BASIC FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2012
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 4,574,644	$ 1,754,479	$ 6,329,123	$ 346,075
Investments	2,261	178,016	180,277	228,931
Invested securities lending collateral	7,723	2,301	10,024	588
Receivables, net:				
Accounts	213,416	86,800	300,216	266,317
Contributions	764	2,912	3,676	3,203
Participants	—	1,505	1,505	—
Accrued interest	19,602	6,972	26,574	2,607
Income taxes	332,574	—	332,574	—
Sales and other taxes	491,856	—	491,856	—
Student accounts	19	56,438	56,457	—
Patient accounts	13,305	190,583	203,888	—
Loans and notes	23,278	8,143	31,421	—
Assessments	—	126,132	126,132	—
Due from Federal government and other grantors	709,648	163,342	872,990	2,632
Internal balances	3,156	(3,156)	—	—
Due from component units	32,285	160,434	192,719	—
Due from primary government	—	—	—	186,846
Inventories	34,216	40,552	74,768	688,212
Restricted assets:				
Cash and cash equivalents	92,912	677,972	770,884	165,414
Investments	—	96,911	96,911	171,452
Loans receivable	—	22,762	22,762	—
Other	72,434	11,659	84,093	—
Prepaid items	34,663	38,782	73,445	18,814
Other current assets	—	18,632	18,632	266,679
Deferred charges	—	—	—	1,292
Total current assets	6,658,756	3,642,171	10,300,927	2,349,062

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

Statement of Net Assets (Continued)

June 30, 2012
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
Long-term assets:				
Investments	$ 504,149	$ 51,191	$ 555,340	$ 879,556
Receivables, net:				
Accounts	49,667	40,728	90,395	1,735
Contributions	629	3,264	3,893	55,353
Participants	—	3,939	3,939	—
Income taxes	3,985	—	3,985	—
Sales and other taxes	46,044	—	46,044	—
Student accounts	—	35	35	—
Patient accounts	649	—	649	—
Loans and notes	478,360	113,208	591,568	130
Due from Federal government and other grantors	3,271	—	3,271	—
Restricted assets:				
Cash and cash equivalents	681,938	253,226	935,164	95,329
Investments	—	267,262	267,262	392,524
Accounts receivable	284,917	—	284,917	—
Loans receivable	—	733,065	733,065	—
Other	3,809	76,817	80,626	—
Prepaid items	1,535	13,677	15,212	—
Other long-term assets	1,178	16,653	17,831	214,986
Deferred charges	70,956	27,154	98,110	763,402
Investment in joint venture	—	—	—	9,540
Non-depreciable capital assets	4,164,570	688,764	4,853,334	1,713,643
Depreciable capital assets, net	10,682,624	4,022,305	14,704,929	4,026,971
Total long-term assets	16,978,281	6,311,288	23,289,569	8,153,169
Total assets	23,637,037	9,953,459	33,590,496	10,502,231

Continued on Next Page

Statement of Net Assets (Continued)

June 30, 2012
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
LIABILITIES				
Current liabilities:				
Accounts payable	$ 621,332	$ 192,625	$ 813,957	$ 235,277
Accrued salaries and related expenses	136,407	114,674	251,081	11,491
Accrued interest payable	37,174	20,982	58,156	123,196
Retainages payable	1,111	3,868	4,979	3,773
Tax refunds payable	715,200	20,432	735,632	—
Payables-aid to individuals/families	10,122	—	10,122	—
Prizes payable	—	—	—	24,624
Unemployment benefits payable	—	18,210	18,210	—
Intergovernmental payables	468,254	11,569	479,823	626
Tuition benefits payable	—	24,654	24,654	—
Policy claims	506,940	11,778	518,718	29,612
Due to component units	186,846	—	186,846	—
Due to primary government	—	—	—	192,739
Unearned revenues and deferred credits	433,449	166,087	599,536	12,518
Deposits	—	13,915	13,915	17
Amounts held in custody for others	—	4,086	4,086	7,915
Securities lending collateral	26,010	7,706	33,716	1,981
Liabilities payable from restricted assets:				
Accounts payable	—	437	437	267
Accrued interest payable	22,292	18,333	40,625	—
Bonds payable	60,730	8,060	68,790	—
Other	—	46,358	46,358	—
Advances from Federal government	—	106,500	106,500	—
Notes payable	10,991	28,039	39,030	604
General obligation bonds anticipation notes payable	—	28,000	28,000	—
General obligation bonds payable	186,245	26,975	213,220	—
Revenue bonds payable	3,015	45,744	48,759	163,245
Limited obligation bonds payable	1,420	—	1,420	—
Capital leases payable	78	5,640	5,718	1,246
Commercial paper notes	—	—	—	306,566
Compensated absences payable	115,359	86,264	201,623	3,010
Other current liabilities	32,201	24,319	56,520	99,372
Total current liabilities	3,575,176	1,035,255	4,610,431	1,218,079

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

Statement of Net Assets (Continued)

June 30, 2012
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
Long-term liabilities:				
Retainages payable	$ —	$ 1,517	$ 1,517	$ 6,634
Tuition benefits payable	—	133,597	133,597	—
Policy claims	193,056	100,431	293,487	96,891
Unearned revenues and deferred credits	—	4,112	4,112	347,476
Amounts held in custody for others	—	—	—	2,398
Other liabilities payable from restricted assets	—	6	6	—
Advances from Federal government	—	675,688	675,688	—
Notes payable	30,439	96,748	127,187	—
General obligation bonds payable	1,385,712	434,632	1,820,344	—
Infrastructure Bank bonds payable	2,013,578	—	2,013,578	—
Revenue bonds payable	24,409	2,071,885	2,096,294	5,318,487
Limited obligation bonds payable	2,402	—	2,402	—
Capital leases payable	240	95,353	95,593	1,226
Compensated absences payable	94,331	72,876	167,207	19,219
Other long-term liabilities	147,427	75,494	222,921	107,639
Total long-term liabilities	3,891,594	3,762,339	7,653,933	5,899,970
Total liabilities	7,466,770	4,797,594	12,264,364	7,118,049
NET ASSETS				
Invested in capital assets, net of related debt	11,251,603	2,742,733	13,994,336	279,285
Restricted:				
Expendable:				
Education	112,443	266,335	378,778	238,031
Health	188,829	—	188,829	—
Transportation	576,964	—	576,964	219
Capital projects	169,404	434,377	603,781	1,000
Debt service	994,487	187,314	1,181,801	137,415
Loan programs	352,567	307,430	659,997	—
Waste management	202,697	—	202,697	—
Insurance programs	343,109	—	343,109	—
Other	208,862	—	208,862	209,447
Nonexpendable:				
Education	—	242,946	242,946	398,968
Other	9,057	—	9,057	—
Unrestricted	1,760,245	974,730	2,734,975	2,119,817
Total net assets	**$ 16,170,267**	**$ 5,155,865**	**$ 21,326,132**	**$ 3,384,182**

Statement of Activities

For the Fiscal Year Ended June 30, 2012
(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	$ 4,685,050	$ 2,039,415	$ 394,070	$ 12,389	$ (2,239,176)
Education	4,163,313	52,467	1,164,507	356	(2,945,983)
Health and environment	5,778,883	199,683	3,738,754	303	(1,840,143)
Social services	2,066,923	4,708	1,762,022	4	(300,189)
Administration of justice	658,925	134,788	35,467	23	(488,647)
Resources and economic development	207,810	57,899	64,713	10,249	(74,949)
Transportation	1,194,222	135,421	206,664	622,824	(229,313)
Unallocated interest expense	87,929	—	—	—	(87,929)
Total governmental activities	**18,843,055**	**2,624,381**	**7,366,197**	**646,148**	**(8,206,329)**
Business-type activities:					
Higher education	3,844,159	2,688,543	699,147	83,722	(372,747)
Higher education institution support	1,359,870	1,376,960	58,507	—	75,597
Unemployment compensation benefits	1,066,105	438,115	643,756	40	15,806
Financing of housing facilities	197,555	51,104	155,858	142	9,549
Medical malpractice insurance	9,705	16,207	161	606	7,269
Financing of student loans	15,336	16,961	244	4	1,873
Tuition prepayment program	737	284	(4,397)	5	(4,845)
State maritime museum	9,883	9,406	65	—	(412)
Insurance claims processing	1,830	1,560	—	133	(137)
Other enterprise activities	29,317	39,171	91	2	9,947
Total business-type activities	**6,534,497**	**4,638,311**	**1,553,432**	**84,654**	**(258,100)**
Total primary government	**$ 25,377,552**	**$ 7,262,692**	**$ 8,919,629**	**$ 730,802**	**$ (8,464,429)**
Component units:					
Public Service Authority	1,785,899	1,914,689	3,477	—	132,267
State Ports Authority	135,364	131,344	5,433	35,521	36,934
Connector 2000 Association, Inc.	15,772	5,782	118	—	(9,872)
Lottery Commission	1,139,408	1,139,278	10	—	(120)
Other	98,326	22,856	109,707	—	34,237
Total component units	**$ 3,174,769**	**$ 3,213,949**	**$ 118,745**	**$ 35,521**	**$ 193,446**

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

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net assets:				
Net revenues (expenses)	$ (8,206,329)	$ (258,100)	$ (8,464,429)	$ 193,446
General revenues:				
Taxes:				
Individual income	3,101,861	—	3,101,861	—
Retail sales and use	4,148,010	—	4,148,010	—
Other	2,000,124	—	2,000,124	—
Total taxes	9,249,995	—	9,249,995	—
Unrestricted grants and contributions	93,970	—	93,970	—
Unrestricted investment income	77,729	6,953	84,682	—
Tobacco legal settlement	74,122	—	74,122	—
Other revenues	509,742	62	509,804	—
Additions to endowments	—	20,171	20,171	—
Extraordinary gain on early extinguishment of debt	—	119	119	—
Extraordinary gain on adjustment of debts from bankruptcy	—	—	—	186,847
Transfers–internal activities	(640,774)	640,774	—	—
Total general revenues, additions to endowments, and transfers	**9,364,784**	**668,079**	**10,032,863**	**186,847**
Change in net assets	**1,158,455**	**409,979**	**1,568,434**	**380,293**
Net assets, beginning, as previously presented	14,799,285	4,779,723	19,579,008	3,010,456
Correction of error restatement	212,527	(33,837)	178,690	(6,567)
Net assets at beginning of year, restated	**15,011,812**	**4,745,886**	**19,757,698**	**3,003,889**
Net assets at end of year	**$ 16,170,267**	**$ 5,155,865**	**$ 21,326,132**	**$ 3,384,182**

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2012
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure
ASSETS			
Cash and cash equivalents	$ 2,300,194	$ 222,102	$ 468,297
Investments	34,329	16,867	—
Invested securities lending collateral	387	182	2,796
Receivables, net:			
Accounts	55,097	76,644	14,144
Contributions	1,392	—	—
Accrued interest	8,411	494	3,225
Income taxes	336,559	—	—
Sales and other taxes	429,807	11,819	—
Student accounts	19	—	—
Patient accounts	9,637	4,317	—
Loans and notes	39,600	459	443,929
Due from Federal government and other grantors	8,256	607,026	—
Due from other funds	47,643	20,395	685
Due from component units	39	73	—
Interfund receivables	4,046	870	316,227
Inventories	21,476	3,231	—
Restricted assets:			
Cash and cash equivalents	—	—	753,582
Accounts receivable	—	—	284,917
Other	—	—	39,113
Prepaid items	5,940	4,469	14
Other assets	—	—	—
Total assets	**$ 3,302,832**	**$ 968,948**	**$ 2,326,929**
LIABILITIES AND FUND BALANCES (DEFICIT)			
Liabilities:			
Accounts payable	$ 324,277	$ 240,890	$ 3,907
Accrued salaries and related expenditures	88,051	23,969	44
Retainages payable	—	322	—
Tax refunds payable	715,091	—	—
Payable–aid to individuals/families	1,022	9,100	—
Intergovernmental payables	115,307	238,884	—
Due to other funds	68,141	103,607	22
Interfund payables	4,918	156	—
Deferred revenues	40,665	142,612	362,460
Securities lending collateral	1,301	613	9,415
Other liabilities	50,010	5	—
Total liabilities	**1,408,783**	**760,158**	**375,848**
Fund balances (deficit):			
Nonspendable	67,842	9,029	745,212
Restricted	1,335	210,651	1,535,332
Committed	384,252	4,764	—
Assigned	495,878	—	—
Unassigned	944,742	(15,654)	(329,463)
Total fund balances (deficit)	**1,894,049**	**208,790**	**1,951,081**
Total liabilities and fund balances	**$ 3,302,832**	**$ 968,948**	**$ 2,326,929**

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

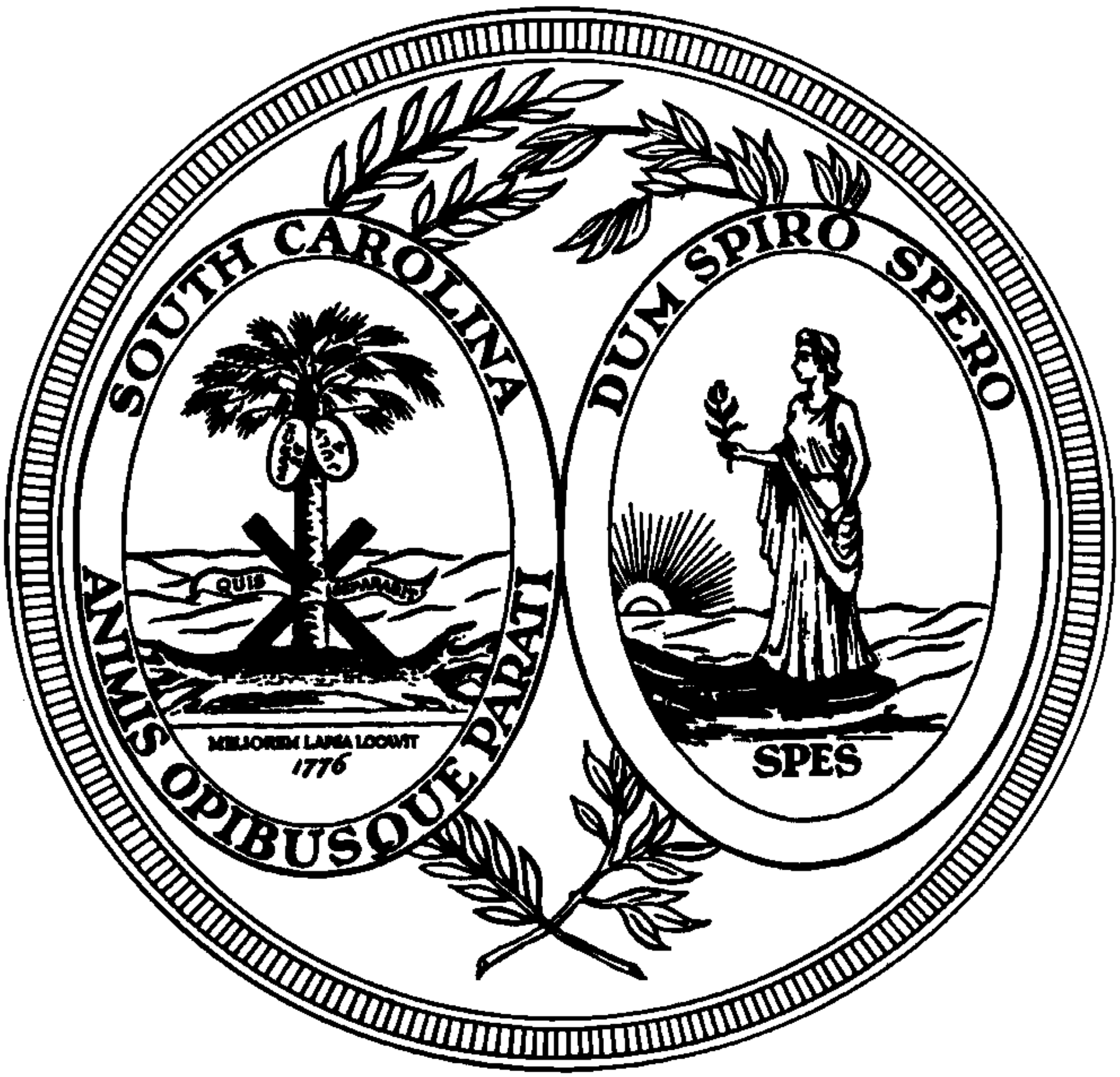
Department of Transportation Special Revenue	State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ 254,382	$ 21,785	$ 687,921	$ 3,954,681
—	—	—	51,196
275	30	614	4,284
4,359	—	1	150,245
—	—	—	1,392
420	78	1,732	14,360
—	—	—	336,559
8,603	—	87,672	537,901
—	—	—	19
—	—	—	13,954
5,459	—	12,191	501,638
95,330	—	2,306	712,918
1,245	—	21,772	91,740
—	—	32,074	32,186
—	—	13,634	334,777
3,376	—	—	28,083
10,564	—	10,704	774,850
—	—	—	284,917
—	—	37,130	76,243
2,121	—	11	12,555
771	—	—	771
$ 386,905	**$ 21,893**	**$ 907,762**	**$ 7,915,269**
$ 124,884	$ —	$ 53,229	$ 747,187
20,100	—	158	132,322
578	—	211	1,111
—	—	108	715,199
—	—	—	10,122
—	—	109,326	463,517
12,645	—	10,016	194,431
316,275	—	12,095	333,444
42,048	—	3,179	590,964
928	102	2,069	14,428
—	—	704	50,719
517,458	**102**	**191,095**	**3,253,444**
9,422	—	32,098	863,603
10,000	21,791	552,523	2,331,632
140,794	—	55	529,865
—	—	132,045	627,923
(290,769)	—	(54)	308,802
(130,553)	**21,791**	**716,667**	**4,661,825**
$ 386,905	**$ 21,893**	**$ 907,762**	**$ 7,915,269**

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

June 30, 2012
(Expressed in Thousands)

Total fund balances–governmental funds		**$ 4,661,825**
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	$ 4,157,673	
Depreciable capital assets	15,232,926	
Accumulated depreciation	(4,646,745)	
Total capital assets		14,743,854
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		24,003
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		318,974
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		484,443
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		18,273
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	(3,661,100)	
Notes payable	(38,284)	
Accrued interest on bonds	(59,110)	
Capital leases	(318)	
Compensated absences	(203,985)	
Policy claims	(43,225)	
Other	(75,083)	
Total long-term liabilities		(4,081,105)
Net assets of governmental activities		**$ 16,170,267**

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, 2012
(Expressed in Thousands)

	General Fund	Departmental Program Services
Revenues:		
Taxes:		
Individual income	$ 3,101,593	$ —
Retail sales and use	3,490,637	2,554
Other	1,202,158	235,574
Licenses, fees, and permits	259,397	27,749
Interest and other investment income	53,820	7,133
Federal	77,451	6,680,587
Local and private grants	15,883	38,215
Departmental services	763,652	151,003
Contributions	36,474	12,254
Fines and penalties	100,149	6,543
Tobacco legal settlement	—	—
Other	407,684	241,821
Total revenues	**9,508,898**	**7,403,433**
Expenditures:		
Current:		
General government	444,753	97,274
Education	564,973	171,038
Health and environment	2,153,646	4,241,990
Social services	281,405	1,731,390
Administration of justice	689,442	31,327
Resources and economic development	133,813	54,447
Transportation	2,135	2,122
Capital outlay	32,334	20,054
Debt service:		
Principal retirement	145,416	2,884
Interest and fiscal charges	52,419	636
Intergovernmental	3,897,405	1,045,780
Total expenditures	**8,397,741**	**7,398,942**
Excess of revenues over expenditures	**1,111,157**	**4,491**
Other financing sources (uses):		
Bonds and notes issued	—	—
Refunding bonds issued	103,955	—
Premiums on bonds issued	17,152	—
Capital Leases	—	—
Payment to refunded bond escrow agent	(100,596)	—
Redemption of refunded bonds	(19,834)	—
Transfers in	18,445	22,614
Transfers out	(779,911)	(3,109)
Total other financing sources (uses)	**(760,789)**	**19,505**
Net change in fund balances	**350,368**	**23,996**
Fund balances (deficit), beginning, as previously presented	1,498,530	180,573
Correction of error restatement	45,151	4,221
Fund balances (deficit) at beginning of year, restated	**1,543,681**	**184,794**
Fund balances (deficit) at end of year	**$ 1,894,049**	**$ 208,790**

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

Local Government Infrastructure	Department of Transportation Special Revenue	State Tobacco Settlement	Nonmajor Governmental Funds	Totals
$ 13,295	$ —	$ —	$ —	$ 3,114,888
—	—	—	654,818	4,148,009
—	568,632	—	39,856	2,046,220
102,622	—	—	85,058	474,826
62,559	6,434	2,726	7,712	140,384
19,821	801,233	—	36,295	7,615,387
—	—	—	—	54,098
12,318	39,033	—	23,671	989,677
51,661	—	—	271,600	371,989
—	—	—	8,469	115,161
—	—	—	74,122	74,122
193	11,870	—	10,830	672,398
262,469	**1,427,202**	**2,726**	**1,212,431**	**19,817,159**
586	—	—	157,566	700,179
—	—	—	210,043	946,054
—	—	8	2,025	6,397,669
—	—	—	43,987	2,056,782
—	—	—	—	720,769
664	—	—	442	189,366
3,529	827,278	—	—	835,064
—	321,114	—	26,852	400,354
62,183	41,082	—	72,891	324,456
107,514	29,561	—	27,760	217,890
55,245	78,233	—	526,089	5,602,752
229,721	**1,297,268**	**8**	**1,067,655**	**18,391,335**
32,748	**129,934**	**2,718**	**144,776**	**1,425,824**
—	—	—	810	810
294,710	—	—	—	398,665
30,246	—	—	—	47,398
—	230	—	—	230
(321,860)	—	—	—	(422,456)
—	—	—	—	(19,834)
—	63	—	126,011	167,133
(1,566)	—	(1,000)	(35,374)	(820,960)
1,530	**293**	**(1,000)**	**91,447**	**(649,014)**
34,278	**130,227**	**1,718**	**236,223**	**776,810**
1,907,193	(260,780)	22,804	469,195	3,817,515
9,610	—	(2,731)	11,249	67,500
1,916,803	**(260,780)**	**20,073**	**480,444**	**3,885,015**
$ 1,951,081	**$ (130,553)**	**$ 21,791**	**$ 716,667**	**$ 4,661,825**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

Net change in fund balances–total governmental funds		**$ 776,810**
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	$ 400,354	
Depreciation expense	(291,880)	
Excess of capital outlay over depreciation expense		108,474
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		43,573
Gain on disposals of capital assets are reported as a revenue in the statement of activities		3,749
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	(399,475)	
Net bond premiums and discounts	(47,398)	
Net bond and note proceeds		(446,873)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets		828
Certain capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability		(230)
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	316,074	
Bonds repurchased	442,290	
Note principal retirement	8,231	
Capital lease payments	151	
Total long-term debt repayment		766,746
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is included in governmental activities in the statement of activities		(12,443)
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		(118,600)

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

Eliminations relating to the consolidation of internal service funds resulted in a net decrease in expenses for the business-type activities in the statement of activities		15,976
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 consist of changes in the following assets and liabilities:		
Accrued interest payable	$ 8,279	
Unamortized bond issuance costs	(3,601)	
Unamortized bond premiums and discounts	(12,764)	
Unamortized deferred losses on refunding of debt	(4,113)	
Compensated absences payable	1,240	
Policy claims payable	(7,138)	
Other long-term liabilities	38,542	
Total additional expenses		20,445
Change in net assets of governmental activities		**$ 1,158,455**

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2012
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,100,896	$ 267,582	$ 24,092
Investments	87,053	—	—
Invested securities lending collateral	2,064	17	116
Receivables, net:			
Accounts	53,882	17,687	1,184
Contributions	2,859	—	—
Participants	—	—	—
Accrued interest	5,723	52	74
Student accounts	56,438	—	—
Patient accounts	—	—	—
Loans and notes	204	—	285
Assessments	—	126,132	—
Due from Federal government and other grantors	133,936	12,434	1,507
Due from other funds	38,487	—	386
Due from component units	160,434	—	—
Inventories	18,386	—	—
Restricted assets:			
Cash and cash equivalents	536,883	—	87,618
Investments	5	—	87,481
Loans receivable	1,578	—	21,114
Other	4,162	—	7,028
Prepaid items	30,211	—	—
Other current assets	10,298	—	610
Total current assets	2,243,499	423,904	231,495
Long-term assets:			
Investments	36,266	—	—
Receivables, net:			
Accounts	—	—	—
Contributions	3,108	—	—
Participants	—	—	—
Student accounts	35	—	—
Loans and notes	5,061	—	17,660
Interfund receivables	—	—	—
Restricted assets:			
Cash and cash equivalents	201,802	—	—
Investments	5,100	—	168,828
Loans receivable	47,926	—	680,757
Other	76,593	—	—
Prepaid items	3,197	—	—
Other long-term assets	3,764	—	—
Deferred charges	3,179	—	6,495
Non-depreciable capital assets	564,983	—	—
Depreciable capital assets, net	3,444,894	—	639
Total long-term assets	4,395,908	—	874,379
Total assets	**6,639,407**	**423,904**	**1,105,874**

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
$ 33,154	$ 91,506	$ 237,249	$ 1,754,479	$ 619,964
—	—	90,963	178,016	—
—	2	102	2,301	3,439
—	4,545	9,502	86,800	110,264
—	—	53	2,912	—
—	—	1,505	1,505	—
—	464	659	6,972	5,243
—	—	—	56,438	—
153,830	—	36,753	190,583	—
—	7,654	—	8,143	—
—	—	—	126,132	—
15,361	—	104	163,342	—
20,703	—	24,200	83,776	20,383
—	—	—	160,434	49
18,908	—	3,258	40,552	6,133
—	8,305	45,166	677,972	—
—	—	9,425	96,911	—
—	—	70	22,762	—
—	—	5,565	16,755	—
7,705	5	861	38,782	23,253
2,319	—	5,405	18,632	—
251,980	112,481	470,840	3,734,199	788,728
—	—	14,925	51,191	455,214
—	40,686	42	40,728	1,271
—	—	156	3,264	—
—	—	3,939	3,939	—
—	—	—	35	—
—	90,400	87	113,208	—
—	—	703	703	16,467
47,274	—	4,150	253,226	—
40,131	—	53,203	267,262	—
—	—	4,382	733,065	—
—	—	20,914	97,507	—
—	—	10,480	13,677	391
3,862	—	9,027	16,653	407
14,731	1,535	1,214	27,154	66
35,262	—	88,519	688,764	6,897
486,653	40	90,079	4,022,305	96,443
627,913	132,661	301,820	6,332,681	577,156
879,893	**245,142**	**772,660**	**10,066,880**	**1,365,884**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2012
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
LIABILITIES			
Current liabilities:			
Accounts payable	$ 102,979	$ 77	$ —
Accrued salaries and related expenses	73,548	—	765
Accrued interest payable	12,632	—	—
Retainages payable	3,836	—	—
Tax refunds payable	—	20,432	—
Unemployment benefits payable	—	18,210	—
Intergovernmental payables	—	11,569	—
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	33,743	18,713	—
Unearned revenues	160,556	—	286
Deposits	13,915	—	—
Amounts held in custody for others	4,086	—	—
Securities lending collateral	6,950	56	391
Liabilities payable from restricted assets:			
Accounts payable	437	—	—
Accrued interest payable	—	—	17,409
Bonds payable	—	—	8,060
Other	—	—	5,272
Advances from Federal government	—	106,500	—
Notes payable	8,739	—	—
General obligation bond anticipation notes payable	28,000	—	—
General obligation bonds payable	26,975	—	—
Revenue bonds payable	33,031	—	—
Limited obligation bonds payable	—	—	—
Capital leases payable	5,238	—	—
Compensated absences payable	54,240	—	500
Other current liabilities	20,049	—	1,646
Total current liabilities	588,954	175,557	34,329
Long-term liabilities:			
Retainage payable	1,517	—	—
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Interfund payables	23,275	—	—
Unearned revenues	3,737	—	—
Other liabilities payable from restricted assets	—	—	—
Advances from Federal government	—	675,688	—
Notes payable	57,787	—	—
General obligation bonds payable	434,632	—	—
Revenue bonds payable	801,182	—	732,303
Limited obligation bonds payable	—	—	—
Capital leases payable	94,456	—	—
Compensated absences payable	69,779	—	205
Other long-term liabilities	56,515	—	54
Total long-term liabilities	1,542,880	675,688	732,562
Total liabilities	**2,131,834**	**851,245**	**766,891**

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
$ 42,309	$ 30,775	$ 16,380	$ 192,520		$ 5,891
23,063	—	17,298	114,674		4,085
7,452	—	898	20,982		356
32	—	—	3,868		—
—	—	—	20,432		—
—	—	—	18,210		—
—	—	—	11,569		4,737
—	—	24,654	24,654		—
—	—	11,778	11,778		498,839
94	270	254	53,074		2,890
—	—	5,245	166,087		161,459
—	—	—	13,915		—
—	—	—	4,086		—
—	6	303	7,706		11,582
—	—	—	437		—
—	851	73	18,333		—
—	—	—	8,060		—
—	—	41,086	46,358		—
—	—	—	106,500		—
10,968	—	8,332	28,039		2,083
—	—	—	28,000		—
—	—	—	26,975		—
11,365	—	1,348	45,744		1,780
—	—	—	—		1,420
258	—	144	5,640		—
27,856	—	3,668	86,264		3,014
5,114	704	1,902	29,415		6,298
128,511	32,606	133,363	1,093,320		704,434
—	—	—	1,517		—
—	—	133,597	133,597		—
—	—	100,431	100,431		157,932
703	—	13,105	37,083		2,110
—	—	375	4,112		—
—	—	6	6		—
—	—	—	675,688		—
607	—	38,354	96,748		1,063
—	—	—	434,632		—
411,700	69,825	56,875	2,071,885		10,809
—	—	—	—		2,402
615	—	282	95,353		—
—	—	2,892	72,876		2,691
10,176	1,323	7,426	75,494		—
423,801	71,148	353,343	3,799,422		177,007
552,312	**103,754**	**486,706**	**4,892,742**		**881,441**

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2012
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	$ 2,519,835	$ —	$ 639
Restricted:			
Expendable:			
Education	240,725	—	—
Capital projects	434,269	—	—
Debt service	48,572	—	40,884
Loan programs	—	—	254,932
Insurance programs	—	—	—
Nonexpendable:			
Education	204,438	—	—
Unrestricted	1,059,734	(427,341)	42,528
Total net assets (deficit)	**4,507,573**	**(427,341)**	**338,983**
Elimination of internal service funds transactions	(18,273)	—	—
Elimination of internal lease transactions	20,690	—	—
Net assets (deficit) after eliminations	**$ 4,509,990**	**$ (427,341)**	**$ 338,983**

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

FUNDS					INTERNAL SERVICE FUNDS
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals		
$ 92,402	$ 40	$ 129,817	$ 2,742,733		$ 83,783
—	—	25,610	266,335		—
—	—	108	434,377		—
87,401	7,956	2,501	187,314		—
—	52,498	—	307,430		20,000
—	—	—	—		362,506
—	—	38,508	242,946		—
147,778	80,894	89,410	993,003		18,154
327,581	**141,388**	**285,954**	**5,174,138**		**$ 484,443**
—	—	—	(18,273)		
—	—	(20,690)	—		
$ 327,581	**$ 141,388**	**$ 265,264**	**$ 5,155,865**		

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

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Operating revenues:			
Assessments	$ —	$ 401,708	$ —
Charges for services	1,663,921	—	11,024
Interest and other investment income	—	359	50,979
Licenses, fees, and permits	—	—	—
Operating revenues pledged for revenue bonds	229,322	—	—
Federal operating grants and contracts	430,563	643,583	—
State operating grants and contracts	276,628	—	—
Local/private operating grants and contracts	87,759	—	—
Other operating revenues	84,648	37,653	—
Total operating revenues	**2,772,841**	**1,083,303**	**62,003**
Operating expenses:			
General operations and administration	3,290,203	—	11,913
Benefits and claims	—	1,066,026	—
Tuition plan disbursements	—	—	—
Interest	—	—	35,965
Depreciation and amortization	202,468	—	831
Scholarships and fellowships	269,460	—	—
Other operating expenses	19,941	—	5,084
Total operating expenses	**3,782,072**	**1,066,026**	**53,793**
Operating income (loss)	**(1,009,231)**	**17,277**	**8,210**
Nonoperating revenues (expenses):			
Federal and local government appropriations	73,633	—	—
Interest income	23,390	—	—
Contributions	119,101	—	—
Federal grants and contracts	362,779	—	144,817
State grants and contracts	11,782	—	—
Local/private grants and contracts	13,921	—	—
Interest expense	(57,887)	—	—
Net other nonoperating revenues (expenses)	6,224	—	(143,478)
Total nonoperating revenues (expenses)	**552,943**	**—**	**1,339**
Income (loss) before other revenues, expenses, losses, and transfers	**(456,288)**	**17,277**	**9,549**
Federal capital grants and contracts	12,876	—	—
Local/private capital grants and contracts	72,354	—	—
Additions to endowments	19,392	—	—
Gain on early extinguishment of debt	—	119	—
Transfers in	582,723	138,222	400
Transfers out	(690)	—	—
Change in net assets	**230,367**	**155,618**	**9,949**
Net assets (deficit), beginning, as previously presented	4,277,206	(583,425)	329,034
Correction of error restatement	—	466	—
Net assets (deficit) at beginning of year, restated	**4,277,206**	**(582,959)**	**329,034**
Net assets (deficit) at end of year	**4,507,573**	**(427,341)**	**338,983**
Elimination of internal lease transactions	1,421	—	—
Net assets (deficit) after eliminations	**$ 4,508,994**	**$ (427,341)**	**$ 338,983**
Elimination of internal service funds transactions			

FUNDS				
Medical University Hospital Authority	**Education Assistance Authority**	**Nonmajor Enterprise**	**Totals**	**INTERNAL SERVICE FUNDS**
$ —	$ —	$ —	$ 401,708	$ —
1,030,333	16,961	404,602	3,126,841	2,195,662
—	66	3,797	55,201	138
—	—	—	—	70
—	—	1,578	230,900	—
—	—	5,995	1,080,141	—
—	—	1,755	278,383	—
—	—	—	87,759	—
17,187	—	40,963	180,451	117,057
1,047,520	**17,027**	**458,690**	**5,441,384**	**2,312,927**
960,837	7,025	346,933	4,616,911	354,113
—	—	7,730	1,073,756	1,985,987
—	—	726	726	—
—	3,513	—	39,478	5
56,218	182	6,626	266,325	9,295
—	—	—	269,460	—
—	4,608	4,532	34,165	4,946
1,017,055	**15,328**	**366,547**	**6,300,821**	**2,354,346**
30,465	**1,699**	**92,143**	**(859,437)**	**(41,419)**
—	—	—	73,633	—
1,684	—	1,091	26,165	33,354
—	—	2,596	121,697	503
—	—	(80)	507,516	—
—	—	—	11,782	—
—	—	493	14,414	—
(24,777)	—	(4,625)	(87,289)	(820)
—	174	(11,484)	(148,564)	2,630
(23,093)	**174**	**(12,009)**	**519,354**	**35,667**
7,372	**1,873**	**80,134**	**(340,083)**	**(5,752)**
—	—	—	12,876	—
—	—	—	72,354	—
—	—	779	20,171	—
—	—	—	119	—
—	—	1,139	722,484	504
—	—	(61,276)	(61,966)	(7,195)
7,372	**1,873**	**20,776**	**425,955**	**(12,443)**
320,209	139,515	299,481		496,769
—	—	(34,303)		117
320,209	**139,515**	**265,178**		**496,886**
327,581	**141,388**	**285,954**		**$ 484,443**
—	—	(1,421)		
$ 327,581	**$ 141,388**	**$ 284,533**		
			(15,976)	
			$ 409,979	

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from operating activities:			
Receipts from customers, patients, and third-party payers	$ 1,779,679	$ 13,795	$ 9,692
Assessments received	—	412,427	—
Grants received	769,736	663,508	—
Receipts from collection of loans and notes	721,246	—	129,930
Receipts of funds held for others	166,563	—	—
Tuition plan contributions received	—	—	—
Other operating cash receipts	43,029	—	—
Claims and benefits paid	—	(1,042,073)	—
Payments to suppliers for goods and services	(1,251,923)	—	(7,510)
Payments to employees	(2,151,424)	—	(7,582)
Payments for scholarships and fellowships	(137,725)	—	—
Loans issued to students	(717,790)	—	—
Program loans issued	—	—	(16,117)
Payments of funds held for others	(112,314)	—	—
Internal activity–payments from other funds	79,241	—	—
Internal activity–payments to other funds	—	—	—
Other operating cash payments	(973)	—	—
Net cash provided by (used in) operating activities	**(812,655)**	**47,657**	**108,413**
Cash flows from noncapital financing activities:			
State, county, and local appropriations	61,508	—	—
Federal appropriations	10,863	—	—
Funds held for others	21	—	—
Principal payments received from other funds	—	—	—
Advances received from other funds	—	—	—
Principal payments made to other funds	—	—	(166)
Receipt of interest from other funds	—	—	—
Repayment of Advances from Federal government	—	(184,761)	—
Proceeds from sale of noncapital debt	14,725	—	34,700
Principal payments on noncapital debt	(14,720)	—	(83,970)
Interest payments on noncapital debt	(102)	—	(37,038)
Payment of bond issuance costs	—	—	(548)
Gifts and grants for other than capital purposes	530,516	—	—
Proceeds from Federal grants	—	—	144,818
Other noncapital financing cash receipts	28,741	—	—
Other noncapital financing cash payments	(134)	—	(143,469)
Transfers in	582,723	138,222	400
Transfers out	(690)	—	—
Net cash provided by (used in) noncapital financing activities	**1,213,451**	**(46,539)**	**(85,273)**

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
$ 1,023,665	$ 28,232	$ 390,013	$ 3,245,076		$ 1,521,632
—	—	101,990	514,417		—
—	—	7,750	1,440,994		—
—	7,183	—	858,359		—
—	—	—	166,563		—
—	—	519	519		—
16,631	—	91,408	151,068		149,645
—	—	(118,400)	(1,160,473)		(1,839,685)
(412,025)	(4,729)	(148,714)	(1,824,901)		(415,302)
(455,494)	(3,234)	(244,582)	(2,862,316)		(69,670)
—	—	—	(137,725)		—
—	—	—	(717,790)		—
—	(19,581)	—	(35,698)		—
—	—	—	(112,314)		(7,170)
—	—	700	79,941		702,407
(79,241)	—	(2,488)	(81,729)		—
—	—	(13,289)	(14,262)		(187)
93,536	**7,871**	**64,907**	**(490,271)**		**41,670**
—	—	—	61,508		—
—	—	—	10,863		—
—	—	—	21		—
—	—	—	—		3,104
—	—	—	—		1,524
—	—	(10)	(176)		(800)
—	—	—	—		232
—	—	—	(184,761)		—
—	—	—	49,425		417
—	(3,270)	(1,849)	(103,809)		—
—	(3,552)	(1,405)	(42,097)		(2)
—	—	—	(548)		—
—	—	(3,881)	526,635		—
—	—	—	144,818		—
—	174	1,692	30,607		970
—	—	(8,104)	(151,707)		—
—	—	1,139	722,484		504
—	—	(61,276)	(61,966)		(7,195)
—	**(6,648)**	**(73,694)**	**1,001,297**		**(1,246)**

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from capital and related financing activities:			
Capital appropriations	$ 2,001	$ —	$ —
Acquisition of capital assets	(348,373)	—	(18)
Principal payments on limited obligation bonds	—	—	—
Proceeds from issuance of capital debt	322,026	—	—
Principal payments on capital debt	(304,683)	—	—
Interest payments on capital debt	(66,013)	—	—
Payment of agent and broker fees	(729)	—	—
Payment of licensing fee obligations	—	—	—
Proceeds from sale or disposal of capital assets	1,430	—	—
Capital grants and gifts received	64,757	—	—
Net cash used in capital and related financing activities	**(329,584)**	**—**	**(18)**
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	90,491	—	4,946
Purchase of investments	(125,917)	—	(94,599)
Collection of interfund receivables	—	—	—
Collection of interest on interfund receivables	—	—	—
Interest and dividends on investments	29,881	345	10,844
Transfer of endowment funds	(9,748)	—	—
Net settlement of investment derivative	—	16	—
Other	(21)	—	—
Net cash provided by (used in) investing activities	**(15,314)**	**361**	**(78,809)**
Net increase (decrease) in cash and cash equivalents	**55,898**	**1,479**	**(55,687)**
Cash and cash equivalents, beginning, as previously presented	1,783,683	265,638	167,397
Correction of an error restatement	—	465	—
Cash and cash equivalents at beginning of year, restated	**1,783,683**	**266,103**	**167,397**
Cash and cash equivalents at end of year	**$ 1,839,581**	**$ 267,582**	**$ 111,710**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (1,009,231)	$ 17,277	$ 8,210
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	202,468	—	831
Provision for bad debts	2,111	—	—
Realized gains and losses on sale of assets	—	—	—
Net increase in the fair value of investments	—	465	—
Issuance of loans and notes	—	—	(16,117)
Collection of loans and notes	—	—	89,447
Interest payments reclassified as noncapital financing activities	—	—	35,965
Interest and dividends on investments and interfund loans	—	—	(11,041)
Other nonoperating revenues	1,549	—	—
Other nonoperating expenses	—	(824)	—

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
$ —	$ —	$ —	$ 2,001	$ —
(40,018)	(7)	(30,935)	(419,351)	(2,221)
—	—	—	—	(1,339)
—	—	—	322,026	1,317
(32,490)	—	(6,131)	(343,304)	(3,983)
(24,227)	—	(3,509)	(93,749)	(1,013)
(1,504)	—	—	(2,233)	—
(5,086)	—	—	(5,086)	—
51	—	31	1,512	187
—	—	—	64,757	—
(103,274)	**(7)**	**(40,544)**	**(473,427)**	**(7,052)**
115,101	—	51,203	261,741	66,431
(114,926)	—	(64,009)	(399,451)	(101,831)
—	—	3,219	3,219	—
—	—	1,417	1,417	—
1,593	69	7,675	50,407	44,101
—	—	—	(9,748)	—
—	—	—	16	—
—	—	—	(21)	—
1,768	**69**	**(495)**	**(92,420)**	**8,701**
(7,970)	**1,285**	**(49,826)**	**(54,821)**	**42,073**
88,398	98,526	370,694	2,774,336	577,774
—	—	(34,303)	(33,838)	117
88,398	**98,526**	**336,391**	**2,740,498**	**577,891**
$ 80,428	**$ 99,811**	**$ 286,565**	**$ 2,685,677**	**$ 619,964**
$ 30,465	$ 1,699	$ 92,143	$ (859,437)	$ (41,419)
56,218	182	6,626	266,325	9,295
80,789	40	28,004	110,944	—
—	—	(359)	(359)	—
—	—	—	465	—
—	—	—	(16,117)	—
—	—	—	89,447	—
—	3,512	1,956	41,433	—
—	(70)	(6,366)	(17,477)	—
—	—	4,832	6,381	2,195
1,673	—	(1)	848	(178)

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Effect of changes in operating assets and liabilities:			
Accounts receivable, net	$ (24,049)	$ 438	$ (231)
Accrued interest	7	—	—
Loans receivable	1,104	—	—
Assessments receivable, net	—	2,313	—
Due from Federal government and other grantors	7,636	(8,840)	—
Due from other funds	(3,238)	—	(166)
Inventories	(414)	—	—
Other assets	(6,765)	—	278
Accounts payable	6,239	35	—
Accrued salaries and related expenses	1,531	—	(6)
Retainages payable	(62)	—	—
Tax refunds payable	—	11,452	—
Unemployment benefits payable	—	14,432	—
Tuition benefits payable	—	—	—
Policy claims	—	—	—
Due to other funds	2,331	10,909	(269)
Unearned revenues	2,406	—	174
Deposits	1,588	—	—
Compensated absences payable	5,075	—	(3)
Other liabilities	(2,941)	—	1,341
Net cash provided by (used in) operating activities	**$ (812,655)**	**$ 47,657**	**$ 108,413**
Noncash capital, investing, and financing activities:			
Acquisition of capital assets through donations	$ 3,312	$ —	$ —
Disposal of capital assets	(508)	—	—
Borrowing under capital leases	2,329	—	—
Reduction in advances other than payments	—	120	—
Increase (decrease) in fair value of investments	9,232	465	1,251
Capital grants receivable	7,808	—	—
Prorata income from joint ventures	—	—	—
Other noncash activity	4	—	36,000
Total noncash capital, investing, and financing activities	**$ 22,177**	**$ 585**	**$ 37,251**

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

FUNDS Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
$ (85,953)	$ 1,738	$ (28,179)	$ (136,236)	$ (22,424)
—	—	—	7	—
—	(9,885)	—	(8,781)	—
—	—	—	2,313	—
—	—	—	(1,204)	—
7,972	—	(4,019)	549	39,020
(683)	—	403	(694)	295
(1,229)	7	(3,020)	(10,729)	(5,893)
5,611	10,393	(771)	21,507	(168)
—	—	180	1,705	383
—	—	—	(62)	—
—	—	—	11,452	—
—	—	—	14,432	—
—	—	(12,820)	(12,820)	—
—	—	(9,884)	(9,884)	36,229
(1,327)	270	(2,336)	9,578	1,565
—	—	(233)	2,347	22,707
—	—	—	1,588	—
—	—	205	5,277	63
—	(15)	(1,454)	(3,069)	—
$ 93,536	**$ 7,871**	**$ 64,907**	**$ (490,271)**	**$ 41,670**
$ —	$ —	$ —	$ 3,312	$ —
—	11	—	(497)	6,999
—	—	—	2,329	—
—	—	—	120	—
652	—	(4,517)	7,083	524
—	—	—	7,808	—
—	—	369	369	—
—	—	56	36,060	—
$ 652	**$ 11**	**$ (4,092)**	**$ 56,584**	**$ 7,523**

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2012
(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	$ 2,188,751	$ 2,252,460	$ 12,575	$ 228,671
Receivables, net:				
Accounts	—	—	—	10,237
Contributions	207,732	—	—	—
Accrued interest	64,854	4,724	1,382	561
Unsettled investment sales	681,720	—	2,149	—
Other investment receivables	5,328	—	—	—
Taxes	—	—	—	548
Total receivables	959,634	4,724	3,531	11,346
Due from other funds	43,887	—	—	55,213
Investments, at fair value:				
Short term securities	—	—	—	481
Debt-domestic	4,334,428	1,139,895	—	—
Debt-international	1,518,902	—	—	—
Equity-domestic	1,864,566	—	—	—
Equity-international	1,738,518	—	—	—
Alternatives	14,475,741	—	—	—
Financial and other	90,871	80,778	1,491,679	—
Total investments	24,023,026	1,220,673	1,491,679	481
Invested securities lending collateral	187,557	—	62	27
Capital assets, net	2,984	—	—	—
Prepaid items	691	—	—	265
Other assets	—	—	4,875	—
Total assets	**27,406,530**	**3,477,857**	**1,512,722**	**296,003**
LIABILITIES				
Accounts payable	9,498	—	2,145	14,562
Accounts payable–unsettled investment purchases	907,738	—	1,670	—
Policy claims	239	—	—	—
Due to other funds	44,004	—	—	600
Intergovernmental payables	—	—	—	27,621
Deposits	—	—	—	4,640
Amounts held in custody for others	—	—	—	248,489
Deferred retirement benefits	386,302	—	—	—
Securities lending collateral	287,791	—	209	91
Due to participants	—	29	—	—
Other liabilities	158,699	—	—	—
Total liabilities	**1,794,271**	**29**	**4,024**	**296,003**
NET ASSETS				
Held in trust for:				
Pension and other post-employment benefits	25,612,259	—	—	—
External investment pool participants	—	3,477,828	—	—
Other purposes	—	—	1,508,698	—
Total net assets	**$ 25,612,259**	**$ 3,477,828**	**$ 1,508,698**	**$ —**

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, 2012
(Expressed in Thousands)

	Pension and Other Post-Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits	$ —	$ —	$ 46
Contributions:			
Employer	1,400,359	—	—
Employee	674,311	—	—
Deposits from pool participants	—	6,013,316	—
Tuition plan deposits	—	—	62,312
Other	—	—	6
Total contributions	2,074,670	6,013,316	62,318
Investment income:			
Interest income and net appreciation in investments	204,442	12,437	1,266
Securities lending income	1,406	24	—
Total investment income	205,848	12,461	1,266
Less investment expense:			
Investment expense	55,130	—	—
Securities lending expense	3	—	—
Net investment income	150,715	12,461	1,266
Assets moved between pension trust funds	2,184	—	—
Total additions	**2,227,569**	**6,025,777**	**63,630**
Deductions:			
Regular retirement benefits	2,374,301	—	—
Supplemental retirement benefits	767	—	—
Deferred retirement benefits	171,288	—	—
Refunds of retirement contributions to members	98,461	—	—
Death benefit claims	20,315	—	—
Accidental death benefits	1,551	—	—
Other post-employment benefits	326,103	—	—
Withdrawals, pool participants	—	5,368,834	—
Distributions to pool participants	—	9,530	—
Depreciation	118	—	—
Administrative expense	22,478	294	11,997
Other expenses	—	—	464
Assets moved between pension trust funds	2,184	—	—
Total deductions	**3,017,566**	**5,378,658**	**12,461**
Change in net assets	**(789,997)**	**647,119**	**51,169**
Net assets at beginning of year, as previously presented	26,402,256	2,830,709	1,456,947
Correction of error restatement	—	—	582
Net assets at beginning of year, restated	**26,402,256**	**2,830,709**	**1,457,529**
Net assets at end of year	**$ 25,612,259**	**$ 3,477,828**	**$ 1,508,698**

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2012
(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	$ 84,282	$ 227,989	$ 617	$ 17,161	$ 16,026	$ 346,075
Investments	168,675	—	—	—	60,256	228,931
Invested securities lending collateral	—	586	—	—	2	588
Receivables, net						
Accounts	208,610	18,546	—	34,423	4,738	266,317
Contributions	—	—	—	—	3,203	3,203
Accrued interest	2,150	—	—	—	457	2,607
Due from Federal government and other grantors	—	—	—	—	2,632	2,632
Due from primary government	—	186,846	—	—	—	186,846
Inventories	680,198	6,243	250	1,521	—	688,212
Restricted assets:						
Cash and cash equivalents	137,680	—	—	458	27,276	165,414
Investments	171,452	—	—	—	—	171,452
Prepaid items	14,639	4,104	56	—	15	18,814
Other current assets	265,322	314	—	718	325	266,679
Deferred charges	—	—	—	—	1,292	1,292
Total current assets	1,733,008	444,628	923	54,281	116,222	2,349,062
Long-term assets:						
Investments	107,234	16,451	—	—	755,871	879,556
Receivables, net:						
Accounts	—	—	—	—	1,735	1,735
Contributions	—	—	—	—	55,353	55,353
Loans and notes	—	—	—	—	130	130
Restricted assets:						
Cash and cash equivalents	91,648	—	3,681	—	—	95,329
Investments	391,199	—	1,325	—	—	392,524
Other long-term assets	64,926	2,674	141,359	6,015	12	214,986
Deferred charges	761,741	1,422	239	—	—	763,402
Investment in joint venture	9,540	—	—	—	—	9,540
Non-depreciable capital assets	1,348,302	356,370	—	—	8,971	1,713,643
Depreciable capital assets, net	3,744,447	281,002	446	462	614	4,026,971
Total long-term assets	6,519,037	657,919	147,050	6,477	822,686	8,153,169
Total assets	**8,252,045**	**1,102,547**	**147,973**	**60,758**	**938,908**	**10,502,231**

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2012
(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
LIABILITIES						
Current liabilities:						
Accounts payable	$ 222,935	$ 8,685	$ 535	$ 816	$ 2,306	$ 235,277
Accrued salaries and related expenses	8,850	1,600	—	910	131	11,491
Accrued interest payable	115,735	7,461	—	—	—	123,196
Retainages payable	—	3,773	—	—	—	3,773
Prizes payable	—	—	—	24,624	—	24,624
Intergovernmental payables	—	10	—	—	616	626
Policy claims	1,612	—	—	—	28,000	29,612
Due to primary government	—	—	20	32,104	160,615	192,739
Unearned revenues and deferred credits	—	—	252	389	11,877	12,518
Deposits	—	—	17	—	—	17
Amounts held in custody for others	—	—	—	—	7,915	7,915
Securities lending collateral	—	1,973	—	—	8	1,981
Accounts payable from restricted assets	—	—	—	—	267	267
Notes payable	—	604	—	—	—	604
Revenue bonds payable	156,781	4,350	2,114	—	—	163,245
Capital leases payable	1,243	3	—	—	—	1,246
Commercial paper notes	306,566	—	—	—	—	306,566
Compensated absences payable	—	2,389	—	506	115	3,010
Other current liabilities	88,697	9,794	—	352	529	99,372
Total current liabilities	902,419	40,642	2,938	59,701	212,379	1,218,079
Long-term liabilities:						
Retainages payable	6,634	—	—	—	—	6,634
Policy claims	—	—	—	—	96,891	96,891
Unearned revenues and deferred credits	347,476	—	—	—	—	347,476
Amounts held in custody for others	—	—	—	—	2,398	2,398
Revenue bonds payable	4,990,517	172,407	155,563	—	—	5,318,487
Capital leases payable	1,226	—	—	—	—	1,226
Compensated absences payable	18,926	—	—	168	125	19,219
Other long-term liabilities	95,116	4,767	—	—	7,756	107,639
Total long-term liabilities	5,459,895	177,174	155,563	168	107,170	5,899,970
Total liabilities	**6,362,314**	**217,816**	**158,501**	**59,869**	**319,549**	**7,118,049**
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	(202,568)	471,360	446	462	9,585	279,285
Restricted:						
Expendable:						
Education	—	—	—	—	238,031	238,031
Transportation	—	—	219	—	—	219
Capital projects	—	1,000	—	—	—	1,000
Debt service	128,338	8,818	259	—	—	137,415
Other	206,764	—	—	458	2,225	209,447
Nonexpendable, education	—	—	—	—	398,968	398,968
Unrestricted	1,757,197	403,553	(11,452)	(31)	(29,450)	2,119,817
Total net assets (deficit)	**$ 1,889,731**	**$ 884,731**	**$ (10,528)**	**$ 889**	**$ 619,359**	**$ 3,384,182**

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expenses)
Public Service Authority	$ 1,785,899	$ 1,914,689	$ 3,477	$ —	$ 132,267
State Ports Authority	135,364	131,344	5,433	35,521	36,934
Connector 2000 Association, Inc.	15,772	5,782	118	—	(9,872)
Lottery Commission	1,139,408	1,139,278	10	—	(120)
Nonmajor component units	98,326	22,856	109,707	—	34,237
Totals	**$ 3,174,769**	**$ 3,213,949**	**$ 118,745**	**$ 35,521**	**$ 193,446**

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

Extraordinary Gain on Adjustment of Debts from Bankruptcy	Net Assets (Deficit) Beginning of Year (Previously Presented)	Correction of Error Restatement	Net Assets (Deficit) Beginning of Year (Restated)	Net Assets (Deficit) End of Year
$ —	$ 1,757,464	$ —	$ 1,757,464	$ 1,889,731
—	847,797	—	847,797	$ 884,731
186,847	(187,503)	—	(187,503)	$ (10,528)
—	1,009	—	1,009	$ 889
—	591,689	(6,567)	585,122	$ 619,359
$ 186,847	**$ 3,010,456**	**$ (6,567)**	**$ 3,003,889**	**$ 3,384,182**

Notes to the Financial Statements—Contents

Notes to the Financial Statements—Contents (Continued)

Notes to the Financial Statements—Contents (Continued)

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, 2012:
- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 2011:
- 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 to which the State, or its component units, is entitled 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, 2012.

Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority, a blended component unit accounted for as a governmental fund, was created 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 her 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, 2011.

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

University of South Carolina Trust
Post Office Box 413
Columbia, South Carolina 29202

University Medical Associates
1180 Sam Rittenberg Boulevard, Suite 355
Charleston, South Carolina 29407
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, 2012. In determining which discretely presented component units are 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. The following have been identified as the State's major discretely presented component units:

Public Service Authority

The State General Assembly created the South Carolina Public Service Authority (Santee Cooper), a public utility company. Its primary purpose is to provide electric power and wholesale water to the people of South Carolina. The Governor appoints its Board of Directors and 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 is for the Authority's fiscal year ended December 31, 2011.

State Ports Authority

The State General Assembly created the South Carolina State Ports Authority 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. Removal of the Governor's appointed members requires a breach of duty 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 to contract with the State Department of Transportation (DOT) in financing, acquiring, constructing, and operating turnpikes and other transportation projects, primarily the project known as the Southern Connector in Greenville County. The leasing and operational agreements with the DOT provide the DOT with certain managerial oversight authority. The toll rates established by the Association 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, 2011.

Lottery Commission

The South Carolina Lottery Commission was created through an act of the General Assembly to generate entertainment for citizens and visitors of the state while providing revenue for educational purposes. The Commission 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 achieve its entertainment value 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's government-wide financial statements also include the following non-major discretely presented component units in the aggregate:

The *Clemson University 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* 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* 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 is for the Association's fiscal year ended December 31, 2011.

The *South Carolina First Steps to School Readiness* is a non-profit, tax-exempt public charity 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 initiative for improving early childhood development of the Act. 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.* is a non-profit, tax-exempt public charity with a purpose 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 and has the ability to remove the appointed members at will. The financial information presented is for the Fund's fiscal year ended September 30, 2011.

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 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.

The State of South Carolina is a member state within the Atlantic Low-Level Radioactive Waste Compact, a voluntary association of states that, by federal law, is legally separate from each of the member 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 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.

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, 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 monies from a Special Revenue Fund. 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, Debt Service Fund, 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 Program Services Fund* accounts for restricted resources that State agencies use for continued programmatic accomplishments. 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 payers 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 provided by the State to its retirees.

The State's *investment trust fund* acts as a local government investment pool that the State Treasurer operates.

Private-purpose trust funds include a tuition savings plan benefiting college students and 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 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 are items resulting from the provision of services and goods in connection with the fund's principal ongoing operations. The State classifies revenues and expenses as operating if the substance of the transaction is an exchange transaction. Accordingly, grants and grant-like transactions are reportable as operating revenues only if they are essentially contracts for services whereby 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 expenses those paid from operating revenues except financing related expenses such as interest expense, which is reported 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. 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 (GASB). 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.

The Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") is the source of authoritative U.S. Generally Accepted Accounting Principles recognized 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.

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. Private –sector 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 basis 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 taxes (income, sales, and similar) in the period when the underlying income or sales transactions occur, net of estimated overpayments or refunds. Grants, donations, and similar items are recognized as revenue as soon as the State 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, 2012.

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 expenditure or expense. 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 expenditure or expense 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 cash on hand, cash on deposit in banks and savings associations, 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, government sponsored entities, and domestic corporations, certificates of deposit, and collateralized repurchase agreements. *Restricted cash and cash equivalents* represents cash on deposit with external parties held for compliance with laws, regulations, and contractual obligations.

Most entities in the primary government and the discretely presented governmental component units participate in the cash management pool. Significant exceptions include: 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 or federal agency 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 investment of 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.

The State sponsors the Local Government Investment Pool (LGIP), an external investment pool reported as an investment trust fund. The LGIP's complete financial statements may be obtained by writing to the following address:

The State Treasurer's Office
Local Government Investment Pool
Post Office Box 11778
Columbia, South Carolina 29211

g. Receivables and Payables

The State records amounts receivable from parties outside the primary government net of allowances for uncollectible amounts and contractual adjustments. It estimates uncollectible amounts based on past collection experience. The State discloses the gross amounts of these receivables and the amounts of related allowances and adjustments, as well as any significant receivable balances not expected to be collected within one year, in Note 5. Further, the State disaggregates its receivable balances in Note 5 if any significant components thereof have been obscured in the financial statements by aggregation or if different components of receivables have significantly different liquidity characteristics.

The State presents balances outstanding at the end of the fiscal year that relate to lending/borrowing arrangements between funds as interfund receivables and payables and reports all other outstanding balances between funds as due to/from other funds. The government-wide statement of net assets displays internal balances that involve fiduciary funds as accounts receivable and accounts payable. The State reports as internal balances any residual balances outstanding between the governmental and business-type activities in the government-wide financial statements.

h. Inventories

The State values its inventories at the lower of cost or market, predominantly using the first-in, first-out methodology for its proprietary funds and its business-type activities and predominantly using the average cost methodology for its other funds and activities and its discretely presented component units. The State records expenditures in governmental funds when it consumes inventory items rather than when it purchases them.

i. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. The State records these payments as prepaid items in both the government-wide and fund financial statements. The state's policy is to reflect consumption of the future benefit under the consumption method.

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 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 as construction in progress. 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. 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 disposal of capital assets as expense of its General Government function and gains on such disposal as general revenue.

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. Net Assets and Fund Balance

The State reports a portion of its net assets or fund balance in its government-wide and fund financial statements as restricted. Net assets or fund balance, for enterprise or governmental fund types respectively, are reported as restricted when constraints placed on resource 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, 2012, $1.707 billion was reported as restricted net assets because of restrictions imposed by enabling legislation.

The State reports other constraints in its fund balance in the governmental funds as committed or assigned. Fund balance is reported as committed if a state statute or constitutional provision constrains the use of resources of the state. Assigned fund balance is constrained through appropriation actions of the legislature. Committed constraints can be removed only through similar action that created the constraint, either legislation amending or repealing the statute or ratification of a constitutional change by the electorate. The removal of constraints for assigned funds occurs through the budgetary process.

Non-spendable fund balance in the governmental funds reflects the lack of availability in form or substance of the assets and liabilities reported in the fund to meet obligations of the fund in the near future.

q. Flow Assumption, Net Assets or Fund Balance

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 or fund balance are available. Within the unrestricted fund balance, committed resources would be first applied, when available, followed by assigned resources before unassigned resources are used.

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 2011-2012, the State adopted the following Governmental Accounting Standards Board (GASB) Statements.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, modifies the guidance relating to derivative instrument accounting and reporting. Specifically it expands guidance for differences in accounting between changes allowed by established agreements and events which would constitute termination of the agreement. The requirements, where applicable, have been incorporated in these note disclosures.

b. Correction of Errors

During fiscal year 2011-2012, an error was discovered in the reporting of the market value of investments held in the Pooled Cash Management portfolio. The portfolio is the primary source of cash and equivalents for the reporting units of the State of South Carolina. The cash and equivalents as of June 30, 2011 were understated by $34.117 million in total. A restatement in the year ended June 30, 2012 has been reflected in the Governmental Activities, Business-Type Activities, Discretely Presented Component Units, Other Private-Purpose Trust Funds and the Agency Funds.

During the fiscal year 2011-2012, an evaluation of the accounting and presentation of the License Agreement between the Connector 2000 Association, a Discretely Presented Component Unit, and the Department of Transportation, a Special Revenue Fund, was performed as a result of the modifications required during the Connector 2000 bankruptcy procedures. This evaluation determined that prior reporting of an infrastructure asset by the component unit was not consistent with the transaction. Beginning net assets were restated by $144.910 million in the Governmental Activities of the Government-wide presentation to reflect the infrastructure asset in the primary government. The asset reported by the component unit is more accurately reflected as an other long-term asset.

The University of South Carolina Educational Foundation, a nonmajor discretely presented component unit, identified an error in the processing of a deposit. A transaction in the amount of $5.775 million was previously reported as a contribution. Subsequent information available indicated that the receipt was intended to be a contribution to another organization supporting the University of South Carolina requiring the recognition of a liability by this foundation. A restatement in the year ended June 30, 2012 has been reflected.

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, 2012:

Nonmajor Enterprise Funds:		
Patients' Compensation	$	98,438
Second Injury		130
Tuition Prepayment Program		34,262
Internal Service Funds:		
State Accident Fund		40,416
Pension Administration		294

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, those 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 e and the primary government’s Other Post-Employment Benefit Trust Funds which are described in subsection f.

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 to manage their deposits outside of the State Treasurer, 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 the value of the deposits with the 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, 2012 was $466.018 million and the bank balance was $959.223 million. As of June 30, 2012, the reported amount of the primary government's deposits outside of the State Treasurer was $547.693 million and the bank balance was $568.739 million. Of the $241.279 million bank balance exposed to custodial credit risk, $70.552 million was uninsured and uncollateralized, $163.016 million was uninsured and collateralized with securities held by the pledging financial institution, and $7.711 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, 2012, the reported amount of the major discretely presented component units' deposits was $146.421 million and the bank balance was $150.585 million, of which $500 thousand was exposed to custodial credit risk as 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 e and the primary government's Other Post-Employment Benefit Trust Funds which are described in subsection f.

Investment Policy

The State's investment policy by law authorizes investments that vary by fund, but generally include obligations of the United States and government sponsored entities, 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, 2012, as follows:

Primary Government	Category		Reported
Investment Type	**A**	**B**	**Amount**
U.S. Treasuries	$ —	$ 2,660	$ 2,660
U.S. agencies	61,962	39,666	101,628
Limited partnership	30,379	—	30,379
Mortgage backed obligations	—	4,396	4,396
Corporate bonds	1,336	—	1,336
Muncipal bonds	—	2,024	2,024
Repurchase agreements	—	10,009	10,009
Common stock	2,156	—	2,156
Other equity securities	3,010	—	3,010
Commercial paper	—	33,118	33,118
Money market mutual funds	153	19,916	20,069
Guaranteed investment contracts	—	529	529
Other	—	2,032	2,032
Totals	**$ 98,996**	**$ 114,350**	**$ 213,346**

The State's major discretely presented component units hold investments in U.S. Treasuries and U.S. agencies, repurchase agreements, and mutual bond funds that are not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the State. Credit risk exposure is primarily limited to debt instruments and other hybrid equity securities. The State Treasurer's credit risk policy mitigates potential for loss of principal by purchasing only high investment grade debt 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 instruments held for investment for the primary government were rated as of June 30, 2012 using the Standard and Poor's rating scale or Moody's, when no other rating was available, as follows (expressed in thousands):

Investment Type and Fair Value	AAA	AA	A / A1	BBB	BB	B	below	Not Rated
U.S. agencies	$ 14,993	$ 1,233,162	$ 61,962	$ —	$ —	$ —	$ —	$ 26,626
Mortgage backed obligations	4,395	717,634	—	—	—	—	—	186,011
Asset backed securities	—	—	—	—	—	—	—	4,177
Corporate bonds	20,078	471,729	1,850,379	1,177,372	—	—	—	119,038
Municipal bonds	30,951	61,546	45,162	102	—	—	—	610
Repurchase agreements	—	—	2,753,579	—	—	—	—	121,183
Commercial paper	—	—	2,171,067	—	—	—	—	116
Money market mutual funds	17,982	—	—	—	—	—	—	8,871
Mutual bond funds	92	—	30	195	287	720	456	133,412
Guaranteed investment contracts	—	—	—	—	—	—	—	529
Other	—	—	—	—	—	—	—	673
Totals	**$ 88,491**	**$ 2,484,071**	**$ 6,882,179**	**$ 1,177,669**	**$ 287**	**$ 720**	**$ 456**	**$ 601,246**

At fiscal year end, the State Ports Authority (June 30, 2012), the Public Service Authority (December 31, 2011), and the Connector 2000 Association, Inc. (December 31, 2011), 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 with Standard and Poor's rating scale (expressed in thousands):

Investment Type and Fair Value	AAA	Not Rated
U.S. agencies	$ 821,676	$ 16,776
Repurchase agreements	—	149,029
Mutual bond funds	3,681	—
Totals	**$ 825,357**	**$ 165,805**

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 does not specifically address interest rate risk. Its objectives for preservation of capital and maintenance of adequate liquidity focus the management of interest rate sensitivity on investing in securities with a range of maturities from one day to thirty years. At June 30, 2012, the maturities of the securities that will mature were limited 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**
U.S. Treasuries	$ 238,272	$ —	$ 545	$ —	$ 237,727
U.S. agencies	947,700	114,986	46,857	85,942	699,915
Mortgage backed obligations	734,817	—	185	169,786	564,846
Asset backed securities	4,177	—	—	—	4,177
Corporate bonds	2,704,659	760,710	1,419,515	500,806	23,628
Municipal bonds	97,422	25,096	33,743	29,012	9,571
Repurchase agreements	1,543,925	1,543,925	—	—	—
Commercial paper	1,112,572	1,112,572	—	—	—
Totals	**$ 7,383,544**	**$ 3,557,289**	**$ 1,500,845**	**$ 785,546**	**$ 1,539,864**

Agencies that manage their own investments have interest rate risk policies that differ from the State Treasurer. Some of these agencies do not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. At June 30, 2012, agencies within the State's primary government that manage their own investments limited the maturities of their interest-earning 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**
U.S. Treasuries	$ 33,111	$ 23,095	$ 5,187	$ 4,029	$ 800
U.S. agencies	389,043	266,922	65,301	3,391	53,429
Mortgage backed obligations	173,223	225	1,245	1,201	170,552
Corporate bonds	933,937	899,076	17,938	2,872	14,051
Municipal bonds	40,949	38,356	336	995	1,262
Repurchase agreements	1,330,837	1,330,837	—	—	—
Commercial paper	1,058,611	1,058,495	—	—	116
Mutual funds	139,848	4,657	720	1,444	133,027
Other	673	—	—	—	673
Totals	**$ 4,100,232**	**$ 3,621,663**	**$ 90,727**	**$ 13,932**	**$ 373,910**

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2012, 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	$ 65,363	$ —	$ —	$ 65,363	$ —
U.S. agencies	838,452	232,184	589,492	—	16,776
Repurchase agreements	149,029	149,029	—	—	—
Mutual bond funds	3,681	3,681	—	—	—
Totals	**$ 1,056,525**	**$ 384,894**	**$ 589,492**	**$ 65,363**	**$ 16,776**

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 this 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, 2012, the State Treasurer had approximately 13.13% of the State's General investment portfolio and 33.45% of the LGIP investment portfolio in an overnight repurchase agreement with Bank of America that was fully collateralized by U.S. Treasury and agency obligations. Approximately 7.09% of the State's general investment portfolio at June 30, 2012 was in an overnight repurchase agreement with Wells Fargo that was fully collateralized by U.S. Treasury and agency obligations.

c. Securities Lending Program

The following securities lending disclosures exclude the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection e. 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 f.

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 loaned during the fiscal year and at June 30, 2012. At June 30, 2012, 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, 2012, 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, 2012, 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, 2012, 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, 2012:

	Amount
Securities lent for cash collateral:	
Corporate bonds	$ 35,103
Total for cash collateral	**$ 35,103**
Cash collateral invested:	
Repurchase agreements	$ 924
Asset backed securities	5,870
Floating Rate Notes	3,907
Total collateral invested	**$ 10,701**

d. Investment Market Uncertainty

The diversification of the State's investment portfolio exposes it to various risks as discussed in previous sections of this note. These risks result in market fluctuations. It is at least reasonably possible that these market fluctuations may result in material changes to the values of the investments reported in the State's financial statements.

e. 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. 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.

As of June 30, 2012, the carrying amount of the Systems' deposits was $38.739 million and the bank balance was $54.375 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 reinvested in a variety of instruments including, but not limited to, fixed income instruments of the United States, foreign fixed income obligations, swaps, forward contracts, futures and options, domestic and international equity securities, private equity, real estate, and fund of funds.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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 100 basis point change in interest rates. Effective duration 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 invest in mortgage-backed securities which are reported at fair value in the Statement of Plan Net Assets and are based on cash flows from principal and interest payments of the underlying mortgages. These securities are sensitive to prepayments, which are likely in an environment of declining interest rates, and thereby reduce the value of the security.

The Systems invest in these securities to diversify the fixed income portfolio and minimize risk. Disclosures for interest rate risk at June 30, 2012, are noted below (dollar amounts expressed in thousands):

Investment Type	Fair Value	Effective Duration
Short Term Investments		
Short Term Investment Funds (U.S. Regulated)	$ 782,489	0.08
Repurchase Agreements	630,699	0.06
Commercial Paper	819,707	0.06
Equity Allocation		
Preferred	1,585	1.58
Convertible Preferred	3,022	8.39
Fixed Income Allocation		
U.S. Government:		
U.S. Government Treasuries	604,922	7.75
U.S. Government Agencies	497,883	1.35
Mortgage Backed:		
Government National Mortgage Association	161,909	2.52
Federal National Mortgage Assocation	200,481	2.53
Federal Home Loan Mortgage Association	33,087	2.90
Federal Home Loan Mortgage Association (multiclass)	5,994	0.23
Collateralized Mortgage Obligations	15,528	2.01
Municipals	89,780	7.20
Corporate:		
Corporate Bonds	1,316,299	3.13
Convertible Bonds	27,467	0.81
Asset Backed Securities	250,461	0.13
Yankee Bonds	9,578	2.78
Private Placements	437,651	3.24
Global Fixed Income:		
International Asset Backed Securities	1,996	0.35
International Corporate Bonds	135,559	3.42
International Government Bonds	43,602	7.58
Alternatives		
Credit Default Swaps	9,310	-1.20
Interest Rate Swaps	(6,249)	-4.30
Eurodollar Futures	(53)	66.44
Treasury Note Futures	101	3,012.54
Treasury Bond Futures	(63)	2,536.71
Total Invested Assets	**$ 6,072,745**	
Total Portfolio Effective Duration (option adjusted duration)		**2.27**

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. Within high yield portfolios, 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 Retirement System Investment 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	AAA	AA	A	BAA	BA	B	CAA	CA	NR[1]
Short Term Investments									
Short Term Investment Funds (U.S. Regulated)	$ 782,489	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Repurchase Agreements	—	—	—	—	—	—	—	—	630,698
Commercial Paper	—	144,965	—	651,750	—	—	—	—	22,992
Equity Investments									
Preferred	—	—	—	—	—	1,651	—	—	1,449
Convertible Preferred	—	—	—	2,228	—	644	—	—	150
Fixed Income Allocation									
U.S. Government	604,922	—	—	—	—	—	—	—	—
U.S. Government Agency	646,392	10,426	—	—	—	—	—	—	2,974
Mortgage Backed:									
Federal National Mortgage Association	210,550	—	—	—	—	—	—	—	—
Federal Home Loan Mortgage Association (multiclass)	6,476	—	—	—	—	—	—	—	—
Federal Home Loan Mortgage Association	33,087	—	—	—	—	—	—	—	—
Collateralized Mortgage Association	15,528	—	—	—	—	—	—	—	—
Municipals	5,753	39,808	43,784	—	—	—	—	—	435
Corporate:									
Corporate Bonds	38,466	32,558	98,334	344,927	165,103	209,767	35,535	265	601,539
Convertible Bonds	—	—	—	5,771	1,634	3,273	4,782	—	12,007
Asset Backed Securities	58,864	108,853	57,412	11,559	4,455	4,823	—	—	24,465
Yankee Bonds	—	—	2,156	2,308	5,114	—	—	—	—
Private Placements	117,042	49,241	40,626	35,841	28,273	82,849	26,715	—	76,478
Global Fixed Income:									
International Asset Backed	1,050	946	—	—	—	—	—	—	—
International Commingled Funds	—	—	—	—	—	—	—	—	896,880
International Corporate Bonds	45,106	7,801	25,898	36,613	16,641	9,608	547	—	2,441
International Emerging Debt	—	—	—	—	—	—	—	—	331,409
International Government Bonds	7,730	6,824	2,186	22,066	—	—	—	—	4,796
Alternatives									
Credit Default Swaps	—	—	—	—	—	—	—	—	9,737
Interest Rate Swaps	—	—	—	—	—	—	—	—	(6,144)
Total Return Swaps	—	—	—	—	—	—	—	—	(29)
Futures Contracts	—	—	—	—	—	—	—	—	19,706
Options	—	—	—	—	—	—	—	—	352
Totals	**$ 2,573,455**	**$ 401,422**	**$ 270,396**	**$ 1,113,063**	**$ 221,220**	**$ 312,615**	**$ 67,579**	**$ 265**	**$ 2,632,335**

[1]*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 and Policies as amended and adopted by the 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, 2012 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 participate in foreign markets to diversify assets, reduce risk and enhance returns. Exposure to foreign investments has, to date, been achieved synthetically using financial futures, forwards and swaps. Currency forwards are used to manage currency fluctuations and are permitted by investment policy. Policy forbids speculating in forwards and other derivatives.

The table below presents the Systems' exposure to foreign currency risk in U.S. dollars as of June 30, 2012 (expressed in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Futures Contracts	Private Equity	Alternative Investments	Fixed Income
Australian Dollar	$ 324	$ 34,239	$ (293)	$ —	$ —	$ 7,730
Brazil Real	—	263	—	—	—	847
British Pound Sterling	8,969	117,221	1,166	—	—	3,209
Canadian Dollar	790	60,614	670	—	—	8,773
Chinese Yuan Renminbi	—	46,669	—	—	—	—
Euro Currency	2,983	166,549	5,523	150,792	23,834	33,720
Hong Kong Dollar	1,197	20,309	240	—	—	—
Japanese Yen	(387)	109,212	4,455	—	—	(4)
New Mexico Peso	534	(13,359)	—	—	—	14,767
Norwegien Krone	—	2,713	—	—	—	—
Philippines Peso	—	3,239	—	—	—	—
Singapore Dollar	—	4,652	—	—	—	—
South Korean Won	—	2,696	—	—	—	—
Swedish Krona	(328)	15,665	353	—	—	—
Totals	**$ 14,082**	**$ 570,682**	**$ 12,114**	**$ 150,792**	**$ 23,834**	**$ 69,042**

Derivatives

Derivatives are financial instruments whose value is derived from underlying assets or data. All of the Systems' derivatives are considered investments. Excluding futures, 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 Retirement Investment 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 significantly reducing 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 $120.214 million of various GNMA's were held in trust by the clearing brokers on June 30, 2012, 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, 2012 (expressed in thousands):

	Changes in Fair Value		*Fair Value at June 30, 2012*	
	Classification	*Gain/(Loss)*	*Classification*	*Amount*
Investment derivatives:				
Futures Contracts	*Net appreciation/(depreciation)*	*$ (55,387)*	*Alternative Investments*	*$ 19,735*
Forward Contracts	*Net appreciation/(depreciation)*	*11,193*	*Cash & Cash Equivalents*	*905*
Swaps	*Net appreciation/(depreciation)*	*93,592*	*Alternative Investments*	*21,975*
Options	*Net appreciation/(depreciation)*	*62,398*	*Alternative Investments*	*52,572*

As of June 30, 2012, 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 2012	Long	1,284	$ 52,012
EURX DAX INDEX	September 2012	Long	226	45,971
EURX ER STX 50	September 2012	Long	2,043	58,465
NEW FTSE 100	September 2012	Long	1,408	121,969
HKFE - HSI	July 2012	Long	164	20,560
IBEX 35 PLUS	July 2012	Long	166	14,716
FTSE MIB INDEX	September 2012	Long	142	12,881
TSE TOPIX	September 2012	Long	1,230	118,545
SFE SPI 200	September 2012	Long	446	46,369
AMSTERDAM INDEX	July 2012	Long	193	15,051
S&P TSE 60 INDEX	September 2012	Long	480	62,283
OMXS30 INDEX	July 2012	Long	1,106	16,484
Total International Equity				585,306
EMINI S&P 500	September 2012	Long	18,189	1,233,578
Total Large Cap Equity				1,233,578
EMINI RUSSELL 2000	September 2012	Short	(2,254)	(179,283)
Total Small Cap Equity				(179,283)
GOLD 100 OZ FUT	August 2012	Long	309	49,570
Total Commodities				49,570
Totals				**$ 1,689,171**

* *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" (OTC) 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, 2012, the Systems had the following forward exposures, listed by counterparty (dollar amounts expressed in thousands):

Broker	Notional Value	Base Gain/(Loss)	Base Exposure
HSBC Bank	$ 284,847	$ 787	13.70%
Commonwealth Bank of Australia	284,779	858	13.70%
Barclays Bank	277,398	814	13.34%
Deutshe Bank	275,744	803	13.26%
JP Morgan Chase	275,682	818	13.26%
Royal Bank of Canada	131,805	(648)	6.34%
Royal Bank of Scotland	130,899	(636)	6.30%
Citibank NA	126,757	(639)	6.10%
UBS	122,736	(623)	5.90%
Credit Suisse	122,735	(627)	5.90%
Brown Brothers Harriman	45,675	(2)	2.20%
Totals	**$ 2,079,057**	**$ 905**	**100.00%**

The Systems has entered into various swap agreements to manage risk exposure. Swaps are 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.

The table below reflects the counterparty credit ratings at June 30, 2012, for currency forwards and swap agreements (expressed in thousands):

Quality Rating	Forwards	Swaps	Options	Total
Aaa	$ (636)	$ —	$ —	$ (636)
Aa1	210	—	—	210
Aa3	1,785	—	—	1,785
A1	814	—	27,477	28,291
A2	(627)	21,975	—	21,348
A3	—	—	21,152	21,152
Baa2	(639)	—	3,943	3,304
NR	(2)	—	—	(2)
Total subject to credit risk	$ 905	$ 21,975	$ 52,572	$ 75,452

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, 2012, 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
Societe Generale	DJ-UBS Commodities TR	3 month T Bill plus 9 bps	DJ-UBS Commodities TR	8/31/12	$ 279,892	$ (59,814)
Societe Generale	DJ-UBS Commodities TR	3 month T Bill plus 10 bps	DJ-UBS Commodities TR	2/28/13	142,698	(13,247)
	Total Swap Exposures				**$ 422,590**	**$ (73,061)**

Options are exchange traded agreements between two parties for a future transaction on an underlying asset at a reference or strike price. The buyer of an option has the right, but not the obligation, to transact. The seller of an option has the obligation to transact if forced by the buyer. The price of an option is derived by taking the difference in the underlying asset and the strike price plus a premium for the remaining time until expiration. At June 30, 2012, the Systems held swaps as shown in the table below (amounts expressed in thousands):

Option Stategy	Expiration	Index	Counterparty	Gain (Loss) Since Trade
BRAVE Position #1	11/29/2012	MSCI Emerging Markets Index	Goldman Sachs	$ 8,979
BRAVE Position #2	11/29/2012	MSCI Emerging Markets Index	Goldman Sachs	12,173
BRAVE Position #3	11/30/2012	MSCI Emerging Markets Index	Credit Suisse	15,407
BRAVE Position #4	11/30/2012	MSCI Emerging Markets Index	Merrill Lynch	3,943
BRAVE Position #5	11/30/2012	DJ US Real Estate Index	Credit Suisse	12,070
	Total Options Value			**$ 52,572**

The Buffered Return Accelerated Value Equity (BRAVE) option position consists of three parts: a long call, a short call and a short put. By employing this strategy, the Systems gain immediate market exposure to the underlying asset class. These positions also offer sizeable downside protection in exchange for limiting the maximum upside return. These positions allow the Systems to have exposure to various markets at little or no underlying cost, offering a return stream that is based on the performance of an underlying index.

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 or contractual investment period has expired. 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. 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.

Investment Commitments

The Systems entered into contractual agreements with numerous alternative investment managers and is committed for future funding of private equity, real estate, and opportunistic credit limited partnerships. As of June 30, 2012, the Systems had committed to fund various limited partnerships in the amount of $3.482 billion (US dollars) and €278.000 million (Euros). The total unfunded commitment as of June 30, 2012, was $1.469 billion (US dollars) and €84.000 million (Euros). The total remaining commitment adjusted for cash flows as of September 21, 2012 is $1.402 billion (US dollars) and €81.000 million (Euros). In addition, although legal contractual agreements in place do not necessarily dictate authorized commitment amounts, various other alternative investment fundings will be deployed at the full discretion of the Retirement System Investment Commission through the use of the strategic partnership accounts. These underlying investments include hedge funds, private equity, real estate, opportunistic credit, short duration fixed income, commodities, and high yield fixed income.

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, 2012, included U.S. Government securities, U.S. 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 U.S. Government securities were received as collateral for these loans. The Systems cannot pledge or sell collateral securities without a borrower default. The Systems invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the Systems must return the cash collateral to the borrower upon the expiration of the loan.

At June 30, 2012, the fair value of securities on loan was $270.836 million. The fair value of the invested cash collateral was $184.025 million. Securities lending obligations at June 30, 2012, were $275.896 million with the unrealized loss in invested cash collateral of $91.871 million reported as investment income and net appreciation in investments in the Statement of Changes in Plan Net Assets. This unrealized loss is due to certain Lehman bonds held by the securities lending program. During the fiscal year, the Systems received a $7.800 million settlement distribution in relation to a Lehman creditor-payment plan approved by the U.S. Bankruptcy Court. This distribution was applied to the amortized costs of the Lehman bonds. The custodial bank's Securities Lending group sold approximately $44.000 million of these bonds with proceeds of $10.700 million which resulted in a realized loss of $30.770 million. This loss is being held in the securities lending collateral pool as an undistributed loss. Subsequent to June 30, 2012, the custodian banks' Securities Lending group sold the remaining Lehman bonds. The Retirement System Investment Commission continues to evaluate 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 three days. Except as explained in the preceding paragraph, at June 30, 2012, 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, 2012:

	SCRS	PORS	GARS	JSRS	NGPS	TOTALS
Securities lent for cash collateral:						
U.S. Government securities	$ 123,398	$ 18,367	$ 170	$ 692	$ 93	$ 142,720
Corporate bonds	42,884	6,383	59	241	32	49,599
Common Stock	67,887	10,105	93	381	51	78,517
Total securities lent for cash collateral	**$ 234,169**	**$ 34,855**	**$ 322**	**$ 1,314**	**$ 176**	**$ 270,836**
Securities lent for non-cash collateral:						
Common Stock	$ 10,232	$ 1,523	$ 14	$ 57	$ 8	$ 11,834
	$ 10,232	**$ 1,523**	**$ 14**	**$ 57**	**$ 8**	**$ 11,834**
Cash collateral invested as follows:						
Repurchase agreements	$ 142,452	$ 21,204	$ 196	$ 798	$ 107	$ 164,757
Floating Rate Notes	16,660	2,479	23	94	12	19,268
Total for cash collateral invested	**$ 159,112**	**$ 23,683**	**$ 219**	**$ 892**	**$ 119**	**$ 184,025**
Securities received as collateral:						
U.S. Government securities	$ 10,399	$ 1,548	$ 14	$ 58	$ 8	$ 12,027
	$ 10,399	**$ 1,548**	**$ 14**	**$ 58**	**$ 8**	**$ 12,027**

f. 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. As of June 30, 2012, the Trusts' had no cash on deposit with banks. All cash reported was held in the cash management pool by the State Treasurer's Office.

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, 2012, the Trusts' debt investments were rated by Standard & Poor's as follows (expressed in thousands):

Investment Type and Fair Value	AAA	AA	A / A1	BBB
U.S. agencies	$ —	$ 107,129	$ —	$ —
Mortgage backed obligations	—	17,478	—	—
Corporate bonds	5,015	9,224	105,123	194,568
Municipal bonds	—	2,177	—	—
Repurchase agreements	—	—	53,075	—
Commercial paper	—	—	95,328	—
Totals	**$ 5,015**	**$ 136,008**	**$ 253,526**	**$ 194,568**

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 does not specifically address interest rate risk. Its objectives for preservation of capital and maintenance of adequate liquidity focus the management of interest rate sensitivity on investing in securities with a range of maturities from one day to thirty years. At June 30, 2012, the maturities of the securities that will mature were limited 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**
U.S. Agencies	$ 107,129	$ —	$ 2,853	$ 19,653	$ 84,623
Collateralized mortgage obligations	17,478	—	—	814	16,664
Corporate bonds	313,930	46,134	99,775	161,216	6,805
Municipal bonds	2,177	—	2,177	—	—
Repurchase agreements	53,075	53,075	—	—	—
Commercial paper	95,328	95,328	—	—	—
Totals	**$ 589,117**	**$ 194,537**	**$ 104,805**	**$ 181,683**	**$ 108,092**

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, 2012:

	Amount
Securities lent for cash collateral:	
Corporate bonds	$ 11,593
Total for cash collateral	**$ 11,593**
Cash collateral invested:	
Repurchase agreements	$ 302
Asset backed securities	1,939
Floating rate notes	1,291
Total collateral invested	**$ 3,532**

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, 2012, for the primary government were as follows:

	Governmental Activities					
	Governmental Funds					
Allowances for Uncollectibles	General	Departmental Program Services	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Income taxes receivable	$ 314,145	$ —	$ —	$ —	$ —	$ 314,145
Sales and other taxes receivable	90,190	7	—	14,612	—	104,809
Patient accounts receivable	68,225	—	—	—	—	68,225
Other receivables	13,533	28,399	941	—	161	43,034
Total allowances for uncollectibles	**$ 486,093**	**$ 28,406**	**$ 941**	**$ 14,612**	**$ 161**	**$ 530,213**

	Business-type Activities (Enterprise Funds)						
Allowances for Uncollectibles	Higher Education	Unemployment Compensation Benefits	Housing Authority	Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise Funds	Total Business-type Activities
Contributions receivable	$ 1,214	$ —	$ —	$ —	$ —	$ 47	$ 1,261
Student accounts receivable	24,108	—	—	—	—	—	24,108
Patient accounts receivable	—	—	—	53,400	—	92,373	145,773
Loans and notes receivable	—	—	—	—	12	—	12
Assessments receivable	—	9,411	—	—	—	—	9,411
Other receivables	2,499	14,220	439	—	—	19	17,177
Loans and notes receivable—restricted	25	—	5,640	—	—	289	5,954
Total allowances for uncollectibles	**$ 27,846**	**$ 23,631**	**$ 6,079**	**$ 53,400**	**$ 12**	**$ 92,728**	**$ 203,696**

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, 2012, were as follows:

	Governmental Activities						
	Governmental Funds						
Net Long-term Receivables	General	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts receivable	$ 23,618	$ 18,980	$ 5,797	$ —	$ 1	$ 1,271	$ 49,667
Contributions	629	—	—	—	—	—	629
Income taxes receivable	3,985	—	—	—	—	—	3,985
Sales and other taxes receivable	45,535	—	—	—	509	—	46,044
Patient accounts receivable	649	—	—	—	—	—	649
Loans and notes receivable	36,380	459	428,971	3,154	9,396	—	478,360
Accounts receivable—restricted	—	—	284,917	—	—	—	284,917
Total long-term receivables, net	**$ 110,796**	**$ 19,439**	**$ 719,685**	**$ 3,154**	**$ 9,906**	**$ 1,271**	**$ 864,251**

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, 2012, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes	$ 1,125	$ 22,210	$ 23,335
Federal grants	20,764	105,405	126,169
Contributions	281,752	123,460	405,212
Departmental services	15,333	20,915	36,248
Total deferred revenues	$ 318,974	271,990	$ 590,964
Internal service funds		161,459	
Total governmental activities		$ 433,449	

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, 2012 (expressed in thousands) were as follows:

Asset/Restricted For	Governmental Activities	Business-type Activities	Major Component Units
Current:			
Cash and cash equivalents			
Debt service	$ 92,912	$ 122,155	$ 111,183
Capital projects	—	407,408	—
Student loan programs	—	1,397	—
Donor/sponsor specified	—	60,093	—
Endowments	—	—	27,276
Second Injury Fund claims	—	40,888	—
Other	—	46,031	26,955
Total cash and cash equivalents	**$ 92,912**	**$ 677,972**	**$ 165,414**
Investments			
Debt service	$ —	$ 88,527	$ 132,890
Donor/sponsor specified	—	8,379	—
Endowments	—	5	—
Other	—	—	38,562
Total investments	**$ —**	**$ 96,911**	**$ 171,452**
Loans receivable			
Debt service	$ —	$ 18,764	$ —
Student loan programs	—	1,648	—
Other	—	2,350	—
Total loans receivable	**$ —**	**$ 22,762**	**$ —**
Other			
Debt service	$ 72,434	$ 6,714	$ —
Donor/sponsor specified	—	4,433	—
Second Injury Fund claims	—	198	—
Other	—	314	—
Total other	**$ 72,434**	**$ 11,659**	**$ —**

Asset/Restricted For	Governmental Activities	Business-type Activities	Major Component Units
Long-term:			
Cash and cash equivalents			
Debt service	$ 671,374	$ 29,317	$ 3,681
Capital projects	—	108,020	63,961
Student loan programs	—	13,133	—
Endowments	—	99,254	—
Other	10,564	3,502	27,687
Total cash and cash equivalents	**$ 681,938**	**$ 253,226**	**$ 95,329**
Investments			
Debt service	$ —	$ 209,172	$ 1,325
Capital projects	—	—	277,181
Student loan programs	—	1,037	—
Endowments	—	56,945	—
Other	—	108	114,018
Total investments	**$ —**	**$ 267,262**	**$ 392,524**
Receivables			
Debt service	$ 284,917	$ —	$ —
Total receivables	**$ 284,917**	**$ —**	**$ —**
Loans receivable			
Debt service	$ —	$ 618,276	$ —
Student loan programs	—	47,926	—
Other	—	66,863	—
Total loans receivable	**$ —**	**$ 733,065**	**$ —**
Other			
Debt service	$ 3,809	$ —	$ —
Donor/sponsor specified	—	220	—
Endowments	—	76,597	—
Total other	**$ 3,809**	**$ 76,817**	**$ —**

NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2012, for the primary government was as follows:

	Beginning Balances July 1, 2011 Restated	Increases	Decreases	Ending Balances June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 1,818,443	$ 25,047	$ (1,877)	$ 1,841,613
Construction in progress	2,896,402	349,063	(926,707)	2,318,758
Works of art and historical treasures	3,976	5	(2)	3,979
Intangibles	303	86	(169)	220
Total capital assets not being depreciated	4,719,124	374,201	(928,755)	4,164,570
Capital assets being depreciated:				
Land improvements	117,382	1,386	(408)	118,360
Infrastructure (road and bridge network)	11,260,749	903,157	(2,658)	12,161,248
Buildings and improvements	1,974,203	24,004	(7,892)	1,990,315
Vehicles	609,739	31,746	(12,445)	629,040
Machinery and equipment	482,244	28,680	(25,322)	485,602
Works of art and historical treasures	1,500	—	—	1,500
Intangibles	132,140	2,648	(106)	134,682
Total capital assets being depreciated	14,577,957	991,621	(48,831)	15,520,747
Less accumulated depreciation for:				
Land improvements	(46,096)	(3,034)	27	(49,103)
Infrastructure (road and bridge network)	(2,805,292)	(163,641)	2,566	(2,966,367)
Buildings and improvements	(765,363)	(55,909)	3,515	(817,757)
Vehicles	(520,542)	(39,796)	12,140	(548,198)
Machinery and equipment	(369,328)	(29,527)	18,716	(380,139)
Works of art and historical treasures	(182)	(59)	—	(241)
Intangibles	(67,167)	(9,209)	58	(76,318)
Total accumulated depreciation	(4,573,970)	(301,175)	37,022	(4,838,123)
Total capital assets being depreciated, net	10,003,987	690,446	(11,809)	10,682,624
Capital assets for governmental activities, net	**$ 14,723,111**	**$ 1,064,647**	**$ (940,564)**	**$ 14,847,194**

As disclosed in Note 2, the infrastructure assets and related accumulated depreciation beginning balances were restated.

	Beginning Balances July 1, 2011	Increases	Decreases	Ending Balances June 30, 2012
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 294,864	$ 14,946	$ (582)	$ 309,228
Construction in progress	365,557	330,744	(337,321)	358,980
Works of art and historical treasures	20,111	445	—	20,556
Total capital assets not being depreciated	680,532	346,135	(337,903)	688,764
Capital assets being depreciated:				
Land improvements	189,967	24,467	(290)	214,144
Buildings and improvements	5,268,939	333,435	(2,205)	5,600,169
Vehicles	49,199	4,467	(1,470)	52,196
Machinery and equipment	997,877	76,691	(33,157)	1,041,411
Works of art and historical treasures	26,071	—	—	26,071
Intangibles	28,048	5,896	(13)	33,931
Total capital assets being depreciated	6,560,101	444,956	(37,135)	6,967,922
Less accumulated depreciation for:				
Land improvements	(77,455)	(8,676)	12	(86,119)
Buildings and improvements	(1,906,283)	(166,644)	1,475	(2,071,452)
Vehicles	(32,805)	(2,821)	1,454	(34,172)
Machinery and equipment	(667,129)	(82,191)	26,642	(722,678)
Works of art and historical treasures	(7,842)	(853)	—	(8,695)
Intangibles	(18,625)	(3,880)	4	(22,501)
Total accumulated depreciation	(2,710,139)	(265,065)	29,587	(2,945,617)
Total capital assets being depreciated, net	3,849,962	179,891	(7,548)	4,022,305
Capital assets for business-type activities, net	**$ 4,530,494**	**$ 526,026**	**$ (345,451)**	**$ 4,711,069**

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 $2.347 million. Depreciation expense on the building for fiscal year 2011-2012 was $118 thousand. There were no additions or dispositions of capital assets during the year.

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

	Beginning Balances January 1, 2011	Increases	Decreases	Ending Balances December 31, 2011
Public Service Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 110,473	$ 7,064	$ (6)	$ 117,531
Construction in progress	938,254	414,407	(121,890)	1,230,771
Total capital assets not being depreciated	1,048,727	421,471	(121,896)	1,348,302
Capital assets being depreciated:				
Buildings and improvements (utility plant)	6,412,891	105,328	(7,321)	6,510,898
Vehicles	46,215	—	(187)	46,028
Machinery and equipment	25,931	—	(66)	25,865
Intangibles	62,699	5,539	—	68,238
Total capital assets being depreciated	6,547,736	110,867	(7,574)	6,651,029
Less accumulated depreciation for:				
Buildings and improvements (utility plant)	(2,639,612)	(176,335)	848	(2,815,099)
Vehicles	(23,286)	(3,110)	580	(25,816)
Machinery and equipment	(12,485)	(1,627)	63	(14,049)
Intangibles	(47,652)	(3,966)	—	(51,618)
Total accumulated depreciation	(2,723,035)	(185,038)	1,491	(2,906,582)
Total capital assets being depreciated, net	3,824,701	(74,171)	(6,083)	3,744,447
Public Service Authority, net	**$ 4,873,428**	**$ 347,300**	**$ (127,979)**	**$ 5,092,749**

	Beginning Balances January 1, 2011 Restated	Increases	Decreases	Ending Balances December 31, 2011
Connector 2000 Association:				
Capital assets being depreciated:				
Machinery and equipment	$ 902	$ 291	$ (53)	$ 1,140
Total capital assets being depreciated	902	291	(53)	1,140
Less accumulated depreciation for:				
Machinery and equipment	(656)	(91)	53	(694)
Total accumulated depreciation	(656)	(91)	53	(694)
Total capital assets being depreciated, net	246	200	—	446
Connector 2000 Association, net	**$ 246**	**$ 200**	**$ —**	**$ 446**

As disclosed in Note 2, the infrastructure assets (toll road) and related accumulated depreciation beginning balances were restated.

	Beginning Balances July 1, 2011	Increases	Decreases	Ending Balances June 30, 2012
State Ports Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 199,630	$ —	$ (2,666)	$ 196,964
Construction in progress	141,907	53,948	(38,639)	157,216
Intangibles	2,190	—	—	2,190
Total capital assets not being depreciated	343,727	53,948	(41,305)	356,370
Capital assets being depreciated:				
Land improvements	238,086	26,915	—	265,001
Buildings and improvements	324,356	2,939	(118)	327,177
Machinery and equipment	149,672	8,082	(549)	157,205
Intangibles	876	—	—	876
Total capital assets being depreciated	712,990	37,936	(667)	750,259
Less accumulated depreciation for:				
Land improvements	(142,988)	(10,998)	—	(153,986)
Buildings and improvements	(194,819)	(11,354)	119	(206,054)
Machinery and equipment	(100,571)	(8,615)	547	(108,639)
Intangibles	(543)	(35)	—	(578)
Total accumulated depreciation	(438,921)	(31,002)	666	(469,257)
Total capital assets being depreciated, net	274,069	6,934	(1)	281,002
State Ports Authority, net	**$ 617,796**	**$ 60,882**	**$ (41,306)**	**$ 637,372**

	Beginning Balances July 1, 2011	Increases	Decreases	Ending Balances June 30, 2012
Lottery Commission:				
Capital assets being depreciated:				
Buildings and improvements	$ 1,316	$ —	$ —	$ 1,316
Vehicles	48	—	—	48
Machinery and equipment	2,637	184	—	2,821
Total capital assets being depreciated	4,001	184	—	4,185
Less accumulated depreciation for:				
Buildings and improvements	(1,160)	(108)	—	(1,268)
Vehicles	(48)	—	—	(48)
Machinery and equipment	(2,253)	(154)	—	(2,407)
Total accumulated depreciation	(3,461)	(262)	—	(3,723)
Total capital assets being depreciated, net	540	(78)	—	462
Lottery Commission, net	**$ 540**	**$ (78)**	**$ —**	**$ 462**

During the fiscal year ended June 30, 2012, depreciation expense was charged to functions of the primary government and its major discretely presented component units (expressed in thousands):

	Governmental Funds	Internal Service Funds	Total Governmental Activities
General government	$ 24,235	$ 8,999	$ 33,234
Education	26,350	—	26,350
Health and environment	12,178	—	12,178
Social services	704	—	704
Administration of justice	25,294	296	25,590
Resources and economic development	24,910	—	24,910
Transportation	178,209	—	178,209
Total depreciation expense, governmental activities	**$ 291,880**	**$ 9,295**	**$ 301,175**

	Business-type Activities
Higher Education	$ 202,350
Housing Authority	259
Medical University Hospital Authority	56,218
Education Assistance Authority	64
Other	6,174
Total depreciation expense, business-type activities	**$ 265,065**

Included in the $202.350 million for higher education and the $6.174 million for other business-type activities is depreciation expense of $31 thousand and $1.055 million, respectively, that is reported in nonoperating revenues (expenses) in the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds.

	Major Component Units
Public Service Authority	$ 185,038
Connector 2000 Association, Inc	91
State Ports Authority	31,002
Lottery Commission	262

At June 30, 2012, the primary government had outstanding construction commitments totaling $731.944 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $85.670 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 renovations to existing facilities. In addition, the primary government had outstanding commitments totaling $3.475 million at June 30, 2012, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were $3.972 billion for the Public Service Authority at December 31, 2011 and $63.525 million for the State Ports Authority at June 30, 2012.

The total interest expense incurred by the State's enterprise funds during the current fiscal year was $136.078 million, of which $9.311 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 $9.750 million during its fiscal year ended June 30, 2012, of which $8.299 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 55 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. In addition, 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 of service regardless of age for a judge or twenty-four years of service for a solicitor or circuit public defender regardless of age. Members are allowed to retire and draw an annuity while continuing to serve. Members receive a retirement benefit equal to 71.3% of the current active salary of the position occupied at retirement.

The National Guard Retirement System, 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. 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, 2012, is as follows (dollars expressed in thousands):

	SCRS	PORS	GARS	JSRS	NGPS
State and school districts					
Number of employers	227	112	2	3	1
Annual covered payroll	$ 5,400,748	$ 353,523	$ 3,162	$ 16,422	N/A [a]
Average number of contributing members	132,699	9,496	170	144	N/A [b]
Other participating employers					
Number of employers	579	327	—	—	—
Annual covered payroll	$ 1,981,636	$ 692,950	$ —	$ —	$ —
Average number of contributing members	53,118	16,688	—	—	—

[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 12,097.

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 refunded 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, 2012, 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, 2012, were as follows:

Plan	Rate
SCRS	9.39%
PORS	11.53%
GARS	76.06%
JSRS	45.09%

The State appropriated $3.937 million to fund the NGPS actuarially determined employer contribution for the fiscal year ended June 30, 2012.

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. There were no amounts outstanding at June 30, 2012 under this type of agreement.

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	$ 2,532	$ 8,414	$ 4,352
Employer contributions made	$ 2,532	$ 8,414	$ 3,937
Actuarial valuation date	July 1, 2011	July 1, 2011	July 1, 2011
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	30 years	21 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:			
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	None	3.00%	None
Assumed inflation rate	2.75%	2.75%	2.75%
Assumed cost-of-living adjustments	None	3.00%	None

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2012 (expressed in thousands):

	NGPS
Actuarially required contribution (ARC)	$ 4,539
Interest on the NPO	689
Adjustment to the ARC	(876)
Annual pension cost	4,352
Contributions made	(3,937)
Increase in NPO	415
NPO beginning of year	9,192
NPO end of year	**$ 9,607**

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, 2012		June 30, 2011		June 30, 2010	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS–State:						
Primary government	$ 270,327	100.0%	$ 252,814	100.0%	$ 255,653	100.0%
Component units	15,050	100.0%	14,231	100.0%	13,986	100.0%
PORS–State:						
Primary government	43,776	100.0%	42,699	100.0%	42,268	100.0%
Component units	85	100.0%	78	100.0%	70	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	2010	$ 2,598	100.00%	$ —
	2011	2,414	100.00%	—
	2012	2,532	100.00%	—
JSRS	2010	8,414	100.00%	—
	2011	8,414	100.00%	—
	2012	8,414	100.00%	—
NGPS	2010	3,800	106.60%	9,348
	2011	3,748	104.20%	9,192
	2012	4,352	90.50%	9,607

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	2009	$ 25,183,062	$ 37,150,315	$ 11,967,253	67.8%	$ 7,761,808	154.2%
	2010	25,400,331	38,774,029	13,373,698	65.5%	7,769,820	172.1%
	2011	25,604,823	38,011,610	12,406,787	67.4%	7,687,558	161.4%
PORS	2009	3,482,220	4,564,111	1,081,891	76.3%	1,084,154	99.8%
	2010	3,612,700	4,850,457	1,237,757	74.5%	1,076,467	115.0%
	2011	3,728,241	5,122,501	1,394,260	72.8%	1,087,587	128.2%

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	2009	$ 45,891	$ 68,491	$ 22,600	67.0%	$ 3,854	586.4%
	2010	43,712	68,671	24,959	63.7%	3,854	647.6%
	2011	41,484	74,604	33,120	55.6%	3,854	859.4%
JSRS	2009	141,797	214,363	72,566	66.1%	18,661	388.9%
	2010	142,871	215,823	72,952	66.2%	18,661	390.9%
	2011	144,927	243,514	98,587	59.5%	18,661	528.3%

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	2009	$ 18,600	$ 53,421	$ 34,821	34.8%	N/A	N/A
	2010	19,458	54,153	34,695	35.9%	N/A	N/A
	2011	20,138	60,388	40,250	33.3%	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, 2012, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
Receivables:						
Contributions	$ 186,801	$ 20,266	$ 24	$ 626	$ 15	$ 207,732
Accrued interest	51,879	7,378	82	291	38	59,668
Unsettled investment sales	589,428	87,735	811	3,304	442	681,720
Other investment receivables	4,627	664	7	26	4	5,328
Total receivables	**$ 832,735**	**$ 116,043**	**$ 924**	**$ 4,247**	**$ 499**	**$ 954,448**
Due from other funds	**$ 59**	**$ 507**	**$ —**	**$ —**	**$ —**	**$ 566**
Investments and invested securities lending collateral:						
Debt-domestic	$ 3,362,727	$ 500,532	$ 4,626	$ 18,850	$ 2,522	$ 3,889,257
Debt-international	1,313,272	195,477	1,806	7,362	985	1,518,902
Equity-domestic	1,612,140	239,962	2,218	9,037	1,209	1,864,566
Equity-international	1,503,156	223,741	2,068	8,426	1,127	1,738,518
Alternatives	12,516,005	1,862,972	17,220	70,159	9,385	14,475,741
Invested securities lending collateral	159,112	23,683	219	892	119	184,025
Total investments	**$ 20,466,412**	**$ 3,046,367**	**$ 28,157**	**$ 114,726**	**$ 15,347**	**$ 23,671,009**

h. Teacher and Employee Retention Incentive Program

The Teacher and Employee Retention Incentive (TERI) program, established by State law, became effective January 1, 2001. The program is a deferred retirement option available to SCRS members eligible for service retirement. Upon entering the TERI program, a member's status changes from active to retired. A TERI participant agrees to continue employment with an employer participating in the system for a specified period, not to exceed five years.

TERI participants retain the same status and employment rights they held upon entering the program but are not considered active employees for purposes of the group life insurance and disability retirement programs. A TERI retiree's monthly benefits are accrued and remain in the SCRS trust account during the TERI participation period, but no interest is accrued or paid thereon. Upon termination of employment or at the end of the TERI participation period (whichever is earlier), a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution.

A total of 6,986, members were participating in the TERI program at June 30, 2012. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2012, was as follows:

Beginning balance of TERI trust accounts	$ 363,373
Additions	171,096
TERI distributions at termination	(148,753)
Ending balance of TERI trust accounts	**$ 385,716**

i. Defined Contribution Plan

As an alternative to membership in SCRS, certain State, public school, and higher education employees and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election have the option 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 (6.500%) and a portion of the employer contribution (5.000%). A direct remittance is also required to the SCRS for a portion of the employer contribution (4.385%) and a group life contribution (0.150%), which is retained by the SCRS. The activity for the State ORP is as follows (expressed in thousands):

Covered payroll	$ 997,607
Employee contributions	64,844
Employer contributions	49,880

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, 4.30% of annual covered payroll for fiscal year 2011-2012. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The State paid $312.641 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2012. The net estimated OPEB obligation at June 30, 2012 was $417.156 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 $3.22 for the fiscal year ended June 30, 2012.

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 ($103.993 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, 2012		June 30, 2011		June 30, 2010	
	Actuarially Required	% Contributed	Actuarially Required	% Contributed	Actuarially Required	% Contributed
SCRHI	$ 787,293	53.22%	$ 815,825	36.78%	$ 785,250	37.76%
LTDI	9,231	73.11%	9,456	71.25%	9,590	71.43%

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, 2009	$ 439,903	$ 9,643,577	$ 9,203,674	5%	$ 7,736,161	119%
SCRHITF	June 30, 2010	$ 487,496	$ 9,632,092	$ 9,144,596	5%	$ 8,045,607	114%
SCRHITF	June 30, 2011	$ 477,124	$ 10,625,914	$ 10,148,790	4%	$ 7,127,657	142%
LTDITF	June 30, 2009	$ 29,440	$ 23,610	$ (5,830)	125%	$ 8,418,750	<1%
LTDITF	June 30, 2010	$ 32,690	$ 25,855	$ (6,835)	126%	$ 8,295,065	<1%
LTDITF	June 30, 2011	$ 33,283	$ 24,957	$ (8,326)	133%	$ 7,837,796	<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, 2012, for the OPEB plans administered by the Employee Insurance Program were as follows:

	SCRHI	LTDI	Totals
Receivables:			
Accrued interest	$ 4,855	$ 331	$ 5,186
Due from other funds	**$ 43,321**	**$ —**	**$ 43,321**
Investments and invested securities lending collateral:			
Domestic Debt Instruments	$ 418,871	$ 26,300	$ 445,171
Financial Paper	84,414	6,457	90,871
Invested securities lending collateral	3,532	—	3,532
Total investments	**$ 506,817**	**$ 32,757**	**$ 539,574**

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 for the coverage provided.

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 $244.520 million at June 30, 2012, includes a provision for reported claims and 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. 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
2011	$ 230,011	$ 49,436	$ (41,573)	$ 237,874
2012	237,874	58,639	(51,993)	244,520

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.

The Employee Insurance Programs Fund serves as the third party administrator for the Long-Term Disability Insurance Trust and the South Carolina Retiree Health Insurance Trust Fund collecting monthly premiums, processing claims, and providing other managerial and administrative responsibilities. Transfers to the LTDITF occur monthly for the Basic Long-Term Disability premiums. Likewise monthly transfers are made from the Trust to cover the cost of claims. Refer to Note 9 for more information on the outstanding liability for Basic Long-Term Disability. Similar transactions occur monthly for the SCRHITF for which claims liability information is also available in Note 9.

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 $176.801 million at June 30, 2012, includes a provision for reported claims 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 including factors for 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, 2012, $6.031 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
2011	$ 156,969	$ 1,615,143	$ (1,627,233)	$ 144,879
2012	144,879	1,771,543	(1,739,621)	176,801

c. State Accident Fund

State law established the State Accident 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 modified for claims experience. 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.

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, 2012, the Fund's policy claims liability was $235.450 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
2011	$ 228,145	$ 56,251	$ (46,606)	$ 237,790
2012	237,790	45,688	(48,028)	235,450

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 JUA incurs a liability exceeding $200 thousand to any person under a single occurrence, the JUA 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.

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 health care providers required to obtain a license to practice in the state. 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 $112.209 million for the PCF at June 30, 2012, and $124.891 million, for the JUA at December 31, 2011, 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
2011	$ 138,654	$ 956	$ (17,517)	$ 122,093
2012	122,093	7,730	(17,614)	112,209

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
2010	$ 157,664	$ 10,220	$ (27,450)	$ 140,434
2011	140,434	10,859	(26,402)	124,891

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, 2012, was $43.224 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
2011	$ 35,710	$ 8,140	$ (7,764)	$ 36,086
2012	36,086	14,505	(7,367)	43,224

With the ratification of the Workers' Compensation Reform Act the Second Injury Fund has been placed in "run-off" and will be terminated effective July 1, 2013. The Act provides for an orderly termination of the Fund through decreasing the assessment calculation factor, closing the acceptance of new claims, and transferring any remaining claims as of July 1, 2013 to the State Accident Fund and any remaining assets or operational liabilities to the Budget and Control Board.

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 except in 2010 when settled claims resulting from the Santee River Flooding Case exceeded coverage limits and were paid by the Authority (See Note 22 for further details). 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 general liability self-insured layer exists between the Authority's primary and excess liability policies. During 2011, there were no losses incurred or reserves recorded for general liability. The Authority is exposed to additional risks specific to the utilities industry including nuclear incidents at the V.C. Summer Nuclear Station and environmental contaminations from operations of other sources of electric generation. The Authority purchases insurance coverage for these risks. During 2011, there were no losses incurred or reserves recorded for these industry specific risks.

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 2011.

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, 2011, the policy claims liabilities were $1.612 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
2010	$ 1,753	$ 3,548	$ (3,038)	$ 2,263
2011	2,263	1,985	(2,636)	1,612

NOTE 11: LEASES

a. Capital Leases

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, 2012 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
2013	$ 105	$ 11,601	$ 11,706
2014	95	11,315	11,410
2015	95	10,843	10,938
2016	62	9,928	9,990
2017	25	13,467	13,492
2018-2022	—	38,146	38,146
2023-2027	—	31,083	31,083
2028-2032	—	26,692	26,692
2033-2037	—	22,997	22,997
Thereafter	—	8,734	8,734
Total minimum payments	**382**	**184,806**	**185,188**
Less: interest and executory costs	(64)	(83,813)	(83,877)
Present value of net minimum payments	**$ 318**	**$ 100,993**	**$ 101,311**

Fiscal Year Ending December 31	Component Unit Public Service Authority
2012	$ 1,343
2013	1,023
2014	251
Total minimum payments	**2,617**
Less: interest and executory costs	(148)
Present value of net minimum payments	**$ 2,469**

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2012, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Primary Government Governmental Activities	Business-type Activities	Totals	Component Unit Public Service Authority
Land and non-depreciable improvements	$ —	$ 29,233	$ 29,233	$ —
Buildings and improvements	—	135,144	135,144	20,500
Machinery and equipment	922	8,594	9,516	—
Assets acquired under capital leases before accumulated amortization	**922**	**172,971**	**173,893**	**20,500**
Less: accumulated amortization	(560)	(45,825)	(46,385)	(17,700)
Assets acquired under capital leases, net	**$ 362**	**$ 127,146**	**$ 127,508**	**$ 2,800**

Excluded from the amounts presented above are capital leases between the Medical University of South Carolina (MUSC), an institution included in the Higher Education Fund of the primary government, the Medical University Facilities Corporation, a non-major Enterprise Fund, and the CHS Development Company, a non-major Enterprise Fund. The outstanding balance of the capital lease obligation and its corresponding receivable are presented in the Fund statement presentation but have been eliminated in the Government-wide presentation because the Corporation and Company are identified by MUSC as blended component units. The amount of the elimination is reported on the Reconciliation of Government-wide to Fund Statements. The future minimum lease payments are to be paid through 2023 with interest approximating $6.588 million.

Included in the Assets under capital leases is land, buildings, and equipment for which no future minimum lease payments are reported because the lease payments have been prepaid. The prepaid asset reported in the Higher Education Fund as other assets which includes prepayments for capital and operating leases has a balance of $8.988 million as of June 30, 2012 and is being amortized over the life of the leases. Rent expense of $346 thousand was reported for amortization in the current fiscal year.

b. Operating Leases

For the primary government's fiscal year ended June 30, 2012, minimum rental payments under operating leases were $93.713 million and contingent rental payments were $8.832 million. The State's contingent rental payments are primarily 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 $4.500 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases with terms of less than twelve months totaled $1.238 million for the fiscal year. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $760 thousand.

At June 30, 2012, 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
2013	$ 54,391	$ 636
2014	38,302	655
2015	28,807	674
2016	19,634	502
2017	14,966	4
2018-2022	40,973	—
2023-2027	17,256	—
2028-2032	7,375	—
2033-2037	1,250	—
Thereafter	3,664	—
Total minimum payments................	**$ 226,618**	**$ 2,471**

Fiscal Year Ending December 31	Component Unit Public Service Authority
2012	$ 1,045
2013	674
2014	600
2015	600
2016	600
Total minimum payments.................	**$ 3,519**

c. Facilities and Equipment Leased to Others

At June 30, 2012, the State agencies within the primary government had leased to non-State parties certain land, facilities, or equipment having a cost of approximately $53.256 million and related accumulated depreciation of $13.676 million. In addition at June 30, 2012, 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 $11.415 million and related accumulated depreciation of $7.837 million. Future minimum rental payments to be received at June 30, 2012, under these operating leases were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government	Component Unit State Ports Authority
2013	$ 4,143	$ 1,201
2014	3,578	1,093
2015	2,638	921
2016	1,387	496
2017	1,433	295
2018-2022	3,937	3,150
2023-2027	2,938	—
2028-2032	3,007	—
2033-2037	3,225	—
Thereafter	2,166	—
Total..	**$ 28,452**	**$ 7,156**

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, 2012, were:

Governmental Activities	
Capital improvement bonds, 3.50% to 5.50%, maturing serially through 2019	$ 243,248
State highway bonds, 2.00% to 5.00%, maturing serially through 2023	433,266
State school facilities bonds, 4.00% to 5.00%, maturing serially through 2018	264,245
Infrastructure Bank bonds, 3.00% to 5.00%, maturing serially through 2029	45,953
State economic development bonds, 1.00% to 6.50%, maturing serially through 2031	377,809
Research university infrastructure bonds, 3.00% to 5.00%, maturing serially through 2025	162,626
Air carrier hub terminal facilities bonds, 1.00% to 4.00%, maturing serially through 2025	44,810
Subtotal—governmental activities	**1,571,957**
Business-type Activities, Higher Education Fund	
State institution bonds, 2.50% to 6.50%, maturing serially through 2031	461,607
Total—general obligation bonds payable	**$ 2,033,564**

At June 30, 2012, $6.344 million of capital improvement bonds, $106.000 million of State highway bonds, $42.185 million of State economic development bonds, and $10.565 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2012, future debt service requirements (expressed in thousands) for general obligation bonds were:

	Governmental Activities		Business-type Activities (Higher Education Fund)	
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**
2013	$ 186,245	$ 63,426	$ 26,975	$ 19,091
2014	185,255	56,127	27,495	18,344
2015	194,150	47,641	28,275	17,352
2016	170,045	38,604	29,395	16,165
2017	135,435	30,857	28,210	14,998
2018-2022	454,980	73,968	141,225	57,378
2023-2027	160,305	11,011	120,270	29,061
2028-2031	17,435	1,066	50,755	8,438
Total debt service requirements	**1,503,850**	**$ 322,700**	**452,600**	**$ 180,827**
Unamortized premiums	93,678		12,021	
Deferred amount on refunding	(25,571)		(3,014)	
Total principal outstanding	**$ 1,571,957**		**$ 461,607**	

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, 2012, was $43.425 million in total for all institution bonds, $37.135 million for highway bonds, $156.686 million for general obligation bonds excluding institution and highway bonds, $3.568 million for economic development bonds, and $7.465 million for research university infrastructure bonds. Excluded from the debt service limit calculations are a $170.000 million 2010 issue of economic development bonds and a $50.000 million 2010 issue of air carrier hub terminal facilities bonds which by State Law are not subject to the limitation on maximum annual debt service. South Carolina State University exceeded its legal debt service limit on its State institution bonds by approximately $30 thousand at June 30, 2012. The University is adjusting tuition fees and making other corrections 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, 2012, which are reported in the internal service funds, totaled $3.822 million and mature serially through 2016. Interest rates on these bonds ranged from 4.50% to 6.10%.

At June 30, 2012, 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, 2012, future debt service requirements (expressed in thousands) for limited obligation bonds were:

	Governmental Activities (Internal Service Funds)	
Year Ending June 30	**Principal**	**Interest**
2013	$ 1,420	$ 186
2014	1,495	110
2015	735	32
2016	185	8
Total debt service requirements.........................	**3,835**	**$ 336**
Unamortized discounts.............	(13)	
Total principal outstanding............................	**$ 3,822**	

The internal service funds pay all debt service for the lease revenue bonds.

c. Revenue, Infrastructure Bank, and Other Bonds and Notes

Revenue debt is not backed by the full faith, credit, and taxing power of the State. Revenue, Infrastructure Bank, and other bonds and notes (expressed in thousands) outstanding at June 30, 2012, were:

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 3.00% to 5.75%, maturing serially through 2041	$ 2,074,308	$ —
Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022	14,835	—
Judicial Department note, 1.92%, maturing in 2016	—	1,556
Educational Television Commission note, 2.96%, maturing in 2014	—	117
Corrections Department notes, 1.81% to 5.97%, maturing through 2020	—	17,047
Criminal Justice Academy note, 3.41%, maturing through 2016	—	6,530
Department of Revenue note, 1.43%, maturing through 2015	—	677
Budget and Control Board bond and notes, 3.20% to 5.00%, maturing through 2018	12,589	15,503
Totals—governmental activities	**2,101,732**	**41,430**
Business-type Activities:		
Higher Education Fund bonds and notes, 2.00% to 6.94%, maturing serially through 2042	834,213	66,526
Housing Authority Fund bonds and note, 0.60% to 8.30%, maturing serially through 2041	740,363	—
Medical University Hospital Authority bonds and notes, 3.92% to 5.38%, maturing through 2035	423,065	11,575
Education Assistance Authority Fund bonds, 3.40% to 5.10%, maturing serially through 2030	69,825	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 0.19% to 7.50%, maturing through 2038	58,223	46,686
Totals—business-type activities	**2,125,689**	**124,787**
Totals—primary government	**$ 4,227,421**	**$ 166,217**
Major Discretely Presented Component Units:		
Public Service Authority bonds, 1.35% to 8.37%, maturing serially through 2051	$ 5,147,298	$ —
State Ports Authority bonds and notes, 3.80% to 5.50%, maturing serially through 2041	$ 176,757	$ 604
Connector 2000 Association, Inc. bonds, 3.25% to 10.00%, maturing serially through 2052	$ 157,677	$ —

Debt Derivatives

Transportation Infrastructure Bank

The Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, is a party to interest rate exchange agreements with a termination date of October 1, 2031, to enhance the interest cost savings and offset changes in tax-exempt variable interest rates on certain revenue bonds. Under these variable-to-fixed interest rate exchanges, for the 2003B-1 and 2003B-3 agreements, the Bank pays a 3.859% 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 3.932% 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 (LIBOR), plus 0.75%, or 75.0% of the one-month LIBOR plus 0.885%, depending on the participating bank, on such notional amount. For the fiscal year ended June 30, 2012, the Bank made variable bond interest payments of $3.464 million and fixed rate payments on the exchange agreement of $13.958 million. The Bank received variable swap payments on the exchange agreement of $581 thousand. The June 30, 2012, mark to market value of this swap was negative $47.527 million, representing an increase in fair value of $15.564 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.

University Medical Associates

University Medical Associates of the Medical University of South Carolina (UMA) is a blended component unit and nonmajor enterprise fund. UMA entered into an interest rate swap agreement with a financial institution to modify interest rates on certain bonds by converting the variable interest rate into a rate equal to 2.98% plus 8% of the one-month LIBOR rate. The interest rate swap agreement matures on July 1, 2037. The notional amount as of June 30, 2012 is $62.085 million, which equals the principal outstanding. Under the swap agreement, UMA pays the financial institution a fixed interest payment of 2.10% and receives a variable payment equal to 67.0% of the one-month LIBOR rate. The variable rate in effect at June 30, 2012 was 0.16%. The fair value of this swap, estimated using the zero-coupon method, was negative $5.871 million as of June 30, 2012. The negative fair value of the 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 cash flow hedge swap from June 30, 2011 of $8.786 million is not recognized in these financial statements.

In addition, UMA has entered into an interest rate swap agreement with a financial institution to modify interest rates on an outstanding 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 matures January 2, 2019. The notional amount as of June 30, 2012 was $24.961 million, which equaled the principal outstanding on the term loan. Under this 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 term loan in effect at June 30, 2012 was 1.54%. The fair value of the term loan swap, estimated using the zero-coupon method, was negative $1.486 million as of June 30, 2012. 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, 2011 of $744 thousand is not recognized in these financial statements.

As of June 30, 2012, 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
2013	$ 3,792	$ 1,012	$ 1,749	$ 6,553
2014	3,792	954	1,659	6,405
2015	3,792	896	1,570	6,258
2016	3,791	838	1,480	6,109
2017	3,791	779	1,391	5,961
2018-2022	16,653	3,096	5,648	25,397
2023-2027	13,730	2,296	4,208	20,234
2028-2032	15,715	1,507	2,761	19,983
2033-2037	18,065	601	1,101	19,767
2038	3,925	—	—	3,925
Totals............	**$ 87,046**	**$ 11,979**	**$ 21,567**	**$ 120,592**

State Ports Authority

The State Ports Authority, a major discretely presented component unit, is a party in 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 70.0% of the one-month LIBOR on such notional amount. The notional amounts at June 30, 2012 were $60.113 million and $25.913 million. The swap contracts expire on July 1, 2026.

In addition, the Authority entered into a third interest swap contract intended to manage interest expense and offset the effects of its other interest rate swaps previously executed. This agreement provides 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 on the first day of each month through expiration on July 1, 2026. The swap provider will pay the Authority at a fixed rate of 3.51%. The notional amount under this swap agreement is $88.875 million at June 30, 2012.

As of June 30, 2012, the swaps had a negative fair value of approximately $2.916 million. The unrealized loss related to these agreements recorded at June 30, 2012 is $688 thousand and is included in interest expense on the Statement of Activities.

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, 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
Heritage Trust bonds: revenues derived from a 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, 2012, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

Debt Service Requirements

At June 30, 2012, future debt service requirements (expressed in thousands) for revenue, 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**
2013	$ 74,736	$ 98,524	$ 81,843	$ 100,674
2014	80,923	95,003	74,612	97,605
2015	78,896	91,237	79,107	94,175
2016	82,450	87,251	79,253	90,831
2017	60,865	83,682	82,153	87,662
2018-2022	394,785	362,367	421,768	385,395
2023-2027	385,145	268,707	463,117	281,942
2028-2032	479,930	175,851	469,847	174,950
2033-2037	328,215	71,129	395,993	68,125
2038-2042	164,624	17,763	95,845	6,912
Total debt service requirements	**2,130,569**	**$ 1,351,514**	**2,243,538**	**$ 1,388,271**
Net unamortized premiums	93,722		49,770	
Deferred amount on refunding	(81,129)		(42,832)	
Total principal outstanding	**$ 2,143,162**		**$ 2,250,476**	

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, 2011, the carrying value of the Public Service Authority's debt was $5.161 billion while the fair value was approximately $5.700 billion. At June 30, 2012, the carrying value of the State Ports Authority debt was $174.957 million while the fair value was approximately $197.266 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.

During the fiscal year ended December 31, 2011, Connector 2000 Association issued capital appreciation bonds with an ultimate maturity value of $754.185 million. These bonds are recorded in the Statement of Net Assets in the amount of $157.677 million, which is the accreted value at December 31, 2011. Because all of the 2011 bonds are capital appreciation bonds, accretions are accounted for as interest expense and additions to principal. For purposes of the following debt service schedule, all accretions are included as principal, and no interest is shown.

As of the last reporting date of the Component Units, 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
2012	$ 156,781	$ 250,266	$ 2,114	$ —
2013	324,681	242,291	3,626	—
2014	587,277	222,443	3,793	—
2015	227,420	202,908	4,101	—
2016	254,794	194,083	4,572	—
2017-2021	1,149,992	796,480	38,155	—
2022-2026	595,463	575,347	58,823	—
2027-2031	643,705	432,383	77,995	—
2032-2036	574,090	270,416	98,818	—
2037-2041	289,680	140,544	125,426	—
2042-2046	123,120	122,059	148,035	—
2047-2051	231,478	17,425	188,727	—
Total debt service requirements	**5,158,481**	**$ 3,466,645**	**754,185**	**$ —**
Unamortized accretion	—		**(596,508)**	
Unamortized premiums	158,108		—	
Deferred amount on refunding	(169,291)		—	
Total principal outstanding	**$ 5,147,298**		**$ 157,677**	

Year Ending June 30	State Ports Authority Principal	State Ports Authority Interest
2013	$ 4,350	$ 8,697
2014	4,660	8,511
2015	4,845	8,317
2016	5,035	8,116
2017	5,270	7,852
2018-2022	30,550	34,810
2023-2027	34,585	25,800
2028-2032	23,510	18,761
2033-2037	30,590	11,506
2038-2041	30,955	2,544
Total debt service requirements	**174,350**	**$ 134,914**
Unamortized premiums	2,407	
Total principal outstanding	**$ 176,757**	

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, 2012, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government	$ 11,826
Transportation	127,032
Total allocated interest expense	**$ 138,858**

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, 2012, $28.000 million in short-term general obligation bond anticipation notes were outstanding in the Higher Education Fund, a major enterprise fund. These notes are due on or before June 30, 2013.

e. Defeased Bonds

During May 2012, the State issued $46.875 million in general obligation State capital improvement refunding bonds with an average interest rate of 4.97% to refund $51.965 million of general obligation State capital improvement bonds ($19.755 million of Series 1999A and $32.210 million of Series 2004A) with an average interest rate of 3.23%. The net proceeds of $53.931 million (after payment of $230 thousand in issuance costs), were used for a current refunding of the Series 1999A issue, and the remainder was used to purchase United States government securities to advance refund the Series 2004A issue. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.673 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2019 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next seven years by approximately $2.320 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $2.397 million.

During May 2012, the State issued $29.860 million in general obligation State school facilities refunding bonds with an average interest rate of 5.0% to refund $33.780 million of general obligation State school facilities bonds, Series 2002B, with an average interest rate of 3.14%. The net proceeds of $34.696 million (after payment of $153 thousand in issuance costs), were used to purchase United States government securities to advance refund the Series 2002B issue. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $916 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2017 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next six years by approximately $1.640 million and to obtain an economic gain of approximately $1.888 million.

During May 2012, the State issued $27.220 million in general obligation State economic development refunding bonds with an average interest rate of 4.23% to refund $28.605 million of general obligation State economic development bonds ($14.815 million of Series 2004A and $13.790 million of Series 2005C) with an average interest rate of 4.42%. The net proceeds of $31.803 million (after payment of $142 thousand in issuance costs), were used to purchase United States government securities to advance refund the Series 2004A and Series 2005C issues. The advance refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3.272 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2029 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next seventeen years by approximately $2.231 million and to obtain an economic gain of approximately $2.118 million.

During May 2012, the State issued $28.745 million in general obligation State Transportation Infrastructure Bank refunding bonds with an average interest rate of 4.57% to refund $31.220 million of general obligation State Transportation Infrastructure Bank bonds, Series 2004A, with an average interest rate of 4.89%. The net proceeds of $34.143 million (after payment of $154 thousand in issuance costs), were used to purchase United States government securities to advance refund the Series 2004A issue. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.928 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2025 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next thirteen years by approximately $4.389 million and to obtain an economic gain of approximately $3.846 million.

During April 2012, the State Transportation Infrastructure Bank issued $265.965 million in revenue refunding bonds with a 3.00% to 5.00% coupon rate over the life of the issue. The net proceeds after payment of $2.800 million in issuance costs were used to refund $34.635 million of the Series 2001A bonds and $253.625 million of the Series 2002A bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $6.036 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations on a straight-line basis over the life of the bonds. The bonds were refunded to reduce total debt service payments by approximately $55.335 million and to obtain an economic gain of approximately $29.323 million.

During May 2012, the University of South Carolina issued $21.475 million in general obligation State institution refunding bonds to partially advance refund $23.940 million of general obligation State institution bonds ($9.020 million of Series 1996B, $10.585 million of Series 2002E, and $4.335 million of Series 2003I), with an average interest rate of 4.54%. The refunding transactions resulted in a deferred loss on refunding of $639 thousand, an aggregate debt payment reduction of $2.878 million over the next twelve years, and an economic gain of $2.796 million.

During May 2012, the Clemson University issued $21.135 million in general obligation State institution refunding bonds to partially advance refund $22.980 million of general obligation State institution bonds ($13.000 million of Series 2002B, $4.940 million of Series 2003B, and $5.040 million of Series 2003F), with an average interest rate of 4.14%. The refunding transactions resulted in a deferred loss on refunding of $872 thousand, an aggregate debt payment reduction of $2.124 million over the next six years, and an economic gain of $1.995 million.

During May 2012, the Medical University of South Carolina issued $12.645 million in general obligation State institution refunding bonds to partially advance refund $13.670 million of general obligation State institution bonds ($2.995 million of Series 2001C, $3.335 million of Series 2003D, and $7.340 million of Series 2003J), with an average interest rate of 4.43%. The refunding transactions resulted in a deferred loss on refunding of $650 thousand, an aggregate debt payment reduction of $1.354 million over the next twelve years, and an economic gain of $1.325 million.

During May 2012, Winthrop University issued $13.140 million in general obligation State institution refunding bonds to affect current refundings of $5.010 million of Series 2001A2, Series 2001B5, and 2003C issues. Remaining proceeds of $10.747 million were used to advance refund $9.710 million of general obligation State institution bonds ($3.040 million of Series 2004A1 and $6.670 million of Series 2005B), with an average interest rate of 4.18%. The refunding transactions resulted in a deferred loss on refunding of $1.036 million, an aggregate debt payment reduction of $1.580 million over the next ten years, and an economic gain of $1.203 million.

During June 2012, the University of South Carolina issued $6.350 million in Athletics Facilities revenue refunding bonds to fully advance refund Series 2002A revenue bonds. The refunding transaction resulted in a loss on refunding of $61 thousand, an aggregate debt payment reduction of $1.072 million over the next twenty years, and an economic gain of $851 thousand.

During May 2012, the University of South Carolina issued $28.110 million in 2012A revenue refunding bonds advance refund $30.925 million of revenue bonds ($2.275 million of Series 1999A, $3.175 million of Series 2003B, and $25.475 million of Series 2004A). revenue bonds. The refunding transaction resulted in a deferred loss on refunding of $1.380 million, an aggregate debt payment reduction of $4.667 million, and an economic gain of $3.631 million.

During February 2012, Clemson University issued $21.200 million in Series 2012 revenue refunding bonds to advance refund $20.350 million of Series 2003 revenue bonds. The refunding transaction resulted in a loss on refunding of $1.410 million, an aggregate debt payment reduction of $2.343 million over the next seven years, and an economic gain of $2.268 million.

During February 2012, Clemson University issued $12.335 million in Series 2012 Athletics Facilities revenue refunding bonds for a current refunding of $8.885 million outstanding on the Series 2001 bonds and the advance refund $6.920 million of the Series 2003 bonds. The refunding transaction resulted in a loss on refunding of $809 thousand, an aggregate debt payment reduction of $4.777 million over the next twelve years, and an economic gain of $1.424 million.

During February 2012, the College of Charleston issued $25.630 million in 2012A revenue bonds to refund the outstanding 2002A and 2002C revenue bonds. The refunding transactions resulted in a loss on refunding of $439 thousand, an aggregate debt payment reduction of $6.651 million over the next twenty years, and an economic gain of $5.033 million.

During its fiscal year ended December 31, 2011, the Public Service Authority, a major discretely presented component unit, issued $288.515 million in 2011 Refunding Series B Bonds, with an aggregate all-in true interest cost of 2.27% to refund $8.990 million of the 2002 Refunding Series D bonds and $291.825 million of the 2004 Series A bonds with an average interest rate of 5.0%. The difference between the bonds issued and the outstanding balance is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to operations through the year 2021 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next eleven years by approximately $23.800 million and to obtain an economic gain of approximately $22.600 million.

Also in its fiscal year ended December 31, 2011, the Public Service Authority issued $135.855 million in 2011 Refunding Series C Bonds, with an aggregate all-in true interest cost of 4.63% to refund $134.715 million of the 2002 Series B bonds and $5.160 million of the 2011 Series A bonds with an average interest rate of 5.12%. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2036 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next twenty-six years by approximately $9.400 million and to obtain an economic gain of approximately $7.700 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, 2012, 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	$ 32,210	$ —	$ 32,210
School Facilities bonds	41,710	—	41,710
Economic Development bonds	28,605	—	28,605
Infrastructure Bank bonds	308,595	—	308,595
Department of Transportation bonds	359,450	—	359,450
Tobacco Authority bonds	64,890	—	64,890
Higher Education Fund bonds	—	214,345	214,345
Totals	**$ 835,460**	**$ 214,345**	**$ 1,049,805**

In addition, at December 31, 2011, $684.500 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, 2012, reported as other liabilities for governmental activities is an arbitrage rebate liability of $651 thousand associated with the State's General Obligation Debt and a $910 thousand arbitrage rebate liability associated with revenue bonds of the Local Government Infrastructure Fund (a major governmental fund).

g. Conduit Debt

State law authorizes issuance of certain bonds for which the State assumes no responsibility for repayment. These bonds 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, 2012, the outstanding balance of bonds issued was $302.288 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, 2012, the outstanding balance of bonds issued after June 30, 1995, was $3.543 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, 2012, the outstanding balance of bonds issued was $216.550 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, 2012, 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, 2012 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, 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 ended June 30, 2012, there were no advances under this line of credit. The line of credit expired during July 2012 and was renewed with basically the same terms through July 31, 2013.

The Public Service Authority, a discretely presented component unit, has recorded a $306.566 million liability for commercial paper notes at its fiscal year ended December 31, 2011. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a $500.000 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement during 2011.

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 were 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, 2012, the outstanding balance of these advances was $782.188 million. Principal payments began on September 30, 2011, with interest accruing at an interest rate of approximately 4.00% beginning on January 1, 2011. Of the balance reported, $675.688 million is considered non-current with $106.500 million reported as due within one year.

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. For the fiscal year ended June 30, 2012, a total of $119 thousand was applied to reduce the balance of federal unemployment account advances to the Fund as a result of the reduced FUTA credits. Non-recurring revenues appropriated to the Department of Employment Workforce by the General Assembly will be utilized to make principal payments on the federal advances in amounts sufficient to avoid the FUTA credit reductions for state employers for the 2012 tax year.

The comprehensive changes to the Unemployment Insurance (UI) tax structure implemented to assist in putting the Fund back on the path to solvency are 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.

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 May 2011. Management plans to continue to borrow from the Federal government, if needed, to fund its deficits for the foreseeable future; however, it is estimated that no additional advances will be required under the new tax structure. The Federal government has not established a maximum amount that the Fund can borrow.

Federal regulations specify that interest on Federal Unemployment Account Advances may not be paid, either directly or indirectly, from the Fund; therefore, no accrued interest is reported in the Unemployment Compensation Benefits Fund. Interest of $25.242 million was paid in September 2012 from the State's Debt Service Fund, with the portion due at June 30, 2012 of $19.835 million reported as accrued interest in the government-wide Statement of Net Assets for governmental activities.

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, 2012, were:

	Balances at July 1, 2011	Increases	Decreases	Balances at June 30, 2012	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims	$ 656,629	$ 1,890,376	$ (1,847,009)	$ 699,996	$ 506,940
Notes payable	50,172	2,127	(10,869)	41,430	10,991
General obligation bonds payable	1,699,040	132,700	(327,890)	1,503,850	186,245
Unamortized discounts and premiums	77,719	24,088	(8,129)	93,678	—
Deferred amount on refunding	(20,362)	(8,826)	3,617	(25,571)	—
Total general obligation bonds payable	1,756,397	147,962	(332,402)	1,571,957	186,245
Tobacco Authority bonds payable	71,700	—	(71,700)	—	—
Unamortized discount	(2,145)	—	2,145	—	—
Deferred amount on refunding	(6,394)	—	6,394	—	—
Total Tobacco Authority bonds	63,161	—	(63,161)	—	—
Infrastructure Bank bonds payable	2,137,720	265,965	(341,471)	2,062,214	60,730
Unamortized discounts and premiums	77,777	24,667	(9,221)	93,223	—
Deferred amount on refunding	(79,725)	(6,163)	4,759	(81,129)	—
Total Infrastructure Bank bonds	2,135,772	284,469	(345,933)	2,074,308	60,730
Revenue bonds payable	29,810	—	(2,885)	26,925	3,015
Unamortized discounts and premiums	590	—	(91)	499	—
Total revenue bonds payable	30,400	—	(2,976)	27,424	3,015
Limited obligation bonds payable	5,180	—	(1,345)	3,835	1,420
Unamortized discounts	(19)	—	6	(13)	—
Total limited obligation bonds payable	5,161	—	(1,339)	3,822	1,420
Capital leases payable	261	237	(180)	318	78
Compensated absences payable	210,753	91,024	(92,087)	209,690	115,359
National Guard Retirement System net pension obligation payable	9,192	415	—	9,607	—
Judgments and contingencies payable	36,618	—	(12,254)	24,364	6,771
Arbitrage payable	1,857	—	(296)	1,561	34
Total amounts included in other liabilities	47,667	415	(12,550)	35,532	6,805
Total long-term liabilities	$ 4,956,373	$ 2,416,610	$ (2,708,506)	$ 4,664,477	$ 891,583

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, 2011	Increases	Decreases	Balances at June 30, 2012	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims	$ 122,093	$ 7,730	$ (17,614)	$ 112,209	$ 11,778
Advances from Federal government	967,068	—	(184,880)	782,188	106,500
Notes payable	162,436	2,227	(34,000)	130,663	28,039
Unamortized discounts and premiums	67	—	(6)	61	—
Deferred amount on refunding	(7,073)	—	1,136	(5,937)	—
Total notes payable	155,430	2,227	(32,870)	124,787	28,039
General obligation bonds payable	483,720	70,640	(101,760)	452,600	26,975
Unamortized discounts and premiums	1,483	11,375	(837)	12,021	—
Deferred amount on refunding	(703)	(2,513)	202	(3,014)	—
Total general obligation bonds payable	484,500	79,502	(102,395)	461,607	26,975
Revenue bonds payable	2,107,249	256,427	(250,801)	2,112,875	53,804
Unamortized discounts and premiums	34,674	17,407	(2,372)	49,709	—
Deferred amount on refunding	(34,557)	(4,700)	2,362	(36,895)	—
Total revenue bonds payable	2,107,366	269,134	(250,811)	2,125,689	53,804
Capital leases payable	104,369	3,310	(6,686)	100,993	5,640
Compensated absences payable	151,689	103,831	(96,380)	159,140	86,264
Arbitrage payable	39	—	(39)	—	—
Total long-term liabilities	$ 4,092,554	$ 465,734	$ (691,675)	$ 3,866,613	$ 319,000

	Balances at January 1, 2011	Increases	Decreases	Balances at December 31, 2011	Amounts Due Within One Year
Major Component Units:					
Public Service Authority					
Policy claims	$ 2,263	$ 1,985	$ (2,636)	$ 1,612	$ 1,612
Revenue bonds payable	5,150,706	810,745	(802,970)	5,158,481	156,781
Unamortized discounts and premiums	133,888	56,009	(31,789)	158,108	—
Deferred amount on refunding	(164,054)	(27,757)	22,520	(169,291)	—
Total revenue bonds payable	5,120,540	838,997	(812,239)	5,147,298	156,781
Capital leases payable	3,914	—	(1,445)	2,469	1,243
Compensated absences payable	18,525	2,234	(1,833)	18,926	—
Total long-term liabilities	$ 5,145,242	$ 843,216	$ (818,153)	$ 5,170,305	$ 159,636
Connector 2000 Association, Inc.					
Revenue bonds payable	$ 733,200	$ 157,677	$ (733,200)	$ 157,677	$ 2,114
Unamortized discounts and premiums	(406,861)	—	406,861	—	—
Total revenue bonds payable	$ 326,339	$ 157,677	$ (326,339)	$ 157,677	$ 2,114

	Balances at July 1, 2011	Increases	Decreases	Balances at June 30, 2012	Amounts Due Within One Year
State Ports Authority					
Notes payable	$ 949	$ —	$ (345)	$ 604	$ 604
Revenue bonds payable	178,475	—	(4,125)	174,350	4,350
Unamortized discounts and premiums	2,559	—	(152)	2,407	—
Total revenue bonds payable	181,034	—	(4,277)	176,757	4,350
Capital leases payable	11	—	(8)	3	3
Compensated absences payable	2,348	2,066	(2,025)	2,389	2,389
Total long-term liabilities	$ 184,342	$ 2,066	$ (6,655)	$ 179,753	$ 7,346
Lottery Commission					
Compensated absences payable	$ 646	$ 483	$ (455)	$ 674	$ 506

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, 2012 included: BANS in the Higher Education Fund, a major enterprise fund and commercial paper notes in the Public Service Authority. Short-term debt activity during the fiscal year (expressed in thousands) was as follows:

	Balances at July 1, 2011	Increases	Decreases	Balances at June 30, 2012
Primary Government:				
Business-type Activities				
General obligation bond anticipation notes payable	$ 30,000	$ 28,000	$ (30,000)	$ 28,000
Revenue bond anticipation notes payable	$ 33,500	$ —	$ (33,500)	$ —

	Balances at January 1, 2011	Increases	Decreases	Balances at December 3, 2011
Major Component Unit:				
Public Service Authority				
Commercial paper notes	$ 159,338	$ 222,717	$ (75,489)	$ 306,566

NOTE 14: FUND BALANCES IN GOVERNMENTAL FUNDS

Fund balance classifications in governmental funds represent levels of constraints on the use of the resources received and reported in each fund. At June 30, 2012, the amounts constrained within the unrestricted fund balance in governmental funds (expressed in thousands) were as follows:

	General	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	State Tobacco Settlement	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable:							
Interfund receivables	$ 4,046	$ 870	$ 316,227	$ —	$ —	$ 13,634	$ 334,777
Inventories	21,476	3,231	—	3,376	—	—	28,083
Prepaid items	5,940	4,469	14	2,121	—	11	12,555
Long-term loans and notes receivable	36,380	459	428,971	3,154	—	9,396	478,360
Other	—	—	—	771	—	—	771
Endowments	—	—	—	—	—	9,057	9,057
Total Non-spendable	67,842	9,029	745,212	9,422	—	32,098	863,603
Restricted:							
Education	171	2,143	—	—	—	110,129	112,443
Health	173	160,621	—	—	21,791	6,303	188,888
Transportation	—	4,055	433,848	10,000	—	—	447,903
Capital Projects	—	1,028	168,376	—	—	—	169,404
Debt Service	—	1,964	933,108	—	—	59,415	994,487
Loan programs	—	—	—	—	—	6,944	6,944
Waste management	—	31,040	—	—	—	171,656	202,696
Other	991	9,800	—	—	—	198,076	208,867
Total Restricted	1,335	210,651	1,535,332	10,000	21,791	552,523	2,331,632
Committed:							
Capital reserve fund	104,838	—	—	—	—	—	104,838
Contingency reserve fund	122,334	—	—	—	—	—	122,334
Transportation	—	—	—	140,794	—	—	140,794
Health	73,696	—	—	—	—	—	73,696
Other	83,384	4,764	—	—	—	55	88,203
Total Committed	384,252	4,764	—	140,794	—	55	529,865
Assigned:							
Appropriations to be carried forward	166,180	—	—	—	—	—	166,180
Capital expenditures	8,830	—	—	—	—	116,834	125,664
Education	95,662	—	—	—	—	—	95,662
Health and Safety	104,226	—	—	—	—	4,073	108,299
Local Infrastructure	22,916	—	—	—	—	326	23,242
Social Programs	5,556	—	—	—	—	—	5,556
Other	92,508	—	—	—	—	10,812	103,320
Total Assigned	495,878	—	—	—	—	132,045	627,923
Total Unrestricted, unassigned	944,742	(15,654)	(329,463)	(290,769)	—	(54)	308,802
Total Fund Balance	**$ 1,894,049**	**$ 208,790**	**$ 1,951,081**	**$ (130,553)**	**$ 21,791**	**$ 716,667**	**$ 4,661,825**

The following subsections contain further descriptive information regarding the constraints of fund balance.

a. Non-spendable

This portion of fund balance is not available for appropriation because it is either in a form that cannot be spent or is legally or contractually required to be maintained intact (Endowments).

Health

This is restricted resources for the continuation and enhancement of programs to improve the health and safety of the citizens and visitors of the State of South Carolina. Programs promote environment, physical, and mental health of the State, its resources, citizens, and travelers.

Transportation

Restricted resources for transportation are imposed by external parties or enabling legislation for use in the maintenance and improvement highway systems and access to commercial markets through rail, air, and transoceanic.

Capital Projects

The balance represents resources received from external parties or through enabling legislation which requires the use of the resources for the construction or acquisition and installation of a capitalizable asset. The resources will be expended over the life of the construction.

Debt Service

The balance represents resources received from external parties or through enabling legislation which requires the use of the resources for the repayment of outstanding debt, including principal and interest.

Other

Other restricted fund balance includes resources restricted to individual programs undertaken by the agencies to provide services and resources to the constituents of the State of South Carolina and visitors to it.

c. Committed

Capital Reserve Fund

The South Carolina Constitution requires that two percent of the General Fund revenue of the latest completed fiscal year be used to fund this reserve for future appropriations for capital acquisitions, retirement of capital improvement bonds, or other nonrecurring purposes. This reserve is reduced to cover year-end operating deficits prior to withdrawal of funds from the General Reserve Fund.

Contingency Reserve Fund

This reserve fund was created by State law requiring the accumulation of General Fund revenues in excess of general appropriations. Any balance in this fund must be utilized to replenish any deficit of the General Reserve Fund below its fully funded amount. Upon determination by the Comptroller General of the amount deposited to this reserve, notification is provided to the Board of Economic Advisors for determination of the amount available for appropriation by the State's legislative process.

Education

This portion of fund balance has been committed through various sections of the State's Code of Law which stipulate the utilization of resources for the continuation and improvement of educational programs in the State. The programs include formative education, higher education, and skills training for job creation.

Health

This represents the portion of the fund balance, which has been committed through various sections of the State's Code of Law, for purposes of promoting and safeguarding the health of the citizens and visitors of the State. The programs include enforcement of regulations, access to services, and education in the risks faced by the citizens of the State.

Other

The remaining committed fund balance is constrained through enabling legislation for programs within the established missions of the agencies in its directives for service to the citizens of the State of South Carolina.

d. Assigned

Appropriations to be Carried Forward

The General Fund does not use encumbrance accounting. Appropriations to be carried forward are used if the General Assembly has authorized the carry-forward of General Fund appropriations to the next fiscal year.

Capital Expenditures

Amounts identified and budgeted for capital projects under construction in the State's Capital Projects Fund, a nonmajor governmental fund, or for acquisition of capital assets are reported as assigned fund balance.

Education

Amounts reported in this category arise from programmatic requirements for use in educational purposes. The assignment may be by contract with other state agencies or through budgetary action of the legislation in the form of a proviso.

Health and Safety

The fund balance reported in this category arises primarily from contracts between state agencies for services provided in connection with public health and the safety of the citizens and visitors to the State.

Local Infrastructure

The fund balance reported in this category arises primarily from budgetary proviso actions which provide a certain level of funding to local governments for improvements in infrastructure to ensure the health and welfare of its citizens and visitors.

Social Programs

Amounts reported in this category primarily arise through contractual agreements between state agencies that cooperate in the provision of social programs to the citizens of the State.

Other

The remaining balance in the assigned fund balance classification is created through budgetary proviso actions and agency contractual obligations between parties within the reporting entity relating to a variety of other services provided to the citizens of the State and its visitors.

e. Unrestricted, unassigned

Included in the unrestricted, unassigned fund balance classification is the 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 for the June 30, 2012 fiscal year if 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, 2012, the Reserve was $183.466 million, which was the required fully funded amount.

NOTE 15: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2012 (expressed in thousands):

Funds	Due From	Due To
General		
Departmental Program Services	$ 46,163	$ 20,395
Department of Transportation Special Revenue	—	1,245
Nonmajor governmental funds	115	1,009
Higher Education	—	872
Education Assistance Authority	270	—
Internal service	495	10,824
Fiduciary	600	33,796
	47,643	68,141
Departmental Program Services		
General	20,395	46,163
Nonmajor governmental funds	—	1,320
Higher Education	—	28,557
Hospital Authority	—	15,897
Internal service	—	3,607
Fiduciary	—	8,063
	20,395	103,607
Local Government Infrastructure		
Department of Transportation Special Revenue	685	—
Internal service	—	5
Fiduciary	—	17
	685	22

Funds	Due From	Due To
Department of Transportation Special Revenue Fund		
General	$ 1,245	$ —
Local Government Infrastructure	—	685
Internal service	—	35
Fiduciary	—	11,925
	1,245	12,645
Nonmajor Governmental Funds		
General	1,009	115
Departmental Program Services	1,320	—
Higher Education	—	9,058
Unemployment Compensation	18,713	—
Housing Authority	—	386
Internal service	730	398
Fiduciary	—	59
	21,772	10,016
Higher Education		
General	872	—
Departmental Program Services	28,557	—
Nonmajor governmental funds	9,058	—
Hospital Authority	—	4,806
Nonmajor enterprise funds	—	24,106
Internal service	—	4,831
	38,487	33,743
Unemployment Compensation Benefits		
Nonmajor governmental funds	—	18,713
Housing Authority		
Nonmajor governmental funds	386	—
Medical University Hospital Authority		
Departmental Program Services	15,897	—
Higher Education	4,806	—
Nonmajor enterprise funds	—	94
	20,703	94
Education Assistance Authority		
General	—	270
Nonmajor Enterprise Funds		
Higher Education	24,106	—
Hospital Authority	94	—
Internal service	—	150
Fiduciary	—	104
	24,200	254

Funds	Due From	Due To
Internal Service		
General	$ 10,824	$ 495
Departmental Program Services	3,607	—
Local Government Infrastructure	5	—
Department of Transportation Special Revenue	35	—
Nonmajor governmental funds	398	730
Higher Education	4,831	—
Nonmajor enterprise funds	150	—
Internal service	416	416
Fiduciary	117	1,249
	20,383	2,890
Fiduciary		
General	33,796	600
Departmental Program Services	8,063	—
Local Government Infrastructure	17	—
Department of Transportation Special Revenue	11,925	—
Nonmajor governmental funds	59	—
Nonmajor enterprise funds	104	—
Internal service	1,249	117
Fiduciary	43,887	43,887
	99,100	44,604
Totals	**$ 294,999**	**$ 294,999**

Amounts due from/to funds resulting 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 are summarized (expressed in thousands):

Funds	Interfund Receivables	Interfund Payables	Receivables Long-term Portion
General			
Departmental Program Services	$ 156	$ 870	$ 146
Nonmajor governmental funds	10	4,048	—
Higher Education	1,288	—	468
Nonmajor enterprise funds	2,370	—	—
Internal service	222	—	157
	4,046	4,918	771
Departmental Program Services			
General	870	156	—
Local Government Infrastructure			
Department of Transportation Special Revenue	316,227	—	293,648
Department of Transportation Special Revenue Fund			
Local Government Infrastructure	—	316,227	—
Nonmajor governmental funds	—	48	—
	—	316,275	—
Nonmajor Governmental Funds			
General	4,048	10	355
Department of Transportation Special Revenue	48	—	24
Higher Education	1,297	—	650
Nonmajor enterprise funds	6,353	—	—
Internal service	1,888	12,085	—
	13,634	12,095	1,029

Funds	Interfund Receivables	Interfund Payables	Receivables Long-term Portion
Higher Education			
General	$ —	$ 1,288	$ —
Nonmajor governmental funds	—	1,297	—
	—	2,585	—
Medical University Hospital Authority			
Nonmajor enterprise funds	—	703	—
Nonmajor Enterprise Funds			
General	—	2,370	—
Nonmajor governmental funds	—	6,353	—
Hospital Authority	703	—	703
Internal service	—	4,382	—
	703	13,105	703
Internal Service			
General	—	222	—
Nonmajor governmental funds	12,085	1,888	12,085
Nonmajor enterprise funds	4,382	—	4,382
	16,467	2,110	16,467
Totals	**$ 351,947**	**$ 351,947**	**$ 312,618**

The preceding interfund receivables and payables generally include loans for building improvements, economic development initiatives, and initial funding for new programs. Also included are the following:

- $316.227 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.
- $12.085 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.
- $8.723 million owed by the nonmajor enterprise funds to the General Fund and nonmajor governmental funds. This amount includes funds borrowed by the Patriots Point Development Authority for the purpose of funding repairs to the destroyer *USS Laffey* and funds borrowed under a loan program for energy conservation improvements administered by the Office of Energy in the Budget and Control Board.
- $4.382 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.

Excluded from the preceding interfund receivables and payables because of elimination in the government-wide presentation are internal leasing arrangements between the Medical University of South Carolina, an institution in the Higher Education Fund, and its blended component units, nonmajor enterprise funds. The following details the eliminations and the resulting interfund payables balance (expressed in thousands):

	Presentation		
	Fund	Eliminations	Government-wide
Higher Education Fund			
Other current liabilities	$ 20,049	$ (5,096)	$ 14,953
Interfund payables	23,275	(20,690)	2,585
	$ 43,324	$ (25,786)	$ 17,538
Nonmajor Enterprise Funds			
Restricted asset: other, current	$ 5,565	$ (5,096)	$ 469
Restricted asset: other, long-term	20,914	(20,690)	224
	$ 26,479	$ (25,786)	$ 693

The following table summarizes interfund transfers during the fiscal year ended June 30, 2012 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental Program Services	$ —	$ 20,601
Local Government Infrastructure	968	—
Department of Transportation Special Revenue	—	63
State Tobacco Settlement	750	—
Nonmajor governmental funds	11,837	116,533
Higher Education	—	504,043
Unemployment Compensation Benefits	—	138,222
Nonmajor enterprise funds	719	449
Internal service	4,171	—
	18,445	779,911
Departmental Program Services		
General	20,601	—
Local Government Infrastructure	598	—
Nonmajor governmental funds	707	3,009
Nonmajor enterprise funds	629	—
Internal service	79	100
	22,614	3,109
Local Government Infrastructure		
General	—	968
Departmental Program Services	—	598
	—	1,566
Department of Transportation Special Revenue Fund		
General	63	—
State Tobacco Settlement		
General	—	750
Internal service	—	250
	—	1,000
Nonmajor Governmental Funds		
General	116,533	11,837
Departmental Program Services	3,009	707
Nonmajor governmental funds	3,372	3,372
Higher Education	—	18,904
Housing Authority	—	400
Nonmajor enterprise funds	152	—
Internal service	2,945	154
	126,011	35,374
Higher Education		
General	504,043	—
Nonmajor governmental funds	18,904	—
Nonmajor enterprise funds	59,776	690
	582,723	690
Unemployment Compensation Benefits		
General	138,222	—

Funds	Transfers In	Transfers Out
Housing Authority		
Nonmajor governmental funds	$ 400	$ —
Nonmajor Enterprise Funds		
General	449	719
Departmental Program Services	—	629
Nonmajor governmental funds	—	152
Higher Education	690	59,776
	1,139	61,276
Internal Service		
General	—	4,171
Departmental Program Services	100	79
State Tobacco Settlement	250	—
Nonmajor governmental funds	154	2,945
	504	7,195
Totals	**$ 890,121**	**$ 890,121**

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.

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, 2012, scholarship allowances reduced the following revenues of the Higher Education Fund by the indicated amounts (expressed in thousands):

	Scholarship Allowances
Charges for Services	$ 592,025
Operating revenues pledged for revenue bonds	29,272
Total	**$ 621,297**

For the fiscal year ended June 30, 2012, the State's enterprise funds presented $1.372 billion included in net charges for services after provisions for contractual and other adjustments in the amount of $2.112 billion and uncollectible accounts in the amount of $110.077 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 contributions.

At June 30, 2012, $25.159 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, $565 thousand of the amount reported as *restricted net assets, expendable for other,* $163 thousand of the amount reported as *restricted net assets expendable for health,* and $2.534 million of the amount reported as *restricted net assets, expendable for education* 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 and institutions that recorded investment income in donor-restricted endowments during the fiscal year ended June 30, 2012, the predominant policy was to authorize the spending of 4.0% to 5.0% 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 unitrust 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, 2012, 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 and 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, 2012, are presented on the following pages:

CONDENSED STATEMENT OF NET ASSETS

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve
Assets				
Current restricted assets	$ 49,043	$ 68,852	$ 37,450	$ 38,685
Other current assets	1,955	306	122	12
Noncurrent restricted assets	147,058	462,215	168,827	4,622
Other noncurrent assets	563	4,055	1,433	—
Total assets	198,619	535,428	207,832	43,319
Liabilities				
Current liabilities payable from restricted assets	2,363	16,902	6,676	—
Other current liabilities	40	2,105	—	185
Noncurrent liabilities	88,815	444,234	198,836	—
Total liabilities	91,218	463,241	205,512	185
Net assets				
Restricted and expendable for:				
Debt service	2,309	30,051	—	—
Bond reserves	3,209	5,314	—	—
Special programs	101,883	36,822	2,320	43,134
Total net assets	**$ 107,401**	**$ 72,187**	**$ 2,320**	**$ 43,134**

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	$ 6,952	$ 30,494	$ —	$ 395
Income on deposit	1,066	1,204	6,816	1,943
Other revenues:				
Administrative fees and other	52	514	125	16
Total operating revenues	8,070	32,212	6,941	2,354
Operating expenses:				
Bond issuance cost amortization	37	367	167	—
Other operating expenses	5,471	30,055	6,423	466
Total operating expenses	5,508	30,422	6,590	466
Operating income	2,562	1,790	351	1,888
Transfers:				
Transfers in	2,221	402	2,888	1,895
Transfers out	(352)	(2,277)	(1,838)	(51)
Increase (decrease) in net assets	4,431	(85)	1,401	3,732
Beginning net assets	102,970	72,272	919	39,402
Ending net assets	**$ 107,401**	**$ 72,187**	**$ 2,320**	**$ 43,134**

CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve
Net cash provided (used) by:				
Operating activities	$ 21,048	$ 83,521	$ (43)	$ 2,695
Noncapital financing activities	(4,664)	(101,693)	19,367	1,965
Investing activities	(15,729)	6,292	(35,253)	(34,120)
Net increase (decrease)	655	(11,880)	(15,929)	(29,460)
Beginning cash and cash equivalents	2,890	50,454	52,776	31,566
Ending cash and cash equivalents	**$ 3,545**	**$ 38,574**	**$ 36,847**	**$ 2,106**

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

The Public Service Authority (the Authority), a major discretely presented component unit, along with six unrelated publicly owned electric utilities own a wholesale power marketing joint venture called The Energy Authority (TEA). The Authority engages in gas hedging activities through TEA to reduce the cost of fuel inventories. The Authority now has a 20.8% 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 an agreement.

During its fiscal year ended December 31, 2011, the Authority received distributions of $17.659 million from TEA and recognized $16.426 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 $82.100 million to support TEA's activities.

At December 31, 2011, the Authority had a payable to TEA of $17.856 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately $1.008 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 $529.300 million, accumulated depreciation of $314.700 million, and expenses of $76.100 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 $186.700 million (adjusted to market) at December 31, 2011, along with future deposits into both the external and internal decommissioning accounts and investment earnings, are estimated to provide sufficient funds for the Authority's share of the estimated decommissioning costs.

On October 20, 2011, 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, 2012.

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, 2012, the Educational Television Endowment of South Carolina, Inc., disbursed $5.009 million on behalf of the Departmental Program Services 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 Real Estate Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the Medical University of South Carolina Foundation; the Medical University of South Carolina Foundation for Research Development; the Coastal Educational Foundation, Inc.; the Coastal Carolina University Student Housing Foundation; Coastal Carolina Booster/Athletic Foundation; the Horry County Higher Education Commission; the College of Charleston Foundation; the Cougar Club; 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; South Carolina State Real Estate Foundation; the S.T.A.T.E. Club; the South Carolina State Alumni Association; 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 Community College Foundation; Tri-County Technical College Foundation; Trident Technical College Foundation; and York Technical College Foundation. During the fiscal year ended June 30, 2012, 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–$119.917 million; donations of cash and other assets from foundations–$201.406 million; expenditures paid to foundations–$10.496 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations–$5.383 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, 2012, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC–$138.741 million; program revenue from SLC–$4.996 million; reimbursements to SLC for administrative costs–$643 thousand; and payable to SLC–$25.654 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 $18.656 million during the Authority's fiscal year ended December 31, 2011.

During the fiscal year ended June 30, 2002, the State Ports Authority resolved to contribute a total of $45.0 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, 2012.

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 $302.756 million during the fiscal year ended June 30, 2012; the Commission owed an additional $32.074 million to the Fund at June 30, 2012.

b. Concentrations of Customer 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 customer 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 collectability of all accounts receivable. The Authority's sales to its two major customers for its fiscal year ended December 31, 2011, were as follows (expressed in thousands):

Customer	Revenue	% of Total Sales Revenue
Central Electric Power Cooperative, Inc.	$ 1,089,000	57%
Alumax of South Carolina, Inc.	189,000	10%

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

State Ports Authority

During the fiscal year ended June 30, 2012, of the State Ports Authority's total revenues, three customers accounted for approximately 15%, 11%, and 9% 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

The Due to Primary Government of $20 thousand is reported without an offsetting amount Due from Component Units as a result of differences in the reporting period between the Connector 2000 Association with a fiscal year ending December 31 and the primary government with a fiscal year ending June 30. At December 31, 2011, the Connector 2000 Association, Inc. owed the Department of Transportation Special Revenue Fund $20 thousand 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, 2012, are three cases that challenge the legality of certain taxes. In the event of unfavorable outcomes for these cases, the State estimates the potential loss of $290.031 million. Although State losses in these cases could reduce future revenues, the preceding estimates do not include any impact on future revenues or future accruals of interest on disputed refunds.

The South Carolina Retirement Systems (the Systems) is involved in a putative class action lawsuit 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. The action was filed in federal court in August 2010 alleging the provisions of Act 153 are unconstitutional and illegal. The plaintiffs all retired after Act 153 was enacted and thus were on notice that they would pay retirement contributions if they chose to return to work. As of June 30, 2012, the Systems had collected approximately $121.000 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 filed a motion to dismiss this matter on a number of grounds. By Order and Decision dated September 27, 2012, the federal district court granted the Systems' motion and dismissed the Plaintiff's suit. Plaintiffs have filed a motion to reconsider that decision within the federal court.

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 heard re-argument in September 2012 and 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. The case was dismissed, a motion to reconsider has been denied, and an appeal has been filed. 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. A non-jury trial was held during the current fiscal year but the judge has not issued a decision.

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.

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 these matters, the State's estimated liability would be approximately $115.500 million. While the State is uncertain as to the ultimate outcome of any of the individual lawsuits, it believes its positions are meritorious and it is vigorously defending its position in each case.

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 has entered into a settlement agreement with the plaintiffs. Pursuant to this agreement, the Authority has made payments of all claims amounting to $221.600 million. In addition the Authority has paid the court ordered attorney fees and costs of $10.400 million. 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 has entered a claim seeking indemnification from the Corps. No estimate of the amount or timing of the recovery from the Corps can be made at this time.

b. 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 disallowances without an established agreement of reimbursement terms relating to the fiscal year ended June 30, 2012, or earlier years will not have a material impact on the State's financial statements.

c. Other Loan Guarantees

The South Carolina Education Assistance Authority, a major enterprise fund, guarantees student loans. At June 30, 2012, these loans totaled $2.735 billion. The United States Department of Education reinsures 100.0% of losses under these guarantees for loans made prior to October 1, 1993; 98.0% of losses for loans made between October 1, 1993 and October 1, 1998; and 95.0% for loans made on or after October 1, 1998. If the loan default rate exceeds 5.0% 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, 2012, was 1.3%.

A nonmajor enterprise fund guarantees a portion of a mortgage debt up to a maximum of $1.531 million.

d. Purchase Commitments

Major Discretely Presented Component Unit—Public Service Authority

At December 31, 2011, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $3.670 billion for coal. In addition, minimum obligations under two purchased power contracts as of December 31, 2011, were approximately $59.900 million with a remaining term of twenty-three years and $29.100 million with a term of three years. Also at December 31, 2011, the Authority had commitments for nuclear fuel and nuclear fuel conversion contracts of $750.000 million over the next twenty-three years. The enrichment and fabrication component of these commitments from 2012 through 2013 totaling $19.100 million is contingent upon the operating requirements of the nuclear unit.

The Authority amended a service agreement to an approximate amount of $103.500 million. The agreement provides a contract performance manager, initial spare parts, parts and services for specified planned maintenance outages, remote monitoring and diagnostics of the turbine generators, and combustion tuning for the gas turbines. The contract term extends through 2024, but can be terminated at the end of 2015. Also, the Authority has entered into network integration transmission service agreements with an initial payment of $10.600 million due in calendar year 2012 and annual payments totaling $69.400 million through 2023.

Major Discretely Presented Component Unit—Lottery Commission

At June 30, 2012, the Lottery Commission had remaining commitments of $42.983 million under service contracts expiring in 2019. The contracts provide, among other things, services and equipment to operate the on-line lottery.

e. Commitments to Provide Grants and Other Financial Assistance

As of June 30, 2012, the following agencies had outstanding commitments for the identified programs:

- The South Carolina Transportation Infrastructure Bank, reported within the Local Government Infrastructure Fund (a major governmental fund), has $994.700 million remaining on agreements with various counties to provide financial assistance for highway and transportation facilities projects.
- The Department of Commerce has $135.296 million to provide funds to local governmental entities including grants for water and wastewater infrastructure projects, airport construction projects, and rural infrastructure projects. Of the outstanding commitment, $35.653 million will be funded by federal grants and $99.643 million will be funded with private aid.

- The Budget and Control Board has $78.690 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects. Federal grants will fund $29.608 million of this commitment.
- The Division of Aeronautics has $2.487 million for grants made to municipal and county airports for capital improvements. Federal grants will fund $1.558 million of this commitment.
- The State Board for Technical and Comprehensive Education has $26.292 million to provide training for new and expanding business and industry in the State.
- The Department of Public Safety has $40.524 million for pass-through grants to various State agencies, local governments, and not-for-profit entities, of which $40.229 million will be funded by federal grants.
- The South Carolina Law Enforcement Division has $41.130 million for grant program activities and pass-through grants to subrecipients, all of which will be funded by federal grants.
- The South Carolina Judicial Department has $1.242 million outstanding commitments related to vendor service contracts.
- The State Housing Finance and Development Authority has $120 thousand for special initiatives under the Program Fund and $4.500 million from the Housing Trust Fund, reported within the nonmajor governmental funds, for affordable housing projects and developments.

f. Connector 2000 Association, Inc.—Going Concern

Since 2001, when the Southern Connector toll road was opened to public traffic and the Connector 2000 Association, Inc., a major discretely presented component unit, began collecting tolls, both traffic on the highway and the resulting toll revenues generated have been substantially less than projected during the planning of the project and issuance of related debt. Factors such as the weak economy, lack of development along the Southern Connector's corridor and patron resistance to the payment of tolls, all contributed to the less-than-forecasted traffic demands.

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. The Association was forced to withdrawal from the Debt Service Reserve Accounts maintained by the Trustee under the indenture in order to meet the debt service obligations. Remaining balances were not sufficient to meet the debt service obligations in January 2010 resulting in the Association's first payment default on the 1988 Bonds.

A Revenue Covenant in the Original Trust Indenture for which the Association was unable to comply since January 2005 resulted in a technical default under the bond indenture on January 1, 2008. A lack of compliance with the Revenue Covenant required the conduct of a toll rate study. The studies performed for each of 2005, 2006, and 2007 indicated that even if the recommended maximization of toll revenue was implemented the projected toll revenue would be insufficient to pay principal and interest on the 1998 Bond in full.

The Association was also unable to pay its contractual obligations to the SCDOT for license fees, highway maintenance costs and related interest, and was unable to make deposits into the 1998 R&R Fund to cover any future costs of renewal and replacement of the Southern Connector.

Because of the previously mentioned factors, the Association hired a special financial consultant in early 2008 to explore alternatives related to its existing capital structure. Based on the findings of the financial analysis, the consultant advised the Association that any restructuring of its obligations within the remaining term of the License Agreement with the South Carolina Department of Transportation (SCDOT) would require a substantial reduction in the principal amount of the bond indenture and that restructuring the bonds outside of bankruptcy would be extremely difficult. To move forward with the recommendations of the special financial consultant, the Association also hired an engineering consultant to perform an investment grade traffic and revenue study to provide additional information regarding concession agreements or other restructuring options. In response to the study's findings, the Association requested and received approval from SCDOT for a toll rate increase that was implemented in November 2009.

The Association presented three optional debt adjustment plans to the Senior Bond Trustee, the Subordinate Trustee, SCDOT and certain bondholders owning a majority of outstanding principal of the 1998 Senior Bonds (the Restricted Owners). All of these plans were rejected by one or all of the parties. On January 20, 2010, the Association's Board of Directors adopted a resolution authorizing the Association's management, when management so deemed it appropriate, to file a petition for bankruptcy protection under the United States Bankruptcy Code and to take related actions in connection with the bankruptcy. On June 24, 2010, following the failure of negotiations for debt adjustment plans, the Association filed its Chapter 9 bankruptcy petition in the U.S. Bankruptcy Court at the direction of its Executive Vice President and General Manager.

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* (GASB 58) requires that liabilities subject to adjustment in a Chapter 9 bankruptcy proceeding be frozen as of the date of the bankruptcy petition. As of June 24, 2010, and through the effective date of the Association's Plan, the Association's liabilities subject to adjustment in bankruptcy (the 1998 Bonds payable liabilities, all amounts owed to SCDOT and the excess collateral liability) were frozen by the U.S. Bankruptcy Law. Accordingly, no additional amounts were accrued after June 24, 2010 pertaining to these liabilities.

During the remainder of 2010 and during the pendency of the bankruptcy proceeding, the Association continued to operate the Southern Connector as usual and paid its non-Bondholder and non-SCDOT creditors in the ordinary course of business. As mentioned previously, payments were no longer made to the bondholders, although the 1998 Senior Bonds Trustee, the Subordinate Bonds Trustee, their respective counsel and advisors were paid their fees and expenses from the toll revenues collected. The Association continued its negotiations with the 1998 Senior Bonds Trustee, the Subordinate Bonds Trustee, the Restricted Owners and SCDOT, and filed a First Amended Plan for Adjustment of Debts in November 2010. That document, along with the Addendum to First Amended Plan for Adjustment of Debts filed in January 2011 and Debtor's Modification to the First Amended Plan for Adjustment of Debts filed in March 2011, form the Plan that was later confirmed by the U.S. Bankruptcy Court on April 1, 2011 and became effective on April 21, 2011.

Full details of the plan are available on the Association's website, www.SouthernConnector.com under the *News & Filings* tab. The plan includes an amendment to the License Agreement between the Association and SCDOT under which (1) SCDOT assumes the obligation of future highway maintenance, repair, renewal, and replacement and related costs and (2) toll rates and future rate changes will be determined by independent traffic engineering studies. Under the Plan, Amended and Restated Bonds (the "2011 Bonds") were issued in exchange for the 1998 Bonds. The 2011 Bonds consist of Series 2011A Bonds and Series 2011B Bonds (exchanged for the 1998 Senior Bonds) and Series 2011C Bonds (exchanged for the 1998 Subordinate Bonds). These were issued in three series. In accordance with GASB 58, an extraordinary gain from the adjustment of debts of $186.847 million was recognized for the fiscal year ended December 31, 2011.

g. Unemployment Compensation Benefits Fund—Liquidity

In recent years, 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 paid, and the increased length of time over which benefits are paid, the Fund has been required to obtain advances from the Federal Unemployment Compensation Fund resulting in a balance owed of $782.188 million as of June 30, 2012.

Increased tax collections, coupled with decreases in the number of individuals eligible for and claiming State unemployment insurance benefits and changes in the relevant state laws have enabled the Fund to operate without obtaining additional advances from the Federal government since April of 2011.

NOTE 23: SUBSEQUENT EVENTS

a. Contingencies

A breach of taxpayer information was identified subsequent to year end. Approximately 3.5 million taxpayers, individuals, dependents, and businesses, may be affected by the breach. The Department of Revenue has arranged for a national firm to provide free protective monitoring for all potential taxpayers affected who sign up for their service. The Department has provided notifications to identified individuals who may be affected. Several state agencies and elected officials have been named in litigation arising from the breach. Currently the estimated costs approximate $20.170 million. The State Budget and Control Board has authorized an inter-agency loan from the Insurance Reserve Fund, an internal service fund, to the Department of Revenue's General Fund to provide temporary funding for the immediate costs until other funding can be authorized through the legislative process.

b. Retirement Reform Legislation

Legislation was enacted during the year to facilitate longer term financial sustainability while attaining fairness for governmental employees. A provision of Act 278 effective July 1, 2012 is the creation of the South Carolina Public Employee Benefit Authority (PEBA) as the new governing body and administrative agency for the Retirement Division and the Employee Insurance Program. An oversight board was established providing for appointment of the members by the executive branch and the legislative branches. Annual benefit adjustments for South Carolina Retirement System (SCRS) and the Police Officers' Retirement System (PORS) annuitants will be equal to the lesser of one percent or $500. A new tier (Class III) of membership was created with different eligibility and benefit provisions. The eligibility criteria and calculation of disability benefits were changed. Modifications were made to the cost for purchased service credit so that it can be actuarially neutral. Additional provisions include requiring increases to both member and employer contribution rates for SCRS and PORS and disallowing contribution decreases until the Systems are at least 90 percent funded. Act 278 closes the TERI program after June 30, 2018, implements an earnings limitation of $10 thousand for certain members who retire after January 1, 2013 and return to work in a position covered by any state retirement system, and discontinues interest accruals on inactive member account balances. The Act further closes the General Assembly Retirement System (GARS) to individuals first elected to serve in the General Assembly at or after the general election of 2012. These individuals may elect to participate in SCRS or State Optional Retirement Plan (ORP) or they may elect to be a nonmember. Additionally, the

General Assembly is authorized to set and change the assumed rate of return on the System's investments for actuarial valuation purposes.

c. Debt Issuances

Subsequent to the fiscal year end, the State of South Carolina issued the following debt:

- The State Housing Finance and Development Authority, a major enterprise fund, issued $65.710 million in Refunding Mortgage Revenue Bonds, Series 2012A, on September 26, 2012.
- The South Carolina Transportation Infrastructure Bank, a major governmental fund, issued $424.910 million in Revenue Refunding bonds, Series 2012B, on November 8, 2012.
- The State issued a Series 2012 General Obligation State institution Bond Anticipation Note in the amount of $28.000 million on behalf of the Medical University of South Carolina, reported in the State's Higher Education Fund, a major enterprise fund, on December 11, 2012.
- The FHA Insured Mortgage Refunding Obligations, Series 2012A, of the Medical University Hospital Authority of the Medical University of South Carolina, a blended component unit and major enterprise fund, were issued on December 19, 2012 in the amount of $361.427 million.
- Subsequent to its fiscal year end, the Public Service Authority, a major discretely presented component unit, has issued $262.830 million in taxable revenue obligations, $312.160 million in tax-exempt revenue obligations, $250.875 million in revenue refunding obligations, and $39.326 million in tax-exempt revenue mini-bonds.

As of May 31, 2013, the balance of advances from the Federal Government for Unemployment Compensation was $675.561 million.