
**BASIC
FINANCIAL STATEMENTS**

Statement of Net Assets

June 30, 2008

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 3,677,634	\$ 1,353,234	\$ 5,030,868	\$ 338,786
Investments.....	—	90,126	90,126	100,748
Invested securities lending collateral.....	1,121,612	119,682	1,241,294	51,495
Receivables, net:				
Accounts.....	247,147	116,080	363,227	213,533
Contributions.....	—	12,914	12,914	3,278
Participants.....	—	13,381	13,381	—
Accrued interest.....	38,305	12,275	50,580	4,519
Income taxes.....	387,455	—	387,455	—
Sales and other taxes.....	534,033	—	534,033	—
Student accounts.....	1	46,717	46,718	—
Patient accounts.....	13,103	164,107	177,210	—
Loans and notes.....	33,940	75,274	109,214	—
Assessments.....	—	50,858	50,858	—
Due from Federal government and other grantors.....	808,029	106,258	914,287	16
Internal balances.....	(40,504)	40,504	—	—
Due from component units.....	26,978	136,716	163,694	—
Due from primary government.....	—	—	—	167,542
Inventories.....	36,836	39,051	75,887	315,835
Restricted assets:				
Cash and cash equivalents.....	82,390	476,274	558,664	138,460
Investments.....	6,829	9,437	16,266	91,516
Loans receivable.....	—	19,582	19,582	—
Other.....	72,207	3,903	76,110	30
Prepaid items.....	18,831	33,328	52,159	8,119
Other current assets.....	—	2,021	2,021	27,793
Deferred charges.....	—	—	—	1,804
Total current assets.....	<u>7,064,826</u>	<u>2,921,722</u>	<u>9,986,548</u>	<u>1,463,474</u>

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

Statement of Net Assets (Continued)

June 30, 2008

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term assets:				
Investments.....	\$ 396,879	\$ 47,050	\$ 443,929	\$ 770,243
Receivables, net:				
Accounts.....	19,314	1,515	20,829	1,679
Contributions.....	—	327	327	36,629
Participants.....	—	9,904	9,904	—
Income taxes.....	54,607	—	54,607	—
Sales and other taxes.....	40	—	40	—
Patient accounts.....	13,427	—	13,427	—
Loans and notes.....	506,044	952,118	1,458,162	—
Restricted assets:				
Cash and cash equivalents.....	400,594	343,901	744,495	92,330
Investments.....	—	99,359	99,359	269,088
Accounts receivable.....	417,319	—	417,319	—
Receivable from endowments.....	—	27,264	27,264	—
Loans receivable.....	—	899,505	899,505	—
Other.....	3,988	1,183	5,171	439
Prepaid items.....	—	12,988	12,988	—
Other long-term assets.....	771	33,308	34,079	16,433
Deferred charges.....	27,178	12,192	39,370	496,251
Investment in joint venture.....	—	—	—	7,651
Non-depreciable capital assets.....	5,601,474	693,291	6,294,765	1,263,728
Depreciable capital assets, net.....	8,110,663	3,284,268	11,394,931	3,704,426
Total long-term assets.....	<u>15,552,298</u>	<u>6,418,173</u>	<u>21,970,471</u>	<u>6,658,897</u>
Total assets.....	<u>22,617,124</u>	<u>9,339,895</u>	<u>31,957,019</u>	<u>8,122,371</u>

Continued on Next Page

Statement of Net Assets (Continued)

June 30, 2008

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 890,330	\$ 177,270	\$ 1,067,600	\$ 203,447
Accrued salaries and related expenses.....	129,819	94,058	223,877	10,733
Accrued interest payable.....	32,553	13,059	45,612	91,814
Retainages payable.....	3,680	22,865	26,545	1,962
Tax refunds payable.....	589,713	7,815	597,528	—
Payables-aid to individuals/families.....	1,801	—	1,801	—
Prizes payable.....	—	—	—	29,477
Unemployment benefits payable.....	—	2,675	2,675	—
Intergovernmental payables.....	556,742	3,885	560,627	288
Tuition benefits payable.....	—	9,119	9,119	—
Policy claims.....	485,792	20,000	505,792	37,140
Due to component units.....	167,542	—	167,542	—
Due to primary government.....	—	—	—	160,922
Unearned revenues and deferred credits.....	239,907	140,650	380,557	27,509
Deposits.....	—	7,684	7,684	14
Amounts held in custody for others.....	—	10,704	10,704	1,292
Securities lending collateral.....	1,121,612	119,682	1,241,294	51,495
Liabilities payable from restricted assets:				
Accounts payable.....	—	—	—	1,893
Accrued interest payable.....	26,432	37,041	63,473	1,766
Notes payable.....	—	50,000	50,000	—
Bonds payable.....	40,750	26,170	66,920	—
Other.....	—	55,260	55,260	—
Notes payable.....	5,479	26,178	31,657	350
General obligation bonds anticipation notes payable.....	—	30,000	30,000	—
General obligation bonds payable.....	204,698	19,860	224,558	—
Tobacco Authority bonds payable.....	23,005	—	23,005	—
Revenue bonds payable.....	2,525	32,183	34,708	111,410
Limited obligation bonds payable.....	1,730	—	1,730	—
Capital leases payable.....	262	9,008	9,270	2,579
Commercial paper notes.....	—	—	—	283,252
Compensated absences payable.....	118,971	73,959	192,930	3,266
Other current liabilities	38,007	12,764	50,771	86,482
Total current liabilities.....	<u>4,681,350</u>	<u>1,001,889</u>	<u>5,683,239</u>	<u>1,107,091</u>

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

Statement of Net Assets (Continued)

June 30, 2008

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term liabilities:				
Retainages payable.....	\$ 3	\$ 2,582	\$ 2,585	\$ 55,652
Tuition benefits payable.....	—	180,298	180,298	—
Policy claims.....	131,661	162,368	294,029	161,995
Unearned revenues and deferred credits.....	—	552	552	290,604
Amounts held in custody for others.....	—	—	—	2,699
Other liabilities payable from restricted assets.....	—	2,005	2,005	—
Notes payable.....	14,883	264,831	279,714	1,660
General obligation bonds payable.....	1,812,254	331,621	2,143,875	—
Tobacco Authority bonds payable.....	219,886	—	219,886	—
Infrastructure Bank bonds payable.....	2,084,890	—	2,084,890	—
Revenue bonds payable.....	36,073	2,870,288	2,906,361	3,765,997
Limited obligation bonds payable.....	7,622	—	7,622	—
Capital leases payable.....	410	39,040	39,450	7,834
Compensated absences payable.....	101,153	64,044	165,197	16,776
Other long-term liabilities.....	83,881	62,392	146,273	43,856
Total long-term liabilities.....	<u>4,492,716</u>	<u>3,980,021</u>	<u>8,472,737</u>	<u>4,347,073</u>
Total liabilities.....	<u>9,174,066</u>	<u>4,981,910</u>	<u>14,155,976</u>	<u>5,454,164</u>
NET ASSETS				
Invested in capital assets, net of related debt.....	10,007,523	2,315,357	12,322,880	870,419
Restricted:				
Expendable:				
Unemployment compensation benefits.....	—	262,499	262,499	—
Education.....	307,715	223,911	531,626	206,942
Health.....	122,827	—	122,827	—
Transportation.....	271,079	—	271,079	—
Capital projects.....	239,815	236,216	476,031	27,877
Debt service.....	1,164,587	292,913	1,457,500	119,945
Loan programs.....	817,228	242,993	1,060,221	—
Waste management.....	228,999	—	228,999	—
Insurance programs.....	316,764	—	316,764	—
Other.....	125,251	—	125,251	172,662
Nonexpendable:				
Education.....	—	127,926	127,926	329,898
Other.....	2,819	—	2,819	—
Unrestricted.....	(161,549)	656,170	494,621	940,464
Total net assets.....	<u>\$ 13,443,058</u>	<u>\$ 4,357,985</u>	<u>\$ 17,801,043</u>	<u>\$ 2,668,207</u>

Statement of Activities

For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Expenses	Program Revenues			Net Revenues (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions					
Primary government:					
Governmental activities:					
General government.....	\$ 4,531,636	\$ 1,694,147	\$ 336,401	\$ 3,237	\$ (2,497,851)
Education.....	4,401,108	40,420	1,084,629	527	(3,275,532)
Health and environment.....	5,416,883	129,644	3,453,005	1,582	(1,832,652)
Social services.....	1,300,347	2,380	1,124,384	—	(173,583)
Administration of justice.....	789,071	130,443	35,249	938	(622,441)
Resources and economic development.....	411,582	59,336	134,198	18,165	(199,883)
Transportation.....	941,924	104,398	145,951	308,806	(382,769)
Unallocated interest expense.....	102,825	—	—	—	(102,825)
Total governmental activities.....	17,895,376	2,160,768	6,313,817	333,255	(9,087,536)
Business-type activities:					
Higher education.....	3,405,491	2,337,123	209,839	47,127	(811,402)
Higher education institution support.....	1,121,483	1,075,408	70,986	18	24,929
Unemployment compensation benefits.....	449,775	343,104	15,142	—	(91,529)
Financing of housing facilities.....	174,152	55,974	133,489	—	15,311
Medical malpractice insurance.....	13,259	38,198	346	—	25,285
Financing of student loans.....	77,249	71,054	13,098	—	6,903
Tuition prepayment program.....	(5,844)	—	7,962	—	13,806
State maritime museum.....	7,848	8,193	234	—	579
Insurance claims processing.....	1,677	1,673	—	—	(4)
Other.....	27,614	31,021	1,865	81	5,353
Total business-type activities.....	5,272,704	3,961,748	452,961	47,226	(810,769)
Total primary government.....	\$ 23,168,080	\$ 6,122,516	\$ 6,766,778	\$ 380,481	\$ (9,898,305)
Component units:					
Public Service Authority.....	\$ 1,408,315	\$ 1,469,504	\$ 24,963	\$ —	\$ 86,152
State Ports Authority.....	124,585	165,537	9,445	26,589	76,986
Connector 2000 Association, Inc.....	26,949	5,453	961	—	(20,535)
Lottery Commission.....	998,414	995,955	1,067	—	(1,392)
Other.....	111,900	47,807	54,882	—	(9,211)
Total component units.....	\$ 2,670,163	\$ 2,684,256	\$ 91,318	\$ 26,589	\$ 132,000

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

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets:				
Net revenues (expenses)	\$ (9,087,536)	\$ (810,769)	\$ (9,898,305)	\$ 132,000
General revenues:				
Taxes:				
Individual income.....	3,341,265	—	3,341,265	—
Retail sales and use.....	4,236,156	—	4,236,156	—
Other.....	1,838,101	—	1,838,101	—
Total taxes.....	9,415,522	—	9,415,522	—
Unrestricted grants and contributions.....	19,279	—	19,279	—
Unrestricted investment income.....	156,974	—	156,974	—
Tobacco legal settlement.....	83,494	—	83,494	—
Special items.....	5,611	—	5,611	—
Other revenues.....	57,256	—	57,256	—
Additions to endowments.....	—	19,118	19,118	—
Transfers—internal activities.....	(1,015,273)	1,015,273	—	—
Total general revenues and transfers.....	8,722,863	1,034,391	9,757,254	—
Change in net assets.....	(364,673)	223,622	(141,051)	132,000
Net assets at beginning of year.....	13,807,731	4,134,363	17,942,094	2,536,207
Net assets at end of year.....	\$ 13,443,058	\$ 4,357,985	\$ 17,801,043	\$ 2,668,207

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2008

(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
ASSETS				
Cash and cash equivalents.....	\$ 876,995	\$ 457,275	\$ 310,612	\$ 310,335
Investments.....	26,108	332	—	—
Invested securities lending collateral.....	740,759	7,884	102,751	33,470
Receivables, net:				
Accounts.....	1,604	122,025	1,064	19,134
Accrued interest.....	10,209	477	8,733	1,872
Income taxes.....	442,062	—	—	—
Sales and other taxes.....	313,161	29,223	—	8,366
Student accounts.....	—	1	—	—
Patient accounts.....	16,183	10,347	—	—
Loans and notes.....	14	460	499,359	11,974
Due from Federal government and other grantors.....	6,666	751,782	—	47,724
Due from other funds.....	40,968	40,952	23,189	19,871
Due from component units.....	8,269	47	—	—
Interfund receivables.....	9,758	2,030	334,747	—
Inventories.....	14,909	10,603	—	4,678
Restricted assets:				
Cash and cash equivalents.....	—	—	458,437	10,000
Investments.....	—	—	—	—
Accounts receivable.....	—	—	417,319	—
Other.....	—	—	33,832	—
Prepaid items.....	—	—	—	4,458
Other assets.....	—	—	—	771
Total assets.....	\$ 2,507,665	\$ 1,433,438	\$ 2,190,043	\$ 472,653
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable.....	\$ 423,102	\$ 458,255	\$ 10,769	\$ 79,923
Accrued salaries and related expenditures.....	72,944	32,059	80	18,275
Retainages payable.....	—	480	—	1,926
Tax refunds payable.....	588,979	—	—	—
Payable—aid to individuals/families.....	1,801	—	—	—
Intergovernmental payables.....	59,884	194,654	1,316	—
Due to other funds.....	218,641	64,090	41	26,721
Due to component units.....	1	—	—	—
Interfund payables.....	—	9,702	—	334,747
Deferred revenues.....	82,823	49,866	418,836	16,643
Securities lending collateral.....	740,759	7,884	102,751	33,470
Other liabilities.....	54,673	45	—	—
Total liabilities.....	2,243,607	817,035	533,793	511,705
Fund balances (deficits):				
Reserved.....	341,773	11,063	1,941,384	11,375
Unreserved, designated reported in:				
Special revenue funds.....	—	—	—	—
Capital Projects Fund.....	—	—	—	—
Unreserved, undesignated reported in:				
General Fund.....	(77,715)	—	—	—
Special revenue funds.....	—	605,340	(285,134)	(50,427)
Permanent funds.....	—	—	—	—
Total fund balances (deficits).....	264,058	616,403	1,656,250	(39,052)
Total liabilities and fund balances.....	\$ 2,507,665	\$ 1,433,438	\$ 2,190,043	\$ 472,653

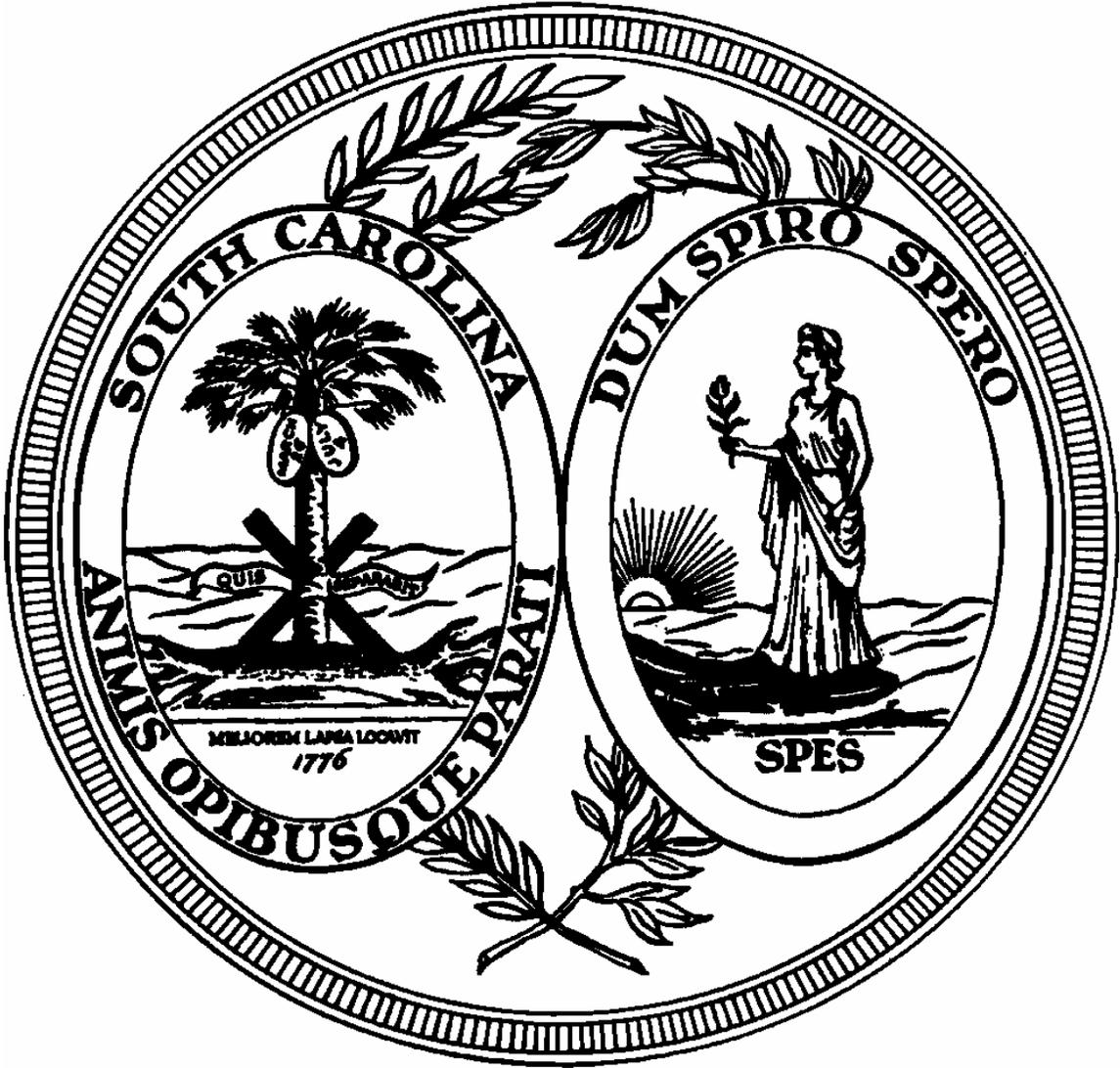
The Notes to the Financial Statements are an integral part of this statement.

State Tobacco Settlement	Nonmajor Governmental Funds	Totals
\$ 38,741	\$ 1,146,440	\$ 3,140,398
—	—	26,440
4,979	111,209	1,001,052
—	3,604	147,431
381	8,938	30,610
—	—	442,062
—	183,323	534,073
—	—	1
—	—	26,530
—	28,177	539,984
—	1,857	808,029
10,000	101,897	236,877
—	18,651	26,967
—	3,275	349,810
—	9	30,199
—	14,547	482,984
—	6,829	6,829
—	—	417,319
—	42,363	76,195
—	—	4,458
—	—	771
\$ 54,101	\$ 1,671,119	\$ 8,329,019
\$ 1	\$ 17,263	\$ 989,313
—	2,039	125,397
—	1,063	3,469
—	734	589,713
—	—	1,801
29	300,704	556,587
1	44,114	353,608
—	—	1
—	19,049	363,498
—	24,808	592,976
4,979	111,209	1,001,052
—	729	55,447
5,010	521,712	4,632,862
—	114,003	2,419,598
—	15,882	15,882
—	234,123	234,123
—	—	(77,715)
49,091	784,190	1,103,060
—	1,209	1,209
49,091	1,149,407	3,696,157
\$ 54,101	\$ 1,671,119	\$ 8,329,019

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

June 30, 2008
(Expressed in Thousands)

Total fund balances—governmental funds.....		\$ 3,696,157
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.....	\$ 5,593,398	
Depreciable capital assets.....	11,578,752	
Accumulated depreciation.....	<u>(3,604,621)</u>	
Total capital assets.....		13,567,529
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.....		27,065
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.....		509,967
Interest receivable not due in the current period and therefore not reported in the funds.....		2,447
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.....		412,879
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.....		(2,221)
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds payable.....	(4,404,800)	
Notes payable.....	(803)	
Accrued interest on bonds.....	(58,016)	
Capital leases.....	(635)	
Compensated absences.....	(213,715)	
Intergovernmental payable.....	(100)	
Policy claims.....	(28,148)	
Other.....	<u>(64,548)</u>	
Total long-term liabilities.....		<u>(4,770,765)</u>
Net assets of governmental activities.....		<u>\$ 13,443,058</u>



Statement of Revenues, Expenditures, and Changes in Fund Balances

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure
Revenues:			
Taxes:			
Individual income.....	\$ 3,344,965	\$ —	\$ 15,089
Retail sales and use.....	2,458,786	2,644	—
Other.....	854,588	56,965	20,000
Licenses, fees, and permits.....	111,440	175,479	98,477
Interest and other investment income.....	147,366	4,161	75,353
Federal.....	98,516	5,482,362	16,759
Local and private grants.....	2,440	49,857	—
Departmental services.....	447,532	177,632	55,041
Contributions.....	15,833	34,131	9,855
Fines and penalties.....	22,596	71,706	—
Tobacco legal settlement.....	—	—	—
Other.....	11,258	95,725	6,591
Total revenues.....	7,515,320	6,150,662	297,165
Expenditures:			
Current:			
General government.....	453,451	240,564	571
Education.....	421,945	190,322	—
Health and environment.....	2,022,785	3,534,280	—
Social services.....	143,232	1,107,993	—
Administration of justice.....	613,693	121,776	—
Resources and economic development.....	130,389	119,601	1,386
Transportation.....	—	—	3,774
Capital outlay.....	2,400	—	—
Debt service:			
Principal retirement.....	157,286	478	46,095
Bonds repurchased.....	—	—	—
Interest and fiscal charges.....	65,970	23	110,067
Other debt service charges.....	—	—	—
Intergovernmental.....	2,832,693	892,104	200,255
Total expenditures.....	6,843,844	6,207,141	362,148
Excess of revenues over (under) expenditures.....	671,476	(56,479)	(64,983)
Other financing sources (uses):			
Refunding bonds issued.....	—	—	—
Accrued interest on refunding bonds.....	—	—	—
Discounts on bonds issued.....	—	—	—
Capital leases.....	513	—	—
Receipts from swap counter-parties.....	—	—	7,599
Payment of termination fee to swap counter-party.....	—	—	(7,599)
Payment to refunded bond escrow agent.....	—	—	—
Transfers in.....	10,177	145,147	3,828
Transfers out.....	(1,511,045)	(16,828)	(1,031)
Total other financing sources (uses).....	(1,500,355)	128,319	2,797
Net change in fund balances.....	(828,879)	71,840	(62,186)
Fund balances (deficit) at beginning of year.....	1,092,937	544,563	1,718,436
Fund balances (deficit) at end of year.....	\$ 264,058	\$ 616,403	\$ 1,656,250

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

<u>Department of Transportation Special Revenue</u>	<u>State Tobacco Settlement</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
\$ —	\$ —	\$ —	\$ 3,360,054
—	—	1,792,888	4,254,318
556,331	—	322,204	1,810,088
—	—	136,735	522,131
14,927	16,134	58,021	315,962
392,449	—	24,917	6,015,003
—	—	50	52,347
48,211	—	19,003	747,419
—	—	271,870	331,689
—	—	27,057	121,359
—	—	83,493	83,493
13,960	77	1,485	129,096
<u>1,025,878</u>	<u>16,211</u>	<u>2,737,723</u>	<u>17,742,959</u>
—	73	129,512	824,171
—	—	260,631	872,898
—	8,000	206,768	5,771,833
—	—	20,761	1,271,986
—	—	15,713	751,182
—	—	5,150	256,526
711,764	—	—	715,538
158,293	—	60,051	220,744
41,547	—	391,803	637,209
—	—	152,430	152,430
38,745	—	50,269	265,074
—	—	75,953	75,953
76,819	539	2,176,325	6,178,735
<u>1,027,168</u>	<u>8,612</u>	<u>3,545,366</u>	<u>17,994,279</u>
<u>(1,290)</u>	<u>7,599</u>	<u>(807,643)</u>	<u>(251,320)</u>
—	—	275,730	275,730
—	—	957	957
—	—	(8,249)	(8,249)
—	—	—	513
—	—	—	7,599
—	—	—	(7,599)
—	—	(251,180)	(251,180)
4,077	—	935,876	1,099,105
(108)	(469,408)	(112,689)	(2,111,109)
<u>3,969</u>	<u>(469,408)</u>	<u>840,445</u>	<u>(994,233)</u>
<u>2,679</u>	<u>(461,809)</u>	<u>32,802</u>	<u>(1,245,553)</u>
<u>(41,731)</u>	<u>510,900</u>	<u>1,116,605</u>	<u>4,941,710</u>
<u>\$ (39,052)</u>	<u>\$ 49,091</u>	<u>\$ 1,149,407</u>	<u>\$ 3,696,157</u>

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, 2008
(Expressed in Thousands)

Net change in fund balances—total governmental funds..... \$ (1,245,553)

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.....	\$ 382,346	
Depreciation expense.....	(234,784)	
Excess of capital outlay over depreciation expense.....		147,562

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..... 177,499

Losses on disposals of capital assets are reported as an expense in the statement of activities..... (5,282)

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:

Refunding bonds issued.....	(275,730)	
Bond premiums and discounts.....	8,249	
Net bond and note proceeds.....		(267,481)

Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets..... 3,167

Certain capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability..... (513)

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.....	635,438	
Bonds repurchased.....	152,430	
Note principal retirement.....	1,514	
Capital lease payments.....	257	
Payment to bond refunding agent.....	251,180	
		1,040,819

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..... (116,583)

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..... (69,082)

Interest receivable not due in the current period and therefore not reported in the funds..... (325)

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, 2008
(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.....	\$	2,404	
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 decrease in accrued interest.....	\$	1,047	
Interest accreted on capital appreciation debt.....		(993)	
Amortization of bond issuance costs.....		(1,351)	
Net amortization of bond premiums and discounts.....		2,409	
Amortization of deferred losses on refunding of debt.....		(2,738)	
Net increase in compensated absences payable.....		(4,553)	
Decrease in intergovernmental payable.....		100	
Increase in policy claims payable.....		(8,181)	
Net decrease in other payables.....		(17,045)	
Total additional expenses.....		<u>(31,305)</u>	
Change in net assets of governmental activities.....	\$	<u>(364,673)</u>	

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2008

(Expressed in Thousands)

	ENTERPRISE		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 685,328	\$ 218,252	\$ 31,658
Investments.....	66,647	—	—
Invested securities lending collateral.....	86,009	5,117	4,103
Receivables, net:			
Accounts.....	60,345	10,277	90
Contributions.....	12,834	—	—
Participants.....	—	—	—
Accrued interest.....	5,586	311	5,376
Student accounts.....	46,717	—	—
Patient accounts.....	—	—	—
Loans and notes.....	60	—	214
Assessments.....	—	50,858	—
Due from Federal government and other grantors.....	104,145	276	1,837
Due from other funds.....	72,889	27	—
Due from component units.....	136,716	—	—
Inventories.....	15,246	—	—
Restricted assets:			
Cash and cash equivalents.....	259,615	—	105,525
Investments.....	75	—	—
Loans receivable.....	892	—	18,606
Other.....	2,912	—	71
Prepaid items.....	20,492	—	—
Other current assets.....	139	—	164
Total current assets.....	<u>1,576,647</u>	<u>285,118</u>	<u>167,644</u>
Long-term assets:			
Investments.....	14,091	—	—
Receivables, net:			
Accounts.....	1,515	—	—
Contributions.....	319	—	—
Participants.....	—	—	—
Loans and notes.....	787	—	15,434
Interfund receivables.....	—	—	—
Restricted assets:			
Cash and cash equivalents.....	177,034	—	118,422
Investments.....	120	—	1,648
Receivable from endowments.....	27,264	—	—
Loans receivable.....	55,487	—	834,930
Other.....	623	—	—
Prepaid items.....	658	—	—
Other long-term assets.....	5,945	—	—
Deferred charges.....	1,567	—	6,313
Non-depreciable capital assets.....	627,641	—	—
Depreciable capital assets, net.....	2,661,010	—	684
Total long-term assets.....	<u>3,574,061</u>	<u>—</u>	<u>977,431</u>
Total assets.....	<u>5,150,708</u>	<u>285,118</u>	<u>1,145,075</u>

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

FUNDS

Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ 14,558	\$ 139,959	\$ 263,479	\$ 1,353,234	\$ 537,236
—	—	23,479	90,126	—
—	—	24,453	119,682	120,560
34,943	5,311	5,114	116,080	118,935
—	—	80	12,914	—
—	—	13,381	13,381	—
—	58	944	12,275	5,248
—	—	—	46,717	—
130,350	—	33,757	164,107	—
—	75,000	—	75,274	—
—	—	—	50,858	—
—	—	—	106,258	—
—	—	19,379	92,295	12,635
—	—	—	136,716	11
20,414	—	3,391	39,051	6,637
24,598	33,800	52,736	476,274	—
—	—	9,362	9,437	—
—	—	84	19,582	—
—	—	920	3,903	—
11,711	—	1,125	33,328	14,373
—	—	1,718	2,021	—
236,574	254,128	453,402	2,973,513	815,635
—	—	32,959	47,050	370,439
—	—	—	1,515	97
—	—	8	327	—
—	—	9,904	9,904	—
—	935,897	—	952,118	—
—	—	34,920	34,920	30,549
30,689	—	17,756	343,901	—
35,737	—	61,854	99,359	—
—	—	—	27,264	—
—	—	9,088	899,505	—
—	—	560	1,183	—
—	—	12,330	12,988	—
19,856	—	7,507	33,308	—
—	4,312	—	12,192	113
38,775	—	26,875	693,291	8,076
547,542	223	74,809	3,284,268	136,532
672,599	940,432	288,570	6,453,093	545,806
909,173	1,194,560	741,972	9,426,606	1,361,441

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2008

(Expressed in Thousands)

	ENTERPRISE		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
LIABILITIES			
Current liabilities:			
Accounts payable.....	\$ 91,230	\$ 2,807	\$ —
Accrued salaries and related expenses.....	53,222	—	483
Accrued interest payable.....	11,615	—	—
Retainages payable.....	7,952	—	—
Tax refunds payable.....	—	7,815	—
Unemployment benefits payable.....	—	2,675	—
Intergovernmental payables.....	—	3,698	187
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	28,390	507	205
Unearned revenues.....	128,502	—	—
Deposits.....	7,684	—	—
Amounts held in custody for others.....	10,704	—	—
Securities lending collateral.....	86,009	5,117	4,103
Liabilities payable from restricted assets:			
Accrued interest payable.....	—	—	20,346
Bonds and notes payable.....	—	—	76,170
Other.....	—	—	5,185
Notes payable.....	8,446	—	—
General obligation bond anticipation notes payable.....	30,000	—	—
General obligation bonds payable.....	19,860	—	—
Revenue bonds payable.....	25,849	—	—
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	6,688	—	—
Compensated absences payable.....	49,792	—	489
Other current liabilities.....	3,605	—	1,748
Total current liabilities.....	<u>569,548</u>	<u>22,619</u>	<u>108,916</u>
Long-term liabilities:			
Retainages payable.....	2,582	—	—
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Interfund payables.....	37,899	—	—
Unearned revenues.....	—	—	—
Other liabilities payable from restricted assets.....	—	—	—
Notes payable.....	96,963	—	—
General obligation bonds payable.....	331,621	—	—
Revenue bonds payable.....	643,928	—	735,971
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	37,560	—	—
Compensated absences payable.....	62,301	—	298
Other long-term liabilities.....	60,042	—	—
Total long-term liabilities.....	<u>1,272,896</u>	<u>—</u>	<u>736,269</u>
Total liabilities.....	<u>1,842,444</u>	<u>22,619</u>	<u>845,185</u>

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

FUNDS				INTERNAL SERVICE FUNDS
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ 47,565	\$ 18,866	\$ 6,787	\$ 167,255	\$ 11,357
26,786	—	13,567	94,058	4,422
143	—	1,301	13,059	969
14,913	—	—	22,865	214
—	—	—	7,815	—
—	—	—	2,675	—
—	—	—	3,885	55
—	—	9,119	9,119	—
—	—	20,000	20,000	475,792
20,133	—	2,680	51,915	3,501
—	—	12,148	140,650	156,898
—	—	—	7,684	—
—	—	—	10,704	—
—	—	24,453	119,682	120,560
—	16,487	208	37,041	—
—	—	—	76,170	—
—	—	50,075	55,260	—
12,287	—	5,445	26,178	5,106
—	—	—	30,000	—
—	—	—	19,860	—
5,220	—	1,114	32,183	1,470
—	—	—	—	1,730
2,140	—	180	9,008	37
19,813	252	3,613	73,959	3,443
4,321	1,096	1,994	12,764	1,894
<u>153,321</u>	<u>36,701</u>	<u>152,684</u>	<u>1,043,789</u>	<u>787,448</u>
—	—	—	2,582	—
—	—	180,298	180,298	—
—	—	162,368	162,368	113,513
—	—	9,133	47,032	4,749
—	—	552	552	—
—	1,999	6	2,005	—
51,127	—	116,741	264,831	14,453
—	—	—	331,621	—
465,571	1,010,243	14,575	2,870,288	17,811
—	—	—	—	7,622
1,301	—	179	39,040	—
—	—	1,445	64,044	2,966
—	788	1,562	62,392	—
<u>517,999</u>	<u>1,013,030</u>	<u>486,859</u>	<u>4,027,053</u>	<u>161,114</u>
<u>671,320</u>	<u>1,049,731</u>	<u>639,543</u>	<u>5,070,842</u>	<u>948,562</u>

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2008

(Expressed in Thousands)

	ENTERPRISE		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	\$ 2,182,295	\$ —	\$ 684
Restricted:			
Expendable:			
Unemployment compensation benefits.....	—	262,499	—
Education.....	196,551	—	—
Capital projects.....	233,712	—	—
Debt service.....	36,375	—	55,360
Loan programs.....	—	—	196,877
Insurance programs.....	—	—	—
Nonexpendable:			
Education.....	95,871	—	—
Unrestricted.....	563,460	—	46,969
Total net assets.....	<u>\$ 3,308,264</u>	<u>\$ 262,499</u>	<u>\$ 299,890</u>
Adjustment in Higher Education Fund related to consolidation of internal service funds			
Net assets of business-type activities.....			

FUNDS					INTERNAL SERVICE FUNDS
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals		
\$ 80,806	\$ 223	\$ 51,349	\$ 2,315,357	\$	98,319
—	—	—	262,499	—	—
—	—	27,360	223,911	—	—
—	—	2,504	236,216	—	—
78,306	97,272	25,600	292,913	—	—
—	46,116	—	242,993	—	20,000
—	—	—	—	—	316,764
—	—	32,055	127,926	—	—
78,741	1,218	(36,439)	653,949	—	(22,204)
\$ 237,853	\$ 144,829	\$ 102,429	4,355,764	\$	412,879
			2,221		
			\$ 4,357,985		

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

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Operating revenues:			
Assessments.....	\$ —	\$ 279,427	\$ —
Charges for services.....	1,304,079	—	11,390
Contributions.....	—	—	—
Interest and other investment income.....	—	—	55,547
Licenses, fees, and permits.....	—	—	—
Operating revenues pledged for revenue bonds.....	167,329	—	—
Federal operating grants and contracts.....	520,778	40,883	—
State operating grants and contracts.....	201,644	—	—
Local/private operating grants and contracts.....	79,142	—	—
Other operating revenues.....	51,782	26,022	—
Total operating revenues.....	2,324,754	346,332	66,937
Operating expenses:			
General operations and administration.....	2,995,054	264	10,050
Benefits and claims.....	—	449,511	—
Tuition plan disbursements.....	—	—	—
Interest.....	—	—	40,273
Depreciation and amortization.....	155,839	—	727
Scholarships and fellowships.....	200,269	—	—
Other operating expenses.....	—	—	4,272
Total operating expenses.....	3,351,162	449,775	55,322
Operating income (loss).....	(1,026,408)	(103,443)	11,615
Nonoperating revenues (expenses):			
Federal and local government appropriations.....	70,382	—	—
Interest income.....	32,382	11,914	—
Contributions.....	98,245	—	—
Federal grants and contracts.....	9,203	—	122,526
Local/private grants and contracts.....	6,590	—	—
Interest expense.....	(47,793)	—	—
Net other nonoperating revenues (expenses).....	1,856	—	(118,830)
Total nonoperating revenues (expenses).....	170,865	11,914	3,696
Income (loss) before other revenues, expenses, losses, and transfers.....	(855,543)	(91,529)	15,311
Capital contributions.....	—	—	—
Federal capital grants and contracts.....	17,678	—	—
Local/private capital grants and contracts.....	28,867	—	—
Special items.....	—	—	—
Additions to endowments.....	14,079	—	—
Transfers in.....	1,075,759	85	400
Transfers out.....	(20,960)	(1,490)	(250)
Change in net assets.....	259,880	(92,934)	15,461
Net assets at beginning of year.....	3,048,384	355,433	284,429
Net assets at end of year.....	\$ 3,308,264	\$ 262,499	\$ 299,890

Adjustment in Higher Education Fund related to consolidation of internal service funds.....
Change in net assets of business-type activities.....

FUNDS

Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ —	\$ —	\$ —	\$ 279,427	\$ —
802,380	71,054	350,310	2,539,213	2,003,258
—	—	11,590	11,590	—
—	8,756	(3,628)	60,675	960
—	—	—	—	3
—	—	2,273	169,602	—
—	—	—	561,661	—
—	—	—	201,644	—
—	—	—	79,142	—
19,502	—	37,120	134,426	63,458
821,882	79,810	397,665	4,037,380	2,067,679
794,161	20,399	288,163	4,108,091	384,998
—	—	12,292	461,803	1,830,591
—	—	(5,844)	(5,844)	—
—	52,444	—	92,717	7
32,379	436	5,416	194,797	16,108
—	—	—	200,269	—
—	3,970	6,011	14,253	6,100
826,540	77,249	306,038	5,066,086	2,237,804
(4,658)	2,561	91,627	(1,028,706)	(170,125)
—	—	—	70,382	—
3,440	—	4,400	52,136	53,647
—	—	2,736	100,981	—
—	—	—	131,729	—
—	—	203	6,793	—
(17,881)	—	(6,622)	(72,296)	(2,215)
—	4,342	(3,396)	(116,028)	(232)
(14,441)	4,342	(2,679)	173,697	51,200
(19,099)	6,903	88,948	(855,009)	(118,925)
—	—	81	81	—
—	—	—	17,678	—
—	—	18	28,885	—
—	—	—	—	5,611
—	—	5,039	19,118	—
—	—	727	1,076,971	19,028
(552)	—	(38,446)	(61,698)	(22,297)
(19,651)	6,903	56,367	226,026	(116,583)
257,504	137,926	46,062		529,462
\$ 237,853	\$ 144,829	\$ 102,429		\$ 412,879
			(2,404)	
			\$ 223,622	

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	ENTERPRISE		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
Cash flows from operating activities:			
Receipts from customers, patients, and third-party payers.....	\$ 1,327,698	\$ —	\$ —
Assessments received.....	—	281,050	—
Grants received.....	792,497	37,920	—
Receipts from collection of loans and notes.....	379,681	—	133,912
Receipts of funds held for others.....	203,623	—	—
Internal activity—payments from other funds.....	73,683	—	—
Tuition plan contributions received.....	—	—	—
Other operating cash receipts.....	34,852	23,581	9,745
Claims and benefits paid.....	—	(453,324)	—
Payments to suppliers for goods and services.....	(1,056,462)	—	(5,740)
Payments to employees.....	(1,953,239)	—	(7,124)
Payments for scholarships and fellowships.....	(169,762)	—	—
Loans issued to students.....	(376,356)	—	—
Payments of funds held for others.....	(161,354)	—	—
Program loans issued.....	—	—	(194,955)
Internal activity—payments to other funds.....	—	—	—
Other operating cash payments.....	(2,183)	(264)	—
Net cash provided by (used in) operating activities.....	(907,322)	(111,037)	(64,162)
Cash flows from noncapital financing activities:			
State, county, and local appropriations.....	59,182	—	—
Federal appropriations.....	13,325	—	—
Funds held for others.....	303	—	—
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.....	—	—	—
Proceeds from sale of noncapital revenue bonds.....	—	—	180,173
Principal payments on noncapital revenue bonds.....	—	—	(66,885)
Principal paid on noncapital debt.....	—	—	—
Interest payments on noncapital debt.....	(223)	—	(38,182)
Payment of bond issuance costs.....	—	—	(1,232)
Gifts and grants for other than capital purposes.....	165,450	—	—
Federal revenue.....	—	—	122,526
Payments from Federal grants.....	—	—	(118,830)
Special refund to participants in Insurance Reserve Fund.....	—	—	—
Other cash receipts.....	3,688	—	—
Other cash payments.....	(987)	—	—
Transfers in.....	1,076,107	85	12,815
Transfers out.....	(22,367)	(1,490)	(12,665)
Net cash provided by (used in) noncapital financing activities.....	1,294,478	(1,405)	77,720

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

FUNDS				
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ 766,862	\$ 122,051	\$ 325,159	\$ 2,541,770	\$ 1,474,355
—	—	111,090	392,140	—
—	—	—	830,417	—
—	336,220	—	849,813	—
—	—	—	203,623	—
—	—	—	73,683	529,320
—	—	24,247	24,247	—
20,882	—	53,077	142,137	120,354
—	—	(143,264)	(596,588)	1,029,434
(314,679)	(96,042)	(117,639)	(1,590,562)	(3,114,795)
(377,446)	(2,916)	(165,483)	(2,506,208)	(78,494)
—	—	—	(169,762)	—
—	—	—	(376,356)	—
—	—	—	(161,354)	—
—	(519,409)	—	(714,364)	—
(73,683)	—	386	(73,297)	(12,112)
—	—	(13,964)	(16,411)	(3,011)
21,936	(160,096)	73,609	(1,147,072)	(54,949)
—	—	—	59,182	—
—	—	—	13,325	—
—	—	—	303	—
—	—	—	—	1,356
—	—	(4,256)	(4,256)	(1,709)
—	—	—	—	(1,095)
—	—	(610)	(610)	—
—	—	—	—	8,358
—	131,700	—	311,873	—
—	(147,354)	—	(214,239)	—
—	—	(1,350)	(1,350)	—
—	(49,288)	(2,760)	(90,453)	—
—	(685)	—	(1,917)	—
—	—	7,992	173,442	—
—	—	—	122,526	—
—	—	—	(118,830)	—
—	—	—	—	(20,000)
—	—	—	3,688	—
—	—	(6,955)	(7,942)	—
—	—	1,217	1,090,224	19,028
(552)	—	(39,231)	(76,305)	(22,297)
(552)	(65,627)	(45,953)	1,258,661	(16,359)

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from capital and related financing activities:			
Capital appropriations.....	\$ 4,001	\$ —	\$ —
Acquisition of capital assets	(456,207)	—	(53)
Principal payments on notes payable	(4,141)	—	—
Principal payments on limited obligation bonds.....	—	—	—
Proceeds from issuance of capital debt.....	250,726	—	—
Principal paid on capital debt and lease.....	(61,083)	—	—
Interest payments on capital debt.....	(43,644)	—	—
Payment of agent and broker fees.....	—	—	—
Proceeds from sale or disposal of capital assets.....	78	—	—
Capital grants and gifts received.....	25,956	—	—
Net cash used in capital and related financing activities.....	(284,314)	—	(53)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments.....	97,445	—	—
Purchase of investments	(105,356)	—	749
Interest and dividends on investments.....	52,429	11,871	11,610
Transfer of endowment funds.....	(30,695)	—	—
Collection of escrow payments from borrower.....	—	—	—
Net cash provided by investing activities.....	13,823	11,871	12,359
Net increase (decrease) in cash and cash equivalents.....	116,665	(100,571)	25,864
Cash and cash equivalents at beginning of year.....	1,005,312	318,823	229,741
Cash and cash equivalents at end of year.....	\$ 1,121,977	\$ 218,252	\$ 255,605
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (1,026,408)	\$ (103,443)	\$ 11,615
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	155,839	—	727
Provision for bad debts.....	287	—	—
Realized gains and losses on sale of assets.....	—	—	98
Net (increase) decrease in the fair value of investments.....	—	—	—
Issuance of loans and notes.....	—	—	(194,955)
Collection of loans and notes.....	—	—	89,753
Interest payments reclassified as noncapital financing activities.....	—	—	40,104
Interest and dividends on investments and interfund loans.....	—	—	(10,963)
Amounts received for payment of claims.....	—	—	—
Payment of claims.....	—	—	—
Elimination of claims liability due to transfer of LTDI Plan.....	—	—	—
Other nonoperating revenues.....	1,038	—	—
Other nonoperating expenses.....	(1,072)	—	—
Other.....	—	—	—

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

FUNDS				
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ —	\$ —	\$ —	\$ 4,001	\$ —
(139,797)	(79)	(3,438)	(599,574)	(14,777)
—	—	—	(4,141)	—
—	—	—	—	(1,640)
48,796	—	—	299,522	—
(9,302)	—	(4,850)	(75,235)	(523)
(28,210)	—	(5,367)	(77,221)	—
(2,528)	—	(28)	(2,556)	—
3	—	463	544	998
—	—	99	26,055	—
(131,038)	(79)	(13,121)	(428,605)	(15,942)
6,094	—	107,604	211,143	709,570
(2,491)	—	(72,612)	(179,710)	(759,746)
6,131	9,751	12,254	104,046	55,754
—	—	—	(30,695)	—
—	—	1,422	1,422	—
9,734	9,751	48,668	106,206	5,578
(99,920)	(216,051)	63,203	(210,810)	(81,672)
169,765	389,810	270,768	2,384,219	618,908
\$ 69,845	\$ 173,759	\$ 333,971	\$ 2,173,409	\$ 537,236
\$ (4,658)	\$ 2,561	\$ 91,627	\$ (1,028,706)	\$ (170,125)
32,379	436	5,416	194,797	16,108
89,853	589	42,482	133,211	—
—	—	(89)	9	—
—	—	4,413	4,413	—
—	(37,455)	—	(232,410)	—
—	36,822	—	126,575	—
—	52,444	—	92,548	—
—	(8,831)	3,628	(16,166)	—
—	—	109,418	109,418	—
—	—	(114,719)	(114,719)	—
—	—	—	—	25,611
—	—	3,659	4,697	3,910
—	—	398	(674)	(3,396)
37	—	(155)	(118)	—

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	ENTERPRISE		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
Effect of changes in operating assets and liabilities:			
Accounts receivable, net.....	\$ (83,775)	\$ (2,415)	\$ (8)
Receivable from participants, net.....	—	—	—
Accrued interest.....	—	—	(5,272)
Loans receivable.....	(1,840)	—	—
Due from Federal government and other grantors.....	1,040	215	(1,283)
Due from other funds.....	(10,743)	(26)	—
Inventories.....	(555)	—	—
Other assets.....	3,270	(23)	2,328
Accounts payable.....	34,413	1,584	—
Accrued salaries and related expenses.....	3,957	—	21
Accrued interest payable.....	—	—	—
Retainages payable.....	(280)	—	—
Tax refunds payable.....	—	1,646	—
Unemployment benefits payable.....	—	(5,743)	—
Intergovernmental payables.....	—	346	(61)
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	8,153	(3,178)	179
Unearned revenues	(10,028)	—	—
Deposits.....	1,790	—	—
Liabilities payable from restricted assets	—	—	2,150
Compensated absences payable	7,412	—	54
Other liabilities.....	10,180	—	1,351
Net cash provided by (used in) operating activities.....	<u>\$ (907,322)</u>	<u>\$ (111,037)</u>	<u>\$ (64,162)</u>
Noncash capital, investing, and financing activities:			
Acquisition of capital assets through:			
Assumption of liabilities.....	\$ 1,902	\$ —	\$ —
Donations.....	3,129	—	—
Disposal of capital assets.....	(1,047)	—	—
Increase (decrease) in fair value of investments.....	(12,152)	—	(36)
Decrease in investments for amortization and accretion.....	—	—	—
Accrual of arbitrage income.....	—	—	—
Long-term debt forgiven.....	227	—	—
Other noncash activity.....	—	—	—
Total noncash capital, investing, and financing activities.....	<u>\$ (7,941)</u>	<u>\$ —</u>	<u>\$ (36)</u>

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

FUNDS				INTERNAL SERVICE FUNDS
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ (122,123)	\$ 9,781	\$ (43,833)	\$ (242,373)	\$ (282)
—	—	12,657	12,657	—
—	—	—	(5,272)	(55)
—	(197,214)	(1,741)	(200,795)	—
—	—	—	(28)	—
—	—	(11,010)	(21,779)	33,942
(6,096)	—	341	(6,310)	1,470
(1,811)	—	312	4,076	2,553
25,382	(18,649)	866	43,596	(6,566)
—	—	126	4,104	89
—	—	—	—	(56)
—	—	—	(280)	201
—	—	—	1,646	—
—	—	—	(5,743)	—
—	—	—	285	—
—	—	(14,134)	(14,134)	—
—	—	(16,253)	(16,253)	30,153
13,898	—	280	19,332	1,553
(4,925)	—	(876)	(15,829)	9,992
—	—	—	1,790	—
—	—	—	2,150	—
—	(20)	473	7,919	(51)
—	(560)	323	11,294	—
\$ 21,936	\$ (160,096)	\$ 73,609	\$ (1,147,072)	\$ (54,949)
\$ 3,412	\$ —	\$ 52	\$ 5,366	\$ —
—	—	—	3,129	—
—	—	—	(1,047)	—
499	—	(13,069)	(24,758)	(2,199)
—	—	—	—	(138)
—	4,342	—	4,342	—
—	—	—	227	—
—	—	22	22	—
\$ 3,911	\$ 4,342	\$ (12,995)	\$ (12,719)	\$ (2,337)

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2008

(Expressed in Thousands)

	Pension and Other Post- Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
ASSETS				
Cash and cash equivalents.....	\$ 1,881,564	\$ 2,007,837	\$ 28,221	\$ 228,718
Receivables, net:				
Accounts.....	—	—	—	11,129
Contributions.....	174,688	—	—	—
Employer long-term.....	596	—	—	—
Accrued interest.....	89,285	1,959	969	3,669
Unsettled investment sales.....	823,264	—	1,319	—
Other investment receivables.....	4,479	—	—	—
Taxes.....	—	—	—	2,622
Total receivables.....	<u>1,092,312</u>	<u>1,959</u>	<u>2,288</u>	<u>17,420</u>
Due from other funds.....	<u>48,273</u>	<u>—</u>	<u>—</u>	<u>57,289</u>
Investments, at fair value:				
Short term securities.....	101,615	—	—	—
Debt-domestic.....	6,304,638	371,624	—	—
Debt-international.....	3,531,498	—	—	—
Equity-domestic.....	6,171,292	—	—	—
Equity-international.....	485,689	—	—	—
Alternatives.....	8,245,834	—	—	—
Financial and other.....	4,309	153,502	1,064,117	32,682
Total investments.....	<u>24,844,875</u>	<u>525,126</u>	<u>1,064,117</u>	<u>32,682</u>
Securities held in lieu of surety bonds.....	—	—	—	292,471
Invested securities lending collateral.....	3,798,826	—	3,805	19,132
Capital assets, net	3,459	—	—	—
Prepaid items.....	290	—	—	—
Other assets.....	—	—	5,054	—
Total assets.....	<u>31,669,599</u>	<u>2,534,922</u>	<u>1,103,485</u>	<u>647,712</u>
LIABILITIES				
Accounts payable.....	17,545	—	1,148	16,293
Accounts payable—unsettled investment purchases.....	106,027	—	865	—
Due to other funds.....	38,345	—	—	—
Tax refunds payable.....	—	—	—	2,696
Intergovernmental payables.....	—	—	—	2,196
Deposits.....	—	—	—	4,983
Amounts held in custody for others.....	—	—	—	602,412
Deferred retirement benefits.....	552,260	—	—	—
Securities lending collateral.....	3,798,826	—	3,805	19,132
Other liabilities.....	189,229	—	—	—
Total liabilities.....	<u>4,702,232</u>	<u>—</u>	<u>5,818</u>	<u>647,712</u>
NET ASSETS				
Held in trust for:				
Pension and other post-employment benefits.....	26,967,367	—	—	—
External investment pool participants.....	—	2,534,922	—	—
Other purposes.....	—	—	1,097,667	—
Total net assets.....	<u>\$ 26,967,367</u>	<u>\$ 2,534,922</u>	<u>\$ 1,097,667</u>	<u>\$ —</u>

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, 2008

(Expressed in Thousands)

	Pension and Other Post- Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits.....	\$ —	\$ —	\$ 165
Contributions:			
Employer.....	1,281,262	—	—
Employee.....	618,576	—	—
Deposits from pool participants.....	—	5,924,244	—
Tuition plan deposits.....	—	—	168,256
Total contributions.....	<u>1,899,838</u>	<u>5,924,244</u>	<u>168,256</u>
Investment income:			
Interest income and net depreciation in investments.....	(696,256)	96,744	(70,604)
Securities lending income.....	209,364	3,281	—
Total investment income.....	<u>(486,892)</u>	<u>100,025</u>	<u>(70,604)</u>
Less investment expense:			
Investment expense.....	67,017	—	—
Securities lending expense.....	178,150	3,107	—
Net investment income.....	<u>(732,059)</u>	<u>96,918</u>	<u>(70,604)</u>
Assets moved between pension trust funds.....	2,119	—	—
Total additions.....	<u>1,169,898</u>	<u>6,021,162</u>	<u>97,817</u>
Deductions:			
Regular retirement benefits.....	1,849,862	—	—
Supplemental retirement benefits.....	1,373	—	—
Deferred retirement benefits.....	219,427	—	—
Refunds of retirement contributions to members.....	93,094	—	—
Group life insurance claims.....	19,969	—	—
Accidental death benefits.....	1,447	—	—
Other post-employment benefits.....	42,505	—	—
Withdrawals, pool participants.....	—	5,704,751	—
Distributions to pool participants.....	—	94,338	—
Depreciation.....	118	—	—
Administrative expense.....	21,397	135	7,911
Payments in accordance with trust agreements.....	—	—	103
Other expenses.....	—	—	206
Assets moved between pension trust funds.....	2,119	—	—
Total deductions.....	<u>2,251,311</u>	<u>5,799,224</u>	<u>8,220</u>
Change in net assets.....	<u>(1,081,413)</u>	<u>221,938</u>	<u>89,597</u>
Net assets at beginning of year.....	<u>28,048,780</u>	<u>2,312,984</u>	<u>1,008,070</u>
Net assets at end of year.....	<u>\$ 26,967,367</u>	<u>\$ 2,534,922</u>	<u>\$ 1,097,667</u>

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2008

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
ASSETS						
Current assets:						
Cash and cash equivalents.....	\$ 92,814	\$ 191,867	\$ 624	\$ 10,671	\$ 42,810	\$ 338,786
Investments.....	19,765	—	308	—	80,675	100,748
Invested securities lending collateral.....	—	50,158	—	—	1,337	51,495
Receivables, net						
Accounts.....	152,049	25,750	—	33,214	2,520	213,533
Contributions.....	—	—	—	—	3,278	3,278
Accrued interest.....	3,049	—	—	553	917	4,519
Due from Federal government and other grantors..	—	—	—	—	16	16
Due from primary government.....	—	167,541	—	—	1	167,542
Inventories.....	308,398	5,415	88	1,934	—	315,835
Restricted assets:						
Cash and cash equivalents.....	119,431	—	2,342	463	16,224	138,460
Investments.....	85,814	—	5,702	—	—	91,516
Other.....	—	—	1	—	29	30
Prepaid items.....	4,387	3,705	27	—	—	8,119
Other current assets.....	24,579	91	—	3,004	119	27,793
Deferred charges.....	—	—	—	—	1,804	1,804
Total current assets.....	810,286	444,527	9,092	49,839	149,730	1,463,474
Long-term assets:						
Investments.....	86,387	8,167	—	—	675,689	770,243
Receivables, net:						
Accounts.....	—	—	—	—	1,679	1,679
Contributions.....	—	—	—	—	36,629	36,629
Restricted assets:						
Cash and cash equivalents.....	91,936	—	394	—	—	92,330
Investments.....	258,614	—	10,474	—	—	269,088
Other.....	—	—	439	—	—	439
Other long-term assets.....	1,126	9,782	—	4,960	565	16,433
Deferred charges.....	476,259	16,142	3,850	—	—	496,251
Investment in joint venture.....	7,651	—	—	—	—	7,651
Non-depreciable capital assets.....	1,007,370	247,387	—	—	8,971	1,263,728
Depreciable capital assets, net.....	3,253,421	291,734	157,500	1,201	570	3,704,426
Total long-term assets.....	5,182,764	573,212	172,657	6,161	724,103	6,658,897
Total assets.....	\$ 5,993,050	\$ 1,017,739	\$ 181,749	\$ 56,000	\$ 873,833	\$ 8,122,371

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2008

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
LIABILITIES						
Current liabilities:						
Accounts payable.....	\$ 184,192	\$ 13,533	\$ 146	\$ 3,445	\$ 2,131	\$ 203,447
Accrued salaries and related expenses.....	7,875	1,945	—	808	105	10,733
Accrued interest payable.....	85,068	6,746	—	—	—	91,814
Retainages payable.....	—	1,962	—	—	—	1,962
Prizes payable.....	—	—	—	29,477	—	29,477
Intergovernmental payables.....	—	18	—	—	270	288
Policy claims.....	2,140	—	—	—	35,000	37,140
Due to primary government.....	—	—	5,497	18,651	136,774	160,922
Deferred revenues and deferred credits.....	—	—	192	720	26,597	27,509
Deposits.....	—	—	14	—	—	14
Amounts held in custody for others.....	—	—	—	—	1,292	1,292
Securities lending collateral.....	—	50,158	—	—	1,337	51,495
Liabilities payable from restricted assets:						
Accounts payable.....	—	—	—	—	1,893	1,893
Accrued interest payable.....	—	—	1,766	—	—	1,766
Notes payable.....	—	345	—	—	5	350
Revenue bonds payable.....	101,695	3,515	6,200	—	—	111,410
Capital leases payable.....	2,564	15	—	—	—	2,579
Commercial paper notes.....	283,252	—	—	—	—	283,252
Compensated absences payable.....	—	2,722	—	492	52	3,266
Other current liabilities.....	69,415	16,454	—	104	509	86,482
Total current liabilities.....	736,201	97,413	13,815	53,697	205,965	1,107,091
Long-term liabilities:						
Retainages payable.....	55,652	—	—	—	—	55,652
Policy claims.....	—	—	—	—	161,995	161,995
Deferred revenues and deferred credits.....	290,604	—	—	—	—	290,604
Amounts held in custody for others.....	—	—	—	—	2,699	2,699
Notes payable.....	—	1,639	—	—	21	1,660
Revenue bonds payable.....	3,341,790	127,308	296,899	—	—	3,765,997
Capital leases payable.....	7,834	—	—	—	—	7,834
Compensated absences payable.....	16,090	—	—	639	47	16,776
Other long-term liabilities.....	34,341	—	—	—	9,515	43,856
Total long-term liabilities.....	3,746,311	128,947	296,899	639	174,277	4,347,073
Total liabilities.....	4,482,512	226,360	310,714	54,336	380,242	5,454,164
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt.....	508,590	402,803	(51,716)	1,201	9,541	870,419
Restricted:						
Expendable:						
Education.....	—	—	—	—	206,942	206,942
Capital projects.....	26,087	1,790	—	—	—	27,877
Debt service.....	107,283	6,384	6,278	—	—	119,945
Other.....	169,833	—	—	463	2,366	172,662
Nonexpendable, education.....	—	—	—	—	329,898	329,898
Unrestricted.....	698,745	380,402	(83,527)	—	(55,156)	940,464
Total net assets (deficit).....	\$ 1,510,538	\$ 791,379	\$ (128,965)	\$ 1,664	\$ 493,591	\$ 2,668,207

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2008

(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.....	\$ 1,408,315	\$ 1,469,504	\$ 24,963	\$ —
State Ports Authority.....	124,585	165,537	9,445	26,589
Connector 2000 Association, Inc.....	26,949	5,453	961	—
Lottery Commission.....	998,414	995,955	1,067	—
Nonmajor component units.....	111,900	47,807	54,882	—
Totals.....	\$ 2,670,163	\$ 2,684,256	\$ 91,318	\$ 26,589

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

Net (Expense) Revenue	Net Assets (Deficit) Beginning of Year	Net Assets (Deficit) End of Year
\$ 86,152	\$ 1,424,386	\$ 1,510,538
76,986	714,393	791,379
(20,535)	(108,430)	(128,965)
(1,392)	3,056	1,664
(9,211)	502,802	493,591
\$ 132,000	\$ 2,536,207	\$ 2,668,207

Notes to the Financial Statements—Contents

	<u>Page</u>
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	71
a. Scope of Reporting Entity	71
<i>Primary Government</i>	71
<i>Blended Component Units</i>	71
<i>Discretely Presented Component Units</i>	73
<i>Related Organizations</i>	74
<i>Jointly Governed Organizations</i>	74
b. Basis of Presentation	74
<i>Government-wide Financial Statements</i>	74
<i>Fund Financial Statements</i>	75
<i>Component Unit Financial Statements</i>	77
<i>Use of Private-Sector Accounting and Financial Reporting Principles</i>	77
c. Measurement Focus and Basis of Accounting	77
<i>Accrual Basis</i>	77
<i>Modified Accrual Basis</i>	78
<i>Recognition of Specific Grant and Shared Revenue Transactions</i>	78
d. Cash and Cash Equivalents	78
e. Cash Management Pool—Allocation of Interest	78
f. Investments	78
g. Receivables and Payables	79
h. Inventories	79
i. Prepaid Items	79
j. Capital Assets	79
k. Deferred Charges	80
l. Tax Refunds Payable	80
m. Long-Term Obligations	80
n. Compensated Absences	81
o. Perkins Loan Liability	81
p. Restricted Net Assets	81
q. Flow Assumption, Net Assets	81
r. Escheat Property	81
NOTE 2: ACCOUNTING AND REPORTING CHANGES	81
a. Restatement of Fund Balances in Non-major Governmental Funds	81
b. Change in Accounting Estimate in Non-major Enterprise Fund	82
NOTE 3: DEFICITS OF INDIVIDUAL FUNDS	82
NOTE 4: DEPOSITS AND INVESTMENTS	82
a. Deposits	82
b. Investments	83
c. Securities Lending Program	85
d. South Carolina Retirement Systems	86
e. Other Post-Employment Benefit Trust Funds	92
NOTE 5: RECEIVABLES	94
NOTE 6: DETAILS OF RESTRICTED ASSETS	95
NOTE 7: CAPITAL ASSETS	97

Notes to the Financial Statements—Contents (Continued)

	<u>Page</u>
NOTE 8: RETIREMENT PLANS	102
a. Plan Descriptions.....	102
b. Summary of Significant Accounting Policies—Basis of Accounting and Valuation of Investments.....	103
c. Funding Policies	103
d. Annual Pension Cost	104
e. Trend Information.....	104
f. Funding Status and Progress (Unaudited)	105
g. Receivables and Investments	106
h. Teacher and Employee Retention Incentive Program	106
i. Defined Contribution Plan.....	107
NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS.....	107
a. Plan Description	107
b. Funding Policies	107
c. Funding Progress	108
d. Receivables and Investments.....	108
NOTE 10: INSURANCE ACTIVITIES.....	108
a. Insurance Reserve Fund.....	108
b. Employee Insurance Programs Fund	109
c. State Accident Fund.....	110
d. Patients’ Compensation Fund and Medical Malpractice Liability Insurance Joint Underwriting Association.....	110
e. Second Injury Fund	111
f. Discretely Presented Component Unit—Public Service Authority (Santee Cooper).....	111
NOTE 11: LEASES.....	112
a. Lease Commitments	112
b. Facilities Leased to Others.....	114
NOTE 12: BONDS AND NOTES PAYABLE.....	114
a. General Obligation Bonds	114
b. Limited Obligation Bonds	115
c. Revenue, Tobacco Authority, Infrastructure Bank, and Other Bonds and Notes.....	116
d. Bond Anticipation Notes	119
e. Defeased Bonds	120
f. Arbitrage Rebate Payable	120
g. Conduit Debt.....	121
h. Resources Authority Debt	121
i. Commercial Paper Notes and Letters of Credit	121
j. Subsequent Events.....	122
NOTE 13: CHANGES IN LIABILITIES	122
a. Long-Term Liabilities.....	122
b. Short-Term Debt.....	124
NOTE 14: RESERVATIONS AND DESIGNATIONS OF FUND BALANCES IN GOVERNMENTAL FUNDS.....	125
a. Reserved	125
b. Designated, Reported in Special Revenue Funds	126
c. Designated, Reported in the Capital Projects Fund	126

Notes to the Financial Statements—Contents (Continued)

	<u>Page</u>
NOTE 15: INTERFUND BALANCES AND TRANSFERS	126
NOTE 16: PROPRIETARY FUND REVENUES – ALLOWANCES AND DISCOUNTS	131
NOTE 17: DONOR-RESTRICTED ENDOWMENTS AND PLEDGES	132
a. Donor-Restricted Endowments.....	132
b. Pledges.....	132
NOTE 18: SEGMENT INFORMATION.....	132
NOTE 19: JOINT VENTURE AND JOINT OPERATION	134
a. Joint Venture.....	134
b. Joint Operation	134
NOTE 20: RELATED PARTY TRANSACTIONS.....	135
NOTE 21: MAJOR DISCRETELY PRESENTED COMPONENT UNITS	135
a. Significant Transactions of Major Component Units with the Primary Government	135
b. Concentrations of Credit Risk	136
c. Inequality of Due from Component Units and Due to Primary Government.....	136
NOTE 22: CONTINGENCIES AND COMMITMENTS	136
a. Litigation	136
b. Tobacco Settlement Revenue Management Authority	137
c. Federal Grants.....	138
d. Other Loan Guarantees	138
e. Purchase Commitments	138
f. Commitments to Provide Grants and Other Financial Assistance.....	138
g. Connector 2000 Association, Inc.—Going Concern.	139
h. Unemployment Compensation Benefits Fund—Going Concern.	139
NOTE 23: SPECIAL ITEMS	139
a. Insurance Reserve Fund – Return of Premium.....	139
b. Employee Insurance Programs – Elimination of Claims Liability	140
NOTE 24: INVESTMENT MARKET UNCERTAINTY.....	140

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, 2008:

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

Fiscal year ended December 31, 2007:

- The Public Railways Division of the Department of Commerce

The State's five retirement systems and two post-employment benefit trust funds 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 and the trust funds. 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, based on the criteria provided by GASB Statement No. 39, 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, 2008.

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, 2007.

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 *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
Revenue Management 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

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

Discretely Presented Component Units

Unless otherwise indicated below, the discretely presented component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2008.

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, 2007.

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, 2007.

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, as nearly practical, at least 45% of sales must be returned to the public in the form of prizes to provide continuing entertainment to the State's citizens and 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, 2007.

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

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 Directors' seventeen 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, 2007.

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, 2008, 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 and post-employment benefit 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, and the post-employment health, dental, and long-term disability insurance benefits paid by the State to its retirees.

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, 2008.

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 a maturity at the time of purchase 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 discretely presented 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 the lower of cost or market, 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:

<u>Asset Category</u>	<u>Years</u>
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 non-current 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, 2008, \$1.462 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. Restatement of Fund Balances in Non-major Governmental Funds**

The State established the Homestead Exemption fund in fiscal year 2007-2008 to account for a special additional 1% sales tax used for property tax relief reimbursements. The additional tax was imposed effective June 1, 2007. At June 30, 2007, the State had accrued \$39.332 million in July collections related to the Homestead Exemption in the Other Special Revenue Fund. The beginning fund balance in the Other Special Revenue Fund has been decreased by \$39.332 million, and the beginning fund balance in the Homestead Exemption Fund has been reported as \$39.332 million.

In addition, the State previously reported the Jobs-Economic Development Authority (JEDA) as a separate non-major fund. For the fiscal year 2007-2008, JEDA has been combined into the Other Special Revenue Fund. The beginning fund balance for JEDA is \$1.365 million.

Total fund balance for non-major governmental funds was not restated from the reported June 30, 2007 amount.

b. Change in Accounting Estimate in Non-major Enterprise Fund

During fiscal year 2007-2008, the Tuition Prepayment Program changed the actuarial assumption for tuition inflation due to the statutory limitation on benefit increases to Program participants who attend South Carolina public colleges or universities imposed by Section 59-4-120 of the South Carolina Code of Laws of 1976, as amended. The revised assumption for those who attend South Carolina public colleges or universities is based on a tuition inflation rate of 7%, compared to the previous assumption of 9%. The limitation imposed by Section 59-4-120 does not apply to those students who attend a private or out-of-state college, but the assumption was revised for that category as well. The projection for those attending private or out-of-state colleges is an 8% average annual tuition increase. This change in assumption caused a negative tuition plan disbursements expense of \$5.844 million for the fiscal year 2007-2008.

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, 2008:

Nonmajor Enterprise Funds:	
Patients' Compensation.....	\$ 182,880
Tuition Prepayment Program.....	14,737
CHS Development Company.....	68
Internal Service Funds:	
State Accident Fund.....	99,178
Pension Administration.....	1,132

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 and the primary government's Other Post-Employment Benefit Trust Funds which are described in subsection e.

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, 2008 was \$145.602 million and the bank balance was \$876.593 million. As of June 30, 2008, the reported amount of the primary government's deposits outside of the State Treasurer was \$216.735 million and the bank balance was \$236.828 million. Of the \$139.852 million bank balance exposed to custodial credit risk, \$38.985 million was uninsured and uncollateralized, and \$100.867 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, 2008, the reported amount of the major discretely presented component units' deposits was \$17.934 million and the bank balance was \$18.782 million. Of the \$10.340 million bank balance exposed to custodial credit risk, \$262 thousand was uninsured and uncollateralized; and \$10.078 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 and the primary government's Other Post-Employment Benefit Trust Funds which are described in subsection e.

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, 2008, as follows:

Primary Government Investment Type	Category		Reported Amount
	A	B	
U.S. Treasuries.....	\$ 1,648	\$ 6,635	\$ 8,283
U.S. Agencies.....	3,304	10,224	13,528
Corporate bonds.....	—	660	660
Equity securities.....	—	8,109	8,109
Repurchase agreements.....	64,421	45,332	109,753
Asset backed securities.....	4,700	—	4,700
Commercial paper.....	—	32,943	32,943
Totals.....	\$ 74,073	\$ 103,903	\$ 177,976

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 \$6.377 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, 2008 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.....	\$ 38,662	\$ 141,244	\$ 628,702	\$ 541,793	\$ 1,390	\$ 1,299	\$ 8,407	\$ 48,530
Municipal bonds.....	80,059	38,950	21,300	—	—	—	—	71,225
Repurchase agreements.....	936,350	—	—	—	—	—	1,460,036	244,129
Asset backed securities.....	226,687	16,674	—	—	—	—	128,686	33,099
Commercial paper.....	—	74,772	—	—	—	—	683,147	80,434
Mutual funds.....	53,476	1,681	—	—	—	—	—	1,150,756
Yankee bonds.....	—	—	310	—	—	—	—	—
Corporate private placements.....	49,684	5,322	76,001	127,555	—	—	17,131	6,006
Guaranteed investment contracts.....	108,062	—	—	—	—	—	—	—
Totals.....	\$ 1,492,980	\$ 278,643	\$ 726,313	\$ 669,348	\$ 1,390	\$ 1,299	\$ 2,297,407	\$ 1,634,179

At fiscal year end, the State Ports Authority (June 30, 2008), the Public Service Authority (December 31, 2007), and the Connector 2000 Association, Inc. (December 31, 2007), 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, Public Service 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.....	\$ 193,749	\$ —	\$ 16,176
Mutual funds.....	2,660	12,516	—
Totals.....	\$ 196,409	\$ 12,516	\$ 16,176

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, 2008, 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.....	\$ 224,443	0.68
U.S. Agencies.....	2,692,176	19.21
<u>State & Local Government</u>		
Municipal bonds.....	159,600	14.81
<u>Corporate</u>		
Corporate bonds.....	1,232,558	3.93
Corporate asset backed.....	208,018	3.41
Private placements.....	227,679	6.19
Yankee bonds.....	310	27.73
<u>Short Term Investments</u>		
Commercial paper.....	297,541	0.00
Mutual funds.....	13,785	0.00
Equity securities.....	60,044	0.00
Repurchase agreements.....	946,350	0.32
Total Invested Assets.....	\$ 6,062,504	

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, 2008, 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.....	\$ 347,859	\$ 73,013	\$ 273,747	\$ 948	\$ 151	\$ —
U.S. Agencies.....	226,520	214,259	7,891	3,678	692	—
Collateralized mortgage obligations..	114	—	—	—	114	—
Corporate bonds.....	177,469	134,851	21,430	1,059	19,469	660
Municipal bonds.....	51,934	—	26,645	184	25,105	—
Equity securities.....	78,219	—	—	—	—	78,219
Repurchase agreements.....	1,694,165	1,694,165	—	—	—	—
Asset backed securities.....	197,128	—	192,428	—	4,700	—
Commercial paper.....	540,812	540,708	—	—	—	104
Mutual funds.....	1,192,128	54,703	25	83	—	1,137,317
Corporate private placements.....	54,020	54,020	—	—	—	—
Guaranteed investment contracts.....	108,062	98,851	—	—	—	9,211
Totals.....	\$ 4,668,430	\$ 2,864,570	\$ 522,166	\$ 5,952	\$ 50,231	\$ 1,225,511

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2008, 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.....	\$ 278,564	\$ 235,565	\$ 42,999	\$ —	\$ —
U.S. Agencies.....	286,536	—	—	286,536	—
Repurchase agreements.....	209,925	193,749	—	—	16,176
Mutual funds.....	15,176	15,176	—	—	—
Totals.....	\$ 790,201	\$ 444,490	\$ 42,999	\$ 286,536	\$ 16,176

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, 2008, the State Treasurer had approximately 57% 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. The following disclosures, with the exception of the amounts reported in the table below, apply to the primary government's Other Post-Employment Benefit Trust Funds reported in subsection e.

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.

State of South Carolina

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, 2008. At June 30, 2008, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. Either the State or the borrower can terminate all securities loans on demand. There are no restrictions on the amount of the loans that can be made. For the fiscal year ended June 30, 2008, 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, 2008, 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, 2008, 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, 2008:

	<u>Amount</u>
Securities lent for cash collateral:	
U.S. Treasuries.....	\$ 1,290,735
Corporate bonds.....	11,389
Total for cash collateral.....	<u>\$ 1,302,124</u>
Cash collateral invested:	
Repurchase agreements.....	\$ 47,255
Asset backed securities.....	1,058,037
Floating Rate Notes.....	210,434
Total collateral invested.....	<u>\$ 1,315,726</u>

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, 2008, the carrying amount of the Systems' deposits was \$40.715 million and the bank balance was \$63.872 million.

Investments

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. 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.

Funds held in trust for the Retirement Systems may be invested and reinvested in a variety of instruments including, but not limited to, fixed income instruments of the United States, foreign fixed income obligations, futures and options, collateralized mortgage obligations, domestic and international equity securities, private equity, real estate, and fund of funds.

The tables presented for disclosures of credit and interest rate risk in accordance with GASB Statement No. 40 are designed to inform financial statement users about investment risks which could affect the Systems' ability to meet its obligations. These tables classify investments by risk type, while the financial statements disclose investments by asset class. The table amounts were provided by the custodian bank and may vary from the Statement of Plan Net Assets primarily because the amounts reported include accrued income receivable.

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 (option adjusted 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 invest in mortgage-backed securities which are reported at fair value in the Statement of Plan Net Assets and are based on cash flows from principal and interest payments of the underlying mortgages. These securities are sensitive to prepayments, which are likely in an environment of declining interest rates, and thereby reduce the value of the security. The systems invests in these securities to diversify the fixed income portfolio and minimize risk.

The effective duration and the fair value of the Systems' investments by investment type at June 30, 2008 (expressed in thousands), is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
<u>Short Term Investments</u>		
Commingled Funds U.S. Debt.....	\$ 140,140	0.00
Mutual Funds.....	251,014	0.08
Repurchase Agreements.....	432,791	0.08
Certificates of Deposit.....	45,153	0.18
Commercial Paper.....	242,637	0.01
U.S. Treasury Bills.....	236,657	0.23
U.S. Government Agencies.....	259,619	0.03
<u>Fixed Income Allocation</u>		
Domestic Fixed Income		
U.S. Government:		
U.S. Government Treasury Notes and Bonds....	177,441	4.81
U.S. Government Agencies.....	23,278	1.57
Mortgage Backed:		
Government National Mortgage Association.....	2,528,428	4.41
Federal National Mortgage Association.....	(597,402)	4.44
Collateralized Mortgage Obligations.....	184,240	4.02
Corporate:		
Corporate Bonds.....	3,026,955	7.24
Asset Backed Securities.....	62,832	4.19
Yankee Bonds	54,449	10.53
Private Placements	776,708	8.95
Global Fixed Income:		
International Commingled Funds.....	3,531,498	Not Required
<u>Convertible Securities</u>		
Convertible Preferred.....	1,042	Not Required
<u>Equity Allocation</u>		
Domestic Equity		
Common Stocks.....	3,305,213	Not Required
Real Estate Investment Trusts.....	67,380	Not Required
Commingled Equity Funds.....	2,800,917	Not Required
Global Equity		
International Commingled Funds.....	485,689	Not Required
<u>Alternatives</u>		
Commingled Funds Balanced.....	2,072,432	Not Required
Total Return Sw aps.....	(171,648)	Not Required
Hedge Funds.....	5,983,862	Not Required
Private Equity Limited Partnership.....	361,188	Not Required
Total Invested Assets	\$ 26,282,513	

State of South Carolina

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and disclosure is not required. As of June 30, 2008, the Systems' fixed income assets that are not government guaranteed represented 77 percent of the fixed income portfolio. As a matter of practice, there are no overarching limitations for credit risk exposures within the overall fixed income portfolio. Each individual portfolio within fixed income is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and average credit quality. The Systems' fixed income investments were rated by Moody's and are presented below:

Investment Type and Fair Value	AAA	AA	A	BAA	BA	B	Not Rated
Short Term Investments							
Commingled Funds U.S. Debt.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 140,140
Mutual Funds.....	—	—	—	—	—	—	251,014
Repurchase Agreements.....	—	—	—	—	—	—	432,791
Certificates of Deposit.....	—	25,153	—	—	—	—	20,000
Commercial Paper.....	—	167,602	—	25,000	—	—	50,035
Fixed Income Allocation							
Corporate:							
Corporate Bonds.....	51,514	91,258	1,202,116	1,466,987	73,172	34,480	107,428
Asset Backed Securities.....	58,606	1,817	2,409	—	—	—	—
Yankee Bonds.....	—	—	39,366	15,083	—	—	—
Private Placements.....	—	133,185	386,084	168,968	—	—	88,471
Global Fixed Income.....							
International Commingled Funds.....	—	—	—	—	—	—	3,531,498
Alternatives.....							
Total Return Sw aps.....	—	—	—	—	—	—	(16,462)
Totals.....	\$ 110,120	\$ 419,015	\$ 1,629,975	\$ 1,676,038	\$ 73,172	\$ 34,480	\$ 4,604,915

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 6% exposure to any single issuer, except for United States Treasury and agency obligations. As of June 30, 2008, there is no single issuer exposure within the portfolio that comprises 6 percent or more of the overall portfolio. Therefore, there is no concentration of credit risk.

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, forwards and swaps. Currency forwards are used to manage currency fluctuations and are permitted by investment policy. 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, 2008, (amounts expressed in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Private Equity
Australian Dollar.....	\$ —	\$ 141,457	\$ —
British Pound Sterling.....	—	558,565	—
Canadian Dollar.....	—	257,263	—
Euro Currency.....	3	1,769,160	34,268
Japanese Yen.....	—	876,241	—
Totals.....	\$ 3	\$ 3,602,686	\$ 34,268

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, \$237.63 million in performance bonds (U.S. Treasury Bills) were held in trust by the clearing broker on June 30, 2008. These assets represent the required margin amount to establish the Systems' futures exposure.

As of June 30, 2008, the Systems had the following exposure to futures contracts (dollar amounts expressed in thousands):

<u>Futures Contracts</u>	<u>Expiration</u>	<u>Long/Short</u>	<u>Quantity</u>	<u>Notional Value*</u>
MTF CAC40 10EU	July	Long	2,595	\$ 181,690
EURX DAX INDEX	September	Long	612	156,201
EURX ER STX 50	September	Long	9,174	488,533
NEW FTSE 100	September	Long	3,882	436,822
HKFE - HIS	July	Long	395	56,033
IBEX 35 PLUS	July	Long	357	67,236
IDEM S&P/MIB	September	Long	285	66,625
TSE TOPIX	September	Long	3,531	438,341
ME S&P CAN 60	September	Long	1,164	197,407
SFE SPI 200	September	Long	1,088	135,388
Total International Equity				2,224,276
CAN GOVT BOND	September	Long	467	53,704
EURX EUR-BOBL	September	Long	1,341	223,486
EURX EUR-BUND	September	Long	1,874	326,457
EURX E-SHATZ	September	Long	1,428	230,212
TSE 10 YR JGB	September	Long	330	420,850
LIF LONG GILT	September	Long	511	106,276
Total International Fixed Income				1,360,985
S&P 500 INDEX	September	Long	23	7,366
EMINI S&P 500	September	Long	1,505	96,403
Total Large Cap Equity				103,769
IMM MINI RUSL	September	Long	1,337	92,480
IMM EMINI MDCP	September	Long	1,423	116,857
Total Small/Mid Cap Equity				209,337
US 2YR T-NOTE	September	Short	(1,332)	(281,323)
CBT 5YR T-NOTE	September	Short	(2,460)	(271,965)
10YR T-NOTE	September	Short	(1,866)	(212,578)
US T-BONDS	September	Short	(1,183)	(136,747)
Total Core Fixed Income				(902,613)
Totals				\$ 2,995,754

*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.

State of South Carolina

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, 2008, the Systems had the following forward exposures, listed by counterparty (amounts expressed in thousands):

Broker	Notional Value	Base Gain/(Loss)	Base Exposure
Goldman Sachs.....	\$ 1,602,423	\$ 32,107	45.19%
Lehman Brothers.....	882,097	15,121	24.88%
Deutsche Bank.....	791,643	8,047	22.33%
Royal Bank of Scotland.....	254,794	1,383	7.19%
UBS.....	14,656	(18)	0.41%
Totals.....	\$ 3,545,613	\$ 56,640	100.00%

The Systems have entered into various swap agreements to manage risk exposure. Swaps are “over-the-counter” (OTC) agreements to exchange a series of cash flows according to specified terms. The underlying asset can be an interest rate, an exchange rate, a commodity price or any other index.

Total return swaps are used to efficiently achieve a target asset allocation. Exposures to an asset class are typically gained by paying a reference rate such as LIBOR, plus or minus a spread, in exchange for the risk and returns of a desired index. Similarly, exposures can be reduced by receiving a reference rate in exchange for the economic risks and returns of an index.

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, 2008, the Systems was exposed to counterparty risk through currency forwards and swap agreements. The Systems does not anticipate any default in our contractual positions.

Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Plan Net Assets. At June 30, 2008, the System held swaps as shown in the table below (amounts expressed in thousands):

Counterparty	Total Return Swaps	SCRS Pays	SCRS Receives	Maturity Date	Current Notional	Gain (Loss) Since Trade
Morgan Stanley	SP500	LIBOR minus 12.5 bps	SP500	9/19/2008	\$ 178,655	\$ (23,590)
Lehman Brothers	High Yield Sw ap	LIBOR plus 120 bps	High Yield	4/30/2009	97,555	(2,445)
Morgan Stanley	MSCI EM Sw ap	LIBOR minus 15 bps	MSCI EM	6/30/2009	251,605	1,605
J.P. Morgan	MSCI EM Sw ap	LIBOR minus 27 bps	MSCI EM	3/13/2009	99,638	(362)
Morgan Stanley	MSCI EM Sw ap	LIBOR minus 25 bps	MSCI EM	3/31/2009	247,845	(2,155)
J.P. Morgan	MSCI EM Sw ap	LIBOR minus 27 bps	MSCI EM	1/31/2009	151,350	1,350
J.P. Morgan	MSCI EM Sw ap	LIBOR minus 29 bps	MSCI EM	2/28/2009	91,972	(8,028)
Merrill Lynch	MSCI EM Sw ap	LIBOR minus 75 bps	MSCI EM	7/31/2008	49,694	(306)
J.P. Morgan	MSCI EM Sw ap	LIBOR minus 69 bps	MSCI EM	8/5/2008	101,118	1,118
Merrill Lynch	MSCI EM Sw ap	LIBOR minus 100 bps	MSCI EM	8/25/2008	159,971	9,971
Credit Suisse	MSCI EM Sw ap	LIBOR minus 55 bps	MSCI EM	12/4/2008	132,307	(17,693)
Credit Suisse	MSCI EAFE + Canada Sw ap	LIBOR minus 33 bps	MSCI EAFE + Canada	12/4/2008	178,928	(21,072)
Morgan Stanley	MSCI EAFE + Canada Sw ap	LIBOR minus 35 bps	MSCI EAFE + Canada	1/8/2009	185,197	(14,803)
Deutsche Bank	MSCI EAFE + Canada Sw ap	LIBOR minus 34 bps	MSCI EAFE + Canada	1/9/2009	279,987	(20,013)
J.P. Morgan	MSCI EAFE + Canada Sw ap	LIBOR minus 31 bps	MSCI EAFE + Canada	10/31/2008	221,495	(28,505)
Morgan Stanley	MSCI EAFE + Canada Sw ap	LIBOR minus 30 bps	MSCI EAFE + Canada	10/31/2008	224,419	(25,581)
Deutsche Bank	MSCI EAFE + Canada Sw ap	LIBOR minus 42 bps	MSCI EAFE + Canada	2/28/2009	240,133	(9,867)
J.P. Morgan	EM Debt Sw ap	LIBOR minus 20 bps	EM Debt	1/12/2009	246,882	(3,118)
J.P. Morgan	EM Debt Sw ap	LIBOR minus 30 bps	EM Debt	1/12/2009	196,537	(3,463)
J.P. Morgan	EM Debt Sw ap	LIBOR minus 10 bps	EM Debt	4/30/2009	243,671	(6,329)
Lehman Brothers	Lehman Agg Sw ap	Lehman Agg	LIBOR	4/30/2009	249,889	111
Total Swap Exposures					\$ 3,828,848	\$ (173,175)

Alternatives

The investment categories on the Statement of Plan Net Assets were modified in 2008 to accommodate the new asset types approved by the Commission to further diversify the assets of the Systems. The Alternatives category includes private equity, global tactical asset allocation, absolute return, and swaps. Private equity 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.

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, global tactical asset allocation, absolute return 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, 2008 was \$1.554 billion (US dollars) and €117 million (Euros), with an additional amount of \$1.875 billion (US dollars) being committed subsequent to year-end. The commitment agreements represent the Investment Commission's continued reallocation and transition efforts for investments. In addition, the Systems was committed to purchase Federal National Mortgage Association TBA's (To be Announced) with a market value of \$601 million as of June 30, 2008.

Securities Lending

Through a custodial agent, the Systems participate in a securities lending program whereby securities are loaned for the purpose of generating additional income. The Systems lends 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 percent 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 percent.

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, 2008, included U. S. Government securities, U. S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodial bank provides indemnification in the event the borrower fails to return the securities lent 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 invests 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. All securities loaned can be terminated on demand by either the Systems or the borrower. At year end the average number of days the loans were outstanding was 1 day. The average weighted maturity of investments made with cash collateral was 30 days. At June 30, 2008, 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, 2008:

	June 30, 2008					
	SCRS	PORS	GARS	JSRS	NGPS	TOTALS
Securities lent for cash collateral:						
U.S. Government securities	\$ 128,438	\$ 17,154	\$ 242	\$ 699	\$ 87	\$ 146,620
U.S. Government agencies	2,135,942	285,280	4,023	11,618	1,438	2,438,301
Corporate bonds	17,817	2,380	34	97	12	20,340
Common Stock	1,005,771	134,332	1,894	5,471	678	1,148,146
Total securities lent for cash collateral	<u>\$ 3,287,968</u>	<u>\$ 439,146</u>	<u>\$ 6,193</u>	<u>\$ 17,885</u>	<u>\$ 2,215</u>	<u>\$ 3,753,407</u>
Cash collateral invested as follows:						
Repurchase agreements	\$ 83,885	\$ 11,204	\$ 158	\$ 456	\$ 56	\$ 95,759
Corporate bonds	-	-	-	-	-	-
Asset Backed Securities	616,902	82,394	1,162	3,356	416	704,230
Bank Notes	-	-	-	-	-	-
Floating Rate Notes	2,624,652	350,553	4,944	14,277	1,768	2,996,194
Total for cash collateral invested	<u>\$ 3,325,439</u>	<u>\$ 444,151</u>	<u>\$ 6,264</u>	<u>\$ 18,089</u>	<u>\$ 2,240</u>	<u>\$ 3,796,183</u>

e. Other Post-Employment Benefit Trust Funds

The State Treasurer is the custodian and investment manager of all deposits and investments of the South Carolina Retiree Health Insurance Trust Fund and the Long-term Disability Insurance Trust Fund (the “Trusts”).

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a depository financial institution’s failure, the Trusts’ 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, 2008, the reported amount of the Trusts’ deposits was negative \$21 thousand.

Investments

In accordance with State Law, the Trusts may invest in a variety of instruments including obligations of the United States and its agencies and securities fully guaranteed by the United States, certain corporate obligations, certain shares of Federal savings and loan associations and State chartered savings and loan associations, and collateralized repurchase agreements. All investments are required to be insured or registered, or held by the State or its agent in the name of the State Treasurer as custodian.

With respect to investments in the State internal cash management pool, all of the State Treasurer’s investments are insured or registered or are investments for which the securities are held by the State or its agents in the State’s name.

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.

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. As of June 30, 2008, the Trusts’ applicable debt investments (expressed in thousands) were rated by Standard & Poor’s and are presented below:

Investment Type and Fair Value	AA	A	BBB	BB	Not Rated
Corporate bonds.....	\$ 498	\$ 28,209	\$ 52,324	\$ 463	\$ —
Repurchase agreements.....	—	—	—	—	149,950
Asset backed securities.....	—	—	—	173	—
Corporate private placements.....	556	454	6,576	—	—
Totals.....	\$ 1,054	\$ 28,663	\$ 58,900	\$ 636	\$ 149,950

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, 2008, the effective duration and fair value of the Trusts’ investments by investment type, are as follows (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
<u>U.S. Government</u>		
U.S. Agencies.....	\$ 57,927	19.38
<u>Corporate</u>		
Corporate bonds.....	81,494	5.85
Corporate asset backed.....	173	5.51
Private placements.....	7,586	10.39
<u>Short Term Investments</u>		
Repurchase agreements	149,950	0.00
Total Invested Assets.....	\$ 297,130	

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.

Securities Lending

The Trusts participate in the Securities Lending Program as described in subsection c. 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, 2008:

	<u>Amount</u>
Securities lent for cash collateral:	
U.S. Treasuries.....	\$ 2,605
Corporate bonds.....	22
Total for cash collateral.....	\$ 2,627
Cash collateral invested:	
Repurchase agreements.....	\$ 79
Asset backed securities.....	2,137
Floating Rate Notes.....	427
Total collateral invested.....	\$ 2,643

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, 2008, for the primary government were as follows:

Allowances for Uncollectibles	Governmental Activities					Total Governmental Activities
	Governmental Funds					
	General	Departmental General Operating	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	
Income taxes receivable.....	\$ 170,296	\$ —	\$ —	\$ —	\$ —	\$ 170,296
Sales and other taxes receivable.....	50,242	685	—	18,165	—	69,092
Patient accounts receivable.....	16,879	39,006	—	—	—	55,885
Loans and notes receivable.....	14	—	—	837	—	851
Other receivables.....	3	13,671	6,212	1	109	19,996
Total allowances for uncollectibles.....	\$ 237,434	\$ 53,362	\$ 6,212	\$ 19,003	\$ 109	\$ 316,120

Allowances for Uncollectibles	Business-type Activities (Enterprise Funds)					Total Business-type Activities
	Higher Education	Unemployment Compensation Benefits	Medical University Hospital Authority	Nonmajor Enterprise Funds		
	Contributions receivable.....	\$ 473	\$ —	\$ —	\$ 74	
Student accounts receivable.....	8,214	—	—	—	8,214	
Patient accounts receivable.....	—	—	70,400	82,346	152,746	
Loans and notes receivable—restricted.....	71	—	—	254	325	
Assessments receivable.....	—	6,932	—	—	6,932	
Other receivables.....	260	4,754	—	—	5,014	
Total allowances for uncollectibles.....	\$ 9,018	\$ 11,686	\$ 70,400	\$ 82,674	\$ 173,778	

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, 2008, were as follows:

Net Long-term Receivables	Governmental Activities						Total Governmental Activities
	Governmental Funds						
	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	
Accounts receivable.....	\$ 163	\$ 18,091	\$ 963	\$ —	\$ —	\$ 97	\$ 19,314
Income taxes receivable.....	54,607	—	—	—	—	—	54,607
Sales and other taxes receivable.....	39	—	—	—	1	—	40
Patient accounts receivable.....	9,643	3,784	—	—	—	—	13,427
Loans and notes receivable.....	12	460	472,629	6,697	26,246	—	506,044
Accounts receivable—restricted.....	—	—	417,319	—	—	—	417,319
Total long-term receivables, net.....	\$ 64,464	\$ 22,335	\$ 890,911	\$ 6,697	\$ 26,247	\$ 97	\$ 1,010,751

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, 2008, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes	\$ 54,647	\$ 23,750	\$ 78,397
Federal grants.....	—	29,415	29,415
Contributions.....	408,618	26,861	435,479
Departmental services.....	46,702	2,983	49,685
Total deferred revenues.....	\$ 509,967	\$ 83,009	\$ 592,976

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, 2008 (expressed in thousands) were as follows:

Asset/Restricted For	Govern- mental Activities	Business- type Activities	Major Component Units
Current:			
Cash and cash equivalents			
Debt service.....	\$ 82,390	\$ 154,674	\$ 121,773
Capital projects.....	—	208,046	—
Student loan programs.....	—	363	—
Donor/sponsor specified.....	—	52,460	—
Second Injury Fund claims.....	—	49,800	—
Other.....	—	10,931	463
Total cash and cash equivalents.....	\$ 82,390	\$ 476,274	\$ 122,236
Investments			
Debt service.....	\$ 6,829	\$ 921	\$ 75,197
Donor/sponsor specified.....	—	8,441	—
Endowments.....	—	75	—
Other.....	—	—	16,319
Total investments.....	\$ 6,829	\$ 9,437	\$ 91,516
Loans receivable			
Debt service.....	—	18,606	—
Student loan programs.....	—	976	—
Total loans receivable.....	\$ —	\$ 19,582	\$ —
Other			
Debt service.....	\$ 72,207	\$ 205	\$ 1
Donor/sponsor specified.....	—	299	—
Endowments.....	—	2,761	—
Second Injury Fund claims.....	—	567	—
Other.....	—	71	—
Total other.....	\$ 72,207	\$ 3,903	\$ 1

<u>Asset/Restricted For</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Major Component Units</u>
Noncurrent:			
Cash and cash equivalents			
Debt service.....	\$ 324,800	\$ 88,578	\$ 12,154
Capital projects.....	65,794	111,584	78,493
Student loan programs.....	—	6,591	—
Endowments.....	—	41,110	—
Other.....	10,000	96,038	1,683
Total cash and cash equivalents.....	<u>\$ 400,594</u>	<u>\$ 343,901</u>	<u>\$ 92,330</u>
Investments			
Debt service.....	\$ —	\$ 53,853	\$ 60,178
Capital projects.....	—	—	115,118
Student loan programs.....	—	925	—
Endowments.....	—	44,461	—
Other.....	—	120	93,792
Total investments.....	<u>\$ —</u>	<u>\$ 99,359</u>	<u>\$ 269,088</u>
Receivables			
Debt service.....	\$ 417,319	\$ —	\$ —
Endowments.....	—	27,264	—
	<u>\$ 417,319</u>	<u>\$ 27,264</u>	<u>\$ —</u>
Loans receivable			
Debt service.....	\$ —	\$ 843,963	\$ —
Student loan programs.....	—	55,542	—
Total loans receivable.....	<u>\$ —</u>	<u>\$ 899,505</u>	<u>\$ —</u>
Other			
Debt service.....	\$ 3,988	\$ 337	\$ 439
Donor/sponsor specified.....	—	460	—
Endowments.....	—	386	—
Total other.....	<u>\$ 3,988</u>	<u>\$ 1,183</u>	<u>\$ 439</u>

NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2008, for the primary government was as follows:

	Beginning Balances July 1, 2007	Increases	Decreases	Ending Balances June 30, 2008
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 1,570,524	\$ 115,368	\$ (254)	\$ 1,685,638
Construction in progress.....	3,961,700	359,537	(409,363)	3,911,874
Works of art and historical treasures.....	3,951	11	—	3,962
<i>Total capital assets not being depreciated....</i>	<u>5,536,175</u>	<u>474,916</u>	<u>(409,617)</u>	<u>5,601,474</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	58,717	627	(1)	59,343
Infrastructure (road and bridge network).....	8,663,564	378,307	(4,448)	9,037,423
Buildings and improvements.....	1,631,063	13,640	(13,103)	1,631,600
Vehicles.....	606,851	87,636	(50,145)	644,342
Machinery and equipment.....	455,077	34,357	(22,103)	467,331
Works of art and historical treasures.....	8	—	—	8
Intangibles.....	53,746	246	(2,931)	51,061
Total capital assets being depreciated, at historical cost.....	<u>11,469,026</u>	<u>514,813</u>	<u>(92,731)</u>	<u>11,891,108</u>
Less accumulated depreciation for:				
Land improvements.....	(39,731)	(1,849)	1	(41,579)
Infrastructure (road and bridge network).....	(2,187,353)	(127,970)	3,993	(2,311,330)
Buildings and improvements.....	(611,589)	(41,696)	11,370	(641,915)
Vehicles.....	(409,256)	(45,689)	46,367	(408,578)
Machinery and equipment.....	(316,623)	(30,475)	19,773	(327,325)
Works of art and historical treasures.....	(2)	—	—	(2)
Intangibles.....	(47,178)	(3,137)	599	(49,716)
Total accumulated depreciation.....	<u>(3,611,732)</u>	<u>(250,816)</u>	<u>82,103</u>	<u>(3,780,445)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>7,857,294</u>	<u>263,997</u>	<u>(10,628)</u>	<u>8,110,663</u>
Capital assets for governmental activities, net.....	<u>\$ 13,393,469</u>	<u>\$ 738,913</u>	<u>\$ (420,245)</u>	<u>\$ 13,712,137</u>

State of South Carolina

	Beginning Balances July 1, 2007*	Increases	Decreases	Ending Balances June 30, 2008
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 215,058	\$ 20,493	\$ —	\$ 235,551
Construction in progress.....	555,545	448,398	(563,159)	440,784
Works of art and historical treasures.....	16,931	25	—	16,956
<i>Total capital assets not being depreciated.....</i>	<u>787,534</u>	<u>468,916</u>	<u>(563,159)</u>	<u>693,291</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	164,556	22,036	(2,144)	184,448
Buildings and improvements.....	3,698,994	553,868	(15,692)	4,237,170
Vehicles.....	44,380	5,604	(1,428)	48,556
Machinery and equipment.....	733,345	158,545	(37,103)	854,787
Works of art and historical treasures.....	14,710	7	—	14,717
Intangibles.....	16,904	1,467	(86)	18,285
Total capital assets being depreciated, at historical cost.....	<u>4,672,889</u>	<u>741,527</u>	<u>(56,453)</u>	<u>5,357,963</u>
Less accumulated depreciation for:				
Land improvements.....	(48,623)	(7,462)	118	(55,967)
Buildings and improvements.....	(1,359,940)	(114,885)	6,775	(1,468,050)
Vehicles.....	(30,746)	(2,842)	1,319	(32,269)
Machinery and equipment.....	(462,460)	(67,257)	33,506	(496,211)
Works of art and historical treasures.....	(5,666)	(523)	—	(6,189)
Intangibles.....	(14,039)	(1,037)	67	(15,009)
Total accumulated depreciation.....	<u>(1,921,474)</u>	<u>(194,006)</u>	<u>41,785</u>	<u>(2,073,695)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,751,415</u>	<u>547,521</u>	<u>(14,668)</u>	<u>3,284,268</u>
Capital assets for business-type activities, net.....	<u>\$ 3,538,949</u>	<u>\$ 1,016,437</u>	<u>\$ (577,827)</u>	<u>\$ 3,977,559</u>

* Beginning balances in accumulated depreciation were reclassified between Machinery and equipment and Intangibles.

Capital assets for the State's fiduciary funds were comprised of land and a building totaling \$5.331 million with accumulated depreciation of \$1.872 million. Depreciation expense for fiscal year 2007-2008 was \$118 thousand. There were no additions or dispositions of capital assets during the year.

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

	Beginning Balances January 1, 2007	Increases	Decreases	Ending Balances December 31, 2007
Public Service Authority:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 100,770	\$ 4,546	\$ (224)	\$ 105,092
Construction in progress.....	1,286,639	575,446	(959,807)	902,278
<i>Total capital assets not being depreciated.....</i>	<u>1,387,409</u>	<u>579,992</u>	<u>(960,031)</u>	<u>1,007,370</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements (utility plant).....	4,484,376	953,955	(24,599)	5,413,732
Vehicles.....	38,105	54	(1,472)	36,687
Machinery and equipment.....	21,406	207	(1,520)	20,093
Intangibles.....	48,061	—	(8)	48,053
Total capital assets being depreciated, at historical cost.....	<u>4,591,948</u>	<u>954,216</u>	<u>(27,599)</u>	<u>5,518,565</u>
Less accumulated depreciation for:				
Buildings and improvements (utility plant).....	(2,033,801)	(180,201)	19,908	(2,194,094)
Vehicles.....	(20,265)	(1,730)	1,089	(20,906)
Machinery and equipment.....	(9,395)	(1,036)	810	(9,621)
Intangibles.....	(39,605)	(926)	8	(40,523)
Total accumulated depreciation.....	<u>(2,103,066)</u>	<u>(183,893)</u>	<u>21,815</u>	<u>(2,265,144)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,488,882</u>	<u>770,323</u>	<u>(5,784)</u>	<u>3,253,421</u>
Public Service Authority, net.....	<u>\$ 3,876,291</u>	<u>\$ 1,350,315</u>	<u>\$ (965,815)</u>	<u>\$ 4,260,791</u>
	Beginning Balances January 1, 2007	Increases	Decreases	Ending Balances December 31, 2007
Connector 2000 Association:				
<i>Capital assets being depreciated:</i>				
Infrastructure (toll road).....	\$ 192,481	\$ —	\$ —	\$ 192,481
Machinery and equipment.....	626	129	(46)	709
Total capital assets being depreciated, at historical cost.....	<u>193,107</u>	<u>129</u>	<u>(46)</u>	<u>193,190</u>
Less accumulated depreciation for:				
Infrastructure (toll road).....	(29,939)	(5,243)	—	(35,182)
Machinery and equipment.....	(517)	(37)	46	(508)
Total accumulated depreciation.....	<u>(30,456)</u>	<u>(5,280)</u>	<u>46</u>	<u>(35,690)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>162,651</u>	<u>(5,151)</u>	<u>—</u>	<u>157,500</u>
Connector 2000 Association, net.....	<u>\$ 162,651</u>	<u>\$ (5,151)</u>	<u>\$ —</u>	<u>\$ 157,500</u>

State of South Carolina

	Beginning Balances July 1, 2007	Increases	Decreases	Ending Balances June 30, 2008
State Ports Authority:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 167,355	\$ 23,550	\$ —	\$ 190,905
Construction in progress.....	89,780	43,472	(78,960)	54,292
Intangibles.....	2,190	—	—	2,190
<i>Total capital assets not being depreciated.....</i>	<u>259,325</u>	<u>67,022</u>	<u>(78,960)</u>	<u>247,387</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	168,938	13,549	—	182,487
Buildings and improvements.....	270,631	56,920	(9,027)	318,524
Machinery and equipment.....	138,925	5,625	(913)	143,637
Intangibles.....	876	—	—	876
Total capital assets being depreciated, at historical cost.....	<u>579,370</u>	<u>76,094</u>	<u>(9,940)</u>	<u>645,524</u>
Less accumulated depreciation for:				
Land improvements.....	(111,631)	(6,663)	—	(118,294)
Buildings and improvements.....	(159,049)	(11,604)	9,038	(161,615)
Machinery and equipment.....	(63,947)	(10,300)	800	(73,447)
Intangibles.....	(395)	(39)	—	(434)
Total accumulated depreciation.....	<u>(335,022)</u>	<u>(28,606)</u>	<u>9,838</u>	<u>(353,790)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>244,348</u>	<u>47,488</u>	<u>(102)</u>	<u>291,734</u>
State Ports Authority, net.....	<u>\$ 503,673</u>	<u>\$ 114,510</u>	<u>\$ (79,062)</u>	<u>\$ 539,121</u>

	Beginning Balances July 1, 2007	Increases	Decreases	Ending Balances June 30, 2008
Lottery Commission:				
<i>Capital assets being depreciated:</i>				
Buildings and improvements.....	\$ 955	\$ 361	\$ —	\$ 1,316
Vehicles.....	69	—	—	69
Machinery and equipment.....	20,854	269	(67)	21,056
Total capital assets being depreciated, at historical cost.....	<u>21,878</u>	<u>630</u>	<u>(67)</u>	<u>22,441</u>
Less accumulated depreciation for:				
Buildings and improvements.....	(661)	(97)	—	(758)
Vehicles.....	(69)	—	—	(69)
Machinery and equipment.....	(18,503)	(1,968)	58	(20,413)
Total accumulated depreciation.....	<u>(19,233)</u>	<u>(2,065)</u>	<u>58</u>	<u>(21,240)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,645</u>	<u>(1,435)</u>	<u>(9)</u>	<u>1,201</u>
Lottery Commission, net.....	<u>\$ 2,645</u>	<u>\$ (1,435)</u>	<u>\$ (9)</u>	<u>\$ 1,201</u>

During the fiscal year ended June 30, 2008, 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):

	Governmental Funds	Internal Service Funds	Total Governmental Activities
General government.....	\$ 16,850	\$ 9,023	\$ 25,873
Education.....	24,372	2,014	26,386
Health and environment.....	13,048	1,315	14,363
Social services.....	495	2,106	2,601
Administration of justice.....	25,220	1,266	26,486
Resources and economic development.....	11,037	308	11,345
Transportation.....	143,762	—	143,762
Total depreciation expense, governmental activities.....	<u>\$ 234,784</u>	<u>\$ 16,032</u>	<u>\$ 250,816</u>

	Business- type Activities
Higher Education.....	\$ 155,668
Housing Authority.....	42
Medical University Hospital Authority...	32,379
Education Assistance Authority.....	113
Other.....	5,804
Total depreciation expense, business-type activities.....	<u>\$ 194,006</u>

Included in the \$5.804 million for other business-type activities is depreciation expense of \$886 thousand that is reported in nonoperating revenues (expenses) in the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds.

	Major Component Units
Public Service Authority.....	\$ 183,893
Connector 2000 Association, Inc.....	5,280
State Ports Authority.....	28,606
Lottery Commission.....	2,065

At June 30, 2008, the primary government had outstanding construction commitments totaling \$681.484 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled \$61.401 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 \$168 thousand at June 30, 2008, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: \$354.675 million for the Public Service Authority at December 31, 2007, and \$32.156 million for the State Ports Authority at June 30, 2008.

The total interest expense incurred by the State’s enterprise and internal service funds during the current fiscal year was \$165.013 million and \$2.222 million, respectively. Of the amount incurred by the State’s enterprise funds, \$10.815 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 \$193.687 million during its fiscal year ended December 31, 2007, 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 \$16.554 million during its fiscal year ended June 30, 2008, of which \$1.018 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 division 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 Systems 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:

South Carolina Retirement Systems
PO Box 11960
Columbia, South Carolina 29211-1960

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. 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 at age fifty-five with 25 years of service credit. A member is eligible to receive a reduced deferred annuity at age 60 with 5 years of earned service.

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. 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. A monthly pension is payable at age fifty-five for members who retire with five years earned service or with 25 years of service regardless of age. 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, solicitors, and circuit public defenders of the State. 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 or circuit public defender. 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 or circuit public defender regardless of age. Members receive a retirement benefit equal to 71.3% of the current active salary of the position occupied at retirement.

NGPS, established by Section 9-10-30 of the South Carolina Code of Laws, is a single employer defined benefit pension plan that provides benefits to National Guard members who served in South Carolina. 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 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 and active members as of June 30, 2008, is as follows (dollars expressed in thousands):

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>NGPS</u>
State and school					
Number of employers.....	107	46	1	1	1
Annual covered payroll.....	\$ 5,349,891	\$ 373,839	\$ 3,099	\$ 14,488	N/A ^a
Average number of contributing members....	144,639	10,870	170	144	N/A ^b
Other participating employers					
Number of employers.....	583	293	—	—	—
Annual covered payroll.....	\$ 1,773,063	\$ 620,307	\$ —	\$ —	\$ —
Average number of contributing members....	54,466	16,395	—	—	—

^a Annual covered payroll is not applicable for NGPS because it is a non-contributory plan.

^b Members do not contribute; average number of members is 12,559.

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 contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. 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, 2008, were as follows:

<u>Plan</u>	<u>Rate</u>
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, 2008, were as follows:

<u>Plan</u>	<u>Rate</u>
SCRS	9.21%
PORS	10.70%
GARS	78.74%
JSRS	45.09%

The State appropriated \$3.948 million to fund the NGPS actuarially determined employer contribution for the fiscal year ended June 30, 2008.

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, 2008, were \$577 thousand for SCRS and \$19 thousand for PORS.

State of South Carolina

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.....	\$2,440	\$7,613	\$3,923
Employer contributions made.....	\$2,440	\$7,613	\$3,948
Actuarial valuation date.....	July 1, 2007	July 1, 2007	July 1, 2007
Actuarial cost method.....	Entry age	Entry age	Entry age
Amortization method.....	Level dollar, closed	Level percent, open	Level dollar, open
Remaining amortization period.....	18 years	28 years	26 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, 2008 (expressed in thousands):

	<u>NGPS</u>
Actuarially required contribution (ARC).....	\$ 3,948
Interest on the NPO.....	710
Adjustment to the ARC.....	(961)
Annual pension cost.....	3,697
Contributions made.....	(3,948)
Decrease in NPO.....	(251)
NPO beginning of year.....	6,871
Adjustments to beginning balance.....	2,926
NPO end of year.....	\$ 9,546

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, 2008</u>		<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	Required	%	Required	%	Required	%
SCRS—State:						
Primary government.....	\$ 246,172	100.0%	\$ 202,865	100.0%	\$ 184,109	100.0%
Component units.....	13,606	100.0%	11,614	100.0%	10,517	100.0%
PORS—State:						
Primary government.....	41,962	100.0%	39,589	100.0%	37,256	100.0%
Component units.....	71	100.0%	72	100.0%	54	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	2006	\$ 2,171	100.0%	\$ —
	2007	2,358	100.0%	—
	2008	2,440	100.0%	—
JSRS	2006	6,511	100.0%	—
	2007	6,706	100.0%	—
	2008	7,613	100.0%	—
NGPS	2006	2,969	132.8%	9,935
	2007	3,948	130.6%	9,797
	2008	3,923	100.6%	9,546

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	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%
	2007	23,541,438	33,766,678	10,225,240	69.7%	7,093,181	144.2%
PORS	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%
	2007	3,160,240	3,730,544	570,304	84.7%	992,849	57.4%

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	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%
	2007	46,925	71,014	24,089	66.1%	3,854	625.0%
JSRS	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%
	2007	132,990	229,388	96,398	58.0%	16,407	587.5%

Plan	Actuarial Valuation Date	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	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
	2007	15,937	55,917	39,980	28.5%	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, 2008, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
Receivables:						
Contributions.....	\$ 156,756	\$ 17,158	\$ 37	\$ 737	\$ —	\$ 174,688
Employer long-term.....	577	19	—	—	—	596
Accrued interest.....	77,503	10,476	146	423	52	88,600
Unsettled investment sales.....	721,176	96,321	1,358	3,923	486	823,264
Other investment receivables.....	3,923	524	8	21	3	4,479
Total receivables.....	\$ 959,935	\$ 124,498	\$ 1,549	\$ 5,104	\$ 541	\$ 1,091,627
Due from other funds.....	\$ 11,094	\$ 366	\$ 8	\$ —	\$ 175	\$ 11,643
Investments and invested securities lending collateral:						
Short-term securities.....	\$ 89,014	\$ 11,889	\$ 168	\$ 484	\$ 60	\$ 101,615
Debt-domestic.....	5,390,761	727,962	10,140	29,283	3,626	6,161,772
Debt-international.....	3,093,577	413,183	5,827	16,828	2,083	3,531,498
Equity-domestic.....	5,406,024	722,037	10,183	29,406	3,642	6,171,292
Equity-international.....	425,462	56,825	801	2,314	287	485,689
Alternatives.....	7,223,315	964,757	13,605	39,291	4,866	8,245,834
Invested securities lending collateral.....	3,325,439	444,151	6,264	18,089	2,240	3,796,183
Total investments.....	\$ 24,953,592	\$ 3,340,804	\$ 46,988	\$ 135,695	\$ 16,804	\$ 28,493,883

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 7,899 members were participating in the TERI program at June 30, 2008. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2008, was as follows:

Beginning balance of TERI trust accounts..	\$	641,750
Additions		219,078
TERI distributions at termination.....		(308,917)
Ending balance of TERI trust accounts	\$	551,911

i. Defined Contribution Plan

As an alternative to membership in SCRS, certain State and public school employees may elect to participate in the State Optional Retirement Program (State ORP). Participants in the 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). A direct remittance is required from the employers to the investment providers for the employee contribution (6.5%) and a portion of the employer contribution (5.0%). A direct remittance is also required to the SCRS for a portion of the employer contribution (3.05%) and a group life contribution (0.15%), which is retained by the SCRS. The activity for the State ORP is as follows (expressed in thousands):

Covered payroll.....	\$	854,301
Employee contributions.....		55,530
Employer contributions.....		42,715

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

a. Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits (OPEB plans) to retired State and school district employees and their covered dependents. The OPEB plans have been determined to be cost-sharing multiple-employer defined benefit plans and are administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

b. Funding Policies

Sections 1-11-705 and 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these post-employment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the healthcare plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.42% of annual covered payroll for fiscal year 2007-2008. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The State paid \$36.630 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2008. The net estimated OPEB obligation at June 30, 2008 was \$113.604 million. This OPEB obligation is not recorded in the State's financial statements because the State's annual OPEB expense is based on the pay-as-you-go funding level. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal year ended June 30, 2008.

State of South Carolina

Effective May 1, 2008, the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund (SCRHITF) is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars (\$63.479 million), accumulated EIP reserves (\$248.726 million), and income generated from investments. The Long Term Disability Insurance Trust Fund (LTDITF) is primarily funded through investment income and employer contributions.

c. Funding Progress

The schedule of funding progress for the OPEB plans based on the most recent actuarial valuation date is as follows (dollar amounts expressed in thousands):

OPEB Plan	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of covered Payroll ((b-a) / c)
SCRHITF	June 30, 2007	\$ —	\$ 8,581,073	\$ 8,581,073	0%	\$ 7,112,053	121%
LTDITF	June 30, 2007	\$ —	\$ 28,048	\$ 28,048	0%	\$ 7,781,719	< 1%

Complete financial statements for the OPEB plans and the trust funds may be obtained by writing to:

Employee Insurance Program
1201 Main Street, Suite 360
Columbia, SC 29201.

d. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2008, for the OPEB plans administered by the Employee Insurance Program were as follows:

	SCRHI	LTDI	Totals
Accrued interest receivable.....	\$ 586	\$ 99	\$ 685
Due from other funds.....	\$ 36,630	\$ —	\$ 36,630
Investments and invested securities lending collateral:			
Debt-domestic	\$ 122,950	\$ 19,916	\$ 142,866
Financial and Other	2,023	2,286	4,309
Invested securities lending collateral.....	2,041	602	2,643
Total investments.....	\$ 127,014	\$ 22,804	\$ 149,818

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 \$215.902 million at June 30, 2008, includes a provision for claims in the process of review and for claims incurred but not reported. The liability for claims incurred but not reported is an actuarial estimate based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. This process does not necessarily result in an exact amount. The IRF continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

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

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2007	\$ 214,651	\$ 20,518	\$ (33,986)	\$ 201,183
2008	201,183	45,737	(31,018)	215,902

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.

Effective May 2008, Basic Long-Term Disability premiums were transferred to the Long-Term Disability Insurance Trust Fund in accordance with Act 195. Basic Long-Term Disability claims are transferred each month out of this trust. The outstanding liability (claims payable) for Basic Long-Term Disability has been eliminated from the Fund's financial reporting. Also effective May 2008, in accordance with Act 195, the Fund began transferring the employer portion of retiree premiums for health and dental insurance from the South Carolina Retiree Health Insurance Trust Fund for claims payment.

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 \$184.593 million at June 30, 2008, 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.

Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2008, \$8.646 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
2007	\$ 193,760	\$ 1,329,600	\$ (1,324,582)	\$ 198,778
2008	198,778	1,420,653	(1,434,838)	184,593

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, 2008, the Fund's policy claims liability was \$188.810 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
2007	\$ 127,509	\$ 81,970	\$ (50,287)	\$ 159,192
2008	159,192	80,460	(50,842)	188,810

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 \$182.368 million for the PCF at June 30, 2008, and \$196.995 million for the JUA at December 31, 2007, 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.

Per Section 42-7-200(a) of the South Carolina Code of Laws of 1976, as amended, the Second Injury Fund is responsible for administering the Workers’ Compensation Uninsured Employers’ Fund. The State reports the Workers’ Compensation Uninsured Employers’ Fund in its Other Special Revenue Fund. The Fund issues payment of awards of workers’ compensation benefits, which are unpaid because of employers who fail to acquire necessary coverage for employees. Funding for payment of awards is provided from collections of the tax on insurance carriers and self-insured persons in an amount sufficient to maintain the fund. The policy claims liability reported on the government-wide statement of net assets at June 30, 2008, was \$28.148 million.

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 \$250 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 2007.

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, 2007, the policy claims liabilities were \$2.140 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

Fiscal Year Ended December 31	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2006	\$ 2,597	\$ 1,375	\$ (1,570)	\$ 2,402
2007	2,402	2,360	(2,622)	2,140

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, 2008 for the primary government and the State's discretely presented component units were as follows (expressed in thousands):

<u>Fiscal Year Ending June 30</u>	Governmental Activities	Business- type Activities	Totals
2009	\$ 361	\$ 10,893	\$ 11,254
2010	252	9,131	9,383
2011	174	5,448	5,622
2012	169	4,261	4,430
2013	21	3,604	3,625
2014-2018	—	17,329	17,329
2019-2023	—	7,207	7,207
2024-2028	—	2,197	2,197
Total minimum payments.....	977	60,070	61,047
Less: interest and executory costs.....	(305)	(12,022)	(12,327)
Present value of net minimum payments.....	\$ 672	\$ 48,048	\$ 48,720

<u>Fiscal Year Ending December 31</u>	Public Service Authority
2008	\$ 3,038
2009	2,737
2010	1,934
2011	1,610
2012	1,343
2013-2016	1,276
Total minimum payments.....	11,938
Less: interest and executory costs.....	(1,540)
Present value of net minimum payments.....	\$ 10,398

The present value of future minimum capital lease payments for the State Ports Authority is \$15 thousand at June 30, 2008. The payments are due next fiscal year.

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2008, 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.....	1,309	80,675	81,984	89,400	—
Machinery and equipment.....	1,121	34,084	35,205	—	185
Works of art and historical treasures.....	—	330	330	—	—
Assets acquired under capital leases before accumulated amortization.....	2,430	124,586	127,016	89,400	185
Less: accumulated amortization.....	(782)	(43,069)	(43,851)	(84,400)	(178)
Assets acquired under capital leases, net.....	\$ 1,648	\$ 81,517	\$ 83,165	\$ 5,000	\$ 7

For the primary government's fiscal year ended June 30, 2008, minimum rental payments under operating leases were \$48.515 million and contingent rental payments were \$5.208 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 \$7.600 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$1.106 million. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$873 thousand.

At June 30, 2008, future minimum payments under noncancelable operating leases with remaining terms in excess of one year were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government	Component Unit Lottery Commission
	2009	\$ 53,427
2010	47,863	765
2011	38,712	768
2012	27,807	706
2013	19,897	635
2014-2018	32,888	1,842
2019-2023	10,160	—
2024-2028	2,678	—
2029-2033	514	—
2034-2038	500	—
Total minimum payments.....	\$ 234,446	\$ 5,463

Fiscal Year Ending December 31	Public Service Authority
2008	\$ 4,800
2009	297
Total minimum payments.....	\$ 5,097

b. Facilities Leased to Others

At June 30, 2008, 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 \$542.289 million and related accumulated depreciation of \$228.056 million. Future minimum rental payments to be received at June 30, 2008, under these operating leases were as follows (expressed in thousands):

<u>Fiscal Year Ending June 30</u>	<u>State Ports Authority</u>
2009	\$ 52,516
2010	41,957
2011	22,581
2012	7,114
2013	683
2014-2018	1,885
2019-2023	744
2024-2028	500
2029-2033	500
2034-2037	117
Total.....	<u>\$ 128,597</u>

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, 2008, were:

Governmental Activities	
Capital improvement bonds, 2.50% to 5.90%, maturing serially through 2019.....	\$ 514,410
State highway bonds, 2.25% to 5.00%, maturing serially through 2023.....	622,145
State school facilities bonds, 3.00% to 5.75%, maturing serially through 2018.....	476,498
Infrastructure Bank bonds, 3.00% to 5.00%, maturing through 2028.....	53,742
State economic development bonds, 1.00% to 6.75%, maturing serially through 2031.....	217,449
Research university infrastructure bonds, 3.00% to 6.25%, maturing serially through 2021.....	132,708
Subtotal—governmental activities.....	<u>2,016,952</u>
Business-type Activities, Higher Education Fund	
State institution bonds, 2.50% to 6.00%, maturing serially through 2028.....	351,481
Total—general obligation bonds payable.....	<u>\$ 2,368,433</u>

At June 30, 2008, \$6.344 million of capital improvement bonds, \$42.185 million of State economic development bonds, and \$69.390 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2008, future debt service requirements (expressed in thousands) for general obligation bonds were:

Year Ending June 30	Governmental Activities		Business-type Activities (Higher Education Fund)	
	Principal	Interest	Principal	Interest
2009	\$ 204,698	\$ 88,593	\$ 19,860	\$ 14,929
2010	187,501	79,197	19,810	14,162
2011	184,485	70,409	20,410	13,309
2012	175,205	61,765	20,970	12,418
2013	181,120	53,487	21,855	11,525
2014-2018	763,635	152,197	115,845	42,443
2019-2023	267,100	31,339	88,840	18,902
2024-2028	35,575	5,836	44,180	3,711
2029-2031	10,630	538	—	—
Total debt service requirements.....	2,009,949	\$ 543,361	351,770	\$ 131,399
Unamortized premiums.....	14,507		655	
Deferred amount on refunding...	(7,504)		(944)	
Total principal outstanding.....	\$ 2,016,952		\$ 351,481	

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, 2008, was \$29.277 million in total for all institution bonds, \$30.087 million for highway bonds, \$176.033 million for general obligation bonds excluding institution and highway bonds, \$11.901 million for economic development bonds, and \$19.353 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, 2008. 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, 2008, which are reported in the internal service funds, totaled \$9.352 million and mature serially through 2016. Interest rates on these bonds ranged from 4.10% to 6.10%.

At June 30, 2008, 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, 2008, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Governmental Activities (Internal Service Funds)	
	Principal	Interest
2009	\$ 1,730	\$ 465
2010	1,200	384
2011	1,280	322
2012	1,345	256
2013	1,420	185
2014-2016	2,415	151
Total debt service requirements.....	9,390	\$ 1,763
Unamortized discounts.....	(38)	
Total principal outstanding.....	\$ 9,352	

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, 2008, were:

	<u>Bonds</u>	<u>Notes</u>
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 3.00% to 6.00%, maturing serially through 2037.....	\$ 2,125,640	\$ —
Tobacco Authority bonds, 5.00%, maturing serially through 2018.....	242,891	—
Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022.....	19,317	—
Education Department note, 4.01%, maturing in 2011.....	—	416
Corrections Department note, 3.34%, maturing in 2009.....	—	194
Probation Parole and Pardon Department note, 4.04%, maturing in 2012.....	—	193
Budget and Control Board bond and notes, 3.70% to 5.00%, maturing through 2018.....	19,281	19,559
Totals—governmental activities.....	<u>2,407,129</u>	<u>20,362</u>
Business-type Activities:		
Higher Education Fund bonds and notes, 2.00% to 7.75%, maturing serially through 2035.....	669,777	105,409
Housing Authority Fund bonds and note, 2.60% to 8.30%, maturing serially through 2043.....	762,141	50,000
Medical University Hospital Authority bonds and notes, 3.92% to 5.38%, maturing through 2033.....	470,791	63,414
Education Assistance Authority Fund bonds, 2.60% to 8.30%, maturing serially through 2026.....	1,010,243	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 2.45% to 7.50%, maturing through 2025.....	15,689	37,883
Direct note obligations, 5.82% to 6.82%, maturing serially through 2027.....	—	84,303
Totals—business-type activities.....	<u>2,928,641</u>	<u>341,009</u>
Totals—primary government.....	<u>\$ 5,335,770</u>	<u>\$ 361,371</u>
Major Discretely Presented Component Units:		
Public Service Authority bonds, 3.25% to 7.42%, maturing serially through 2039.....	<u>\$ 3,443,485</u>	<u>\$ —</u>
State Ports Authority bonds and notes, 2.47% to 7.42%, maturing serially through 2028.....	<u>\$ 130,823</u>	<u>\$ 1,984</u>
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%, maturing serially through 2038.....	<u>\$ 303,099</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 interest rate exchange agreements with a termination date of October 1, 2031, to enhance savings and offset changes in tax-exempt variable interest rates on certain revenue bonds. On June 18, 2008, the Bank exercised the option to modify the interest rate exchange. Related to this, the Bank received a total of \$7.599 million from two different financial institutions and paid the same amount to another financial institution. The Bank incurred expense of \$650 thousand related to the exercise of this option, which has been capitalized as bond issuance costs. Under these variable-to-fixed interest rate exchanges, for the 2003B-1 and 2003B-3 agreements, the Bank pays a 3.86% fixed rate on a notional amount, having an amortization schedule equal to that of the revenue bonds. For the 2003B-2 agreement, the Bank pays a 3.93% fixed rate on a notional amount, having an amortization schedule equal to that of the revenue bond. 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, 2008, the Bank made variable bond interest payments of \$15.091 million and fixed rate payments on the exchange agreement of \$15.991 million. The Bank received variable swap payments on the exchange agreement of \$12.084 million. The June 30, 2008, mark to market value of this swap was negative \$28.997 million.

University Medical Associates of the Medical University of South Carolina (UMA) is a blended component unit and nonmajor enterprise fund. UMA has issued several direct note obligations, select auction variable rate securities. In prior years, UMA entered into interest-rate swap agreements to modify interest rates on a portion of its Series 1994, and all of the 1999A and 1999B direct note obligations in an effort to convert its variable-rate debt to a fixed rate of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations. These agreements were required by MBIA, the municipal bond insurance company, 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, 2008, are as follows: Series 1994 obligations—\$8.450 million; Series 1999A obligations—\$32.400 million; and Series 1999B obligations—\$38.300 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$9.700 million. Under the swap agreements, originally UMA paid the counterparty a fixed interest payment of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations, and received a variable payment based upon the auction rate every thirty-five days. On June 19, 2008, MBIA was downgraded by the various rating agencies which triggered a change in the swap agreements that now use the Securities Industry and Financial Markets Association (SIFMA) rate to determine the payments to UMA. The variable rates in effect at June 30, 2008, were 1.50% for the 1994 and the 1999A obligations, and 1.47% for the 1999B obligations. UMA is considering alternatives to the existing swap arrangements to reduce its future interest costs. 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, 2008, interest expense was reduced by amortization of approximately \$77 thousand. Interest rates have declined since execution of the swap agreements resulting in the swaps having negative fair values of approximately \$2.128 million on the 1994 obligations, \$7.838 million on the 1999A obligations, and \$6.914 million for the 1999B obligations as of June 30, 2008. 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, 2008, was \$8.210 million, and the variable rate in effect at that date was 1.50%. 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, 2008, the swap had a negative fair value of approximately \$74 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, 2008 were \$61.443 million and \$26.333 million. The payments begin August 1, 2008 and continue until the contracts expire on July 1, 2026. In June 2008, the Authority entered into a third interest swap contract intended to manage interest expense and offset the effects of the interest rate swaps entered into in 2005. The contracts provide that the Authority will pay the swap provider interest on a notional amount at a variable rate equal to the SIFMA Municipal Swap Index rate beginning on August 1, 2008 and the first day of each succeeding month up to and including July 1, 2026, when the contract expires. The swap provider will pay the Authority at a fixed rate of 3.51%. The notional amount under the new swap agreement is \$87.775 million at June 30, 2008. As of June 30, 2008, the swaps have fair values of approximately negative \$3.915 million. The unrealized loss related to these agreements recorded at June 30, 2008 is \$6.036 million and is included in interest expense.

As of June 30, 2008, 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	
2009	\$ 4,045	\$ 3,768	\$ 3,968	\$ 11,781
2010	4,195	3,617	3,807	11,619
2011	4,450	3,463	3,634	11,547
2012	4,310	3,298	3,458	11,066
2013	6,760	3,128	3,269	13,157
2014-2018	18,500	12,879	13,374	44,753
2019-2023	28,900	7,882	8,078	44,860
2024-2027	16,200	1,586	1,451	19,237
Totals.....	\$ 87,360	\$ 39,621	\$ 41,039	\$ 168,020

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 and note: 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

For its business-type activities, the State separately identifies amounts of pledged revenues available at June 30, 2008, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2008, 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
2009	\$ 71,759	\$ 113,922	\$ 134,531	\$ 158,648
2010	78,154	110,243	78,557	158,478
2011	81,102	106,264	83,468	154,874
2012	85,390	102,026	99,176	150,665
2013	92,392	97,566	91,192	147,234
2014-2018	509,060	414,623	433,641	664,336
2019-2023	381,530	298,878	629,286	546,158
2024-2028	416,590	205,549	1,087,885	307,789
2029-2033	515,020	104,549	442,996	112,987
2034-2038	180,940	11,814	185,422	23,498
2039-2043	—	—	4,011	131
Total debt service requirements.....	2,411,937	\$ 1,565,434	3,270,165	\$ 2,424,798
Net unamortized premiums.....	71,584		22,339	
Deferred amount on refunding.....	(56,030)		(22,854)	
Total principal outstanding.....	\$ 2,427,491		\$ 3,269,650	

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, 2007, the carrying value of the Public Service Authority's debt was \$3.529 billion while the fair value was approximately \$4.000 billion. At June 30, 2008,

the carrying value of the State Ports Authority debt was \$132.174 million while the fair value was approximately \$125.637 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, 2008, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

Year Ending December 31	Public Service Authority		Connector 2000 Assoc.	
	Principal	Interest	Principal	Interest
2008	\$ 101,695	\$ 170,500	\$ 6,200	\$ 3,508
2009	104,225	168,368	6,700	3,461
2010	118,410	162,790	7,300	3,411
2011	121,010	156,353	8,100	3,358
2012	124,223	149,787	9,900	3,303
2013-2017	839,301	638,432	61,300	15,557
2018-2022	977,559	406,636	93,700	13,652
2023-2027	356,229	240,951	128,800	11,189
2028-2032	375,640	148,571	169,400	7,915
2033-2037	323,170	61,720	197,000	3,655
2038-2042	77,369	5,010	57,700	113
Total debt service requirements.....	3,518,831	\$ 2,309,118	746,100	\$ 69,122
Unamortized premiums (discounts)...	131,825		(443,001)	
Deferred amount on refunding.....	(207,171)		—	
Total principal outstanding.....	\$ 3,443,485		\$ 303,099	

Year Ending June 30	State Ports Authority	
	Principal	Interest
2009	\$ 3,860	\$ 6,062
2010	4,050	5,850
2011	4,255	5,626
2012	4,470	5,391
2013	4,695	5,143
2014-2018	25,779	21,779
2019-2023	32,810	14,085
2024-2028	52,240	3,841
Total debt service requirements.....	132,159	\$ 67,777
Unamortized premiums (discounts)...	648	
Total principal outstanding.....	\$ 132,807	

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, 2008, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government.....	\$ 42,646
Transportation.....	155,351
Total allocated interest expense..	\$ 197,997

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, 2008, \$30.000 million in short-term general obligation bond anticipation notes were outstanding in the Higher Education Fund, a major enterprise fund. These notes are due on or before June 30, 2009.

e. Defeased Bonds

On June 26, 2008, the Tobacco Settlement Revenue Management Authority, a non-major governmental fund, defeased a portion of the outstanding principal amount of its Series 2001 bonds by depositing a portion of the proceeds of \$275.730 million Tobacco Settlement Revenue Asset-Backed Refunding Bonds, Series 2008, together with other available funds, with a trustee pursuant to the terms of an irrevocable escrow agreement. Other available funds consisted of a portion of a transfer of \$469.408 million from the Tobacco Settlement Fund, a major governmental fund. As a result of the escrow deposit, \$575.225 million of the Series 2001 bonds are considered to be defeased. The liability for those bonds has been removed from the government-wide statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the debt of \$62.500 million. In conjunction with the defeasance described above and the transfer of funds from the Tobacco Settlement Fund, on June 26, 2008, the Authority purchased and retired \$152.430 million principal amount of the Series 2001 bonds maturing on May 15, 2028, at a cost of \$169.500 million. The purpose of the defeasance was to achieve overall economic benefit by reducing the interest cost of the Authority’s debt; shorten the term of the bonds, thereby repatriating the MSA payments for use by the State by an estimated seven years; and restructure the bond covenants to promote flexibility in dealing with tobacco manufacturers over disputed payments. As a result, the Authority expects to reduce its total debt service payments over the next eleven years by approximately \$445.100 million and expects to realize an associated economic loss of approximately \$51.500 million. Principal payments made in 2008 (other than the defeasance noted above) were paid with Turbo Redemptions in prior years. These Turbo Redemptions amounted to \$42.100 million for the fiscal year ended June 30, 2008.

During its fiscal year ended December 31, 2007, the Public Service Authority, a major discretely presented component unit, issued \$98.000 million in refunding revenue bonds with an average interest rate of 4.92% to refund \$105.370 million in revenue bonds with an average interest rate of 5.00%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$8.832 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next 15 years by approximately \$11.500 million and to obtain an economic gain of approximately \$5.600 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, 2008, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	Governmental Activities	Business- type Activities	Totals— Primary Government
Capital improvement bonds.....	\$ 40,310	\$ —	\$ 40,310
State highway bonds.....	6,500	—	6,500
State school facilities bonds.....	59,515	—	59,515
Infrastructure Bank bonds.....	837,500	—	837,500
Tobacco Authority bonds.....	575,200	—	575,200
Higher Education Fund bonds..	—	220,944	220,944
Totals.....	\$ 1,519,025	\$ 220,944	\$ 1,739,969

In addition, at December 31, 2007, \$220.375 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. At June 30, 2008, reported as other liabilities for governmental activities is an arbitrage rebate liability of \$5.445 associated with the State’s General Obligation Debt and a \$1.150 million arbitrage rebate liability associated with revenue bonds of the Local Government Infrastructure Fund (a major governmental fund). The Higher Education Fund (a major enterprise fund) and the Education Assistance Authority Fund (a major enterprise fund) have also incurred arbitrage rebate liabilities in connection with student loan and revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 2008, are reported as other liabilities of \$39 thousand in the Higher Education Fund, and as other liabilities payable from restricted assets of \$1.999 million in the Education Assistance Authority Fund.

g. Conduit Debt

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

The Educational Facilities Authority, reported in the General Fund, issues bonds to assist nonprofit educational institutions that do not receive State appropriations in the acquisition, construction, and financing of facilities for educational programs. The bonds are payable solely from, and secured by, a lease agreement on the facilities between the Authority and the institution. When the bonds have been fully paid, the Authority conveys the title for the facility to the institution. At June 30, 2008, the outstanding balance of bonds issued was \$305.699 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, 2008, the outstanding balance of bonds issued after June 30, 1995, was \$3.636 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, 2008, the outstanding balance of bonds issued was \$287.112 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, 2008, was \$5 thousand. 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 \$5.507 million in the 1993-1994 through 2006-2007 fiscal years, and \$2.695 million in the 2007-2008 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. There is no such provision in the 2008-2009 Appropriations Act. The Town of New Ellenton is required 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, 2008, 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, 2008 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 amount outstanding at any given time is not to exceed \$21.000 million. There was no outstanding balance on the note as of June 30, 2008.

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, 2008.

The Public Service Authority, a discretely presented component unit, has recorded a \$283.252 million liability for commercial paper notes at its fiscal year ended December 31, 2007. 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 2007.

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, 2008.

j. Subsequent Events

On August 28, 2008, the State Housing Finance and Development Authority, a major enterprise fund, issued \$67.215 million in revenue bonds. Additionally, on July 1, 2008, the Housing Authority drew down \$13.055 million from the Mortgage Prepayment Refunding Note entered into on June 28, 2007 and renewed on June 30, 2008.

On September 20, 2008, the Department of Corrections entered into a \$12.400 million note payable.

Since June 30, 2008, the Public Service Authority, a major discretely presented component unit, has issued \$666.985 million in revenue bonds and \$24.432 million in revenue mini-bonds.

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, 2008, were:

	Balances at July 1, 2007	Increases	Decreases	Balances at June 30, 2008	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims.....	\$ 579,120	\$ 1,564,176	\$ (1,525,843)	\$ 617,453	\$ 485,792
Notes payable.....	\$ 15,622	\$ 9,400	\$ (4,660)	\$ 20,362	\$ 5,479
General obligation bonds payable.....	\$ 2,209,174	\$ —	\$ (199,225)	\$ 2,009,949	\$ 204,698
Unamortized discounts and premiums.....	15,933	—	(1,426)	14,507	—
Deferred amount on refunding.....	(10,242)	—	2,738	(7,504)	—
Total general obligation bonds payable....	\$ 2,214,865	\$ —	\$ (197,913)	\$ 2,016,952	\$ 204,698
Tobacco Authority bonds payable.....	\$ 769,755	\$ 275,730	\$ (769,755)	\$ 275,730	\$ 23,005
Unamortized discount.....	—	(8,249)	—	(8,249)	—
Deferred amount on refunding.....	—	(24,590)	—	(24,590)	—
Total Tobacco Authority bonds payable...	\$ 769,755	\$ 242,891	\$ (769,755)	\$ 242,891	\$ 23,005
Revenue bonds payable.....	\$ 40,090	\$ —	\$ (2,355)	\$ 37,735	\$ 2,525
Unamortized discounts and premiums.....	954	—	(91)	863	—
Total revenue bonds payable.....	\$ 41,044	\$ —	\$ (2,446)	\$ 38,598	\$ 2,525
Infrastructure Bank bonds payable.....	\$ 2,122,465	\$ —	\$ (44,355)	\$ 2,078,110	\$ 40,750
Unamortized discounts and premiums.....	79,390	—	(420)	78,970	—
Deferred amount on refunding.....	(38,882)	—	7,442	(31,440)	—
Total Infrastructure Bank bonds payable.	\$ 2,162,973	\$ —	\$ (37,333)	\$ 2,125,640	\$ 40,750
Limited obligation bonds payable.....	\$ 11,030	\$ —	\$ (1,640)	\$ 9,390	\$ 1,730
Unamortized discounts and premiums.....	(45)	—	7	(38)	—
Total limited obligation bonds payable.....	\$ 10,985	\$ —	\$ (1,633)	\$ 9,352	\$ 1,730
Capital leases payable.....	\$ 939	\$ 513	\$ (780)	\$ 672	\$ 262
Compensated absences payable.....	\$ 215,621	\$ 124,855	\$ (120,352)	\$ 220,124	\$ 118,971
National Guard Retirement System net pension obligation payable.....	\$ 6,871	\$ 2,926	\$ (251)	\$ 9,546	\$ —
Judgments and contingencies payable.....	\$ 31,770	\$ 16,898	\$ (8,076)	\$ 40,592	\$ 11,270
Arbitrage payable.....	\$ 503	\$ 6,092	\$ —	\$ 6,595	\$ 3,694

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

	Balances at July 1, 2007	Increases	Decreases	Balances at June 30, 2008	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims.....	\$ 198,622	\$ 11,842	\$ (28,096)	\$ 182,368	\$ 20,000
Notes payable.....	\$ 254,115	\$ 132,799	\$ (45,191)	\$ 341,723	\$ 76,178
Unamortized discounts and premiums.....	88	—	(5)	83	—
Deferred amount on refunding.....	(846)	—	49	(797)	—
Total notes payable.....	\$ 253,357	\$ 132,799	\$ (45,147)	\$ 341,009	\$ 76,178
General obligation bonds payable.....	\$ 357,550	\$ 14,000	\$ (19,780)	\$ 351,770	\$ 19,860
Unamortized discounts and premiums.....	269	419	(33)	655	—
Deferred amount on refunding.....	(1,024)	—	80	(944)	—
Total general obligation bonds payable....	\$ 356,795	\$ 14,419	\$ (19,733)	\$ 351,481	\$ 19,860
Revenue bonds payable.....	\$ 2,712,563	\$ 435,015	\$ (219,136)	\$ 2,928,442	\$ 58,353
Unamortized discounts and premiums.....	20,064	3,011	(819)	22,256	—
Deferred amount on refunding.....	(23,483)	—	1,426	(22,057)	—
Total revenue bonds payable.....	\$ 2,709,144	\$ 438,026	\$ (218,529)	\$ 2,928,641	\$ 58,353
Capital leases payable.....	\$ 46,069	\$ 9,563	\$ (7,584)	\$ 48,048	\$ 9,008
Compensated absences payable.....	\$ 127,246	\$ 90,622	\$ (79,865)	\$ 138,003	\$ 73,959
Arbitrage payable.....	\$ 6,341	\$ 39	\$ (4,342)	\$ 2,038	\$ —

	Balances at January 1, 2007	Increases	Decreases	Balances at December 31, 2007	Amounts Due Within One Year
Major Component Units:					
Public Service Authority					
Policy claims.....	\$ 2,402	\$ 2,360	\$ (2,622)	\$ 2,140	\$ 2,140
Revenue bonds payable.....	\$ 3,259,930	\$ 543,357	\$ (284,456)	\$ 3,518,831	\$ 101,695
Unamortized discounts and premiums.....	124,502	17,534	(10,211)	131,825	—
Deferred amount on refunding.....	(225,162)	(8,832)	26,823	(207,171)	—
Total revenue bonds payable.....	\$ 3,159,270	\$ 552,059	\$ (267,844)	\$ 3,443,485	\$ 101,695
Capital leases payable.....	\$ 9,896	\$ 2,321	\$ (1,819)	\$ 10,398	\$ 2,564
Compensated absences payable.....	\$ 15,393	\$ 2,160	\$ (1,463)	\$ 16,090	\$ —
Connector 2000 Association, Inc.					
Revenue bonds payable.....	\$ 746,100	\$ —	\$ —	\$ 746,100	\$ 6,200
Unamortized discounts and premiums.....	(456,643)	13,642	—	(443,001)	—
Total revenue bonds payable.....	\$ 289,457	\$ 13,642	\$ —	\$ 303,099	\$ 6,200

State of South Carolina

	Balances at July 1, 2007	Increases	Decreases	Balances at June 30, 2008	Amounts Due Within One Year
State Ports Authority					
Notes payable.....	\$ 2,429	\$ —	\$ (445)	\$ 1,984	\$ 345
Revenue bonds payable.....	\$ 133,505	\$ —	\$ (3,330)	\$ 130,175	\$ 3,515
Unamortized discounts and premiums.....	693	—	(45)	648	—
Total revenue bonds payable.....	\$ 134,198	\$ —	\$ (3,375)	\$ 130,823	\$ 3,515
Capital leases payable.....	\$ 58	\$ —	\$ (43)	\$ 15	\$ 15
Compensated absences payable.....	\$ 2,531	\$ 2,095	\$ (1,904)	\$ 2,722	\$ 2,722
Lottery Commission					
Compensated absences payable.....	\$ 934	\$ 759	\$ (562)	\$ 1,131	\$ 492

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, 2008, 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, 2007	Increases	Decreases	Balances at June 30, 2008
Primary Government:				
Business-type Activities				
General obligation bond anticipation notes payable.....	\$ —	\$ 30,000	\$ —	\$ 30,000
Revenue bond anticipation notes payable.....	\$ 4,500	\$ —	\$ (4,500)	\$ —
	Balances at January 1, 2007	Increases	Decreases	Balances at December 31, 2007
Major Component Unit:				
Public Service Authority				
Commercial paper notes.....	\$ 195,072	\$ 232,774	\$ (144,594)	\$ 283,252

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, 2008, 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
Fund balances reserved for:						
General reserve fund.....	\$ 95,123	\$ —	\$ —	\$ —	\$ —	\$ 95,123
Inventories.....	14,909	10,603	—	4,678	9	30,199
Interfund receivables.....	223	—	304,168	—	2,663	307,054
Appropriations to be carried forward	229,131	—	—	—	—	229,131
Endowments	—	—	—	—	2,819	2,819
Long-term loans and notes receivable	12	460	472,629	6,697	25,409	505,207
Debt requirements.....	—	—	1,164,587	—	62,979	1,227,566
School building aid	2,375	—	—	—	20,124	22,499
Total reserved fund balances.....	\$ 341,773	\$ 11,063	\$ 1,941,384	\$ 11,375	\$ 114,003	\$ 2,419,598

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, 2008, the Reserve’s balance was \$95.123 million, \$91.658 million below the full funding amount. The State withdrew \$91.658 million to avoid a year-end unreserved budgetary fund balance deficit.

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 Special Revenue Funds

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

c. Designated, Reported in the Capital Projects Fund

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

NOTE 15: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2008 (expressed in thousands):

<u>Funds</u>	<u>Due From</u>	<u>Due To</u>
General		
Departmental General Operating.....	\$ 37,443	\$ 37,460
Local Government Infrastructure.....	—	5,193
Department of Transportation Special Revenue..	—	19,846
State Tobacco Settlement.....	—	10,000
Nonmajor governmental funds.....	316	97,421
Higher Education.....	—	9,336
Unemployment Compensation.....	507	18
Nonmajor enterprise funds.....	1,211	—
Internal service.....	1,491	5,299
Fiduciary.....	—	34,068
	<u>40,968</u>	<u>218,641</u>
Departmental General Operating		
General.....	37,460	37,443
Local Government Infrastructure.....	—	3
Department of Transportation Special Revenue..	523	—
Housing Authority.....	188	—
Nonmajor governmental funds.....	2,759	2,120
Higher Education.....	—	6,395
Unemployment Compensation.....	—	7
Nonmajor enterprise funds.....	13	—
Internal service.....	9	3,164
Fiduciary.....	—	14,958
	<u>40,952</u>	<u>64,090</u>
Local Government Infrastructure		
General.....	5,193	—
Departmental General Operating.....	3	—
Department of Transportation Special Revenue..	17,993	—
Unemployment Compensation.....	—	2
Internal service.....	—	1
Fiduciary.....	—	38
	<u>23,189</u>	<u>41</u>

Funds	Due From	Due To
Department of Transportation Special Revenue Fund		
General.....	19,846	—
Departmental General Operating.....	—	523
Local Government Infrastructure.....	—	17,993
Nonmajor governmental funds.....	—	5
Higher Education.....	—	102
Internal service.....	25	2,544
Fiduciary.....	—	5,554
	<u>19,871</u>	<u>26,721</u>
State Tobacco Settlement		
General.....	10,000	—
Internal service.....	—	1
	<u>10,000</u>	<u>1</u>
Nonmajor Governmental Funds		
General.....	97,421	316
Departmental General Operating.....	2,120	2,759
Department of Transportation Special Revenue..	5	—
Nonmajor governmental funds.....	2,255	2,255
Higher Education.....	80	37,455
Nonmajor enterprise funds.....	14	—
Internal service.....	2	384
Fiduciary.....	—	945
	<u>101,897</u>	<u>44,114</u>
Higher Education		
General.....	9,336	—
Departmental General Operating.....	6,395	—
Department of Transportation Special Revenue..	102	—
Nonmajor governmental funds.....	37,455	80
Medical University Hospital Authority.....	18,561	—
Nonmajor enterprise funds.....	1,040	17,807
Internal service.....	—	590
Fiduciary.....	—	9,913
	<u>72,889</u>	<u>28,390</u>
Unemployment Compensation Benefits		
General.....	18	507
Departmental General Operating.....	7	—
Local Government Infrastructure.....	2	—
	<u>27</u>	<u>507</u>
Housing Authority		
Departmental General Operating.....	—	188
Internal service.....	—	17
	<u>—</u>	<u>205</u>
Medical University Hospital Authority		
Higher Education.....	—	18,561
Nonmajor enterprise funds.....	—	1,572
	<u>—</u>	<u>20,133</u>
Nonmajor Enterprise Funds		
General.....	—	1,211
Departmental General Operating.....	—	13
Nonmajor governmental funds.....	—	14
Higher Education.....	17,807	1,040
Medical University Hospital Authority.....	1,572	—
Internal service.....	—	298
Fiduciary.....	—	104
	<u>19,379</u>	<u>2,680</u>

Funds	Due From	Due To
Internal Service		
General.....	5,299	1,491
Departmental General Operating.....	3,164	9
Local Government Infrastructure.....	1	—
Department of Transportation Special Revenue..	2,544	25
State Tobacco Settlement.....	1	—
Nonmajor governmental funds.....	384	2
Higher Education.....	590	—
Housing Authority.....	17	—
Nonmajor enterprise funds.....	298	—
Internal service.....	337	337
Fiduciary.....	—	1,637
	12,635	3,501
Fiduciary		
General.....	34,068	—
Departmental General Operating.....	14,958	—
Local Government Infrastructure.....	38	—
Department of Transportation Special Revenue..	5,554	—
Nonmajor governmental funds.....	945	—
Higher Education.....	9,913	—
Nonmajor enterprise funds.....	104	—
Internal service.....	1,637	—
Fiduciary.....	38,345	38,345
	105,562	38,345
Totals.....	\$ 447,369	\$ 447,369

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.....	\$ 6,375	\$ —	\$ —
Nonmajor governmental funds.....	550	—	—
Higher Education.....	359	—	223
Internal service.....	2,474	—	—
	9,758	—	223
Departmental General Operating			
General.....	—	6,375	—
Nonmajor governmental funds.....	30	327	—
Higher Education.....	400	—	—
Nonmajor enterprise funds.....	100	—	—
Internal service.....	1,500	3,000	—
	2,030	9,702	—
Local Government Infrastructure			
Department of Transportation Special Revenue.....	334,747	—	304,168
Department of Transportation Special Revenue Fund			
Local Government Infrastructure.....	—	334,747	—

Funds	Interfund Receivables	Interfund Payables	Receivables Long-term Portion
Nonmajor Governmental Funds			
General.....	—	550	—
Departmental General Operating.....	327	30	291
Nonmajor governmental funds.....	59	59	40
Higher Education.....	2,220	—	1,791
Internal service.....	669	18,410	542
	<u>3,275</u>	<u>19,049</u>	<u>2,664</u>
Higher Education			
General.....	—	359	—
Departmental General Operating.....	—	400	—
Nonmajor governmental funds.....	—	2,220	—
Nonmajor enterprise funds.....	—	34,920	—
	<u>—</u>	<u>37,899</u>	<u>—</u>
Nonmajor Enterprise Funds			
Departmental General Operating.....	—	100	—
Higher Education.....	34,920	—	—
Internal service.....	—	9,033	—
	<u>34,920</u>	<u>9,133</u>	<u>—</u>
Internal Service			
General.....	—	2,474	—
Departmental General Operating.....	3,000	1,500	3,000
Nonmajor governmental funds.....	18,410	669	16,940
Nonmajor enterprise funds.....	9,033	—	9,033
Internal service.....	106	106	—
	<u>30,549</u>	<u>4,749</u>	<u>28,973</u>
Totals.....	<u>\$ 415,279</u>	<u>\$ 415,279</u>	<u>\$ 336,028</u>

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:

- \$334.747 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.
- \$18.410 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.
- \$9.033 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.
- \$34.920 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, 2008 (expressed in thousands):

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Departmental General Operating.....	\$ 6,425	\$ 105,329
Local Government Infrastructure.....	—	3,825
Department of Transportation Special Revenue.....	—	3,077
Nonmajor governmental funds.....	93	454,239
Higher Education.....	1,769	943,026
Unemployment Compensation Benefits.....	1,490	85
Internal service.....	400	1,464
	<u>10,177</u>	<u>1,511,045</u>
Departmental General Operating		
General.....	105,329	6,425
Local Government Infrastructure.....	31	3
Department of Transportation Special Revenue.....	108	—
State Tobacco Settlement.....	500	—
Nonmajor governmental funds.....	13,955	7,670
Higher Education.....	17,198	740
Housing Authority.....	250	—
Nonmajor enterprise funds.....	863	—
Internal service.....	6,913	1,990
	<u>145,147</u>	<u>16,828</u>
Local Government Infrastructure		
General.....	3,825	—
Departmental General Operating.....	3	31
Department of Transportation Special Revenue.....	—	1,000
	<u>3,828</u>	<u>1,031</u>
Department of Transportation Special Revenue Fund		
General.....	3,077	—
Departmental General Operating.....	—	108
Local Government Infrastructure.....	1,000	—
	<u>4,077</u>	<u>108</u>
State Tobacco Settlement		
Departmental General Operating.....	—	500
Nonmajor governmental funds.....	—	468,908
	<u>—</u>	<u>469,408</u>
Nonmajor Governmental Funds		
General.....	454,239	93
Departmental General Operating.....	7,670	13,955
State Tobacco Settlement.....	468,908	—
Nonmajor governmental funds.....	2,605	2,605
Higher Education.....	1,974	94,566
Housing Authority.....	—	400
Nonmajor enterprise funds.....	480	480
Internal service.....	—	590
	<u>935,876</u>	<u>112,689</u>
Higher Education		
General.....	943,026	1,769
Departmental General Operating.....	740	17,198
Nonmajor governmental funds.....	94,566	1,974
Medical University Hospital Authority.....	305	—
Nonmajor enterprise funds.....	37,103	—
Internal service.....	19	19
	<u>1,075,759</u>	<u>20,960</u>
Unemployment Compensation Benefits		
General.....	85	1,490

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Housing Authority		
Departmental General Operating.....	—	250
Nonmajor governmental funds.....	400	—
	<u>400</u>	<u>250</u>
Medical University Hospital Authority		
Higher Education.....	—	305
Nonmajor enterprise funds.....	—	247
	<u>—</u>	<u>552</u>
Nonmajor Enterprise Funds		
Departmental General Operating.....	—	863
Nonmajor governmental funds.....	480	480
Higher Education.....	—	37,103
Medical University Hospital Authority.....	247	—
	<u>727</u>	<u>38,446</u>
Internal Service		
General.....	1,464	400
Departmental General Operating.....	1,990	6,913
Nonmajor governmental funds.....	590	—
Higher Education.....	19	19
Internal service.....	14,965	14,965
	<u>19,028</u>	<u>22,297</u>
Totals.....	<u>\$ 2,195,104</u>	<u>\$ 2,195,104</u>

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 transfers (i.e., \$5.000 million or more) that occurred during the fiscal year ended June 30, 2008, that had not occurred in prior years included transfers of \$329.962 million of tax revenues from the Tax Relief Trust Fund, reported as part of the State's General Fund, to the Homestead Exemption Fund for subsequent distribution for property tax relief; a transfer of \$6.106 million from the General Fund to the Other Special Revenue Fund to fund the newly created Renewable Energy Infrastructure Development Fund, which makes loans and grants to individuals or organizations that plan to build a qualified renewable energy production facility; and a transfer of \$468.908 million from the State Tobacco Settlement Fund to the Tobacco Settlement Revenue Management Authority Fund for the purpose of bond defeasance.

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, 2008, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	<u>Scholarship Allowances</u>
Charges for services.....	\$ 353,370
Operating revenues pledged for revenue bonds.....	21,230
Total	<u>\$ 374,600</u>

For the fiscal year ended June 30, 2008, the State's enterprise funds presented \$1.037 billion included in net charges for services after provisions for contractual and other adjustments in the amount of \$1.164 billion and uncollectible accounts in the amount of \$132.335 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, 2008, \$12.773 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, \$93 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, 2008, 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, 2008, 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, 2008, are presented on the following pages:

CONDENSED STATEMENT OF NET ASSETS

	Single Family	Mortgage Revenue
Assets		
Current restricted assets.....	\$ 8,910	\$ 110,076
Other current assets.....	39	1,847
Noncurrent restricted assets.....	203,239	693,655
Other assets.....	701	4,950
Total assets.....	<u>212,889</u>	<u>810,528</u>
Liabilities		
Current liabilities payable from restricted assets.....	2,658	93,982
Other current liabilities.....	38	196
Noncurrent liabilities.....	102,664	633,183
Total liabilities.....	<u>105,360</u>	<u>727,361</u>
Net assets		
Restricted and expendable for:		
Debt service.....	2,658	37,374
Bond reserves.....	3,209	12,119
Special programs.....	101,662	33,674
Total net assets.....	<u>\$ 107,529</u>	<u>\$ 83,167</u>

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

	Single Family	Mortgage Revenue
Operating revenues:		
Pledged revenues:		
Interest on loans.....	\$ 6,596	\$ 36,303
Income on deposit.....	1,492	8,846
Other revenues:		
Administrative fees and other.....	38	331
Total operating revenues.....	<u>8,126</u>	<u>45,480</u>
Operating expenses:		
Bond issuance cost amortization....	39	646
Other operating expenses.....	5,524	37,945
Total operating expenses.....	<u>5,563</u>	<u>38,591</u>
Operating income.....	<u>2,563</u>	<u>6,889</u>
Transfers:		
Transfers in.....	5	1,244
Transfers out.....	(5,994)	—
Increase in net assets.....	<u>(3,426)</u>	<u>8,133</u>
Beginning net assets (restated).....	110,955	75,034
Ending net assets.....	<u>\$ 107,529</u>	<u>\$ 83,167</u>

CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Mortgage Revenue
Net cash provided (used) by:		
Operating activities.....	\$ 4,294	\$ (63,039)
Noncapital financing activities.....	(11,304)	80,294
Investing activities.....	1,661	10,071
Net decrease.....	(5,349)	27,326
Beginning cash and cash equivalents (restated).....	44,855	148,229
Ending cash and cash equivalents.....	\$ 39,506	\$ 175,555

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, 2007, the Authority received distributions of \$35.844 million from TEA and recognized \$35.836 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 \$89.800 million to support TEA’s activities.

At December 31, 2007, the Authority had a payable to TEA of \$5.400 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately \$10.700 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 \$499.000 million, accumulated depreciation of \$286.500 million, and expenses of \$56.700 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 \$141.200 million (adjusted to market) at December 31, 2007, 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.

On May 23, 2008, subsequent to the Authority's December 31 year-end, the Authority and SCE&G entered into an engineering, procurement and construction agreement for the design and construction of two 1,117 megawatt nuclear electric generating units at the existing V.C Summer Nuclear Station site. Leading up to the execution of this agreement, on May 22, 2008, the Authority's Board of Directors had unanimously approved a resolution authorizing the contract signing and spending up to \$1.900 billion on this project through December 31, 2011.

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, 2008, the Educational Television Endowment of South Carolina, Inc., disbursed \$4.812 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, 2008, 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—\$56.547 million; donations of cash and other assets from foundations—\$137.733 million; expenditures paid to foundations—\$4.805 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$4.411 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, 2008, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC—\$1.012 billion; notes receivable from SLC—\$1.579 million; program revenue from SLC—\$18.783 million; reimbursements to SLC for administrative costs—\$7.999 million; and payable to SLC—\$56.841 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 \$14.993 million during the Authority's fiscal year ended December 31, 2007.

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, 2008.

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 \$268.486 million during the fiscal year ended June 30, 2008; the Commission owed an additional \$18.651 million to the Fund at June 30, 2008.

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

<u>Customer</u>	<u>Revenue</u>	<u>% of Total Sales Revenue</u>
Central Electric Power Cooperative, Inc.....	\$ 737,000	51%
Alumax of South Carolina, Inc.....	142,000	10%

No other customer accounted for more than 10% of the Authority’s sales.

State Ports Authority

During the fiscal year ended June 30, 2008, one customer accounted for approximately 21% 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 \$163.694 million and Due to Primary Government was \$160.922 million, a difference of \$2.772 million. This situation occurred because the Public Service Authority and the Connector 2000 Association, Inc. report using a fiscal year ending December 31. At June 30, 2008, the Public Service Authority owed the General Fund its semi-annual payment of \$8.269 in lieu of taxes, which is reported as Due from Component Units. At December 31, 2007, the Connector 2000 Association, Inc. owed the Department of Transportation Special Revenue Fund \$5.497 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, 2008, 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 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 \$46 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 are putative class actions, involving legislation (Act No. 153, 2005 S.C. Acts and Joint Resolutions) requiring that employees who return to work after retirement (including employees participating in the Teacher and Employee Retention Incentive [TERI] Program) to resume making contributions into the retirement system. In the first suit, the plaintiffs alleged that requiring such contributions constituted a breach of contract, an impairment of contractual rights, an unlawful taking of property and was precluded by promissory estoppel. In 2006, the Supreme Court held that the TERI statute created a contract for retirees who entered the TERI program prior to July 1, 2005, and that contract was breached by requiring retirement contributions. The Court ordered the Systems to refund all contributions received from these retirees while they were participating in the TERI program, but remanded the question whether the Systems was liable for the plaintiffs’ attorney fees. The Circuit Court for Richland County issued an order awarding attorneys’ fees against the Systems and the State in the amount of approximately \$9 million. The Systems appealed the award to the Supreme Court. In March 2008, the Supreme Court approved the award of attorneys’ fees, but reduced the amount to approximately \$1 million. The General Assembly appropriated funds and this judgment has been satisfied. As part of its decision in this first case, the Supreme Court also remanded the claims of persons enrolled in the “working retiree program” for determination by the trial court, although the Supreme Court found that the statute creating the

working retiree program did not create a contract between the State and the participants in that program. It is premature to estimate any potential loss associated with this remand; however, as of June 30, 2008, the Systems had collected approximately \$19 million in the form of retirement contributions from members who retired prior to July 1, 2005 and returned to work. If the Plaintiffs were to prevail, these contributions would be refunded to the members and no future contributions could be collected from them. The Systems and the State believe their defense is meritorious and intend to vigorously contest these claims. The second putative class action case filed in August, 2005, alleges that the law requiring working retirees in the Police Officers Retirement System (“PORS”) to make employee contributions is unconstitutional and illegal. Discovery regarding these issues is underway, and it is premature to estimate any potential loss associated with them. If the plaintiffs were to prevail, however, the defendants estimate the potential loss from PORS based on a refund of contributions, as of June 30, 2008, to be approximately \$10 million. There would also be a loss of future contributions. The Systems and the State believe their defense is meritorious and are vigorously defending the case.

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 \$21 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 appealed to the Supreme Court and the case was argued in June 2008. The Court has not yet issued an Opinion. 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 beachfront homes and lots on Sullivan’s Island 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. In a fifth unrelated case, the plaintiffs allege assaults on children placed in a foster home.

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. The Authority has entered into a settlement agreement with the plaintiffs, which will involve mediation of the claims and a non-jury hearing regarding those claims which cannot be resolved through mediation. 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, which were defeased on June 26, 2008, in part by issuing asset-backed refunding bonds. The payment of such refunding 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, 2008, 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, 2008, these loans totaled \$2.865 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, 2008, 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, 2007, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$1.340 billion for coal. In addition, minimum obligations under purchased power contracts were approximately \$70.300 million at December 31, 2007, with a remaining term of twenty-seven 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, 2007, these commitments totaled approximately \$49.000 million over the next seven 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 through 2023, but can be terminated on one of the units in 2008, and on the other two units in 2009.

Major Discretely Presented Component Unit—Lottery Commission

At June 30, 2008, the Lottery Commission had remaining commitments of \$69.354 million under service contracts expiring in 2018. The contracts provide, 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 \$2.379 billion for certain highway and transportation facilities projects. At June 30, 2008, the remaining commitments for these agreements totaled \$1.092 billion.

At June 30, 2008, the Department of Commerce had outstanding commitments of \$120.890 million to provide funds to local governmental entities. These commitments included grants for water and wastewater infrastructure projects, airport

construction projects, and rural infrastructure projects. Of the outstanding commitment, \$67.169 million will be funded by federal grants, and \$35.644 million will be funded by local grants.

At June 30, 2008, the Budget and Control Board had outstanding commitments of \$48.764 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects. \$19.370 million of this commitment will be funded by federal grants.

At June 30, 2008, the State Board for Technical and Comprehensive Education had outstanding commitments of \$11.781 million to provide training for new and expanding business and industry in the state.

At June 30, 2008, the Department of Public Safety had outstanding commitments of \$4.669 million for pass-through grants to various State agencies, local governments, and not-for-profit entities, of which \$3.955 million will be funded by federal grants.

The State Housing Finance and Development Authority had \$5.339 million in outstanding commitments for special initiatives under the Program Fund at June 30, 2008. The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of \$20.402 million at June 30, 2008, for affordable housing projects and developments.

g. Connector 2000 Association, Inc.—Going Concern

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, 2007. Debt service on the bonds increased sharply beginning in January 2008 as principal began to mature. Unless revenues increase sharply, management of the Association estimates that within two years the reserve funds will be depleted and the Association will be unable to pay the principal and interest on the bonds in full. As a result, there is substantial doubt about the Association's ability to continue as a going concern.

The Association has been unable to comply with the bond revenue covenant since January 2005. As of January 1, 2008 (after 36 consecutive months), the Association is in technical default under the bond indenture. The Association received a notice of default from the Trustee in January 2008. The bond documents provide the Trustee, upon written request of 25% or more of the bondholders, with certain specific remedies in the event of such default. As of June 2008, the Association had not received any communications from the Trustee initiating any proceedings under the Specific Remedies provision of the bond indenture.

Also subsequent to its fiscal year ended December 31, 2007, the Association withdrew funds from the Senior Bonds Debt Service Reserve Account in order to pay a portion of the interest and principal payment due on January 2, 2008, and withdrew funds from the Subordinate Bonds Debt Service Reserve Account in order to pay the Maturity Value of the Subordinate Capital Appreciation Bonds. Management is investigating the possibility of restructuring its long term debt, but there can be no assurance that these plans will be successful.

h. Unemployment Compensation Benefits Fund—Going Concern

The Unemployment Compensation Benefits Fund, a major enterprise fund, has been generating substantial operating losses and using a substantial amount of cash resources to fund its operations. Due to the increasing unemployment rate and the increased amount of unemployment benefits, without a corresponding increase in assessment revenue, the Fund anticipates that it will be unable to operate without acquiring additional capital. Management plans to ask the General Assembly to adjust the taxable wage base of employers in order to raise additional employer contributions to continue the operations of the Fund. If successful, management does not expect such an adjustment to take effect before cash resources are depleted. In such an event, the Fund plans to raise additional cash resources from the federal government through temporary short-term loans. As a result of this situation, there is substantial doubt about the Fund's ability to continue as a going concern.

NOTE 23: SPECIAL ITEMS

a. Insurance Reserve Fund – Return of Premium

The Insurance Reserve Fund reported a special item of \$20.000 million due to a refund of premiums to its policyholders. The transfer of investment income to the General Fund and the "Rate Holiday" in fiscal year 2002-2003 created a substantial decline in the Fund's assets and equity. The Fund increased rates over several years in order to rebuild both assets and equity. In fiscal year 2006-2007, the Appropriations Act transferred approximately \$52.000 million from the General Fund to the Insurance Reserve Fund. The combination of the cumulative rate increases and the transfer of funds back to the Insurance Reserve Fund generated assets and equity in excess of the Fund's needs. Accordingly, the Fund returned \$20.000

million to its policyholders as a refund of premium. The amount is reported as a special item in the State's internal service funds and governmental activities.

b. Employee Insurance Programs – Elimination of Claims Liability

The Employee Insurance Programs reported a special item of \$25.611 million due to the elimination of the claims liability for the Long-Term Disability Plan. As described in Note 9, Act 195 created the Long-Term Disability Insurance Trust Fund for the purpose of funding and accounting for other post-employment long-term disability benefits. In accordance with GASB 45, the State does not report a liability for these other post-employment benefits. Therefore, Employee Insurance Programs eliminated the previously reported claims liability. The amount is reported as a special item in the State's internal service funds and governmental activities.

NOTE 24: INVESTMENT MARKET UNCERTAINTY

During 2008, financial markets as a whole have incurred significant declines in value. As of June 30, 2008, the State's investment portfolio has not incurred a significant decline in the values reported in the accompanying financial statements. However, as the values of individual investments fluctuate with market conditions, the amount of investment losses that the State may recognize in its future financial statements, if any, cannot be determined. The State believes that any investments that experience declines in value will be temporary unrealized losses as they have the intent and ability to hold such investments until maturity.