies payable.....	\$ 42,074	\$ 6,756	\$ (17,060)	\$ 31,770	\$ 8,076
Arbitrage payable.....	\$ 233	\$ 270	\$ —	\$ 503	\$ —

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.

State of South Carolina

	Balances at July 1, 2006	Increases	Decreases	Balances at June 30, 2007	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Business-type Activities</b>					
Policy claims.....	\$ 217,407	\$ 23,776	\$ (42,561)	\$ 198,622	\$ 30,000
Notes payable.....	\$ 248,477	\$ 33,044	\$ (27,406)	\$ 254,115	\$ 15,556
Deferred amount on refunding.....	(896)	—	50	(846)	—
Unamortized discounts and premiums.....	93	—	(5)	88	—
Total notes payable.....	\$ 247,674	\$ 33,044	\$ (27,361)	\$ 253,357	\$ 15,556
General obligation bonds payable.....	\$ 250,425	\$ 126,125	\$ (19,000)	\$ 357,550	\$ 18,835
Deferred amount on refunding.....	(1,105)	—	81	(1,024)	—
Unamortized discounts and premiums.....	194	93	(18)	269	—
Total general obligation bonds payable....	\$ 249,514	\$ 126,218	\$ (18,937)	\$ 356,795	\$ 18,835
Revenue bonds payable.....	\$ 2,539,153	\$ 295,175	\$ (121,765)	\$ 2,712,563	\$ 52,691
Deferred amount on refunding.....	(25,213)	—	1,730	(23,483)	—
Unamortized discounts and premiums.....	18,412	2,443	(791)	20,064	—
Total revenue bonds payable.....	\$ 2,532,352	\$ 297,618	\$ (120,826)	\$ 2,709,144	\$ 52,691
Capital leases payable.....	\$ 44,987	\$ 13,486	\$ (12,404)	\$ 46,069	\$ 6,591
Compensated absences payable.....	\$ 116,602	\$ 84,535	\$ (73,891)	\$ 127,246	\$ 68,112
Arbitrage payable.....	\$ 7,984	\$ —	\$ (1,643)	\$ 6,341	\$ —

	Balances at January 1, 2006	Increases	Decreases	Balances at December 31, 2006	Amounts Due Within One Year
<b>Major Component Units:</b>					
<b>Public Service Authority</b>					
Policy claims.....	\$ 2,597	\$ 1,375	\$ (1,570)	\$ 2,402	\$ 2,402
Revenue bonds payable.....	\$ 2,714,897	\$ 802,375	\$ (257,342)	\$ 3,259,930	\$ 76,475
Deferred amount on refunding.....	(239,310)	(7,054)	21,202	(225,162)	—
Unamortized discounts and premiums.....	101,141	34,095	(10,734)	124,502	—
Total revenue bonds payable.....	\$ 2,576,728	\$ 829,416	\$ (246,874)	\$ 3,159,270	\$ 76,475
Capital leases payable.....	\$ 11,937	\$ —	\$ (2,041)	\$ 9,896	\$ 2,738
Compensated absences payable.....	\$ 14,224	\$ 2,695	\$ (1,526)	\$ 15,393	\$ —

**Connector 2000 Association, Inc.**

Revenue bonds payable.....	\$ 746,100	\$ —	\$ —	\$ 746,100	\$ —
Unamortized discounts and premiums.....	(469,513)	12,870	—	(456,643)	—
Total revenue bonds payable.....	\$ 276,587	\$ 12,870	\$ —	\$ 289,457	\$ —

	Balances at July 1, 2006	Increases	Decreases	Balances at June 30, 2007	Amounts Due Within One Year
<b>State Ports Authority</b>					
Notes payable.....	\$ 2,874	\$ —	\$ (445)	\$ 2,429	\$ 445
Revenue bonds payable.....	\$ 136,660	\$ —	\$ (3,155)	\$ 133,505	\$ 3,330
Unamortized discounts and premiums.....	739	—	(46)	693	—
Total revenue bonds payable.....	\$ 137,399	\$ —	\$ (3,201)	\$ 134,198	\$ 3,330
Capital leases payable.....	\$ 98	\$ —	\$ (40)	\$ 58	\$ 43
Compensated absences payable.....	\$ 2,356	\$ 1,969	\$ (1,794)	\$ 2,531	\$ 2,531
<b>Lottery Commission</b>					
Notes payable.....	\$ 882	\$ —	\$ (882)	\$ —	\$ —
Compensated absences payable.....	\$ 875	\$ 466	\$ (407)	\$ 934	\$ 425

**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, 2007, 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, 2006	Increases	Decreases	Balances at June 30, 2007
<b>Primary Government:</b>				
<b>Business-type Activities</b>				
Revenue bond anticipation notes payable.....	\$ 6,855	\$ 4,500	\$ (6,855)	\$ 4,500
Letter of credit.....	\$ 2,000	\$ —	\$ (2,000)	\$ —

	Balances at January 1, 2006	Increases	Decreases	Balances at December 31, 2006
<b>Major Component Unit:</b>				
<b>Public Service Authority</b>				
Commercial paper notes.....	\$ 285,449	\$ 51,159	\$ (141,536)	\$ 195,072

**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, 2007, the following amounts of fund balance in governmental funds (expressed in thousands) were reserved:

	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
<b>Fund balances reserved for:</b>						
General reserve fund.....	\$ 167,732	\$ —	\$ —	\$ —	\$ —	\$ 167,732
Inventories.....	15,385	22,003	—	5,511	88	42,987
Interfund receivables.....	1,333	—	277,641	—	3,212	282,186
Appropriations to be carried forward .....	225,645	—	—	—	—	225,645
Endowments .....	—	—	—	—	2,386	2,386
Long-term loans and notes receivable .....	4	531	442,483	6,709	24,147	473,874
Debt requirements.....	—	—	1,180,967	—	154,066	1,335,033
School building aid .....	3,058	—	—	—	33,342	36,400
<b>Total reserved fund balances.....</b>	<b>\$ 413,157</b>	<b>\$ 22,534</b>	<b>\$ 1,901,091</b>	<b>\$ 12,220</b>	<b>\$ 217,241</b>	<b>\$ 2,566,243</b>

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, 2007, the Reserve’s balance was \$167.732 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 \$111.821 million to be used in fiscal year 2007-2008 for specific capital projects.

The State also intends to use the remaining \$567.959 million of fund balance in the General Fund to pay for selected recurring and nonrecurring items in fiscal year 2007-2008.

**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, 2007 (expressed in thousands):

<u>Funds</u>	<u>Due From</u>	<u>Due To</u>
General		
Departmental General Operating.....	\$ 36,461	\$ 21,379
Local Government Infrastructure.....	—	4,806
Department of Transportation Special Revenue..	—	12,879
Nonmajor governmental funds.....	41	10,093
Higher Education.....	—	3,357
Unemployment Compensation.....	3,685	—
Nonmajor enterprise funds.....	819	—
Internal service.....	—	5,260
Fiduciary.....	—	32,518
	41,006	90,292
Departmental General Operating		
General.....	21,379	36,461
Department of Transportation Special Revenue..	203	—
Nonmajor governmental funds.....	1,092	2,048
Higher Education.....	—	4,235
Education Assistance Authority.....	—	146
Nonmajor enterprise funds.....	76	127
Internal service.....	278	4,730
Fiduciary.....	—	14,856
	23,028	62,603
Local Government Infrastructure		
General.....	4,806	—
Department of Transportation Special Revenue..	8,239	1,000
Fiduciary.....	—	36
	13,045	1,036

<u>Funds</u>	<u>Due From</u>	<u>Due To</u>
Department of Transportation Special Revenue Fund		
General.....	12,879	—
Departmental General Operating.....	—	203
Local Government Infrastructure.....	1,000	8,239
Nonmajor governmental funds.....	—	3
Higher Education.....	—	33
Unemployment Compensation.....	—	1
Internal service.....	—	225
Fiduciary.....	—	5,856
	<u>13,879</u>	<u>14,560</u>
State Tobacco Settlement		
Internal service.....	—	1
Nonmajor Governmental Funds		
General.....	10,093	41
Departmental General Operating.....	2,048	1,092
Department of Transportation Special Revenue.....	3	—
Nonmajor governmental funds.....	1,365	1,365
Higher Education.....	50	41,466
Nonmajor enterprise funds.....	14	—
Internal service.....	28	755
Fiduciary.....	—	998
	<u>13,601</u>	<u>45,717</u>
Higher Education		
General.....	3,357	—
Departmental General Operating.....	4,235	—
Department of Transportation Special Revenue.....	33	—
Nonmajor governmental funds.....	41,466	50
Hospital Authority.....	7,818	—
Nonmajor enterprise funds.....	1,853	9,559
Internal service.....	4	1,068
Fiduciary.....	—	7,454
	<u>58,766</u>	<u>18,131</u>
Unemployment Compensation Benefits		
General.....	—	3,685
Department of Transportation Special Revenue.....	1	—
	<u>1</u>	<u>3,685</u>
Housing Authority		
Internal service.....	—	26
Medical University Hospital Authority		
Higher Education.....	—	7,818
Nonmajor enterprise funds.....	1,583	—
	<u>1,583</u>	<u>7,818</u>
Education Assistance Authority		
Departmental General Operating.....	146	—
Nonmajor Enterprise Funds		
General.....	—	819
Departmental General Operating.....	127	76
Nonmajor governmental funds.....	—	14
Higher Education.....	9,559	1,853
Hospital Authority.....	—	1,583
Internal service.....	—	235
Fiduciary.....	—	105
	<u>9,686</u>	<u>4,685</u>

Funds	Due From	Due To
Internal Service		
General.....	5,260	—
Departmental General Operating.....	4,730	278
Department of Transportation Special Revenue..	225	—
State Tobacco Settlement.....	1	—
Nonmajor governmental funds.....	755	28
Higher Education.....	1,068	4
Housing Authority.....	26	—
Nonmajor enterprise funds.....	235	—
Internal service.....	266	266
Fiduciary.....	34,258	1,596
	<u>46,824</u>	<u>2,172</u>
Fiduciary		
General.....	32,518	—
Departmental General Operating.....	14,856	—
Local Government Infrastructure.....	36	—
Department of Transportation Special Revenue..	5,856	—
Nonmajor governmental funds.....	998	—
Higher Education.....	7,454	—
Nonmajor enterprise funds.....	105	—
Internal service.....	1,596	34,258
Fiduciary.....	675	675
	<u>64,094</u>	<u>34,933</u>
<b>Totals.....</b>	<b><u>\$ 285,659</u></b>	<b><u>\$ 285,659</u></b>

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.....	\$ 5,470	\$ —	\$ —
Nonmajor governmental funds.....	350	—	—
Higher Education.....	488	—	359
Internal service.....	2,896	—	974
	<u>9,204</u>	<u>—</u>	<u>1,333</u>
Departmental General Operating			
General.....	—	5,470	—
Nonmajor governmental funds.....	180	389	—
Higher Education.....	400	—	—
Nonmajor enterprise funds.....	125	—	—
Internal service.....	—	3,000	—
	<u>705</u>	<u>8,859</u>	<u>—</u>
Local Government Infrastructure			
Department of Transportation Special Revenue..	303,241	—	277,641
Department of Transportation Special Revenue Fund			
Local Government Infrastructure.....	—	303,241	—

Funds	Interfund Receivables	Interfund Payables	Receivables Long-term Portion
Nonmajor Governmental Funds			
General.....	—	350	—
Departmental General Operating.....	389	180	317
Nonmajor governmental funds.....	68	68	50
Higher Education.....	2,620	—	2,196
Internal service.....	865	19,795	649
	<u>3,942</u>	<u>20,393</u>	<u>3,212</u>
Higher Education			
General.....	—	488	—
Departmental General Operating.....	—	400	—
Nonmajor governmental funds.....	—	2,620	—
Nonmajor enterprise funds.....	—	37,641	—
	<u>—</u>	<u>41,149</u>	<u>—</u>
Nonmajor Enterprise Funds			
Departmental General Operating.....	—	125	—
Higher Education.....	37,641	—	—
Internal service.....	—	10,289	—
	<u>37,641</u>	<u>10,414</u>	<u>—</u>
Internal Service			
General.....	—	2,896	—
Departmental General Operating.....	3,000	—	3,000
Nonmajor governmental funds.....	19,795	865	18,410
Nonmajor enterprise funds.....	10,289	—	10,289
Internal service.....	206	206	106
	<u>33,290</u>	<u>3,967</u>	<u>31,805</u>
<b>Totals.....</b>	<b><u>\$ 388,023</u></b>	<b><u>\$ 388,023</u></b>	<b><u>\$ 313,991</u></b>

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:

- \$303.241 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.
- \$19.795 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.
- \$10.289 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.
- \$37.641 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, 2007 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental General Operating.....	\$ 25,420	\$ 118,047
Local Government Infrastructure.....	—	1,064
Department of Transportation Special Revenue.....	1,647	9,941
State Tobacco Settlement.....	—	180
Nonmajor governmental funds.....	318	142,041
Higher Education.....	—	847,624
Unemployment Compensation Benefits.....	1,850	2,400
Housing Authority.....	—	1,618
Nonmajor enterprise funds.....	—	2,958
Internal service.....	—	73,463
Fiduciary.....	—	2,234
	29,235	1,201,570
Departmental General Operating		
General.....	118,047	25,420
Local Government Infrastructure.....	19	—
Department of Transportation Special Revenue.....	69	—
State Tobacco Settlement.....	75	37
Nonmajor governmental funds.....	24,655	23,122
Higher Education.....	18,865	86
Housing Authority.....	250	—
Nonmajor enterprise funds.....	452	—
Internal service.....	5,751	2,298
	168,183	50,963
Local Government Infrastructure		
General.....	1,064	—
Departmental General Operating.....	—	19
Department of Transportation Special Revenue.....	—	1,000
	1,064	1,019
Department of Transportation Special Revenue Fund		
General.....	9,941	1,647
Departmental General Operating.....	—	69
Local Government Infrastructure.....	1,000	—
	10,941	1,716
State Tobacco Settlement		
General.....	180	—
Departmental General Operating.....	37	75
Higher Education.....	182	240
	399	315
Nonmajor Governmental Funds		
General.....	142,041	318
Departmental General Operating.....	23,122	24,655
Nonmajor governmental funds.....	2,771	2,771
Higher Education.....	6,738	124,556
Housing Authority.....	—	391
Nonmajor enterprise funds.....	—	2
Internal service.....	261	1,730
	174,933	154,423
Higher Education		
General.....	847,624	—
Departmental General Operating.....	86	18,865
State Tobacco Settlement.....	240	182
Nonmajor governmental funds.....	124,556	6,738
Medical University Hospital Authority.....	1,523	—
Nonmajor enterprise funds.....	30,656	—
	1,004,685	25,785
Unemployment Compensation Benefits		
General.....	2,400	1,850

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Housing Authority		
General.....	1,618	—
Departmental General Operating.....	—	250
Nonmajor governmental funds.....	391	—
	<u>2,009</u>	<u>250</u>
Medical University Hospital Authority		
Higher Education.....	—	1,523
Nonmajor enterprise funds.....	—	688
	<u>—</u>	<u>2,211</u>
Nonmajor Enterprise Funds		
General.....	2,958	—
Departmental General Operating.....	—	452
Nonmajor governmental funds.....	2	—
Higher Education.....	—	30,656
Medical University Hospital Authority.....	688	—
	<u>3,648</u>	<u>31,108</u>
Internal Service		
General.....	73,463	—
Departmental General Operating.....	2,298	5,751
Nonmajor governmental funds.....	1,730	261
Internal service.....	16,790	16,790
	<u>94,281</u>	<u>22,802</u>
Fiduciary		
General.....	2,234	—
Fiduciary.....	1,745	1,745
	<u>3,979</u>	<u>1,745</u>
<b>Totals.....</b>	<b><u>\$ 1,495,757</u></b>	<b><u>\$ 1,495,757</u></b>

The State routinely 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. Significant nonroutine transfers (i.e., \$5.000 million or more) that occurred during the fiscal year ended June 30, 2007, included transfers of fiscal year 2005-2006 unobligated General Fund revenue mandated by Proviso 73.14 of the 2006-2007 Appropriations Act. The most significant of these transfers included \$64.635 million to the Waste Management Fund (a non-major governmental fund), \$50.838 million to the Insurance Reserve Fund (an internal service fund), \$13.355 million to the State Accident Fund (an internal service fund), and \$9.408 million to the Public Telecommunications Fund (a non-major governmental fund).

**NOTE 16: 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, 2007, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	<b>Scholarship Allowances</b>
Charges for services.....	\$ 305,239
Operating revenues pledged for revenue bonds.....	20,817
Other operating revenues.....	18,608
<b>Total .....</b>	<b><u>\$ 344,664</u></b>

For the fiscal year ended June 30, 2007, the State’s enterprise funds presented \$950.622 million included in net charges for services after provisions for contractual and other adjustments in the amount of \$1.050 billion and uncollectible accounts in the amount of \$119.375 million.

**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, 2007, \$18.337 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, \$83 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, 2007, the predominant policy was to authorize the spending of 4.00% 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, 2007, 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, 2007, are presented below:

**CONDENSED STATEMENT OF NET ASSETS**

	<u>Single Family</u>	<u>Mortgage Revenue</u>
<b>Assets</b>		
Current restricted assets.....	\$ 12,613	\$ 88,091
Other current assets.....	—	952
Noncurrent restricted assets.....	202,962	593,097
Other assets.....	780	4,988
Total assets.....	<u>216,355</u>	<u>687,128</u>
<b>Liabilities</b>		
Current liabilities payable from restricted assets.....	2,658	37,957
Other current liabilities.....	39	177
Noncurrent liabilities.....	<u>102,703</u>	<u>573,960</u>
Total liabilities.....	<u>105,400</u>	<u>612,094</u>
<b>Net assets</b>		
Restricted and expendable for:		
Debt service.....	2,658	33,637
Bond reserves.....	3,209	8,331
Special programs.....	<u>105,088</u>	<u>33,066</u>
<b>Total net assets.....</b>	<b><u>\$ 110,955</u></b>	<b><u>\$ 75,034</u></b>

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

	<u>Single Family</u>	<u>Mortgage Revenue</u>
<b>Operating revenues:</b>		
Pledged revenues:		
Interest on loans.....	\$ 6,556	\$ 30,829
Income on deposit.....	2,055	9,362
Other revenues:		
Administrative fees and other.....	39	234
Total operating revenues.....	<u>8,650</u>	<u>40,425</u>
<b>Operating expenses:</b>		
Bond issuance cost amortization.....	65	687
Other operating expenses.....	5,622	32,706
Total operating expenses.....	<u>5,687</u>	<u>33,393</u>
Operating income.....	<u>2,963</u>	<u>7,032</u>
<b>Transfers:</b>		
Transfers in.....	430	—
Transfers out.....	<u>(2,881)</u>	<u>(4,834)</u>
Increase in net assets.....	512	2,198
Beginning net assets (restated).....	110,443	72,836
<b>Ending net assets.....</b>	<b><u>\$ 110,955</u></b>	<b><u>\$ 75,034</u></b>

**CONDENSED STATEMENT OF CASH FLOWS**

	<b>Single Family</b>	<b>Mortgage Revenue</b>
Net cash provided (used) by:		
Operating activities.....	\$ 3,540	\$ (93,780)
Noncapital financing activities.....	(11,107)	(11,081)
Investing activities.....	2,100	9,761
Net decrease.....	(5,467)	(95,100)
Beginning cash and cash equivalents (restated).....	50,322	243,329
<b>Ending cash and cash equivalents.....</b>	<b>\$ 44,855</b>	<b>\$ 148,229</b>

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, 2006, the Authority received distributions of \$27.420 million from TEA and recognized \$31.021 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, 2006, the Authority had a payable to TEA of \$9.700 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately \$4.200 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  
301 West Bay Street, Suite 2600  
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 \$497.500 million, accumulated depreciation of \$272.000 million, and expenses of \$53.400 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 2006 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as \$178.900 million in 2006 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 2006 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled \$128.600 million (adjusted to market) at December 31, 2006, 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, 2007, the Educational Television Endowment of South Carolina, Inc., disbursed \$5.509 million on behalf of the Departmental General Operating Fund, a major governmental fund, for programs, development, advertising, and other costs.

The following organizations are related to the Higher Education Fund, a major enterprise fund: the University of South Carolina Development Foundation; the University of South Carolina Business Partnership Foundation; the University of South Carolina Research Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the Lancaster County Educational Foundation, Inc.; the Clemson University Research Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the MUSC Foundation of the Medical University of South Carolina; the Medical University of South Carolina Foundation for Research Development; the Coastal Educational Foundation, Inc.; the Coastal Carolina University Student Housing Foundation; the Horry County Higher Education Commission; the College of Charleston Foundation; the Winthrop University Foundation; the Winthrop University Real Estate Foundation; the Francis Marion University Foundation; the Francis Marion University Student Housing LLC; The Citadel Foundation; The Citadel Alumni Association; The Citadel's Brigadier Foundation; South Carolina State Educational Foundation; the Lander Foundation; Aiken Technical College Foundation, Inc.; Florence-Darlington Technical College Foundation; Horry-Georgetown Technical College Foundation; Greenville Tech Foundation, Inc.; Midlands Technical College Foundation; Orangeburg-Calhoun Technical College Foundation; Piedmont Technical College Foundation; 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, 2007, 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—\$53.944 million; donations of cash and other assets from foundations—\$125.472 million; expenditures paid to foundations—\$3.052 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$5.022 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, 2007, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC—\$11.057 million; notes receivable from SLC—\$813.683 million; program revenue from SLC—\$37.182 million; reimbursements to SLC for administrative costs—\$5.280 million; and payable to SLC—\$37.249 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 \$14.951 million during the Authority's fiscal year ended December 31, 2006.

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, 2007.

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 \$268.328 million during the fiscal year ended June 30, 2007; the Commission owed an additional \$21.848 million to the Fund at June 30, 2007.

#### **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, 2006, were as follows (expressed in thousands):

Customer	Revenue	% of Total Sales Revenue
Central Electric Power Cooperative, Inc.....	\$ 722,000	51.5%
Alumax of South Carolina, Inc.....	147,000	10.5%

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

## State Ports Authority

During the fiscal year ended June 30, 2007, one customer accounted for approximately 18% 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 \$151.448 million and Due to Primary Government was \$155.174 million, a difference of \$3.726 million. This situation occurred because the Connector 2000 Association, Inc. reports using a fiscal year ending December 31. At December 31, 2006, the Connector 2000 Association, Inc. owed the Department of Transportation Special Revenue Fund \$3.726 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, 2007, are several that challenge the legality of certain taxes. The challenged revenues include the sales tax on diabetic supplies, allegedly exempt materials and equipment and installment contracts that subsequently became bad debts 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 \$49.3 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 have refunded approximately \$38 million including \$900 thousand in interest during the fiscal years 2005-2006 and 2006-2007. The Supreme Court also remanded the question whether the Systems are liable for the plaintiffs' attorney fees. The plaintiffs requested \$20 million in attorney's fees and the trial court awarded approximately \$9 million in favor of the plaintiffs. The Systems and the plaintiffs have appealed. Oral arguments were held before the Supreme Court in September 2007. 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 \$20 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 \$7 million in addition to the \$20 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 \$25 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 were filed in July 2007, but the Court denied the motions. The plaintiffs, the House and the Senate have appealed to the Supreme Court and a briefing is to be completed in April 2008. 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. In the fourth unrelated case, the plaintiffs contend that a beachfront home and lot on Sullivan's Island and a condominium building on the Isle of Palms are threatened by erosion and need large sandbags to protect them temporarily until re-nourishment. The suits also challenge the constitutionality of the Beachfront Management Act and request damages.

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 paragraph discusses the most significant of these cases.

Landowners located along the Santee River contend that the Authority is liable for damage to their real estate because of flooding that has occurred since the U. S. Army Corps of Engineers completed its Cooper River Rediversion Project in 1985. A 1997 trial returned a jury verdict against the Authority on certain causes of action. The Authority appealed the decision and the case was remanded to District Court. In 2006, the Corps and the Authority moved to intervene and transfer the District Court action to the Court of Federal Claims. The District Court has denied the motion and the issue is on appeal to the US Court of Appeals. 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, the State believes that any such disallowances relating to the fiscal year ended June 30, 2007, 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, 2007, these loans totaled \$2.514 billion. The United States Department of Education reinsures 100% of losses under these guarantees for loans made prior to October 1, 1993; 98% of losses for loans made on or after October 1, 1993, but before October 1, 1998; and 95% for loans made on or after October 1, 1998. If the loan default rate exceeds 5% of the loans in repayment status, the United States Department of Education decreases the reinsurance rate. The State's default rate during the fiscal year ended June 30, 2007, was less than 1%.

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, 2006, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$1.129 billion for coal. In addition, minimum obligations under purchased power contracts were approximately \$72.975 million at December 31, 2006, with a remaining term of twenty-eight 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, 2006, these commitments totaled approximately \$64.400 million over the next eight 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 on two of the units in 2008, and on the third unit in 2013.

#### **Major Discretely Presented Component Unit—Lottery Commission**

At June 30, 2007, the Lottery Commission had a remaining commitment of \$7.425 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 \$1.734 billion for certain highway and transportation facilities projects. At June 30, 2007, the remaining commitments for these agreements totaled \$670.619 million.

At June 30, 2007, the Department of Commerce had outstanding commitments of \$105.854 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, 2007, the Budget and Control Board had outstanding commitments of \$65.493 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects.

The State Housing Finance and Development Authority had \$5.395 million in outstanding commitments for special initiatives under the Program Fund at June 30, 2007. The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of \$20.221 million at June 30, 2007, 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, 2006. Debt service on the bonds will increase sharply beginning in January 2008 as principal begins to mature. Unless revenues increase sharply in the future, management of the Association estimates that within five years the reserve funds will be depleted and the Association will be unable to pay the principal and interest on the bonds in full. Management is investigating the possibility of restructuring its long term debt.