BASIC
FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2010
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 3,261,426	$ 1,522,843	$ 4,784,269	$ 259,795
Investments	—	126,352	126,352	93,433
Invested securities lending collateral	283,687	47,452	331,139	19,680
Receivables, net:				
Accounts	285,122	91,129	376,251	204,409
Contributions	—	3,297	3,297	3,466
Participants	—	2,168	2,168	—
Accrued interest	32,075	7,819	39,894	4,813
Income taxes	391,980	—	391,980	—
Sales and other taxes	495,442	—	495,442	—
Student accounts	—	50,587	50,587	—
Patient accounts	14,986	181,488	196,474	—
Loans and notes	31,163	59,230	90,393	25
Assessments	—	50,986	50,986	—
Due from Federal government and other grantors	1,130,645	150,910	1,281,555	309
Internal balances	(4,767)	4,767	—	—
Due from component units	36,366	126,870	163,236	—
Due from primary government	—	—	—	167,541
Inventories	33,356	39,364	72,720	488,550
Restricted assets:				
Cash and cash equivalents	90,576	531,104	621,680	371,364
Investments	—	20,794	20,794	91,248
Loans receivable	—	20,929	20,929	—
Other	78,009	7,167	85,176	—
Prepaid items	24,373	34,261	58,634	17,656
Other current assets	—	3,664	3,664	31,853
Deferred charges	—	—	—	1,257
Total current assets	6,184,439	3,083,181	9,267,620	1,755,399

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

Statement of Net Assets (Continued)

June 30, 2010
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
Long-term assets:				
Investments	$ 402,697	$ 36,291	$ 438,988	$ 705,777
Receivables, net:				
Accounts	20,745	1,155	21,900	2,328
Contributions	—	2,495	2,495	39,566
Participants	—	6,338	6,338	—
Income taxes	32,103	—	32,103	—
Sales and other taxes	466	—	466	—
Student accounts	—	780	780	—
Patient accounts	6,862	—	6,862	—
Loans and notes	535,710	865,186	1,400,896	30
Restricted assets:				
Cash and cash equivalents	415,681	393,219	808,900	99,873
Investments	—	79,678	79,678	564,286
Accounts receivable	353,996	—	353,996	—
Loans receivable	—	906,253	906,253	—
Other	3,549	49,972	53,521	—
Prepaid items	—	11,643	11,643	—
Other long-term assets	1,253	11,941	13,194	54,934
Deferred charges	103,650	32,758	136,408	692,440
Investment in joint venture	—	—	—	9,727
Non-depreciable capital assets	4,931,021	529,361	5,460,382	1,295,115
Depreciable capital assets, net	9,281,208	3,871,781	13,152,989	4,277,745
Total long-term assets	16,088,941	6,798,851	22,887,792	7,741,821
Total assets	**22,273,380**	**9,882,032**	**32,155,412**	**9,497,220**

Continued on Next Page

Statement of Net Assets (Continued)

June 30, 2010
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
LIABILITIES				
Current liabilities:				
Accounts payable	$ 716,954	$ 159,864	$ 876,818	$ 173,818
Accrued salaries and related expenses	122,093	101,023	223,116	10,596
Accrued interest payable	27,218	21,656	48,874	122,170
Retainages payable	2,889	8,802	11,691	5,989
Tax refunds payable	664,519	6,808	671,327	—
Payables-aid to individuals/families	4,591	—	4,591	—
Prizes payable	—	—	—	24,325
Unemployment benefits payable	—	20,685	20,685	—
Intergovernmental payables	840,314	4,819	845,133	511
Tuition benefits payable	—	22,701	22,701	—
Policy claims	471,752	13,054	484,806	30,753
Due to component units	167,541	—	167,541	—
Due to primary government	—	—	—	163,054
Unearned revenues and deferred credits	343,105	149,072	492,177	16,166
Deposits	—	7,313	7,313	15
Amounts held in custody for others	—	9,665	9,665	—
Securities lending collateral	312,796	52,124	364,920	21,700
Liabilities payable from restricted assets:				
Accounts payable	—	22	22	432
Accrued interest payable	24,642	20,768	45,410	1,719
Bonds payable	47,330	43,730	91,060	—
Other	—	60,209	60,209	—
Notes payable	12,640	34,270	46,910	353
General obligation bonds anticipation notes payable	—	30,000	30,000	—
Revenue bonds anticipation notes payable	—	51,100	51,100	—
General obligation bonds payable	190,165	23,330	213,495	—
Revenue bonds payable	2,760	42,323	45,083	133,865
Limited obligation bonds payable	1,280	—	1,280	—
Capital leases payable	117	5,615	5,732	1,691
Commercial paper notes	—	—	—	276,551
Compensated absences payable	116,109	79,029	195,138	2,832
Other current liabilities	121,946	34,480	156,426	263,776
Total current liabilities	4,190,761	1,002,462	5,193,223	1,250,316

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

Statement of Net Assets (Continued)

June 30, 2010
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
Long-term liabilities:				
Retainages payable	$ —	$ —	$ —	$ 21,488
Tuition benefits payable	—	156,444	156,444	—
Policy claims	179,082	125,601	304,683	128,664
Unearned revenues and deferred credits	—	6,006	6,006	317,754
Amounts held in custody for others	—	—	—	2,131
Other liabilities payable from restricted assets	—	1,055	1,055	—
Advances from Federal government	—	886,662	886,662	—
Notes payable	48,304	185,009	233,313	971
General obligation bonds payable	1,759,883	364,134	2,124,017	—
Tobacco Authority bonds payable	120,653	—	120,653	—
Infrastructure Bank bonds payable	2,004,215	—	2,004,215	—
Revenue bonds payable	30,491	2,830,113	2,860,604	4,878,851
Limited obligation bonds payable	5,155	—	5,155	—
Capital leases payable	125	100,853	100,978	3,925
Compensated absences payable	98,004	68,528	166,532	18,207
Other long-term liabilities	46,406	67,586	113,992	105,279
Total long-term liabilities	4,292,318	4,791,991	9,084,309	5,477,270
Total liabilities	**8,483,079**	**5,794,453**	**14,277,532**	**6,727,586**
NET ASSETS				
Invested in capital assets, net of related debt	10,966,666	2,539,652	13,506,318	662,432
Restricted:				
Expendable:				
Education	285,426	215,643	501,069	175,777
Transportation	123,936	—	123,936	—
Capital projects	39,264	304,005	343,269	42,525
Debt service	1,163,122	255,952	1,419,074	126,082
Loan programs	975,780	264,557	1,240,337	—
Waste management	224,253	—	224,253	—
Insurance programs	265,069	—	265,069	—
Other	115,276	—	115,276	382,777
Nonexpendable:				
Education	—	185,195	185,195	354,768
Other	3,270	—	3,270	—
Unrestricted	(371,761)	322,575	(49,186)	1,025,273
Total net assets	**$ 13,790,301**	**$ 4,087,579**	**$ 17,877,880**	**$ 2,769,634**

Statement of Activities

For the Fiscal Year Ended June 30, 2010
(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	$ 4,475,571	$ 1,945,319	$ 516,591	$ 10,056	$ (2,003,605)
Education	4,400,125	31,152	1,519,155	—	(2,849,818)
Health and environment	6,007,179	104,881	4,265,619	—	(1,636,679)
Social services	1,847,028	2,182	1,632,657	—	(212,189)
Administration of justice	760,379	114,464	46,736	268	(598,911)
Resources and economic development	351,882	58,378	142,292	9,131	(142,081)
Transportation	1,179,611	100,428	151,681	551,288	(376,214)
Unallocated interest expense	81,838	—	—	—	(81,838)
Total governmental activities	**19,103,613**	**2,356,804**	**8,274,731**	**570,743**	**(7,901,335)**
Business-type activities:					
Higher education	3,520,564	2,377,719	726,227	100,884	(315,734)
Higher education institution support	1,252,222	1,314,062	80,406	—	142,246
Unemployment compensation benefits	2,026,866	1,575,257	8,177	—	(443,432)
Financing of housing facilities	238,191	58,188	187,904	—	7,901
Medical malpractice insurance	2,324	22,708	718	—	21,102
Financing of student loans	36,694	33,138	1,805	—	(1,751)
Tuition prepayment program	910	593	34,523	—	34,206
State maritime museum	9,300	8,490	367	—	(443)
Insurance claims processing	1,720	1,645	70	—	(5)
Other enterprise activities	25,563	29,289	2,653	—	6,379
Total business-type activities	**7,114,354**	**5,421,089**	**1,042,850**	**100,884**	**(549,531)**
Total primary government	**$ 26,217,967**	**$ 7,777,893**	**$ 9,317,581**	**$ 671,627**	**$ (8,450,866)**
Component units:					
Public Service Authority	$ 1,636,009	$ 1,702,001	$ 2,950	$ —	$ 68,942
State Ports Authority	113,118	112,701	6,682	2,677	8,942
Connector 2000 Association, Inc.	27,815	5,255	380	—	(22,180)
Lottery Commission	1,011,039	1,010,702	86	—	(251)
Other	88,467	36,131	128,923	2	76,589
Total component units	**$ 2,876,448**	**$ 2,866,790**	**$ 139,021**	**$ 2,679**	**$ 132,042**

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

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net assets:				
Net revenues (expenses)	$ (7,901,335)	$ (549,531)	$ (8,450,866)	$ 132,042
General revenues:				
Taxes:				
Individual income	2,659,728	—	2,659,728	—
Retail sales and use	3,855,095	—	3,855,095	—
Other	1,616,347	—	1,616,347	—
Total taxes	8,131,170	—	8,131,170	—
Unrestricted grants and contributions	205,965	—	205,965	—
Unrestricted investment income	41,555	—	41,555	—
Tobacco legal settlement	68,709	—	68,709	—
Other revenues	433,166	—	433,166	—
Additions to endowments	—	30,480	30,480	—
Transfers–internal activities	(653,389)	653,389	—	—
Total general revenues, additions to endowments, and transfers	**8,227,176**	**683,869**	**8,911,045**	**—**
Change in net assets	**325,841**	**134,338**	**460,179**	**132,042**
Net assets at beginning of year (restated)	**13,464,460**	**3,953,241**	**17,417,701**	**2,637,592**
Net assets at end of year	**$ 13,790,301**	**$ 4,087,579**	**$ 17,877,880**	**$ 2,769,634**

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2010
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
ASSETS				
Cash and cash equivalents	$ 542,494	$ 474,176	$ 426,821	$ 136,621
Investments	27,833	285	—	—
Invested securities lending collateral	155,250	4,227	42,374	3,491
Receivables, net:				
Accounts	1,255	125,918	2,247	13,989
Accrued interest	5,026	516	11,105	795
Income taxes	424,083	—	—	—
Sales and other taxes	301,760	11,584	—	8,661
Patient accounts	10,210	11,638	—	—
Loans and notes	—	1,167	524,000	5,664
Due from Federal government and other grantors	12,563	979,033	—	138,600
Due from other funds	45,742	28,370	16,941	23,924
Due from component units	9,620	1,070	—	—
Interfund receivables	5,514	1,281	343,692	—
Inventories	7,924	14,209	—	5,161
Restricted assets:				
Cash and cash equivalents	—	—	467,059	21,983
Accounts receivable	—	—	353,996	—
Other	—	—	42,940	—
Prepaid items	—	—	—	6,302
Other assets	—	—	—	771
Total assets	**$ 1,549,274**	**$ 1,653,474**	**$ 2,231,175**	**$ 365,962**
LIABILITIES AND FUND BALANCES (DEFICIT)				
Liabilities:				
Accounts payable	$ 273,837	$ 338,565	$ 18,717	$ 136,482
Accrued salaries and related expenditures	56,402	41,242	118	18,450
Retainages payable	—	239	—	1,932
Tax refunds payable	663,723	—	—	—
Payable–aid to individuals/families	1,587	3,004	—	—
Intergovernmental payables	25,074	526,372	137	—
Due to other funds	115,808	47,704	15,546	16,172
Interfund payables	—	5,365	—	343,692
Deferred revenues	55,991	89,270	392,662	42,059
Securities lending collateral	171,180	4,661	46,722	3,849
Other liabilities	37,317	14	—	—
Total liabilities	**1,400,919**	**1,056,436**	**473,902**	**562,636**
Fund balances (deficit):				
Reserved	184,645	15,748	1,981,573	15,738
Unreserved, designated reported in:				
Special revenue funds	—	—	—	—
Capital Projects Fund	—	—	—	—
Unreserved, undesignated reported in:				
General Fund	(36,290)	—	—	—
Special revenue funds	—	581,290	(224,300)	(212,412)
Permanent funds	—	—	—	—
Total fund balances (deficit)	**148,355**	**597,038**	**1,757,273**	**(196,674)**
Total liabilities and fund balances	**$ 1,549,274**	**$ 1,653,474**	**$ 2,231,175**	**$ 365,962**

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

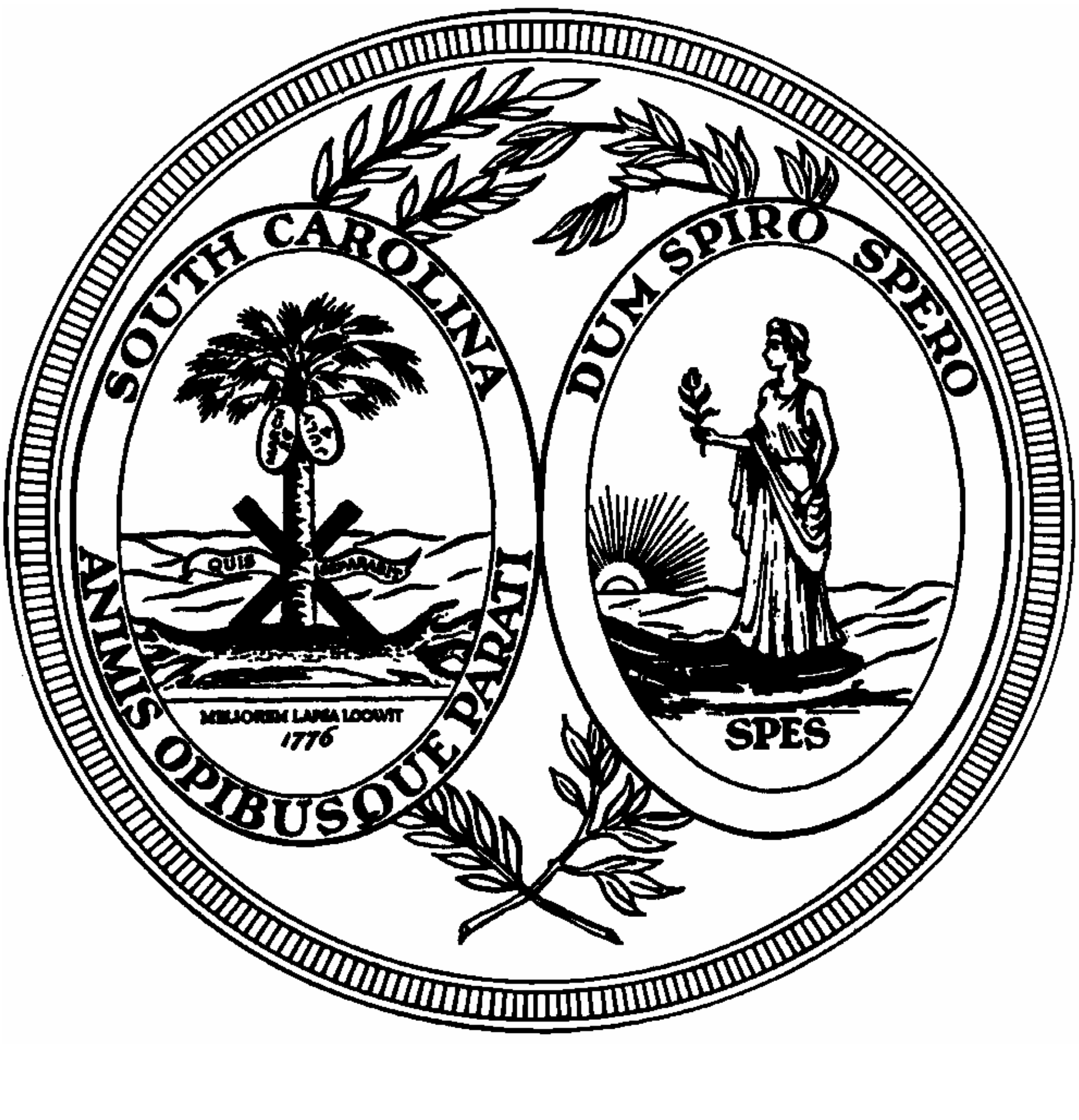
State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ 44,537	$ 1,176,633	$ 2,801,282
—	—	28,118
2,321	48,206	255,869
—	772	144,181
336	8,703	26,481
—	—	424,083
—	173,903	495,908
—	—	21,848
—	36,043	566,874
—	449	1,130,645
—	37,927	152,904
—	25,634	36,324
—	15,890	366,377
—	3	27,297
—	17,215	506,257
—	—	353,996
—	38,618	81,558
—	—	6,302
—	—	771
$ 47,194	**$ 1,579,996**	**$ 7,427,075**
$ 45	$ 50,332	$ 817,978
—	1,830	118,042
—	470	2,641
—	796	664,519
—	—	4,591
—	288,564	840,147
8	85,546	280,784
—	19,780	368,837
—	24,503	604,485
2,559	53,153	282,124
—	29	37,360
2,612	**525,003**	**4,021,508**
—	154,194	2,351,898
—	14,055	14,055
—	362,097	362,097
—	—	(36,290)
44,582	523,174	712,334
—	1,473	1,473
44,582	**1,054,993**	**3,405,567**
$ 47,194	**$ 1,579,996**	**$ 7,427,075**

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

June 30, 2010
(Expressed in Thousands)

Total fund balances–governmental funds		**$ 3,405,567**
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	$ 4,924,124	
Depreciable capital assets	13,261,095	
Accumulated depreciation	(4,095,067)	
Total capital assets		14,090,152
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		26,765
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		420,947
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		366,544
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		13,404
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	(4,139,410)	
Notes payable	(53,352)	
Accrued interest on bonds	(51,187)	
Capital leases	(242)	
Compensated absences	(208,531)	
Policy claims	(35,709)	
Other	(44,647)	
Total long-term liabilities		(4,533,078)
Net assets of governmental activities		**$ 13,790,301**

The Notes to the Financial Statements are an integral part of this statement.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Statement of Revenues, Expenditures, and Changes in Fund Balances

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure
Revenues:			
Taxes:			
Individual income	$ 2,643,141	$ —	$ 15,559
Retail sales and use	2,199,513	1,278	—
Other	701,160	25,239	20,000
Licenses, fees, and permits	96,071	165,788	94,618
Interest and other investment income	50,815	3,649	76,381
Federal	87,461	7,631,235	56,285
Local and private grants	—	40,287	—
Departmental services	4,138	181,139	20,486
Contributions	18,515	89,673	43,879
Fines and penalties	52,484	88,707	—
Tobacco legal settlement	—	—	—
Other	54,877	353,329	—
Total revenues	**5,908,175**	**8,580,324**	**327,208**
Expenditures:			
Current:			
General government	259,750	320,269	3,667
Education	270,080	231,651	—
Health and environment	1,009,426	4,601,114	—
Social services	117,977	1,704,232	—
Administration of justice	508,931	163,876	—
Resources and economic development	73,830	83,674	931
Transportation	808	2,915	3,368
Capital outlay	—	—	—
Debt service:			
Principal retirement	141,956	1,890	146,365
Interest and fiscal charges	54,599	491	101,509
Intergovernmental	2,348,033	1,612,766	85,203
Total expenditures	**4,785,390**	**8,722,878**	**341,043**
Excess of revenues over (under) expenditures	**1,122,785**	**(142,554)**	**(13,835)**
Other financing sources (uses):			
Bonds and notes issued	—	—	—
Refunding bonds issued	—	—	88,590
Premiums on bonds issued	—	—	10,173
Discounts on bonds issued	—	—	(87)
Transfers in	72,343	257,292	1,274
Transfers out	(1,152,002)	(81,239)	(22,269)
Total other financing sources (uses)	**(1,079,659)**	**176,053**	**77,681**
Net change in fund balances	**43,126**	**33,499**	**63,846**
Fund balances (deficit) at beginning of year (restated)	**105,229**	**563,539**	**1,693,427**
Fund balances (deficit) at end of year	**$ 148,355**	**$ 597,038**	**$ 1,757,273**

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
$ —	$ —	$ —	$ 2,658,700
—	—	1,654,304	3,855,095
546,932	—	292,692	1,586,023
—	—	112,281	468,758
6,075	1,343	34,298	172,561
689,757	—	11,075	8,475,813
—	—	—	40,287
15,892	—	10,424	232,079
—	—	282,765	434,832
—	—	22,198	163,389
—	—	68,709	68,709
14,531	—	23,647	446,384
1,273,187	**1,343**	**2,512,393**	**18,602,630**
—	124	127,951	711,761
—	—	318,621	820,352
—	10,899	341,596	5,963,035
—	—	9,441	1,831,650
—	—	14,168	686,975
—	—	5,423	163,858
895,693	—	—	902,784
318,646	—	151,555	470,201
359,250	—	64,182	713,643
32,284	—	11,526	200,409
77,203	163	1,985,896	6,109,264
1,683,076	**11,186**	**3,030,359**	**18,573,932**
(409,889)	**(9,843)**	**(517,966)**	**28,698**
—	—	301,672	301,672
299,860	—	—	388,450
36,042	—	3,385	49,600
—	—	—	(87)
1,111	—	403,695	735,715
(89)	—	(128,300)	(1,383,899)
336,924	**—**	**580,452**	**91,451**
(72,965)	**(9,843)**	**62,486**	**120,149**
(123,709)	**54,425**	**992,507**	**3,285,418**
$ (196,674)	**$ 44,582**	**$ 1,054,993**	**$ 3,405,567**

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, 2010
(Expressed in Thousands)

Net change in fund balances–total governmental funds		**$ 120,149**
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	$ 543,473	
Depreciation expense	(332,811)	
Excess of capital outlay over depreciation expense		210,662
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		34,964
Losses on disposals of capital assets are reported as an expense in the statement of activities		(3,271)
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	(690,122)	
Net bond premiums and discounts	(49,513)	
Net bond and note proceeds		(739,635)
Reclassification of notes payable from internal service fund		(3,361)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets		1,798
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	710,433	
Note principal retirement	3,048	
Capital lease payments	162	
Deferred loss on bond refunding	14,194	
Total long-term debt repayment		727,837
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		(3,520)
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		(33,851)
Eliminations relating to the consolidation of internal service funds resulted in a net decrease in expenses for the business-type activities in the statement of activities		12,939

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, 2010
(Expressed in Thousands)

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	$ (3,444)	
Interest accreted on capital appreciation debt	(441)	
Amortization of bond issuance costs	(389)	
Net amortization of bond premiums and discounts	1,036	
Amortization of deferred losses on refunding of debt	(7,212)	
Net decrease in compensated absences payable	5,369	
Increase in policy claims payable	(2,736)	
Net decrease in other payables	8,947	
Total additional expenses		$ 1,130
Change in net assets of governmental activities		**$ 325,841**

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2010
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
ASSETS			
Current assets:			
Cash and cash equivalents	$ 928,322	$ 72,838	$ 26,231
Investments	78,413	—	—
Invested securities lending collateral	39,134	302	642
Receivables, net:			
Accounts	36,039	17,280	850
Contributions	3,282	—	—
Participants	—	—	—
Accrued interest	5,594	44	93
Student accounts	50,587	—	—
Patient accounts	—	—	—
Loans and notes	152	—	255
Assessments	—	50,986	—
Due from Federal government and other grantors	122,876	26,556	1,478
Due from other funds	56,317	228	—
Due from component units	126,870	—	—
Inventories	17,436	—	—
Restricted assets:			
Cash and cash equivalents	372,019	—	69,920
Investments	5	—	9,496
Loans receivable	1,046	—	19,803
Other	411	—	6,027
Prepaid items	26,774	—	—
Other current assets	774	—	617
Total current assets	1,866,051	168,234	135,412
Long-term assets:			
Investments	14,556	—	—
Receivables, net:			
Accounts	1,155	—	—
Contributions	2,481	—	—
Participants	—	—	—
Student accounts	780	—	—
Loans and notes	225	—	15,832
Interfund receivables	22	—	—
Restricted assets:			
Cash and cash equivalents	176,335	—	160,326
Investments	18	—	—
Loans receivable	56,303	—	842,972
Other	49,871	—	—
Prepaid items	391	—	—
Other long-term assets	4,600	—	—
Deferred charges	2,619	—	6,156
Non-depreciable capital assets	474,631	—	—
Depreciable capital assets, net	3,255,489	—	882
Total long-term assets	4,039,476	—	1,026,168
Total assets	**5,905,527**	**168,234**	**1,161,580**

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
$ 44,499	$ 129,665	$ 321,288	$ 1,522,843		$ 460,144
—	—	47,939	126,352		—
—	—	7,374	47,452		27,818
25,528	4,141	7,291	91,129		144,706
—	—	15	3,297		—
—	—	2,168	2,168		—
—	1,007	1,081	7,819		5,594
—	—	—	50,587		—
146,191	—	35,297	181,488		—
—	58,800	23	59,230		—
—	—	—	50,986		—
—	—	—	150,910		—
8,923	—	28,949	94,417		52,631
—	—	—	126,870		42
18,056	—	3,872	39,364		6,059
5,458	26,581	57,126	531,104		—
—	—	11,293	20,794		—
—	—	80	20,929		—
—	—	729	7,167		—
6,490	—	997	34,261		18,071
631	—	1,642	3,664		—
255,776	220,194	527,164	3,172,831		715,065
—	—	21,735	36,291		374,579
—	—	—	1,155		576
—	—	14	2,495		—
—	—	6,338	6,338		—
—	—	—	780		—
—	849,129	—	865,186		—
—	—	31,391	31,413		22,237
52,408	—	4,150	393,219		—
36,028	—	43,632	79,678		—
—	—	6,978	906,253		—
—	—	101	49,972		—
—	—	11,252	11,643		—
2,748	—	4,593	11,941		482
17,236	4,864	1,883	32,758		89
14,698	—	40,032	529,361		6,897
532,442	91	82,877	3,871,781		115,180
655,560	854,084	254,976	6,830,264		520,040
911,336	**1,074,278**	**782,140**	**10,003,095**		**1,235,105**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2010
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
LIABILITIES			
Current liabilities:			
Accounts payable	$ 67,636	$ 103	$ —
Accrued salaries and related expenses	65,323	—	486
Accrued interest payable	12,523	—	—
Retainages payable	5,398	—	—
Tax refunds payable	—	6,808	—
Unemployment benefits payable	—	20,685	—
Intergovernmental payables	—	4,743	76
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	56,626	8,448	14
Unearned revenues	141,918	—	—
Deposits	7,313	—	—
Amounts held in custody for others	9,665	—	—
Securities lending collateral	43,149	333	707
Liabilities payable from restricted assets:			
Accounts payable	22	—	—
Accrued interest payable	—	—	18,221
Bonds payable	—	—	43,730
Other	—	—	5,002
Notes payable	14,630	—	—
General obligation bond anticipation notes payable	30,000	—	—
Revenue bond anticipation notes payable	51,100	—	—
General obligation bonds payable	23,330	—	—
Revenue bonds payable	30,706	—	—
Limited obligation bonds payable	—	—	—
Capital leases payable	5,467	—	—
Compensated absences payable	49,937	—	353
Other current liabilities	6,863	—	783
Total current liabilities	621,606	41,120	69,372
Long-term liabilities:			
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Interfund payables	31,530	—	—
Unearned revenues	5,593	—	—
Other liabilities payable from restricted assets	—	—	—
Advances from Federal government	—	886,662	—
Notes payable	108,745	—	—
General obligation bonds payable	364,134	—	—
Revenue bonds payable	660,130	—	775,654
Limited obligation bonds payable	—	—	—
Capital leases payable	100,333	—	—
Compensated absences payable	66,274	—	356
Other long-term liabilities	60,496	—	367
Total long-term liabilities	1,397,235	886,662	776,377
Total liabilities	**2,018,841**	**927,782**	**845,749**

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

FUNDS				
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ 42,609	$ 29,079	$ 12,733	$ 152,160	$ 6,483
19,147	—	16,067	101,023	4,051
8,131	—	1,002	21,656	673
3,404	—	—	8,802	248
—	—	—	6,808	—
—	—	—	20,685	—
—	—	—	4,819	167
—	—	22,701	22,701	—
—	—	13,054	13,054	463,752
—	—	626	65,714	4,791
—	—	7,154	149,072	159,567
—	—	—	7,313	—
—	—	—	9,665	—
—	—	7,935	52,124	30,672
—	—	—	22	—
—	2,419	128	20,768	—
—	—	—	43,730	—
—	300	54,907	60,209	—
13,177	—	6,463	34,270	3,596
—	—	—	30,000	—
—	—	—	51,100	—
—	—	—	23,330	—
10,395	—	1,222	42,323	1,620
—	—	—	—	1,280
—	—	148	5,615	—
24,350	327	4,062	79,029	2,926
22,385	976	3,473	34,480	9,547
143,598	33,101	151,675	1,060,472	689,373
—	—	156,444	156,444	—
—	—	125,601	125,601	151,373
2,055	—	16,064	49,649	1,541
—	—	413	6,006	—
—	1,049	6	1,055	—
—	—	—	886,662	—
25,353	—	50,911	185,009	3,996
—	—	—	364,134	—
441,166	894,700	58,463	2,830,113	14,467
—	—	—	—	5,155
—	—	520	100,853	—
—	—	1,898	68,528	2,656
2,749	1,123	2,851	67,586	—
471,323	896,872	413,171	4,841,640	179,188
614,921	**929,973**	**564,846**	**5,902,112**	**868,561**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2010
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	**Unemployment Compensation**	**Housing Authority**
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	$ 2,389,446	$ —	$ 882
Restricted:			
Expendable:			
Education	193,150	—	—
Capital projects	302,827	—	—
Debt service	95,129	—	54,562
Loan programs	—	—	216,005
Insurance programs	—	—	—
Nonexpendable:			
Education	153,628	—	—
Unrestricted	752,506	(759,548)	44,382
Total net assets (deficit)	**$ 3,886,686**	**$ (759,548)**	**$ 315,831**

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					INTERNAL
	Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
	$ 78,737	$ 91	$ 70,496	$ 2,539,652	$ 92,233
	—	—	22,493	215,643	—
	—	—	1,178	304,005	—
	89,269	15,226	1,766	255,952	—
	—	48,552	—	264,557	20,000
	—	—	—	—	265,069
	—	—	31,567	185,195	—
	128,409	80,436	89,794	335,979	(10,758)
	$ 296,415	**$ 144,305**	**$ 217,294**	**4,100,983**	**$ 366,544**
....				(13,404)	
..				**$ 4,087,579**	

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

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Operating revenues:			
Assessments	$ —	$ 298,438	$ —
Charges for services	1,426,781	—	10,287
Contributions	—	—	—
Interest and other investment income	326	—	50,910
Licenses, fees, and permits	—	—	—
Operating revenues pledged for revenue bonds	202,659	—	—
Federal operating grants and contracts	415,280	1,235,189	—
State operating grants and contracts	265,174	—	—
Local/private operating grants and contracts	66,351	—	—
Other operating revenues	54,046	49,593	—
Total operating revenues	**2,430,617**	**1,583,220**	**61,197**
Operating expenses:			
General operations and administration	3,032,045	76	11,188
Benefits and claims	—	2,026,790	—
Tuition plan disbursements	—	—	—
Interest	—	—	37,258
Depreciation and amortization	185,693	—	596
Scholarships and fellowships	226,051	—	—
Other operating expenses	—	—	1,363
Total operating expenses	**3,443,789**	**2,026,866**	**50,405**
Operating income (loss)	**(1,013,172)**	**(443,646)**	**10,792**
Nonoperating revenues (expenses):			
Federal and local government appropriations	72,688	—	—
Interest income	60,906	214	101
Contributions	114,515	—	—
Federal grants and contracts	390,623	—	184,794
Local/private grants and contracts	7,250	—	—
Interest expense	(59,772)	—	—
Net other nonoperating revenues (expenses)	23,283	—	(187,786)
Total nonoperating revenues (expenses)	**609,493**	**214**	**(2,891)**
Income (loss) before other revenues, expenses, losses, and transfers	**(403,679)**	**(443,432)**	**7,901**
Federal capital grants and contracts	25,416	—	—
Local/private capital grants and contracts	75,468	—	—
Additions to endowments	28,215	—	—
Transfers in	743,165	470	400
Transfers out	(42,920)	(1,608)	(28)
Change in net assets	**425,665**	**(444,570)**	**8,273**
Net assets (deficit) at beginning of year (restated)	**3,461,021**	**(314,978)**	**307,558**
Net assets (deficit) at end of year	**$ 3,886,686**	**$ (759,548)**	**$ 315,831**

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
$ —	$ —	$ —	$ 298,438	$ —
980,120	33,138	395,159	2,845,485	1,972,132
—	—	(1,151)	(1,151)	—
—	69	43,126	94,431	724
—	—	—	—	66
—	—	1,896	204,555	—
—	—	70	1,650,539	—
—	—	—	265,174	—
—	—	—	66,351	—
17,324	164	39,026	160,153	105,471
997,444	**33,371**	**478,126**	**5,583,975**	**2,078,393**
855,586	19,636	330,806	4,249,337	343,850
—	—	316	2,027,106	1,768,105
—	—	910	910	—
—	7,933	—	45,191	—
52,601	1,004	6,000	245,894	17,246
—	—	—	226,051	—
—	8,121	2,609	12,093	5,325
908,187	**36,694**	**340,641**	**6,806,582**	**2,134,526**
89,257	**(3,323)**	**137,485**	**(1,222,607)**	**(56,133)**
—	—	—	72,688	—
1,758	—	10,188	73,167	53,081
—	—	2,631	117,146	—
—	—	24	575,441	—
—	—	320	7,570	—
(27,449)	—	(5,030)	(92,251)	(1,432)
—	1,572	(5,699)	(168,630)	6,169
(25,691)	**1,572**	**2,434**	**585,131**	**57,818**
63,566	**(1,751)**	**139,919**	**(637,476)**	**1,685**
—	—	—	25,416	—
—	—	—	75,468	—
—	—	2,265	30,480	—
248	—	2,969	747,252	5,324
—	—	(49,307)	(93,863)	(10,529)
63,814	**(1,751)**	**95,846**	**147,277**	**(3,520)**
232,601	**146,056**	**121,448**		**370,064**
$ 296,415	**$ 144,305**	**$ 217,294**		**$ 366,544**
....			(12,939)	
..			**$ 134,338**	

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from operating activities:			
Receipts from customers, patients, and third-party payers	$ 1,511,944	$ —	$ —
Assessments received	—	289,032	—
Grants received	718,759	1,220,423	—
Receipts from collection of loans and notes	586,580	—	168,855
Receipts of funds held for others	267,366	—	—
Internal activity–payments from other funds	90,182	—	—
Tuition plan contributions received	—	—	—
Other operating cash receipts	38,006	50,608	11,053
Claims and benefits paid	—	(2,038,754)	—
Payments to suppliers for goods and services	(1,080,900)	—	(6,426)
Payments to employees	(2,017,025)	—	(8,082)
Payments for scholarships and fellowships	(139,712)	—	—
Loans issued to students	(585,763)	—	—
Payments of funds held for others	(221,473)	—	—
Program loans issued	—	—	(115,750)
Internal activity–payments to other funds	—	—	—
Other operating cash payments	(411)	(76)	—
Net cash provided by (used in) operating activities	**(832,447)**	**(478,767)**	**49,650**
Cash flows from noncapital financing activities:			
State, county, and local appropriations	64,276	—	—
Federal appropriations	17,996	—	—
Funds held for others	(197)	—	—
Principal payments received from other funds	—	—	—
Principal payments made to other funds	—	—	—
Receipt of interest from other funds	—	—	—
Advances from Federal government	—	541,781	—
Proceeds from sale of noncapital debt	—	—	120,000
Principal payments on noncapital debt	—	—	(87,075)
Interest payments on noncapital debt	(52)	—	(39,245)
Payment of bond issuance costs	—	—	(441)
Gifts and grants for other than capital purposes	562,238	—	—
Federal revenue	—	—	184,794
Payments from Federal grants	—	—	(187,786)
Additions to endowments	6,446	—	—
Other noncapital financing cash receipts	2,857	—	—
Other noncapital financing cash payments	(782)	—	—
Transfers in	743,165	470	400
Transfers out	(41,380)	(1,608)	(28)
Net cash provided by (used in) noncapital financing activities	**1,354,567**	**540,643**	**(9,381)**

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
$ 970,580	$ 40,436	$ 365,978	$ 2,888,938	$ 1,324,235
—	—	114,302	403,334	—
—	—	—	1,939,182	—
—	289,222	—	1,044,657	—
—	—	—	267,366	—
—	—	—	90,182	634,021
—	—	1,111	1,111	—
18,610	—	91,234	209,511	119,292
—	—	(120,172)	(2,158,926)	(1,760,240)
(364,894)	(97,025)	(128,737)	(1,677,982)	(316,540)
(418,081)	(3,405)	(194,438)	(2,641,031)	(57,174)
—	—	—	(139,712)	—
—	—	—	(585,763)	—
—	—	—	(221,473)	—
—	(40,928)	—	(156,678)	—
(90,182)	—	—	(90,182)	(7,656)
—	—	(13,290)	(13,777)	—
116,033	**188,300**	**115,988**	**(841,243)**	**(64,062)**
—	—	—	64,276	—
—	—	—	17,996	—
—	—	—	(197)	—
—	—	—	—	3,457
—	—	—	—	(2,040)
—	—	—	—	372
—	—	—	541,781	—
—	85,000	(1,457)	203,543	—
—	(201,350)	(2,222)	(290,647)	—
—	(8,821)	(1,301)	(49,419)	—
—	(1,849)	—	(2,290)	—
—	—	(4,876)	557,362	—
—	—	—	184,794	—
—	—	—	(187,786)	—
—	—	—	6,446	—
—	—	199	3,056	—
—	(287)	(251)	(1,320)	—
248	—	1,429	745,712	5,324
—	—	(49,279)	(92,295)	(10,529)
248	**(127,307)**	**(57,758)**	**1,701,012**	**(3,416)**

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from capital and related financing activities:			
Capital appropriations	$ 13,730	$ —	$ —
Acquisition of capital assets	(301,806)	—	—
Principal payments on limited obligation bonds	—	—	(434)
Proceeds from issuance of capital debt	153,877	—	—
Principal payments on capital debt	(123,327)	—	—
Interest payments on capital debt	(55,108)	—	—
Payment of agent and broker fees	—	—	—
Proceeds from issuance of interfund loan	—	—	—
Proceeds from sale or disposal of capital assets	3,068	—	—
Capital grants and gifts received	57,904	—	—
Net cash used in capital and related financing activities	**(251,662)**	**—**	**(434)**
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	88,702	—	1,733
Purchase of investments	(105,199)	—	(9,496)
Interest and dividends on investments	40,887	208	3,146
Transfer of endowment funds	(8,287)	—	—
Net settlement of investment derivative	—	—	—
Collection of escrow payments from borrower	—	—	—
Net cash provided by (used in) investing activities	**16,103**	**208**	**(4,617)**
Net increase in cash and cash equivalents	**286,561**	**62,084**	**35,218**
Cash and cash equivalents at beginning of year (restated)	**1,190,115**	**10,754**	**221,259**
Cash and cash equivalents at end of year	**$ 1,476,676**	**$ 72,838**	**$ 256,477**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (1,013,172)	$ (443,646)	$ 10,792
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	185,693	—	596
Provision for bad debts	538	—	—
Net increase in the fair value of investments	—	—	—
Issuance of loans and notes	—	—	(115,750)
Collection of loans and notes	—	—	121,157
Interest payments reclassified as noncapital financing activities	—	—	37,258
Interest and dividends on investments and interfund loans	—	—	(3,010)
Amounts received for payment of claims	—	—	—
Payment of claims	—	—	—
Other nonoperating revenues	601	—	—
Other nonoperating expenses	(8,423)	—	(303)

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
$ —	$ —	$ —	$ 13,730	$ —
(43,083)	(28)	(19,078)	(363,995)	(4,509)
—	—	—	(434)	(1,830)
—	—	—	153,877	—
(29,049)	—	(5,780)	(158,156)	(4,767)
(26,672)	—	(3,799)	(85,579)	(966)
(2,032)	—	—	(2,032)	—
—	—	9,200	9,200	—
14	—	5	3,087	—
—	—	77	57,981	—
(100,822)	**(28)**	**(19,375)**	**(372,321)**	**(12,072)**
9,995	—	93,836	194,266	125,917
(4,210)	—	(117,389)	(236,294)	(62,378)
1,678	68	9,553	55,540	30,827
—	—	—	(8,287)	—
(8,750)	—	—	(8,750)	—
—	—	1,827	1,827	—
(1,287)	**68**	**(12,173)**	**(1,698)**	**94,366**
14,172	**61,033**	**26,682**	**485,750**	**14,816**
88,193	**95,213**	**355,882**	**1,961,416**	**445,328**
$ 102,365	**$ 156,246**	**$ 382,564**	**$ 2,447,166**	**$ 460,144**
$ 89,257	$ (3,323)	$ 137,485	$ (1,222,607)	$ (56,133)
52,601	1,004	6,000	245,894	17,246
66,530	988	22,495	90,551	—
—	—	(7,448)	(7,448)	—
—	(60,141)	—	(175,891)	—
—	59,367	—	180,524	—
—	7,934	—	45,192	—
—	(70)	—	(3,080)	—
—	—	112,587	112,587	—
—	—	(102,591)	(102,591)	—
—	—	3,830	4,431	6,104
676	—	2,008	(6,042)	—

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Effect of changes in operating assets and liabilities:			
Accounts receivable, net	$ (62,706)	$ 1,241	$ (803)
Receivable from participants, net	—	—	—
Accrued interest	—	—	(24)
Loans receivable	(15)	—	—
Assessments receivable, net	—	(7,407)	—
Due from Federal government and other grantors	(619)	(12,823)	(483)
Due from other funds	12,430	(226)	—
Inventories	(896)	—	—
Other assets	(1,557)	—	780
Accounts payable	19,327	84	—
Accrued salaries and related expenses	4,373	—	60
Tax withholdings	—	(22,822)	—
Accrued interest payable	—	—	—
Retainages payable	(294)	—	—
Tax refunds payable	—	(1,999)	—
Unemployment benefits payable	—	12,889	—
Intergovernmental payables	—	(2,115)	76
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	20,230	(1,943)	(214)
Unearned revenues	11,203	—	—
Deposits	6,517	—	—
Liabilities payable from restricted assets	—	—	(368)
Compensated absences payable	696	—	(114)
Other liabilities	(6,373)	—	—
Net cash provided by (used in) operating activities	**$ (832,447)**	**$ (478,767)**	**$ 49,650**
Noncash capital, investing, and financing activities:			
Acquisition of capital assets through donations	$ 21,494	$ —	$ —
Disposal of capital assets	56	—	—
Borrowing under capital leases	2,127	—	—
Increase in fair value of investments	20,189	—	—
Arbitrage income incurred and liability accrued	—	—	—
Other noncash activity	1,501	—	—
Total noncash capital, investing, and financing activities	**$ 45,367**	**$ —**	**$ —**

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
$ (78,258)	$ 6,859	$ (22,081)	$ (155,748)	$ (5,122)
—	—	2,262	2,262	—
—	(1,005)	—	(1,029)	16
—	161,063	180	161,228	—
—	—	—	(7,407)	—
—	—	—	(13,925)	—
(8,548)	—	(15,172)	(11,516)	(26,123)
(53)	—	(285)	(1,234)	(96)
1,060	—	897	1,180	983
3,143	16,482	7,015	46,051	18,544
—	—	128	4,561	(80)
—	—	—	(22,822)	—
—	(888)	—	(888)	(82)
—	—	—	(294)	248
—	—	—	(1,999)	—
—	—	—	12,889	—
—	—	—	(2,039)	—
—	—	(10,646)	(10,646)	—
—	—	(16,920)	(16,920)	(25,691)
(10,375)	—	(520)	7,178	1,189
—	—	(2,965)	8,238	5,416
—	—	—	6,517	—
—	—	—	(368)	—
—	30	119	731	(481)
—	—	(390)	(6,763)	—
$ 116,033	**$ 188,300**	**$ 115,988**	**$ (841,243)**	**$ (64,062)**
$ —	$ —	$ —	$ 21,494	$ —
—	—	—	56	—
—	—	891	3,018	—
—	—	77,321	97,510	17
—	1,572	—	1,572	—
—	—	—	1,501	—
$ —	**$ 1,572**	**$ 78,212**	**$ 125,151**	**$ 17**

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2010
(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	$ 4,093,939	$ 925,420	$ 17,164	$ 231,451
Receivables, net:				
Accounts	42	—	—	2,710
Contributions	172,604	—	—	—
Employer long-term	352	—	—	—
Accrued interest	68,555	4,474	918	1,222
Unsettled investment sales	1,058,915	—	1,045	—
Other investment receivables	2,798	—	—	—
Taxes	—	—	—	200
Total receivables	1,303,266	4,474	1,963	4,132
Due from other funds	49,814	—	—	56,629
Investments, at fair value:				
Short term securities	570	—	—	—
Debt-domestic	4,263,019	978,223	—	—
Debt-international	2,839,508	—	—	—
Equity-domestic	1,619,972	—	—	—
Equity-international	293	—	—	—
Alternatives	10,474,603	—	—	—
Financial and other	20,694	518,672	1,114,175	29,023
Total investments	19,218,659	1,496,895	1,114,175	29,023
Securities held in lieu of surety bonds	—	—	—	266,805
Invested securities lending collateral	344,491	22,952	511	9,812
Capital assets, net	3,221	—	—	—
Prepaid items	964	—	—	—
Other assets	—	—	4,975	—
Total assets	**25,014,354**	**2,449,741**	**1,138,788**	**$ 597,852**
LIABILITIES				
Accounts payable	17,103	—	1,969	28,228
Accounts payable–unsettled investment purchases	924,170	12,000	330	—
Due to other funds	55,106	—	—	—
Tax refunds payable	—	—	—	3,363
Intergovernmental payables	—	—	—	12,913
Deposits	—	—	—	3,372
Amounts held in custody for others	—	—	—	539,158
Deferred retirement benefits	323,093	—	—	—
Securities lending collateral	451,005	22,950	564	10,818
Other liabilities	32,031	—	—	—
Total liabilities	**1,802,508**	**34,950**	**2,863**	**$ 597,852**
NET ASSETS				
Held in trust for:				
Pension and other post-employment benefits	23,211,846	—	—	
External investment pool participants	—	2,414,791	—	
Other purposes	—	—	1,135,925	
Total net assets	**$ 23,211,846**	**$ 2,414,791**	**$ 1,135,925**	

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, 2010
(Expressed in Thousands)

	Pension and Other Post-Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits	$ —	$ —	$ 150
Contributions:			
Employer	1,261,101	—	—
Employee	641,199	—	—
Deposits from pool participants	—	6,086,856	—
Tuition plan deposits	—	—	83,048
Total contributions	1,902,300	6,086,856	83,048
Investment income:			
Interest income and net appreciation in investments	3,081,308	11,942	102,347
Securities lending income	5,690	35	—
Total investment income	3,086,998	11,977	102,347
Less investment expense:			
Investment expense	51,104	—	—
Securities lending expense	1,253	6	—
Net investment income	3,034,641	11,971	102,347
Assets moved between pension trust funds	1,416	—	—
Total additions	**4,938,357**	**6,098,827**	**185,545**
Deductions:			
Regular retirement benefits	2,104,139	—	—
Supplemental retirement benefits	999	—	—
Deferred retirement benefits	157,099	—	—
Refunds of retirement contributions to members	89,491	—	—
Death benefit claims	21,957	—	—
Accidental death benefits	1,462	—	—
Other post-employment benefits	290,648	—	—
Withdrawals, pool participants	—	6,241,399	—
Distributions to pool participants	—	11,463	—
Depreciation	119	—	—
Administrative expense	20,903	160	12,198
Payments in accordance with trust agreements	—	—	128
Other expenses	—	—	123
Assets moved between pension trust funds	1,416	—	—
Total deductions	**2,688,233**	**6,253,022**	**12,449**
Change in net assets	**2,250,124**	**(154,195)**	**173,096**
Net assets at beginning of year	**20,961,722**	**2,568,986**	**962,829**
Net assets at end of year	**$ 23,211,846**	**$ 2,414,791**	**$ 1,135,925**

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2010
(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	$ 61,826	$ 163,774	$ 558	$ 17,192	$ 16,445	$ 259,795
Investments	26,695	—	231	—	66,507	93,433
Invested securities lending collateral	—	19,492	—	—	188	19,680
Receivables, net						
Accounts	153,398	17,532	—	29,388	4,091	204,409
Contributions	—	—	—	—	3,466	3,466
Accrued interest	4,173	—	—	—	640	4,813
Loans and notes	—	—	—	—	25	25
Due from Federal government and other grantors	—	—	—	—	309	309
Due from primary government	—	167,541	—	—	—	167,541
Inventories	480,791	6,104	321	1,334	—	488,550
Restricted assets:						
Cash and cash equivalents	349,354	—	—	499	21,511	371,364
Investments	91,248	—	—	—	—	91,248
Prepaid items	13,628	3,968	45	—	15	17,656
Other current assets	30,471	—	—	1,242	140	31,853
Deferred charges	—	—	—	—	1,257	1,257
Total current assets	1,211,584	378,411	1,155	49,655	114,594	1,755,399
Long-term assets:						
Investments	93,170	7,954	—	—	604,653	705,777
Receivables, net:						
Accounts	—	—	—	—	2,328	2,328
Contributions	—	—	—	—	39,566	39,566
Loans and notes	—	—	—	—	30	30
Restricted assets:						
Cash and cash equivalents	99,336	—	537	—	—	99,873
Investments	559,893	—	4,393	—	—	564,286
Other long-term assets	50,124	—	—	4,781	29	54,934
Deferred charges	687,880	988	3,572	—	—	692,440
Investment in joint venture	9,727	—	—	—	—	9,727
Non-depreciable capital assets	962,369	323,775	—	—	8,971	1,295,115
Depreciable capital assets, net	3,854,774	272,870	148,706	598	797	4,277,745
Total long-term assets	6,317,273	605,587	157,208	5,379	656,374	7,741,821
Total assets	**7,528,857**	**983,998**	**158,363**	**55,034**	**770,968**	**9,497,220**

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2010
(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
LIABILITIES						
Current liabilities:						
Accounts payable	$ 161,580	$ 6,984	$ 143	$ 1,747	$ 3,364	$ 173,818
Accrued salaries and related expenses	7,817	1,771	—	928	80	10,596
Accrued interest payable	114,420	7,750	—	—	—	122,170
Retainages payable	—	5,989	—	—	—	5,989
Prizes payable	—	—	—	24,325	—	24,325
Intergovernmental payables	—	362	—	—	149	511
Policy claims	1,753	—	—	—	29,000	30,753
Due to primary government	—	—	9,438	25,634	127,982	163,054
Unearned revenues and deferred credits	—	—	218	408	15,540	16,166
Deposits	—	—	15	—	—	15
Securities lending collateral	—	21,492	—	—	208	21,700
Liabilities payable from restricted assets:						
Accounts payable	—	—	—	—	432	432
Accrued interest payable	—	—	1,719	—	—	1,719
Notes payable	—	345	—	—	8	353
Revenue bonds payable	122,655	3,910	7,300	—	—	133,865
Capital leases payable	1,685	6	—	—	—	1,691
Commercial paper notes	276,551	—	—	—	—	276,551
Compensated absences payable	—	2,189	—	590	53	2,832
Other current liabilities	250,441	11,632	1,117	189	397	263,776
Total current liabilities	936,902	62,430	19,950	53,821	177,213	1,250,316
Long-term liabilities:						
Retainages payable	21,488	—	—	—	—	21,488
Policy claims	—	—	—	—	128,664	128,664
Unearned revenues and deferred credits	317,754	—	—	—	—	317,754
Amounts held in custody for others	—	—	—	—	2,131	2,131
Notes payable	—	949	—	—	22	971
Revenue bonds payable	4,472,535	94,601	311,715	—	—	4,878,851
Capital leases payable	3,914	11	—	—	—	3,925
Compensated absences payable	18,035	—	—	116	56	18,207
Other long-term liabilities	97,266	—	—	—	8,013	105,279
Total long-term liabilities	4,930,992	95,561	311,715	116	138,886	5,477,270
Total liabilities	**5,867,894**	**157,991**	**331,665**	**53,937**	**316,099**	**6,727,586**
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	221,548	486,023	(55,505)	598	9,768	662,432
Restricted:						
Expendable:						
Education	—	—	—	—	175,777	175,777
Capital projects	41,066	1,459	—	—	—	42,525
Debt service	119,587	6,495	—	—	—	126,082
Other	380,119	—	—	499	2,159	382,777
Nonexpendable, education	—	—	—	—	354,768	354,768
Unrestricted	898,643	332,030	(117,797)	—	(87,603)	1,025,273
Total net assets (deficit)	**$ 1,660,963**	**$ 826,007**	**$ (173,302)**	**$ 1,097**	**$ 454,869**	**$ 2,769,634**

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Public Service Authority	$ 1,636,009	$ 1,702,001	$ 2,950	$ —
State Ports Authority	113,118	112,701	6,682	2,677
Connector 2000 Association, Inc.	27,815	5,255	380	—
Lottery Commission	1,011,039	1,010,702	86	—
Nonmajor component units	88,467	36,131	128,923	2
Totals	**$ 2,876,448**	**$ 2,866,790**	**$ 139,021**	**$ 2,679**

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
$ 68,942	$ 1,592,021	$ 1,660,963
8,942	817,065	826,007
(22,180)	(151,122)	(173,302)
(251)	1,348	1,097
76,589	378,280	454,869
$ 132,042	**$ 2,637,592**	**$ 2,769,634**

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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 accountable for purposes of financial reporting. 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, 2010:
- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 2009:
- 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, 2010.

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, 2009.

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
Charleston, 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, 2010.

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, 2009.

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, except for the Secretary of Transportation and the Secretary of Commerce. The Governor has the ability to remove the appointed members for a breach of duty required or entering into a conflict of interest transaction. 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 contract with 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, 2009.

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 must 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.

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, 2009.

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 September 30, 2009.

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 three military-defense facility redevelopment authorities. The three authorities include the Charleston Naval Complex Redevelopment Authority, the Myrtle Beach Air Force Base Redevelopment Authority and the Savannah River Site Redevelopment Authority. The State does not have an ongoing financial interest in these authorities.

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, 2010, 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 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.) State appropriations to the Higher Education Fund are recorded as transfers.

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.

In June 2009, the Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") was issued. The ASC is the source of authoritative U.S. GAAP recognized by the FASB to be applied by the private-sector. The State adopted ASC in certain cases where the FASB does not conflict with or contradict guidance of the GASB as noted in the above paragraph. The ASC is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

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 they are 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, 2010.

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, 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 is 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 land, non-depreciable land improvements, and construction in progress. 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 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 and paying for the financing thereof. 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. Sick leave earnings remain at 15 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 for accumulated vacation leave 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, 2010, $1.164 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 and estimable 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 2009-2010, the State adopted the following Governmental Accounting Standards Board (GASB) Statements.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting standards for intangible assets to address inconsistencies and enhance comparability in reporting such assets among governments. The Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The Statement requires that an intangible asset be recognized in the government-wide statement of net assets only if it is considered identifiable. Additionally, the Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. The beginning net assets and capital assets of governmental activities increased by $43.510 million as a result of implementation of this Statement, as it relates to internally generated software. See Note 1j for the State's intangible asset accounting and reporting policies.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Due to the implementation of this Statement, the beginning net assets for business-type activities and the Medical University Hospital Authority, a major enterprise fund, decreased by $8.750 million.

b. Change in Estimate: Useful Lives of Assets

The estimated useful lives used to calculate depreciation for assets reported within the primary government were reviewed for reasonableness. Based on the review, the depreciable lives of certain assets were modified do to new information. These changes are being reported on a prospective basis; therefore, no restatement occurred as a result of the change in estimate.

c. Change in Reporting Entity: Jobs Economic Development Authority

In prior fiscal years, the Jobs Economic Development Authority (JEDA) was reported as an Other Special Revenue Fund. JEDA has not received funding through State appropriations since fiscal year 2007-2008. Also, JEDA charges fees to external users for goods or services. Therefore, JEDA is now presented in the financial statements as an Other Enterprise Fund. As a result of this reclassification, the beginning net assets of governmental activities decreased by $930 thousand, and the beginning fund balance of special revenue funds decreased by $944 thousand. Also, the beginning net assets of business-type activities and enterprise funds increased by $930 thousand.

d. Correction of Error: Governmental Activities

Prior to fiscal year 2009-2010, the Department of Commerce was depreciating certain of its buildings acquired in fiscal year 2005-2006 over a 15-year useful life. Upon review of estimated useful lives, the Department of Commerce determined it should have been depreciating those buildings over a 35-year useful life. It has been determined that the initial useful life of 15 years was used in error despite evidence being present that the useful life should have been 35 years. The correction of the error resulted in an increase to the beginning net assets of governmental activities in the amount of $16.762 million.

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, 2010:

Nonmajor Governmental Funds:	
Accommodations and Local Option Sales Tax......... $	41,975
Medicaid Expansion..	23,252
Nonmajor Enterprise Funds:	
Patients' Compensation...	121,537
Tuition Prepayment Program...................................	8,320
Internal Service Funds:	
State Accident Fund..	74,066
Pension Administration..	45

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, 2010 was $364.859 million and the bank balance was $849.980 million. As of June 30, 2010, the reported amount of the primary government's deposits outside of the State Treasurer was $547.111 million and the bank balance was $549.299 million. Of the $455.425 million bank balance exposed to custodial credit risk, $84.091 million was uninsured and uncollateralized, $321.224 million was uninsured and collateralized with securities held by the pledging financial institution, and $50.110 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, 2010, the reported amount of the major discretely presented component units' deposits was $86.248 million and the bank balance was $86.517 million. Of the $33.868 million bank balance exposed to custodial credit risk, $222 thousand was uninsured and uncollateralized; and $33.646 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, 2010, as follows:

Primary Government Investment Type	Category A	Category B	Reported Amount
U.S. Agencies	$ 48,569	$ 13,499	$ 62,068
Limited Partnership	25,150	—	25,150
Money Market Mutual Funds	—	1,179	1,179
Repurchase agreements	—	19,050	19,050
Common Stock	100	—	100
Commercial paper	—	33,121	33,121
Totals	**$ 73,819**	**$ 66,849**	**$ 140,668**

The State's major discretely presented component units hold investments in U.S. Government Agencies and Money Market Mutual Funds that are exposed to custodial credit risk. At June 30, investments with a reported value of $13.083 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, 2010 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	CCC below	A-1	Not Rated
Corporate bonds	$ 120,962	$ 459,973	$ 1,228,517	$ 751,660	$ 59	$ —	$ —	$ —	$ 90,540
Municipal bonds	50,802	46,568	10,090	—	—	—	—	—	60,357
Repurchase agreements	94,961	—	—	—	—	—	—	2,010,436	85,735
Asset backed securities	—	—	—	—	—	—	—	—	4,781
Commercial paper	—	49,986	159,305	—	—	—	—	964,157	69,679
Mutual funds	345	93	71	109	236	587	422	—	1,116,401
Money Market funds	23,828	—	—	—	—	—	—	—	81,236
Guaranteed investment contracts	—	—	—	—	—	—	—	—	529
Totals	**$ 290,898**	**$ 556,620**	**$ 1,397,983**	**$ 751,769**	**$ 295**	**$ 587**	**$ 422**	**$ 2,974,593**	**$ 1,509,258**

At fiscal year end, the State Ports Authority (June 30, 2010), the Public Service Authority (December 31, 2009), and the Connector 2000 Association, Inc. (December 31, 2009), 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	Not Rated
Repurchase agreements	$ 310,840	$ —
Money Market funds	—	6,588
Totals	**$ 310,840**	**$ 6,588**

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, 2010, 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	$ 607	4.63
U.S. Agencies	957,899	13.84
State & Local Government		
Municipal bonds	129,374	8.92
Mortgage Backed	985,149	20.98
Corporate		
Corporate bonds	1,778,883	3.61
Asset backed securities	4,661	17.97
Short Term Investments		
Repurchase agreements	1,331,525	0.00
Commercial paper	425,573	0.15
Total Invested Assets	**$ 5,613,671**	

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, 2010, 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	$ 383,489	$ 133,890	$ 247,621	$ 1,146	$ 832	$ —
U.S. Agencies	196,479	139,916	28,253	5,448	22,862	—
Collateralized mortgage obligations	30	—	—	—	30	—
Corporate bonds	872,826	678,840	174,144	1,861	17,981	—
Municipal bonds	38,443	12,000	25,689	143	611	—
Equity securities	29,505	1,820	—	—	—	27,685
Repurchase agreements	859,606	859,606	—	—	—	—
Asset backed securities	764,902	764,781	—	—	—	121
Commercial paper	52,773	52,716	—	—	—	57
Mutual funds	1,118,263	474	1,590	39	27	1,116,133
Guaranteed investment contracts	529	—	—	—	—	529
Money Market funds	105,064	104,432	—	—	—	632
Common Stock	39,533	54	—	—	100	39,379
Investment in limited partnerships	25,150	—	—	—	—	25,150
Investment in endowment	192	—	—	—	—	192
Totals	**$ 4,486,784**	**$ 2,748,529**	**$ 477,297**	**$ 8,637**	**$ 42,443**	**$ 1,209,878**

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2010, these major discretely presented component units had the following fixed income 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	$ 40,705	$ —	$ 40,705	$ —	$ —
U.S. Agencies	881,067	317,158	559,516	—	4,393
Repurchase agreements	310,840	310,840	—	—	—
Money Market funds	6,588	6,588	—	—	—
Totals	**$ 1,239,200**	**$ 634,586**	**$ 600,221**	**$ —**	**$ 4,393**

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, 2010, the State Treasurer had approximately 28% 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, 2010. At June 30, 2010, 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, 2010, 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, 2010, 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, 2010, 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, 2010:

	Amount
Securities lent for cash collateral:	
U.S. Treasuries	$ 360,647
Corporate bonds	60,305
Total for cash collateral	**$ 420,952**
Cash collateral invested:	
Repurchase agreements	$ 199,620
Asset backed securities	69,038
Floating Rate Notes	115,436
Total collateral invested	**$ 384,094**

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) up to $250 thousand 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 FDIC coverage on other deposits of $250 thousand. Wells Fargo services our public fund accounts and participated in the TAG program through December 31, 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, 2010, the carrying amount of the Systems' deposits was $26.099 million and the bank balance was $60.459 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 Retirement Systems may be invested and re-invested 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. While the Systems' have no formal interest rate risk policy, 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 versus the benchmark 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 reduces the value of the security. The Systems invests in these securities to diversify the fixed income portfolio and minimize risk. Disclosures for interest rate risk at June 30, 2010, are noted below (dollar amounts expressed in thousands):

Investment Type	Fair Value	Effective Duration
Short Term Investments		
Commingled Funds U.S. Debt	$ 121,765	-
Mutual Funds	2,744,890	0.08
Repurchase Agreements	913,285	0.08
U.S. Treasury Bills	1,249	0.25
Fixed Income Allocation		
Domestic Fixed Income		
U.S. Government:		
U.S. Government Treasuries	1,200,539	4.89
U.S. Government Agencies	19,233	1.18
Mortgage Backed:		
Government National Mortgage Association	482,996	1.52
Federal National Mortgage Assocation	124,602	3.06
Federal Home Loan Mortgage Association	2,337	0.71
Collateralized Mortgage Obligations	16,496	1.11
Municipals	100,901	5.20
Corporate:		
Corporate Bonds	1,227,272	3.53
Convertible Bonds	19,483	8.28
Asset Backed Securities	286,491	0.23
Corporate Bonds-FDIC Guaranteed Bonds	33,826	2.38
Yankee Bonds	2,822	1.09
Private Placements	377,624	4.49
Global Fixed Income:		
International Asset Backed Securities	4,814	1.82
International Commingled Funds	2,277,291	Not Required
International Corporate Bonds	76,556	1.93
International Emerging Debt	454,439	Not Required
International Government Bonds	26,408	2.45
Equity Allocation		
Domestic Equity		
Common Stocks	1,568,199	Not Required
Real Estate Investment Trusts	48,363	Not Required
Convertible Preferred	3,410	56.09
Global Equity	293	Not Required
Alternatives		
Commingled Funds Balanced	1,310,665	Not Required
Credit Default Swaps	795	.01
Interest Rate Swaps	(436)	(288.54)
Futures Contracts	(78,533)	Not Required
Eurodollar Futures	107	74.73
Treasury Note Futures	553	571.04
Treasury Bond Futures	(1,595)	309.46
Total Return Swaps	(211,645)	Not Required
Opportunistic Credit	542,508	Not Required
Real Estate	7,310	Not Required
Hedge Funds	3,771,764	Not Required
Private Equity Limited Partnership	495,730	Not Required
Strategic Partnerships	4,637,380	Not Required
Total Invested Assets	**$ 22,610,187**	

Credit Risk of Debt Securities

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,C	Not Rated[2]
Short Term Investments											
Commingled Funds U.S. Debt	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 121,765
Mutual Funds	—	—	2,744,890	—	—	—	—	—	—	—	—
Repurchase Agreements	—	—	—	—	—	—	—	—	—	—	927,677
US Treasury Bills	1,249	—	—	—	—	—	—	—	—	—	—
Equity Investments											
Convertible Preferred	—	—	—	—	—	—	689	235	—	—	2,486
Fixed Income Allocation											
US Government Treasuries	1,200,539	—	—	—	—	—	—	—	—	—	—
US Government Agencies	—	19,233	—	—	—	—	—	—	—	—	—
Mortgage Backed:											
Government National Mortgage Association	—	482,996	—	—	—	—	—	—	—	—	—
Federal National Mortgage Association	—	124,602	—	—	—	—	—	—	—	—	—
Federal Home Loan Mortgage Association	—	2,337	—	—	—	—	—	—	—	—	—
Collateralized Mortgage Association	—	16,496	—	—	—	—	—	—	—	—	—
Municipals	—	—	34,560	34,013	32,328	—	—	—	—	—	—
Corporate:											
Corporate Bonds	—	—	136,095	123,780	349,508	314,300	105,011	176,775	47,368	3,131	281,505
Convertible Bonds	—	—	—	—	—	9,002	—	234	429	—	9,818
Asset Backed Securities	—	—	102,448	67,091	18,538	8,039	36,359	4,682	16,205	—	33,129
Corporate Bonds - FDIC Guaranteed	—	—	33,826	—	—	—	—	—	—	—	—
Yankee Bonds	—	—	—	—	—	1,555	1,267	—	—	—	—
Private Placements	—	—	45,793	31,988	103,467	36,871	19,117	91,548	15,535	478	32,827
Global Fixed Income:											
International Asset Backed	—	—	4,814	—	—	—	—	—	—	—	—
International Corporate Bonds	—	—	42,738	25,749	7,084	—	985	—	—	—	—
International Commingled Funds	—	—	—	—	—	—	—	—	—	—	2,277,291
International Government Bonds	—	—	23,141	—	—	3,267	—	—	—	—	—
International Emerging Debt	—	—	—	—	—	—	—	—	—	—	454,439
Alternatives											
Credit Default Swaps	—	—	—	—	—	—	—	—	—	—	795
Interest Rate Swaps	—	—	—	—	—	—	—	—	—	—	(436)
Total Return Swaps	—	—	—	—	—	—	—	—	—	—	3,191
Futures Contracts	—	—	—	—	—	—	—	—	—	—	(79,468)
Totals	**$ 1,201,788**	**$ 645,664**	**$ 3,168,305**	**$ 282,621**	**$ 510,925**	**$ 373,034**	**$ 163,428**	**$ 273,474**	**$ 79,537**	**$ 3,609**	**$ 4,065,019**

[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 –Investments

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 percent exposure to any single issuer." As of June 30, 2010 there is no single issuer exposure within the portfolio that comprises 5 percent or more of the overall portfolio. Therefore, there is no concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Systems participates in foreign markets to diversify assets, reduce risk and enhance returns. Exposure to foreign investments has, to date, been achieved synthetically using financial futures, forwards and swaps. Currency forwards are used to manage currency fluctuations and are permitted by investment policy. Policy, however, forbids speculating in forwards and other derivatives.

The table below presents the Systems' exposure to foreign currency risk in U.S. dollars as of June 30, 2010 (expressed in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Futures Contracts	Private Equity	Opportunistic Credit	Equity	Fixed Income
Australian Dollar	$ (130)	$ 14,606	$ (2,066)	$ —	$ —	$ —	$ 23,140
Brazil Real	—	295	—	—	—	—	521
British Pound Sterling	(3,152)	91,933	(4,956)	—	—	—	—
Canadian Dollar	(1,406)	15,542	(1,536)	—	—	293	36,931
Chinese Yuan Renminbi	—	29,050	—	—	—	—	—
Euro Currency	11,075	(21,541)	(7,486)	59,251	180,575	—	18,690
Hong Kong Dollar	415	14,679	(456)	—	—	—	—
Japanese Yen	(11,042)	115,479	(2,237)	—	—	—	—
Totals	**$ (4,240)**	**$ 260,043**	**$ (18,737)**	**$ 59,251**	**$ 180,575**	**$ 293**	**$ 79,282**

Derivatives

Derivatives are financial instruments whose value is derived from underlying assets or data. All of the Systems' derivatives are considered investments. Derivatives generally take the form of contracts in which two parties agree to make payments at a later date based on the value of specific assets or indices. Through certain collective trust funds, the Systems may invest in various derivative financial instruments such as futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only strips; and CMOs to enhance the performance and reduce volatility.

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 least expensive way to gain exposure to an 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. Gains and losses are included in the net appreciation/(depreciation) in the fair value of investments total of the Statement of Changes in Plan Net Assets. To comply with the requirements of multiple exchanges, securities in the amount of $182.442 million of various GNMA's were held in trust by the clearing brokers on June 30, 2010 to satisfy the required margin amount to establish the Systems' futures exposure.

The table below presents the classification of the Systems' derivatives at June 30, 2010 (expressed in thousands):

	Changes in Fair Value		*Fair Value at 6/30/2010*	
	Classification	*Gain/(Loss)*	*Classification*	*Amount*
Investment derivatives:				
Future Contracts	*Net appreciation/(depreciation)*	*$ (78,529)*	*Alternative Investments*	*$ (78,529)*
Forward Contracts	*Net appreciation/(depreciation)*	*9,438*	*Cash & Cash Equivalents*	*8,761*
Swaps	*Net appreciation/(depreciation)*	*(517,563)*	*Alternative Investments*	*(211,645)*

As of June 30, 2010, the Systems had the following exposure via futures contracts (dollar amounts expressed in thousands):

Futures Contracts	Expiration	Long/Short	Quantity	Notional Value*
MTF CAC40 10EU	July 2010	Long	807	$ 34,024
EURX DAX INDEX	September 2010	Long	161	29,392
EURX ER STX 50	September 2010	Long	2,935	92,322
NEW FTSE 100	September 2010	Long	1,244	90,833
HKFE - HSI	July 2010	Long	113	14,568
IBEX 35 PLUS	July 2010	Long	105	11,836
IDEM S&P/MIB	September 2010	Long	94	11,138
TSE TOPIX	September 2010	Long	1,115	105,653
ME S&P CAN 60	September 2010	Long	397	49,255
SFE SPI 200	September 2010	Long	396	35,639
Total International Equity				**474,660**
EMINI S&P 500	September 2010	Long	16,248	834,010
Total Large Cap Equity				**834,010**
IMM MINI RUSL	September 2010	Long	1,763	107,155
IMM EMINI MDCP	September 2010	Long	4,330	307,430
Total Small/Mid Cap Equity				**414,585**
Totals				**$ 1,723,255**

***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. Currency forwards gains and losses are included in the net appreciation/(depreciation) in the fair value of investments total of the Statement of Changes in Plan Net Assets.

As of June 30, 2010, the Systems had the following forward exposures, listed by counterparty (dollar amounts expressed in thousands):

Broker	Notional Value	Base Gain/(Loss)	Base Exposure
J.P. Morgan Securities................	$ 52,557	$ 1,459	16.67%
BNY Mellon NA..........................	52,555	1,461	16.67%
HSBC Securities........................	52,552	1,464	16.67%
Bank of America........................	43,792	1,476	13.89%
Royal Bank of Canada................	36,468	940	11.56%
Barclays.....................................	33,404	750	10.59%
State Street................................	24,856	500	7.88%
Societe Generale.......................	19,150	711	6.07%
Totals.....................................	**$ 315,334**	**$ 8,761**	**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 primarily 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 market index. Similarly, exposures can be reduced by receiving a reference rate in exchange for the economic risks and returns of an index.

Counterparty risk, or default risk, is the risk that a 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. The Systems currently does not participate in a master netting agreement. Unrealized gains and losses are not netted across instrument types. At June 30, 2010, the Systems had no credit risk to counterparties because unrealized swap losses exceeded the collateral posted less transfers due on June 30, 2010. The Systems, however, does not anticipate any default in the contractual positions.

The table below reflects the counterparty credit ratings at June 30, 2010, for currency forwards and swap agreements (expressed in thousands):

Quality Rating	Forwards	Swaps	Total
AAA	$ 940	$ -	$ 940
AA3	2,670	(89,715)	(87,045)
AA2	2,925	(46,432)	(43,507)
A2	1,476	1,591	3,067
A1	750	(77,089)	(76,339)
Total subject to credit risk	$ 8,761	$ (211,645)	$ (202,884)

Swap market value (or notional value) is calculated based on the actual index value of the benchmark index multiplied by the number of index units. The index value is the level or price of the benchmark index. The index units were determined at commencement of the swap and are detailed in the term sheet. At June 30, 2010, 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
BNP Paribas	MSCI EM Proxy	3 month LIBOR plus 20 bps	MSCI EM	9/17/2010	$ 202,482	$ 2,482
BNP Paribas	EAFE + Canada Proxy	3 month LIBOR minus 30 bps	MSCI EAFE + Canada	9/7/2010	130,161	(19,839)
Deutsche Bank	MSCI EM Proxy	3 month LIBOR plus 38 bps	MSCI EM	12/31/2010	219,560	(14,427)
Deutsche Bank	EAFE + Canada Proxy	3 month LIBOR minus 42 bps	MSCI EAFE + Canada	7/8/2010	135,537	(23,009)
Deutsche Bank	EAFE + Canada Proxy	3 month LIBOR minus 42 bps	MSCI EAFE + Canada	7/15/2010	204,908	(37,892)
Merrill Lynch	DJ-UBS Commodities TR	3 month T Bill plus 13 bps	DJ-UBS Commodities TR	8/31/2010	259,454	(15,546)
Merrill Lynch	DJ-UBS Commodities TR	3 month T Bill plus 13 bps	DJ-UBS Commodities TR	2/28/2011	259,454	(15,546)
Credit Suisse	EAFE + Canada Proxy	3 month LIBOR minus 35 bps	MSCI EAFE + Canada	2/28/2011	275,792	(24,208)
J.P. Morgan	MSCI EM Proxy	3 month LIBOR plus 27 bps	MSCI EM	3/22/2011	139,195	(10,805)
BNP Paribas	MSCI EM Proxy	3 month LIBOR plus 28 bps	MSCI EM	4/7/2011	133,097	(16,903)
Barclays	MSCI EM Proxy	3 month LIBOR plus 37 bps	MSCI EM	4/29/2011	318,197	(33,270)
Credit Suisse	EAFE + Canada Proxy	3 month LIBOR minus 25 bps	MSCI EAFE + Canada	4/29/2011	291,226	(40,928)
UBS	Russell 2000 Proxy	3 month LIBOR minus 65 bps	Russell 2000	4/29/2011	132,141	(22,857)
Barclays	S&P 500 Proxy	3 month LIBOR minus 15 bps	S&P500	5/26/2011	193,413	(6,587)
	Total Swap Exposures				**$ 2,894,617**	**$ (279,335)**

Alternative Investments

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 and strategic partnerships. As of June 30, 2010, the Systems had committed to fund various private equity and opportunistic credit limited partnerships for an amount of $2.043 billion (US dollars) and €256 million (Euros). The total unfunded commitment as of June 30, 2010, was $1.175 billion (US dollars) and €92 million (Euros). In addition, the Systems had committed to fund various strategic partnerships for an amount of $4.650 billion (US dollars) of which the unfunded commitment at June 30, 2010 was $1.140 billion (US dollars). Subsequent to June 30, 2010, the Systems committed to fund an additional $199 million (US dollars) resulting in a remaining commitment as of September 24, 2010 of $2.208 billion (US dollars) and €85 million (Euros).

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, 2010, included US Government securities, US Government agencies, corporate 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, 2010, the fair value of securities on loan was $416.568 million. The fair value of the invested cash collateral was $324.593 million. Securities lending obligations at June 30, 2010, were $429.065 million with the unrealized loss in invested cash collateral of $104.472 million reflected under "Other Liabilities" on the Statement of Plan Net Assets and recorded in the Statement of Changes in Plan Net Assets under "Net appreciation (depreciation) in fair value of investments." The Commission evaluates 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 one day. The average weighted maturity of investments made with cash collateral was 22 days. At June 30, 2010, 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, 2010:

	SCRS	PORS	GARS	JSRS	NGPS	TOTALS
Securities lent for cash collateral:						
U.S. Government securities..	$ 184,577	$ 26,398	$ 290	$ 1,029	$ 128	$ 212,422
U.S. Government agencies..	14,950	2,138	24	83	11	17,206
Corporate bonds..	29,113	4,164	46	162	20	33,505
Common Stock..	133,322	19,068	210	743	92	153,435
Total securities lent for cash collateral................	**$ 361,962**	**$ 51,768**	**$ 570**	**$ 2,017**	**$ 251**	**$ 416,568**
Securities lent for non-cash collateral:						
Corporate bonds..	$ 89	$ 13	$ -	$ -	$ -	$ 102
Common Stock..	7,337	1,049	12	41	5	8,444
	$ 7,426	**$ 1,062**	**$ 12**	**$ 41**	**$ 5**	**$ 8,546**
Cash collateral invested as follows:						
Repurchase agreements...	$ 12,505	$ 1,788	$ 20	$ 70	$ 8	$ 14,391
Floating Rate Notes..	269,539	38,550	424	1,502	187	310,202
Total for cash collateral invested..........................	**$ 282,044**	**$ 40,338**	**$ 444**	**$ 1,572**	**$ 195**	**$ 324,593**
Securities received as collateral:						
U.S. Government securities..	$ 7,594	$ 1,086	$ 12	$ 43	$ 5	$ 8,740
	$ 7,594	**$ 1,086**	**$ 12**	**$ 43**	**$ 5**	**$ 8,740**

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 $250 thousand or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. As of June 30, 2010, the reported amount of the Trusts' deposits was $7 thousand.

Investments

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.

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.

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, 2010, 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	$ 4,996	$ 8,581	$ 94,904	$ 138,972	$ —	$ —
Municipal bonds	—	2,335	—	—	—	—
Repurchase agreements	—	—	—	—	102,575	—
Commerical Paper	—	1,147	12,356	2,193	—	4,998
Sovereign Debt	—	—	2,158	—	—	—
Totals	**$ 4,996**	**$ 12,063**	**$ 109,418**	**$ 141,165**	**$ 102,575**	**$ 4,998**

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, 2010, 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	$ 89,181	14.40
State & Local Government		
Municipal Bonds	2,335	3.51
Corporate		
Corporate bonds	247,453	5.51
Asset backed securities	27,270	27.27
Sovereign Debt	2,158	8.74
Short Term Investments		
Commericial Paper	20,694	5.02
Repurchase agreements	102,575	0.00
Total Invested Assets	**$ 491,666**	

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, 2010:

		Amount
Securities lent for cash collateral:		
U.S. Treasuries	$	372,474
Corporate bonds		70,417
Total for cash collateral	**$**	**442,891**
Cash collateral invested:		
Asset backed securities	$	72,833
Repurchase agreements		209,326
Floating Rate Notes		121,832
Total collateral invested	**$**	**403,991**

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, 2010, 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	$ 222,931	$ —	$ —	$ —	$ —	$ 222,931
Sales and other taxes receivable	56,423	288	—	25,214	—	81,925
Patient accounts receivable	6,349	43,254	—	—	—	49,603
Other receivables	—	22,459	9,982	2	98	32,541
Total allowances for uncollectibles	**$ 285,703**	**$ 66,001**	**$ 9,982**	**$ 25,216**	**$ 98**	**$ 387,000**

	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	$ 1,451	$ —	$ —	$ 55	$ 1,506
Student accounts receivable	16,651	—	—	—	16,651
Patient accounts receivable	—	—	59,300	88,398	147,698
Loans and notes receivable	—	—	—	21	21
Loans and notes receivable—restricted	517	—	—	246	763
Assessments receivable	—	8,052	—	—	8,052
Other receivables	494	8,285	—	—	8,779
Total allowances for uncollectibles	**$ 19,113**	**$ 16,337**	**$ 59,300**	**$ 88,720**	**$ 183,470**

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, 2010, were as follows:

Net Long-term Receivables	Governmental Activities						
	Governmental Funds						
	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts receivable	$ 173	$ 17,280	$ 2,716	$ —	$ —	$ 576	$ 20,745
Income taxes receivable	32,103	—	—	—	—	—	32,103
Sales and other taxes receivable	463	—	—	—	3	—	466
Patient accounts receivable	2,553	4,309	—	—	—	—	6,862
Loans and notes receivable	—	1,158	497,338	4,275	32,939	—	535,710
Accounts receivable—restricted	—	—	353,996	—	—	—	353,996
Total long-term receivables, net	**$ 35,292**	**$ 22,747**	**$ 854,050**	**$ 4,275**	**$ 32,942**	**$ 576**	**$ 949,882**

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, 2010, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes	$ 32,569	$ 24,424	$ 56,993
Federal grants	—	67,567	67,567
Contributions	346,226	88,495	434,721
Departmental services	42,152	3,052	45,204
Total deferred revenues	**$ 420,947**	**183,538**	**$ 604,485**
Internal service funds		159,567	
Total governmental activities		**$ 343,105**	

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, 2010 (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	$ 90,576	$ 121,171	$ 175,847
Capital projects	—	247,613	—
Student loan programs	—	516	—
Donor/sponsor specified	—	59,780	—
Second Injury Fund claims	—	54,463	—
Other	—	47,561	174,006
Total cash and cash equivalents	**$ 90,576**	**$ 531,104**	**$ 349,853**
Investments			
Debt service	$ —	$ 3,603	$ 58,160
Donor/sponsor specified	—	7,690	—
Endowments	—	5	—
Other	—	9,496	33,088
Total investments	**$ —**	**$ 20,794**	**$ 91,248**
Loans receivable			
Debt service	$ —	$ 19,803	$ —
Student loan programs	—	1,126	—
Total loans receivable	**$ —**	**$ 20,929**	**$ —**
Other			
Debt service	$ 78,009	$ 5,902	$ —
Donor/sponsor specified	—	410	—
Endowments	—	311	—
Second Injury Fund claims	—	292	—
Other	—	252	—
Total other	**$ 78,009**	**$ 7,167**	**$ —**

Asset/Restricted For	Governmental Activities	Business-type Activities	Major Component Units
Noncurrent:			
Cash and cash equivalents			
Debt service	$ 393,698	$ 170,323	$ 537
Capital projects	—	134,960	84,148
Student loan programs	—	7,221	—
Endowments	—	76,202	—
Other	21,983	4,513	15,188
Total cash and cash equivalents	**$ 415,681**	**$ 393,219**	**$ 99,873**
Investments			
Debt service	$ —	$ 213	$ 4,393
Capital projects	—	36,028	453,281
Student loan programs	—	860	—
Endowments	—	42,577	—
Other	—	—	106,612
Total investments	**$ —**	**$ 79,678**	**$ 564,286**
Receivables			
Debt service	$ 353,996	$ —	$ —
Total receivables	**$ 353,996**	**$ —**	**$ —**
Loans receivable			
Debt service	$ —	$ 842,918	$ —
Student loan programs	—	56,445	—
Other	—	6,890	—
Total loans receivable	**$ —**	**$ 906,253**	**$ —**
Other			
Debt service	$ 3,549	$ 306	$ —
Donor/sponsor specified	—	185	—
Endowments	—	49,481	—
Total other	**$ 3,549**	**$ 49,972**	**$ —**

NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2010, for the primary government was as follows:

	Restated * Beginning Balances July 1, 2009	Increases	Decreases	Ending Balances June 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 1,739,769	$ 31,837	$ (1,091)	$ 1,770,515
Construction in progress	3,141,388	459,744	(444,588)	3,156,544
Works of art and historical treasures	3,962	—	—	3,962
Total capital assets not being depreciated	4,885,119	491,581	(445,679)	4,931,021
Capital assets being depreciated:				
Land improvements	63,817	21	(705)	63,133
Infrastructure (road and bridge network)	10,188,100	395,580	—	10,583,680
Buildings and improvements	1,665,365	28,301	(1,084)	1,692,582
Vehicles	631,733	13,671	(21,203)	624,201
Machinery and equipment	466,323	35,456	(25,658)	476,121
Works of art and historical treasures	1,500	—	—	1,500
Intangibles	52,465	67,568	(226)	119,807
Total capital assets being depreciated, at historical cost	13,069,303	540,597	(48,876)	13,561,024
Less accumulated depreciation for:				
Land improvements	(43,406)	(1,594)	488	(44,512)
Infrastructure (road and bridge network)	(2,452,043)	(149,740)	—	(2,601,783)
Buildings and improvements	(669,763)	(54,842)	590	(724,015)
Vehicles	(427,567)	(92,409)	19,491	(500,485)
Machinery and equipment	(327,466)	(45,223)	20,167	(352,522)
Works of art and historical treasures	(62)	(60)	—	(122)
Intangibles	(50,990)	(5,604)	217	(56,377)
Total accumulated depreciation	(3,971,297)	(349,472)	40,953	(4,279,816)
Total capital assets being depreciated, net	9,098,006	191,125	(7,923)	9,281,208
Capital assets for governmental activities, net	**$ 13,983,125**	**$ 682,706**	**$ (453,602)**	**$ 14,212,229**

* The beginning balance for Construction in progress has been restated to comply with the implementation of GASB 51, *Accounting and Financial Reporting for Intangible Assets* . Estimated useful lives for certain buildings were revised due to a correction of error. See Note 2, Accounting and Reporting Changes.

	Beginning Balances July 1, 2009	Increases	Decreases	Ending Balances June 30, 2010
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 253,887	$ 17,225	$ (24)	$ 271,088
Construction in progress	406,196	239,185	(407,035)	238,346
Works of art and historical treasures	19,501	426	—	19,927
Total capital assets not being depreciated	679,584	256,836	(407,059)	529,361
Capital assets being depreciated:				
Land improvements	191,271	11,677	(19,168)	183,780
Buildings and improvements	4,655,235	464,408	(2,154)	5,117,489
Vehicles	46,778	2,465	(551)	48,692
Machinery and equipment	889,514	90,104	(23,056)	956,562
Works of art and historical treasures	14,717	11,624	(640)	25,701
Intangibles	19,631	9,377	(4,092)	24,916
Total capital assets being depreciated, at historical cost	5,817,146	589,655	(49,661)	6,357,140
Less accumulated depreciation for:				
Land improvements	(64,085)	(7,528)	2,300	(69,313)
Buildings and improvements	(1,599,497)	(153,297)	749	(1,752,045)
Vehicles	(30,797)	(2,656)	540	(32,913)
Machinery and equipment	(548,233)	(81,409)	20,084	(609,558)
Works of art and historical treasures	(6,709)	(651)	371	(6,989)
Intangibles	(15,301)	(3,257)	4,017	(14,541)
Total accumulated depreciation	(2,264,622)	(248,798)	28,061	(2,485,359)
Total capital assets being depreciated, net	3,552,524	340,857	(21,600)	3,871,781
Capital assets for business-type activities, net	**$ 4,232,108**	**$ 597,693**	**$ (428,659)**	**$ 4,401,142**

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 $ 2.110 million. Depreciation expense on the building for fiscal year 2010 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, 2009	Increases	Decreases	Ending Balances December 31, 2009
Public Service Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 110,085	$ 842	$ —	$ 110,927
Construction in progress	488,585	500,562	(137,705)	851,442
Total capital assets not being depreciated	598,670	501,404	(137,705)	962,369
Capital assets being depreciated:				
Buildings and improvements (utility plant)	6,195,626	110,016	(13,070)	6,292,572
Vehicles	39,241	5,249	(1,009)	43,481
Machinery and equipment	19,557	3,002	(188)	22,371
Intangibles	50,168	10,509	—	60,677
Total capital assets being depreciated, at historical cost	6,304,592	128,776	(14,267)	6,419,101
Less accumulated depreciation for:				
Buildings and improvements (utility plant)	(2,325,547)	(166,958)	7,361	(2,485,144)
Vehicles	(20,766)	(1,901)	909	(21,758)
Machinery and equipment	(9,468)	(2,837)	136	(12,169)
Intangibles	(41,951)	(3,305)	—	(45,256)
Total accumulated depreciation	(2,397,732)	(175,001)	8,406	(2,564,327)
Total capital assets being depreciated, net	3,906,860	(46,225)	(5,861)	3,854,774
Public Service Authority, net	**$ 4,505,530**	**$ 455,179**	**$ (143,566)**	**$ 4,817,143**

	Beginning Balances January 1, 2009	Increases	Decreases	Ending Balances December 31, 2009
Connector 2000 Association:				
Capital assets being depreciated:				
Infrastructure (toll road)	$ 192,487	$ —	$ —	$ 192,487
Machinery and equipment	749	86	(16)	819
Total capital assets being depreciated, at historical cost	193,236	86	(16)	193,306
Less accumulated depreciation for:				
Infrastructure (toll road)	(40,426)	(3,571)	—	(43,997)
Machinery and equipment	(550)	(69)	16	(603)
Total accumulated depreciation	(40,976)	(3,640)	16	(44,600)
Total capital assets being depreciated, net	152,260	(3,554)	—	148,706
Connector 2000 Association, net	**$ 152,260**	**$ (3,554)**	**$ —**	**$ 148,706**

	Beginning Balances July 1, 2009	Increases	Decreases	Ending Balances June 30, 2010
State Ports Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 198,635	$ —	$ (62)	$ 198,573
Construction in progress	69,268	57,616	(3,872)	123,012
Intangibles	2,190	—	—	2,190
Total capital assets not being depreciated	270,093	57,616	(3,934)	323,775
Capital assets being depreciated:				
Land improvements	214,769	1,934	(601)	216,102
Buildings and improvements	319,526	246	(111)	319,661
Machinery and equipment	147,194	1,301	(631)	147,864
Intangibles	876	—	—	876
Total capital assets being depreciated, at historical cost	682,365	3,481	(1,343)	684,503
Less accumulated depreciation for:				
Land improvements	(126,354)	(8,317)	397	(134,274)
Buildings and improvements	(172,928)	(11,028)	82	(183,874)
Machinery and equipment	(83,410)	(10,187)	620	(92,977)
Intangibles	(473)	(35)	—	(508)
Total accumulated depreciation	(383,165)	(29,567)	1,099	(411,633)
Total capital assets being depreciated, net	299,200	(26,086)	(244)	272,870
State Ports Authority, net	**$ 569,293**	**$ 31,530**	**$ (4,178)**	**$ 596,645**

	Beginning Balances July 1, 2009	Increases	Decreases	Ending Balances June 30, 2010
Lottery Commission:				
Capital assets being depreciated:				
Buildings and improvements	$ 1,316	$ —	$ —	$ 1,316
Vehicles	48	—	—	48
Machinery and equipment	11,326	161	(9,099)	2,388
Total capital assets being depreciated, at historical cost	12,690	161	(9,099)	3,752
Less accumulated depreciation for:				
Buildings and improvements	(892)	(135)	—	(1,027)
Vehicles	(48)	—	—	(48)
Machinery and equipment	(10,875)	(221)	9,017	(2,079)
Total accumulated depreciation	(11,815)	(356)	9,017	(3,154)
Total capital assets being depreciated, net	875	(195)	(82)	598
Lottery Commission, net	**$ 875**	**$ (195)**	**$ (82)**	**$ 598**

During the fiscal year ended June 30, 2010, 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	$ 32,579	$ 8,419	$ 40,998
Education	73,138	2,384	75,522
Health and environment	12,645	1,391	14,036
Social services	639	2,691	3,330
Administration of justice	28,771	1,380	30,151
Resources and economic development	18,189	384	18,573
Transportation	166,850	12	166,862
Total depreciation expense, governmental activities	$ 332,811	$ 16,661	$ 349,472

	Business-type Activities
Higher Education	$ 188,621
Housing Authority	120
Medical University Hospital Authority	52,601
Education Assistance Authority	97
Other	6,812
Total depreciation expense, business-type activities	**$ 248,251**

Included in the $188.621 million for higher education and the $6.812 million for other business-type activities is depreciation expense of $3.164 million and $1.062 million, respectively, that is reported in nonoperating revenues (expenses) in the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds. Also, total accumulated depreciation increases for business-type activities include $547 thousand in capital asset accumulated depreciation transferred in from governmental activities.

	Major Component Units
Public Service Authority	$ 175,001
Connector 2000 Association, Inc.	3,640
State Ports Authority	29,567
Lottery Commission	356

At June 30, 2010, the primary government had outstanding construction commitments totaling $1.150 billion for capital projects in progress. In addition, outstanding construction commitments at that date totaled $101.114 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 $12.682 million at June 30, 2010, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: $439.550 million for the Public Service Authority at December 31, 2009, and $19.218 million for the State Ports Authority at June 30, 2010.

The total interest expense incurred by the State's enterprise funds during the current fiscal year was $144.100 million, of which $6.658 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 $5.366 million during its fiscal year ended June 30, 2010, of which $2.905 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, 2010, is as follows (dollars expressed in thousands):

	SCRS	PORS	GARS	JSRS	NGPS
State and school					
Number of employers	112	50	1	1	1
Annual covered payroll	$ 5,509,798	$ 358,512	$ 3,226	$ 16,573	N/A [a]
Average number of contributing members	142,444	10,514	170	144	N/A [b]
Other participating employers					
Number of employers	578	311	—	—	—
Annual covered payroll	$ 1,906,975	$ 667,150	$ —	$ —	$ —
Average number of contributing members	56,648	17,269	—	—	—

[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 12,447.

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, 2010, 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, 2010, were as follows:

Plan	Rate
SCRS	9.39%
PORS	11.53%
GARS	80.53%
JSRS	45.09%

The State appropriated $4.052 million to fund the NGPS actuarially determined employer contribution for the fiscal year ended June 30, 2010.

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, 2010, were $340 thousand for SCRS and $12 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..............................	$2,598	$8,414	$3,800
Employer contributions made................	$2,598	$8,414	$4,052
Actuarial valuation date..........................	July 1, 2009	July 1, 2009	July 1, 2009
Actuarial cost method............................	Entry age	Entry age	Entry age
Amortization method..............................	Level dollar, closed	Level percent, open	Level dollar, open
Remaining amortization period..............	16 years	16 years	23 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, 2010 (expressed in thousands):

	NGPS
Actuarially required contribution (ARC)......	$ 3,946
Interest on the NPO..................................	768
Adjustment to the ARC.............................	(914)
Annual pension cost................................	3,800
Contributions made..................................	(4,052)
Decrease in NPO......................................	(252)
NPO beginning of year.............................	9,234
Adjustment to beginning NPO..................	366
NPO end of year......................................	**$ 9,348**

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, 2010		June 30, 2009		June 30, 2008	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS–State:						
Primary government.......	$ 255,653	100.0%	$ 260,536	100.0%	$ 246,172	100.0%
Component units............	13,986	100.0%	14,220	100.0%	13,606	100.0%
PORS–State:						
Primary government.......	42,268	100.0%	44,566	100.0%	41,962	100.0%
Component units............	70	100.0%	74	100.0%	71	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	2008	$ 2,440	100.0%	$ —
	2009	2,495	100.0%	—
	2010	2,598	100.0%	—
JSRS	2008	7,613	100.0%	—
	2009	8,414	100.0%	—
	2010	8,414	100.0%	—
NGPS	2008	3,824	103.2%	9,673
	2009	3,979	101.8%	9,600
	2010	3,800	106.6%	9,348

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	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%
	2009	25,183,062	37,150,315	11,967,253	67.8%	7,761,808	154.2%
PORS	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%
	2009	3,482,220	4,564,111	1,081,891	76.3%	1,084,154	99.8%

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	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%
	2009	45,891	68,491	22,600	67.0%	3,854	586.4%
JSRS	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%
	2009	141,797	214,363	72,566	66.1%	18,661	388.9%

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	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
	2009	18,600	53,421	34,821	34.8%	N/A	N/A

Included among the measurements of long-term funding progress for defined benefit pension plans are whether a plan's funding ratio is increasing, 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, 2010, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
Receivables:						
Contributions	$ 153,539	$ 18,264	$ 41	$ 757	$ 3	$ 172,604
Employer long-term	340	12	—	—	—	352
Accrued interest	55,179	7,701	93	309	39	63,321
Unsettled investment sales	920,106	131,595	1,448	5,129	637	1,058,915
Other investment receivables	2,441	338	4	13	2	2,798
Total receivables	**$ 1,131,605**	**$ 157,910**	**$ 1,586**	**$ 6,208**	**$ 681**	**$ 1,297,990**
Due from other funds	**$ 7,697**	**$ 367**	**$ 1**	**$ 67**	**$ —**	**$ 8,132**
Investments and invested securities lending collateral:						
Short-term securities	$ 495	$ 71	$ 1	$ 3	$ —	$ 570
Debt-domestic	3,384,091	483,997	5,327	18,864	2,343	3,894,622
Debt-international	2,467,288	352,874	3,883	13,754	1,709	2,839,508
Equity-domestic	1,407,616	201,319	2,216	7,846	975	1,619,972
Equity-international	255	36	—	1	1	293
Alternatives	9,101,529	1,301,710	14,326	50,736	6,302	10,474,603
Invested securities lending collateral	282,044	40,338	444	1,572	195	324,593
Total investments	**$ 16,643,318**	**$ 2,380,345**	**$ 26,197**	**$ 92,776**	**$ 11,525**	**$ 19,154,161**

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 5,641, members were participating in the TERI program at June 30, 2010. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2010, was as follows:

Beginning balance of TERI trust accounts	$	430,805
Additions		156,800
TERI distributions at termination		(265,255)
Ending balance of TERI trust accounts	**$**	**322,350**

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	$	949,398
Employee contributions		61,711
Employer contributions		47,470

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 2009-2010. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The State paid $259.922 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2010. The net estimated OPEB obligation at June 30, 2010 was $458.760 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, 2010.

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 ($2.375 million), accumulated EIP reserves ($30.959 million), the Department of Revenue's increased enforcement collections ($3.246 million), and income generated from investments. The Long Term Disability Insurance Trust Fund (LTDITF) is primarily funded through investment income and employer contributions.

c. Trend Information

The State's required contributions for the OPEB plans in dollars (expressed in thousands) and the percentages of those amounts contributed for the three latest available years were as follows:

	Fiscal Year Ended					
	June 30, 2010		June 30, 2009		June 30, 2008	
	Actuarially Required	% Contributed	Actuarially Required	% Contributed	Actuarially Required	% Contributed
SCRHI	$ 785,250	37.76%	$ 727,079	50.87%	$ 692,714	50.00%
LTDI	9,590	71.43%	9,469	73.57%	10,038	332.33%

d. 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%
SCRHITF	June 30, 2009	$ 439,903	$ 9,643,577	$ 9,203,674	5%	$ 7,736,161	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%
LTDITF	June 30, 2009	$ 29,440	$ 23,610	$ (5,830)	125%	$ 8,418,750	< 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.

e. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2010, for the OPEB plans administered by the Employee Insurance Program were as follows:

	SCRHI	LTDI	Totals
Receivables:			
Accounts	$ —	$ 42	$ 42
Accrued interest	4,901	333	5,234
Total receivables	**$ 4,901**	**$ 375**	**$ 5,276**
Due from other funds	**$ 41,682**	**$ —**	**$ 41,682**
Investments and invested securities lending collateral:			
Debt-domestic	$ 345,825	$ 22,572	$ 368,397
Financial and Other	17,218	3,476	20,694
Invested securities lending collateral	19,898	—	19,898
Total investments	**$ 382,941**	**$ 26,048**	**$ 408,989**

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 $230.011 million at June 30, 2010, 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
2009	$ 215,902	$ 44,710	$ (33,778)	$ 226,834
2010	226,834	51,466	(48,289)	230,011

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 $156.969 million at June 30, 2010, 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, 2010, $3.060 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
2009	$ 184,593	$ 1,507,032	$ (1,505,788)	$ 185,837
2010	185,837	1,615,021	(1,643,889)	156,969

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, 2010, the Fund's policy claims liability was $228.145 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
2009	$ 188,810	$ 76,879	$ (50,939)	$ 214,750
2010	214,750	63,634	(50,239)	228,145

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 ASC 944, *Financial Services - Insurance*, 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 $138.654 million for the PCF at June 30, 2010, and $157.664 million, for the JUA at December 31, 2009, 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.

Changes in the balances of claims liabilities for the PCF 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
2009	$ 182,368	$ (8,279)	$ (18,515)	$ 155,574
2010	155,574	704	(17,624)	138,654

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

Fiscal Year Ended Dec 31	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2008	$ 196,995	$ 19,713	$ (36,052)	$ 180,656
2009	180,656	10,951	(33,943)	157,664

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, 2010, was $35.710 million.

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
2009	$ 28,148	$ 14,838	$ (10,013)	$ 32,973
2010	32,973	10,070	(7,333)	35,710

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 2009.

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, 2009, the policy claims liabilities were $1.753 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
2008	$ 2,140	$ 3,550	$ (3,570)	$ 2,120
2009	2,120	2,027	(2,394)	1,753

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, 2010 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
2011	$ 181	$ 12,144	$ 12,325
2012	169	10,969	11,138
2013	21	10,271	10,292
2014	—	9,843	9,843
2015	—	9,651	9,651
2016-2020	—	47,694	47,694
2021-2025	—	32,560	32,560
2026-2030	—	28,317	28,317
2031-2035	—	23,769	23,769
2036-2040	—	17,944	17,944
Total minimum payments...................	**371**	**203,162**	**203,533**
Less: interest and executory costs........	(129)	(96,694)	(96,823)
Present value of net minimum payments..	**$ 242**	**$ 106,468**	**$ 106,710**

Fiscal Year Ending December 31	Public Service Authority
2010	$ 1,934
2011	1,610
2012	1,343
2013	1,023
2014	252
Total minimum payments...................	**6,162**
Less: interest and executory costs........	(563)
Present value of net minimum payments..	**$ 5,599**

Fiscal Year Ending June 30	State Ports Authority
2011	$ 7
2012	8
2013	4
Total minimum payments...................	**19**
Less: interest and executory costs........	(2)
Present value of net minimum payments..	**$ 17**

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2010, 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...............	$ —	$ 9,742	$ 9,742	$ —	$ —
Buildings and improvements..................................	—	166,479	166,479	88,400	—
Machinery and equipment.....................................	782	12,822	13,604	—	26
Works of art and historical treasures......................	—	362	362	—	—
Assets acquired under capital leases before accumulated amortization................................	**782**	**189,405**	**190,187**	**88,400**	**26**
Less: accumulated amortization............................	(355)	(43,112)	(43,467)	(87,400)	(8)
Assets acquired under capital leases, net..........	**$ 427**	**$ 146,293**	**$ 146,720**	**$ 1,000**	**$ 18**

For the primary government's fiscal year ended June 30, 2010, minimum rental payments under operating leases were $85.407 million and contingent rental payments were $9.709 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 $4.200 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $920 thousand. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $875 thousand.

At June 30, 2010, 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
2011	$ 48,447	$ 754
2012	42,365	706
2013	31,910	635
2014	19,443	655
2015	13,043	673
2016-2020	27,565	523
2021-2025	7,921	—
2026-2030	4,257	—
2031-2035	1,882	—
2036-2040	300	—
Total minimum payments..........	**$ 197,133**	**$ 3,946**

Fiscal Year Ending December 31	Public Service Authority
2010	$ 600
2011	600
2012	600
2013	600
2014	600
Total minimum payments............	**$ 3,000**

b. Facilities Leased to Others

At June 30, 2010, 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 $565.321 million and related accumulated depreciation of $259.770 million. Future minimum rental payments to be received at June 30, 2010, under these operating leases were as follows (expressed in thousands):

Fiscal Year Ending June 30	State Ports Authority
2011	$ 24,702
2012	20,528
2013	20,735
2014	16,218
2015	6,100
2016-2020	12,742
2021-2025	—
2026-2030	—
Total....................................	**$ 101,025**

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, 2010, were:

Governmental Activities	
Capital improvement bonds, 3.00% to 5.50%, maturing serially through 2019.........	$ 355,264
State highway bonds, 2.00% to 6.00%, maturing serially through 2023...................	510,365
State school facilities bonds, 3.00% to 5.00%, maturing serially through 2018.........	375,742
Infrastructure Bank bonds, 3.00% to 5.00%, maturing serially through 2028............	50,026
State economic development bonds, 1.00% to 6.75%, maturing serially through 2031..	417,633
Research university infrastructure bonds, 3.00% to 6.25%, maturing serially through 2025..	190,594
Air carrier hub terminal facilities bonds, 1.00% to 4.00%, maturing serially through 2025..	50,424
Subtotal—governmental activities...	**1,950,048**
Business-type Activities, Higher Education Fund	
State institution bonds, 2.50% to 6.00%, maturing serially through 2030.................	387,464
Total—general obligation bonds payable...	**$ 2,337,512**

At June 30, 2010, $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, 2010, future debt service requirements (expressed in thousands) for general obligation bonds were:

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities (Higher Education Fund) Principal	Business-type Activities (Higher Education Fund) Interest
2011	$ 190,165	$ 82,226	$ 23,330	$ 16,057
2012	185,940	71,379	23,915	15,041
2013	191,025	62,836	24,845	14,041
2014	191,275	54,610	25,855	13,026
2015	199,185	46,377	26,800	11,947
2016-2020	632,115	126,649	124,325	42,744
2021-2025	291,735	28,633	96,395	18,485
2026-2030	29,255	3,104	42,040	3,220
2031	3,255	53	—	—
Total debt service requirements……………………..	**1,913,950**	**$ 475,867**	**387,505**	**$ 134,561**
Unamortized premiums…………	54,634		742	
Deferred amount on refunding...	(18,536)		(783)	
Total principal outstanding……………………..	**$ 1,950,048**		**$ 387,464**	

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, 2010, was $44.136 million in total for all institution bonds, $32.385 million for highway bonds, $132.182 million for general obligation bonds excluding institution and highway bonds, $2.990 million for economic development bonds, and $6.626 million for research university infrastructure bonds. During the fiscal year ended June 30, 2010, the State issued $170.000 million of economic development bonds which are not subject to the limitation on maximum annual debt service. This bond issue has been excluded from the debt service limit calculations. South Carolina State University exceeded its legal debt service limit on its State institution bonds by approximately $644 thousand at June 30, 2010. The University will adjust tuition fees in subsequent years to cover the debt requirement.

b. Limited Obligation Bonds

Limited obligation bonds are not backed by the full faith, credit, and taxing power of the State. Limited obligation bonds outstanding at June 30, 2010, which are reported in the internal service funds, totaled $6.435 million and mature serially through 2016. Interest rates on these bonds ranged from 4.30% to 6.10%.

At June 30, 2010, 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, 2010, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Governmental Activities (Internal Service Funds) Principal	Governmental Activities (Internal Service Funds) Interest
2011	$ 1,280	$ 322
2012	1,345	256
2013	1,420	186
2014	1,495	110
2015	735	32
2016	185	9
Total debt service requirements…………………	**6,460**	**$ 915**
Unamortized discounts………	(25)	
Total principal outstanding…………………	**$ 6,435**	

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, 2010, were:

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 3.00% to 5.75%, maturing serially through 2038	$ 2,051,545	$ —
Tobacco Authority bonds, 5.00%, maturing serially through 2018	120,653	—
Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022	17,163	—
Education Department note, 4.01%, maturing in 2011	—	144
Educational Television Commission note, 2.96%, maturing in 2014	—	227
Corrections Department notes, 5.25% to 5.97%, maturing through 2020	—	19,905
Probation Parole and Pardon Department note, 4.04%, maturing in 2012	—	100
Criminal Justice Academy note, 3.14%, maturing through 2016	—	9,345
Budget and Control Board bond and notes, 3.70% to 4.08%, maturing through 2018	16,088	31,223
Totals—governmental activities	**2,205,449**	**60,944**
Business-type Activities:		
Higher Education Fund bonds and notes, 1.28% to 7.17%, maturing serially through 2040	690,836	123,375
Housing Authority Fund bonds and note, 2.85% to 8.30%, maturing serially through 2041	819,384	—
Medical University Hospital Authority bonds and notes, 2.18% to 6.15%, maturing through 2035	451,561	38,530
Education Assistance Authority Fund bonds, 3.40% to 5.10%, maturing serially through 2030	894,700	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 2.10% to 7.50%, maturing through 2038	59,685	57,374
Totals—business-type activities	**2,916,166**	**219,279**
Totals—primary government	**$ 5,121,615**	**$ 280,223**
Major Discretely Presented Component Units:		
Public Service Authority bonds, 2.00% to 8.37%, maturing serially through 2042	$ 4,595,190	$ —
State Ports Authority bonds and notes, 0.31% to 5.50%, maturing serially through 2027	$ 98,511	$ 1,294
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%, maturing serially through 2038	$ 319,015	$ —

Debt Derivatives

Transportation Infrastructure Bank

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, 2010, the Bank made variable bond interest payments of $855 thousand and fixed rate payments on the exchange agreement of $14.045 million. The Bank received variable swap payments on the exchange agreement of $640 thousand. The June 30, 2010, mark to market value of this swap was negative $76.759 million, representing a change in fair value of negative $20.678 million from prior year. The deferred outflow of the interest rate swap and the derivative instrument liability are shown on the statement of net assets.

Medical University Hospital Authority

The Medical University Hospital Authority of the Medical University of South Carolina (MUHA), a blended component unit and major enterprise fund, entered into an Enhanced Total Return Contract (ETRC) with a bank to assist in minimizing the difference between the interest rate related to the Series A Tax Exempt Serial Bonds that mature February 15, 2027 through August 15, 2028 and the Series A Tax Exempt Term Bond that matures August 15, 2034, and reinvest earnings related to those respective bonds during the construction period of the replacement hospital facility. The ETRC essentially converted MUHA's borrowing costs for the related bonds from a fixed rate to a variable rate instrument based on the Bond Market Association index, subject to a cap of 4.93%. This part of ETRC expired on the contractual termination date of June 1, 2008.

The ETRC also included an option for the bank to obtain reimbursement from MUHA for the negative difference, if any, between the amortized purchase price of the bonds underlying the ETRC and the bonds' market value adjusted for the bank's cumulative net settlement receipts (if any) under the ETRC. Under the option terms, MUHA received from the bank a premium of 0.85% of the notional amount of the underlying bonds. MUHA's liability related to the net settlement of the option was subject to a cap of $8.750 million and was secured with funds deposited by MUHA in an escrow account. The option, and thus all existing provisions of the ETRC, was terminated by MUHA and the bank on December 1, 2009, at which time MUHA made the final net settlement payment to the bank in the maximum amount of $8.750 million.

During the implementation period of GASB Statement No. 53, the ETRC was considered an investment derivative instrument which was fully terminated by MUHA on December 1, 2009. As such, changes in its fair value were required to be recognized in MUHA's Statement of Revenues, Expenses, and Changes in Net Assets. However, since the ETRC reached its capped maximum negative value of $8.750 million as of June 30, 2009, its termination and net settlement in fiscal year 2010 did not have an impact on MUHA's income for fiscal year 2009-2010. Because it related to periods prior to fiscal year 2009-2010, the $8.750 million decline in the fair value of the ETRC as of June 30, 2009, has been recognized as an adjustment to the beginning balance of MUHA's net assets.

University Medical Associates

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, 2010 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, 2010 was 0.15%. The fair value of the Series 2008 Bonds' swap was $1.459 million as of June 30, 2010. The fair value was estimated by independent financial advisors using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Consistent with the guidance provided by GASB Statement No. 53, the positive fair value of the Series 2008 Bonds' cash flow hedge swap has been recorded on the Statement of Net Assets as an asset and offset by an identical amount for the deferred inflows from this swap since the swap is considered an effective hedging instrument. The decrease in the fair value of the Series 2008 Bonds' cash flow hedge swap from June 30, 2009 of $3.150 million is not recognized in these financial statements.

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 $316 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, 2010 was $32.544 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, 2010 was 1.65%. The fair value of the term loan swap was negative $709 thousand as of June 30, 2010. The fair value was estimated by independent financial advisors using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Consistent with the guidance provided by GASB Statement No. 53, the negative fair value of the term loan cash flow hedge swap has been recorded on the Statement of Net Assets as an asset and offset by an identical amount for the deferred outflows from this swap since the swap is considered an effective hedging instrument. The decrease in the fair value of the term loan cash flow hedge swap from June 30, 2009 of $1.382 million is not recognized in these financial statements.

As of June 30, 2010, debt service requirements of the UMA 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	Variable Rate Debt		Interest Rate	
June 30	Principal	Interest	Swaps, Net	Totals
2011	$ 3,792	$ 600	$ 1,871	$ 6,263
2012	3,792	537	1,783	6,112
2013	3,792	475	1,695	5,962
2014	3,791	412	1,607	5,810
2015	3,791	349	1,519	5,659
2016-2020	18,786	865	6,247	25,898
2021-2025	13,430	366	4,557	18,353
2026-2030	14,905	260	3,239	18,404
2031-2035	17,100	139	1,726	18,965
2036-2038	11,450	17	218	11,685
Totals..........	**$ 94,629**	**$ 4,020**	**$ 24,462**	**$ 123,111**

State Ports Authority

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, 2010 were $61.128 million and $26.197 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 this swap agreement is $87.325 million at June 30, 2010. As of June 30, 2010, the swaps had a negative fair value of approximately $5.088 million. The unrealized loss related to these agreements recorded at June 30, 2010 is $715 thousand and is included in interest expense.

Pledged Revenues for Payment of Debt

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, 2010, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

Debt Service Requirements

At June 30, 2010, 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**
2011	$ 62,730	$ 103,562	$ 120,323	$ 126,682
2012	66,316	100,430	104,776	121,746
2013	74,294	96,995	96,122	118,305
2014	91,312	93,216	71,065	114,010
2015	106,328	88,781	78,698	110,584
2016-2020	466,919	366,510	377,246	495,480
2021-2025	384,375	260,971	939,741	383,821
2026-2030	454,785	167,434	708,434	207,264
2031-2035	454,990	57,617	424,501	90,360
2036-2040	49,900	3,434	115,870	10,883
2041	—	—	120,000	—
Total debt service requirements............................	**2,211,949**	**$ 1,338,950**	**3,156,776**	**$ 1,779,135**
Net unamortized premiums.............	83,210		21,688	
Deferred amount on refunding.........	(28,766)		(43,019)	
Total principal outstanding...........	**$ 2,266,393**		**$ 3,135,445**	

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, 2009, the carrying value of the Public Service Authority's debt was $4.385 billion while the fair value was approximately $4.400 billion. At June 30, 2010, the carrying value of the State Ports Authority debt was $99.266 million while the fair value was approximately $94.810 million. The fair values were estimated using current rates available to the entities for similar borrowing arrangements and on the market rate of comparable traded debt.

At June 30, 2010, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

Year Ending December 31	Public Service Authority Principal	Public Service Authority Interest	Connector 2000 Assoc. Principal	Connector 2000 Assoc. Interest
2010	$ 122,655	$ 230,777	$ 7,300	$ 3,411
2011	126,920	229,390	8,100	3,358
2012	129,993	222,827	9,900	3,303
2013	175,200	215,470	10,500	3,243
2014	429,075	198,146	11,000	3,180
2015-2019	1,120,739	791,380	73,100	14,851
2020-2024	864,981	527,447	105,700	12,747
2025-2029	557,827	365,885	146,400	9,987
2030-2034	544,428	211,337	182,300	6,343
2035-2039	533,090	71,502	178,900	1,731
2040-2042	30,925	684	—	—
Total debt service requirements................................	**4,635,833**	**$ 3,064,845**	**733,200**	**$ 62,154**
Unamortized premiums (discounts)..	127,791		(414,185)	
Deferred amount on refunding..........	(168,434)		—	
Total principal outstanding............	**$ 4,595,190**		**$ 319,015**	

Year Ending June 30	State Ports Authority Principal	State Ports Authority Interest
2011	$ 4,255	$ 4,995
2012	4,470	4,756
2013	4,695	4,505
2014	4,849	4,252
2015	4,835	3,989
2016-2020	28,220	15,736
2021-2025	36,365	7,117
2026-2027	11,560	164
Total debt service requirements................................	**99,249**	**$ 45,514**
Unamortized premiums....................	556	
Total principal outstanding............	**$ 99,805**	

Interest Expense

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, 2010, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government........................	$ 17,245
Transportation.................................	135,272
Total allocated interest expense..	**$ 152,517**

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, 2010, $30.000 million in short-term general obligation bond anticipation notes and $51.100 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, 2011.

e. Defeased Bonds

During its fiscal year ended December 31, 2009, the Public Service Authority, a major discretely presented component unit, issued $115.000 million in 2009 Tax-Exempt Refunding Series A revenue bonds with an average interest rate of 4.83% to refund $119.600 million in revenue bonds with an average interest rate of 5.06%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $8.700 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next 23 years by approximately $10.800 million and to obtain an economic gain of approximately $3.700 million.

Also during its fiscal year ended December 31, 2009, the Public Service Authority issued $39.700 million in 2009 Tax-Exempt Refunding Series D revenue bonds with an average interest rate of 4.52% to refund $40.800 million in revenue bonds with an average interest rate of 5.59%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.000 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations during the year 2009 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next 4 years by approximately $2.300 million and to obtain an economic gain of approximately $2.100 million.

For all defeasances involving advance refundings in the current and prior years, the securities purchased were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the State has not recorded the defeased bonds in the accompanying financial statements. At June 30, 2010, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	Governmental Activities	Business-type Activities	Totals—Primary Government
Capital improvement bonds......	$ 40,310	$ —	$ 40,310
State highway bonds...............	195,775	—	195,775
Infrastructure Bank bonds.........	311,460	—	311,460
Tobacco Authority bonds..........	335,270	—	335,270
Higher Education Fund bonds..	—	112,774	112,774
Totals.....................................	**$ 882,815**	**$ 112,774**	**$ 995,589**

In addition, at December 31, 2009, $155.780 million of bonds associated with the Public Service Authority 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, 2010, reported as other liabilities for governmental activities is an arbitrage rebate liability of $3.593 million associated with the State's General Obligation Debt and a $683 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, 2010, are reported as other liabilities of $509 thousand in the Higher Education Fund, and as other liabilities payable from restricted assets of $1.349 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, 2010, the outstanding balance of bonds issued was $357.587 million.

The Jobs-Economic Development Authority, a nonmajor enterprise 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, 2010, the outstanding balance of bonds issued after June 30, 1995, was $4.558 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, 2010, the outstanding balance of bonds issued was $290.168 million.

h. 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, 2010, 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, 2010 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 2009-2010, there were no advances under this line of credit. In June 2010, this line of credit expired and was renewed with basically the same terms.

The Public Service Authority, a discretely presented component unit, has recorded a $276.551 million liability for commercial paper notes at its fiscal year ended December 31, 2009. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a $450.000 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement during 2009.

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, 2010.

i. 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, 2010, the outstanding balance of these advances was $886.662 million. Principal payments are required to begin on September 30, 2011, with interest accruing at an interest rate of approximately 4% beginning on January 1, 2011. The loan is considered noncurrent since the first principal payment is due one or more years after June 30, 2010.

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 State has implemented comprehensive changes to the Unemployment Insurance (UI) tax structure specifically designed to assist in putting the Fund back on the path to solvency. State unemployment tax rates for future years will be structured to raise revenues that more accurately address the demands on the Fund and the changing economic environment in which the Fund operates. While the Fund remains in Federal loan status, required tax revenues will consist of estimated benefit payouts for the subsequent year, an amount required to repay the principal on all outstanding federal advances over five years, and an additional surcharge designated to pay accrued interest on outstanding advances. As the expected level of state UI benefits continues to decrease, a greater proportion of state UI tax revenues will be available to repay the advanced funds.

As of November 30, 2010, the Fund has not taken any additional advances. Increased tax collections coupled with decreases in the number of individuals eligible for and claiming state UI benefits have enabled the Fund to operate without obtaining additional advances from the federal government since April 2010. Management plans to continue to borrow from the Federal government as needed, to fund its deficits for the foreseeable future; however, it is estimated that no additional advances will be required until December 2010. The Federal government has not established a maximum amount that the Fund can borrow.

j. Subsequent Events

In November 2010, the State's primary government entered into a $1.972 million Master Lease note, which will be reported in the State's governmental activities. On November 16, 2010, the Board of Directors of the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, approved the issuance of $203.580 million in revenue bonds.

Since June 30, 2010, the State's Higher Education Fund, a major enterprise fund, issued $65.855 million in athletic facilities revenue bonds and $26.375 million in athletic facilities revenue refunding bonds. The State Housing Finance and Development Authority, a major enterprise fund, issued $100.000 million in Homeownership Revenue Bonds on July 1, 2010. The Housing Authority expects to issue an additional $80.000 million in Homeownership Revenue Bonds in fiscal year 2011.

In November 2010, the South Carolina Student Loan Corporation issued bonds, the proceeds of which will be used to retire its finance loan with the Education Assistance Authority, a major enterprise fund. In turn, the Education Assistance Authority will use the proceeds of the finance loan repayment to retire all of its auction rate bonds outstanding. The balance of these auction rate bonds was $809.700 million at June 30, 2010. The South Carolina Student Loan Corporation expects to have proceeds available from its closing on November 30. The bonds of the Education Assistance Authority will be paid on the next available auction date after November 30.

Subsequent to its fiscal year end, the Public Service Authority, a major discretely presented component unit, has issued $234.861 million in revenue obligations, $231.060 million in revenue refunding obligations, and $44.766 million in tax-exempt revenue mini-bonds.

NOTE 13: CHANGES IN LIABILITIES

a. Long-Term Liabilities

Changes in major classes of long-term liabilities (expressed in thousands) for the fiscal year ended June 30, 2010, were:

	Balances at July 1, 2009	Increases	Decreases	Balances at June 30, 2010	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims	$ 660,394	$ 1,740,191	$ (1,749,751)	$ 650,834	$ 471,752
Notes payable	$ 35,820	$ 31,672	$ (6,548)	$ 60,944	$ 12,640
General obligation bonds payable	$ 1,845,745	$ 569,860	$ (501,655)	$ 1,913,950	$ 190,165
Unamortized discounts and premiums	17,698	39,427	(2,491)	54,634	—
Deferred amount on refunding	(5,933)	(14,194)	1,591	(18,536)	—
Total general obligation bonds payable	$ 1,857,510	$ 595,093	$ (502,555)	$ 1,950,048	$ 190,165
Tobacco Authority bonds payable	$ 200,000	$ —	$ (63,035)	$ 136,965	$ —
Unamortized discount	(5,984)	—	1,886	(4,098)	—
Deferred amount on refunding	(17,836)	—	5,622	(12,214)	—
Total Tobacco Authority bonds payable	$ 176,180	$ —	$ (55,527)	$ 120,653	$ —
Revenue bonds payable	$ 35,210	$ —	$ (2,640)	$ 32,570	$ 2,760
Unamortized discounts and premiums	772	—	(91)	681	—
Total revenue bonds payable	$ 35,982	$ —	$ (2,731)	$ 33,251	$ 2,760
Infrastructure Bank bonds payable	$ 2,037,360	$ 88,590	$ (144,480)	$ 1,981,470	$ 47,330
Unamortized discounts and premiums	78,500	10,086	(1,959)	86,627	—
Deferred amount on refunding	(23,996)	—	7,444	(16,552)	—
Total Infrastructure Bank bonds payable	$ 2,091,864	$ 98,676	$ (138,995)	$ 2,051,545	$ 47,330
Limited obligation bonds payable	$ 7,660	$ —	$ (1,200)	$ 6,460	$ 1,280
Unamortized discounts and premiums	(31)	—	6	(25)	—
Total limited obligation bonds payable	$ 7,629	$ —	$ (1,194)	$ 6,435	$ 1,280
Capital leases payable	$ 404	$ —	$ (162)	$ 242	$ 117
Compensated absences payable	$ 219,949	$ 119,604	$ (125,440)	$ 214,113	$ 116,109
National Guard Retirement System net pension obligation payable	$ 9,234	$ 366	$ (252)	$ 9,348	$ —
Judgments and contingencies payable	$ 33,568	$ —	$ (10,036)	$ 23,532	$ 10,494
Arbitrage payable	$ 2,754	$ 1,522	$ —	$ 4,276	$ 3,560

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, 2009		Increases		Decreases		Balances at June 30, 2010		Amounts Due Within One Year
Primary Government:										
Business-type Activities										
Policy claims	$	155,574	$	23,454	$	(40,373)	$	138,655	$	13,054
Advances from Federal government	$	344,881	$	541,781	$	—	$	886,662	$	—
Notes payable	$	273,894	$	6,048	$	(52,448)	$	227,494	$	34,270
Unamortized discounts and premiums		78		—		(6)		72		—
Deferred amount on refunding		(9,798)		—		1,511		(8,287)		—
Total notes payable	$	264,174	$	6,048	$	(50,943)	$	219,279	$	34,270
General obligation bonds payable	$	354,310	$	54,000	$	(20,805)	$	387,505	$	23,330
Unamortized discounts and premiums		806		—		(64)		742		—
Deferred amount on refunding		(864)		—		81		(783)		—
Total general obligation bonds payable	$	354,252	$	54,000	$	(20,788)	$	387,464	$	23,330
Revenue bonds payable	$	2,996,602	$	245,010	$	(312,330)	$	2,929,282	$	86,053
Unamortized discounts and premiums		20,837		2,102		(1,323)		21,616		—
Deferred amount on refunding		(36,350)		17		1,601		(34,732)		—
Total revenue bonds payable	$	2,981,089	$	247,129	$	(312,052)	$	2,916,166	$	86,053
Capital leases payable	$	87,224	$	29,075	$	(9,831)	$	106,468	$	5,615
Compensated absences payable	$	143,475	$	93,374	$	(89,292)	$	147,557	$	79,029
Arbitrage payable	$	3,519	$	25	$	(1,686)	$	1,858	$	301

		Balances at January 1, 2009		Increases		Decreases		Balances at December 31, 2009		Amounts Due Within One Year
Major Component Units:										
Public Service Authority										
Policy claims	$	2,120	$	2,027	$	(2,394)	$	1,753	$	1,753
Revenue bonds payable	$	4,109,025	$	918,126	$	(391,318)	$	4,635,833	$	122,655
Unamortized discounts and premiums		107,843		31,014		(11,066)		127,791		—
Deferred amount on refunding		(185,839)		(9,564)		26,969		(168,434)		—
Total revenue bonds payable	$	4,031,029	$	939,576	$	(375,415)	$	4,595,190	$	122,655
Capital leases payable	$	7,983	$	1,686	$	(4,070)	$	5,599	$	1,685
Compensated absences payable	$	17,213	$	2,304	$	(1,482)	$	18,035	$	—
Connector 2000 Association, Inc.										
Revenue bonds payable	$	739,900	$	—	$	(6,700)	$	733,200	$	7,300
Unamortized discounts and premiums		(428,848)		14,663		—		(414,185)		—
Total revenue bonds payable	$	311,052	$	14,663	$	(6,700)	$	319,015	$	7,300

	Balances at July 1, 2009	Increases	Decreases	Balances at June 30, 2010	Amounts Due Within One Year
State Ports Authority					
Notes payable..	$ 1,639	$ —	$ (345)	$ 1,294	$ 345
Revenue bonds payable...........................	$ 101,660	$ —	$ (3,705)	$ 97,955	$ 3,910
Unamortized discounts and premiums.......	602	—	(46)	556	—
Total revenue bonds payable..................	$ 102,262	$ —	$ (3,751)	$ 98,511	$ 3,910
Capital leases payable.............................	$ 23	$ —	$ (6)	$ 17	$ 6
Compensated absences payable..............	$ 2,672	$ 1,323	$ (1,806)	$ 2,189	$ 2,189
Lottery Commission					
Compensated absences payable..............	$ 858	$ 506	$ (658)	$ 706	$ 590

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, 2010, 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, 2009	Increases	Decreases	Balances at June 30, 2010
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	$ 51,100	$ (53,100)	$ 51,100
Letters of credit..	$ —	$ —	$ —	$ —

	Balances at January 1, 2009	Increases	Decreases	Balances at December 31, 2009
Major Component Unit:				
Public Service Authority				
Commercial paper notes..	$ 152,807	$ 180,719	$ (56,975)	$ 276,551

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, 2010, the following amounts of fund balance in governmental funds (expressed in thousands) were reserved:

	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances reserved for:						
General reserve fund	$ 110,883	$ —	$ —	$ —	$ —	$ 110,883
Inventories	7,924	14,209	—	5,161	3	27,297
Prepaid items	—	—	—	6,302	—	6,302
Interfund receivables	—	381	321,113	—	11,030	332,524
Appropriations to be carried forward	64,283	—	—	—	—	64,283
Endowments	—	—	—	—	3,270	3,270
Long-term loans and notes receivable	—	1,158	497,338	4,275	32,939	535,710
Debt requirements	—	—	1,163,122	—	55,833	1,218,955
School building aid	1,555	—	—	—	51,119	52,674
Total reserved fund balances	**$ 184,645**	**$ 15,748**	**$ 1,981,573**	**$ 15,738**	**$ 154,194**	**$ 2,351,898**

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, 2010, the Reserve was $110.883 million which was $80.889 million below the full funding amount.

Reserved for Inventories

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

Reserved for Prepaid Items

Governmental funds reserve a portion of fund balance equal to year-end prepaid item 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 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 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, 2010 (expressed in thousands):

Funds	Due From	Due To
General		
Departmental General Operating	$ 5	$ 25,886
Local Government Infrastructure	—	8,597
Department of Transportation Special Revenue	—	7,909
State Tobacco Settlement	8	—
Nonmajor governmental funds	36,226	30,100
Higher Education	—	2,843
Unemployment Compensation	8,448	226
Nonmajor enterprise funds	80	—
Internal service	975	7,697
Fiduciary	—	32,550
	45,742	115,808
Departmental General Operating		
General	25,886	5
Local Government Infrastructure	—	135
Department of Transportation Special Revenue	44	9
Nonmajor governmental funds	2,318	2,976
Higher Education	—	11,893
Nonmajor enterprise funds	—	599
Internal service	122	12,936
Fiduciary	—	19,151
	28,370	47,704
Local Government Infrastructure		
General	8,597	—
Departmental General Operating	135	—
Department of Transportation Special Revenue	8,209	15,491
Internal service	—	2
Fiduciary	—	53
	16,941	15,546

Funds	Due From	Due To
Department of Transportation Special Revenue Fund		
General	7,909	—
Departmental General Operating	9	44
Local Government Infrastructure	15,491	8,209
Nonmajor governmental funds	—	5
Higher Education	80	—
Internal service	435	1,985
Fiduciary	—	5,929
	23,924	16,172
State Tobacco Settlement		
General	—	8
	—	8
Nonmajor Governmental Funds		
General	30,100	36,226
Departmental General Operating	2,976	2,318
Department of Transportation Special Revenue	5	—
Nonmajor governmental funds	3,167	3,167
Higher Education	55	41,581
Nonmajor enterprise funds	92	695
Internal service	1,532	627
Fiduciary	—	932
	37,927	85,546
Higher Education		
General	2,843	—
Departmental General Operating	11,893	—
Department of Transportation Special Revenue	—	80
Nonmajor governmental funds	41,581	55
Hospital Authority	—	8,636
Nonmajor enterprise funds	—	27,646
Internal service	—	12,604
Fiduciary	—	7,605
	56,317	56,626
Unemployment Compensation Benefits		
General	226	8,448
Internal service	2	—
	228	8,448
Housing Authority		
Internal service	—	14
	—	14
Medical University Hospital Authority		
Higher Education	8,636	—
Nonmajor enterprise funds	287	—
	8,923	—
Nonmajor Enterprise Funds		
General	—	80
Departmental General Operating	599	—
Nonmajor governmental funds	695	92
Higher Education	27,646	—
Hospital Authority	—	287
Internal service	9	68
Fiduciary	—	99
	28,949	626

Funds	Due From	Due To
Internal Service		
General	7,697	975
Departmental General Operating	12,936	122
Local Government Infrastructure	2	—
Department of Transportation Special Revenue	1,985	435
Nonmajor governmental funds	627	1,532
Higher Education	12,604	—
Unemployment Compensation	—	2
Housing Authority	14	—
Nonmajor enterprise funds	68	9
Internal service	295	295
Fiduciary	16,403	1,421
	52,631	4,791
Fiduciary		
General	32,550	—
Departmental General Operating	19,151	—
Local Government Infrastructure	53	—
Department of Transportation Special Revenue	5,929	—
Nonmajor governmental funds	932	—
Higher Education	7,605	—
Nonmajor enterprise funds	99	—
Internal service	1,421	16,403
Fiduciary	38,703	38,703
	106,443	55,106
Totals	**$ 406,395**	**$ 406,395**

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	$ 4,560	$ —	$ —
Nonmajor governmental funds	340	—	—
Higher Education	114	—	—
Internal service	500	—	—
	5,514	—	—
Departmental General Operating			
General	—	4,560	—
Nonmajor governmental funds	—	453	—
Higher Education	781	22	381
Nonmajor enterprise funds	—	330	—
Internal service	500	—	—
	1,281	5,365	381
Local Government Infrastructure			
Department of Transportation Special Revenue	343,692	—	321,113
Department of Transportation Special Revenue Fund			
Local Government Infrastructure	—	343,692	—

Funds	Interfund Receivables	Interfund Payables	Receivables Long-term Portion
Nonmajor Governmental Funds			
General	—	340	—
Departmental General Operating	453	—	304
Nonmajor governmental funds	4,040	4,040	20
Higher Education	1,629	—	1,148
Nonmajor enterprise funds	9,227	—	9,228
Internal service	541	15,400	330
	15,890	19,780	11,030
Higher Education			
General	—	114	—
Departmental General Operating	22	781	22
Nonmajor governmental funds	—	1,629	—
Nonmajor enterprise funds	—	29,006	—
	22	31,530	22
Medical University Hospital Authority			
Nonmajor enterprise funds	—	2,055	—
Nonmajor Enterprise Funds			
Departmental General Operating	330	—	—
Nonmajor governmental funds	—	9,227	—
Higher Education	29,006	—	29,007
Hospital Authority	2,055	—	2,055
Internal service	—	6,837	—
	31,391	16,064	31,062
Internal Service			
General	—	500	—
Departmental General Operating	—	500	—
Nonmajor governmental funds	15,400	541	13,780
Nonmajor enterprise funds	6,837	—	6,837
	22,237	1,541	20,617
Totals	**$ 420,027**	**$ 420,027**	**$ 384,225**

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:

- $343.692 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.
- $29.007 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.
- $15.400 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.
- $9.228 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*.
- $6.837 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, 2010 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental General Operating	$ 52,166	$ 161,165
Local Government Infrastructure	—	1,254
Department of Transportation Special Revenue	—	111
Nonmajor governmental funds	18,757	370,785
Higher Education	—	617,933
Unemployment Compensation Benefits	1,408	470
Nonmajor enterprise funds	12	12
Internal service	—	272
	72,343	1,152,002
Departmental General Operating		
General	161,165	52,166
Local Government Infrastructure	21,269	20
Department of Transportation Special Revenue	41	—
Nonmajor governmental funds	45,042	10,206
Higher Education	17,909	14,678
Unemployment Compensation Benefits	200	—
Housing Authority	28	—
Nonmajor enterprise funds	1,621	32
Internal service	10,017	4,137
	257,292	81,239
Local Government Infrastructure		
General	1,254	—
Departmental General Operating	20	21,269
Department of Transportation Special Revenue	—	1,000
	1,274	22,269
Department of Transportation Special Revenue Fund		
General	111	—
Departmental General Operating	—	41
Local Government Infrastructure	1,000	—
Nonmajor governmental funds	—	48
	1,111	89
Nonmajor Governmental Funds		
General	370,785	18,757
Departmental General Operating	10,206	45,042
Department of Transportation Special Revenue	48	—
Higher Education	22,533	62,984
Housing Authority	—	400
Nonmajor enterprise funds	104	695
Internal service	19	422
	403,695	128,300
Higher Education		
General	617,933	—
Departmental General Operating	14,678	17,909
Nonmajor governmental funds	62,984	22,533
Medical University Hospital Authority	—	248
Nonmajor enterprise funds	47,570	2,230
	743,165	42,920
Unemployment Compensation Benefits		
General	470	1,408
Departmental General Operating	—	200
	470	1,608

Funds	Transfers In	Transfers Out
Housing Authority		
Departmental General Operating	—	28
Nonmajor governmental funds	400	—
	400	28
Medical University Hospital Authority		
Higher Education	248	—
	248	—
Nonmajor Enterprise Funds		
General	12	12
Departmental General Operating	32	1,621
Nonmajor governmental funds	695	104
Higher Education	2,230	47,570
	2,969	49,307
Internal Service		
General	272	—
Departmental General Operating	4,137	10,017
Nonmajor governmental funds	422	19
Internal service	493	493
	5,324	10,529
Totals	**$ 1,488,291**	**$ 1,488,291**

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. During the fiscal year ended June 30, 2010, transfers included $343.584 million of tax revenues from the Tax Relief Trust Fund, reported as part of the State's General Fund, transferred to the Homestead Exemption Fund for subsequent distribution for property tax relief.

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, 2010, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	Scholarship Allowances
Charges for services	$ 564,246
Operating revenues pledged for revenue bonds	29,469
Total	**$ 593,715**

For the fiscal year ended June 30, 2010, the State's enterprise funds presented $1.274 billion included in net charges for services after provisions for contractual and other adjustments in the amount of $1.698 billion and uncollectible accounts in the amount of $89.025 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, 2010, $4.484 million of the amount reported as *restricted net assets, expendable for education*, represented net appreciation on investments of donor-restricted endowments available for authorization for expenditure by governing boards of the higher education institutions. In addition, $263 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 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, 2010, 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, 2010, 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, (c) Homeownership Bond and (d) 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, 2010, are presented on the following pages:

CONDENSED STATEMENT OF NET ASSETS

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve
Assets				
Current restricted assets	$ 21,729	$ 63,496	$ —	$ 10,053
Other current assets	33	395	—	12
Noncurrent restricted assets	181,631	611,828	121,118	28,551
Other noncurrent assets	639	4,714	375	—
Total assets	204,032	680,433	121,493	38,616
Liabilities				
Current liabilities payable from restricted assets	16,396	45,886	—	—
Other current liabilities	—	4	1,077	65,166
Noncurrent liabilities	88,841	566,850	120,000	—
Total liabilities	105,237	612,740	121,077	65,166
Net assets				
Restricted and expendable for:				
Debt service	13,610	30,120	—	—
Bond reserves	3,209	7,622	—	—
Special programs	81,976	29,952	416	38,551
Total net assets	**$ 98,795**	**$ 67,694**	**$ 416**	**$ 38,551**

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

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve
Operating revenues:				
Pledged revenues:				
Interest on loans	$ 7,669	$ 37,360	$ —	$ 483
Income on deposit	248	2,587	26	126
Other revenues:				
Administrative fees and other	47	556	—	141
Total operating revenues	7,964	40,503	26	750
Operating expenses:				
Bond issuance cost amortization	33	443	—	—
Other operating expenses	5,627	34,492	—	208
Total operating expenses	5,660	34,935	—	208
Operating income	2,304	5,568	26	542
Transfers:				
Transfers in	—	3,213	390	7,773
Transfers out	(11,471)	—	—	—
Increase in net assets	(9,167)	8,781	416	8,315
Beginning net assets	107,962	58,912	—	30,236
Ending net assets	**$ 98,795**	**$ 67,693**	**$ 416**	**$ 38,551**

CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve
Net cash provided (used) by:				
Operating activities	$ 1,255	$ 72,028	$ —	$ (26,895)
Noncapital financing activities	(16,813)	(118,029)	121,092	7,771
Investing activities	254	2,571	26	(7,491)
Net increase (decrease)	(15,304)	(43,430)	121,118	(26,615)
Beginning cash and cash equivalents	40,324	123,041	—	23,472
Ending cash and cash equivalents	**$ 25,020**	**$ 79,611**	**$ 121,118**	**$ (3,143)**

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 25% 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, 2009, the Authority received distributions of $8.065 million from TEA and recognized $9.301 million in reductions to power costs and increases in electric revenues.

The Authority has provided certain guarantees and has pledged certain collateral to support TEA's transactions. The Authority's Board of Directors has approved the use of up to $89.700 million to support TEA's activities.

At December 31, 2009, the Authority had a payable to TEA of $4.400 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately $3.700 million for power sales and sales of excess gas capacity.

Interested parties may obtain a copy of TEA's financial statements by writing to:

The Energy Authority
301 West Bay Street, Suite 2600
Jacksonville, Florida 32202
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 $522.700 million, accumulated depreciation of $301.700 million, and expenses of $64.000 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 $155.000 million (adjusted to market) at December 31, 2009, 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 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, 2010, the Educational Television Endowment of South Carolina, Inc., disbursed $4.419 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 Enterprise Campus Authority; and York Technical College Foundation. During the fiscal year ended June 30, 2010, 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–$78.282 million; donations of cash and other assets from foundations–$160.012 million; expenditures paid to foundations–$5.131 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations–$4.957 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, 2010, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC–$907.929 million; program revenue from SLC–$16.456 million; reimbursements to SLC for administrative costs–$6.765 million; and payable to SLC–$19.848 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 $20.511 million during the Authority's fiscal year ended December 31, 2009.

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, 2010.

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 $270.509 million during the fiscal year ended June 30, 2010; the Commission owed an additional $25.634 million to the Fund at June 30, 2010.

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, 2009, were as follows (expressed in thousands):

Customer	Revenue	% of Total Sales Revenue
Central Electric Power Cooperative, Inc......	$ 997,000	59%
Alumax of South Carolina, Inc....................	169,000	10%

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

State Ports Authority

During the fiscal year ended June 30, 2010, of the State Ports Authority's total revenues, three customers accounted for approximately 15%, 13%, 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 $163.236 million and Due to Primary Government was $163.054 million, a difference of $182 thousand. 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, 2010, the Public Service Authority owed the General Fund its semi-annual payment of $9.620 million in lieu of taxes, which is reported as Due from Component Units. At December 31, 2009, the Connector 2000 Association, Inc. owed the Department of Transportation Special Revenue Fund $9.438 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, 2010, are seven cases that challenge the legality of certain taxes. In the event of unfavorable outcomes for these cases, the State does not expect the ultimate liability to exceed $160.912 million. Although State losses in these cases could reduce future revenues, the preceding estimates do not include any impact on future revenues.

The South Carolina Retirement Systems (the Systems) has been involved in three 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. This matter is in appeal to the S.C. Supreme Court. It is premature to estimate any potential loss associated with this order; however, as of June 30, 2010, the Systems had collected approximately $44.5 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. This is the companion case of the case above. 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. This matter is in appeal to the S.C. Supreme Court. It is premature to estimate any potential loss associated with this order; however, as of June 30, 2010, the Systems had collected approximately $14.3 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 third putative class action was filed in federal court in August, 2010. It seeks relief based on causes of action similar to those that were raised and disposed of in the two cases described above. Additionally, the plaintiffs all retired after Act No. 153, 2005 S.C. Acts and Joint Resolutions, was enacted and thus were on notice that they would pay retirement contributions if they chose to return to work. As of June 30, 2010, the Systems had collected approximately $71.5 million in the form of retirement contributions from members who are retired and returned to work on or after July 1, 2005. The Systems and the State believe their defense is meritorious and intend to vigorously contest these claims.

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 $16.6 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 Dentistry 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 may exceed the allowable reimbursement from the State's self-insurance fund. In a third unrelated case, the plaintiffs contend that a lack of funding has resulted in the unconstitutional treatment of prison inmates with mental illnesses.

Due to the uncertainty involving the ultimate outcome of the several previously discussed unresolved lawsuits, no provision for potential liability has been made for them in the accompanying financial statements.

Generally, liabilities recorded by the State's Insurance Reserve Fund (see Note 10a), an internal service fund, are sufficient to cover claims arising from alleged torts, up to the liability limits established by the South Carolina Tort Claims Act. Currently, except as described above, no tort claims are pending that are expected to result in any significant liability in excess of the provision for policy claims recorded by the Insurance Reserve Fund.

Major Discretely Presented Component Unit—Public Service Authority

The Public Service Authority, a major discretely presented component unit and electric utility company, is a party to or has an indirect interest in several lawsuits in which the amounts of potential losses, if any, are not presently determinable. The following 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 paying $15.6 million for those claims. The claims of seven landowners were tried in July 2009. The court entered a judgment in the amount of $55 million plus prejudgment interest at eight percent compounded annually. The Authority's motion to reconsider was denied and the Court entered an amended judgment. The Authority paid the judgment amount, approximately $206 million including interest. 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, 2010, 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, 2010, these loans totaled $3.813 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, 2010, 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, 2009, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $2.170 billion for coal. In addition, minimum obligations under three purchased power contracts as of December 31, 2009, were approximately $65.100 million with a remaining term of twenty-five years, $38.400 million with delivery beginning 2011 with a term of four years, and $685.000 million with delivery beginning 2012 with a term of twenty years. Also at December 31, 2009, the Authority had commitments for nuclear fuel and nuclear fuel conversion contracts of $259.000 million over the next fourteen years. The enrichment and fabrication component of these commitments from 2010 through 2013 totaling $33.300 million is contingent upon the operating requirements of the nuclear unit.

The Authority amended a service agreement in the approximate amount of $103.500 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 at the end of 2015. Also, the Authority has entered into network integration transmission service agreements totaling approximately $8.191 million annually through July 2023.

Major Discretely Presented Component Unit—Lottery Commission

At June 30, 2010, the Lottery Commission had remaining commitments of $56.539 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 $2.358 billion for certain highway and transportation facilities projects. At June 30, 2010, the remaining commitments for these agreements totaled $909.198 million.

At June 30, 2010, the Department of Commerce had outstanding commitments of $285.387 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, $35.305 million will be funded by federal grants and 1.220 million will be funded with private aid.

At June 30, 2010, the Budget and Control Board had outstanding commitments of $142.324 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects. Federal grants will fund $61.334 million of this commitment.

At June 30, 2010, the Division of Aeronautics had outstanding commitments of $1.979 million for grants made to municipal and county airports for capital improvements.

At June 30, 2010, the State Board for Technical and Comprehensive Education had outstanding commitments of $8.288 million to provide training for new and expanding business and industry in the State.

At June 30, 2010, the Department of Public Safety had outstanding commitments of $34.836 million for pass-through grants to various State agencies, local governments, and not-for-profit entities, of which $34.663 million will be funded by federal grants.

At June 30, 2010, the South Carolina Law Enforcement Division had outstanding commitments of $55.181 million, all of which will be funded by federal grants.

The State Housing Finance and Development Authority had $1.785 million in outstanding commitments for special initiatives under the Program Fund at June 30, 2010. The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of $7.938 million at June 30, 2010, 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. Debt service on the bonds increased sharply beginning in January 2008 as principal began to mature. Through 2009, the shortfall was covered by withdrawals from the Debt Service Reserve Accounts maintained by the Trustee under the indenture.

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 with certain specific remedies in the event of such default. As of June 2010, the Association had not received any communications from the Trustee initiating any proceedings under the Specific Remedies provision of the bond indenture.

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 in April 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 to inform the concession or restructuring process. In May 2009, in response to the study's findings, the Association requested SCDOT revise the toll rate schedule for the Southern Connector Toll Road. SCDOT granted the Association's request in August 2009.

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.

The Association presented to the Senior Bond Trustee, the Subordinate Trustee, SCDOT and the Restricted Owners a draft debt adjustment plan (the Association's Plan) dated August 2009. This plan was structured to return the greatest value to the owners of the Senior Bonds as possible under the constraints of the remaining term of the License Agreement, the obligation to repair and resurface the road, and the projected toll revenues and operating expenses based upon the engineering study. Under the Association's Plan, the Subordinate Bonds would not receive any payment since the Senior Bonds would not receive full payment.

The Senior Bond Trustee and its counsel then engaged a financial advisor to review the Association's Plan. The Senior Bond Trustee, the Subordinate Bond Trustee, and the Restricted Owners rejected the Association's Plan. The financial advisor met with the Association, SCDOT, and others and developed an alternative plan, which was presented to the Association, SCDOT, and the Restricted Owners in October 2009. The plan was based on the engineers projections, proposed to exchange two series of securities for the outstanding principal and interest owing on the Association's Senior Bonds, called for a 35-year extension of the License Agreement, and included provisions to fund a substantial portion of the projected road resurfacing and repair costs out of toll revenues under the extended License Agreement. Although the plan did not address repayment of the Subordinate Bonds, implementation of the plan under the assumptions set forth therein would permit the Association to use toll revenues to repay a portion of the amounts currently owed to the Subordinate Bondholders during the remaining term of the extended License Agreement after the securities exchanged for the Senior Bonds were repaid.

In compliance with the provisions of the Continuing Disclosure Agreement with the Trustee, the Association filed Event Notice No. 2010-1 in January 2010. This notice announced that (a) traffic on the Southern Connector was inadequate to permit the Association to collect sufficient toll revenues to pay debt service on the Bonds which came due on January 1, 2010 and (b) as a result of the payment default, the Association has been advised that the rating on the Series 1998A Bonds and the Series 1998B Bonds will be further reduced by Standard & Poor's Rating Group from the then current rating of "C" to "D". The Series 1998C Bonds have never been rated by any nationally recognized municipal credit rating agency.

In May 2010, the Association was informed by the Senior Bond Trustee and SCDOT that they did not expect to obtain approval of legislation deemed by SCDOT to be necessary to authorize SCDOT to extend the term of the License Agreement. Based upon these developments, the Association then pursued discussions with the Senior Bond Trustee, the financial advisor and the Restricted Owners regarding a debt adjustment plan which could be implemented over the remaining term of the License Agreement without any extension. These efforts resulted in the Restricted Owners and the Association developing the terms of a debt adjustment plan.

In an effort to obtain consent from all interested parties, the Association presented the debt adjustment plan to SCDOT. SCDOT informed the Association in June 2010 that SCDOT would not agree to the debt adjustment plan. Efforts to solicit or negotiate acceptable changes to the debt adjustment plan failed. As a result of the foregoing, in June 2010, the Association filed a petition for adjustment of its obligations in the U.S. Bankruptcy Court for the State of South Carolina.

As a result of the above, there is substantial doubt about the Association's ability to continue as a going concern.

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, the balance of which is $886.662 million as of June 30, 2010.

Management plans to continue to borrow from the Federal government to fund its deficits for the foreseeable future. The State has implemented comprehensive changes to the Unemployment Insurance (UI) tax structure specifically designed to assist in putting the Fund back on the path to solvency. See Note 12, subsection i.

NOTE 23: INVESTMENT MARKET UNCERTAINTY

As of June 30, 2010, the State's investment portfolio has incurred a increase in the values reported in the accompanying financial statements. However, as the values of individual investments fluctuate with market conditions, the amount of investment gains that the State may recognize in its future financial statements, if any, cannot be determined. The State believes that any investments that experience increase in value will be temporary unrealized gains as they have the intent and ability to hold such investments until maturity.

NOTE 24: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2010, the Social Rehabilitation Services function within Other Budgeted Funds had $228.149 million of expenditures in excess of appropriations at the level of legal control. These over-expenditures were mostly associated with the Federal Food Stamp Assistance Program. The Department of Social Services (DSS) had sufficient budgetary-basis revenue and cash to provide for all of its budgetary-basis expenditures, but failed to obtain formal authorization from Office of State Budget for the over expenditures. DSS has been converted to the new state-wide accounting system that contains edits that would not allow DSS to record these type of expenditures without receiving the proper budgetary authorization.