BASIC
FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2009
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 3,259,707	$ 1,176,007	$ 4,435,714	$ 309,052
Investments	—	86,565	86,565	158,499
Invested securities lending collateral	788,469	104,615	893,084	52,522
Receivables, net:				
Accounts	267,761	111,919	379,680	214,081
Contributions	—	2,581	2,581	3,636
Participants	—	2,781	2,781	—
Accrued interest	34,246	7,036	41,282	4,065
Income taxes	397,031	—	397,031	—
Sales and other taxes	472,378	—	472,378	—
Student accounts	—	47,817	47,817	—
Patient accounts	12,589	176,807	189,396	—
Loans and notes	34,511	51,225	85,736	30
Assessments	—	43,579	43,579	—
Due from Federal government and other grantors	652,023	105,375	757,398	77
Internal balances	(13,451)	13,451	—	—
Due from component units	34,864	116,890	151,754	—
Due from primary government	—	—	—	167,541
Inventories	31,812	38,130	69,942	264,973
Restricted assets:				
Cash and cash equivalents	86,878	446,854	533,732	148,941
Investments	4,992	7,959	12,951	108,992
Loans receivable	—	20,137	20,137	—
Other	77,203	7,374	84,577	—
Prepaid items	25,751	31,715	57,466	12,028
Other current assets	—	13,175	13,175	39,008
Deferred charges	—	—	—	1,616
Total current assets	6,166,764	2,611,992	8,778,756	1,485,061

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

Statement of Net Assets (Continued)

June 30, 2009
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
Long-term assets:				
Investments	$ 447,312	$ 28,957	$ 476,269	$ 638,145
Receivables, net:				
Accounts	25,956	1,224	27,180	1,671
Contributions	—	2,045	2,045	36,445
Participants	—	7,987	7,987	—
Income taxes	31,008	—	31,008	—
Sales and other taxes	30	—	30	—
Patient accounts	7,040	—	7,040	—
Loans and notes	517,250	1,036,140	1,553,390	—
Restricted assets:				
Cash and cash equivalents	376,671	324,926	701,597	248,371
Investments	—	80,644	80,644	350,695
Accounts receivable	386,334	—	386,334	—
Receivable from endowments	—	36,860	36,860	—
Loans receivable	—	912,950	912,950	—
Other	4,191	1,207	5,398	—
Prepaid items	—	11,897	11,897	—
Other long-term assets	1,290	7,081	8,371	6,895
Deferred charges	25,457	33,029	58,486	451,175
Investment in joint venture	—	—	—	8,447
Non-depreciable capital assets	4,841,609	679,584	5,521,193	877,734
Depreciable capital assets, net	9,081,244	3,552,524	12,633,768	4,360,113
Total long-term assets	15,745,392	6,717,055	22,462,447	6,979,691
Total assets	**21,912,156**	**9,329,047**	**31,241,203**	**8,464,752**

Continued on Next Page

Statement of Net Assets (Continued)

June 30, 2009
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
LIABILITIES				
Current liabilities:				
Accounts payable	$ 616,808	$ 140,267	$ 757,075	$ 165,667
Accrued salaries and related expenses	125,599	99,476	225,075	11,869
Tax withholdings payable	—	22,823	22,823	—
Accrued interest payable	28,944	13,336	42,280	101,166
Retainages payable	2,829	12,676	15,505	2,138
Tax refunds payable	605,444	8,807	614,251	—
Payables-aid to individuals/families	2,768	—	2,768	—
Prizes payable	—	—	—	25,434
Unemployment benefits payable	—	7,796	7,796	—
Intergovernmental payables	571,230	6,859	578,089	454
Tuition benefits payable	—	24,721	24,721	—
Policy claims	501,766	10,000	511,766	38,120
Due to component units	167,541	—	167,541	—
Due to primary government	—	—	—	148,305
Unearned revenues and deferred credits	303,043	145,347	448,390	23,040
Deposits	—	6,224	6,224	15
Amounts held in custody for others	—	4,433	4,433	1,179
Securities lending collateral	836,936	110,866	947,802	55,751
Liabilities payable from restricted assets:				
Accounts payable	—	6,311	6,311	331
Accrued interest payable	25,583	23,693	49,276	1,742
Notes payable	—	22,000	22,000	—
Bonds payable	46,275	40,145	86,420	—
Other	—	47,177	47,177	—
Notes payable	6,526	30,637	37,163	353
General obligation bonds anticipation notes payable	—	30,000	30,000	—
Revenue bonds anticipation notes payable	—	53,100	53,100	—
General obligation bonds payable	181,880	20,805	202,685	—
Revenue bonds payable	2,640	39,845	42,485	114,630
Limited obligation bonds payable	1,200	—	1,200	—
Capital leases payable	162	8,397	8,559	2,389
Commercial paper notes	—	—	—	152,807
Compensated absences payable	119,319	75,324	194,643	3,307
Other current liabilities	59,782	27,987	87,769	107,271
Total current liabilities	4,206,275	1,039,052	5,245,327	955,968

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

Statement of Net Assets (Continued)

June 30, 2009
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
Long-term liabilities:				
Retainages payable	$ 81	$ 1,135	$ 1,216	$ 26,233
Tuition benefits payable	—	165,070	165,070	—
Policy claims	158,628	145,574	304,202	144,656
Unearned revenues and deferred credits	—	6,905	6,905	303,872
Amounts held in custody for others	—	—	—	1,977
Other liabilities payable from restricted assets	—	3,042	3,042	—
Advances from Federal government	—	344,881	344,881	—
Notes payable	29,294	211,537	240,831	1,324
General obligation bonds payable	1,675,630	333,447	2,009,077	—
Tobacco Authority bonds payable	176,180	—	176,180	—
Infrastructure Bank bonds payable	2,045,589	—	2,045,589	—
Revenue bonds payable	33,342	2,901,099	2,934,441	4,329,713
Limited obligation bonds payable	6,429	—	6,429	—
Capital leases payable	242	78,827	79,069	5,617
Compensated absences payable	100,643	68,137	168,780	17,530
Other long-term liabilities	74,705	69,280	143,985	40,270
Total long-term liabilities	4,300,763	4,328,934	8,629,697	4,871,192
Total liabilities	**8,507,038**	**5,367,986**	**13,875,024**	**5,827,160**
NET ASSETS				
Invested in capital assets, net of related debt	10,215,747	2,429,521	12,645,268	968,685
Restricted:				
Expendable:				
Education	285,667	194,764	480,431	160,828
Health	15,644	—	15,644	—
Transportation	196,447	—	196,447	—
Capital projects	117,648	250,352	368,000	11,282
Debt service	1,161,574	285,864	1,447,438	122,966
Loan programs	948,412	249,905	1,198,317	—
Waste management	231,927	—	231,927	—
Insurance programs	277,824	—	277,824	—
Other	113,134	—	113,134	202,360
Nonexpendable:				
Education	—	150,925	150,925	337,146
Other	3,040	—	3,040	—
Unrestricted	(161,946)	399,730	237,784	834,325
Total net assets	**$ 13,405,118**	**$ 3,961,061**	**$ 17,366,179**	**$ 2,637,592**

Statement of Activities

For the Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenues (Expenses)
Functions					
Primary government:					
Governmental activities:					
General government	$ 4,350,906	$ 1,654,616	$ 319,960	$ 4,563	$ (2,371,767)
Education	4,109,666	39,606	1,123,225	—	(2,946,835)
Health and environment	5,825,749	142,476	3,852,634	1,537	(1,829,102)
Social services	1,533,666	2,683	1,399,821	—	(131,162)
Administration of justice	774,533	124,483	32,048	1,703	(616,299)
Resources and economic development	376,263	58,030	144,837	5,121	(168,275)
Transportation	940,226	96,523	172,527	370,055	(301,121)
Unallocated interest expense	98,728	—	—	—	(98,728)
Total governmental activities	**18,009,737**	**2,118,417**	**7,045,052**	**382,979**	**(8,463,289)**
Business-type activities:					
Higher education	3,396,191	2,454,076	240,567	52,705	(648,843)
Higher education institution support	1,200,456	1,201,181	47,671	27	48,423
Unemployment compensation benefits	1,332,402	791,037	2,320	—	(539,045)
Financing of housing facilities	180,555	60,639	127,434	—	7,518
Medical malpractice insurance	(6,724)	32,938	580	—	40,242
Financing of student loans	52,699	52,913	1,013	—	1,227
Tuition prepayment program	10,598	672	(6,926)	—	(16,852)
State maritime museum	8,622	8,654	167	—	199
Insurance claims processing	1,699	2,091	(376)	—	16
Other enterprise activities	30,634	31,499	1,247	77	2,189
Total business-type activities	**6,207,132**	**4,635,700**	**413,697**	**52,809**	**(1,104,926)**
Total primary government	**$ 24,216,869**	**$ 6,754,117**	**$ 7,458,749**	**$ 435,788**	**$ (9,568,215)**
Component units:					
Public Service Authority	$ 1,523,915	$ 1,586,303	$ 19,051	$ 44	$ 81,483
State Ports Authority	117,149	135,351	4,009	3,475	25,686
Connector 2000 Association, Inc.	28,068	5,238	673	—	(22,157)
Lottery Commission	1,008,939	1,008,482	141	—	(316)
Other	107,579	44,380	(52,112)	—	(115,311)
Total component units	**$ 2,785,650**	**$ 2,779,754**	**$ (28,238)**	**$ 3,519**	**$ (30,615)**

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

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net assets:				
Net revenues (expenses)	$ (8,463,289)	$ (1,104,926)	$ (9,568,215)	$ (30,615)
General revenues:				
Taxes:				
Individual income	2,805,998	—	2,805,998	—
Retail sales and use	3,908,318	—	3,908,318	—
Other	1,682,300	—	1,682,300	—
Total taxes	8,396,616	—	8,396,616	—
Unrestricted grants and contributions	23,896	—	23,896	—
Unrestricted investment income	86,639	—	86,639	—
Tobacco legal settlement	95,115	—	95,115	—
Other revenues	301,321	—	301,321	—
Additions to endowments	—	31,934	31,934	—
Transfers–internal activities	(685,972)	685,972	—	—
Total general revenues, additions to endowments, and transfers	**8,217,615**	**717,906**	**8,935,521**	**—**
Change in net assets	**(245,674)**	**(387,020)**	**(632,694)**	**(30,615)**
Net assets at beginning of year (restated)	**13,650,792**	**4,348,081**	**17,998,873**	**2,668,207**
Net assets at end of year	**$ 13,405,118**	**$ 3,961,061**	**$ 17,366,179**	**$ 2,637,592**

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2009
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
ASSETS				
Cash and cash equivalents	$ 536,611	$ 479,226	$ 378,257	$ 248,897
Investments	27,157	264	—	—
Invested securities lending collateral	430,197	10,513	104,785	23,422
Receivables, net:				
Accounts	1,660	126,116	—	11,887
Accrued interest	6,671	490	8,667	1,918
Income taxes	428,039	—	—	—
Sales and other taxes	289,362	11,452	—	8,444
Patient accounts	9,991	9,638	—	—
Loans and notes	15	603	508,948	8,508
Due from Federal government and other grantors	8,950	555,646	—	86,668
Due from other funds	89,345	56,076	16,140	12,630
Due from component units	10,881	318	—	—
Interfund receivables	1,972	11,325	346,421	—
Inventories	10,621	11,499	—	3,725
Restricted assets:				
Cash and cash equivalents	—	—	439,582	10,000
Investments	—	—	—	—
Accounts receivable	—	—	386,334	—
Other	—	—	35,176	—
Prepaid items	—	—	—	7,573
Other assets	—	—	—	771
Total assets	**$ 1,851,472**	**$ 1,273,166**	**$ 2,224,310**	**$ 424,443**
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable	$ 280,944	$ 300,964	$ 14,074	$ 99,994
Accrued salaries and related expenditures	65,512	35,547	71	18,519
Retainages payable	—	282	2	1,928
Tax refunds payable	604,518	—	—	—
Payable–aid to individuals/families	2,768	—	—	—
Intergovernmental payables	31,805	188,449	1,521	—
Due to other funds	163,562	78,498	32	24,366
Interfund payables	10,895	6,103	—	346,421
Deferred revenues	52,057	88,624	403,957	32,062
Securities lending collateral	456,640	11,160	111,226	24,862
Other liabilities	77,542	—	—	—
Total liabilities	**1,746,243**	**709,627**	**530,883**	**548,152**
Fund balances (deficit):				
Reserved	231,201	11,996	1,965,384	16,335
Unreserved, designated reported in:				
Special revenue funds	—	—	—	—
Capital Projects Fund	—	—	—	—
Unreserved, undesignated reported in:				
General Fund	(125,972)	—	—	—
Special revenue funds	—	551,543	(271,957)	(140,044)
Permanent funds	—	—	—	—
Total fund balances (deficit)	**105,229**	**563,539**	**1,693,427**	**(123,709)**
Total liabilities and fund balances	**$ 1,851,472**	**$ 1,273,166**	**$ 2,224,310**	**$ 424,443**

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

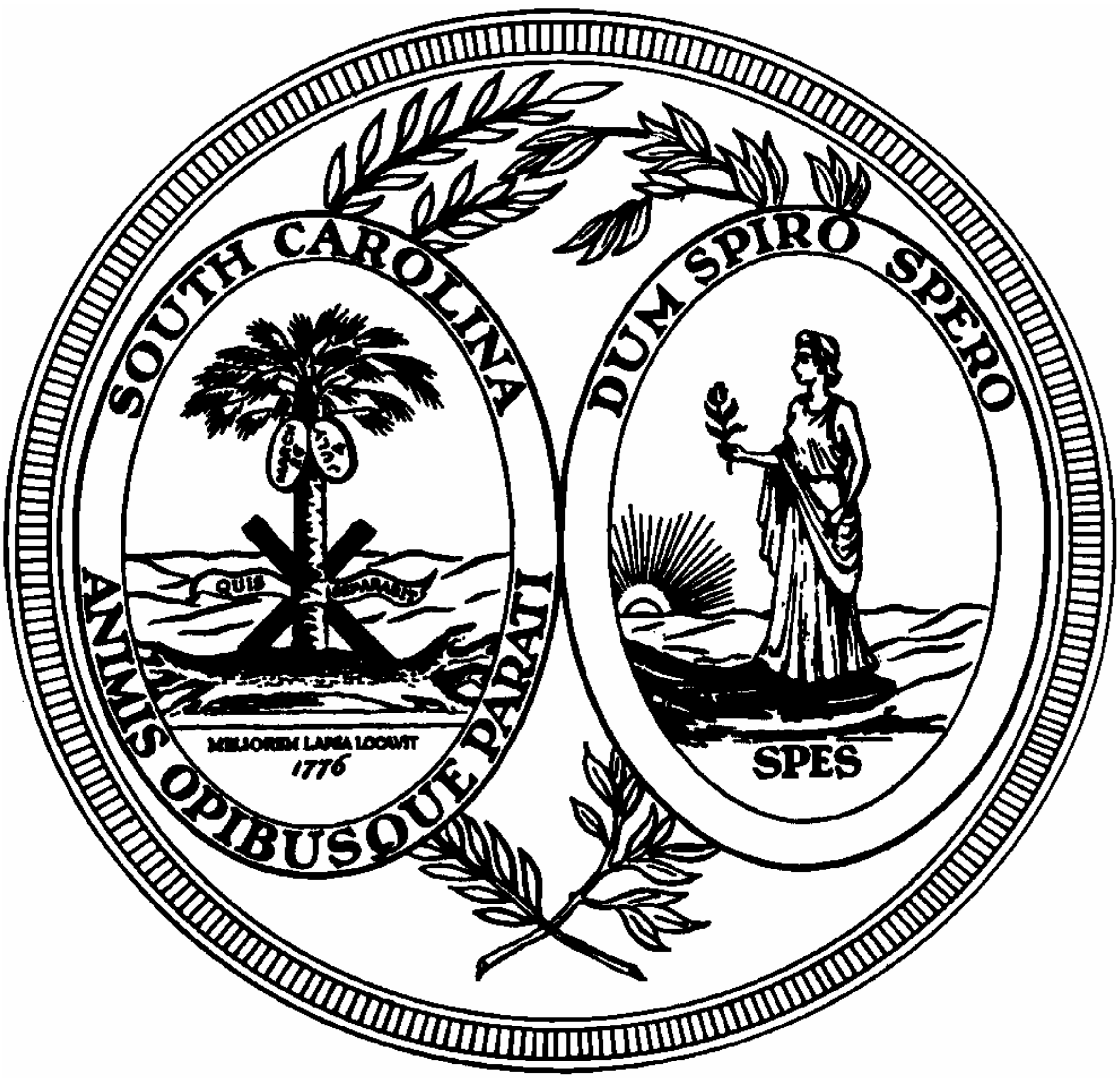
State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ 64,977	$ 1,106,411	$ 2,814,379
—	—	27,421
8,827	122,877	700,621
—	1,050	140,713
492	9,396	27,634
—	—	428,039
—	163,150	472,408
—	—	19,629
—	33,687	551,761
—	759	652,023
—	61,602	235,793
—	23,659	34,858
—	14,718	374,436
—	6	25,851
—	13,967	463,549
—	4,992	4,992
—	—	386,334
—	46,218	81,394
—	—	7,573
—	—	771
$ 74,296	**$ 1,602,492**	**$ 7,450,179**
$ —	$ 18,566	$ 714,542
—	1,968	121,617
—	617	2,829
—	926	605,444
—	—	2,768
—	349,413	571,188
10,501	62,823	339,782
—	17,260	380,679
—	26,991	603,691
9,370	130,430	743,688
—	47	77,589
19,871	**609,041**	**4,163,817**
—	131,262	2,356,178
—	15,114	15,114
—	248,130	248,130
—	—	(125,972)
54,425	597,443	791,410
—	1,502	1,502
54,425	**993,451**	**3,286,362**
$ 74,296	**$ 1,602,492**	**$ 7,450,179**

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

June 30, 2009
(Expressed in Thousands)

Total fund balances–governmental funds		**$ 3,286,362**
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	$ 4,833,837	
Depreciable capital assets	12,767,365	
Accumulated depreciation	(3,813,677)	
Total capital assets		13,787,525
Bond issue costs are reported as current expenditures in the funds. However, issue costs are deferred and amortized over the life of the bonds and are included in governmental activities in the statement of net assets		25,356
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		454,798
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		370,064
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		465
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	(4,143,817)	
Notes payable	(21,367)	
Accrued interest on bonds	(53,699)	
Capital leases	(404)	
Compensated absences	(213,900)	
Policy claims	(32,973)	
Other	(53,292)	
Total long-term liabilities		(4,519,452)
Net assets of governmental activities		**$ 13,405,118**

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


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

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure
Revenues:			
Taxes:			
Individual income	$ 2,811,634	$ —	$ 17,034
Retail sales and use	2,248,962	2,055	—
Other	769,580	30,950	20,000
Licenses, fees, and permits	113,309	166,323	95,962
Interest and other investment income	60,422	4,216	78,215
Federal	78,274	6,216,588	11,464
Local and private grants	2,703	47,820	—
Departmental services	63,641	610,875	30,056
Contributions	20,510	53,797	35,832
Fines and penalties	21,587	75,522	—
Tobacco legal settlement	—	—	—
Other	37,892	319,971	5,663
Total revenues	**6,228,514**	**7,528,117**	**294,226**
Expenditures:			
Current:			
General government	338,090	278,212	700
Education	262,562	235,078	—
Health and environment	1,079,264	4,713,770	—
Social services	108,114	1,406,170	—
Administration of justice	561,631	141,474	—
Resources and economic development	95,668	104,642	456
Transportation	31	—	1,184
Capital outlay	—	—	—
Debt service:			
Principal retirement	159,611	288	42,560
Interest and fiscal charges	63,595	189	101,893
Intergovernmental	2,561,314	1,013,991	112,219
Total expenditures	**5,229,880**	**7,893,814**	**259,012**
Excess of revenues over (under) expenditures	**998,634**	**(365,697)**	**35,214**
Other financing sources (uses):			
Bonds and notes issued	—	—	—
Premiums on bonds issued	—	—	—
Capital leases	—	19	—
Transfers in	72,955	228,094	2,992
Transfers out	(1,298,156)	(55,276)	(1,029)
Total other financing sources (uses)	**(1,225,201)**	**172,837**	**1,963**
Net change in fund balances	**(226,567)**	**(192,860)**	**37,177**
Fund balances (deficit) at beginning of year (restated)	**331,796**	**756,399**	**1,656,250**
Fund balances (deficit) at end of year	**$ 105,229**	**$ 563,539**	**$ 1,693,427**

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

Department of Transportation Special Revenue	State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ —	$ —	$ —	$ 2,828,668
—	—	1,657,301	3,908,318
538,411	—	294,737	1,653,678
—	—	127,217	502,811
14,878	26,276	41,830	225,837
485,687	—	9,774	6,801,787
—	—	—	50,523
24,060	—	17,474	746,106
—	—	268,903	379,042
—	—	23,596	120,705
—	—	95,115	95,115
9,476	—	3,745	376,747
1,072,512	**26,276**	**2,539,692**	**17,689,337**
—	74	135,907	752,983
—	—	313,575	811,215
—	20,500	406,298	6,219,832
—	—	15,641	1,529,925
—	—	13,371	716,476
—	—	4,723	205,489
654,749	—	—	655,964
313,067	—	71,130	384,197
73,960	—	76,785	353,204
38,638	—	15,994	220,309
76,155	368	2,105,449	5,869,496
1,156,569	**20,942**	**3,158,873**	**17,719,090**
(84,057)	**5,334**	**(619,181)**	**(29,753)**
—	—	91,521	91,521
—	—	4,541	4,541
—	—	—	19
1,141	—	454,265	759,447
(1,741)	—	(87,102)	(1,443,304)
(600)	**—**	**463,225**	**(587,776)**
(84,657)	**5,334**	**(155,956)**	**(617,529)**
(39,052)	**49,091**	**1,149,407**	**3,903,891**
$ (123,709)	**$ 54,425**	**$ 993,451**	**$ 3,286,362**

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, 2009
(Expressed in Thousands)

Net change in fund balances–total governmental funds		**$ (617,529)**
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	$ 404,809	
Depreciation expense	(259,858)	
Excess of capital outlay over depreciation expense		144,951
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		80,632
Losses on disposals of capital assets are reported as an expense in the statement of activities		(5,587)
Bond and note proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Bonds and notes issued	(91,521)	
Bond premiums	(4,541)	
Net bond and note proceeds		(96,062)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets		219
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		(19)
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	352,481	
Note principal retirement	473	
Capital lease payments	250	
Total long-term debt repayment		353,204
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		(42,815)
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		(55,169)
Interest receivable not due in the current period and therefore not reported in the funds		(2,447)

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, 2009
(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		$ 2,686
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Net increase in accrued interest	$ (10,716)	
Interest accreted on capital appreciation debt	(957)	
Amortization of bond issuance costs	(1,928)	
Net amortization of bond premiums and discounts	2,296	
Amortization of deferred losses on refunding of debt	(1,571)	
Net increase in compensated absences payable	(185)	
Decrease in intergovernmental payable	100	
Increase in policy claims payable	(4,825)	
Net decrease in other payables	10,048	
Total additional expenses		(7,738)
Change in net assets of governmental activities		**$ (245,674)**

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2009
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
ASSETS			
Current assets:			
Cash and cash equivalents	$ 732,546	$ 10,754	$ 27,744
Investments	62,603	—	—
Invested securities lending collateral	84,680	1,153	2,706
Receivables, net:			
Accounts	51,410	18,522	47
Contributions	2,550	—	—
Participants	—	—	—
Accrued interest	6,291	79	69
Student accounts	47,817	—	—
Patient accounts	—	—	—
Loans and notes	166	—	239
Assessments	—	43,579	—
Due from Federal government and other grantors	90,646	13,733	995
Due from other funds	49,747	2	—
Due from component units	116,890	—	—
Inventories	16,540	—	—
Restricted assets:			
Cash and cash equivalents	282,559	—	89,517
Investments	79	—	—
Loans receivable	945	—	19,109
Other	90	—	6,424
Prepaid items	24,183	—	—
Other current assets	249	—	537
Total current assets	1,569,991	87,822	147,387
Long-term assets:			
Investments	12,326	—	—
Receivables, net:			
Accounts	1,224	—	—
Contributions	2,034	—	—
Participants	—	—	—
Loans and notes	986	—	16,982
Interfund receivables	—	—	—
Restricted assets:			
Cash and cash equivalents	175,010	—	103,998
Investments	18	—	1,733
Receivable from endowments	36,860	—	—
Loans receivable	56,654	—	847,945
Other	1,037	—	—
Prepaid items	398	—	—
Other long-term assets	4,329	—	428
Deferred charges	2,319	—	6,191
Non-depreciable capital assets	627,596	—	—
Depreciable capital assets, net	2,932,634	—	568
Total long-term assets	3,853,425	—	977,845
Total assets	**5,423,416**	**87,822**	**1,125,232**

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
$ 25,599	$ 75,286	$ 304,078	$ 1,176,007	$ 445,328
—	—	23,962	86,565	—
—	—	16,076	104,615	87,848
23,782	9,694	8,464	111,919	138,968
—	—	31	2,581	—
—	—	2,781	2,781	—
—	2	595	7,036	6,612
—	—	—	47,817	—
141,694	—	35,113	176,807	—
—	50,820	—	51,225	—
—	—	—	43,579	—
—	—	1	105,375	—
376	—	23,651	73,776	27,103
—	—	—	116,890	6
18,003	—	3,587	38,130	5,961
10,932	19,927	43,919	446,854	—
—	—	7,880	7,959	—
—	—	83	20,137	—
—	—	860	7,374	—
6,102	—	1,430	31,715	18,178
10,683	—	1,706	13,175	—
237,171	155,729	474,217	2,672,317	730,004
—	—	16,631	28,957	419,891
—	—	—	1,224	122
—	—	11	2,045	—
—	—	7,987	7,987	—
—	1,018,172	—	1,036,140	—
—	—	32,046	32,046	28,234
38,802	—	7,116	324,926	—
41,732	—	37,161	80,644	—
—	—	—	36,860	—
—	—	8,351	912,950	—
—	—	170	1,207	—
—	—	11,499	11,897	—
—	—	2,324	7,081	519
18,529	3,921	2,069	33,029	101
17,221	—	34,767	679,584	7,772
544,933	160	74,229	3,552,524	127,556
661,217	1,022,253	234,361	6,749,101	584,195
898,388	**1,177,982**	**708,578**	**9,421,418**	**1,314,199**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2009
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
LIABILITIES			
Current liabilities:			
Accounts payable	$ 63,894	$ 19	$ —
Accrued salaries and related expenses	57,204	—	426
Tax withholdings payable	—	22,823	—
Accrued interest payable	11,910	—	—
Retainages payable	9,256	—	—
Tax refunds payable	—	8,807	—
Unemployment benefits payable	—	7,796	—
Intergovernmental payables	—	6,859	—
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	26,122	10,391	228
Unearned revenues	135,282	—	—
Deposits	6,224	—	—
Amounts held in custody for others	4,433	—	—
Securities lending collateral	89,885	1,224	2,872
Liabilities payable from restricted assets:			
Accounts payable	6,311	—	—
Accrued interest payable	—	—	20,208
Notes payable	—	—	22,000
Bonds payable	—	—	40,145
Other	—	—	5,370
Notes payable	11,487	—	—
General obligation bond anticipation notes payable	30,000	—	—
Revenue bond anticipation notes payable	53,100	—	—
General obligation bonds payable	20,805	—	—
Revenue bonds payable	28,709	—	—
Limited obligation bonds payable	—	—	—
Capital leases payable	6,856	—	—
Compensated absences payable	49,680	—	464
Other current liabilities	7,269	—	392
Total current liabilities	618,427	57,919	92,105
Long-term liabilities:			
Retainages payable	1,135	—	—
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Interfund payables	34,502	—	—
Unearned revenues	6,429	—	—
Other liabilities payable from restricted assets	—	—	—
Advances from Federal government	—	344,881	—
Notes payable	117,533	—	—
General obligation bonds payable	333,447	—	—
Revenue bonds payable	650,441	—	724,637
Limited obligation bonds payable	—	—	—
Capital leases payable	78,639	—	—
Compensated absences payable	65,923	—	359
Other long-term liabilities	55,919	—	573
Total long-term liabilities	1,343,968	344,881	725,569
Total liabilities	**1,962,395**	**402,800**	**817,674**

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**
$ 44,445	$ 12,597	$ 8,581	$ 129,536	$ 8,983
28,425	—	13,421	99,476	3,982
—	—	—	22,823	—
376	—	1,050	13,336	828
3,420	—	—	12,676	—
—	—	—	8,807	—
—	—	—	7,796	—
—	—	—	6,859	42
—	—	24,721	24,721	—
—	—	10,000	10,000	490,766
12,430	—	1,470	50,641	3,889
—	—	10,065	145,347	154,150
—	—	—	6,224	—
—	—	—	4,433	—
—	—	16,885	110,866	93,248
—	—	—	6,311	—
—	3,307	178	23,693	—
—	—	—	22,000	—
—	—	—	40,145	—
—	172	41,635	47,177	—
12,879	—	6,271	30,637	5,308
—	—	—	30,000	—
—	—	—	53,100	—
—	—	—	20,805	—
9,970	—	1,166	39,845	1,540
—	—	—	—	1,200
1,479	—	62	8,397	—
20,916	296	3,968	75,324	3,179
17,025	1,040	2,261	27,987	3,688
151,365	17,412	141,734	1,078,962	770,803
—	—	—	1,135	—
—	—	165,070	165,070	—
—	—	145,574	145,574	136,655
—	—	17,494	51,996	2,041
—	—	476	6,905	—
—	3,035	7	3,042	—
—	—	—	344,881	—
38,256	—	55,748	211,537	9,145
—	—	—	333,447	—
455,993	1,010,519	59,509	2,901,099	16,179
—	—	—	—	6,429
161	—	27	78,827	—
—	—	1,855	68,137	2,883
11,262	960	566	69,280	—
505,672	1,014,514	446,326	4,380,930	173,332
657,037	**1,031,926**	**588,060**	**5,459,892**	**944,135**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2009
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	$ 2,291,273	$ —	$ 568
Restricted:			
Expendable:			
Education	174,257	—	—
Capital projects	248,950	—	—
Debt service	45,526	—	61,942
Loan programs	—	—	199,549
Insurance programs	—	—	—
Nonexpendable:			
Education	124,501	—	—
Unrestricted	576,514	(314,978)	45,499
Total net assets (deficit)	**$ 3,461,021**	**$ (314,978)**	**$ 307,558**

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

Net assets of business-type activities

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

FUNDS					
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals		INTERNAL SERVICE FUNDS
$ 70,482	$ 160	$ 67,038	$ 2,429,521		$ 96,313
—	—	20,507	194,764		—
—	—	1,402	250,352		—
82,587	94,313	1,496	285,864		—
—	50,356	—	249,905		20,000
—	—	—	—		277,823
—	—	26,424	150,925		—
88,282	1,227	3,651	400,195		(24,072)
$ 241,351	**$ 146,056**	**$ 120,518**	**3,961,526**		**$ 370,064**
....			(465)		
....			**$ 3,961,061**		

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

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Operating revenues:			
Assessments	$ —	$ 250,711	$ —
Charges for services	1,341,865	—	12,046
Contributions	—	—	—
Interest and other investment income	—	—	54,170
Licenses, fees, and permits	—	—	—
Operating revenues pledged for revenue bonds	195,254	—	—
Federal operating grants and contracts	573,356	496,579	—
State operating grants and contracts	241,767	—	—
Local/private operating grants and contracts	72,752	—	—
Other operating revenues	47,032	43,496	—
Total operating revenues	**2,472,026**	**790,786**	**66,216**
Operating expenses:			
General operations and administration	3,004,029	75	11,336
Benefits and claims	—	1,332,327	—
Tuition plan disbursements	—	—	—
Interest	—	—	40,912
Depreciation and amortization	169,342	—	912
Scholarships and fellowships	169,249	—	—
Other operating expenses	—	—	1,671
Total operating expenses	**3,342,620**	**1,332,402**	**54,831**
Operating income (loss)	**(870,594)**	**(541,616)**	**11,385**
Nonoperating revenues (expenses):			
Federal and local government appropriations	72,254	—	—
Interest income	10,471	2,571	(166)
Contributions	116,546	—	—
Federal grants and contracts	8,714	—	122,023
Local/private grants and contracts	7,689	—	—
Interest expense	(49,013)	—	—
Net other nonoperating revenues (expenses)	5,073	—	(125,724)
Total nonoperating revenues (expenses)	**171,734**	**2,571**	**(3,867)**
Income (loss) before other revenues, expenses, losses, and transfers	**(698,860)**	**(539,045)**	**7,518**
Capital contributions	—	—	—
Federal capital grants and contracts	10,362	—	—
Local/private capital grants and contracts	42,342	—	—
Additions to endowments	30,784	—	—
Transfers in	810,622	2,326	438
Transfers out	(42,493)	(40,758)	(288)
Change in net assets	**152,757**	**(577,477)**	**7,668**
Net assets at beginning of year (restated)	**3,308,264**	**262,499**	**299,890**
Net assets (deficit) at end of year	**$ 3,461,021**	**$ (314,978)**	**$ 307,558**

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

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

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

FUNDS				
Medical University Hospital Authority	**Education Assistance Authority**	**Nonmajor Enterprise**	**Totals**	**INTERNAL SERVICE FUNDS**
$ —	$ —	$ —	$ 250,711	$ —
885,163	52,913	390,210	2,682,197	1,969,612
—	—	(114)	(114)	—
—	967	(18,330)	36,807	895
—	—	—	—	7
—	—	2,052	197,306	—
—	—	—	1,069,935	—
—	—	—	241,767	—
—	—	—	72,752	—
17,327	1,255	38,465	147,575	68,283
902,490	**55,135**	**412,283**	**4,698,936**	**2,038,797**
824,038	22,757	314,422	4,176,657	375,418
—	—	(8,319)	1,324,008	1,735,667
—	—	10,598	10,598	—
—	25,826	—	66,738	5
52,093	512	6,047	228,906	17,546
—	—	—	169,249	—
—	3,604	2,500	7,775	5,776
876,131	**52,699**	**325,248**	**5,983,931**	**2,134,412**
26,359	**2,436**	**87,035**	**(1,284,995)**	**(95,615)**
—	—	—	72,254	—
2,644	—	(5,011)	10,509	53,388
—	—	1,794	118,340	—
—	—	—	130,737	—
—	—	170	7,859	—
(25,753)	—	(7,150)	(81,916)	(1,934)
—	(1,209)	(5,976)	(127,836)	3,425
(23,109)	**(1,209)**	**(16,173)**	**129,947**	**54,879**
3,250	**1,227**	**70,862**	**(1,155,048)**	**(40,736)**
—	—	77	77	36
—	—	—	10,362	—
—	—	27	42,369	—
—	—	1,150	31,934	—
248	—	8,037	821,671	10,172
—	—	(52,160)	(135,699)	(12,287)
3,498	**1,227**	**27,993**	**(384,334)**	**(42,815)**
237,853	**144,829**	**92,525**		**412,879**
$ 241,351	**$ 146,056**	**$ 120,518**		**$ 370,064**
			(2,686)	
			$ (387,020)	

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from operating activities:			
Receipts from customers, patients, and third-party payers	$ 1,409,291	$ —	$ —
Assessments received	—	258,982	—
Grants received	882,035	493,006	—
Receipts from collection of loans and notes	515,719	—	174,876
Receipts of funds held for others	220,168	—	—
Internal activity–payments from other funds	90,709	—	—
Tuition plan contributions received	—	—	—
Other operating cash receipts	39,059	35,276	13,573
Claims and benefits paid	—	(1,304,010)	—
Payments to suppliers for goods and services	(1,093,397)	—	(8,364)
Payments to employees	(1,972,147)	—	(7,775)
Payments for scholarships and fellowships	(128,396)	—	—
Loans issued to students	(515,103)	—	—
Payments of funds held for others	(170,202)	—	—
Program loans issued	—	—	(141,803)
Internal activity–payments to other funds	—	—	—
Other operating cash payments	(1,237)	(75)	—
Net cash provided by (used in) operating activities	**(723,501)**	**(516,821)**	**30,507**
Cash flows from noncapital financing activities:			
State, county, and local appropriations	64,067	—	—
Federal appropriations	12,944	—	—
Funds held for others	480	—	—
Principal payments received from other funds	—	—	—
Principal payments made to other funds	—	—	—
Receipt of interest from other funds	177	—	—
Interest payments made to other funds	—	—	—
Advances from Federal government	—	344,881	—
Proceeds from sale of noncapital debt	—	—	67,215
Principal payments on noncapital debt	—	—	(92,335)
Interest payments on noncapital debt	(129)	—	(41,050)
Payment of bond issuance costs	—	—	(650)
Gifts and grants for other than capital purposes	181,398	—	—
Federal revenue	—	—	122,023
Payments from Federal grants	—	—	(125,723)
Other cash receipts	20,009	—	—
Other cash payments	(428)	—	—
Transfers in	811,662	2,326	5,257
Transfers out	(36,575)	(40,758)	(5,107)
Net cash provided by (used in) noncapital financing activities	**1,053,605**	**306,449**	**(70,370)**

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
	$ 904,976	$ 71,392	$ 377,118	$ 2,762,777	$ 1,394,054
	—	—	102,550	361,532	—
	—	—	—	1,375,041	—
	—	131,440	—	822,035	—
	—	—	—	220,168	—
	—	—	—	90,709	545,012
	—	—	12,403	12,403	—
	17,507	—	53,014	158,429	85,296
	—	—	(130,756)	(1,434,766)	(1,716,133)
	(340,117)	(69,361)	(121,346)	(1,632,585)	(298,065)
	(389,406)	(3,690)	(184,487)	(2,557,505)	(75,743)
	—	—	—	(128,396)	—
	—	—	—	(515,103)	—
	—	—	—	(170,202)	—
	—	(170,285)	—	(312,088)	—
	(90,709)	—	(815)	(91,524)	(10,344)
	—	—	(17,108)	(18,420)	(767)
	102,251	**(40,504)**	**90,573**	**(1,057,495)**	**(76,690)**
	—	—	—	64,067	—
	—	—	—	12,944	—
	—	—	—	480	—
	—	—	—	—	845
	—	—	(739)	(739)	(3,230)
	—	—	—	177	471
	—	—	(465)	(465)	—
	—	—	—	344,881	—
	—	—	70,317	137,532	—
	—	—	(63,809)	(156,144)	—
	—	(39,007)	(2,755)	(82,941)	—
	—	—	—	(650)	—
	—	—	(2,371)	179,027	—
	—	—	—	122,023	—
	—	—	—	(125,723)	—
	—	—	158	20,167	—
	—	—	(11,985)	(12,413)	—
	248	—	857	820,350	10,172
	—	—	(53,198)	(135,638)	(12,287)
	248	**(39,007)**	**(63,990)**	**1,186,935**	**(4,029)**

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from capital and related financing activities:			
Capital appropriations	$ 5,323	$ —	$ —
Acquisition of capital assets	(400,772)	—	(24)
Principal payments on limited obligation bonds	—	—	—
Proceeds from issuance of capital debt	178,979	—	—
Principal payments on capital debt	(96,449)	—	—
Interest payments on capital debt	(50,908)	—	—
Payment of agent and broker fees	—	—	—
Proceeds from sale or disposal of capital assets	1,099	—	—
Capital grants and gifts received	67,260	—	—
Net cash used in capital and related financing activities	**(295,468)**	**—**	**(24)**
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	85,872	—	—
Purchase of investments	(81,113)	—	—
Interest and dividends on investments	42,687	2,874	5,541
Transfer of endowment funds	(13,944)	—	—
Collection of escrow payments from borrower	—	—	—
Net cash provided by (used in) investing activities	**33,502**	**2,874**	**5,541**
Net increase (decrease) in cash and cash equivalents	**68,138**	**(207,498)**	**(34,346)**
Cash and cash equivalents at beginning of year (restated)	**1,121,977**	**218,252**	**255,605**
Cash and cash equivalents at end of year	**$ 1,190,115**	**$ 10,754**	**$ 221,259**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (870,594)	$ (541,616)	$ 11,385
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	169,342	—	674
Provision for bad debts	577	—	—
Realized gains and losses on sale of assets	—	—	—
Net increase in the fair value of investments	—	—	—
Issuance of loans and notes	—	—	(141,803)
Collection of loans and notes	—	—	126,697
Interest payments reclassified as noncapital financing activities	—	—	40,912
Interest and dividends on investments and interfund loans	—	—	(5,577)
Amounts received for payment of claims	—	—	—
Payment of claims	—	—	—
Other nonoperating revenues	852	—	—
Other nonoperating expenses	(3,299)	—	—

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
$ —	$ —	$ —	$ 5,323	$ —
(40,577)	(58)	(9,542)	(450,973)	(9,060)
—	—	—	—	(1,723)
—	—	51,883	230,862	—
(19,296)	—	(48,762)	(164,507)	(6,351)
(30,732)	—	(5,446)	(87,086)	(2,004)
(3,061)	—	(12,588)	(15,649)	—
6	—	112	1,217	1,048
—	—	—	67,260	—
(93,660)	**(58)**	**(24,343)**	**(413,553)**	**(18,090)**
1,201	—	79,602	166,675	105,934
(7,131)	—	(57,056)	(145,300)	(129,355)
2,579	1,023	5,059	59,763	30,322
—	—	—	(13,944)	—
—	—	1,201	1,201	—
(3,351)	**1,023**	**28,806**	**68,395**	**6,901**
5,488	**(78,546)**	**31,046**	**(215,718)**	**(91,908)**
69,845	**173,759**	**324,067**	**2,163,505**	**537,236**
$ 75,333	**$ 95,213**	**$ 355,113**	**$ 1,947,787**	**$ 445,328**
$ 26,359	$ 2,436	$ 87,035	$ (1,284,995)	$ (95,615)
52,093	512	6,045	228,666	17,546
73,010	171	30,530	104,288	—
—	—	90	90	—
—	—	11,573	11,573	—
—	(39,160)	—	(180,963)	—
—	40,222	—	166,919	—
—	26,102	—	67,014	—
—	(976)	6,756	203	—
—	—	100,530	100,530	—
—	—	(112,351)	(112,351)	—
—	—	3,560	4,412	3,836
341	—	(244)	(3,202)	(767)

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Effect of changes in operating assets and liabilities:			
Accounts receivable, net	$ (24,897)	$ (8,245)	$ 43
Receivable from participants, net	—	—	—
Accrued interest	—	—	5,307
Loans receivable	(1,499)	—	—
Assessments receivable, net	—	7,279	—
Due from Federal government and other grantors	180	(13,457)	842
Due from other funds	5,736	25	—
Inventories	(1,293)	—	—
Other assets	1,400	—	(7,052)
Accounts payable	(14,582)	(1,195)	—
Accrued salaries and related expenses	2,610	—	(57)
Tax withholdings	—	21,230	—
Accrued interest payable	—	—	—
Retainages payable	273	—	—
Tax refunds payable	—	992	—
Unemployment benefits payable	—	5,121	—
Intergovernmental payables	—	3,161	(187)
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	(3,052)	9,884	23
Unearned revenues	(27)	—	—
Deposits	2,270	—	—
Liabilities payable from restricted assets	—	—	47
Compensated absences payable	3,000	—	36
Other liabilities	9,502	—	(783)
Net cash provided by (used in) operating activities	**$ (723,501)**	**$ (516,821)**	**$ 30,507**
Noncash capital, investing, and financing activities:			
Acquisition of capital assets through donations	$ 7,314	$ —	$ —
Disposal of capital assets	(195)	—	—
Borrowing under capital leases	48,702	—	—
Increase (decrease) in fair value of investments	(17,423)	(71)	(251)
Increase in investments for amortization and accretion	—	—	—
Arbitrage income incurred and liability accrued	—	—	—
Long-term debt forgiven	32	—	—
Other noncash activity	3,811	—	—
Total noncash capital, investing, and financing activities	**$ 42,241**	**$ (71)**	**$ (251)**

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
$ (64,103)	$ (5,435)	$ (34,503)	$ (137,140)	$ (18,066)
—	—	12,517	12,517	—
—	—	—	5,307	94
—	(58,095)	(278)	(59,872)	—
—	—	—	7,279	—
—	—	—	(12,435)	—
—	—	5,367	11,128	(14,669)
2,411	—	(196)	922	675
(5,084)	—	323	(10,413)	(3,806)
25,303	(6,269)	1,663	4,920	(401)
—	—	(52)	2,501	(423)
—	—	—	21,230	—
—	—	—	—	(70)
—	—	—	273	(214)
—	—	—	992	—
—	—	—	5,121	—
—	—	—	2,974	—
—	—	374	374	—
—	—	(26,794)	(26,794)	38,116
(8,079)	—	(763)	(1,987)	164
—	—	(2,145)	(2,172)	(2,745)
—	—	—	2,270	—
—	—	—	47	—
—	44	765	3,845	(345)
—	(56)	771	9,434	—
$ 102,251	**$ (40,504)**	**$ 90,573**	**$ (1,057,495)**	**$ (76,690)**
$ —	$ —	$ —	$ 7,314	$ —
—	—	—	(195)	—
—	—	—	48,702	—
842	—	(15,984)	(32,887)	9,298
—	—	—	—	11,939
—	(1,209)	—	(1,209)	—
—	—	—	32	—
—	—	27	3,838	—
$ 842	**$ (1,209)**	**$ (15,957)**	**$ 25,595**	**$ 21,237**

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2009
(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	$ 3,163,777	$ 1,481,433	$ 21,857	$ 204,128
Receivables, net:				
Accounts	71	—	—	7,060
Contributions	173,998	—	—	—
Employer long-term	473	—	—	—
Accrued interest	74,151	3,923	915	1,060
Unsettled investment sales	52,571	—	1,107	—
Other investment receivables	2,827	—	—	—
Taxes	—	—	—	1,877
Total receivables	304,091	3,923	2,022	9,997
Due from other funds	50,675	—	—	59,435
Due from component units	4	—	—	—
Investments, at fair value:				
Short term securities	70,796	—	—	—
Debt-domestic	3,733,627	935,408	—	—
Debt-international	3,437,896	—	—	—
Equity-domestic	2,250,248	—	—	—
Alternatives	8,784,836	—	—	—
Financial and other	8,722	148,710	937,207	34,775
Total investments	18,286,125	1,084,118	937,207	34,775
Securities held in lieu of surety bonds	—	—	—	270,604
Invested securities lending collateral	1,875,452	24,526	2,423	21,559
Capital assets, net	3,340	—	—	—
Prepaid items	189	—	—	—
Other assets	—	—	5,084	—
Total assets	**23,683,653**	**2,594,000**	**968,593**	**600,498**
LIABILITIES				
Accounts payable	9,551	—	2,258	11,423
Accounts payable–unsettled investment purchases	36,142	—	434	—
Due to other funds	52,470	—	—	—
Tax refunds payable	—	—	—	1,462
Intergovernmental payables	—	—	500	9,112
Deposits	—	—	—	3,228
Amounts held in custody for others	—	—	—	552,389
Deferred retirement benefits	431,503	—	—	—
Securities lending collateral	2,099,952	24,524	2,572	22,884
Due to participants	—	490	—	—
Other liabilities	92,313	—	—	—
Total liabilities	**2,721,931**	**25,014**	**5,764**	**600,498**
NET ASSETS				
Held in trust for:				
Pension and other post-employment benefits	20,961,722	—	—	—
External investment pool participants	—	2,568,986	—	—
Other purposes	—	—	962,829	—
Total net assets	**$ 20,961,722**	**$ 2,568,986**	**$ 962,829**	**$ —**

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, 2009
(Expressed in Thousands)

	Pension and Other Post-Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits	$ —	$ —	$ 52
Contributions:			
Employer	1,344,619	—	—
Employee	645,116	—	—
Deposits from pool participants	—	6,232,583	—
Tuition plan deposits	—	—	81,380
Total contributions	1,989,735	6,232,583	81,380
Investment income (loss):			
Interest income and net depreciation in investments	(5,377,915)	37,023	(199,840)
Securities lending income	58,715	194	—
Total investment income	(5,319,200)	37,217	(199,840)
Less investment expense:			
Investment expense	44,398	—	—
Securities lending expense	34,580	193	—
Net investment income (loss)	(5,398,178)	37,024	(199,840)
Assets moved between pension trust funds	1,873	—	—
Total additions	**(3,406,570)**	**6,269,607**	**(118,408)**
Deductions:			
Regular retirement benefits	2,004,103	—	—
Supplemental retirement benefits	1,198	—	—
Deferred retirement benefits	184,868	—	—
Refunds of retirement contributions to members	87,668	—	—
Death benefit claims	19,776	—	—
Accidental death benefits	1,482	—	—
Other post-employment benefits	276,742	—	—
Withdrawals, pool participants	—	6,204,692	—
Distributions to pool participants	—	30,593	—
Depreciation	119	—	—
Administrative expense	21,246	258	15,771
Payments in accordance with trust agreements	—	—	657
Other expenses	—	—	2
Assets moved between pension trust funds	1,873	—	—
Total deductions	**2,599,075**	**6,235,543**	**16,430**
Change in net assets	**(6,005,645)**	**34,064**	**(134,838)**
Net assets at beginning of year	**26,967,367**	**2,534,922**	**1,097,667**
Net assets at end of year	**$ 20,961,722**	**$ 2,568,986**	**$ 962,829**

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2009
(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	$ 75,851	$ 185,604	$ 297	$ 12,260	$ 35,040	$ 309,052
Investments	91,152	—	277	—	67,070	158,499
Invested securities lending collateral	—	51,768	—	44	710	52,522
Receivables, net						
Accounts	156,706	19,277	—	33,747	4,351	214,081
Contributions	—	—	—	—	3,636	3,636
Accrued interest	3,325	—	—	—	740	4,065
Loans and notes	—	—	—	—	30	30
Due from Federal government and other grantors	—	—	—	—	77	77
Due from primary government	—	167,541	—	—	—	167,541
Inventories	257,050	6,095	88	1,740	—	264,973
Restricted assets:						
Cash and cash equivalents	122,890	—	9,257	476	16,318	148,941
Investments	108,992	—	—	—	—	108,992
Prepaid items	7,771	4,205	37	—	15	12,028
Other current assets	37,558	—	—	1,295	155	39,008
Deferred charges	—	—	—	—	1,616	1,616
Total current assets	861,295	434,490	9,956	49,562	129,758	1,485,061
Long-term assets:						
Investments	94,150	8,031	—	—	535,964	638,145
Receivables, net:						
Accounts	—	—	—	—	1,671	1,671
Contributions	—	—	—	—	36,445	36,445
Restricted assets:						
Cash and cash equivalents	248,272	—	99	—	—	248,371
Investments	346,111	—	4,584	—	—	350,695
Other long-term assets	1,605	—	—	4,783	507	6,895
Deferred charges	446,414	1,050	3,711	—	—	451,175
Investment in joint venture	8,447	—	—	—	—	8,447
Non-depreciable capital assets	598,670	270,093	—	—	8,971	877,734
Depreciable capital assets, net	3,906,860	299,200	152,260	875	918	4,360,113
Total long-term assets	5,650,529	578,374	160,654	5,658	584,476	6,979,691
Total assets	**6,511,824**	**1,012,864**	**170,610**	**55,220**	**714,234**	**8,464,752**

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2009
(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
LIABILITIES						
Current liabilities:						
Accounts payable	$ 149,339	$ 11,610	$ 129	$ 2,158	$ 2,431	$ 165,667
Accrued salaries and related expenses	9,885	1,058	—	841	85	11,869
Accrued interest payable	92,597	8,569	—	—	—	101,166
Retainages payable	—	2,138	—	—	—	2,138
Prizes payable	—	—	—	25,434	—	25,434
Intergovernmental payables	—	382	—	—	72	454
Policy claims	2,120	—	—	—	36,000	38,120
Due to primary government	—	—	7,432	23,655	117,218	148,305
Unearned revenues and deferred credits	—	—	208	662	22,170	23,040
Deposits	—	—	15	—	—	15
Amounts held in custody for others	—	—	—	—	1,179	1,179
Securities lending collateral	—	54,950	—	47	754	55,751
Liabilities payable from restricted assets:						
Accounts payable	—	—	—	—	331	331
Accrued interest payable	—	—	1,742	—	—	1,742
Notes payable	—	345	—	—	8	353
Revenue bonds payable	104,225	3,705	6,700	—	—	114,630
Capital leases payable	2,383	6	—	—	—	2,389
Commercial paper notes	152,807	—	—	—	—	152,807
Compensated absences payable	—	2,672	—	589	46	3,307
Other current liabilities	94,904	10,496	1,154	217	500	107,271
Total current liabilities	608,260	95,931	17,380	53,603	180,794	955,968
Long-term liabilities:						
Retainages payable	26,233	—	—	—	—	26,233
Policy claims	—	—	—	—	144,656	144,656
Unearned revenues and deferred credits	303,872	—	—	—	—	303,872
Amounts held in custody for others	—	—	—	—	1,977	1,977
Notes payable	—	1,294	—	—	30	1,324
Revenue bonds payable	3,926,804	98,557	304,352	—	—	4,329,713
Capital leases payable	5,600	17	—	—	—	5,617
Compensated absences payable	17,213	—	—	269	48	17,530
Other long-term liabilities	31,821	—	—	—	8,449	40,270
Total long-term liabilities	4,311,543	99,868	304,352	269	155,160	4,871,192
Total liabilities	**4,919,803**	**195,799**	**321,732**	**53,872**	**335,954**	**5,827,160**
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	559,785	455,216	(57,080)	875	9,889	968,685
Restricted:						
Expendable:						
Education	—	—	—	—	160,828	160,828
Capital projects	9,654	1,628	—	—	—	11,282
Debt service	109,049	6,403	7,514	—	—	122,966
Other	199,744	—	—	476	2,140	202,360
Nonexpendable, education	—	—	—	—	337,146	337,146
Unrestricted	713,789	353,818	(101,556)	(3)	(131,723)	834,325
Total net assets (deficit)	**$ 1,592,021**	**$ 817,065**	**$ (151,122)**	**$ 1,348**	**$ 378,280**	**$ 2,637,592**

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

		Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Public Service Authority	$ 1,523,915	$ 1,586,303	$ 19,051	$ 44
State Ports Authority	117,149	135,351	4,009	3,475
Connector 2000 Association, Inc.	28,068	5,238	673	—
Lottery Commission	1,008,939	1,008,482	141	—
Nonmajor component units	107,579	44,380	(52,112)	—
Totals	**$ 2,785,650**	**$ 2,779,754**	**$ (28,238)**	**$ 3,519**

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

Net Revenue (Expense)	Net Assets (Deficit) Beginning of Year	Net Assets (Deficit) End of Year
$ 81,483	$ 1,510,538	$ 1,592,021
25,686	791,379	817,065
(22,157)	(128,965)	(151,122)
(316)	1,664	1,348
(115,311)	493,591	378,280
$ (30,615)	**$ 2,668,207**	**$ 2,637,592**

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Scope of Reporting Entity

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

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

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

Primary Government

The State's primary government includes all constitutional offices, departments, agencies, commissions, and authorities unless otherwise noted below. Most of these have executives or boards appointed by the Governor, the General Assembly, or both. 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, 2009:
- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 2008:
- 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 economic resources received or held by the related foundations that the State, or its component units, is entitled to, or has the ability to otherwise access, are not significant to the State.

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, 2009.

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, 2008.

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
www.treasurer.sc.gov

Medical University Hospital Authority
Chief Financial Officer
Post Office Box 250332
Charleston, South Carolina 29425
www.musc.edu

The Citadel Trust
c/o The Citadel
171 Moultrie Street
Charleston, South Carolina 29409
www.citadel.edu

University of South Carolina Trust
Post Office Box 413
Columbia, South Carolina 29202
www.sc.edu

University Medical Associates
1180 Sam Rittenberg Boulevard, Suite 355
Charleson, South Carolina 29407
www.musc.edu

Medical University Facilities Corporation
c/o Medical University of South Carolina
Controller's Office
19 Hagood Avenue
Suite 505, MSC 817
Charleston, South Carolina 29425
www.musc.edu

CHS Development Company
c/o Medical University of South Carolina
Controller's Office
19 Hagood Avenue
Suite 505, MSC 817
Charleston, South Carolina 29425
www.musc.edu

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

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, 2009.

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, 2008.

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, 2008.

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, that 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 that the Commission transfer its net proceeds to the State to support improvements and enhancements for educational purposes and programs.

Other Discretely Presented Component Units

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

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

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

The *South Carolina Medical Malpractice Liability Joint Underwriting Association (the Association)* was established to provide medical malpractice insurance on a self-supporting basis. The Association is governed by a board of thirteen directors, all of whom are appointed by the Governor. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2008.

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

The *Children's Trust Fund of South Carolina, Inc. (the Fund)*, is a non-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Fund's purpose is to stimulate innovative prevention and treatment programming to meet critical needs of South Carolina's children by awarding grants to private non-profit organizations. The Governor appoints the Board of 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, 2008.

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
www.santeecooper.com

South Carolina State Ports Authority
Post Office Box 22287
Charleston, South Carolina 29413
www.port-of-charleston.com

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

The South Carolina Lottery Commission
Post Office Box 11949
Columbia, South Carolina 29211
www.sceducationlottery.com

Clemson University Foundation
110 Daniel Drive
Clemson, South Carolina 29634
www.clemson.edu

University of South Carolina Educational
Foundation
208 Osborne Building
University of South Carolina
Columbia, South Carolina 29208
www.sc.edu

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
www.scjua.com

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

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, 2009, 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 federal grants and 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, 2009.

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
www.treasurer.sc.gov

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:

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

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

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

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, 2009, $1.309 billion was reported as restricted net assets because of restrictions imposed by enabling legislation.

q. Flow Assumption, Net Assets

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

r. Escheat Property

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

NOTE 2: ACCOUNTING AND REPORTING CHANGES

a. Adoption of New Accounting Standards

Effective for the fiscal year 2008-2009, the State adopted the following Governmental Accounting Standards Board (GASB) Statements that had no effect on the balances of State accounts.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of this Statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as a landfill closure and post closure care and nuclear power plant decommissioning. See Note 22i, Contingencies and Commitments, for further disclosure concerning pollution remediation obligations.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, requires endowments to report their land and other real estate investments at fair value.

Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, incorporates the hierarchy of GAAP into GASB authoritative literature.

Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AIPCA Statements on Auditing Standards*, addresses related party transactions, going concern considerations, and subsequent events.

b. Correction of Error: Governmental Funds

During fiscal year 2008-2009, the Department of Health and Human Services determined that it had overstated its Medicaid payables estimate at June 30, 2008. The correction of this error is reported as an increase to the beginning fund balance of the General Fund of $67.738 million and an increase to the beginning fund balance of the Departmental General Operating Fund, a major special revenue fund, of $139.996 million. Also, the combined total of $207.734 million is reported as an increase to the beginning net assets of governmental activities.

c. Correction of Error: Non-major Enterprise Fund

During fiscal year 2008-2009, it was discovered that the receivable from participants balance for the Tuition Prepayment Program, a nonmajor enterprise fund, was overstated by $9.904 million at June 30, 2008. The correction of this error is reported as a decrease to the beginning net assets of the enterprise funds and as a decrease to the beginning net assets of business-type activities.

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, 2009:

Nonmajor Governmental Funds:	
Accommodations and Local Option Sales Tax......... $	42,351
Nonmajor Enterprise Funds:	
Patients' Compensation...	142,639
Tuition Prepayment Program...................................	41,998
Internal Service Funds:	
State Accident Fund..	90,435
Pension Administration...	1,224

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, 2009 was $278.767 million and the bank balance was $726.572 million. As of June 30, 2009, the reported amount of the primary government's deposits outside of the State Treasurer was $433.998 million and the bank balance was $458.330 million. Of the $324.512 million bank balance exposed to custodial credit risk, $71.100 million was uninsured and uncollateralized, and $253.412 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, 2009, the reported amount of the major discretely presented component units' deposits was $89.539 million and the bank balance was $90.322 million. Of the $1.123 million bank balance exposed to custodial credit risk, $22 thousand was uninsured and uncollateralized; and $1.101 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, 2009, as follows:

Primary Government Investment Type	Category A	Category B	Reported Amount
U.S. Treasuries	$ 1,733	$ 6,699	$ 8,432
U.S. Agencies	—	15,375	15,375
Corporate bonds	—	663	663
Municipal bonds	—	623	623
Repurchase agreements	—	47,496	47,496
Common Stock	—	3,023	3,023
Commercial paper	—	33,120	33,120
Totals	**$ 1,733**	**$ 106,999**	**$ 108,732**

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 $14.808 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, 2009 using the Standard and Poor's rating scale. The following table provides information on investment ratings (expressed in thousands):

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	A-1	Not Rated
Corporate bonds	$ 135,980	$ 158,957	$ 1,127,525	$ 622,584	$ 18,715	$ 19,981	$ 6,148	$ 47,520
Municipal bonds	412	8,965	72	—	—	—	—	27,931
Repurchase agreements	—	—	—	—	—	—	846,759	1,168,780
Asset backed securities	10,126	—	—	—	—	—	43,118	—
Commercial paper	—	—	—	—	—	—	960,815	76
Mutual funds	117	—	—	—	—	—	—	950,543
Corporate private placements	562	52,812	88,254	49,039	—	—	—	7,434
Money Market funds	92,466	1,567	—	—	—	—	—	40,853
Revenue Bonds	89,328	—	—	—	—	—	—	10,158
Totals	**$ 328,991**	**$ 222,301**	**$ 1,215,851**	**$ 671,623**	**$ 18,715**	**$ 19,981**	**$ 1,856,840**	**$ 2,253,295**

At fiscal year end, the State Ports Authority (June 30, 2009), the Public Service Authority (December 31, 2008), and the Connector 2000 Association, Inc. (December 31, 2008), 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
Repurchase agreements	$ 128,346	$ —
Money Market funds	9,355	8,405
Totals	**$ 137,701**	**$ 8,405**

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's policy is to manage 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, 2009, the effective duration and fair value of the State Treasurer's investments by investment type are as follows (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government		
U.S. Treasuries	$ 28,089	0.12
U.S. Agencies	2,273,284	19.90
State & Local Government		
Municipal bonds	8,965	4.51
Mortgage Backed	18,276	0.00
Revenue Bonds	99,486	12.89
Corporate		
Corporate bonds	1,477,180	4.01
Asset backed securities	4,216	1.44
Corporate private placements	147,286	7.22
Short Term Investments		
Equity securities	44,348	0.00
Repurchase agreements	1,035,080	0.00
Commercial paper	254,315	0.11
Mutual funds	9,489	0.00
Total Invested Assets	**$ 5,400,014**	

Agencies that manage their own investments have interest rate risk polices that differ from the State Treasurer. Some of these agencies do not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. At June 30, 2009, agencies within the State's primary government that manage their own investments limited the maturities of their securities according to the following segmented time distribution (expressed in thousands):

		Investment Maturities (in years)				
Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10	No Maturity
U.S. Treasuries	$ 434,326	$ 181,043	$ 252,499	$ 650	$ 134	$ —
U.S. Agencies	235,436	217,746	7,019	7,278	3,393	—
Collateralized mortgage obligations	115	—	—	—	115	—
Corporate bonds	660,230	499	644,527	1,132	13,409	663
Municipal bonds	28,415	—	28,230	185	—	—
Equity securities	17,606	—	—	—	—	17,606
Repurchase agreements	980,459	945,426	—	—	—	35,033
Asset backed securities	49,028	—	49,028	—	—	—
Commercial paper	706,576	706,501	—	—	—	75
Mutual funds	941,171	999	38	675	140	939,319
Corporate private placements	50,815	—	50,815	—	—	—
Money Market funds	134,886	115,546	1,567	—	—	17,773
Common Stock	52,402	48	—	—	—	52,354
Totals	**$ 4,291,465**	**$ 2,167,808**	**$ 1,033,723**	**$ 9,920**	**$ 17,191**	**$ 1,062,823**

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2009, these major discretely presented component units had the following investments with maturities disclosed by investment category and segmented time distribution stated with fair value (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasuries	$ 478,894	$ 436,950	$ 41,944	$ —	$ —
U.S. Agencies	421,095	6,403	410,108	—	4,584
Repurchase agreements	128,346	128,346	—	—	—
Money Market funds	17,760	17,760	—	—	—
Totals	**$ 1,046,095**	**$ 589,459**	**$ 452,052**	**$ —**	**$ 4,584**

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, 2009, the State Treasurer had approximately 32% of the LGIP investment portfolio in an overnight repurchase agreement with The Bank of New York Mellon that was fully collateralized by U.S. Treasuries.

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, also 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.

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, 2009. At June 30, 2009, 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, 2009, 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, 2009, 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, 2009, 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, 2009:

	Amount
Securities lent for cash collateral:	
U.S. Treasuries	$ 967,276
Corporate bonds	86,257
Total for cash collateral	**$ 1,053,533**
Cash collateral invested:	
Repurchase agreements	$ 99,800
Asset backed securities	201,273
Floating Rate Notes	693,041
Total collateral invested	**$ 994,114**

d. South Carolina Retirement Systems

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Systems' deposits may not be recovered. As prescribed by South Carolina state statute, 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 are 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. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the state or its agent in the State Treasurer's name as custodian.

Under the Temporary Liquidity Guarantee Program provided by the FDIC to strengthen confidence and encourage liquidity in the banking industry, the Transaction Account Guarantee (TAG) Program provides separate unlimited FDIC coverage on the full balance of non-interest bearing checking accounts. This coverage is in addition to the recently increased FDIC coverage on other deposits of $250 thousand. The financial institution that services the Systems' public fund accounts participated in the TAG program through the end of 2009; therefore, all checking accounts and deposits are either included under the TAG program or the bank holds additional collateral above the $250 thousand FDIC requirement due to classification.

As of June 30, 2009, the carrying amount of the Systems' deposits was $85.351 million and the bank balance was $110.301 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 Section 16, Article X of the South Carolina Constitution and Section 9-1-1310(B) and Title 9 Section 16 of the South Carolina Code of Laws. Funds held in trust for the 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, swaps, forward contracts, futures and options, domestic and international equity securities, private equity, real estate, and fund of funds.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is managed within the portfolio using effective duration, which 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. Within the investment policy, operational guidelines specify the degree of interest rate risk taken within each fixed income portfolio.

The Systems invests 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, 2009 (amounts expressed in thousands), is as follows:

Investment Type	Fair Value	Effective Duration
Short Term Investments		
Commingled Funds U.S. Debt	$ 98,795	-
Mutual Funds	2,797,463	0.08
Repurchase Agreements	109,103	0.01
U.S. Treasury Bills	546	-
U.S. Government Agencies	70,796	0.29
Fixed Income Allocation		
Domestic Fixed Income		
U.S. Government:		
U.S. Government Treasuries	193,842	4.62
U.S. Government Agencies	63,793	4.08
Mortgage Backed:		
Government National Mortgage Association	1,144,967	2.61
Federal National Mortgage Assocation	4,888	4.59
Collateralized Mortgage Obligations	6,460	0.64
Municipals	73,402	2.67
Corporate:		
Corporate Bonds	1,296,428	3.53
Convertible Bonds	6,127	0.80
Asset Backed Securities	30,564	0.10
Corporate Bonds-FDIC Guaranteed Bonds	6,224	1.09
Yankee Bonds	10,225	12.52
Private Placements	535,286	7.82
Global Fixed Income:		
International Commingled Funds	3,282,584	Not Required
International Corporate Bonds	6,662	1.05
International Emerging Debt	148,650	Not Required
Equity Allocation		
Domestic Equity		
Common Stocks	2,210,746	Not Required
Real Estate Investment Trusts	35,731	Not Required
Convertible Preferred	3,771	9.38
Alternatives		
Commingled Funds Balanced	729,144	Not Required
Credit Default Swaps	1,030	Not Required
Interest Rate Swaps	44	8.11
Total Return Swaps	305,918	Not Required
Hedge Funds	4,622,852	Not Required
Private Equity Limited Partnership	279,240	Not Required
Strategic Partnerships	2,846,608	Not Required
Total Invested Assets	**$ 20,921,889**	

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. 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. A quality rating of lower than C is not permissible in any of the fixed income guidelines except in those circumstances of downgrades subsequent to purchase, in which case the investment manager is responsible for communicating the downgrade to the Commission's Consultant and Staff. The Systems' fixed income investments were rated by Moody's and are presented below (expressed in thousands):

Investment Type and Fair Value	US Treasury	Agency[1]	AAA	AA	A	BAA	BA	B	CAA	CA	Not Rated[2]
Short Term Investments											
Commingled Funds U.S. Debt	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 98,795
Mutual Funds	—	—	2,794,578	—	—	—	—	—	—	—	2,885
Repurchase Agreements	—	—	—	—	—	—	—	—	—	—	284,727
US Treasury Bills	546	—	—	—	—	—	—	—	—	—	—
US Government Agencies	—	70,796	—	—	—	—	—	—	—	—	—
Equity Investments											
Convertible Preferred	—	—	—	—	—	—	930	—	—	—	2,841
Fixed Income Allocation											
US Government Treasuries	193,842	—	—	—	—	—	—	—	—	—	—
US Government Agencies	—	63,793	—	—	—	—	—	—	—	—	—
Mortgage Backed:											
Government National Mortgage Association	—	1,144,967	—	—	—	—	—	—	—	—	—
Federal National Mortgage Association	—	4,888	—	—	—	—	—	—	—	—	—
Collateralized Mortgage Association	—	784	—	—	—	—	—	—	—	—	5,676
Municipals	—	—	31,322	22,079	20,001	—	—	—	—	—	—
Corporate:											
Corporate Bonds	—	—	48,402	600,332	961,537	837,961	155,109	24,920	7,953	1,307	81,705
Convertible Bonds	—	—	—	—	—	—	—	701	673	—	4,753
Asset Backed Securities	—	—	259,488	5,609	2,186	—	—	7,491	3,230	—	—
Corporate Bonds - FDIC Guaranteed	—	—	6,224	—	—	—	—	—	—	—	—
Yankee Bonds	—	—	—	—	10,225	—	—	—	—	—	—
Private Placements	—	—	904	62,001	323,984	92,289	5,857	3,164	1,467	494	45,126
Global Fixed Income											
International Corporate Bonds	—	—	3,982	—	—	—	—	—	—	—	2,680
International Commingled Funds	—	—	—	—	—	—	—	—	—	—	3,282,584
International Emerging Debt	—	—	—	—	—	—	—	—	—	—	148,650
Alternatives											
Credit Default Swaps	—	—	—	—	—	—	—	—	—	—	1,030
Interest Rate Swaps	—	—	—	—	—	—	—	—	—	—	44
Total Return Swaps	—	—	—	—	—	—	—	—	—	—	97,409
Totals	**$ 194,388**	**$ 1,285,228**	**$ 3,144,900**	**$ 690,021**	**$ 1,317,933**	**$ 930,250**	**$ 161,896**	**$ 36,276**	**$ 13,323**	**$ 1,801**	**$ 4,058,905**

[1] *Agency rating is assigned to securities issued by privately owned government sponsored enterprises such as Federal National Mortgage Association, Federal Home Loan Mortgage Association and several other entities that do not have a credit rating. These enterprises have an implied guarantee due to recent capital injections by the U.S. Government but are still subject to credit risk.*

[2] *Not Rated represents securities that were either not rated or had a withdrawn rating.*

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 the Statement of Investment Objectives as amended and adopted by the Retirement System Investment Commission which states that "except that no limitations on issues and issuers shall apply to obligations of the U.S. Government and Federal Agencies, the domestic fixed income portfolio shall contain no more than 6% exposure to any single issuer." Additionally, the Commission made a strategic decision to increase the liquidity of the total plan by designating a 10% target allocation to cash during the fiscal year which resulted in a 13% allocation to the Dreyfus Government Cash Management Fund at June 30, 2009, totaling $2.797 billion (US dollars). This investment is a money market fund and operates as a cash sweep for the Systems' accounts at the custodian bank.

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, however, forbids speculating in forwards and other derivatives.

The following table presents the Systems' exposure to foreign currency risk in U.S. dollars as of June 30, 2009, (expressed in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Private Equity	Opportunistic Credit	Fixed Income
Australian Dollar	$ —	$ 50,728	$ —	$ —	$ —
Brazil Real	—	2,148	—	—	—
British Pound Sterling	202	154,526	—	—	—
Canadian Dollar	—	62,266	—	—	—
Chinese Yuan Renminbi	—	15,449	—	—	—
Euro Currency	1,182	311,936	38,498	93,526	1,902
Japanese Yen	—	170,923	—	—	—
Totals	**$ 1,384**	**$ 767,976**	**$ 38,498**	**$ 93,526**	**$ 1,902**

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.

To date, the primary reasons for the Commission's use of derivative contracts have pertained to their ability to facilitate changes to the asset allocation of the total plan and for their low cost of implementation. The Commission uses derivatives for several reasons:

- Asset Allocation: In many cases, synthetic exposures (using derivatives) are placeholders until managers are hired and funded. In time, the Commission may substitute traditional managers for much of the synthetic exposure currently in the portfolio. Efficient markets dictate that in some asset classes, synthetics are the best way to achieve exposure.
- Risk Management: Derivatives allow investors the ability to swiftly and efficiently increase or decrease exposures in order to manage portfolio risk.
- Cost: A synthetic (derivative) solution is often the cheapest way to gain exposure to a new asset class or to manage portfolio risk. Derivatives are more beneficial in each of the three major measures of cost: commission costs, market impact of trading, and opportunity costs.

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, the following securities were held in trust by the clearing brokers on June 30, 2009 (expressed in thousands):

$ 1,800	US Treasury Bonds
$ 546	US Treasury Bills
$ 1,592	Cash Collateral
$ 281,268	Various GNMA's

These assets represent the required margin amount to establish the Systems' futures exposure. As of June 30, 2009, the Systems had the following exposure to futures contracts (amounts expressed in thousands):

Futures Contracts	Expiration	Long/Short	Quantity	Notional Value*
MTF CAC40 10EU	July 2009	Long	1,364	$ 59,998
EURX DAX INDEX	September 2009	Long	280	47,320
EURX ER STX 50	September 2009	Long	4,888	164,411
NEW FTSE 100	September 2009	Long	2,154	149,626
HKFE - HSI	July 2009	Long	197	23,411
IBEX 35 PLUS	July 2009	Long	188	25,624
IDEM S&P/MIB	September 2009	Long	167	22,356
TSE TOPIX	September 2009	Long	1,886	180,713
ME S&P CAN 60	September 2009	Long	622	67,173
SFE SPI 200	September 2009	Long	646	50,933
Total International Equity				**791,565**
EMINI S&P 500	September 2009	Long	675	30,898
Total Large Cap Equity				**30,898**
IMM MINI RUSL	September 2009	Long	44	2,232
IMM EMINI MDCP	September 2009	Long	3,632	209,457
Total Small/Mid Cap Equity				**211,689**
US 2YR T-NOTE	September 2009	Long	477	103,136
CBT 5YR T-NOTE	September 2009	Long	609	69,863
10YR T-NOTE	September 2009	Long	127	14,766
US T-BONDS	September 2009	Short	(1,301)	(153,985)
Total Core Fixed Income				**33,780**
LIF Sterling LIBOR	June 2010	Long	589	118,667
LIF Sterling LIBOR	September 2010	Long	289	57,928
LIF EURIBOR	June 2010	Long	110	37,959
LIF EURIBOR	September 2010	Long	129	44,374
CME EURODOLLAR	December 2009	Long	397	98,352
Total Cash & Cash Equivalents				**357,280**
Totals				**$ 1,425,212**

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

Forwards are contractual obligations that require the delivery of assets at a fixed price on a predetermined date. These contracts are "over-the-counter" instruments, meaning they are not traded on an organized exchange. As of June 30, 2009, the Systems had the following forward exposures, listed by counterparty (amounts expressed in thousands):

Broker	Notional Value	Base Gain/(Loss)	Base Exposure
Barclays.....................................	$ 135,004	$ (143)	17.14%
Credit Suisse.............................	125,684	(121)	15.96%
Royal Bank of Scotland...............	124,262	443	15.78%
Mellon Bank................................	114,720	466	14.57%
State Street................................	99,944	(138)	12.69%
Royal Bank of Canada................	77,213	(166)	9.80%
Hongkong Shanghai...................	64,462	(523)	8.19%
Westpac Banking Corp...............	36,687	(553)	4.66%
J.P. Morgan Securities................	1,946	(7)	0.25%
Goldman Sachs & Co.................	1,074	—	0.14%
BNP Paribas...............................	250	(3)	0.03%
Deutsche Bank...........................	2,808	(13)	0.36%
Citigroup.....................................	3,375	(18)	0.43%
Totals......................................	**$ 787,429**	**$ (776)**	**100%**

The Systems has 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.

Credit default swaps are used to manage credit exposure without requiring that one transact in the underlying securities. They are agreements with counterparties to either purchase or sell credit protection. At June 30, 2009, the Systems’ credit default positions provided protection against issuer defaults by giving the Systems the right to “put” bonds to the counterparty in the event of a default. At June 30, 2009, the Systems’ held credit default swaps with notional value of $13.000 million (US dollars).

Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. With a typical interest rate swap, one party receives a fixed interest rate in exchange for a variable interest rate. At June 30, 2009, the Systems’ interest rate swap reflected a long position with a notional value of $11.700 million (US dollars) whereby the Systems pays 3 month LIBOR and receives a fixed rate of 4%.

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 and collateralizing unrealized gains and losses.

As of June 30, 2009, the Systems was exposed to counterparty risk through currency forwards and swap agreements. The Systems, however, does not anticipate any default in its 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, 2009, the Systems 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
Barclays	SP500 Proxy	3 month LIBOR minus 22 bps	S&P500	3/19/2010	$ 131,823	$ 20,140
Morgan Stanley	Russell 2000 Proxy	3 month LIBOR minus 227 bps	Russell 2000	10/30/2009	143,627	(6,373)
Morgan Stanley	MSCI EM Proxy	3 month LIBOR minus 15 bps	MSCI EM	6/30/2009	180,988	(69,012)
Credit Suisse	MSCI EM Proxy	3 month LIBOR plus 15 bps	MSCI EM	9/17/2009	223,540	(1,460)
BNP Paribas	MSCI EM Proxy	3 month LIBOR plus 17 bps	MSCI EM	12/4/2009	95,173	33,360
J.P. Morgan	MSCI EM Proxy	3 month LIBOR plus 54 bps	MSCI EM	10/30/2009	258,378	84,813
Morgan Stanley	MSCI EM Proxy	3 month LIBOR plus 45 bps	MSCI EM	2/18/2010	115,073	37,874
J.P. Morgan	MSCI EM Proxy	3 month LIBOR plus 45 bps	MSCI EM	2/26/2010	66,159	23,225
J.P. Morgan	MSCI EM Proxy	3 month LIBOR plus 34 bps	MSCI EM	12/14/2009	71,673	22,438
Deutsche Bank	MSCI EM Proxy	3 month LIBOR plus 27 bps	MSCI EM	12/31/2009	178,284	45,958
UBS	EAFE + Canada Proxy	3 month LIBOR minus 30 bps	MSCI EAFE + Canada	10/30/2009	272,104	22,104
Morgan Stanley	EAFE + Canada Proxy	3 month LIBOR minus 25 bps	MSCI EAFE + Canada	11/9/2009	271,034	21,034
Morgan Stanley	EAFE + Canada Proxy	3 month LIBOR plus 30 bps	MSCI EAFE + Canada	11/24/2009	299,294	49,294
UBS	EAFE + Canada Proxy	3 month LIBOR minus 9 bps	MSCI EAFE + Canada	12/4/2009	121,101	21,101
BNP Paribas	EAFE + Canada Proxy	3 month LIBOR minus 43 bps	MSCI EAFE + Canada	1/8/2010	126,637	7,230
Deutsche Bank	EAFE + Canada Proxy	3 month LIBOR minus 45 bps	MSCI EAFE + Canada	1/11/2010	191,453	13,285
Deutsche Bank	EAFE + Canada Proxy	3 month LIBOR minus 20 bps	MSCI EAFE + Canada	2/26/2010	164,201	41,800
J.P. Morgan	EM Debt Proxy	3 month LIBOR plus 75 bps	EM Debt	3/31/2010	116,323	12,463
J.P. Morgan	EM Debt Proxy	3 month LIBOR plus 75 bps	EM Debt	6/30/2009	166,231	14,371
J.P. Morgan	EM Debt Proxy	2 month LIBOR plus 125 bps	EM Debt	7/27/2009	166,202	1,482
	Total Swap Exposures				**$ 3,359,298**	**$ 395,127**

Alternatives

The Alternatives category includes exposure to private equity, global tactical asset allocation, absolute return, opportunistic credit, real estate, derivatives and strategic partnerships. Private equity investments are normally 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. All other asset classes within the Alternatives category may be housed in a variety of legal structures. The Systems established several strategic partnerships to gain access to the best ideas of the investment manager, to receive favorable economics, and to efficiently take advantage of market opportunities. Our investments within the strategic partnership accounts include allocations to private equity, opportunistic credit, real estate, absolute return strategies and cash. The Systems’ allocation to opportunistic credit is designed to take advantage of the dislocations that have occurred in the credit markets. The Systems' intent is to access superior risk adjusted returns through a variety of different credit strategies.

Commitments

The Systems entered into commitment agreements with numerous investment managers for future funding of private equity limited partnerships, opportunistic credit limited partnerships and strategic partnerships. As of June 30, 2009, the Systems had committed to fund various private equity and opportunistic credit limited partnerships for an amount of $1.755 billion (US dollars) and €256 million (Euros). The total unfunded commitment as of June 30, 2009, was $1.222 billion (US dollars) and €149 million (Euros). In addition, the Systems had committed to fund various strategic partnerships for an amount of $4.2 billion (US dollars) of which the unfunded commitment as of June 30, 2009 was $1.111 billion (US dollars). Subsequent to June 30, 2009, the Systems committed to fund an additional $657 million (US dollars) resulting in unfunded commitments as of October 21, 2009, of $2.674 billion (US dollars) and €111 million (Euros). One important benefit of the strategic partnerships is that they afford the Systems greater control of the rate at which these commitments are to be funded.

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, 2009, included US Government securities, US 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 US 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.

At June 30, 2009, the fair value of securities on loan was $2.012 billion. The fair value of the invested cash collateral was $1.846 billion. Securities lending obligations at June 30, 2009, were $2.069 billion with the unrealized loss in invested cash collateral of $223 million recorded in the Statement of Changes in Plan Net Assets under "Interest income and net depreciation in investments." As a result of current market conditions, the Commission is re-evaluating the securities lending program in order to minimize risk, enhance performance and ensure a cost effective fee structure is in place.

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 nine days. The average weighted maturity of investments made with cash collateral was 27 days. At June 30, 2009, 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, 2009:

	June 30, 2009					
	SCRS	**PORS**	**GARS**	**JSRS**	**NGPS**	**TOTALS**
Securities lent for cash collateral:						
U.S. Government securities	$ 107,246	$ 14,864	$ 187	$ 595	$ 76	$ 122,968
U.S. Government agencies	808,108	111,999	1,412	4,487	572	926,578
Corporate bonds	405,189	56,157	708	2,250	287	464,591
Common Stock	434,243	60,183	759	2,411	308	497,904
Total securities lent for cash collateral................	**$ 1,754,786**	**$ 243,203**	**$ 3,066**	**$ 9,743**	**$ 1,243**	**$ 2,012,041**
Cash collateral invested as follows:						
Repurchase agreements	$ 153,169	$ 21,228	$ 268	$ 851	$ 108	$ 175,624
Asset Backed Securities	215,803	29,909	377	1,198	153	247,440
Floating Rate Notes	1,240,882	171,979	2,168	6,890	879	1,422,798
Total for cash collateral invested..........................	**$ 1,609,854**	**$ 223,116**	**$ 2,813**	**$ 8,939**	**$ 1,140**	**$ 1,845,862**

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, 2009, the reported amount of the Trusts' deposits was $7 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, 2009, the Trusts' applicable debt investments (expressed in thousands) were rated by Standard & Poor's and are presented below:

Investment Type and Fair Value	AAA	AA	A	BBB	A-1	Not Rated
Corporate bonds	$ 2,098	$ 3,610	$ 88,317	$ 122,901	$ —	$ —
Municipal bonds	—	2,241	—	—	—	—
Repurchase agreements	—	—	—	—	71,420	—
Asset backed securities	1,085	—	—	—	—	—
Corporate private placements	—	3,636	7,076	2,638	—	1,010
Totals	**$ 3,183**	**$ 9,487**	**$ 95,393**	**$ 125,539**	**$ 71,420**	**$ 1,010**

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, 2009, the effective duration and fair value of the Trusts' investments by investment type are as follows (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government		
U.S. Agencies	$ 135,530	15.25
State & Local Government		
Municipal Bonds	2,241	4.51
Corporate		
Corporate bonds	216,926	7.24
Asset backed securities	1,085	1.71
Corporate private placements	14,360	9.45
Short Term Investments		
Repurchase agreements	71,420	0.00
Total Invested Assets	**$ 441,562**	

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, 2009:

	Amount
Securities lent for cash collateral:	
U.S. Treasuries	$ 14,633
Corporate bonds	16,776
Total for cash collateral	**$ 31,409**
Cash collateral invested:	
Asset backed securities	$ 3,041
Repurchase agreements	5,368
Floating Rate Notes	21,181
Total collateral invested	**$ 29,590**

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, 2009, for the primary government were as follows:

	Governmental Activities					
	Governmental Funds					
Allowances for Uncollectibles	General	Departmental General Operating	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Income taxes receivable..................................	$ 222,745	$ —	$ —	$ —	$ —	$ 222,745
Sales and other taxes receivable.....................	50,373	275	—	21,392	—	72,040
Patient accounts receivable.............................	14,823	41,243	—	—	—	56,066
Loans and notes receivable.............................	8	—	—	837	—	845
Other receivables..	—	9,876	8,094	1	61	18,032
Total allowances for uncollectibles.............	**$ 287,949**	**$ 51,394**	**$ 8,094**	**$ 22,230**	**$ 61**	**$ 369,728**

	Business-type Activities (Enterprise Funds)				
Allowances for Uncollectibles	Higher Education	Unemployment Compensation Benefits	Medical University Hospital Authority	Nonmajor Enterprise Funds	Total Business-type Activities
Contributions receivable..	$ 1,060	$ —	$ —	$ 49	$ 1,109
Student accounts receivable...	11,025	—	—	—	11,025
Patient accounts receivable..	—	—	54,700	89,709	144,409
Loans and notes receivable—restricted.........................	515	—	—	244	759
Assessments receivable..	—	7,870	—	—	7,870
Other receivables..	337	6,189	—	—	6,526
Total allowances for uncollectibles...........................	**$ 12,937**	**$ 14,059**	**$ 54,700**	**$ 90,002**	**$ 171,698**

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, 2009, were as follows:

	Governmental Activities						
	Governmental Funds						
Net Long-term Receivables	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts receivable................................	$ 162	$ 25,672	$ —	$ —	$ —	$ 122	$ 25,956
Income taxes receivable...........................	31,008	—	—	—	—	—	31,008
Sales and other taxes receivable.............	27	—	—	—	3	—	30
Patient accounts receivable.....................	3,359	3,681	—	—	—	—	7,040
Loans and notes receivable.....................	7	497	479,968	5,037	31,741	—	517,250
Accounts receivable—restricted..............	—	—	386,334	—	—	—	386,334
Total long-term receivables, net...........	**$ 34,563**	**$ 29,850**	**$ 866,302**	**$ 5,037**	**$ 31,744**	**$ 122**	**$ 967,618**

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, 2009, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes	$ 31,037	$ 26,775	$ 57,812
Federal grants	—	59,647	59,647
Contributions	376,860	59,159	436,019
Departmental services	46,901	3,312	50,213
Total deferred revenues	**$ 454,798**	**148,893**	**$ 603,691**
Internal service funds		154,150	
Total governmental activities		**$ 303,043**	

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, 2009 (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	$ 86,878	$ 133,996	$ 116,068
Capital projects	—	194,837	—
Student loan programs	—	389	—
Donor/sponsor specified	—	59,550	—
Second Injury Fund claims	—	41,513	—
Other	—	16,569	16,555
Total cash and cash equivalents	**$ 86,878**	**$ 446,854**	**$ 132,623**
Investments			
Debt service	$ 4,992	$ 945	$ 91,560
Donor/sponsor specified	—	6,935	—
Endowments	—	79	—
Other	—	—	17,432
Total investments	**$ 4,992**	**$ 7,959**	**$ 108,992**
Loans receivable			
Debt service	—	19,109	—
Student loan programs	—	1,028	—
Total loans receivable	**$ —**	**$ 20,137**	**$ —**
Other			
Debt service	$ 77,203	$ 6,169	$ —
Donor/sponsor specified	—	244	—
Second Injury Fund claims	—	530	—
Other	—	431	—
Total other	**$ 77,203**	**$ 7,374**	**$ —**

Asset/Restricted For	Governmental Activities	Business-type Activities	Major Component Units
Noncurrent:			
Cash and cash equivalents			
Debt service	$ 366,671	$ 60,466	$ 3,299
Capital projects	—	142,050	234,066
Student loan programs	—	5,905	—
Endowments	—	56,800	—
Other	10,000	59,705	11,006
Total cash and cash equivalents	**$ 376,671**	**$ 324,926**	**$ 248,371**
Investments			
Debt service	$ —	$ 43,678	$ 57,103
Capital projects	—	—	190,809
Student loan programs	—	843	—
Endowments	—	36,123	—
Other	—	—	102,783
Total investments	**$ —**	**$ 80,644**	**$ 350,695**
Receivables			
Debt service	$ 386,334	$ —	$ —
Endowments	—	36,860	—
Total receivables	**$ 386,334**	**$ 36,860**	**$ —**
Loans receivable			
Debt service	$ —	$ 856,239	$ —
Student loan programs	—	56,711	—
Total loans receivable	**$ —**	**$ 912,950**	**$ —**
Other			
Debt service	$ 4,191	$ 322	$ —
Donor/sponsor specified	—	325	—
Endowments	—	57	—
Other	—	503	—
Total other	**$ 4,191**	**$ 1,207**	**$ —**

NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2009, for the primary government was as follows:

	Beginning Balances July 1, 2008	Increases	Decreases	Ending Balances June 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 1,685,638	$ 54,509	$ (378)	$ 1,739,769
Construction in progress	3,911,874	416,842	(1,230,838)	3,097,878
Works of art and historical treasures	3,962	—	—	3,962
Total capital assets not being depreciated	5,601,474	471,351	(1,231,216)	4,841,609
Capital assets being depreciated:				
Land improvements	59,343	4,474	—	63,817
Infrastructure (road and bridge network)	9,037,423	1,154,647	(3,970)	10,188,100
Buildings and improvements	1,631,600	59,098	(25,333)	1,665,365
Vehicles	644,342	22,552	(35,161)	631,733
Machinery and equipment	467,331	36,676	(37,684)	466,323
Works of art and historical treasures	8	1,492	—	1,500
Intangibles	51,061	2,038	(634)	52,465
Total capital assets being depreciated, at historical cost	11,891,108	1,280,977	(102,782)	13,069,303
Less accumulated depreciation for:				
Land improvements	(41,579)	(1,827)	—	(43,406)
Infrastructure (road and bridge network)	(2,311,330)	(144,523)	3,810	(2,452,043)
Buildings and improvements	(641,915)	(44,691)	81	(686,525)
Vehicles	(408,578)	(51,271)	32,282	(427,567)
Machinery and equipment	(327,325)	(33,021)	32,880	(327,466)
Works of art and historical treasures	(2)	(60)	—	(62)
Intangibles	(49,716)	(1,909)	635	(50,990)
Total accumulated depreciation	(3,780,445)	(277,302)	69,688	(3,988,059)
Total capital assets being depreciated, net	8,110,663	1,003,675	(33,094)	9,081,244
Capital assets for governmental activities, net	**$ 13,712,137**	**$ 1,475,026**	**$ (1,264,310)**	**$ 13,922,853**

	Beginning Balances July 1, 2008	Increases	Decreases	Ending Balances June 30, 2009
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 235,551	$ 20,101	$ (1,765)	$ 253,887
Construction in progress	440,784	343,405	(377,993)	406,196
Works of art and historical treasures	16,956	2,545	—	19,501
Total capital assets not being depreciated	693,291	366,051	(379,758)	679,584
Capital assets being depreciated:				
Land improvements	184,448	6,823	—	191,271
Buildings and improvements	4,237,170	426,049	(7,984)	4,655,235
Vehicles	48,556	2,556	(4,334)	46,778
Machinery and equipment	854,787	63,289	(28,562)	889,514
Works of art and historical treasures	14,717	—	—	14,717
Intangibles	18,285	2,125	(779)	19,631
Total capital assets being depreciated, at historical cost	5,357,963	500,842	(41,659)	5,817,146
Less accumulated depreciation for:				
Land improvements	(55,967)	(8,118)	—	(64,085)
Buildings and improvements	(1,468,050)	(137,625)	6,178	(1,599,497)
Vehicles	(32,269)	(2,526)	3,998	(30,797)
Machinery and equipment	(496,211)	(78,257)	26,235	(548,233)
Works of art and historical treasures	(6,189)	(520)	—	(6,709)
Intangibles	(15,009)	(949)	657	(15,301)
Total accumulated depreciation	(2,073,695)	(227,995)	37,068	(2,264,622)
Total capital assets being depreciated, net	3,284,268	272,847	(4,591)	3,552,524
Capital assets for business-type activities, net	**$ 3,977,559**	**$ 638,898**	**$ (384,349)**	**$ 4,232,108**

Capital assets for the State's fiduciary funds were comprised of land totaling $582 thousand and a building totaling $4.749 million with accumulated depreciation of $1.991 million. Depreciation expense on the building for fiscal year 2009 was $119 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, 2008	Increases	Decreases	Ending Balances December 31, 2008
Public Service Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 105,092	$ 5,018	$ (25)	$ 110,085
Construction in progress	902,278	401,025	(814,718)	488,585
Total capital assets not being depreciated	1,007,370	406,043	(814,743)	598,670
Capital assets being depreciated:				
Buildings and improvements (utility plant)	5,413,732	808,534	(26,640)	6,195,626
Vehicles	36,687	5,457	(2,903)	39,241
Machinery and equipment	20,093	926	(1,462)	19,557
Intangibles	48,053	2,363	(248)	50,168
Total capital assets being depreciated, at historical cost	5,518,565	817,280	(31,253)	6,304,592
Less accumulated depreciation for:				
Buildings and improvements (utility plant)	(2,194,094)	(152,856)	21,403	(2,325,547)
Vehicles	(20,906)	(2,777)	2,917	(20,766)
Machinery and equipment	(9,621)	(1,316)	1,469	(9,468)
Intangibles	(40,523)	(1,676)	248	(41,951)
Total accumulated depreciation	(2,265,144)	(158,625)	26,037	(2,397,732)
Total capital assets being depreciated, net	3,253,421	658,655	(5,216)	3,906,860
Public Service Authority, net	**$ 4,260,791**	**$ 1,064,698**	**$ (819,959)**	**$ 4,505,530**

	Beginning Balances January 1, 2008	Increases	Decreases	Ending Balances December 31, 2008
Connector 2000 Association:				
Capital assets being depreciated:				
Infrastructure (toll road)	$ 192,481	$ 6	$ —	$ 192,487
Machinery and equipment	709	51	(11)	749
Total capital assets being depreciated, at historical cost	193,190	57	(11)	193,236
Less accumulated depreciation for:				
Infrastructure (toll road)	(35,182)	(5,244)	—	(40,426)
Machinery and equipment	(508)	(53)	11	(550)
Total accumulated depreciation	(35,690)	(5,297)	11	(40,976)
Total capital assets being depreciated, net	157,500	(5,240)	—	152,260
Connector 2000 Association, net	**$ 157,500**	**$ (5,240)**	**$ —**	**$ 152,260**

	Beginning Balances July 1, 2008	Increases	Decreases	Ending Balances June 30, 2009
State Ports Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 190,905	$ 7,746	$ (16)	$ 198,635
Construction in progress	54,292	52,146	(37,170)	69,268
Intangibles	2,190	—	—	2,190
Total capital assets not being depreciated	247,387	59,892	(37,186)	270,093
Capital assets being depreciated:				
Land improvements	182,487	32,282	—	214,769
Buildings and improvements	318,524	1,024	(22)	319,526
Machinery and equipment	143,637	3,888	(331)	147,194
Intangibles	876	—	—	876
Total capital assets being depreciated, at historical cost	645,524	37,194	(353)	682,365
Less accumulated depreciation for:				
Land improvements	(118,294)	(8,060)	—	(126,354)
Buildings and improvements	(161,615)	(11,335)	22	(172,928)
Machinery and equipment	(73,447)	(10,275)	312	(83,410)
Intangibles	(434)	(39)	—	(473)
Total accumulated depreciation	(353,790)	(29,709)	334	(383,165)
Total capital assets being depreciated, net	291,734	7,485	(19)	299,200
State Ports Authority, net	**$ 539,121**	**$ 67,377**	**$ (37,205)**	**$ 569,293**

	Beginning Balances July 1, 2008	Increases	Decreases	Ending Balances June 30, 2009
Lottery Commission:				
Capital assets being depreciated:				
Buildings and improvements	$ 1,316	$ —	$ —	$ 1,316
Vehicles	69	—	(21)	48
Machinery and equipment	21,056	122	(9,852)	11,326
Total capital assets being depreciated, at historical cost	22,441	122	(9,873)	12,690
Less accumulated depreciation for:				
Buildings and improvements	(758)	(134)	—	(892)
Vehicles	(69)	—	21	(48)
Machinery and equipment	(20,413)	(310)	9,848	(10,875)
Total accumulated depreciation	(21,240)	(444)	9,869	(11,815)
Total capital assets being depreciated, net	1,201	(322)	(4)	875
Lottery Commission, net	**$ 1,201**	**$ (322)**	**$ (4)**	**$ 875**

During the fiscal year ended June 30, 2009, 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…………………	$ 17,619	$ 9,532	$ 27,151
Education………………………………	25,319	1,952	27,271
Health and environment……………	13,252	1,481	14,733
Social services………………………	50	2,866	2,916
Administration of justice……………	24,749	1,237	25,986
Resources and economic development…………………………	18,411	373	18,784
Transportation…………………………	160,458	3	160,461
Total depreciation expense, governmental activities…………	$ 259,858	$ 17,444	$ 277,302

	Business-type Activities
Higher Education……………………………….	$ 169,140
Housing Authority………………………………	140
Medical University Hospital Authority……	52,093
Education Assistance Authority……………	121
Other………………………………………………	6,501
Total depreciation expense, business-type activities………………	**$ 227,995**

Included in the $6.501 million for other business-type activities is depreciation expense of $981 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…………………	$ 158,625
Connector 2000 Association, Inc………	5,297
State Ports Authority……………………	29,709
Lottery Commission……………………	444

At June 30, 2009, the primary government had outstanding construction commitments totaling $855.899 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $56.158 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 $174 thousand at June 30, 2009, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: $158.544 million for the Public Service Authority at December 31, 2008, and $77.874 million for the State Ports Authority at June 30, 2009.

The total interest expense incurred by the State's enterprise fund during the current fiscal year was $157.520 million, of which $8.866 million was included as part of the cost of capital assets under construction, net of interest earnings. The State Ports Authority, a major discretely presented component unit, incurred total interest costs of $7.951 million during its fiscal year ended June 30, 2009, of which $2.319 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
www.retirement.sc.gov

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, 2009, is as follows (dollars expressed in thousands):

	SCRS	PORS	GARS	JSRS	NGPS
State and school					
Number of employers	110	48	1	1	1
Annual covered payroll	$ 5,516,060	$ 373,216	$ 3,228	$ 16,347	N/A [a]
Average number of contributing members	145,400	10,836	170	144	N/A [b]
Other participating employers					
Number of employers	581	313	—	—	—
Annual covered payroll	$ 1,881,732	$ 658,856	$ —	$ —	$ —
Average number of contributing members	55,706	16,869	—	—	—

[a] Annual covered payroll is not applicable for NGPS because benefits are based on years of service.
[b] Members do not contribute; average number of members is 12,606.

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, 2009, were as follows:

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

Actuarially determined employer contribution rates, expressed as percentages of compensation, for the fiscal year ended June 30, 2009, were as follows:

Plan	Rate
SCRS	9.39%
PORS	11.05%
GARS	77.29%
JSRS	45.09%

The State appropriated $4.052 million to fund the NGPS actuarially determined employer contribution for the fiscal year ended June 30, 2009.

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, 2009, were $457 thousand for SCRS and $16 thousand for PORS.

d. Annual Pension Cost

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

	GARS	JSRS	NGPS
Annual pension cost	$2,495	$8,414	$4,052
Employer contributions made	$2,495	$8,414	$4,052
Actuarial valuation date	July 1, 2008	July 1, 2008	July 1, 2008
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar, closed	Level percent, open	Level dollar, open
Remaining amortization period	17 years	16 years	24 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
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, 2009 (expressed in thousands):

	NGPS
Actuarially required contribution (ARC)	$ 4,052
Interest on the NPO	774
Adjustment to the ARC	(1,086)
Annual pension cost	3,740
Contributions made	(4,052)
Decrease in NPO	(312)
NPO beginning of year	9,546
NPO end of year	**$ 9,234**

e. Trend Information

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

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

	Fiscal Year Ended					
	June 30, 2009		June 30, 2008		June 30, 2007	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS–State:						
Primary government	$ 260,536	100.0%	$ 246,172	100.0%	$ 202,865	100.0%
Component units	14,220	100.0%	13,606	100.0%	11,614	100.0%
PORS–State:						
Primary government	44,566	100.0%	41,962	100.0%	39,589	100.0%
Component units	74	100.0%	71	100.0%	72	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	2007	$ 2,358	100.0%	$ —
	2008	2,440	100.0%	—
	2009	2,495	100.0%	—
JSRS	2007	6,706	100.0%	—
	2008	7,613	100.0%	—
	2009	8,414	100.0%	—
NGPS	2007	3,948	130.6%	9,797
	2008	3,923	100.6%	9,546
	2009	3,740	108.3%	9,234

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	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%
	2008	24,699,678	35,663,419	10,963,741	69.3%	7,559,172	145.0%
PORS	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%
	2008	3,363,136	4,318,955	955,819	77.9%	1,060,747	90.1%

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	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%
	2008	47,189	69,122	21,933	68.3%	3,854	569.1%
JSRS	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%
	2008	138,323	213,406	75,083	64.8%	18,661	402.4%

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)*
NGPS	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
	2008	17,426	53,534	36,108	32.6%	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, whether a plan's unfunded liability (UAAL) as a percentage of covered payroll is decreasing, and whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities (AAL's) for benefits. The tables above present the results of those measurements.

South Carolina statute allows for retiree cost-of-living allowances (COLAs). Each July 1, eligible retired members of the SCRS and PORS will receive an automatic COLA of up to 2.0% as long as the Consumer Price Index (CPI) as of the previous December 31 was at least 2.0%. If the CPI is less than 2.0%, the COLA will equal the actual CPI. If the CPI is negative, no COLA will be granted. The Budget and Control Board, as trustees of the State's pension trust funds, may approve ad hoc COLAs of up to 2.0% in addition to the automatic COLA if certain guidelines are met.

g. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2009, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
Receivables:						
Contributions.............................	$ 155,555	$ 17,846	$ 22	$ 575	$ —	$ 173,998
Employer long-term...................	457	16	—	—	—	473
Accrued interest........................	60,211	8,263	106	336	43	68,959
Unsettled investment sales........	45,849	6,354	80	255	33	52,571
Other investment receivables.....	2,465	342	4	14	2	2,827
Total receivables.......................	**$ 264,537**	**$ 32,821**	**$ 212**	**$ 1,180**	**$ 78**	**$ 298,828**
Due from other funds................	**$ 11,626**	**$ 747**	**$ 7**	**$ 1**	**$ —**	**$ 12,381**
Due from component units........	**$ 4**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 4**
Investments and invested securities lending collateral:						
Short-term securities.................	$ 61,745	$ 8,557	$ 108	$ 343	$ 43	$ 70,796
Debt-domestic...........................	2,941,043	407,611	5,139	16,330	2,083	3,372,206
Debt-international......................	2,998,334	415,551	5,239	16,648	2,124	3,437,896
Equity-domestic.........................	1,962,536	271,996	3,429	10,897	1,390	2,250,248
Alternatives................................	7,661,625	1,061,857	13,387	42,541	5,426	8,784,836
Invested securities lending collateral..................................	1,609,854	223,116	2,813	8,939	1,140	1,845,862
Total investments......................	**$ 17,235,137**	**$ 2,388,688**	**$ 30,115**	**$ 95,698**	**$ 12,206**	**$ 19,761,844**

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 6,571 members were participating in the TERI program at June 30, 2009. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2009, was as follows:

Beginning balance of TERI trust accounts......	$	551,911
Additions		184,519
TERI distributions at termination.....................		(305,625)
Ending balance of TERI trust accounts.......	**$**	**430,805**

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 (4.24%) 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......................	$	933,873
Employee contributions.........		60,702
Employer contributions..........		46,694

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 on 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 through 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 though 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, 3.50% of annual covered payroll for fiscal year 2008-2009. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The State paid $262.860 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2009. The net estimated OPEB obligation at June 30, 2009 was $493.368 million. This OPEB obligation is not recorded in the State's financial statements because the State met its contractually required contributions for the fiscal year. 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, 2009.

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 ($5.400 million), accumulated EIP reserves ($101.584 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%
SCRHITF	June 30, 2008	$ 270,153	$ 9,279,578	$ 9,009,425	3%	$ 7,596,053	119%
LTDITF	June 30, 2007	$ —	$ 28,048	$ 28,048	0%	$ 7,781,719	< 1%
LTDITF	June 30, 2008	$ 27,468	$ 26,341	$ (1,127)	104%	$ 8,307,740	< 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, 2009, for the OPEB plans administered by the Employee Insurance Program were as follows:

	SCRHI	LTDI	Totals
Receivables:			
Accounts	$ —	$ 71	$ 71
Accrued interest	4,828	364	5,192
Total receivables	**$ 4,828**	**$ 435**	**$ 5,263**
Due from other funds	**$ 38,294**	**$ —**	**$ 38,294**
Investments and invested securities lending collateral:			
Debt-domestic	$ 337,324	$ 24,097	$ 361,421
Financial and Other	6,551	2,171	8,722
Invested securities lending collateral	27,463	2,127	29,590
Total investments	**$ 371,338**	**$ 28,395**	**$ 399,733**

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 $226.834 million at June 30, 2009, 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
2008	$ 201,183	$ 45,737	$ (31,018)	$ 215,902
2009	215,902	44,710	(33,778)	226,834

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 $10.000 million per occurrence. Reinsurance permits partial recovery of losses from reinsurers; however, the IRF, as the 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 $185.837 million at June 30, 2009, 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, 2009, $10.067 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
2008	$ 198,778	$ 1,420,653	$ (1,434,838)	$ 184,593
2009	184,593	1,507,032	(1,505,788)	185,837

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, 2009, the Fund's policy claims liability was $214.750 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
2008	$ 159,192	$ 80,460	$ (50,842)	$ 188,810
2009	188,810	76,879	(50,939)	214,750

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; however, the Fund, as the 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 $155.574 million for the PCF at June 30, 2009, and $180.656 million for the JUA at December 31, 2008, 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, 2009, was $32.973 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 2008.

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, 2008, the policy claims liabilities were $2.120 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
2007	$ 2,402	$ 2,360	$ (2,622)	$ 2,140
2008	2,140	3,550	(3,570)	2,120

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, 2009 for the primary government and the State's discretely presented component units were as follows (expressed in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities	Totals
2010	$ 236	$ 13,819	$ 14,055
2011	181	9,921	10,102
2012	169	8,597	8,766
2013	21	7,822	7,843
2014	—	10,040	10,040
2015-2019	—	37,710	37,710
2020-2024	—	23,131	23,131
2025-2029	—	20,934	20,934
2030-2034	—	20,294	20,294
2035-2039	—	18,941	18,941
Total minimum payments....................	**607**	**171,209**	**171,816**
Less: interest and executory costs........	(203)	(83,985)	(84,188)
Present value of net minimum payments..	**$ 404**	**$ 87,224**	**$ 87,628**

Fiscal Year Ending December 31	Public Service Authority
2009	$ 2,737
2010	1,934
2011	1,610
2012	1,343
2013	1,023
2014	252
Total minimum payments....................	**8,899**
Less: interest and executory costs........	(916)
Present value of net minimum payments..	**$ 7,983**

Fiscal Year Ending June 30	State Ports Authority
2010	$ 8
2011	7
2012	8
2013	4
Total minimum payments....................	**27**
Less: interest and executory costs........	(4)
Present value of net minimum payments..	**$ 23**

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2009, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Totals	Component Units: Public Service Authority	Component Units: State Ports Authority
Land and non-depreciable improvements……………	$ —	$ 9,497	$ 9,497	$ —	$ —
Buildings and improvements………………………………	—	127,876	127,876	89,200	—
Machinery and equipment………………………………	782	31,927	32,709	—	26
Works of art and historical treasures…………………	—	1,618	1,618	—	—
Assets acquired under capital leases before accumulated amortization……………………………	**782**	**170,918**	**171,700**	**89,200**	**26**
Less: accumulated amortization………………………	(303)	(45,694)	(45,997)	(86,200)	(1)
Assets acquired under capital leases, net……….	**$ 479**	**$ 125,224**	**$ 125,703**	**$ 3,000**	**$ 25**

For the primary government's fiscal year ended June 30, 2009, minimum rental payments under operating leases were \$50.652 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 \$6.900 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$1.074 million. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$905 thousand.

At June 30, 2009, 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
2010	$ 53,410	$ 746
2011	41,197	754
2012	35,494	706
2013	24,692	635
2014	13,484	655
2015-2019	32,151	1,187
2020-2024	13,796	—
2025-2029	5,605	—
2030-2034	1,191	—
2035-2039	500	—
Total minimum payments..........	**$ 221,520**	**$ 4,683**

Fiscal Year Ending December 31	Public Service Authority
2009	$ 297
Total minimum payments............	**$ 297**

b. Facilities Leased to Others

At June 30, 2009, 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 \$544.626 million and related accumulated depreciation of \$236.669 million. Future minimum rental payments to be received at June 30, 2009, under these operating leases were as follows (expressed in thousands):

Fiscal Year Ending June 30	State Ports Authority
2010	$ 53,955
2011	42,664
2012	5,757
2013	6,057
2014	6,311
2015-2019	20,200
2020-2024	526
2025-2029	167
Total......................................	**$ 135,637**

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, 2009, were:

Governmental Activities	
Capital improvement bonds, 3.00% to 5.50%, maturing serially through 2019.........	$ 424,080
State highway bonds, 2.00% to 6.00%, maturing serially through 2023....................	548,278
State school facilities bonds, 3.00% to 5.75%, maturing serially through 2018.........	427,355
Infrastructure Bank bonds, 3.00% to 5.00%, maturing serially through 2028...........	51,921
State economic development bonds, 1.00% to 6.75%, maturing serially through 2031..	206,371
Research university infrastructure bonds, 3.00% to 6.25%, maturing serially through 2025..	199,505
Subtotal—governmental activities...	**1,857,510**
Business-type Activities, Higher Education Fund	
State institution bonds, 2.50% to 6.00%, maturing serially through 2029.................	354,252
Total—general obligation bonds payable..	**$ 2,211,762**

At June 30, 2009, $6.344 million of capital improvement bonds, $42.185 million of State economic development bonds, and $7.065 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2009, future debt service requirements (expressed in thousands) for general obligation bonds were:

	Governmental Activities		Business-type Activities (Higher Education Fund)	
Year Ending June 30	Principal	Interest	Principal	Interest
2010	$ 181,880	$ 80,272	$ 20,805	$ 14,854
2011	181,210	72,204	21,285	14,110
2012	176,435	63,727	21,850	13,196
2013	182,240	55,450	22,750	12,278
2014	182,545	47,421	23,725	11,306
2015-2019	696,475	125,814	116,620	40,512
2020-2024	201,085	23,102	89,545	17,376
2025-2029	37,515	4,464	37,730	2,996
2030-2031	6,360	209	—	—
Total debt service requirements...........................	**1,845,745**	**$ 472,663**	**354,310**	**$ 126,628**
Unamortized premiums.............	17,698		806	
Deferred amount on refunding...	(5,933)		(864)	
Total principal outstanding...........................	**$ 1,857,510**		**$ 354,252**	

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, 2009, was $37.988 million in total for all institution bonds, $33.959 million for highway bonds, $184.012 million for general obligation bonds excluding institution and highway bonds, $10.612 million for economic development bonds, and $10.822 million for research university infrastructure bonds. South Carolina State University exceeded its legal debt service limit on its State institution bonds by approximately $233 thousand at June 30, 2009. Midlands Technical College exceeded its legal debt service limit on its State institution bonds by approximately $26 thousand at June 30, 2009. The University and Technical College will adjust tuition fees and make other corrections as necessary 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, 2009, which are reported in the internal service funds, totaled $7.629 million and mature serially through 2016. Interest rates on these bonds ranged from 4.10% to 6.10%.

At June 30, 2009, 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, 2009, future debt service requirements (expressed in thousands) for limited obligation bonds were:

	Governmental Activities (Internal Service Funds)	
Year Ending June 30	**Principal**	**Interest**
2010	$ 1,200	$ 384
2011	1,280	322
2012	1,345	256
2013	1,420	185
2014	1,495	110
2015-2016	920	41
Total debt service requirements....................	**7,660**	**$ 1,298**
Unamortized discounts.........	(31)	
Total principal outstanding......................	**$ 7,629**	

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, 2009, were:

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 0.70% to 6.00%, maturing serially through 2038	$ 2,091,864	$ —
Tobacco Authority bonds, 5.00%, maturing serially through 2018	176,180	—
Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022	18,263	—
Education Department note, 4.01%, maturing in 2011	—	283
Corrections Department notes, 5.25% to 5.97%, maturing through 2020	—	20,936
Probation Parole and Pardon Department note, 4.04%, maturing in 2012	—	148
Budget and Control Board bond and notes, 3.70% to 5.00%, maturing through 2018	17,719	14,453
Totals—governmental activities	**2,304,026**	**35,820**
Business-type Activities:		
Higher Education Fund bonds and notes, 1.28% to 7.17%, maturing serially through 2039	679,150	129,020
Housing Authority Fund bonds and note, 1.90% to 8.30%, maturing serially through 2043	764,782	22,000
Medical University Hospital Authority bonds and notes, 3.31% to 6.15%, maturing through 2033	465,963	51,135
Education Assistance Authority Fund bonds, 4.75% to 6.30%, maturing serially through 2028	1,010,519	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 2.10% to 7.50%, maturing through 2038	60,675	62,019
Totals—business-type activities	**2,981,089**	**264,174**
Totals—primary government	**$ 5,285,115**	**$ 299,994**
Major Discretely Presented Component Units:		
Public Service Authority bonds, 3.00% to 7.42%, maturing serially through 2039	$ 4,031,029	$ —
State Ports Authority bonds and notes, 0.31% to 5.50%, maturing serially through 2028	$ 102,262	$ 1,639
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%, maturing serially through 2038	$ 311,052	$ —

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 from the Auction Rate mode to a Variable Rate Demand Obligation mode. 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, 2009, the Bank made variable bond interest payments of $5.012 million and fixed rate payments on the exchange agreement of $13.421 million. The Bank received variable swap payments on the exchange agreement of $3.706 million. The June 30, 2009, mark to market value of this swap was negative $56.116 million.

University Medical Associates of the Medical University of South Carolina (UMA) is a blended component unit and nonmajor enterprise fund. On December 18, 2008, UMA issued Series 2008 South Carolina Jobs-Economic Development Authority Variable Rate Demand Bonds (Series 2008 Bonds) in the amount of $65.085 million in conjunction with the refunding of its 1994, 1997, 1999A and 1999B Select Auction Variable Rate Securities (SAVRS). The proceeds of the Series 2008 Bonds were used to fully redeem the 1999 A&B SAVRS and pay certain costs of issuance. The Series 2008 Bonds mature in various installments ranging from $1.700 million to $3.925 million beginning on July 1, 2019 with final maturity on July 1, 2037.

In addition to issuing the Series 2008 Bonds, UMA borrowed $37.915 million via a taxable term loan payable. UMA used the proceeds from the Series 2008 Bonds and the term loan, along with $9.644 million of cash from the existing debt service reserve funds, to advance refund outstanding SAVRS direct note obligations of $85.100 million, terminate previous swap agreements with a fair value of $23.482 million, and pay issue costs of $1.062 million. This refunding resulted in an economic gain of $4.165 million and an increase in cash flows of $4.811 million due to extending the term by ten years. The deferred refunding costs of $26.737 million, including the swap termination payment, are being amortized over the shorter life of the refunded debt (ending May 15, 2027) using the effective interest method.

UMA has entered into an interest rate swap agreement with a financial institution to modify interest rates on the Series 2008 Bonds in an effort to convert its variable rate debt to a synthetic fixed rate of 2.10% on the bonds. The Series 2008 Bonds swap agreement was issued on December 5, 2008, with an effective date of December 18, 2008, and matures on July 1, 2037. The notional amount as of June 30, 2009 is $62.085 million, which equals the principal outstanding. Under the Series 2008 Bonds swap agreement, UMA pays the financial institution a fixed interest payment of 2.10% and receives a variable payment equal to 67% of the one month LIBOR rate. The variable rate in effect at June 30, 2009 was 0.25%. Interest rates have increased since execution of the swap agreement resulting in the Series 2008 Bonds' swap having a positive fair value of $4.608 million as of June 30, 2009.

On December 18, 2008, UMA borrowed $37.915 million via a taxable term loan payable to cover the taxable portion of the refunding of the aforementioned SAVRS. The proceeds of the loan were used to fully redeem the outstanding 1994 and 1997 SAVRS, terminate the previously outstanding swap agreements, and pay certain costs of issuance. The note is payable in level monthly principal installments of $315 thousand through January 1, 2019 plus interest.

UMA has entered into an interest rate swap agreement with a financial institution to modify interest rates on the term loan in an effort to convert its variable rate to a synthetic fixed rate of 3.87%. The swap agreement related to the term loan was issued on December 5, 2008, with an effective date of December 18, 2008, and matures January 1, 2019. The notional amount as of June 30, 2009 was $36.335 million, which equaled the principal outstanding. Under the swap agreement, UMA pays the financial institution a fixed interest payment of 3.87% on the term loan. UMA receives a variable payment equal to the one month LIBOR rate plus 1.30% on the swap associated with the taxable term loan. The variable rate for the 2008 term loan in effect at June 30, 2009 was 1.62%. Interest rates have increased since execution of the swap agreement resulting in the term loan swap having a positive fair value of $673 thousand as of June 30, 2009.

In a prior year, the Medical University Facilities Corporation of the Medical University of South Carolina (MUFC), 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 MUFC 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 MUFC 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, 2009, was $7.015 million, and the variable rate in effect at that date was 0.32%. 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, 2009, the MUFC loan swap was in a liability position with a fair value of approximately $266 thousand. Termination of the agreement would subject MUFC 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 LIBOR on such notional amount. The notional amounts at June 30, 2009 were $61.443 million and $26.333 million. The payments began 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, 2009. As of June 30, 2009, the swaps had a negative change in fair value of approximately $5.803 million. The unrealized loss related to these agreements recorded at June 30, 2009 is $1.888 million and is included in interest expense.

As of June 30, 2009, debt service requirements of the UMA and the MUFC 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 Debt Principal	Variable Rate Debt Interest	Interest Rate Swaps, Net	Totals
2010	$ 5,037	$ 732	$ 2,157	$ 7,926
2011	5,091	667	2,032	7,790
2012	5,152	601	1,906	7,659
2013	6,901	533	1,755	9,189
2014	3,791	465	1,614	5,870
2015-2019	19,078	1,414	6,756	27,248
2020-2024	14,185	635	4,865	19,685
2025-2029	14,505	464	3,559	18,528
2030-2034	16,645	270	2,070	18,985
2035-2038	15,050	57	437	15,544
Totals..........	**$ 105,435**	**$ 5,838**	**$ 27,151**	**$ 138,424**

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: fees and interest 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, 2009, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2009, future debt service requirements (expressed in thousands) for revenue, Tobacco Authority, Infrastructure Bank, and other bonds and notes of the primary government were as follows:

	Primary Government			
	Governmental Activities		Business-type Activities	
Year Ending June 30	Principal	Interest	Principal	Interest
2010	$ 55,441	$ 108,729	$ 132,627	$ 137,316
2011	58,561	105,868	87,908	132,265
2012	83,126	102,744	103,963	128,064
2013	94,666	98,381	95,385	124,626
2014	102,436	93,483	70,144	120,322
2015-2019	493,886	391,040	476,029	536,197
2020-2024	383,204	279,876	780,592	426,847
2025-2029	432,330	186,726	917,431	238,096
2030-2034	539,620	80,647	437,637	98,959
2035-2039	65,120	6,022	168,320	17,659
2040-2043	—	—	460	13
Total debt service requirements...............................	**2,308,390**	**$ 1,453,516**	**3,270,496**	**$ 1,960,364**
Net unamortized premiums..............	73,288		20,915	
Deferred amount on refunding.........	(41,832)		(46,148)	
Total principal outstanding...........	**$ 2,339,846**		**$ 3,245,263**	

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, 2008, the carrying value of the Public Service Authority's debt was $4.117 billion while the fair value was approximately $4.300 billion. At June 30, 2009, the carrying value of the State Ports Authority debt was $103.322 million while the fair value was approximately $98.947 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.

On October 3, 2008, the State Ports Authority redeemed its Series 1998B variable rate bonds through a cash payment of $25.010 million. The 1998B bonds were subject to redemption at the option of the State Ports Authority without premium at any time. The associated bond issuance costs were fully amortized at the time of redemption. The 1998B bonds were collateralized by an irrevocable letter of credit that had a value of $27.219 million at June 30, 2008. This letter of credit equaled the aggregate principal amount of the bonds outstanding plus 270 days of interest computed at a rate of 12% per annum. The letter of credit had a termination clause based on a 13-month notification period.

At June 30, 2009, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

	Public Service Authority		Connector 2000 Assoc.	
Year Ending December 31	**Principal**	**Interest**	**Principal**	**Interest**
2009	$ 104,225	$ 196,301	$ 6,700	$ 3,461
2010	123,410	204,353	7,300	3,411
2011	126,010	197,667	8,100	3,358
2012	129,215	190,851	9,900	3,303
2013	141,207	184,047	10,500	3,243
2014-2018	1,142,584	723,686	67,200	15,213
2019-2023	941,131	466,812	99,600	13,211
2024-2028	394,844	315,658	135,800	10,605
2029-2033	494,105	195,759	177,500	7,149
2034-2038	468,920	70,486	217,300	2,660
2039-2042	43,374	1,991	—	—
Total debt service requirements................................	**4,109,025**	**$ 2,747,611**	**739,900**	**$ 65,614**
Unamortized premiums (discounts)..	107,843		(428,848)	
Deferred amount on refunding..........	(185,839)		—	
Total principal outstanding............	**$ 4,031,029**		**$ 311,052**	

	State Ports Authority	
Year Ending June 30	**Principal**	**Interest**
2010	$ 4,050	$ 5,218
2011	4,255	4,995
2012	4,470	4,756
2013	4,695	4,505
2014	4,849	4,252
2015-2019	26,845	17,185
2020-2024	34,535	9,044
2025-2028	19,600	777
Total debt service requirements................................	**103,299**	**$ 50,732**
Unamortized premiums....................	602	
Total principal outstanding............	**$ 103,901**	

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, 2009, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government........................	$ 22,490
Transportation................................	144,842
Total allocated interest expense..	**$ 167,332**

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, 2009, $30.000 million in short-term general obligation bond anticipation notes and $53.100 million in short-term revenue bond anticipation notes were outstanding in the Higher Education Fund, a major enterprise fund. These notes are due on or before June 30, 2010.

e. Defeased Bonds

On January 8, 2009, the Tobacco Authority affected a tender offer for $110.345 million principal amount of certain outstanding but defeased Series 2001 Bonds. The tender offer was effected entirely with proceeds of the sale of certain investment securities held in the defeasance escrow fund for the Series 2001 Bonds, and resulted in an economic gain to the State. Estimated costs associated with the tender offer of $812 thousand were transferred from the defeasance escrow fund to the cost of issuance account, and are reflected as revenues on the Statement of Activities and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. Actual expenses of $637 thousand are reflected as expenses on the Statement of Activities and as expenditures on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. Any amounts remaining in the cost of issuance account on the next scheduled distribution date will be transferred to the turbo redemption account to effect additional Turbo Redemptions.

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, 2009, 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 school facilities bonds.....	59,515	—	59,515
Infrastructure Bank bonds........	751,645	—	751,645
Tobacco Authority bonds..........	393,845	—	393,845
Higher Education Fund bonds..	—	188,892	188,892
Totals.....................................	**$ 1,245,315**	**$ 188,892**	**$ 1,434,207**

In addition, at December 31, 2008, $115.005 million of bonds associated with the Public Service Authority, a major discretely presented component unit, were considered defeased.

f. Arbitrage Rebate Payable

The Internal Revenue Code and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. At June 30, 2009, reported as other liabilities for governmental activities is an arbitrage rebate liability of $2.553 million associated with the State's General Obligation Debt and a $201 thousand 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, 2009, are reported as other liabilities of $484 thousand in the Higher Education Fund, and as other liabilities payable from restricted assets of $3.035 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, 2009, the outstanding balance of bonds issued was $329.882 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, 2009, the outstanding balance of bonds issued after June 30, 1995, was $4.200 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, 2009, the outstanding balance of bonds issued was $257.963 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, 2009, 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 $8.201 million in the 1993-1994 through 2007-2008 fiscal years to the Authority to offset the loss of revenues from the delinquent local entity. No payments were made in fiscal year 2008-2009, and there is no such provision in the 2009-2010 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, 2009, 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, 2009 are reported as notes payable. Other relevant information regarding these accounts is provided below.

The University Medical Associates of the Medical University of South Carolina (UMA), a blended component unit and nonmajor enterprise fund, secured its Series 2008 South Carolina Jobs-Economic Development Authority Variable Rate Demand Bonds by an irrevocable direct-pay letter of credit issued in the initial stated amount of $62.799 million. This amount included initial principal and accrued interest components. UMA is obligated to repay amounts drawn under the letter of credit as set forth in the Reimbursement and Security Agreement, dated as of December 1, 2008. Also, UMA has a line of credit with a maximum borrowing limit of $10.000 million, on which UMA could draw for working capital. The loan bears interest at the 30 day LIBOR rate plus 1.15% and is secured by all unrestricted accounts receivable. During fiscal year 2008-2009, there were advances of $6.500 million under this line of credit, all of which were repaid as of June 30, 2009. In July 2009, this line of credit expired and was renewed with basically the same terms. In addition to the revolving line of credit, UMA borrowed $15.700 million secured by auction rate securities that were held pursuant to an agreement to repurchase these investments at par. The loan was repaid from proceeds of the sale in June 2009. The note required interest equal to the earnings from the auction rate securities.

The Public Service Authority, a discretely presented component unit, has recorded a $152.807 million liability for commercial paper notes at its fiscal year ended December 31, 2008. 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. Under the agreement, there were loans totaling $56.500 million during October 2008 which were repaid on October 30, 2008.

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, 2009.

j. Advances from Federal Government

On December 26, 2008, the Unemployment Compensation Fund, a major enterprise fund, began to obtain advances from the Federal government in order to pay unemployment benefits due to the exhaustion of all other funds to pay benefits. These advances were obtained due to the significant increase in unemployment benefits resulting from a significant increase in the unemployment rate in the State and the extension of the period by the Federal government that benefits are paid to claimants. Section 1201 of Title XII of the Social Security Act provides that an advance from the Federal Unemployment Fund to the account of a state's unemployment trust fund is allowed if the governor of a state applies for payment for any 3-month period. Only amounts actually drawn down for benefit payments must be repaid.

At June 30, 2009, the outstanding balance of these advances was $344.881 million. Principal payments are required to begin on September 30, 2011, with interest accruing at an interest rate of 4.6375% beginning on January 1, 2011. The loan is considered noncurrent since the first principal payment is due one or more years after June 30, 2009. At this time, the means of repayment of the loan has not been determined. However, under Section 1201 of Title XII of the Social Security Act, if a balance of advances to a State is outstanding on January 1, in two consecutive years and not fully repaid prior to November 10 of the second year, employers subject to contributions under such state's unemployment compensation law will be subject to additional Federal unemployment taxes determined by a formula of reductions in credit against the tax. Such credit reduction will apply beginning with the second consecutive January 1 as of the beginning of which there is a balance of such advances. The credit reductions, pursuant to Section 3302(c)(2) of FUTA, increase employers' Federal tax liability each year. The amount equal to the reduced credits, excluding penalty and interest, will be applied to reduce the State's balance of advances.

The balance of Advances from Federal Government is $610.681 million as of November 20, 2009.

k. Subsequent Events

On September 24, 2009, one of the Budget and Control Board's internal service funds entered into a $22.100 million Master Lease note to provide additional financing for the South Carolina Enterprise Information System project.

On October 1, 2009, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, issued Refunding Revenue Bonds in the amount of $88.590 million.

During December 2009, the State Housing Finance and Development Authority, a major enterprise fund, expects to issue Homeownership Revenue Bonds at an amount less than $50.000 million. On May 19, 2009, the Authority's Board of Commissioners approved the issuance.

In May and November 2009, subsequent to its fiscal year end, the Public Service Authority, a major discretely presented component unit, has issued $154.750 million in tax-exempt revenue refunding bonds, $448.975 million in tax-exempt revenue bonds, and $187.040 million in taxable revenue 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, 2009, were:

	Balances at July 1, 2008	Increases	Decreases	Balances at June 30, 2009	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims	$ 617,453	$ 1,643,458	$ (1,600,517)	$ 660,394	$ 501,766
Notes payable	$ 20,362	$ 20,936	$ (5,478)	$ 35,820	$ 6,526
General obligation bonds payable	$ 2,009,949	$ 70,585	$ (234,789)	$ 1,845,745	$ 181,880
Unamortized discounts and premiums	14,507	4,541	(1,350)	17,698	—
Deferred amount on refunding	(7,504)	—	1,571	(5,933)	—
Total general obligation bonds payable	$ 2,016,952	$ 75,126	$ (234,568)	$ 1,857,510	$ 181,880
Tobacco Authority bonds payable	$ 275,730	$ —	$ (75,730)	$ 200,000	$ —
Unamortized discount	(8,249)	—	2,265	(5,984)	—
Deferred amount on refunding	(24,590)	—	6,754	(17,836)	—
Total Tobacco Authority bonds payable	$ 242,891	$ —	$ (66,711)	$ 176,180	$ —
Revenue bonds payable	$ 37,735	$ —	$ (2,525)	$ 35,210	$ 2,640
Unamortized discounts and premiums	863	—	(91)	772	—
Total revenue bonds payable	$ 38,598	$ —	$ (2,616)	$ 35,982	$ 2,640
Infrastructure Bank bonds payable	$ 2,078,110	$ —	$ (40,750)	$ 2,037,360	$ 46,275
Unamortized discounts and premiums	78,970	—	(470)	78,500	—
Deferred amount on refunding	(31,440)	—	7,444	(23,996)	—
Total Infrastructure Bank bonds payable	$ 2,125,640	$ —	$ (33,776)	$ 2,091,864	$ 46,275
Limited obligation bonds payable	$ 9,390	$ —	$ (1,730)	$ 7,660	$ 1,200
Unamortized discounts and premiums	(38)	—	7	(31)	—
Total limited obligation bonds payable	$ 9,352	$ —	$ (1,723)	$ 7,629	$ 1,200
Capital leases payable	$ 672	$ 19	$ (287)	$ 404	$ 162
Compensated absences payable	$ 220,124	$ 119,828	$ (119,990)	$ 219,962	$ 119,319
National Guard Retirement System net pension obligation payable	$ 9,546	$ —	$ (312)	$ 9,234	$ —
Judgments and contingencies payable	$ 40,592	$ —	$ (7,024)	$ 33,568	$ 9,181
Arbitrage payable	$ 6,595	$ —	$ (3,841)	$ 2,754	$ —

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, 2008	Increases	Decreases	Balances at June 30, 2009	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims	$ 182,368	$ —	$ (26,794)	$ 155,574	$ 10,000
Advances from Federal government	$ —	$ 344,881	$ —	$ 344,881	$ —
Notes payable	$ 341,723	$ 92,663	$ (160,492)	$ 273,894	$ 52,637
Unamortized discounts and premiums	83	—	(5)	78	—
Deferred amount on refunding	(797)	(9,386)	385	(9,798)	—
Total notes payable	$ 341,009	$ 83,277	$ (160,112)	$ 264,174	$ 52,637
General obligation bonds payable	$ 351,770	$ 22,400	$ (19,860)	$ 354,310	$ 20,805
Unamortized discounts and premiums	655	199	(48)	806	—
Deferred amount on refunding	(944)	—	80	(864)	—
Total general obligation bonds payable	$ 351,481	$ 22,599	$ (19,828)	$ 354,252	$ 20,805
Revenue bonds payable	$ 2,928,442	$ 144,320	$ (76,160)	$ 2,996,602	$ 79,990
Unamortized discounts and premiums	22,256	1,031	(2,450)	20,837	—
Deferred amount on refunding	(22,057)	(16,576)	2,283	(36,350)	—
Total revenue bonds payable	$ 2,928,641	$ 128,775	$ (76,327)	$ 2,981,089	$ 79,990
Capital leases payable	$ 48,048	$ 48,702	$ (9,526)	$ 87,224	$ 8,397
Compensated absences payable	$ 138,003	$ 91,536	$ (86,078)	$ 143,461	$ 75,324
Arbitrage payable	$ 2,038	$ 1,481	$ —	$ 3,519	$ —

	Balances at January 1, 2008	Increases	Decreases	Balances at December 31, 2008	Amounts Due Within One Year
Major Component Units:					
Public Service Authority					
Policy claims	$ 2,140	$ 3,550	$ (3,570)	$ 2,120	$ 2,120
Revenue bonds payable	$ 3,518,831	$ 797,960	$ (207,766)	$ 4,109,025	$ 104,225
Unamortized discounts and premiums	131,825	(11,361)	(12,621)	107,843	—
Deferred amount on refunding	(207,171)	—	21,332	(185,839)	—
Total revenue bonds payable	$ 3,443,485	$ 786,599	$ (199,055)	$ 4,031,029	$ 104,225
Capital leases payable	$ 10,398	$ 2,382	$ (4,797)	$ 7,983	$ 2,383
Compensated absences payable	$ 16,090	$ 2,832	$ (1,709)	$ 17,213	$ —
Connector 2000 Association, Inc.					
Revenue bonds payable	$ 746,100	$ —	$ (6,200)	$ 739,900	$ 6,700
Unamortized discounts and premiums	(443,001)	14,153	—	(428,848)	—
Total revenue bonds payable	$ 303,099	$ 14,153	$ (6,200)	$ 311,052	$ 6,700

	Balances at July 1, 2008	Increases	Decreases	Balances at June 30, 2009	Amounts Due Within One Year
State Ports Authority					
Notes payable	$ 1,984	$ —	$ (345)	$ 1,639	$ 345
Revenue bonds payable	$ 130,175	$ —	$ (28,515)	$ 101,660	$ 3,705
Unamortized discounts and premiums	648	—	(46)	602	—
Total revenue bonds payable	$ 130,823	$ —	$ (28,561)	$ 102,262	$ 3,705
Capital leases payable	$ 15	$ 26	$ (18)	$ 23	$ 6
Compensated absences payable	$ 2,722	$ 1,912	$ (1,962)	$ 2,672	$ 2,672
Lottery Commission					
Compensated absences payable	$ 1,131	$ 542	$ (815)	$ 858	$ 589

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, 2009, 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, 2008	Increases	Decreases	Balances at June 30, 2009
Primary Government:				
Business-type Activities				
General obligation bond anticipation notes payable	$ 30,000	$ 30,000	$ (30,000)	$ 30,000
Revenue bond anticipation notes payable	$ —	$ 53,100	$ —	$ 53,100
Letters of credit	$ —	$ 22,200	$ (22,200)	$ —

	Balances at January 1, 2008	Increases	Decreases	Balances at December 31, 2008
Major Component Unit:				
Public Service Authority				
Commercial paper notes	$ 283,252	$ 119,988	$ (250,433)	$ 152,807

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, 2009, 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:						
Inventories	$ 10,621	$ 11,499	$ —	$ 3,725	$ 6	$ 25,851
Prepaid items	—	—	—	7,573	—	7,573
Interfund receivables	115	—	323,842	—	11,441	335,398
Appropriations to be carried forward	218,729	—	—	—	—	218,729
Endowments	—	—	—	—	3,040	3,040
Long-term loans and notes receivable	7	497	479,968	5,037	30,904	516,413
Debt requirements	—	—	1,161,574	—	65,177	1,226,751
School building aid	1,729	—	—	—	20,694	22,423
Total reserved fund balances	**$ 231,201**	**$ 11,996**	**$ 1,965,384**	**$ 16,335**	**$ 131,262**	**$ 2,356,178**

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, 2009, the Reserve was depleted and was $199.755 million below the full funding amount. The State withdrew $108.097 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, 2009 (expressed in thousands):

Funds	Due From	Due To
General		
Departmental General Operating	$ 43,956	$ 52,701
Local Government Infrastructure	—	5,119
Department of Transportation Special Revenue	—	12,630
State Tobacco Settlement	10,500	—
Nonmajor governmental funds	22,922	56,647
Higher Education	—	2,804
Unemployment Compensation	10,391	2
Nonmajor enterprise funds	480	—
Internal service	1,096	3,486
Fiduciary	—	30,173
	89,345	163,562
Departmental General Operating		
General	52,701	43,956
Department of Transportation Special Revenue	1,519	—
Housing Authority	190	—
Nonmajor governmental funds	1,497	2,119
Higher Education	—	8,191
Nonmajor enterprise funds	45	—
Internal service	124	7,461
Fiduciary	—	16,771
	56,076	78,498
Local Government Infrastructure		
General	5,119	—
Department of Transportation Special Revenue	11,021	—
Internal service	—	1
Fiduciary	—	31
	16,140	32

Funds	Due From	Due To
Department of Transportation Special Revenue Fund		
General	12,630	—
Departmental General Operating	—	1,519
Local Government Infrastructure	—	11,021
Nonmajor governmental funds	—	7
Higher Education	—	10
Internal service	—	202
Fiduciary	—	11,607
	12,630	24,366
State Tobacco Settlement		
General	—	10,500
Internal service	—	1
	—	10,501
Nonmajor Governmental Funds		
General	56,647	22,922
Departmental General Operating	2,119	1,497
Department of Transportation Special Revenue	7	—
Nonmajor governmental funds	1,892	1,892
Higher Education	70	26,226
Nonmajor enterprise funds	17	9,200
Internal service	850	189
Fiduciary	—	897
	61,602	62,823
Higher Education		
General	2,804	—
Departmental General Operating	8,191	—
Department of Transportation Special Revenue	10	—
Nonmajor governmental funds	26,226	70
Hospital Authority	12,430	—
Nonmajor enterprise funds	—	14,428
Internal service	86	996
Fiduciary	—	10,628
	49,747	26,122
Unemployment Compensation Benefits		
General	2	10,391
	2	10,391
Housing Authority		
Departmental General Operating	—	190
Internal service	—	38
	—	228
Medical University Hospital Authority		
Higher Education	—	12,430
Nonmajor enterprise funds	376	—
	376	12,430
Nonmajor Enterprise Funds		
General	—	480
Departmental General Operating	—	45
Nonmajor governmental funds	9,200	17
Higher Education	14,428	—
Hospital Authority	—	376
Internal service	23	448
Fiduciary	—	104
	23,651	1,470

Funds	Due From	Due To
Internal Service		
General	3,486	1,096
Departmental General Operating	7,461	124
Local Government Infrastructure	1	—
Department of Transportation Special Revenue	202	—
State Tobacco Settlement	1	—
Nonmajor governmental funds	189	850
Higher Education	996	86
Housing Authority	38	—
Nonmajor enterprise funds	448	23
Internal service	367	367
Fiduciary	13,914	1,343
	27,103	3,889
Fiduciary		
General	30,173	—
Departmental General Operating	16,771	—
Local Government Infrastructure	31	—
Department of Transportation Special Revenue	11,607	—
Nonmajor governmental funds	897	—
Higher Education	10,628	—
Nonmajor enterprise funds	104	—
Internal service	1,343	13,914
Fiduciary	38,556	38,556
	110,110	52,470
Totals	**$ 446,782**	**$ 446,782**

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	$ —	$ 10,895	$ —
Nonmajor governmental funds	250	—	—
Higher Education	222	—	115
Internal service	1,500	—	—
	1,972	10,895	115
Departmental General Operating			
General	10,895	—	—
Nonmajor governmental funds	30	3,103	—
Higher Education	400	—	—
Internal service	—	3,000	—
	11,325	6,103	—
Local Government Infrastructure			
Department of Transportation Special Revenue	346,421	—	323,842
Department of Transportation Special Revenue Fund			
Local Government Infrastructure	—	346,421	—

Funds	Interfund Receivables	Interfund Payables	Receivables Long-term Portion
Nonmajor Governmental Funds			
General	—	250	—
Departmental General Operating	3,103	30	380
Nonmajor governmental funds	40	40	30
Higher Education	1,834	—	1,399
Nonmajor enterprise funds	9,200	—	9,200
Internal service	541	16,940	433
	14,718	17,260	11,442
Higher Education			
General	—	222	—
Departmental General Operating	—	400	—
Nonmajor governmental funds	—	1,834	—
Nonmajor enterprise funds	—	32,046	—
	—	34,502	—
Nonmajor Enterprise Funds			
Nonmajor governmental funds	—	9,200	—
Higher Education	32,046	—	32,046
Internal service	—	8,294	—
	32,046	17,494	32,046
Internal Service			
General	—	1,500	—
Departmental General Operating	3,000	—	3,000
Nonmajor governmental funds	16,940	541	15,400
Nonmajor enterprise funds	8,294	—	8,294
	28,234	2,041	26,694
Totals	**$ 434,716**	**$ 434,716**	**$ 394,139**

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:

- $346.421 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.
- $32.046 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.
- $16.940 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.
- $9.200 million owed by the nonmajor enterprise funds to the nonmajor governmental funds. Patriots Point Development Authority borrowed the money for the purpose of funding repairs to the destroyer *USS Laffey*.
- $8.294 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.

The following table summarizes interfund transfers during the fiscal year ended June 30, 2009 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental General Operating	$ 26,286	$ 162,773
Local Government Infrastructure	—	2,988
Department of Transportation Special Revenue	—	141
Nonmajor governmental funds	5,707	420,950
Higher Education	195	710,288
Unemployment Compensation Benefits	40,758	—
Internal service	9	1,016
	72,955	1,298,156
Departmental General Operating		
General	162,773	26,286
Local Government Infrastructure	29	4
Department of Transportation Special Revenue	1,741	—
Nonmajor governmental funds	37,161	12,277
Higher Education	18,957	12,771
Unemployment Compensation Benefits	—	200
Housing Authority	288	38
Nonmajor enterprise funds	586	45
Internal service	6,559	3,655
	228,094	55,276
Local Government Infrastructure		
General	2,988	—
Departmental General Operating	4	29
Department of Transportation Special Revenue	—	1,000
	2,992	1,029
Department of Transportation Special Revenue Fund		
General	141	—
Departmental General Operating	—	1,741
Local Government Infrastructure	1,000	—
	1,141	1,741
Nonmajor Governmental Funds		
General	420,950	5,707
Departmental General Operating	12,277	37,161
Nonmajor governmental funds	5,364	5,364
Higher Education	15,176	36,064
Unemployment Compensation Benefits	—	2,126
Housing Authority	—	400
Internal service	498	280
	454,265	87,102
Higher Education		
General	710,288	195
Departmental General Operating	12,771	18,957
Nonmajor governmental funds	36,064	15,176
Medical University Hospital Authority	—	248
Nonmajor enterprise funds	51,499	7,917
	810,622	42,493
Unemployment Compensation Benefits		
General	—	40,758
Departmental General Operating	200	—
Nonmajor governmental funds	2,126	—
	2,326	40,758

Funds	Transfers In	Transfers Out
Housing Authority		
Departmental General Operating	38	288
Nonmajor governmental funds	400	—
	438	288
Medical University Hospital Authority		
Higher Education	248	—
	248	—
Nonmajor Enterprise Funds		
Departmental General Operating	45	586
Higher Education	7,917	51,499
Internal service	75	75
	8,037	52,160
Internal Service		
General	1,016	9
Departmental General Operating	3,655	6,559
Nonmajor governmental funds	280	498
Nonmajor enterprise funds	75	75
Internal service	5,146	5,146
	10,172	12,287
Totals	**$ 1,591,290**	**$ 1,591,290**

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 that occurred during the fiscal year ended June 30, 2009, included transfers of $336.814 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; transfers of $52.996 million from the General Fund to the Homestead Exemption Fund for subsequent distribution for property tax relief; and a transfer of $30.400 million from the Unemployment Compensation Fund to the General Fund to support appropriations.

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, 2009, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	Scholarship Allowances
Charges for services	$ 476,806
Operating revenues pledged for revenue bonds	21,676
Total	**$ 498,482**

For the fiscal year ended June 30, 2009, the State's enterprise funds presented $1.161 billion included in net charges for services after provisions for contractual and other adjustments in the amount of $1.428 billion and uncollectible accounts in the amount of $103.540 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, 2009, $877 thousand 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, $239 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 Prudent 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, benefits, purposes, and duration 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, 2009, 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, 2009, and the eligibility requirements for the gifts have not been met.

NOTE 18: SEGMENT INFORMATION

The Housing Authority provides low-cost housing to the State's citizens by issuing bonds/notes and by administering federal contracts and grants. The State issues various separate revenue bonds to finance activities within the Single Family Finance program of its Housing Authority Fund, a major enterprise fund. Covenants of the following revenue bonds within the Single Family Finance program require separate accounting and financial reporting: (a) Single Family, (b) Mortgage Revenue, and (c) Revenue Reserve. 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, 2009, are presented on the following pages:

CONDENSED STATEMENT OF NET ASSETS

	Single Family	Mortgage Revenue	Revenue Reserve
Assets			
Current restricted assets	$ 8,237	$ 97,311	$ 648
Other current assets	33	573	12
Noncurrent restricted assets	204,347	658,605	29,579
Other assets	672	4,913	—
Total assets	213,289	761,402	30,239
Liabilities			
Current liabilities payable from restricted assets	2,658	80,183	—
Other current liabilities	43	210	3
Noncurrent liabilities	102,626	622,097	—
Total liabilities	105,327	702,490	3
Net assets			
Restricted and expendable for:			
Debt service	2,658	43,408	—
Bond reserves	3,209	12,667	—
Special programs	102,095	2,837	30,236
Total net assets	**$ 107,962**	**$ 58,912**	**$ 30,236**

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

	Single Family	Mortgage Revenue	Revenue Reserve
Operating revenues:			
Pledged revenues:			
Interest on loans	$ 10,493	$ 35,807	$ 428
Income on deposit	441	4,436	568
Other revenues:			
Administrative fees and other	39	336	7
Total operating revenues	10,973	40,579	1,003
Operating expenses:			
Bond issuance cost amortization	5,644	38,774	281
Other operating expenses	35	738	—
Total operating expenses	5,679	39,512	281
Operating income	5,294	1,067	722
Transfers:			
Transfers in	219	1,859	2,333
Transfers out	(5,080)	—	—
Increase in net assets	433	2,926	3,055
Beginning net assets (restated)	107,529	55,986	27,181
Ending net assets	**$ 107,962**	**$ 58,912**	**$ 30,236**

CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Mortgage Revenue	Revenue Reserve
Net cash provided (used) by:			
Operating activities....................................	$ 10,474	$ 15,066	$ 7,036
Noncapital financing activities...................	(10,150)	(59,333)	3,274
Investing activities.....................................	494	4,597	318
Net increase (decrease)..........................	818	(39,670)	10,628
Beginning cash and cash equivalents (restated)................................	39,506	162,711	12,844
Ending cash and cash equivalents............	**$ 40,324**	**$ 123,041**	**$ 23,472**

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 22% 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, 2008, the Authority received distributions of $35.495 million from TEA and recognized $36.276 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 $100.800 million to support TEA's activities.

At December 31, 2008, the Authority had a payable to TEA of $16.200 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately $600 thousand 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
www.teainc.org

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 $521.800 million, accumulated depreciation of $293.500 million, and expenses of $57.500 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 $156.900 million (adjusted to market) at December 31, 2008, 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 22, 2008, the Authority and SCE&G entered into an agreement for the design and construction of two 1,100 megawatt nuclear generating units at the existing V.C Summer Nuclear Station site. The Authority's Board of Directors approved 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, 2009, the Educational Television Endowment of South Carolina, Inc., disbursed $5.645 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, 2009, 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–$62.246 million; donations of cash and other assets from foundations–$151.383 million; expenditures paid to foundations–$5.697 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations–$3.574 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, 2009, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC–$6.846 million; notes receivable from SLC–$1.069 billion; program revenue from SLC–$36.188 million; reimbursements to SLC for administrative costs–$5.327 million; and payable to SLC–$12.543 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 $15.720 million during the Authority's fiscal year ended December 31, 2008.

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, 2009.

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 $256.520 million during the fiscal year ended June 30, 2009; the Commission owed an additional $23.655 million to the Fund at June 30, 2009.

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, 2008, were as follows (expressed in thousands):

Customer	Revenue	% of Total Sales Revenue
Central Electric Power Cooperative, Inc......	$ 839,000	53%
Alumax of South Carolina, Inc....................	157,000	10%

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

State Ports Authority

During the fiscal year ended June 30, 2009, of the State Ports Authority's total revenues, three customers accounted for approximately 18%, 10%, and 12% each. The Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Authority maintains reserves for potential credit losses.

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

Due from Component Units was $151.754 million and Due to Primary Government was $148.305 million, a difference of $3.449 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, 2009, the Public Service Authority owed the General Fund its semi-annual payment of $10.881 million in lieu of taxes, which is reported as Due from Component Units. At December 31, 2008, the Connector 2000 Association, Inc. owed the Department of Transportation Special Revenue Fund $7.432 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, 2009, are three cases that challenge the legality of certain taxes. In two of the cases, the challenged revenues include the sales tax on diabetic supplies and the infrastructure credit for corporate taxes. In the event of unfavorable outcomes for these cases, the State does not expect the ultimate liability to exceed $15.5 million. Although State losses in these cases also could reduce future revenues, the preceding estimates do not include any impact on future revenues. Subsequent to fiscal year-end, a court decision was made in the third lawsuit pending at June 30 that challenged the use of certain income tax credits. The court decision resulted in an unexpected unfavorable outcome for the State, and the State paid out $29.566 million in October 2009. This amount is reported in other liabilities in the General Fund and governmental activities.

The South Carolina Retirement Systems (the 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) 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. A circuit court judge has certified the class of this case and issued an order on the merits in the matter granting the Plaintiffs relief based on the equitable theory of estoppel. The circuit court denied all other claims for relief made by the Plaintiffs, including their contract causes of action. It is premature to estimate any potential loss associated with this order; however, as of June 30, 2009, the Systems had collected approximately $39 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, 2009, to be $12.5 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 $17.1 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.

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. Pursuant to this agreement, the claims of five landowners have been resolved with the Authority recently paying $13.4 million for those claims. The claims of the remaining landowners are expected to be resolved by the end of 2009. 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. The Authority will seek recovery from the Corps with regard to payment of these claims. No estimate of potential loss to the Authority can be made at this time.

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, 2009, 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, 2009, these loans totaled $3.338 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, 2009, 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, 2008, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $1.429 billion for coal. In addition, minimum obligations under three purchased power contracts as of December 31, 2008, were approximately $67.700 million with a remaining term of twenty-six years, $38.400 million with a term of four years, and $681.000 million with delivery beginning 2011 with a term of twenty years. Also at December 31, 2008, the Authority had commitments for nuclear fuel and nuclear fuel conversion contracts of $183.500 million over the next eight years. The enrichment and fabrication component of these commitments totaling $55.800 million is contingent upon the operating requirements of the nuclear unit.

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 2024, but can be terminated during 2009. Also, the Authority has entered into network integration transmission service agreements totaling approximately $8.700 million annually through July 2023.

Major Discretely Presented Component Unit—Lottery Commission

At June 30, 2009, the Lottery Commission had remaining commitments of $63.317 million under service contracts expiring in 2019. 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 $2.242 billion for certain highway and transportation facilities projects. At June 30, 2009, the remaining commitments for these agreements totaled $977.465 million.

At June 30, 2009, the Department of Commerce had outstanding commitments of $174.806 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, $118.999 million will be funded by federal grants.

At June 30, 2009, the Budget and Control Board had outstanding commitments of $83.571 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects. $59.899 million of this commitment will be funded by federal grants.

At June 30, 2009, the State Board for Technical and Comprehensive Education had outstanding commitments of $8.210 million to provide training for new and expanding business and industry in the State.

At June 30, 2009, the Department of Public Safety had outstanding commitments of $7.888 million for pass-through grants to various State agencies, local governments, and not-for-profit entities, of which $7.845 million will be funded by federal grants.

At June 30, 2009, the South Carolina Law Enforcement Division had outstanding commitments of $52.770 million, all of which will be funded by federal grants.

The State Housing Finance and Development Authority had $2.570 million in outstanding commitments for special initiatives under the Program Fund at June 30, 2009. The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of $12.282 million at June 30, 2009, 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, 2008. 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 by January 2010 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 and again in May 2009. 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 2009, the Association had not received any communications from the Trustee initiating any proceedings under the Specific Remedies provision of the bond indenture.

Subsequent to its fiscal year ended December 31, 2008, 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 1, 2009, and withdrew substantially all remaining funds from the Subordinate Bonds Debt Service Reserve Account in order to pay the Maturity Value of the Subordinate Capital Appreciation Bonds due on January 1, 2009.

In February 2008, the Association hired a special financial consultant to explore alternatives related to its existing capital structure. Based on the findings of the financial analysis, the Association announced on April 24, 2009, that a long-term concession agreement with a new toll road operator does not appear feasible, nor does a conventional refunding of the Association's existing bonds by issuing or incurring new debt. The consultant informed the Association that restructuring the bonds outside of bankruptcy would be extremely difficult.

The Association also hired an engineering consultant to perform an investment grade traffic and revenue study for a forecast period of 50 years. The study was completed in May 2009. In response to the study's findings, the Association by letter dated May 26, 2009, requested SCDOT revise the toll rate schedule for the Southern Connector Toll Road. SCDOT has acknowledged the receipt of the rate increase request and is processing that request.

On June 12, 2009, SCDOT asserted that an Event of Default had occurred under Section 14.1(d) of the License Agreement. The License Agreement permits SCDOT to terminate the License Agreement upon the occurrence of an Event of Default. SCDOT did not terminate the agreement and agreed to give the Association at least 90 days prior written notice of the effective date of any such termination. In consideration of the 90 day notice, the Association agreed to diligently undertake efforts to restructure its indebtedness and to include in its proposed debt adjustment plan the funding of repairs and replacements to the Southern Connector. However, there can be no assurance as to the outcome of these efforts. The State has no pecuniary liability for the bonds issued by the Association.

h. Unemployment Compensation Benefits Fund—Liquidity

To date, the Unemployment Compensation Fund, a major enterprise fund, has generated substantial operating losses and has been required to use all of its cash resources to fund its operations. Due to the increasing unemployment rate and the resulting increased amount of unemployment benefits, and the increased length of time over which the benefits are paid, the Fund has been required to obtain advances from the Federal Unemployment Fund of $344.881 million during fiscal year 2008-2009.

Management plans to continue to borrow from the Federal government to fund its deficits for the foreseeable future. The Federal government has not established a maximum amount that the Fund can borrow. At this time, the means of repayment of these advances has not been determined.

i. Pollution Remediation Obligations

During the fiscal year ended June 30, 2009, the State adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of this Statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as a landfill closure and post closure care and nuclear power plant decommissioning.

The State currently has identified one obligating event for which it cannot reasonably estimate a pollution remediation liability. The State's Department of Mental Health (DMH) has entered into a voluntary cleanup contract with respect to property located at 2100 Bull Street, Columbia, South Carolina. To date DMH has conducted a Phase I Environmental Site Assessment (ESA) of the property, as part of the ongoing effort to sell the property. The purpose of the Phase I ESA was to assess the probability or potential for Recognized Environmental Conditions (REC) being present or having an impact on the property. The Phase I ESA identified several REC's that required further investigation. To address the REC's, DMH entered into a Responsible Party Voluntary Cleanup Contract, with the State's Department of Health and Environmental Control (DHEC), pursuant to the Brownfield/Voluntary Cleanup Program. A Remedial Investigation Work Plan has been submitted to DHEC for approval. Once the work plan is approved, work to further assess the REC's will begin.

NOTE 23: INVESTMENT MARKET UNCERTAINTY

During 2009, financial markets as a whole have incurred significant declines in value. As of June 30, 2009, 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.