# BASIC FINANCIAL STATEMENTS

# Statement of Net Position

**June 30, 2013**
**(Expressed in Thousands)**

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals | COMPONENT UNITS |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 5,258,725 | $ 303,126 | $ 5,561,851 | $ 1,838,805 |
| Investments | 491,016 | 108,306 | 599,322 | 1,276,058 |
| Invested securities lending collateral | 10,311 | 4,372 | 14,683 | 2,692 |
| Receivables, net: | | | | |
| Accounts | 405,886 | 27,134 | 433,020 | 414,354 |
| Contributions | 1,070 | — | 1,070 | 101,821 |
| Participants | — | 5,226 | 5,226 | — |
| Accrued interest | 15,357 | 252 | 15,609 | 7,230 |
| Income taxes | 420,196 | — | 420,196 | — |
| Sales and other taxes | 555,893 | — | 555,893 | — |
| Student accounts | 25 | — | 25 | 52,622 |
| Patient accounts | 15,357 | — | 15,357 | 209,555 |
| Loans and notes | 516,120 | — | 516,120 | 118,754 |
| Assessments | — | 114,428 | 114,428 | — |
| Due from Federal government and other grantors | 642,587 | 4,176 | 646,763 | 112,878 |
| Internal balances | 17,139 | (17,139) | — | — |
| Due from component units | 49,849 | — | 49,849 | — |
| Due from primary government | — | — | — | 243,053 |
| Inventories | 34,858 | 2,936 | 37,794 | 702,776 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 793,700 | 86,715 | 880,415 | 1,283,433 |
| Investments | — | — | — | 1,639,267 |
| Accounts receivable | 247,989 | — | 247,989 | — |
| Loans receivable | — | 3,208 | 3,208 | 671,059 |
| Other | 76,722 | 200 | 76,922 | 8,698 |
| Prepaid items | 47,027 | 318 | 47,345 | 66,415 |
| Other assets | 1,140 | 3,698 | 4,838 | 881,728 |
| Deferred charges | 12,916 | — | 12,916 | 818,347 |
| Investment in joint venture | — | — | — | 8,124 |
| Capital assets-nondepreciable | 4,284,434 | 50,597 | 4,335,031 | 2,895,187 |
| Capital assets-depreciable, net | 10,661,384 | 21,900 | 10,683,284 | 8,851,683 |
| **Total assets** | 24,559,701 | 719,453 | 25,279,154 | 22,204,539 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Accumulated decrease in fair value of hedging derivatives | — | — | — | 40,384 |
| **Total deferred outflows** | — | — | — | 40,384 |
| **LIABILITIES** | | | | |
| Accounts payable | $ 544,742 | $ 755 | $ 545,497 | $ 449,791 |
| Accrued salaries and related expenses | 137,463 | 609 | 138,072 | 163,598 |
| Accrued interest payable | 13,339 | — | 13,339 | 129,992 |
| Retainages payable | 1,153 | — | 1,153 | 10,593 |
| Tax refunds payable | 707,257 | 17,536 | 724,793 | — |
| Payables-aid to individuals/families | 8,933 | — | 8,933 | — |
| Prizes payable | — | — | — | 26,892 |
| Unemployment benefits payable | — | 6,812 | 6,812 | — |
| Intergovernmental payables | 356,651 | 19,011 | 375,662 | 436 |
| Tuition benefits payable | — | 182,061 | 182,061 | — |
| Due to component units | 243,053 | — | 243,053 | — |
| Due to primary government | — | — | — | 49,849 |
| Due to fiduciary funds | 11,717 | — | 11,717 | — |
| Unearned revenues and deferred credits | 394,355 | 5,730 | 400,085 | 1,284,142 |
| Deposits | — | — | — | 19,980 |
| Amounts held in custody for others | — | — | — | 27,139 |
| Securities lending collateral | 34,891 | 4,610 | 39,501 | 9,030 |
| Liabilities payable from restricted assets: | | | | |
| Accrued interest payable | 30,859 | 51 | 30,910 | — |
| Other | — | 94,983 | 94,983 | 20,905 |
| Other liabilities | 107,405 | — | 107,405 | 824,234 |
| Long-term liabilities: | | | | |
| Due within one year | 972,708 | 81,927 | 1,054,635 | 559,175 |
| Due in more than one year | 3,516,273 | 547,223 | 4,063,496 | 8,517,025 |
| **Total liabilities** | 7,080,799 | 961,308 | 8,042,107 | 12,092,781 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Accumulated increase in fair value of hedging derivatives | — | — | — | 3,423 |
| **Total deferred outflows** | — | — | — | 3,423 |

# Exhibit A-1

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals | COMPONENT UNITS |
| **NET POSITION** | | | | |
| Net investment in capital assets | 11,468,466 | 72,497 | 11,540,963 | 4,589,150 |
| Restricted: | | | | |
| Expendable: | | | | |
| Education | 280,902 | 56 | 280,958 | 826,750 |
| Health | 306,059 | — | 306,059 | — |
| Transportation | 445,033 | — | 445,033 | 472 |
| Capital projects | 243,965 | — | 243,965 | 454,474 |
| Debt service | 866,266 | — | 866,266 | 327,163 |
| Loan programs | 29,653 | — | 29,653 | 322,153 |
| Waste management | 520 | — | 520 | — |
| Insurance programs | 185,906 | — | 185,906 | — |
| Other | 2,956,070 | — | 2,956,070 | 2,675 |
| Nonexpendable: | | | | |
| Education | — | — | — | 945,791 |
| Other | 9,057 | — | 9,057 | — |
| Unrestricted | 687,005 | (314,408) | 372,597 | 2,680,091 |
| **Total net position (deficit)** | **$ 17,478,902** | **$ (241,855)** | **$ 17,237,047** | **$ 10,148,719** |

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

# Statement of Activities

### For the Fiscal Year Ended June 30, 2013
### (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 | $ 5,324,230 | $ 2,339,634 | $ 598,204 | $ 87,126 | $ (2,299,266) |
| Education | 4,229,595 | 53,843 | 903,578 | 4,570 | (3,267,604) |
| Health and environment | 6,403,284 | 271,609 | 3,885,583 | 20,829 | (2,225,263) |
| Social services | 2,087,877 | 14,103 | 1,765,554 | 58 | (308,162) |
| Administration of justice | 719,891 | 65,657 | 11,400 | 43,409 | (599,425) |
| Resources and economic development | 281,763 | 60,571 | 56,800 | 6,050 | (158,342) |
| Transportation | 931,980 | 85,536 | 107,162 | 554,660 | (184,622) |
| Unallocated interest expense | 31,589 | — | — | — | (31,589) |
| **Total governmental activities** | **20,010,209** | **2,890,953** | **7,328,281** | **716,702** | **(9,074,273)** |
| Business-type activities: | | | | | |
| Unemployment compensation benefits | 616,064 | 467,256 | 320,482 | — | 171,674 |
| Other enterprise activities | 54,061 | 46,913 | 2,839 | 3 | (4,306) |
| **Total business-type activities** | **670,125** | **514,169** | **323,321** | **3** | **167,368** |
| **Total primary government** | **$ 20,680,334** | **$ 3,405,122** | **$ 7,651,602** | **$ 716,705** | **$ (8,906,905)** |
| **Component units:** | | | | | |
| Public Service Authority | 1,804,871 | 1,887,797 | 1,926 | — | 84,852 |
| Medical University of South Carolina | 1,850,245 | 1,724,344 | 173,721 | 38,641 | 86,461 |
| University of South Carolina | 1,281,265 | 1,008,288 | 314,056 | 16,520 | 57,599 |
| Clemson University | 733,094 | 543,456 | 249,484 | 33,128 | 92,974 |
| State Ports Authority | 135,902 | 135,838 | 3,893 | 2,984 | 6,813 |
| Housing Authority | 242,279 | 102,671 | 147,653 | — | 8,045 |
| Other | 2,958,825 | 2,310,475 | 694,676 | 77,562 | 123,888 |
| **Total component units** | **$ 9,006,481** | **$ 7,712,869** | **$ 1,585,409** | **$ 168,835** | **$ 460,632** |

# Exhibit A-2

| | Primary Government Governmental Activities | Primary Government Business-type Activities | Primary Government Total | Component Units |
|---|---|---|---|---|
| **Changes in net position:** | | | | |
| Net revenues (expenses) | $ (9,074,273) | $ 167,368 | $ (8,906,905) | $ 460,632 |
| General revenues: | | | | |
| Taxes: | | | | |
| Individual income | 3,479,332 | — | 3,479,332 | — |
| Retail sales and use | 4,268,274 | — | 4,268,274 | — |
| Corporate income | 386,847 | — | 386,847 | — |
| Gas and motor vehicle | 557,209 | — | 557,209 | — |
| Insurance | 139,240 | — | 139,240 | — |
| Hospital | 263,435 | — | 263,435 | — |
| Other | 591,748 | — | 591,748 | — |
| Total taxes | 9,686,085 | — | 9,686,085 | — |
| Unrestricted grants and contributions | 159 | — | 159 | — |
| Unrestricted investment income | 55,534 | 8,206 | 63,740 | — |
| Tobacco legal settlement | 73,326 | — | 73,326 | — |
| Other revenues | 587,564 | 85 | 587,649 | — |
| Additions to endowments | — | — | — | 41,923 |
| Transfers–internal activities | (60,968) | 60,968 | — | — |
| **Total general revenues, additions to endowments, and transfers** | **10,341,700** | **69,259** | **10,410,959** | **41,923** |
| **Change in net position** | **1,267,427** | **236,627** | **1,504,054** | **502,555** |
| **Net position (deficit) at beginning of year, restated** | **16,211,475** | **(478,482)** | **15,732,993** | **9,646,164** |
| **Net position (deficit) at end of year** | **$ 17,478,902** | **$ (241,855)** | **$ 17,237,047** | **$ 10,148,719** |

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

# Balance Sheet

## GOVERNMENTAL FUNDS

### June 30, 2013
### (Expressed in Thousands)

| | General Fund | Departmental Program Services | Local Government Infrastructure |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 3,046,960 | $ 163,161 | $ 528,852 |
| Investments | 38,177 | 10,889 | — |
| Invested securities lending collateral | 862 | 134 | 4,057 |
| Receivables, net: | | | |
| Accounts | 128,292 | 107,903 | 13,444 |
| Contributions | 1,070 | — | — |
| Accrued interest | 6,108 | 290 | 2,710 |
| Income taxes | 420,196 | — | — |
| Sales and other taxes | 445,093 | 11,277 | — |
| Student accounts | 15 | 10 | — |
| Patient accounts | 11,580 | 3,777 | — |
| Loans and notes | 38,168 | 451 | 472,329 |
| Due from Federal government and other grantors | 7,026 | 565,652 | — |
| Due from other funds | 79,920 | 12,191 | 1,092 |
| Due from component units | 1,554 | 1,070 | — |
| Interfund receivables | 882 | 760 | 294,861 |
| Inventories | 24,422 | 2,186 | — |
| Restricted assets: | | | |
| Cash and cash equivalents | — | — | 783,216 |
| Accounts receivable | — | — | 247,989 |
| Other | — | — | 39,649 |
| Prepaid items | 7,549 | 5,069 | — |
| Other assets | — | — | — |
| **Total assets** | **$ 4,257,874** | **$ 884,820** | **$ 2,388,199** |
| **LIABILITIES AND FUND BALANCES (DEFICIT)** | | | |
| **Liabilities:** | | | |
| Accounts payable | 155,591 | 249,949 | 3,001 |
| Accrued salaries and related expenditures | 89,352 | 25,173 | 69 |
| Retainages payable | 1 | 869 | — |
| Tax refunds payable | 707,037 | — | — |
| Payable–aid to individuals/families | 447 | 8,486 | — |
| Intergovernmental payables | 67,609 | 198,993 | 797 |
| Due to other funds | 24,877 | 72,563 | 656 |
| Due to component units | 210,522 | 22,075 | — |
| Interfund payables | 22,132 | 425 | — |
| Deferred revenues | 65,725 | 73,544 | 337,020 |
| Securities lending collateral | 2,984 | 463 | 13,830 |
| Other liabilities | 67,560 | 10 | — |
| **Total liabilities** | **1,413,837** | **652,550** | **355,373** |
| **Fund balances:** | | | |
| Nonspendable | 67,717 | 8,466 | 740,600 |
| Restricted | 337,687 | 249,882 | 1,292,226 |
| Committed | 650,545 | 3,955 | — |
| Assigned | 996,539 | — | — |
| Unassigned | 791,549 | (30,033) | — |
| **Total fund balances (deficit)** | **2,844,037** | **232,270** | **2,032,826** |
| **Total liabilities and fund balances** | **$ 4,257,874** | **$ 884,820** | **$ 2,388,199** |

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

# Exhibit B-1

| Department of Transportation Special Revenue | Nonmajor Governmental Funds | Totals |
|---|---|---|
| $ 256,859 | $ 648,832 | $ 4,644,664 |
| — | 345 | 49,411 |
| 282 | 514 | 5,849 |
| 6,904 | 206 | 256,749 |
| — | — | 1,070 |
| 316 | 1,031 | 10,455 |
| — | — | 420,196 |
| 8,603 | 90,920 | 555,893 |
| — | — | 25 |
| — | — | 15,357 |
| 3,878 | 1,294 | 516,120 |
| 69,909 | — | 642,587 |
| 4,478 | 7,062 | 104,743 |
| — | 43,122 | 45,746 |
| — | 3,067 | 299,570 |
| 2,487 | — | 29,095 |
| 10,484 | — | 793,700 |
| — | — | 247,989 |
| — | 37,073 | 76,722 |
| 3,674 | 24 | 16,316 |
| 771 | — | 771 |
| **$ 368,645** | **$ 833,490** | **$ 8,733,028** |
| 75,803 | $ 56,189 | $ 540,533 |
| 19,315 | 175 | 134,084 |
| 73 | 210 | 1,153 |
| — | 220 | 707,257 |
| — | — | 8,933 |
| — | 89,252 | 356,651 |
| 12,245 | 59 | 110,400 |
| 589 | 9,867 | 243,053 |
| 294,885 | 10,605 | 328,047 |
| 62,050 | — | 538,339 |
| 1,001 | 1,777 | 20,055 |
| — | — | 67,570 |
| **465,961** | **168,354** | **3,056,075** |
| 9,701 | 12,401 | 838,885 |
| 10,000 | 493,194 | 2,382,989 |
| 159,627 | 2,623 | 816,750 |
| — | 156,918 | 1,153,457 |
| (276,644) | — | 484,872 |
| **(97,316)** | **665,136** | **5,676,953** |
| **$ 368,645** | **$ 833,490** | **$ 8,733,028** |

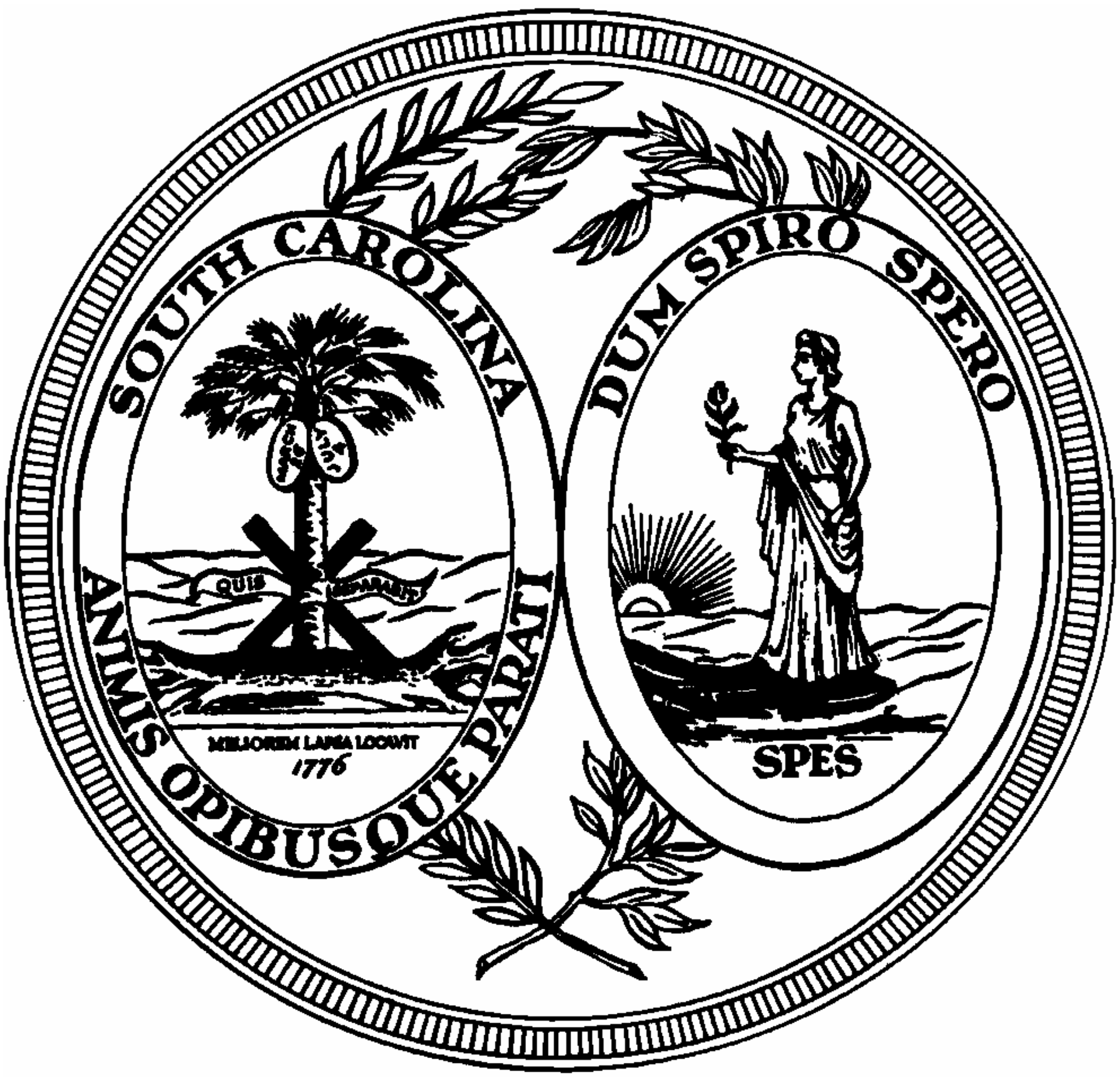
# Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

# Exhibit B-1a

**June 30, 2013**
**(Expressed in Thousands)**

| | | |
|---|---|---|
| **Total fund balances–governmental funds** | | **$ 5,676,953** |
| Amounts reported for governmental activities in the statement of net position 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 | $ 4,277,537 | |
| Depreciable capital assets | 15,517,219 | |
| Accumulated depreciation | (4,951,808) | |
| Total capital assets | | 14,842,948 |
| 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 position | | 12,862 |
| 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 | | 293,432 |
| 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 position | | 493,505 |
| 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 | (3,393,784) | |
| Notes payable | (26,055) | |
| Accrued interest on bonds | (43,912) | |
| Capital leases | (349) | |
| Compensated absences | (203,932) | |
| Policy claims | (95,884) | |
| Other | (76,882) | |
| Total long-term liabilities | | (3,840,798) |
| **Net position of governmental activities** | | **$ 17,478,902** |

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, 2013
### (Expressed in Thousands)

| | General Fund | Departmental Program Services | Local Government Infrastructure |
|---|---|---|---|
| **Revenues:** | | | |
| Taxes: | | | |
| Individual income | $ 3,459,968 | $ — | $ 20,245 |
| Retail sales and use | 3,624,715 | 2,437 | — |
| Corporate Income | 386,847 | — | — |
| Gas and motor vehicle | — | — | — |
| Insurance | 139,240 | — | — |
| Hospital | 263,435 | — | — |
| Other | 460,147 | 127,599 | — |
| Licenses, fees, and permits | 293,657 | 28,640 | 103,160 |
| Interest and other investment income | 14,473 | — | 26,534 |
| Federal | 63,473 | 6,760,781 | 25,746 |
| Local and private grants | 6,721 | 45,045 | — |
| Departmental services | 656,122 | 94,474 | 193 |
| Contributions | 5,666 | 13,920 | 63,701 |
| Fines and penalties | 111,890 | 11,419 | — |
| Tobacco legal settlement | — | — | — |
| Other | 388,527 | 186,354 | — |
| **Total revenues** | **9,874,881** | **7,270,669** | **239,579** |
| **Expenditures:** | | | |
| Current: | | | |
| General government | 490,134 | 148,654 | 360 |
| Education | 471,559 | 270,562 | — |
| Health and environment | 2,360,744 | 4,266,835 | — |
| Social services | 290,081 | 1,785,394 | — |
| Administration of justice | 678,463 | 19,592 | — |
| Resources and economic development | 97,657 | 40,133 | 615 |
| Transportation | 2,470 | 1,800 | 2,792 |
| Capital outlay | 46,932 | 51,857 | — |
| Debt service: | | | |
| Principal retirement | 149,620 | 3,077 | 70,752 |
| Interest and fiscal charges | 49,207 | 507 | 98,293 |
| Intergovernmental | 4,186,950 | 783,496 | 34,260 |
| **Total expenditures** | **8,823,817** | **7,371,907** | **207,072** |
| **Excess of revenues over (under) expenditures** | **1,051,064** | **(101,238)** | **32,507** |
| **Other financing sources (uses):** | | | |
| Refunding bonds issued | — | — | 424,910 |
| Premiums on bonds issued | — | — | 53,560 |
| Payment to refunded bond escrow agent | — | — | (476,620) |
| Transfers in | 167,783 | 126,692 | 45,526 |
| Transfers out | (303,499) | (48,476) | (9,572) |
| **Total other financing sources (uses)** | **(135,716)** | **78,216** | **37,804** |
| **Net change in fund balances** | **915,348** | **(23,022)** | **70,311** |
| **Fund balances (deficit) at beginning of year, as restated** | **1,928,689** | **255,292** | **1,962,515** |
| **Fund balances (deficit) at end of year** | **$ 2,844,037** | **$ 232,270** | **$ 2,032,826** |

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

# Exhibit B-2

| Department of Transportation Special Revenue | Nonmajor Governmental Funds | Totals |
|---|---|---|
| $ — | $ — | $ 3,480,213 |
| — | 641,122 | 4,268,274 |
| — | — | 386,847 |
| 557,209 | — | 557,209 |
| — | — | 139,240 |
| — | — | 263,435 |
| — | 4,246 | 591,992 |
| — | 75,227 | 500,684 |
| 1,824 | 1,105 | 43,936 |
| 616,345 | (2,105) | 7,464,240 |
| — | — | 51,766 |
| 19,630 | 6,476 | 776,895 |
| — | 306,837 | 390,124 |
| — | 7,927 | 131,236 |
| — | 73,326 | 73,326 |
| 10,961 | 1,732 | 587,574 |
| **1,205,969** | **1,115,893** | **19,706,991** |
| | | |
| — | 99,187 | 738,335 |
| — | 251,053 | 993,174 |
| — | 19,211 | 6,646,790 |
| — | — | 2,075,475 |
| — | — | 698,055 |
| — | 388 | 138,793 |
| 724,731 | — | 731,793 |
| 298,030 | 57,234 | 454,053 |
| | | |
| 45,537 | 1,237 | 270,223 |
| 26,911 | 26,386 | 201,304 |
| 78,226 | 681,034 | 5,763,966 |
| **1,173,435** | **1,135,730** | **18,711,961** |
| **32,534** | **(19,837)** | **995,030** |
| | | |
| — | — | 424,910 |
| — | — | 53,560 |
| — | — | (476,620) |
| 703 | 91,123 | 431,827 |
| — | (122,653) | (484,200) |
| **703** | **(31,530)** | **(50,523)** |
| **33,237** | **(51,367)** | **944,507** |
| **(130,553)** | **716,503** | **4,732,446** |
| **$ (97,316)** | **$ 665,136** | **$ 5,676,953** |

# 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, 2013
## (Expressed in Thousands)

| | | |
|---|---|---|
| **Net change in fund balances–total governmental funds** | | **$ 944,507** |
| 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 estimated useful lives as depreciation expense. In the current period these amounts are: | | |
| Capital outlay | $ 454,053 | |
| Depreciation expense | (311,026) | |
| Excess of capital outlay over depreciation expense | | 143,027 |
| Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources and losses on disposals of capital assets are reported as an expense in the statement of activities | | (43,933) |
| Bond and note proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, proceeds were received from: | | |
| Bonds and notes issued | (424,910) | |
| Net bond premiums and discounts | (53,560) | |
| Net bond and note proceeds | | (478,470) |
| Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net position | | 3,329 |
| 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 | | (258) |
| 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 position. In the current year, these amounts consist of: | | |
| Bond principal retirement | 255,669 | |
| Bonds repurchased | 476,620 | |
| Note principal retirement | 12,229 | |
| Capital lease payments | 227 | |
| Total long-term debt repayment | | 744,745 |
| 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, net of restatements | | 8,768 |
| 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 | | (14,108) |

# Exhibit B-2a

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 | $ 15,198 | |
| Unamortized bond issuance costs | (14,470) | |
| Unamortized bond premiums and discounts | 19,899 | |
| Unamortized deferred losses on refunding of debt | (6,402) | |
| Compensated absences payable | 53 | |
| Policy claims payable | (52,659) | |
| Other long-term liabilities | (1,799) | |
| Total additional expenses | | (40,180) |
| **Change in net position of governmental activities** | | **$ 1,267,427** |

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

# Statement of Net Position

## PROPRIETARY FUNDS

**June 30, 2013**
**(Expressed in Thousands)**

| | ENTERPRISE FUNDS | | | |
|---|---|---|---|---|
| | Unemployment Compensation | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 263,253 | $ 39,873 | $ 303,126 | $ 614,061 |
| Investments | — | 108,306 | 108,306 | — |
| Invested securities lending collateral | 21 | 4,351 | 4,372 | 4,462 |
| Receivables, net: | | | | |
| Accounts | 24,676 | 2,458 | 27,134 | 147,968 |
| Participants | — | 1,510 | 1,510 | — |
| Accrued interest | 39 | 213 | 252 | 4,902 |
| Assessments | 114,428 | — | 114,428 | — |
| Due from Federal government and other grantors | 4,176 | — | 4,176 | — |
| Due from other funds | — | — | — | 8,488 |
| Due from component units | — | — | — | 4,103 |
| Inventories | — | 2,936 | 2,936 | 5,763 |
| Restricted assets: | | | | |
| Cash and cash equivalents | — | 86,715 | 86,715 | — |
| Other | — | 200 | 200 | — |
| Prepaid items | — | 318 | 318 | 29,128 |
| Other current assets | — | 3,698 | 3,698 | — |
| Total current assets | 406,593 | 250,578 | 657,171 | 818,875 |
| Long-term assets: | | | | |
| Investments | — | — | — | 441,605 |
| Receivables, net: | | | | |
| Accounts | — | — | — | 1,169 |
| Participants | — | 3,716 | 3,716 | — |
| Interfund receivables | — | — | — | 38,383 |
| Restricted assets: | | | | |
| Loans receivable | — | 3,208 | 3,208 | — |
| Prepaid items | — | — | — | 1,583 |
| Other long-term assets | — | — | — | 369 |
| Deferred charges | — | — | — | 54 |
| Non-depreciable capital assets | — | 50,597 | 50,597 | 6,897 |
| Depreciable capital assets, net | — | 21,900 | 21,900 | 95,973 |
| Total long-term assets | — | 79,421 | 79,421 | 586,033 |
| **Total assets** | **406,593** | **329,999** | **736,592** | **1,404,908** |

# Exhibit B-3

| | ENTERPRISE FUNDS | | | INTERNAL SERVICE FUNDS |
|---|---|---|---|---|
| | Unemployment Compensation | Nonmajor Enterprise | Totals | |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 360 | $ 395 | $ 755 | $ 4,209 |
| Accrued salaries and related expenses | — | 609 | 609 | 3,379 |
| Tax refunds payable | 17,536 | — | 17,536 | — |
| Unemployment benefits payable | 6,812 | — | 6,812 | — |
| Intergovernmental payables | 19,011 | — | 19,011 | — |
| Tuition benefits payable | — | 26,246 | 26,246 | — |
| Policy claims | — | 6,201 | 6,201 | 552,670 |
| Due to other funds | 13,843 | 88 | 13,931 | 617 |
| Unearned revenues | — | 4,605 | 4,605 | 149,448 |
| Securities lending collateral | 74 | 4,536 | 4,610 | 14,836 |
| Liabilities payable from restricted assets: | | | | |
| Accrued interest payable | — | 51 | 51 | 286 |
| Other | — | 88,983 | 88,983 | — |
| Advances from Federal government | 75,000 | — | 75,000 | — |
| Notes payable | — | — | — | 275 |
| Revenue bonds payable | — | 150 | 150 | 1,870 |
| Limited obligation bonds payable | — | — | — | 1,495 |
| Compensated absences payable | — | 576 | 576 | 2,184 |
| Other current liabilities | — | — | — | 3,548 |
| Total current liabilities | 132,636 | 132,440 | 265,076 | 734,817 |
| Long-term liabilities: | | | | |
| Tuition benefits payable | — | 155,815 | 155,815 | — |
| Policy claims | — | 84,252 | 84,252 | 157,476 |
| Interfund payables | — | 3,208 | 3,208 | 6,698 |
| Unearned revenues | — | 1,125 | 1,125 | — |
| Advances from Federal government | 456,557 | — | 456,557 | — |
| Other liabilities payable from restricted assets | — | 6,000 | 6,000 | — |
| Notes payable | — | — | — | 796 |
| Revenue bonds payable | — | 6,210 | 6,210 | 8,847 |
| Limited obligation bonds payable | — | — | — | 913 |
| Compensated absences payable | — | 204 | 204 | 1,856 |
| Total long-term liabilities | 456,557 | 256,814 | 713,371 | 176,586 |
| **Total liabilities** | **589,193** | **389,254** | **978,447** | **911,403** |

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

**Continued on Next Page**

# Statement of Net Position

# Exhibit B-3

PROPRIETARY FUNDS (Continued)

**June 30, 2013**
**(Expressed in Thousands)**

| | ENTERPRISE FUNDS | | | |
|---|---|---|---|---|
| | Unemployment Compensation | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| **NET POSITION** | | | | |
| Net investment in capital assets | — | $ 72,497 | $ 72,497 | $ 88,674 |
| Restricted: | | | | |
| Expendable: | | | | |
| Education | — | 56 | 56 | — |
| Loan programs | — | — | — | 16,792 |
| Insurance programs | — | — | — | 185,906 |
| Unrestricted | (182,600) | (131,808) | (314,408) | 202,133 |
| **Total net position (deficit)** | **$ (182,600)** | **$ (59,255)** | **$ (241,855)** | **$ 493,505** |

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

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

# Exhibit B-4

PROPRIETARY FUNDS

**For the Fiscal Year Ended June 30, 2013**
**(Expressed in Thousands)**

| | ENTERPRISE FUNDS | | | |
|---|---|---|---|---|
| | Unemployment Compensation | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| **Operating revenues:** | | | | |
| Assessments | $ 426,716 | $ — | $ 426,716 | $ — |
| Charges for services | — | 46,803 | 46,803 | 2,279,920 |
| Contributions | — | 2,839 | 2,839 | — |
| Interest and other investment income | 243 | 8,024 | 8,267 | — |
| Licenses, fees, and permits | — | — | — | 4 |
| Federal operating grants and contracts | 320,482 | — | 320,482 | — |
| Other operating revenues | 40,540 | 110 | 40,650 | 132,720 |
| **Total operating revenues** | **787,981** | **57,776** | **845,757** | **2,412,644** |
| **Operating expenses:** | | | | |
| General operations and administration | — | 27,307 | 27,307 | 383,111 |
| Benefits and claims | 616,064 | (3,727) | 612,337 | 2,020,560 |
| Tuition plan disbursements | — | 29,464 | 29,464 | — |
| Interest | — | — | — | 23 |
| Depreciation and amortization | — | 989 | 989 | 8,807 |
| Other operating expenses | — | 28 | 28 | 3,118 |
| **Total operating expenses** | **616,064** | **54,061** | **670,125** | **2,415,619** |
| **Operating income (loss)** | **171,917** | **3,715** | **175,632** | **(2,975)** |
| **Nonoperating revenues (expenses):** | | | | |
| Interest income | — | 497 | 497 | 11,598 |
| Contributions | — | — | — | 159 |
| Federal grants and contracts | — | 3 | 3 | 4,695 |
| Interest expense | — | (558) | (558) | (654) |
| Net other nonoperating revenues (expenses) | 24 | 61 | 85 | 4,553 |
| Losses on sale of capital assets | — | — | — | (13) |
| **Total nonoperating revenues (expenses)** | **24** | **3** | **27** | **20,338** |
| **Income before transfers** | **171,941** | **3,718** | **175,659** | **17,363** |
| Transfers in | 73,000 | 104 | 73,104 | 4,689 |
| Transfers out | (200) | (11,936) | (12,136) | (13,284) |
| **Change in net position** | **244,741** | **(8,114)** | **236,627** | **8,768** |
| **Net position, beginning, as restated** | (427,341) | (51,141) | (478,482) | 484,737 |
| **Net position at end of year** | **$ (182,600)** | **$ (59,255)** | **$ (241,855)** | **$ 493,505** |

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

# Statement of Cash Flows

## PROPRIETARY FUNDS

### For the Fiscal Year Ended June 30, 2013
### (Expressed in Thousands)

| | ENTERPRISE FUNDS | | | |
|---|---|---|---|---|
| | Unemployment Compensation | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| **Cash flows from operating activities:** | | | | |
| Receipts from customers, patients, and third-party payers | $ 40,550 | $ 48,211 | $ 88,761 | $ 2,082,867 |
| Assessments received | 431,422 | 98,196 | 529,618 | — |
| Grants received | 328,740 | — | 328,740 | — |
| Tuition plan contributions received | — | 1,753 | 1,753 | — |
| Claims and benefits paid | (627,491) | (76,704) | (704,195) | (1,967,135) |
| Payments to suppliers for goods and services | — | (21,310) | (21,310) | (352,591) |
| Payments to employees | — | (7,424) | (7,424) | (50,350) |
| Payments of funds held for others | — | — | — | 1,527 |
| Internal activity–payments from other funds | — | — | — | 185,521 |
| Internal activity–payments to other funds | — | — | — | (181) |
| Other operating cash receipts | — | 463 | 463 | 100,348 |
| Other operating cash payments | — | (291) | (291) | (243) |
| **Net cash provided by (used in) operating activities** | **173,221** | **42,894** | **216,115** | **(237)** |
| **Cash flows from noncapital financing activities:** | | | | |
| Principal payments received from other funds | — | — | — | 2,954 |
| Advances received from other funds | — | — | — | 2,205 |
| Principal payments made to other funds | — | — | — | (20,282) |
| Receipt of interest from other funds | — | — | — | 168 |
| Repayment of Advances from Federal government | (250,606) | — | (250,606) | — |
| Interest payments on noncapital debt | — | (532) | (532) | (2,873) |
| Other noncapital financing cash receipts | — | 812 | 812 | 9,134 |
| Other noncapital financing cash payments | — | — | — | 7,135 |
| Transfers in | 73,000 | 104 | 73,104 | 4,689 |
| Transfers out | (200) | (11,936) | (12,136) | (13,284) |
| **Net cash used in noncapital financing activities** | **(177,806)** | **(11,552)** | **(189,358)** | **(10,154)** |

# Exhibit B-5

| | ENTERPRISE FUNDS | | | INTERNAL SERVICE FUNDS |
|---|---|---|---|---|
| | Unemployment Compensation | Nonmajor Enterprise | Totals | |
| **Cash flows from capital and related financing activities:** | | | | |
| Acquisition of capital assets | $ — | $ (4,551) | $ (4,551) | $ (8,343) |
| Principal payments on limited obligation bonds | — | — | — | (1,420) |
| Principal payments on capital debt | — | — | — | (3,855) |
| Interest payments on capital debt | — | — | — | (832) |
| Proceeds from sale or disposal of capital assets | — | 31 | 31 | — |
| **Net cash used in capital and related financing activities** | **—** | **(4,520)** | **(4,520)** | **(14,450)** |
| **Cash flows from investing activities:** | | | | |
| Proceeds from sales and maturities of investments | — | 14,712 | 14,712 | 78,332 |
| Purchase of investments | — | (105,300) | (105,300) | (79,314) |
| Interest and dividends on investments | 256 | 10,846 | 11,102 | 22,734 |
| **Net cash provided by (used in) investing activities** | **256** | **(79,742)** | **(79,486)** | **21,752** |
| **Net decrease in cash and cash equivalents** | **(4,329)** | **(52,920)** | **(57,249)** | **(3,089)** |
| **Cash and cash equivalents at beginning of year, restated** | **267,582** | **179,508** | **447,090** | **617,150** |
| **Cash and cash equivalents at end of year** | **$ 263,253** | **$ 126,588** | **$ 389,841** | **$ 614,061** |
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:** | | | | |
| Operating income (loss) | $ 171,917 | $ 3,715 | $ 175,632 | $ (2,975) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | — | 989 | 989 | 8,807 |
| Provision for bad debts | 6,134 | — | 6,134 | — |
| Interest payments reclassified as capital and related financing activities | — | — | — | 52 |
| Interest and dividends on investments and interfund loans | (243) | (8,038) | (8,281) | (689) |
| Realized losses on sale of assets | — | — | — | (13) |
| Other nonoperating revenues | — | 356 | 356 | 44 |
| Other nonoperating expenses | — | (20) | (20) | (17) |

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

**Continued on Next Page**

# Statement of Cash Flows

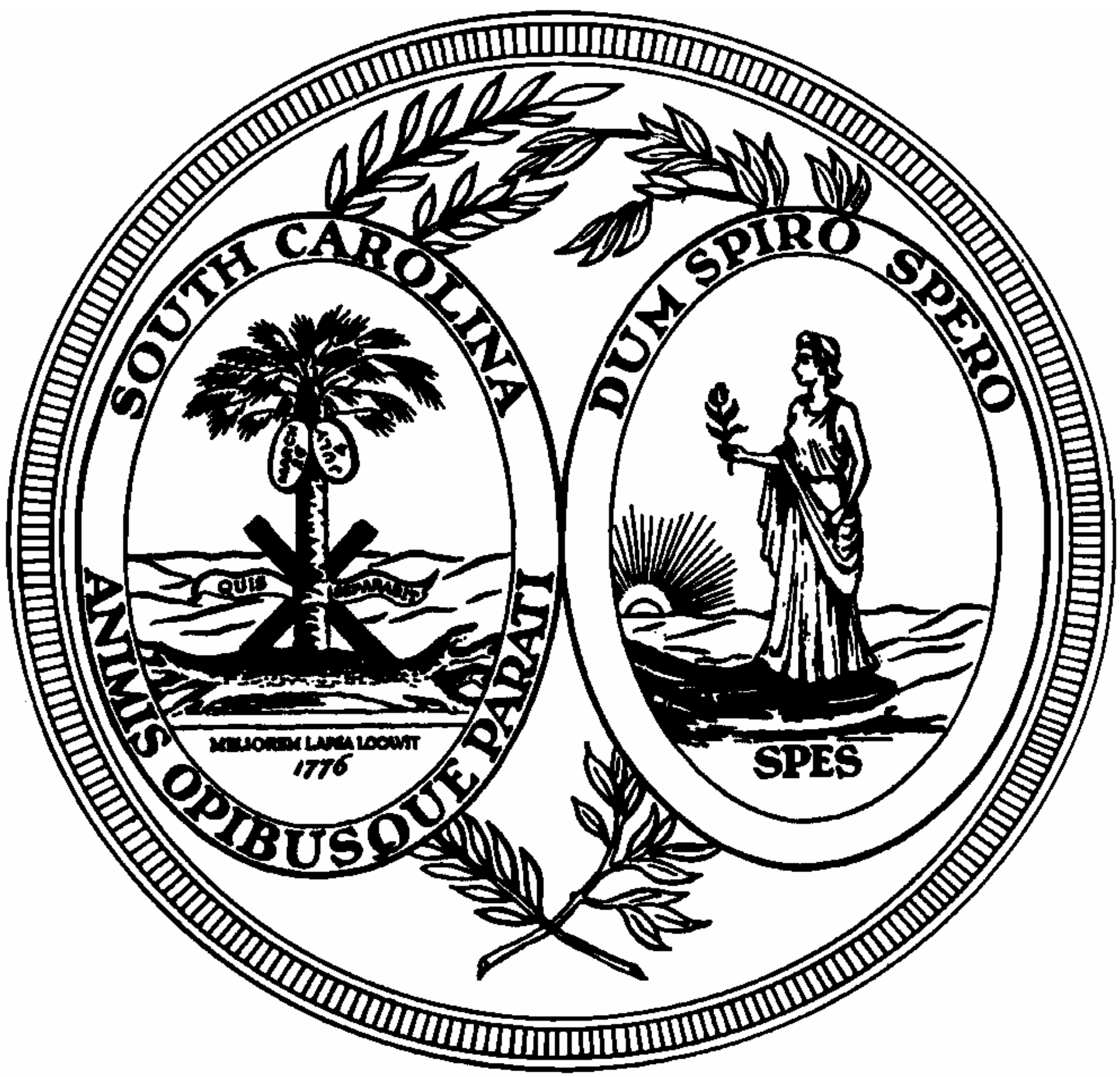
# Exhibit B-5

PROPRIETARY FUNDS (Continued)

**For the Fiscal Year Ended June 30, 2013**
**(Expressed in Thousands)**

| | ENTERPRISE FUNDS | | | INTERNAL SERVICE FUNDS |
|---|---|---|---|---|
| | Unemployment Compensation | Nonmajor Enterprise | Totals | |
| **Effect of changes in operating assets and liabilities:** | | | | |
| Accounts receivable, net | $ (6,797) | $ (681) | $ (7,478) | $ (39,082) |
| Accrued interest | 13 | — | 13 | — |
| Assessments receivable, net | 5,379 | — | 5,379 | — |
| Due from Federal government and other grantors | 8,257 | — | 8,257 | — |
| Due from other funds | — | — | — | 5,014 |
| Inventories | — | 50 | 50 | 369 |
| Other assets | — | 96 | 96 | (7,174) |
| Accounts payable | 283 | (624) | (341) | (1,312) |
| Accrued salaries and related expenses | — | 69 | 69 | 238 |
| Tax refunds payable | (2,896) | — | (2,896) | — |
| Unemployment benefits payable | (11,398) | — | (11,398) | — |
| Tuition benefits payable | — | 23,810 | 23,810 | — |
| Policy claims | — | 22,380 | 22,380 | 53,374 |
| Due to other funds | 2,572 | (19) | 2,553 | (1,873) |
| Unearned revenues | — | 877 | 877 | (12,010) |
| Compensated absences payable | — | (24) | (24) | (240) |
| Other liabilities | — | (42) | (42) | (2,750) |
| **Net cash provided by (used in) operating activities** | **$ 173,221** | **$ 42,894** | **$ 216,115** | **$ (237)** |
| **Noncash capital, investing, and financing activities:** | | | | |
| Disposal of capital assets | $ — | $ — | $ — | $ 3,562 |
| Reduction in advances other than payments | 24 | — | 24 | — |
| Increase (decrease) in fair value of investments | — | (267) | (267) | (14,132) |
| **Total noncash capital, investing, and financing activities** | **$ 24** | **$ (267)** | **$ (243)** | **$ (10,570)** |

The Notes to the Financial Statements are an integral part of this statement.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# Statement of Fiduciary Net Position

# Exhibit B-6

FIDUCIARY FUNDS

**June 30, 2013**
**(Expressed in Thousands)**

| | Pension and Other Post-Employment Benefit Trust | Investment Trust Local Government Investment Pool | Private-Purpose Trust | Agency |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 3,074,930 | $ 2,207,537 | $ 19,863 | $ 235,494 |
| Receivables, net: | | | | |
| Accounts | — | — | — | 1,194 |
| Contributions | 225,494 | — | — | — |
| Accrued interest | 72,329 | 6,834 | 1,134 | 298 |
| Unsettled investment sales | 712,485 | — | 846 | — |
| Other investment receivables | 2,798 | — | — | — |
| Taxes | — | — | — | 497 |
| Total receivables | 1,013,106 | 6,834 | 1,980 | 1,989 |
| Due from other funds | 54,712 | — | — | 12,014 |
| Investments, at fair value: | | | | |
| Short term investments | 476,652 | — | — | — |
| Debt-domestic | 7,305,845 | 1,171,468 | — | — |
| Debt-international | 1,952,259 | — | — | — |
| Equity-domestic | 1,775,267 | — | — | — |
| Equity-international | 1,728,462 | — | — | — |
| Alternatives | 11,845,380 | — | — | — |
| Financial and other | 90,427 | 364,649 | 1,753,787 | — |
| Total investments | 25,174,292 | 1,536,117 | 1,753,787 | — |
| Invested securities lending collateral | 108,152 | — | 30 | 25 |
| Capital assets, net | 3,083 | — | — | — |
| Prepaid items | 1,266 | — | — | 1 |
| Other assets | — | — | 4,786 | — |
| **Total assets** | **29,429,541** | **3,750,488** | **1,780,446** | **249,523** |
| **LIABILITIES** | | | | |
| Accounts payable | 9,243 | — | 757 | 9,526 |
| Accounts payable–unsettled investment purchases | 1,361,171 | — | 1,287 | — |
| Policy claims | 281 | — | — | — |
| Due to other funds | 55,009 | — | — | — |
| Tax refunds payable | — | — | — | 4 |
| Intergovernmental payables | — | — | — | 18,889 |
| Deposits | — | — | — | 3,759 |
| Amounts held in custody for others | — | — | — | 217,224 |
| Deferred retirement benefits | 468,781 | — | — | — |
| Securities lending collateral | 181,965 | — | 103 | 88 |
| Due to participants | — | 32 | — | 33 |
| Other liabilities | 149,937 | — | — | — |
| **Total liabilities** | **2,226,387** | **32** | **2,147** | **249,523** |
| **NET POSITION** | | | | |
| Held in trust for: | | | | |
| Pension and other post-employment benefits | 27,203,154 | — | — | — |
| External investment pool participants | — | 3,750,456 | — | — |
| Other purposes | — | — | 1,778,299 | — |
| **Total net position** | **$ 27,203,154** | **$ 3,750,456** | **$ 1,778,299** | **$ —** |

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

# Statement of Changes in Fiduciary Net Position

# Exhibit B-7

FIDUCIARY FUNDS

**For the Fiscal Year Ended June 30, 2013**
**(Expressed in Thousands)**

| | Pension and Other Post-Employment Benefit Trust | Investment Trust Local Government Investment Pool | Private-Purpose Trust |
|---|---|---|---|
| **Additions:** | | | |
| Licenses, fees, and permits | $ — | $ — | $ 34 |
| Contributions: | | | |
| Employer | 1,524,659 | — | — |
| Employee | 775,634 | — | — |
| Deposits from pool participants | — | 6,478,273 | — |
| Tuition plan deposits | — | — | 100,028 |
| Total contributions | 2,300,293 | 6,478,273 | 100,028 |
| Investment income: | | | |
| Interest income and net appreciation in investments | 2,972,458 | 9,766 | 180,777 |
| Securities lending income | 2,527 | 1 | — |
| Total investment income | 2,974,985 | 9,767 | 180,777 |
| Less investment expense: | | | |
| Investment expense | 419,682 | — | — |
| Securities lending expense | 2 | — | — |
| Net investment income | 2,555,301 | 9,767 | 180,777 |
| Assets moved between pension trust funds | 3,396 | — | — |
| **Total additions** | **4,858,990** | **6,488,040** | **280,839** |
| **Deductions:** | | | |
| Regular retirement benefits | 2,518,327 | — | — |
| Supplemental retirement benefits | 666 | — | — |
| Deferred retirement benefits | 245,717 | — | — |
| Refunds of retirement contributions to members | 102,255 | — | — |
| Death benefit claims | 21,268 | — | — |
| Accidental death benefits | 1,557 | — | — |
| Other post-employment benefits | 352,435 | — | — |
| Withdrawals, pool participants | — | 6,206,872 | — |
| Distributions to pool participants | — | 8,181 | — |
| Depreciation | 211 | — | — |
| Administrative expense | 22,263 | 359 | 10,671 |
| Other expenses | — | — | 567 |
| Assets moved between pension trust funds | 3,396 | — | — |
| **Total deductions** | **3,268,095** | **6,215,412** | **11,238** |
| **Change in net assets** | **1,590,895** | **272,628** | **269,601** |
| **Net position, beginning** | **25,612,259** | **3,477,828** | **1,508,698** |
| **Net position at end of year** | **$ 27,203,154** | **$ 3,750,456** | **$ 1,778,299** |

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

# Statement of Net Position

## DISCRETELY PRESENTED COMPONENT UNITS

**June 30, 2013**

**(Expressed in Thousands)**

| | Public Service Authority | Medical University of South Carolina | University of South Carolina | Clemson University |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 132,429 | $ 248,747 | $ 386,590 | $ 244,754 |
| Investments | 235,889 | 407,642 | 286,042 | 158,607 |
| Invested securities lending collateral | — | 125 | 672 | 335 |
| Receivables, net: | | | | |
| Accounts | 205,034 | 23,923 | 40,986 | 4,566 |
| Contributions | — | 15,245 | 33,349 | 33,004 |
| Accrued interest | 1,731 | 583 | 1,460 | 1,466 |
| Student accounts | — | 776 | 8,985 | 4,018 |
| Patient accounts | — | 206,413 | 3,142 | — |
| Loans and notes | — | 561 | 518 | 62 |
| Due from Federal government and other grantors | — | 24,436 | 24,265 | 16,397 |
| Due from primary government | — | 25,483 | 2,133 | 10,949 |
| Inventories | 674,210 | — | 2,935 | 2,136 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 341,093 | 63,098 | 302,494 | 212,207 |
| Investments | 559,412 | 73,833 | 69,394 | 349,295 |
| Loans receivable | — | 12,598 | 18,047 | 8,499 |
| Other | — | — | — | — |
| Prepaid items | 16,169 | 14,611 | 8,324 | 7,339 |
| Other assets | 669,861 | 51,481 | 10,243 | 315 |
| Deferred charges | 797,699 | 5,778 | — | 813 |
| Investment in joint venture | 8,124 | — | — | — |
| Capital assets-nondepreciable | 1,763,611 | 165,351 | 192,598 | 136,196 |
| Capital assets-depreciable, net | 4,184,307 | 1,029,175 | 996,241 | 643,915 |
| **Total assets** | 9,589,569 | 2,369,859 | 2,388,418 | 1,834,873 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Accumulated decrease in | | | | |
| fair value of hedging derivatives | $ 34,891 | $ 5,493 | $ — | $ — |
| **Total deferred outflows** | $ 34,891 | $ 5,493 | $ — | $ — |
| **LIABILITIES** | | | | |
| Accounts payable | $ 221,933 | $ 67,954 | $ 56,117 | $ 24,580 |
| Accrued salaries and related expenses | 7,025 | 76,604 | 22,915 | 16,374 |
| Accrued interest payable | 108,465 | 2,001 | 3,903 | 1,394 |
| Retainages payable | 2,428 | 270 | 859 | 1,110 |
| Prizes payable | — | — | — | — |
| Intergovernmental payables | — | — | — | — |
| Due to primary government | — | 1,070 | 4,237 | 150 |
| Unearned revenues and deferred credits | 1,002,313 | 36,522 | 46,586 | 34,668 |
| Deposits | — | — | 2,656 | 984 |
| Amounts held in custody for others | — | 17,852 | 1,213 | 3,361 |
| Securities lending collateral | — | 425 | 2,228 | 1,098 |
| Liabilities payable from restricted assets: | | | | |
| Other | — | — | — | — |
| Other liabilities | 682,592 | 70,319 | 29,438 | 16,801 |
| Long-term liabilities: | | | | |
| Due within one year | 336,620 | 48,249 | 42,922 | 29,260 |
| Due in more than one year | 5,285,078 | 565,439 | 573,839 | 161,194 |
| **Total liabilities** | 7,646,454 | 886,705 | 786,913 | 290,974 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Accumulated increase in | | | | |
| fair value of hedging derivatives | $ 3,423 | $ — | $ — | $ — |
| **Total deferred outflows** | $ 3,423 | $ — | $ — | $ — |
| **NET POSITION** | | | | |
| Net investment in capital assets | 894,920 | 582,687 | 676,831 | 615,179 |
| Restricted: | | | | |
| Expendable: | | | | |
| Education | — | 154,944 | 149,444 | 359,564 |
| Transportation | — | — | — | — |
| Capital projects | — | 50,030 | 70,192 | 115,452 |
| Debt service | 140,038 | 47,618 | 24,474 | 9,044 |
| Loan programs | — | — | — | — |
| Other | — | — | — | — |
| Nonexpendable: | | | | |
| Education | — | 203,289 | 257,222 | 300,354 |
| Unrestricted | 939,625 | 450,079 | 423,342 | 144,306 |
| **Total net position** | **$ 1,974,583** | **$ 1,488,647** | **$ 1,601,505** | **$ 1,543,899** |

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

# Exhibit C-1

| State Ports Authority | Housing Authority | Nonmajor Component Units | Total |
|---|---|---|---|
| $ 187,090 | $ 38,804 | $ 600,391 | $ 1,838,805 |
| 15,642 | — | 172,236 | 1,276,058 |
| 1,200 | (58) | 418 | 2,692 |
| | | — | |
| 26,566 | 772 | 112,507 | 414,354 |
| — | — | 20,223 | 101,821 |
| — | 236 | 1,754 | 7,230 |
| — | — | 38,843 | 52,622 |
| — | — | — | 209,555 |
| — | 25,767 | 91,846 | 118,754 |
| — | 821 | 46,959 | 112,878 |
| 190,513 | 1,563 | 12,412 | 243,053 |
| 6,504 | — | 16,991 | 702,776 |
| | | | |
| — | 130,927 | 233,614 | 1,283,433 |
| — | 214,094 | 373,239 | 1,639,267 |
| — | 618,499 | 13,416 | 671,059 |
| — | 5,375 | 3,323 | 8,698 |
| 4,050 | — | 15,922 | 66,415 |
| 153 | 504 | 149,171 | 881,728 |
| 1,372 | 6,633 | 6,052 | 818,347 |
| — | — | — | 8,124 |
| 407,024 | — | 230,407 | 2,895,187 |
| 286,547 | 434 | 1,711,064 | 8,851,683 |
| 1,126,661 | 1,044,371 | 3,850,788 | 22,204,539 |
| | | | |
| $ — | $ — | $ — | $ 40,384 |
| $ — | $ — | $ — | $ 40,384 |
| | | | |
| $ 15,493 | $ — | $ 63,714 | $ 449,791 |
| 2,620 | 781 | 37,279 | 163,598 |
| 6,738 | — | 7,491 | 129,992 |
| 4,663 | — | 1,263 | 10,593 |
| — | — | 26,892 | 26,892 |
| 16 | — | 420 | 436 |
| — | — | 44,392 | 49,849 |
| — | — | 164,053 | 1,284,142 |
| — | 5,869 | 10,471 | 19,980 |
| — | — | 4,713 | 27,139 |
| 4,045 | (191) | 1,425 | 9,030 |
| | | | |
| — | 20,145 | 760 | 20,905 |
| 16,206 | 1,590 | 7,288 | 824,234 |
| | | | |
| 7,952 | 12,807 | 81,365 | 559,175 |
| 177,384 | 639,103 | 1,114,988 | 8,517,025 |
| 235,117 | 680,104 | 1,566,514 | 12,092,781 |
| | | | |
| $ — | $ — | $ — | $ 3,423 |
| $ — | $ — | $ — | $ 3,423 |
| | | | |
| 504,276 | 434 | 1,314,823 | 4,589,150 |
| | | | |
| — | — | 162,798 | 826,750 |
| — | — | 472 | 472 |
| — | — | 218,800 | 454,474 |
| 9,009 | 56,813 | 40,167 | 327,163 |
| — | 266,470 | 55,683 | 322,153 |
| — | — | 2,675 | 2,675 |
| | | | |
| — | — | 184,926 | 945,791 |
| 378,259 | 40,550 | 303,930 | 2,680,091 |
| **$ 891,544** | **$ 364,267** | **$ 2,284,274** | **$ 10,148,719** |

# Statement of Activities

## DISCRETELY PRESENTED COMPONENT UNITS

**For the Fiscal Year Ended June 30, 2013**
**(Expressed in Thousands)**

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Public Service Authority | $ 1,804,871 | $ 1,887,797 | $ 1,926 | $ — |
| Medical University of South Carolina | 1,850,245 | 1,724,344 | 173,721 | 38,641 |
| University of South Carolina | 1,281,265 | 1,008,288 | 314,056 | 16,520 |
| Clemson University | 733,094 | 543,456 | 249,484 | 33,128 |
| State Ports Authority | 135,902 | 135,838 | 3,893 | 2,984 |
| Housing Authority | 242,279 | 102,671 | 147,653 | — |
| Nonmajor component units | 2,958,825 | 2,310,475 | 694,676 | 77,562 |
| **Totals** | **$ 9,006,481** | **$ 7,712,869** | **$ 1,585,409** | **$ 168,835** |

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

# Exhibit C-2

| Net Revenue (Expenses) | Additions to Endowments | Net Position (Deficit) Beginning (Restated) | Net Position (Deficit) Ending |
|---|---|---|---|
| $ 84,852 | $ — | $ 1,889,731 | $ 1,974,583 |
| 86,461 | 10,585 | 1,391,601 | 1,488,647 |
| 57,599 | 11,798 | 1,532,108 | 1,601,505 |
| 92,974 | 11,122 | 1,439,803 | 1,543,899 |
| 6,813 | — | 884,731 | 891,544 |
| 8,045 | — | 356,222 | 364,267 |
| 123,888 | 8,418 | 2,151,968 | 2,284,274 |
| **$ 460,632** | **$ 41,923** | **$ 9,646,164** | **$ 10,148,719** |

# Notes to the Financial Statements—Contents

# Notes to the Financial Statements—Contents (Continued)

# Notes to the Financial Statements—Contents (Continued)

Page

# 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 includes blended component units within applicable funds in its fund financial statements and within applicable 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.

The State's five defined benefit retirement systems and two post-employment benefit trust funds are part of the State's primary government. The Board of Directors of the South Carolina Public Employee Benefit Authority (PEBA), which consists of eleven members appointed by the Governor and General Assembly leadership, serves as trustee of the systems and the trust funds. The State Budget and Control Board, which consists of five elected officials, also reviews certain decisions made by the PEBA Board of Directors regarding the funding of the retirement systems and serves as a co-trustee of the retirement systems in conducting that review. The State Treasurer is custodian of the funds.

#### Blended Component Units

Unless otherwise indicated below, the following 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, 2013.

##### *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.

##### *Public Railways Division*

The Public Railways Division of the Department of Commerce, a blended component unit accounted for as an enterprise fund, has a fiscal year ended December 31, 2012.

##### *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
Columbia, South Carolina 29201
www.treasurer.sc.gov

Public Railways Division
South Carolina Department of Commerce
1201 Main Street, Suite 1600
Columbia, SC 29201-3200

### Discretely Presented Component Units

Unless otherwise indicated below, the following 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, 2013. In determining which discretely presented component units are major, the State considered the significance of each component unit's relationship to the primary government. The following have been identified as the State's major discretely presented component units:

#### *South Carolina 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, 2012. A financial benefit/burden relationship exists between the State and the Public Service Authority.

#### *Medical University of South Carolina*

The Medical University of South Carolina (MUSC) is a legally separate State-supported institution of higher education. MUSC is granted an annual appropriation for operating purposes as authorized by the General Assembly. The management and control of the university is vested in a board of trustees, composed as follows: the Governor or designee, ex officio, fourteen members elected by the General Assembly in joint assembly, and one member appointed by the Governor. A financial benefit/burden relationship exists between the State and MUSC.

#### *University of South Carolina*

The University of South Carolina (USC) is a legally separate State-supported institution of higher education. USC is granted an annual appropriation for operating purposes as authorized by the General Assembly. The board of trustees is composed of the Governor (or designee), the State Superintendent of Education, and the President of the Greater University of South Carolina Alumni Association, which three are members ex officio of the board, and seventeen other members including one member from each of the sixteen judicial circuits elected by the general vote of the General Assembly, and one at-large member appointed by the Governor. A financial benefit/burden relationship exists between the State and USC.

#### *Clemson University*

Clemson University is a legally separate State-supported, institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the General Assembly. The University is governed by a board of thirteen members, including six elected by the General Assembly and seven self-perpetuating life members. A benefit/burden relationship exists between the State and Clemson University.

#### *South Carolina 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 State Ports Authority in the past, and State law grants the State access to the State Ports Authority's surplus net revenues. A financial benefit/burden relationship exists between the State and the State Ports Authority.

#### *South Carolina State Housing Finance and Development Authority*

The South Carolina State Housing Finance and Development Authority is a legally separate entity that facilitates medium-income and low-income housing opportunities by providing reasonable financing to the State's citizens. To provide such financing, the Authority issues bonds and notes and administers federal grants and contracts. Mortgage interest is a primary resource for the Authority. The Governor appoints, with the advice and consent of the Senate, seven persons to be commissioners of the South Carolina State Housing Finance and Development Authority. The Governor appoints the chairman from among the seven commissioners. The State has the ability to impose its will on the Housing Finance and Development Authority.

#### *Other Discretely Presented Component Units (Nonmajor)*

The State's government-wide financial statements also include the following nonmajor discretely presented component units in the aggregate:

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, 2012.

Connector 2000 Association, Inc. is a legally separate entity 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 financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2012. DOT is responsible for confirming the effectiveness and reasonableness of proposed toll rate changes in order for new toll rates to be established. Toll revenues, to the extent available, in accordance with the amended license agreement, are used to offset the highway maintenance commitments of DOT related to the Southern Connector. The Association is fiscally dependent on DOT for the maintenance of the Southern Connector highway. A benefit/burden relationship exists between the State and the Association.

The South Carolina Education Assistance Authority is a legally separate entity that 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. Management oversight for the Authority is provided by the State Budget and Control Board.

The South Carolina First Steps to School Readiness is a legally separate 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 State has the ability to impose its will on First Steps to School Readiness.

South Carolina Jobs-Economic Development Authority is a legally separate entity that promotes and develops business and economic welfare in the state. The Authority is governed by a Board of Directors (board) which consists of ten members all appointed by the Governor. The State has the ability to impose its will on the Jobs-Economic Development Authority.

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 legally separate and 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. A benefit/burden relationship exists between the State and the Lottery.

The South Carolina Medical Malpractice Liability Joint Underwriting Association was established to provide medical malpractice insurance on a self-supporting basis. The Association is legally separate and 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, 2012.

Patriots Point Development Authority is a legally separate entity, established to develop and maintain a naval and maritime museum on Charleston Harbor, and to provide a place of education and recreation. The Patriots Point Development Authority Board also oversees the stewardship of over 350 acres of property on Charleston Harbor. Members of the authority are appointed by the Governor as follows: one upon the joint recommendation of the Chairman of the House Ways and Means Committee and the Speaker of the House, one upon the joint recommendation of the Chairman of the Senate Finance Committee and the President Pro Tempore of the Senate, and three appointed by the Governor. The Governor appoints the chairman. In addition, there are three additional members of the board appointed by the Governor, one appointed upon recommendation of the President Pro Tempore of the Senate, one appointed upon recommendation of the Speaker of the House of Representatives, and one appointed upon recommendation of the State Adjutant General. A financial benefit/burden relationship exists between the State and the Authority.

The following universities are nonmajor component units: The Citadel, Coastal Carolina University, College of Charleston, Francis Marion University, Lander University, South Carolina State University, and Winthrop University. The universities are legally separate entities, with boards appointed by the State. A benefit/burden relationship exists between the State and each individual university because the State provides significant funding to these institutions.

The following technical colleges are nonmajor component units: Aiken Technical College, Central Carolina Technical College, Denmark Technical College, Florence-Darlington Technical College, Greenville Technical College, Horry-Georgetown Technical College, Technical College of the Lowcountry, Midlands Technical College, Northeastern Technical College, Orangeburg-Calhoun Technical College, Piedmont Technical College, Spartanburg Community College, Tri-county Technical College, Trident Technical College, Williamsburg Technical College, and York Technical College. The colleges are legally separate entities, with boards appointed by the State. A benefit/burden relationship exists between the State and each individual college because the State provides significant funding to these institutions.

### *Obtaining More Information about Discretely Presented Component Units*

One may obtain stand-alone financial statements for 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

South Carolina State Housing Finance and Development Authority
300-C Outlet Pointe Blvd.
Columbia, South Carolina 29210
http://www.schousing.com/

**Universities:**
Medical University of South Carolina
University of South Carolina
Clemson University
The Citadel
Coastal Carolina University
College of Charleston
Francis Marion University
Lander University
South Carolina State University
Winthrop University
http://www.che.sc.gov/InfoCntr/Coll_Univ.htm

**Technical Colleges:**
Aiken Technical College
Central Carolina Technical College
Denmark Technical College
Florence-Darlington Technical College
Greenville Technical College
Horry-Georgetown Technical College
Technical College of the Lowcountry
Midlands Technical College
Northeastern Technical College
Orangeburg-Calhoun Technical College
Piedmont Technical College
Spartanburg Community College
Tri-county Technical College
Trident Technical College
Williamsburg Technical College
York Technical College
http://www.che.sc.gov/InfoCntr/Coll_Univ.htm

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

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

South Carolina Education Assistance Authority
Post Office Box 102425
Columbia, SC 29224
https://www.scstudentloan.org/

South Carolina First Steps to School Readiness
1300 Sumter Street, Suite 100
Columbia, SC 29201
http://www.scfirststeps.org/

South Carolina Jobs-Economic Development Authority
1201 Main Street, Suite 1600
Columbia, SC 29201
http://www.scjeda.com/

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

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

Patriots Point Development Authority
40 Patriots Point Road
Mount Pleasant, SC 29464
http://www.patriotspoint.org/

### 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 disabilities and special needs 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 position 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 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 fund:

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 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 amounts 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.

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.

### Component Unit Financial Statements

The State presents a statement of net position 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.

### 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.

#### 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), and the Tobacco Settlement Revenue Management Authority (a blended component unit and a nonmajor governmental fund). Of the discretely presented component units, the State Ports Authority, the Housing 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:

Office of State Treasurer
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 position 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.

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.

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. Net Position and Fund Balance

The State reports a portion of its net position or fund balance in its government-wide and fund financial statements as restricted. Net position 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, 2013, $608.539 million was reported as restricted net position 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.

### p. Flow Assumption, Net Position 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 position 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.

### q. Deferred Outflows/Inflows of Resources

A deferred outflow/inflow of resources is a consumption/acquisition of net assets that is applicable to a future reporting period. The State has recorded deferred outflows/inflows in connection with interest rate swap agreements and service concession arrangements reported and explained in these financial statements.

## NOTE 2: ACCOUNTING AND REPORTING CHANGES

### Adoption of New Accounting Standards

For the fiscal year ended June 30, 2013, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (Statement No. 60) provides guidance related to accounting for and reporting service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. Statement No. 60 applies to arrangements in which specific criteria determining whether a transferor has control over the facility are met.

Statement No. 61, *The Financial Reporting Entity: Omnibus* (Statement No. 61) modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, Statement No. 61 clarifies the manner in which that determination should be made and the types of relationships that should be considered. Statement No. 61 amends the criteria for reporting component units using the blending method. Statement No. 61 requires blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. Statement No. 61 clarifies the types of relationships that affect the determination of major component units and eliminates the requirement that the determination include consideration of each component unit's significance relative to other component units. Based on the new requirements of Statement No. 61, and a review of the financial reporting entity, state-supported universities and technical colleges, and certain other business type activities, previously reported as part of the primary government, are reported as discretely presented component units.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Statement No. 62) incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Statement No. 62 supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Statement No. 63) provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (net residual amount). Under Statement No. 63, deferred outflows of resources and deferred inflows of resources are reported separately from assets and liabilities. Statement No. 63 also amends certain provisions of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and related pronouncements to reflect the residual amount in the statement of financial position as net position, rather than net assets.

## NOTE 3: DEFICITS OF INDIVIDUAL FUNDS

The accompanying fund financial statements display deficit fund balances and deficit net position balances for individual major funds, if applicable. Nonmajor funds had the following deficit net position balances (expressed in thousands) at June 30, 2013:

| | |
|---|---|
| **Nonmajor Enterprise Funds:** | |
| Patients' Compensation | $ 82,269 |
| Second Injury | 132 |
| Tuition Prepayment Program | 63,362 |
| **Internal Service Funds:** | |
| State Accident Fund | 29,408 |

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 section e of this note and the primary government's Other Post-Employment Benefit Trust Funds which are described in section f of this note.

#### 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, sections 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, 2013 was $468.298 million and the bank balance was $985.402 million. As of June 30, 2013, the reported amount of the primary government's deposits outside of the State Treasurer was $146.037 million and the bank balance was $146.557 million. Of the $135.104 million bank balance exposed to custodial credit risk, $31 thousand was uninsured and uncollateralized, $12.422 million was uninsured and collateralized with securities held by the pledging financial institution, and $122.651 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, 2013, the reported amount of the major discretely presented component units' deposits was $421.805 million and the bank balance was $432.508 million. Of the $337.967 million bank balance exposed to custodial credit risk, $97.148 million was uninsured and uncollateralized, $168.923 millsion was uninsured and collateralized with securities held by the pledging financial institution, and $71.896 million was uninsured and collateralized with securities held by the counterparty's trust department or agent, but not in the State's name.

**b. Investments**

The investment disclosures exclude the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in section e and the primary government's Other Post-Employment Benefit Trust Funds which are described in section f of this note.

### 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, section 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 were not exposed to custodial credit risk. The major discretely presented component unit's investments that are exposed to custodial credit risk include 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 primary government holds investments in U.S treasuries and U.S Agencies, repurchase agreements, and mutual bond funs that are not exposed to custodial credit risk.

The portion of the State's major discretely presented component units investments with custodial credit risk is detailed (expressed in thousands) at June 30, 2013, as follows:

| DCU Investment Type | Reported Amount |
|---|---|
| U.S. treasuries | $ 3,928 |
| U.S. agencies | 36,833 |
| Common stock | 828 |
| Money market mutual funds | 879 |
| Guaranteed investment contracts | 529 |
| Other | 364 |
| **Totals** | **$ 43,361** |

### 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, 2013 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/ A2 | BBB | Alternative Rating Agency | Not Rated |
|---|---|---|---|---|---|---|
| Asset backed securities | $ 4,448 | $ — | $ — | $ — | $ — | $ 4,148 |
| Corporate bonds | 50,033 | 1,500,874 | 1,537,691 | 1,144,707 | — | 197,678 |
| Municipal bonds | 3,705 | 157,585 | 557 | — | — | — |
| Repurchase agreements | 6,089 | — | 1,415,058 | — | 975,965 | 295,257 |
| Commercial paper | — | — | 3,186,161 | 5,002 | — | 20,913 |
| Money market mutual funds | — | — | — | — | — | 89,326 |
| Mutual bond funds | — | — | — | — | — | 1,150 |
| Other | — | — | — | — | 33,700 | 192 |
| **Totals** | **$ 64,275** | **$1,658,459** | **$6,139,467** | **$1,149,709** | **$1,009,665** | **$ 608,664** |

At fiscal year end, the Clemson University (June 30, 2013), the State Housing Authority (June 30, 2013), the Medical University of South Carolina (June 30, 2013), State Ports Authority (June 30, 2013), the Public Service Authority (December 31, 2012), and the University of South Carolina (June 30, 2013), 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, Clemson University, the State Housing Authority, the Medical University of South Carolina, the State Ports Authority, Public Service Authority, and the University of South Carolina held investments as listed below with Standard and Poor's rating scale (expressed in thousands):

| Investment Type and Fair Value | AAA | AA | A/A1 | Not Rated |
|---|---|---|---|---|
| U.S. agencies | $ 803,674 | $ 36,833 | $ — | $ 15,642 |
| Mortgage backed obligations | — | — | — | 166,331 |
| Other equity securities | — | — | — | 32,072 |
| Corporate bonds | — | 12,314 | 21,415 | — |
| Repurchase agreements | — | — | — | 348,139 |
| Commercial paper | — | — | 34,991 | — |
| Money market mutual funds | 441 | — | — | 6,122 |
| Mutual bond funds | — | — | — | 913 |
| Guaranteed investment contracts | — | — | — | 529 |
| **Totals** | **$804,115** | **$ 49,147** | **$ 56,406** | **$569,748** |

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, 2013, 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 | $ 100,504 | $ 100,004 | $ 500 | $ — | $ — |
| U.S. agencies | 874,600 | 90,091 | 144,830 | 73,954 | 565,725 |
| Mortgage backed obligations | 511,016 | — | 3,607 | 133,039 | 374,370 |
| Asset backed securities | 4,149 | — | — | 2,766 | 1,383 |
| Corporate bonds | 2,797,479 | 972,496 | 1,429,198 | 368,270 | 27,515 |
| Municipal bonds | 48,390 | 33,248 | 15,142 | — | — |
| Repurchase agreements | 1,271,222 | 1,271,222 | — | — | — |
| Commercial paper | 2,044,036 | 2,044,036 | — | — | — |
| Other | 33,700 | 33,700 | — | — | — |
| **Totals** | **$ 7,685,096** | **$4,544,797** | **$1,593,277** | **$ 578,029** | **$ 968,993** |

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, 2013, 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 | $ 3,952 | $ — | $ 2,855 | $ 1,097 | $ — |
| U.S. agencies | 319,024 | 714 | 1,911 | 316,105 | 294 |
| Mortgage backed obligations | 23,648 | — | — | — | 23,648 |
| Corporate bonds | 1,633,504 | 303 | 143,319 | 1,489,856 | 26 |
| Municipal bonds | 113,458 | — | 311 | 99,290 | 13,857 |
| Repurchase agreements | 1,421,147 | 1,421,147 | — | — | — |
| Asset backed securities | 4,448 | — | 4,448 | — | — |
| Commercial paper | 1,168,040 | 1,168,040 | — | — | — |
| Mutual funds | 1,150 | — | — | — | 1,150 |
| Other | 192 | — | — | — | 192 |
| **Totals** | **$4,688,563** | **$2,590,204** | **$ 152,844** | **$1,906,348** | **$ 39,167** |

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2013, 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 | $ 57,036 | $ 7,856 | $ — | $ 49,180 | $ — |
| U.S. agencies | 1,058,616 | 216,198 | 594,354 | 865 | 247,199 |
| Other equity securities | 5,913 | 5,913 | — | — | — |
| Corporate bonds | 33,730 | 6,731 | 11,986 | — | 15,013 |
| Repurchase agreements | 348,139 | 348,139 | — | — | — |
| Commercial paper | 34,991 | 34,991 | — | — | — |
| Mutual bond funds | 448 | — | — | 448 | — |
| **Totals** | **$ 1,538,873** | **$ 619,828** | **$ 606,340** | **$ 50,493** | **$ 262,212** |

### 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, 2013, the State Treasurer had approximately 16.76% of the State's General investment portfolio and 33.73% 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 15.41% of the State's general investment portfolio at June 30, 2013 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 section e of this note. 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 section f of this note.

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, 2013. At June 30, 2013, 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, 2013, 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, 2013, 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, 2013, 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, 2013:

| | Amount |
|---|---|
| **Securities lent for cash collateral:** | |
| Corporate bonds | $ 29,883 |
| **Total for cash collateral** | **$ 29,883** |
| | |
| **Cash collateral invested:** | |
| Asset backed securities | 6,699 |
| Floating rate notes | 6,736 |
| **Total collateral invested** | **$ 13,435** |

### 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, 2013, the carrying amount of the Systems' deposits was $45.314 million and the bank balance was $49.357 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 RSIC has no formal interest rate risk policy, interest rate risk is observed 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. Investment guidelines may specify the degree of interest rate risk taken versus the benchmark within each fixed income portfolio.

Disclosures for interest rate risk at June 30, 2013, are noted below (dollar amounts expressed in thousands):

| Investment Type | Fair Value | Effective Duration |
|---|---|---|
| **Short Term Investments** | | |
| Short Term Investment Funds (U.S. Regulated) | $ 836,913 | 0.08 |
| Repurchase Agreements | 589,582 | N/A |
| Commercial Paper | 761,289 | 0.07 |
| Certificates of Deposit | 8,300 | 0.21 |
| U.S. Treasury Bills | 2,947 | 0.90 |
| **Equity Allocation** | | |
| Preferred | 3,311 | 5.86 |
| Convertible Preferred | 1,813 | 7.14 |
| **Fixed Income Allocation** | | |
| **U.S. Government:** | | |
| U.S. Government Treasuries | 1,415,623 | 6.09 |
| U.S. Government Agencies | 1,037,229 | 1.98 |
| **Mortgage Backed:** | | |
| Government National Mortgage Association | 132,676 | 3.78 |
| Federal National Mortgage Assocation | 139,089 | 4.47 |
| Federal Home Loan Mortgage Association | 48,851 | 5.06 |
| Federal Home Loan Mortgage Association (multiclass) | 5,509 | 0.50 |
| Collateralized Mortgage Obligations | 12,501 | 4.07 |
| **Municipals** | 71,409 | 9.13 |
| **Corporate:** | | |
| Corporate Bonds | 2,107,241 | 3.92 |
| Convertible Bonds | 37,529 | 1.64 |
| Asset Backed Securities | 245,311 | 0.21 |
| **Private Placements** | 790,398 | 3.22 |
| **Global Fixed Income:** | | |
| International Asset Backed Securities | 3,096 | 9.71 |
| International Corporate Bonds | 56,990 | 2.43 |
| International Government Bonds | 41,878 | 6.69 |
| **Alternatives** | | |
| Credit Default Swaps | 3,417 | — |
| Interest Rate Swaps | 9,971 | 31.15 |
| Eurodollar Futures | (279) | 2.12 |
| Interest Rate Futures | 11 | 1.62 |
| International Bond Futures | (1,663) | 177.74 |
| Foreign Currency Futures | (13) | |
| Treasury Note Futures | (1,970) | 64.36 |
| Treasury Bond Futures | (748) | 45.27 |
| **Total Invested Assets** | **$ 8,358,211** | |
| **Total Portfolio Effective Duration (option adjusted duration)** | | **2.88** |

### 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 investment 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 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 | NR[1] |
|---|---|---|---|---|---|---|---|---|
| **Short Term Investments** | | | | | | | | |
| Short Term Investment Funds (U.S. Regulated) | $ 836,913 | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Repurchase Agreements | — | — | — | — | — | — | — | 589,582 |
| Certificates of Deposit | — | 8,300 | — | — | — | — | — | — |
| Commercial Paper | — | — | — | 731,298 | — | — | — | 29,991 |
| U.S. Treasury Bills | 2,947 | — | — | — | — | — | — | — |
| **Equity Investments** | | | | | | | | |
| Preferred | — | — | — | — | — | 1,907 | — | 1,404 |
| Convertible Preferred | — | — | — | 1,813 | — | 227 | — | — |
| **Fixed Income Allocation** | | | | | | | | |
| Mortgage Backed: | | | | | | | | |
| Federal National Mortgage Association | 139,089 | — | — | — | — | — | — | — |
| Federal Home Loan Mortgage Association (multiclass) | 5,777 | — | — | — | — | — | — | — |
| Federal Home Loan Mortgage Association | 48,851 | — | — | — | — | — | — | — |
| Collateralized Mortgage Association | 12,501 | — | — | — | — | — | — | — |
| Municipals | 5,456 | 42,329 | 17,185 | — | — | — | — | 6,439 |
| Corporate: | | | | | | | | |
| Corporate Bonds | 21,289 | 73,087 | 363,499 | 615,826 | 246,874 | 257,952 | 62,744 | 817,212 |
| Convertible Bonds | — | — | — | — | 13,653 | 3,626 | 2,705 | 17,545 |
| Asset Backed Securities | 50,921 | 49,454 | 98,693 | 8,721 | 5,051 | 4,498 | — | 33,407 |
| Private Placements | 159,564 | 46,704 | 96,008 | 96,670 | 62,067 | 156,587 | 71,563 | 137,101 |
| Global Fixed Income: | | | | | | | | |
| International Asset Backed | 690 | — | — | — | — | — | — | 2,406 |
| International Commingled Funds | — | — | — | — | — | — | — | 1,013,076 |
| International Corporate Bonds | 10,320 | 2,344 | 101 | 4,175 | 12,753 | 24,580 | — | 7,292 |
| International Emerging Debt | — | — | — | — | 131,436 | — | — | 464,178 |
| International Government Bonds | 10,718 | 10,805 | — | 18,067 | — | — | — | 2,288 |
| **Alternatives** | | | | | | | | |
| Credit Default Swaps | — | — | — | — | — | — | — | 2,766 |
| Interest Rate Swaps | — | — | — | — | — | — | — | 9,971 |
| Total Return Swaps | — | — | — | — | — | — | — | (70,152) |
| Futures Contracts | — | — | — | — | — | — | — | (49,109) |
| **Totals** | **$ 1,305,036** | **$ 233,023** | **$ 575,486** | **$ 1,476,570** | **$ 471,834** | **$ 449,377** | **$ 137,012** | **$ 3,015,397** |

[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, 2013, there is no single issuer exposure within the portfolio that comprises 5 percent or more of the overall portfolio. Therefore, there is no concentration of credit risk.

### Foreign Currency Risk

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

The table below presents the Systems' exposure to foreign currency risk in U.S. dollars as of June 30, 2013 (expressed in thousands):

| Currency | Cash & Cash Equivalents | Forward Contracts | Futures Contracts | Private Equity | Alternative Investments | Fixed Income | Equity |
|---|---|---|---|---|---|---|---|
| Australian Dollar | $ (2,634) | $ 123,712 | $ 615 | $ — | $ — | $ 6,791 | $ — |
| Brazil Real | — | 7,230 | — | — | — | — | — |
| British Pound Sterling | (11,096) | 351,552 | (7,253) | — | — | 9,160 | 16,246 |
| Canadian Dollar | (3,716) | 154,350 | 801 | — | — | 6,380 | 1,608 |
| Euro Currency | (18,686) | 711,793 | (17,983) | 178,458 | 5,428 | 45,407 | 27,385 |
| Hong Kong Dollar | (5,535) | 61,156 | 2,504 | — | — | — | 8,320 |
| Japanese Yen | (10,112) | 482,068 | 10,442 | — | — | (62) | 19,570 |
| New Mexico Peso | 562 | (12,652) | — | — | — | 14,646 | — |
| Swedish Krona | (1,116) | 50,139 | (1,607) | — | — | — | — |
| Swiss Franc | — | — | — | — | — | — | 26,697 |
| **Totals** | **$ (52,333)** | **$1,929,348** | **$ (12,481)** | **$178,458** | **$ 5,428** | **$ 82,322** | **$ 99,826** |

### 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.

The Commission uses derivatives contracts primarily 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 Market Theory dictates 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 Position. To comply with the requirements of multiple exchanges, cash and securities (GNMAs) in the amount of $157.450 million and $57.580 million respectively were held in trust by the clearing brokers on June 30, 2013, 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, 2013 (expressed in thousands):

| | Changes in Fair Value | | Fair Value at June 30, 2013 | |
|---|---|---|---|---|
| | Classification | Gain/(Loss) | Classification | Amount |
| **Investment derivatives:** | | | | |
| Futures Contracts | Net appreciation/(depreciation) | $ (70,383) | Alternative Investments | $ (50,648) |
| Forward Contracts | Net appreciation/(depreciation) | (60,132) | Cash & Cash Equivalents | (59,226) |
| Swaps | Net appreciation/(depreciation) | (92,561) | Alternative Investments | (80,411) |
| Options | Net appreciation/(depreciation) | (62,398) | Options | - |

As of June 30, 2013, 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 | Long | 3,254 | $ 157,958 |
| EURX DAX INDEX | September | Long | 560 | 144,974 |
| EURX ER STX 50 | September | Long | 4,912 | 165,879 |
| NEW FTSE 100 | September | Long | 3,508 | 327,828 |
| HKFE - HSI | July | Long | 455 | 60,800 |
| IBEX 35 PLUS | July | Long | 458 | 45,655 |
| FTSE MIB INDEX | September | Long | 355 | 35,213 |
| TSE TOPIX | September | Long | 3,109 | 353,982 |
| SFE SPI 200 | September | Long | 1,172 | 127,903 |
| AMSTERDAM INDEX | July | Long | 510 | 45,715 |
| S&P TSE 60 INDEX | September | Long | 1,190 | 156,298 |
| OMXS30 INDEX | July | Long | 2,800 | 47,718 |
| **Total International Equity** | | | | 1,669,923 |
| EMINI S&P 500 | September | Long | 24,946 | 1,994,807 |
| **Total Large Cap Equity** | | | | 1,994,807 |
| EMINI RUSSELL 2000 | September | Long | 2,139 | 208,488 |
| **Total Small Cap Equity** | | | | 208,488 |
| US2YR NTS | September | Long | 92 | 20,240 |
| UST5 NTS | September | Long | 254 | 30,746 |
| UST10 NTS | September | Long | 321 | 40,627 |
| UST30 BD | September | Long | 434 | 58,956 |
| **Total Domestic Fixed Income** | | | | 150,569 |
| EURO-SCHATZ | September | Long | 245 | 35,144 |
| EURO-BOBL | September | Long | 268 | 43,615 |
| EURO-BUND | September | Long | 362 | 66,591 |
| JPBND 10 YR | September | Long | 90 | 129,290 |
| LGILT UK | September | Long | 146 | 24,779 |
| **Total International Fixed Income** | | | | 299,419 |
| GOLD 100 OZ FUT | August | Long | 309 | 37,812 |
| **Total Commodities** | | | | 37,812 |
| **Totals** | | | | **$ 4,361,018** |

*****_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 Position. As of June 30, 2013, the Systems had the following forward exposures, listed by counterparty (dollar amounts expressed in thousands):

| Broker | Notional Value | Base Gain/(Loss) | Base Exposure |
|---|---|---|---|
| Bank of America | $ 59,185 | (671) | 2.11% |
| Commonwealth Bank of Australia | 454,865 | (13,829) | 16.22% |
| HSBC Securities | 59,416 | (673) | 2.12% |
| JP Morgan Chase | 514,697 | (14,919) | 18.35% |
| BNY Mellon | 636,084 | 3 | 22.68% |
| Royal Bank of Canada | 482,740 | (14,231) | 17.21% |
| Royal Bank of Scotland | 55,934 | (1) | 1.99% |
| Standard Chartered Bank | 482,740 | (14,232) | 17.21% |
| State Street Corporation | 59,415 | (673) | 2.11% |
| **Totals** | **$ 2,805,076** | **$ (59,226)** | **100.00%** |

The Systems has entered into various swap agreements to manage plan 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, 2013, for currency forwards and swap agreements (expressed in thousands):

| Quality Rating | Forwards | Swaps | Total |
|---|---|---|---|
| Aa1 | $ (42,980) | $ (50,037) | $ (93,017) |
| Aa3 | (670) | — | (670) |
| A1 | (14,905) | — | (14,905) |
| A2 | (671) | (30,375) | (31,046) |
| Total Subject to Credit Risk | $ (59,226) | $ (80,412) | $(139,638) |

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, 2013, 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 |
|---|---|---|---|---|---|---|
| Bank of America Merrill Lynch | DJ-UBS Commodities TR | 3 month T-Bill+10 bps | DJ-UBS Commodities TR | 8/30/2013 | $ 221,516 | $ (21,484) |
| Bank of America Merrill Lynch | DJ-UBS Commodities TR | 3 month T-Bill+10 bps | DJ-UBS Commodities TR | 2/28/2014 | 221,516 | (21,484) |
| Credit Suisse | MSCI EM Proxy TR | 3 Month US LIBOR+25 bps | MSCI EM Proxy TR | 10/29/2013 | 116,794 | (4,206) |
| Credit Suisse | MSCI EM Proxy TR | 3 Month US LIBOR+30 bps | MSCI EM Proxy TR | 6/28/2013 | — | (5,502) |
| Deutsche Bank | EAFE Proxy TR | 3 Month US LIBOR+23 bps | EAFE Proxy TR | 8/30/2013 | 228,455 | 28,453 |
| JP Morgan | EM Debt Proxy | 3 Month US LIBOR+55 bps | EM Debt Proxy | 10/31/2013 | 92,124 | (7,876) |
| JP Morgan | EM Debt Proxy | 3 Month US LIBOR+55 bps | EM Debt Proxy | 10/31/2013 | 91,554 | (8,446) |
| JP Morgan | EM Debt Proxy | 3 Month US LIBOR+55 bps | EM Debt Proxy | 10/31/2013 | 91,522 | (8,478) |
| JP Morgan | EM Debt Proxy | 3 Month US LIBOR+60 bps | EM Debt Proxy | 7/31/2013 | 90,582 | (9,418) |
| | **Total Swap Exposures** | | | | **$ 1,154,063** | **$ (58,441)** |

### 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 such 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 Investment Commission's intent is to access superior risk-adjusted returns through a variety of different credit strategies.

### Investment Commitments

The Investment Commission on behalf of the Systems, has 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, 2013, the Systems had committed to fund various limited partnerships in the total amount of $3.964 billion (U.S. dollars) and €277 million (Euros). The total unfunded commitment as of June 30, 2013, was $1.173 billion (U. S. dollars) and €67 million (Euros). The total remaining commitment adjusted for cash flows as of September 19, 2013, is $1.133 billion (U.S. dollars) and €58 million (Euros). Additional commitments exist to underlying investments within strategic partnerships. These underlying investments include hedge funds, private equity, real estate, opportunistic credit, short duration fixed income, commodities and high yield fixed income.

### Securities Lending

The Systems participate in a securities lending program managed by the custodial bank whereby securities are loaned for the purpose of generating additional income. Securities are lent from the investment portfolio 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, 2013 included U.S. Government securities, U.S. Government agencies, corporate bonds and equities. The State Treasurer, as custodian, controls the custody relationship. The contractual agreement with the 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. Collateral securities cannot be pledged or sold without a borrower default. Cash collateral received is invested; 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, 2013, the fair value of securities on loan was $172.43 million. The fair value of the invested cash collateral was $106.63 million. Securities lending obligations at June 30, 2013, were $176.72 million with an unrealized loss in invested cash collateral of $70.09 million. This unrealized loss is due to specific Lehman bonds held by the securities lending program. During the fiscal year, the custodial bank's Securities Lending group sold the remaining Lehman Brothers holdings resulting in an approximate realized loss of $90 million, including the initial sale during May 2012. This loss is being held in the securities lending collateral pool as an undistributed loss. In May 2013, a settlement was reached between the South Carolina State Treasurer's Office and BNY Mellon relating to losses in the securities lending program. As part of the settlement, approximately $20 million was credited to the portfolio's collateral reinvestment account. As a result of the settlement, the total undistributed loss in the collateral pool was reduced from approximately $90 million to approximately $70 million.

With regard to counterparty credit risk, the Systems' cash collateral invested is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Systems or the borrower. At year end the average number of days the loans were outstanding was one day. The average weighted maturity of investments made with cash collateral was one day. At June 30, 2013, 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, 2013:

| | SCRS | PORS | GARS | JSRS | NGPS | TOTALS |
|---|---|---|---|---|---|---|
| **Securities lent for cash collateral:** | | | | | | |
| U.S. Government securities | $ 38,088 | $ 5,748 | $ 49 | $ 212 | $ 30 | $ 44,127 |
| Corporate bonds | 44,189 | 6,669 | 57 | 246 | 34 | 51,195 |
| Common stock | 66,555 | 10,044 | 85 | 371 | 52 | 77,107 |
| **Total securities lent for cash collateral** | **$ 148,832** | **$ 22,461** | **$ 191** | **$ 829** | **$ 116** | **$ 172,429** |
| **Securities lent for non-cash collateral:** | | | | | | |
| Corporate bonds | $ 41 | $ 6 | $ — | $ — | $ — | $ 47 |
| Common stock | 2,446 | 369 | 3 | 14 | 2 | 2,834 |
| | **$ 2,487** | **$ 375** | **$ 3** | **$ 14** | **$ 2** | **$ 2,881** |
| **Cash collateral invested as follows:** | | | | | | |
| Repurchase agreements | $ 92,042 | $ 13,890 | $ 118 | $ 513 | $ 72 | $ 106,635 |
| **Total for cash collateral invested** | **$ 92,042** | **$ 13,890** | **$ 118** | **$ 513** | **$ 72** | **$ 106,635** |
| **Securities received as collateral:** | | | | | | |
| U.S. Government securities | $ 2,711 | $ 409 | $ 4 | $ 15 | $ 2 | $ 3,141 |
| | **$ 2,711** | **$ 409** | **$ 4** | **$ 15** | **$ 2** | **$ 3,141** |

**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, 2013, 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, 2013, the Trusts' debt investments were rated by Standard & Poor's as follows (expressed in thousands):

| Investment Type and Fair Value | AA | A / A1 | BBB | Not Rated |
|---|---|---|---|---|
| U.S. agencies | $ 5,003 | $ — | $ — | $ — |
| Mortgage backed obligations | 30,381 | — | — | 3,588 |
| Other equity securities | 60,078 | 163,700 | 240,515 | 6,013 |
| Corporate bonds | — | — | — | 60,755 |
| Asset backed securities | 7,499 | 11,596 | — | — |
| Corporate private placements | 2,067 | — | — | — |
| Municipal bonds | — | — | — | 3,627 |
| **Totals** | **$105,028** | **$175,296** | **$240,515** | **$ 73,983** |

### 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, 2013, 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 | $ 56,077 | $ — | $ 4,620 | $ 1,781 | $ 49,676 |
| U.S. agencies | 5,003 | — | 5,003 | — | — |
| Mortgage backed obligations | 33,968 | — | — | 5,320 | 28,648 |
| Repurchase agreements | 470,307 | 136,611 | 100,073 | 210,808 | 22,815 |
| Asset backed securities | 60,755 | 60,755 | — | — | — |
| Corporate private placements | 19,096 | 19,096 | — | — | — |
| Money market mutual funds | 2,067 | — | 2,067 | — | — |
| Mutual bond funds | 3,627 | 3,627 | — | — | — |
| **Totals** | **$ 650,900** | **$ 220,089** | **$111,763** | **$217,909** | **$ 101,139** |

### 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. As of June 30, 2013, the State Treasurer had approximately 8.67% Trust's investment portfolio in an overnight repurchase agreement with Bank of America that was fully collateralized by U.S. Treasury and agency obligations.

### Securities Lending

The Trusts participate in the Securities Lending Program as described in section c of this note. 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, 2013:

| | **Amount** |
|---|---|
| **Securities lent for cash collateral:** | |
| Corporate bonds | $ 5,120 |
| **Total for cash collateral** | **$ 5,120** |
| **Cash collateral invested:** | |
| Asset backed securities | 1,109 |
| Floating rate notes | 408 |
| **Total collateral invested** | **$ 1,517** |

## 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, 2013, for the primary government were as follows:

| | Governmental Activities | | | | | |
|---|---|---|---|---|---|---|
| | Governmental Funds | | | | | |
| | General | Departmental Program Services | Department of Transportation Special Revenue | Nonmajor Governmental Funds | Internal Service Funds | Total Governmental Activities |
| Income taxes receivable | $ 296,422 | $ — | $ — | $ — | $ — | $ 296,422 |
| Sales and other taxes receivable | 100,847 | — | — | 16,425 | — | 117,272 |
| Patient accounts receivable | 76 | 375 | — | — | — | 451 |
| Other receivables | 14,347 | 35,273 | 1,049 | — | 117 | 50,786 |
| **Total allowances for uncollectibles** | **$411,692** | **$ 35,648** | **$ 1,049** | **$ 16,425** | **$ 117** | **$ 464,931** |

| | Business-type Activities (Enterprise Funds) |
|---|---|
| | Unemployment Compensation Benefits |
| Assessments receivable | $ 15,737 |
| Other receivables | 14,029 |
| **Total allowances for uncollectibles** | **$ 29,766** |

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, 2013, 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 | $ 36,868 | $ 16,564 | $ 5,571 | $ — | $ 3 | $ 1,169 | $ 60,175 |
| Contributions | 467 | — | — | — | — | — | 467 |
| Income taxes receivable | 1,290 | — | — | — | — | — | 1,290 |
| Sales and other taxes receivable | 2,930 | — | — | — | 1,184 | — | 4,114 |
| Patient accounts receivable | 3,311 | 3,777 | — | — | — | — | 7,088 |
| Loans and notes receivable | 34,864 | 451 | 445,739 | 2,769 | 253 | — | 484,076 |
| Accounts receivable—restricted | — | — | 247,989 | — | — | — | 247,989 |
| **Total long-term receivables, net** | **$ 79,730** | **$ 20,792** | **$ 699,299** | **$ 2,769** | **$ 1,440** | **$ 1,169** | **$ 805,199** |

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, 2013, were as follows:

| | Unavailable | Unearned | Total Governmental Funds |
|---|---|---|---|
| Taxes | $ — | $ 22,143 | $ 22,143 |
| Federal grants | 21,701 | 53,781 | 75,482 |
| Contributions | 233,847 | 165,222 | 399,069 |
| Departmental services | 37,884 | 3,761 | 41,645 |
| **Total deferred revenues** | $ 293,432 | 244,907 | $ 538,339 |
| Internal service funds | | 149,448 | |
| **Total governmental activities** | | $ 394,355 | |

## NOTE 6: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2013, for the primary government was as follows:

| | Beginning Balances July 1, 2012 | Increases | Decreases | Ending Balances June 30, 2013 |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 1,841,613 | $ 24,574 | $ (832) | $ 1,865,355 |
| Construction in progress | 2,318,758 | 328,542 | (232,492) | 2,414,808 |
| Works of art and historical treasures | 3,979 | — | — | 3,979 |
| Intangibles | 220 | 493 | (421) | 292 |
| *Total capital assets not being depreciated* | 4,164,570 | 353,609 | (233,745) | 4,284,434 |
| *Capital assets being depreciated:* | | | | |
| Land improvements | 118,360 | 1,141 | (6,509) | 112,992 |
| Infrastructure (road and bridge network) | 12,161,248 | 182,100 | (5,240) | 12,338,108 |
| Buildings and improvements | 1,990,315 | 41,073 | (31,100) | 2,000,288 |
| Vehicles | 629,040 | 46,911 | (25,040) | 650,911 |
| Machinery and equipment | 485,602 | 56,614 | (21,145) | 521,071 |
| Works of art and historical treasures | 1,500 | — | — | 1,500 |
| Intangibles | 134,682 | 16,184 | (9,181) | 141,685 |
| Total capital assets being depreciated | 15,520,747 | 344,023 | (98,215) | 15,766,555 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (49,103) | (2,914) | — | (52,017) |
| Infrastructure (road and bridge network) | (2,966,367) | (175,947) | 4,891 | (3,137,423) |
| Buildings and improvements | (817,757) | (54,856) | 968 | (871,645) |
| Vehicles | (548,198) | (31,382) | 19,974 | (559,606) |
| Machinery and equipment | (380,139) | (36,812) | 17,916 | (399,035) |
| Works of art and historical treasures | (241) | (60) | — | (301) |
| Intangibles | (76,318) | (17,862) | 9,036 | (85,144) |
| Total accumulated depreciation | (4,838,123) | (319,833) | 52,785 | (5,105,171) |
| *Total capital assets being depreciated, net* | 10,682,624 | 24,190 | (45,430) | 10,661,384 |
| **Capital assets for governmental activities, net** | **$ 14,847,194** | **$ 377,799** | **$ (279,175)** | **$ 14,945,818** |

| | Balances July 1, 2012 Restated | Increases | Decreases | Ending Balances June 30, 2013 |
|---|---|---|---|---|
| **Business-type activities:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 40,365 | $ 116 | $ — | $ 40,481 |
| Construction in progress | 2,072 | 8,044 | — | 10,116 |
| Works of art and historical treasures | — | — | — | — |
| *Total capital assets not being depreciated* | 42,437 | 8,160 | — | 50,597 |
| *Capital assets being depreciated:* | | | | |
| Land improvements | 1,256 | — | (12) | 1,244 |
| Buildings and improvements | 12,368 | 1,487 | — | 13,855 |
| Vehicles | 748 | — | — | 748 |
| Machinery and equipment | 5,461 | 1,347 | — | 6,808 |
| Works of art and historical treasures | — | — | — | — |
| Intangibles | 2,300 | 8,000 | — | 10,300 |
| Total capital assets being depreciated | 22,133 | 10,834 | (12) | 32,955 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (478) | — | 2 | (476) |
| Buildings and improvements | (3,674) | (324) | — | (3,998) |
| Vehicles | (731) | (11) | — | (742) |
| Machinery and equipment | (3,282) | (487) | — | (3,769) |
| Works of art and historical treasures | — | — | — | — |
| Intangibles | (1,955) | (115) | — | (2,070) |
| Total accumulated depreciation | (10,120) | (937) | 2 | (11,055) |
| *Total capital assets being depreciated, net* | 12,013 | 9,897 | (10) | 21,900 |
| **Capital assets for business-type activities, net** | **$ 54,450** | **$ 18,057** | **$ (10)** | **$ 72,497** |

Capital assets for the State's fiduciary funds were comprised of land totaling $582 thousand, a building totaling $4.749 million and equipment totaling $1.704 million with accumulated depreciation of $3.952 million. Depreciation expense for fiscal year 2013 was $211 thousand. There were additions of $2.011 million for equipment and $307 thousand in 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, 2012 | Increases | Decreases | Ending Balances December 31, 2012 |
|---|---|---|---|---|
| **Public Service Authority:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 117,531 | $ 2,574 | $ (1) | $ 120,104 |
| Construction in progress | 1,230,771 | 1,045,592 | (632,856) | 1,643,507 |
| *Total capital assets not being depreciated* | 1,348,302 | 1,048,166 | (632,857) | 1,763,611 |
| *Capital assets being depreciated:* | | | | |
| Buildings and improvements (utility plant) | 6,510,898 | 615,070 | (132,796) | 6,993,172 |
| Vehicles | 46,028 | 5,467 | (4,304) | 47,191 |
| Machinery and equipment | 25,865 | 6,197 | (1,997) | 30,065 |
| Intangibles | 68,238 | 4,370 | — | 72,608 |
| Total capital assets being depreciated | 6,651,029 | 631,104 | (139,097) | 7,143,036 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements (utility plant) | (2,815,099) | (182,308) | 131,847 | (2,865,560) |
| Vehicles | (25,816) | (2,359) | 4,303 | (23,872) |
| Machinery and equipment | (14,049) | (1,502) | 1,997 | (13,554) |
| Intangibles | (51,618) | (4,125) | — | (55,743) |
| Total accumulated depreciation | (2,906,582) | (190,294) | 138,147 | (2,958,729) |
| *Total capital assets being depreciated, net* | 3,744,447 | 440,810 | (950) | 4,184,307 |
| **Public Service Authority, net** | **$ 5,092,749** | **$ 1,488,976** | **$ (633,807)** | **$ 5,947,918** |

| | Beginning Balances July 1, 2012 | Increases | Decreases | Ending Balances June 30, 2013 |
|---|---|---|---|---|
| **State Ports Authority:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 196,964 | $ 268 | $ — | $ 197,232 |
| Construction in progress | 157,216 | 80,947 | (30,561) | 207,602 |
| Intangibles | 2,190 | — | — | 2,190 |
| *Total capital assets not being depreciated* | 356,370 | 81,215 | (30,561) | 407,024 |
| *Capital assets being depreciated:* | | | | |
| Land improvements | 265,001 | 19,489 | — | 284,490 |
| Buildings and improvements | 327,177 | 13,078 | (2,438) | 337,817 |
| Machinery and equipment | 157,205 | 4,153 | (566) | 160,792 |
| Intangibles | 876 | — | — | 876 |
| Total capital assets being depreciated | 750,259 | 36,720 | (3,004) | 783,975 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (153,986) | (11,331) | 566 | (164,751) |
| Buildings and improvements | (206,054) | (9,811) | — | (215,865) |
| Machinery and equipment | (108,639) | (7,560) | — | (116,199) |
| Intangibles | (578) | (35) | — | (613) |
| Total accumulated depreciation | (469,257) | (28,737) | 566 | (497,428) |
| *Total capital assets being depreciated, net* | 281,002 | 7,983 | (2,438) | 286,547 |
| **State Ports Authority, net** | **$ 637,372** | **$ 89,198** | **$ (32,999)** | **$ 693,571** |

| | Beginning Balances July 1, 2012 | Increases | Decreases | Ending Balances June 30, 2013 |
|---|---|---|---|---|
| **Medical University of South Carolina:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 69,243 | $ 37 | $ (529) | $ 68,751 |
| Construction in progress | 74,998 | 75,302 | (53,888) | 96,412 |
| Works of art and historical treasures | 188 | — | — | 188 |
| *Total capital assets not being depreciated* | 144,429 | 75,339 | (54,417) | 165,351 |
| *Capital assets being depreciated:* | | | | |
| Land improvements | 12,849 | — | — | 12,849 |
| Buildings and improvements | 1,411,793 | 46,397 | (2,219) | 1,455,971 |
| Vehicles | 6,719 | 119 | — | 6,838 |
| Machinery and equipment | 447,892 | 28,445 | (29,819) | 446,518 |
| Intangibles | 27,467 | 1,414 | (10) | 28,871 |
| Total capital assets being depreciated | 1,906,720 | 76,375 | (32,048) | 1,951,047 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (6,192) | (517) | — | (6,709) |
| Buildings and improvements | (537,605) | (59,639) | 768 | (596,476) |
| Vehicles | (5,797) | (379) | — | (6,176) |
| Machinery and equipment | (280,662) | (42,644) | 25,523 | (297,783) |
| Intangibles | (10,520) | (4,218) | 10 | (14,728) |
| Total accumulated depreciation | (840,776) | (107,397) | 26,301 | (921,872) |
| *Total capital assets being depreciated, net* | 1,065,944 | (31,022) | (5,747) | 1,029,175 |
| **MUSC, net** | **$ 1,210,373** | **$ 44,317** | **$ (60,164)** | **$ 1,194,526** |

| | Beginning Balances July 1, 2012 | Increases | Decreases | Ending Balances June 30, 2013 |
|---|---|---|---|---|
| **University of South Carolina:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 79,343 | $ 576 | $ — | $ 79,919 |
| Construction in progress | 98,350 | 91,173 | (99,064) | 90,459 |
| Works of art and historical treasures | 19,612 | 2,608 | — | 22,220 |
| *Total capital assets not being depreciated* | 197,305 | 94,357 | (99,064) | 192,598 |
| *Capital assets being depreciated:* | | | | |
| Land improvements | 75,524 | 28,156 | — | 103,680 |
| Buildings and improvements | 1,364,745 | 54,216 | (18,333) | 1,400,628 |
| Vehicles | 12,790 | 3,563 | (350) | 16,003 |
| Machinery and equipment | 176,369 | 12,329 | (6,039) | 182,659 |
| Intangibles | 4,331 | 30,613 | (262) | 34,682 |
| Total capital assets being depreciated | 1,633,759 | 128,877 | (24,984) | 1,737,652 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (19,135) | (4,161) | — | (23,296) |
| Buildings and improvements | (531,157) | (37,650) | 4,342 | (564,465) |
| Vehicles | (9,934) | (1,048) | 351 | (10,631) |
| Machinery and equipment | (133,576) | (11,511) | 5,695 | (139,392) |
| Intangibles | (3,639) | (229) | 241 | (3,627) |
| Total accumulated depreciation | (697,441) | (54,599) | 10,629 | (741,411) |
| *Total capital assets being depreciated, net* | 936,318 | 74,278 | (14,355) | 996,241 |
| **USC, net** | **$ 1,133,623** | **$ 168,635** | **$ (113,419)** | **$ 1,188,839** |

| | Beginning Balances July 1, 2012 | Increases | Decreases | Ending Balances June 30, 2013 |
|---|---|---|---|---|
| **Clemson University:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 41,674 | $ — | $ — | $ 41,674 |
| Construction in progress | 95,697 | 62,865 | (64,040) | 94,522 |
| *Total capital assets not being depreciated* | 137,371 | 62,865 | (64,040) | 136,196 |
| *Capital assets being depreciated:* | | | | |
| Buildings and improvements | 789,771 | 77,717 | — | 867,488 |
| Vehicles | 15,599 | 579 | (603) | 15,575 |
| Machinery and equipment | 242,592 | 28,589 | (4,645) | 266,536 |
| Intangibles | 2,680 | — | — | 2,680 |
| Total capital assets being depreciated | 1,050,642 | 106,885 | (5,248) | 1,152,279 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (296,186) | (18,126) | — | (314,312) |
| Vehicles | (5,230) | (511) | 601 | (5,140) |
| Machinery and equipment | (176,755) | (13,965) | 4,392 | (186,328) |
| Intangibles | (2,485) | (99) | — | (2,584) |
| Total accumulated depreciation | (480,656) | (32,701) | 4,993 | (508,364) |
| *Total capital assets being depreciated, net* | 569,986 | 74,184 | (255) | 643,915 |
| **Clemson, net** | **$ 707,357** | **$ 137,049** | **$ (64,295)** | **$ 780,111** |

During the fiscal year ended June 30, 2013, 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 | $ 30,587 | $ 8,378 | $ 38,965 |
| Education | 18,186 | — | 18,186 |
| Health and environment | 14,676 | — | 14,676 |
| Social services | 656 | — | 656 |
| Administration of justice | 29,577 | 429 | 30,006 |
| Resources and economic development | 25,175 | — | 25,175 |
| Transportation | 192,169 | — | 192,169 |
| **Total depreciation expense, governmental activities** | **$ 311,026** | **$ 8,807** | **$ 319,833** |

| | Major Component Units |
|---|---|
| Public Service Authority | $ 190,294 |
| State Ports Authority | 28,737 |
| MUSC | 107,397 |
| USC | 54,599 |
| Clemson | 32,701 |

At June 30, 2013, the primary government had outstanding construction commitments totaling $30.516 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $8.344 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 $23.650 million at June 30, 2013, related to information technology projects.

Outstanding construction commitments (expressed in thousands) for the State's major discretely presented component units was as follows:

| | Outstanding Construction Commitments |
|---|---|
| Public Service Authority | $ 3,673,000 |
| State Ports Authority | 45,172 |
| MUSC | 19,000 |
| USC | 125,338 |
| Clemson | 13,534 |

Interest costs included as part of the cost of capital assets under construction (expressed in thousands) for the State's major discretely presented component units was as follows:

| | Capitalized Interest Costs |
|---|---|
| State Ports Authority | $ 7,003 |
| MUSC | 544 |
| USC | 4,015 |
| Clemson | 1,909 |

## NOTE 7: RETIREMENT PLANS

### a. Plan Descriptions

The South Carolina Retirement Systems (the Systems) represents the collective retirement funds that are held in a group trust for the plans and are protected by the state's constitution. Effective July 1, 2012, the South Carolina Public Employee Benefit Authority (PEBA) was created as a separate agency and governing body. As a result, the Retirement Systems, which was formerly a division of the SC Budget and Control Board, was transferred from the Budget and Control Board to the new administrative agency. PEBA administers the various retirement systems and retirement programs managed by the Retirement Division. PEBA also has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as trustee of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Retirement Systems and serves as a co-trustee of the Retirement Systems in conducting that review. The report may be obtained by writing to:

Retirement Systems Finance
South Carolina Public Employee Benefit Authority
PO Box 11960
Columbia, South Carolina 29211-1960
www.retirement.sc.gov

The **South Carolina Retirement System** (SCRS), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for public school districts and employees of the State and political subdivisions thereof. Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class III member.

A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension subject to the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class II and Class III members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. Incidental death benefits are also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

Beginning July 1, 2012, and annually thereafter, the annual retirement allowance received by retirees or their surviving annuitants must be increased by the lesser of one percent or five hundred dollars. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

***Class II Members (members hired prior to July 1, 2012)***
Average Final Compensation (AFC) is based on the highest 12 consecutive quarters of compensation. The determination of a member's AFC includes up to 45 days of unused annual leave paid at termination. Monthly benefits are based on one-twelfth of this amount. The retirement benefit amount is equal to the 1.82% of the member's AFC times the member's credited service (years). Credited service may include up to 90 days of unused sick leave.

Members are eligible to commence their retirement benefit after they have (i) 28 years of credited service or (ii) attained age 65 with 5 years of earned service. At each July 1 after their first full year of retirement, annuitants will receive an automatic cost of living adjustment equal to the lesser of 1.00% of their retirement benefit or $500 per annum.

***Class III Members (members hired after June 30, 2012)***
Average Final Compensation (AFC) is based on the highest twenty (20) consecutive quarters of compensation. The determination of a member's AFC will not include unused annual leave paid at termination. Monthly benefits are based on one-twelfth of this amount. The retirement benefit is equal to 1.82% of the member's AFC times the member's credited service (years). Credited service will not include unused sick leave.

Members are eligible to commence a retirement benefit after they have (i) attained age 60 with eight years of earned service or (ii) the combination of the member's age and years of credited service equals or exceeds 90 (i.e. the rule of 90). At each July 1 after their first full year of retirement, annuitants will receive an automatic cost of living adjustment equal to the lesser of 1.00% of their retirement benefit or $500 per annum.

The **South Carolina Police Officers Retirement System** (PORS), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the State and its political subdivisions. To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class III member. A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class II and Class III members are eligible to receive a deferred annuity at age 55 with five or eight years earned service, respectively. Incidental death benefits are also available to beneficiaries of active and retired members of employers who participate in the death benefit program. An additional accidental death benefit is also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

***Class II Members (members hired prior to July 1, 2012)***
Average Final Compensation (AFC) is based on the highest twelve (12) consecutive quarters of compensation. The determination of a member's AFC includes up to 45 days of unused annual leave paid at termination. Monthly benefits are based on one-twelfth of this amount. The retirement benefit is equal to 2.14% of the member's AFC times the member's credited service (years). Credited service may include up to 90 days of unused sick leave.

Members are eligible to commence their retirement benefit after they have (i) 25 years of credited service or (ii) attained age 55 with 5 years of earned service. At each July 1 after their first full year of retirement, annuitants will receive an automatic post-retirement benefit adjustment equal to the lesser of 1.00% of their retirement benefit or $500 per annum.

***Class III Members (members hired after June 30, 2012)***
Average Final Compensation (AFC) is based on the highest twenty (20) consecutive quarters of compensation. The determination of a member's AFC will not include unused annual leave paid at termination. Monthly benefits are based on one-twelfth of this amount. The retirement benefit is equal to 2.14% of the member's AFC times the member's credited service (years). Credited service will not include unused sick leave.

Members are eligible to commence their retirement benefit after they have (i) 27 years of credited service or (ii) attained age 55 with 8 years of earned service. At each July 1 after their first full year of retirement, annuitants will receive an automatic post-retirement benefit adjustment equal to the lesser of 1.00% of their retirement benefit or $500 per annum.

The **Retirement System for Members of the General Assembly of the State of South Carolina** (GARS), a single-employer defined benefit pension plan, was created effective January 1, 1966, pursuant to the provisions of Section 9-9-20 of the South Carolina Code of Laws to provide retirement allowances and other benefits for members of the General Assembly. Retirement reform legislation closed the plan to individuals newly elected to the Senate or House of Representatives after the general election of 2012. Members of the Senate and the House of Representatives who were first elected to office prior to November 2012 are required to participate in and contribute to the system upon taking office as a member of the S.C. General Assembly; however, the GARS plan is closed to individuals newly elected to the Senate or the House of Representatives after the general election of 2012. A member is eligible for a monthly pension at age 60 or with 30 years credited service. A member who has attained age 70 or has 30 years of service is eligible to retire and draw an annuity while continuing to serve in the General Assembly. A member is eligible to receive a deferred annuity with eight years of service. An incidental death benefit is also provided to members. Retirees receive increases in benefits based upon increases in the current salary of their respective active positions. The Retirement Reform legislation closed GARS to new members. Persons first elected to the General Assembly in November 2012 or after must elect membership in SCRS or State ORP or may elect non-membership.

Earnable compensation is comprised of $10,400 annually plus 40 times the daily rate of remuneration (i.e. $22,400 in total earnable compensation annually). Certain line-item additional compensation for specified offices is also included. Monthly benefits are based on one-twelfth of this amount. The member contribution rate is 11% of earnable compensation. The retirement benefit amount is equal to the 4.82% of the member's earnable compensation times the member's credited service (years).

The **Retirement System for Judges and Solicitors of the State of South Carolina** (JSRS), a single-employer defined benefit pension plan, was created effective July 1, 1979, pursuant to the provisions of Section 9-8-20 of the South Carolina

Code of Laws for the purpose of providing retirement allowances and other benefits for judges, solicitors, and circuit public defenders of the State. All solicitors, circuit public defenders, judges of a Circuit or Family Court and justices of the Court of Appeals and Supreme Court are required to participate in and contribute to the system upon taking office.

> Members are eligible for retirement after they have (i) attained age 70 with 15 years of service, or (ii) attained age 65 with 20 years of service or (iii) completed 25 years of creditable service for judges and 24 years for solicitors and public defenders regardless of age. Members who have accrued a retirement allowance that is 90% of salary may elect to "retire in place" and begin to receive their accrued retirement benefits while remaining employed. Members who have retired in place but have not attained age 60 will have their retirement benefit paid into a deferred retirement option program (DROP) and receive the balance of their DROP account upon attaining age 60. The mandatory retirement age is 72.
>
> A retirement benefit equal to 71.3% of the current active salary of the position from which the member retired plus an additional 2.67% of compensation for each year of service beyond 25 years for judges and 24 years for solicitors and public defenders (subject to a maximum retirement allowance that does not exceed 90% of salary). The normal form of payment for a married member is a 33.3% joint and survivor annuity. Active members contribute 10% of compensation. Retirees receive increases in benefits based upon increases in the current salary of their respective active positions.

The **South Carolina National Guard Supplemental Retirement Plan** (SCNG), a single-employer defined benefit pension plan, was created effective July 1, 1975, and is governed by the provisions of Section 9-10-30 of the South Carolina Code of Laws for the purpose of providing supplemental retirement benefits to certain members who served in the South Carolina National Guard. 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. A monthly pension is payable at age 60 provided the member was honorably discharged from active duty with at least 20 years of total creditable military service. Of the 20 years total creditable military service, at least 15 must have been served in the South Carolina National Guard. Additionally, the last 10 years of service must have been served in the South Carolina National Guard. No cost-of-living increases are provided to SCNG retirees.

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, 2013, is as follows (dollars expressed in thousands):

| | SCRS | PORS | GARS | JSRS | SCNG |
|---|---|---|---|---|---|
| **State and school districts** | | | | | |
| Number of employers | 232 | 125 | 2 | 3 | 1 |
| Annual covered payroll | $5,409,381 | $ 364,321 | $ 2,688 | $ 16,763 | N/A [a] |
| Average number of contributing members | 131,583 | 9,624 | 170 | 144 | N/A [b] |
| **Other participating employers** | | | | | |
| Number of employers | 576 | 323 | — | — | — |
| Annual covered payroll | $1,998,395 | $ 678,889 | $ — | $ — | $ — |
| Average number of contributing members | 53,188 | 16,577 | — | — | — |

[a] Annual covered payroll is not applicable for SCNG because benefits are based on years of service.
[b] Members do not contribute; average number of members is 12,000.

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 SCNG 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, 2013, were as follows:

| Plan | Rate |
|---|---|
| SCRS | 7.0% of earnable compensation |
| PORS | 7.0% of earnable compensation |
| GARS | 10.0% of earnable compensation (7/1 to 12/31) |
| | 11.0% of earnable compensation (1/1 to 6/30) |
| JSRS | 10.0% of earnable compensation |
| SCNG | Non-contributory |

Actuarially determined employer contribution rates, expressed as percentages of compensation, for the fiscal year ended June 30, 2013, were as follows:

| Plan | Rate |
|---|---|
| SCRS | 10.60% |
| PORS | 12.30% |
| GARS | 73.46% |
| JSRS | 45.09% |

The State appropriated $4.539 million to fund the SCNG actuarially determined employer contribution for the fiscal year ended June 30, 2013.

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, 2013 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 | SCNG |
|---|---|---|---|
| Annual pension cost | $ 2,831 | $ 8,667 | $ 4,405 |
| Employer contributions made | $ 2,831 | $ 8,667 | $ 4,539 |
| Actuarial valuation date | July 1, 2012 | July 1, 2012 | July 1, 2012 |
| Actuarial cost method | Entry age | Entry age | Entry age |
| Amortization method | Level dollar, closed | Level percent, open | Level dollar, open |
| Remaining amortization period | 15 years | 30 years | 20 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 SCNG, at June 30, 2013 (expressed in thousands):

| | SCNG |
|---|---|
| Actuarially required contribution (ARC)....... | $ 4,539 |
| Interest on the NPO....................................... | 684 |
| Adjustment to the ARC.................................. | (818) |
| Annual pension cost...................................... | 4,405 |
| Contributions made....................................... | (4,539) |
| Decrease in NPO........................................... | (134) |
| NPO beginning of year.................................. | 9,123 |
| **NPO end of year.............................................** | **$ 8,989** |

NPO beginning of year is restated to agree to revised actuarial calculations.

**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 7f for funding status and progress.

| | Fiscal Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | | June 30, 2011 | |
| | (1) Required | % Contributed | (2) Required | % Contributed | Required | % Contributed |
| SCRS–State: | | | | | | |
| Primary government....... | $ 123,651 | 100.0% | $ 255,277 | 100.0% | $ 252,814 | 100.0% |
| Component units............ | 187,620 | 100.0% | 15,050 | 100.0% | 14,231 | 100.0% |
| PORS–State: | | | | | | |
| Primary government....... | 44,393 | 100.0% | 43,776 | 100.0% | 42,699 | 100.0% |
| Component units............ | 3,101 | 100.0% | 85 | 100.0% | 78 | 100.0% |

(1) For fiscal year 2012-13, as referenced in Note 2, the State implemented GASB Statement No. 61 (GASB 61). The implementation resulted in reclassification of state universities, state technical colleges and other state-related entities from the primary government category to the component units category. Prior years have not been restated.

(2) For fiscal year 2011-12, amounts for SCRS have been revised.

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 7f for funding status and progress:

| Plan | Fiscal Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|
| GARS | 2013 | $ 2,831 | 100.00% | $ — |
| | 2012 | 2,532 | 100.00% | — |
| | 2011 | 2,414 | 100.00% | — |
| JSRS | 2013 | 8,667 | 100.00% | — |
| | 2012 | 8,414 | 100.00% | — |
| | 2011 | 8,414 | 100.00% | — |
| SCNG | 2013 | 4,405 | 103.04% | 8,989 |
| | 2012 | 3,775 | 104.29% | 9,123 |
| | 2011 | 3,797 | 102.84% | 9,286 |

For SCNG, fiscal years 2011 and 2012 are restated to agree to revised actuarial calculations.

### 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 | 2012 | $ 25,540,749 | $ 39,457,708 | $ 13,916,959 | 64.7% | $ 7,356,231 | 189.2% |
| | 2011 | 25,604,823 | 38,011,610 | 12,406,787 | 67.4% | 7,687,558 | 161.4% |
| | 2010 | 25,400,331 | 38,774,029 | 13,373,698 | 65.5% | 7,769,820 | 172.1% |
| PORS | 2012 | 3,808,934 | 5,357,492 | 1,548,558 | 71.1% | 1,019,241 | 151.9% |
| | 2011 | 3,728,241 | 5,122,501 | 1,394,260 | 72.8% | 1,087,587 | 128.2% |
| | 2010 | 3,612,700 | 4,850,457 | 1,237,757 | 74.5% | 1,076,467 | 115.0% |

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 | 2012 | $ 39,233 | $ 74,331 | $ 35,098 | 52.8% | $ 3,854 | 910.7% |
| | 2011 | 41,484 | 74,604 | 33,120 | 55.6% | 3,854 | 859.4% |
| | 2010 | 43,712 | 68,671 | 24,959 | 63.7% | 3,854 | 647.6% |
| JSRS | 2012 | 145,604 | 251,729 | 106,125 | 57.8% | 19,221 | 552.1% |
| | 2011 | 144,927 | 243,514 | 98,587 | 59.5% | 18,661 | 528.3% |
| | 2010 | 142,871 | 215,823 | 72,952 | 66.2% | 18,661 | 390.9% |
| SCNG | 2012 | 20,814 | 60,942 | 40,128 | 34.2% | N/A | N/A |
| | 2011 | 20,138 | 60,388 | 40,250 | 33.3% | N/A | N/A |
| | 2010 | 19,458 | 54,153 | 34,695 | 35.9% | 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.

### g. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2013, for the plans administered by the South Carolina Retirement Systems were as follows:

| | SCRS | PORS | GARS | JSRS | SCNG | Totals |
|---|---|---|---|---|---|---|
| **Receivables:** | | | | | | |
| Contributions | $ 203,822 | $ 20,710 | $ 202 | $ 745 | $ 15 | $ 225,494 |
| Accrued interest | 58,323 | 8,402 | 88 | 327 | 44 | 67,184 |
| Unsettled investment sales | 614,982 | 92,810 | 787 | 3,426 | 480 | 712,485 |
| Other investment receivables | 2,441 | 338 | 4 | 13 | 2 | 2,798 |
| **Total receivables** | **$ 879,568** | **$ 122,260** | **$ 1,081** | **$ 4,511** | **$ 541** | **$ 1,007,961** |
| **Due from other funds** | **$ —** | **$ 444** | **$ —** | **$ 48** | **$ —** | **$ 492** |
| **Investments and invested securities lending collateral:** | | | | | | |
| Short-term securities | $ 411,422 | $ 62,090 | $ 527 | $ 2,292 | $ 321 | $ 476,652 |
| Debt-domestic | 5,877,851 | 887,054 | 7,524 | 32,743 | 4,582 | 6,809,754 |
| Debt-international | 1,685,096 | 254,306 | 2,157 | 9,387 | 1,313 | 1,952,259 |
| Equity-domestic | 1,532,325 | 231,250 | 1,961 | 8,536 | 1,195 | 1,775,267 |
| Equity-international | 1,491,925 | 225,153 | 1,910 | 8,311 | 1,163 | 1,728,462 |
| Alternatives | 10,224,360 | 1,543,005 | 13,088 | 56,957 | 7,970 | 11,845,380 |
| Invested securities lending collateral | 92,042 | 13,890 | 118 | 513 | 72 | 106,635 |
| **Total investments** | **$ 21,315,021** | **$ 3,216,748** | **$ 27,285** | **$ 118,739** | **$ 16,616** | **$ 24,694,409** |

### h. Teacher and Employee Retention Incentive Program

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

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

A total of 9,792 members were participating in the TERI program at June 30, 2013. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2013, was as follows:

| | |
|---|---|
| Beginning balance of TERI trust accounts........ | $ 385,716 |
| Additions ............................................................... | 245,596 |
| TERI distributions at termination........................ | (163,238) |
| **Ending balance of TERI trust accounts............** | **$ 468,074** |

A deferred retirement option program also exists under the Retirement System for JSRS. A member who has not yet reached the age of 60 years, but who is eligible to retire and receive the maximum monthly benefit, may retire and continue to serve as a judge, a solicitor, or a circuit public defender. The member's normal monthly retirement benefit is deferred and placed in the system's trust fund on behalf of the member. Upon reaching the age of 60 years, the balance of the member's deferred retirement benefit is distributed to the member. As of June 30, 2013, benefits held in trust totaled $707 thousand.

#### 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 (7.00%) and a portion of the employer contribution (5%). A direct remittance is also required to the SCRS for a portion of the employer contribution (5.45%) and a group life contribution (0.15%), which is retained by the SCRS. The activity for the State ORP is as follows (expressed in thousands):

| | |
|---|---|
| Covered payroll..................................................... | $ 1,089,183 |
| Employee contributions....................................... | 76,243 |
| Employer contributions........................................ | 54,459 |

## NOTE 8: 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 Insurance Benefits Division (IBD), a part of South Carolina Public Employee Benefit Authority. 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 and participating retirees except the portion funded through the pension surcharge and provided from other applicable sources for 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, 4.55% of annual covered payroll for fiscal year 2013. The IBD sets the employer contribution rate based on a pay-as-you-go basis. The State paid $342.590 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2013. 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 was $3.22 for the fiscal year ended June 30, 2013.

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 PEBA-Insurance Benefits cash reserves ($64.627 million), and income generated from investments ($12.194 million). 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, 2013 | | June 30, 2012 | | June 30, 2011 | |
| | Actuarially Required | % Contributed | Actuarially Required | % Contributed | Actuarially Required | % Contributed |
| SCRHI | $ 818,861 | 50.02% | $ 787,293 | 53.22% | $ 815,825 | 36.78% |
| LTDI | 9,410 | 72.23% | 9,231 | 73.11% | 9,456 | 71.25% |

### 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 June 30 | 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 | 2012 | $ 592,337 | $10,328,465 | $ 9,736,128 | 6% | $ 7,161,059 | 136% |
| SCRHITF | 2011 | 477,124 | 10,625,914 | 10,148,790 | 4% | 7,127,657 | 142% |
| SCRHITF | 2010 | 487,496 | 9,632,092 | 9,144,596 | 5% | 8,045,607 | 114% |
| LTDITF | 2012 | 35,576 | 23,586 | (11,990) | 151% | 7,871,635 | <1% |
| LTDITF | 2011 | 33,283 | 24,957 | (8,326) | 133% | 7,837,796 | <1% |
| LTDITF | 2010 | 32,690 | 25,855 | (6,835) | 126% | 8,295,065 | <1% |

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

Insurance Benefits Division
South Carolina Public Employee Benefit Authority
202 Arbor Lake Drive
Columbia, SC 29223

### e. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2013, for the OPEB plans administered by the Insurance Benefits Division were as follows:

| | SCRHI | LTDI | Totals |
|---|---|---|---|
| **Receivables:** | | | |
| Accrued interest | **$ 4,818** | **$ 327** | **$ 5,145** |
| **Due from other funds** | **$ 54,220** | **$ —** | **$ 54,220** |
| **Investments and invested securities lending collateral:** | | | |
| Debt domestic instruments | $ 471,417 | $ 24,674 | $ 496,091 |
| Financial paper | 83,896 | 6,531 | 90,427 |
| Invested securities lending collateral | 1,517 | — | 1,517 |
| **Total investments** | **$ 556,830** | **$ 31,205** | **$ 588,035** |

## NOTE 9: 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 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 | Actuarial Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---|---|---|---|---|
| 2013 | $ 244,520 | $ 79,507 | $ (64,378) | $ 259,649 |
| 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 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, 2013, $29.707 thousand 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 |
|---|---|---|---|---|
| 2013 | $ 176,801 | $ 1,817,587 | $ (1,779,892) | $ 214,496 |
| 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. 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 |
|---|---|---|---|---|
| 2013 | $ 235,450 | $ 53,271 | $ (52,721) | $ 236,000 |
| 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.

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 for the PCF and for the JUA 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 |
|---|---|---|---|---|
| 2013 | $ 112,209 | $ (3,727) | $ (18,029) | $ 90,453 |
| 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 December 31 | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---|---|---|---|---|
| 2012 | $ 124,891 | $ 14,091 | $ (28,474) | $ 110,508 |
| 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.

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 |
|---|---|---|---|---|
| 2013 | $ 43,224 | $ 105,574 | $ (52,914) | $ 95,884 |
| 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 was 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, subject to coverage limits and various exclusions. Settled claims resulting from these risks did not exceed commercial insurance coverage in 2012. Policies are subject to deductibles ranging from $500 to $2.0 million, with the exception of named storm losses which carry deductibles from $2.0 million up to $5.0 million. Also a $1.4 million general liability self-insured layer exists between the Authority's primary and excess liability policies. During 2012, there were minimal payments made for general liability claims.

The Authority is self-insured for auto, dental, workers' compensation and environmental incidents that do not arise out of an insured event. The Authority purchases commercial insurance, subject to coverage limits and various exclusions, to cover automotive exposure in excess of $2.0 million per incident. Risk exposure for the dental plan is limited by plan provisions. Estimated exposure for workers' compensation is based on an annual actuarial study using loss and exposure information valued as of June 30, 2012. There have been no third-party claims for environmental damages for 2012.

The Authority is exposed to additional risks specific to the utilities industry including nuclear incidents. The maximum liability for public claims arising from any nuclear incident has been established at $12.6 billion by the Price-Anderson Indemnification Act. This $12.6 billion would be covered by nuclear liability insurance of $375.0 million per reactor unit, with potential retrospective assessments of up to $117.5 million per licensee for each nuclear incident occurring at any reactor in the United States (payable at a rate not to exceed $17.5 million per incident, per year). Based on its one-third interest in V.C. Summer Nuclear Unit 1, the Authority could be responsible for the maximum assessment of $39.2 million, not to exceed approximately $5.8 million per incident, per year. This amount is subject to further increases to reflect the effect of (i) inflation, (ii) the licensing for operation of additional nuclear reactors and (iii) any increase in the amount of commercial liability insurance required to be maintained by the NRC.

Additionally, SCE&G and the Authority maintain, with Nuclear Electric Insurance Limited (NEIL), $500.0 million primary and $2.3 billion excess property and decontamination insurance to cover the costs of cleanup of the facility in the event of an accident. SCE&G and the Authority also maintain accidental outage insurance to cover replacement power costs (within policy limits) associated with an insured property loss. In addition to the premiums paid on these three policies, SCE&G and the Authority could also be assessed a retrospective premium, not to exceed ten times the annual premium of each policy, in the event of property damage to any nuclear generating facility covered by NEIL. Based on current annual premiums and the Authority's one-third interest, the Authority's maximum retrospective premium would be approximately $3.2 million for the primary policy, $4.0 million for the excess policy and $1.5 million for the accidental outage policy.

SCE&G and the Authority maintain builder's risk insurance and marine cargo insurance for the V.C. Summer Units 2 and 3 construction. The builder's risk policy provides coverage of $2.8 billion accidental nuclear property damage with a sub-limit of $500.0 million for accidental property damage that is caused by or results from any covered peril other than radioactive contamination resulting from nuclear reaction, nuclear radiation or the release of radioactive materials, with deductibles ranging from $250,000 to $5.0 million. This policy also carries a potential retrospective premium of approximately $42.0 million. Based on the Authority's current 45 percent ownership interest, the Authority's maximum retrospective premium would be approximately $18.9 million. The marine cargo/transit policy provides coverage of $300.0 million, with deductibles ranging from $25,000 to $75,000.

The Authority is self-insured for any retrospective premium assessments, claims in excess of stated coverage or cost increases due to the purchase of replacement power associated with an uninsured event. Management does not expect any retrospective assessments, claims in excess of stated coverage or cost increases for any periods through December 31, 2012.

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.

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 |
|---|---|---|---|---|
| 2012 | $ 1,612 | $ 2,392 | $ (2,226) | $ 1,778 |
| 2011 | 2,263 | 1,985 | (2,636) | 1,612 |

# NOTE 10: 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, 2013 for the primary government and the State's discretely presented component units were as follows (expressed in thousands):

| | Primary Government |
|---|---|
| **Fiscal Year Ending June 30** | **Governmental Activities** |
| 2014 | $ 191 |
| 2015 | 123 |
| 2016 | 63 |
| 2017 | 25 |
| **Total minimum payments** | **402** |
| Less: interest and executory costs | (53) |
| **Net minimum payments** | **$ 349** |

| | Discretely Presented Component Unit |
|---|---|
| **Fiscal Year Ending December 31** | **Public Service Authority** |
| 2013 | $ 1,023 |
| 2014 | 252 |
| **Total minimum payments** | **1,275** |
| Less: interest and executory costs | (48) |
| **Net minimum payments** | **$ 1,227** |

| | Discretely Presented Component Units | | |
|---|---|---|---|
| **Fiscal Year Ending June 30** | **Clemson University** | **MUSC** | **USC** |
| 2014 | $ 1,043 | $ 579 | $ 1,847 |
| 2015 | 1,043 | 567 | 1,703 |
| 2016 | 1,043 | 364 | 1,644 |
| 2017 | 1,027 | 26 | 5,387 |
| 2018 | 723 | 13 | 1,109 |
| 2019-2023 | 2,872 | — | 5,124 |
| 2024-2028 | 2,872 | — | 4,992 |
| 2029-2033 | 2,872 | — | 2,684 |
| 2034-2038 | 2,702 | — | — |
| **Total minimum payments** | **16,197** | **1,549** | **24,490** |
| Less: interest and executory costs | (286) | (99) | (7,204) |
| **Net minimum payments** | **$ 15,911** | **$ 1,450** | **$ 17,286** |

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2013, were as follows (expressed in thousands):

| | Primary Government | Discretely Presented Component Units | | | |
|---|---|---|---|---|---|
| **Assets Acquired Under Capital Leases** | **Governmental Activities** | **Public Service Authority** | **Clemson University** | **MUSC** | **USC** |
| Land and non-depreciable improvements.......... | $ — | $ — | $ — | $ — | $ 270 |
| Buildings and improvements............................... | — | 20,300 | 14,300 | — | 18,815 |
| Machinery and equipment.................................... | 922 | — | 2,023 | 3,513 | 1,108 |
| Works of art and historical treasures.................. | — | — | — | — | 204 |
| **Assets acquired under capital leases before accumulated amortization.................................** | **922** | **20,300** | **16,323** | **3,513** | **20,397** |
| Less: accumulated amortization.......................... | (646) | (18,000) | (180) | (1,382) | (3,155) |
| **Assets acquired under capital leases, net.........** | **$ 276** | **$ 2,300** | **$ 16,143** | **$ 2,131** | **$ 17,242** |

### b. Operating Leases

For the primary government's fiscal year ended June 30, 2013, minimum rental payments under operating leases were $48.670 million and contingent rental payments were $4.091 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 $3 million. The Housing Authority, a major discretely presented component unit, had minimum rental payments under operating leases for the fiscal year which totaled $388 thousand. For Clemson University, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $128 thousand. MUSC, a major discretely presented component unit, had minimum rental payments under operating leases for the fiscal year which totaled $4.087 million. USC, a major discretely presented component unit, had minimum rental payments under operating leases for the fiscal year which totaled $3.051 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.

At June 30, 2013, 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** | **Governmental Activities** | **Business-type Activities** | **Totals** |
|---|---|---|---|
| 2014 | $ 19,693 | $ 37 | $ 19,730 |
| 2015 | 16,130 | 37 | 16,167 |
| 2016 | 13,731 | 36 | 13,767 |
| 2017 | 10,902 | 36 | 10,938 |
| 2018 | 8,435 | — | 8,435 |
| 2019-2023 | 18,896 | — | 18,896 |
| 2024-2028 | 4,277 | — | 4,277 |
| 2029-2033 | 574 | — | 574 |
| 2034-2038 | 5 | — | 5 |
| Thereafter | 10 | — | 10 |
| **Net minimum payments............................** | **$ 92,653** | **$ 146** | **$ 92,799** |

| Fiscal Year Ending December 31 | Discretely Presented Component Unit<br>Public Service Authority |
|---|---|
| 2013 | $ 1,045 |
| 2014 | 674 |
| 2015 | 600 |
| 2016 | 600 |
| 2017 | 600 |
| **Net minimum payments.................** | **$ 3,519** |

| | Discretely Presented Component Units | | | |
|---|---|---|---|---|
| Fiscal Year Ending June 30 | Housing Authority | Clemson University | MUSC | USC |
| 2014 | $ 346 | $ 123 | $ 16,698 | $ 1,356 |
| 2015 | 353 | 31 | 12,869 | 1,304 |
| 2016 | 360 | 7 | 7,660 | 359 |
| 2017 | 124 | — | 5,046 | 90 |
| 2018 | — | — | 3,077 | 59 |
| 2019-2023 | — | — | 5,598 | 40 |
| 2024-2028 | — | — | 1,789 | — |
| 2029-2033 | — | — | 491 | — |
| **Net minimum payments..................** | **$ 1,183** | **$ 161** | **$ 53,228** | **$ 3,208** |

### c. Facilities and Equipment Leased to Others

At June 30, 2013, the State agencies within the primary government had leased to non-State parties certain land, facilities, or equipment having a cost of approximately $43.689 million and related accumulated depreciation of $11.348 million. In addition at June 30, 2013, 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 $13.702 million and related accumulated depreciation of $8.576 million. Also, at June 30, 2013, MUSC, a major discretely presented component unit, had leased to non-State parties certain land and facilities having a cost of approximately $13.645 million and related accumulated depreciation of $2.813 million. Future minimum rental payments to be received at June 30, 2013, under these operating leases were as follows (expressed in thousands):

| | Primary Government | Discretely Presented Component Units | |
|---|---|---|---|
| Fiscal Year Ending June 30 | Governmental Activities | State Ports Authority | MUSC |
| 2014 | $ 3,359 | $ 1,524 | $ 1,157 |
| 2015 | 2,283 | 1,321 | 1,132 |
| 2016 | 1,019 | 903 | 1,122 |
| 2017 | 907 | 709 | 1,090 |
| 2018 | 747 | 525 | 856 |
| 2019-2023 | 1,131 | 2,063 | 3,390 |
| 2024-2028 | 307 | — | 417 |
| 2029-2033 | 151 | — | 417 |
| 2034-2038 | — | — | 417 |
| Thereafter | — | — | 5,566 |
| **Total....................................................** | **$ 9,904** | **$ 7,045** | **$ 15,564** |

# NOTE 11: 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 outstanding at June 30, 2013, were (expressed in thousands):

| | | |
|---|---|---|
| **Governmental Activities:** | | |
| Capital improvement bonds, 3.50% to 5.00%, maturing serially through 2019................ | $ | 191,926 |
| State highway bonds, 3.125% to 5.00%, maturing serially through 2023........................ | | 390,046 |
| State school facilities bonds, 3.00% to 5.00%, maturing serially through 2018.............. | | 204,120 |
| Infrastructure Bank bonds, 2.50% to 5.00%, maturing serially through 2028................. | | 44,052 |
| State economic development bonds, 1.00% to 5.00%, maturing serially through 2031.............................................................................................. | | 356,623 |
| Research university infrastructure bonds, 3.00% to 5.00%, maturing serially through 2025.............................................................................................. | | 147,989 |
| Air carrier hub terminal facilities bonds, 1.00% to 4.00%, maturing serially through 2025.............................................................................................. | | 41,941 |
| **Totals—primary government.................................................................................** | **$** | **1,376,697** |
| **Major Discretely Presented Component Units:** | | |
| Clemson University institution bonds, 2.50% to 5.00%, maturing serially through 2031.............................................................................................. | $ | 93,081 |
| University of South Carolina institution bonds, 2.25% to 5.25%, maturing serially through 2031.............................................................................................. | | 109,355 |
| Medical University of South Carolina institution bonds, 2.25% to 5.00%, maturing serially through 2031.............................................................................................. | | 44,054 |

At June 30, 2013, $6.344 million of capital improvement bonds, $106 million of State highway bonds, $162.185 million of State economic development bonds, and $28.915 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2013, future debt service requirements for general obligation bonds for the primary government were (expressed in thousands):

| | Governmental Activities | |
|---|---|---|
| **Year Ending June 30** | **Principal** | **Interest** |
| 2014 | $ 185,255 | $ 56,127 |
| 2015 | 194,150 | 47,641 |
| 2016 | 170,045 | 38,604 |
| 2017 | 135,435 | 30,857 |
| 2018 | 117,465 | 24,272 |
| 2019-2023 | 391,275 | 54,473 |
| 2024-2028 | 113,435 | 6,795 |
| 2029-2031 | 10,545 | 516 |
| **Total debt service requirements.......................................** | **1,317,605** | **$ 259,285** |
| Unamortized premiums......................... | 80,758 | |
| Deferred amount on refunding............ | (21,666) | |
| **Total principal outstanding..........................................** | **$ 1,376,697** | |

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.

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, 2013, was $37.609 million for highway bonds, $176.852 million for general obligation bonds excluding institution and highway bonds, $4.716 million for economic development bonds, and $8.785 million for research university infrastructure bonds. Excluded from the debt service limit calculations are a $170 million 2010 issue of economic development bonds and a $50 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.

As of the last reporting date of the component units, future debt service requirements for general obligation bonds of the State's major discretely presented component units were as follows (expressed in thousands):

| | Clemson University | | Medical University of South Carolina | |
|---|---|---|---|---|
| **Year Ending June 30** | **Principal** | **Interest** | **Principal** | **Interest** |
| 2014 | $ 4,680 | $ 4,176 | $ 4,225 | $ 1,867 |
| 2015 | 4,870 | 3,986 | 4,210 | 1,698 |
| 2016 | 5,100 | 3,751 | 4,360 | 1,525 |
| 2017 | 5,350 | 3,507 | 4,495 | 1,346 |
| 2018 | 3,905 | 3,252 | 4,035 | 1,156 |
| 2019-2023 | 24,780 | 13,024 | 12,070 | 3,676 |
| 2024-2028 | 24,735 | 7,106 | 6,220 | 1,739 |
| 2029-2031 | 15,000 | 1,500 | 3,890 | 395 |
| **Total debt service requirements.......................................** | **88,420** | **$ 40,302** | **43,505** | **$ 13,402** |
| Unamortized premiums........................ | 5,421 | | 1,571 | |
| Deferred amount on refunding........... | (760) | | (1,022) | |
| **Total principal outstanding..........................................** | **$ 93,081** | | **$ 44,054** | |

| | University of South Carolina | |
|---|---|---|
| **Year Ending June 30** | **Principal** | **Interest** |
| 2014 | $ 8,510 | $ 4,716 |
| 2015 | 8,805 | 4,382 |
| 2016 | 9,205 | 3,996 |
| 2017 | 7,205 | 3,606 |
| 2018 | 7,520 | 3,277 |
| 2019-2023 | 40,460 | 10,760 |
| 2024-2028 | 21,995 | 3,530 |
| 2029-2031 | 5,655 | 540 |
| **Total debt service requirements.......................................** | **$ 109,355** | **$ 34,807** |

The State is authorized by the State Constitution to issue general obligation state institution bonds on behalf of state universities and technical colleges (included as discretely presented component units). Under state law, if an institution is unable to pay debt service from tuition fees, the General Fund would assume responsibility. These state institution bonds are presented as liabilities in the stand-alone audited financial statements of the respective universities and technical colleges. In addition to the general obligation nature of the bonds, state institution bonds are secured by the pledge of revenues from tuition fees received by the particular university or technical college for which the bonds are issued. The maximum annual debt service on the state institution bonds for a university or technical college may not exceed 90 percent of the tuition fees received for the fiscal year next preceding. Tuition fee receipts for each university or technical college are earmarked by the State to support the principal and interest payments for the applicable state institution bonds. State institution bonds of $433.434 million were outstanding at June 30, 2013.

### 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, 2013, which are reported in the internal service funds, totaled $2.408 million and mature serially through 2016. Interest rates on these bonds ranged from 4.625% to 6.1%. At June 30, 2013, 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, 2013, future debt service requirements for limited obligation bonds were (expressed in thousands):

| | Governmental Activities (Internal Service Funds) | |
|---|---|---|
| **Year Ending June 30** | **Principal** | **Interest** |
| 2014 | $ 1,495 | $ 110 |
| 2015 | 735 | 32 |
| 2016 | 185 | 9 |
| **Total debt service requirements** | **2,415** | **$ 151** |
| Unamortized discounts | (7) | |
| **Total principal outstanding** | **$ 2,408** | |

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 outstanding at June 30, 2013, were (expressed in thousands):

| | Bonds | Notes |
|---|---|---|
| **Primary Government:** | | |
| ***Governmental Activities:*** | | |
| Infrastructure Bank bonds, 0.70% to 5.50%, maturing serially through 2041 | $ 2,003,486 | $ — |
| Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022 | 13,600 | — |
| Department of Public Safety bonds, 5.00%, maturing through 2018 | 10,718 | — |
| Judicial Department note, 1.92%, maturing in 2016 | — | 1,178 |
| Educational Television Commission note, 2.96%, maturing in 2014 | — | 59 |
| Corrections Department notes, 1.81% to 5.97%, maturing through 2020 | — | 14,527 |
| Criminal Justice Academy note, 3.41%, maturing through 2016 | — | 5,015 |
| Department of Revenue note, 1.43%, maturing through 2015 | — | 409 |
| Budget and Control Board notes, 3.20% to 4.05%, maturing through 2018 | — | 5,938 |
| ***Totals—governmental activities*** | **2,027,804** | **27,126** |
| ***Business-Type Activities:*** | | |
| Nonmajor enterprise fund bonds and notes, 0.19% to 3.84%, maturing through 2038 | **6,360** | **—** |
| **Totals—primary government** | **$ 2,034,164** | **$ 27,126** |
| **Major Discretely Presented Component Units:** | | |
| Public Service Authority bonds, 1.10% to 8.37%, maturing serially through 2050 | $ 5,610,030 | $ — |
| Clemson University bonds and notes, 2.00% to 6.00%, maturing serially through 2031 | 56,603 | — |
| University of South Carolina bonds and notes, 2.00% to 5.50%, maturing serially through 2031 | 450,897 | 6,496 |
| Medical University of South Carolina bonds and notes, 4.00% to 4.30%, maturing serially through 2031 | 483,562 | 52,203 |
| State Ports Authority bonds and notes, 2.56% to 5.50%, maturing serially through 2041 | 172,279 | 10,342 |
| State Housing Authority bonds and notes, 0.60% to 6.00%, maturing serially through 2042 | 651,098 | — |

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, 2013, the Bank made variable bond interest payments of $3.551 million and fixed rate payments on the exchange agreement of $13.910 million. The Bank received variable swap payments on the exchange agreement of $526 thousand. The June 30, 2013, mark to market value of this swap was negative $17.035 million, representing an increase in fair value of $30.492 million from prior year. The deferred outflow of the interest rate swap and the derivative instrument liability are shown on the statement of net position.

*University Medical Associates*

University Medical Associates of the Medical University of South Carolina (UMA) is a discretely presented component unit and part of the Medical University of South Carolina, a major discretely presented component unit. 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, 2013 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, 2013 was 0.13%. The fair value of this swap, estimated using the zero-coupon method, was negative $763 thousand as of June 30, 2013. The negative fair value of the cash flow hedge swap has been recorded on the statement of net position 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 increase in the fair value of the cash flow hedge swap from June 30, 2012 of $5.108 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, 2013 was $21.169 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, 2013 was 1.49%. The fair value of the term loan swap, estimated using the zero-coupon method, was negative $928 thousand as of June 30, 2013. The negative fair value of the term loan cash flow hedge swap has been recorded on the statement of net position 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 increase in the fair value of the term loan cash flow hedge swap from June 30, 2012 of $557 thousand is not recognized in these financial statements.

As of June 30, 2013, debt service requirements of the UMA variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows (expressed in thousands):

| Year Ending | Variable Rate Debt | | Interest Rate | |
|---|---|---|---|---|
| June 30 | Principal | Interest | Swaps, Net | Totals |
| 2014 | $ — | $ 637 | $ 1,225 | $ 1,862 |
| 2015 | — | 637 | 1,225 | 1,862 |
| 2016 | — | 637 | 1,225 | 1,862 |
| 2017 | — | 637 | 1,225 | 1,862 |
| 2018 | — | 637 | 1,225 | 1,862 |
| 2019-2023 | 13,250 | 2,784 | 5,358 | 21,392 |
| 2024-2028 | 14,105 | 2,079 | 4,001 | 20,185 |
| 2029-2033 | 16,170 | 1,293 | 2,489 | 19,952 |
| 2034-2038 | 18,560 | 391 | 753 | 19,704 |
| **Totals............** | **$ 62,085** | **$ 9,732** | **$ 18,726** | **$ 90,543** |

*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, 2013 were $60.113 million and $25.763 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 $85.875 million at June 30, 2013.

As of June 30, 2013, the swaps had a negative fair value of approximately $2.306 million. The unrealized loss related to these agreements recorded at June 30, 2013 is $610 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

**Major Discretely Presented Component Units:**
Public Service Authority bonds: Public Service Authority revenues
Clemson University: various specific higher education revenues
University of South Carolina: various specific higher education revenues
Medical University of South Carolina: various specific higher education revenues
State Ports Authority bonds: State Ports Authority revenues
State Housing Authority bonds and note: revenues of the Housing Authority Fund, a major enterprise fund

### Debt Service Requirements

At June 30, 2013, future debt service requirements for revenue, Infrastructure Bank, and other bonds and notes of the primary government were as follows (expressed in thousands):

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | | Business-Type Activities | |
| **Year Ending June 30** | **Principal** | **Interest** | **Principal** | **Interest** |
| 2014 | $ 82,612 | $ 94,665 | $ 150 | $ 10 |
| 2015 | 78,459 | 90,824 | 155 | 9 |
| 2016 | 83,765 | 86,804 | 160 | 9 |
| 2017 | 62,270 | 83,149 | 165 | 9 |
| 2018 | 77,376 | 79,678 | 175 | 9 |
| 2019-2023 | 387,824 | 338,556 | 985 | 38 |
| 2024-2028 | 379,685 | 248,049 | 1,225 | 31 |
| 2029-2033 | 490,520 | 146,867 | 1,495 | 20 |
| 2034-2038 | 255,665 | 56,762 | 1,850 | 9 |
| 2039-2041 | 126,475 | 10,186 | — | — |
| **Total debt service requirements** | **2,024,651** | **$ 1,235,540** | **6,360** | **$ 144** |
| Net unamortized premiums | 121,715 | | — | |
| Deferred amount on refunding | (91,436) | | — | |
| **Total principal outstanding** | **$ 2,054,930** | | **$ 6,360** | |

The fiscal year for the Public Service Authority ends December 31 while the fiscal year for Clemson University, the University of South Carolina, the Medical University of South Carolina, and the State Ports Authority ends June 30. These entities are major discretely presented component units. At December 31, 2012, the carrying value of the Public Service Authority's debt was $5.558 billion while the fair value was approximately $6.6 billion. At June 30, 2013, the carrying value of the State Ports Authority debt was $180.342 million while the fair value was approximately $183.289 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.

As of the last reporting date of the component units, future debt service requirements for bonds and notes of the State's major discretely presented component units were as follows (expressed in thousands):

| | Public Service Authority | |
|---|---|---|
| **Year Ending December 31** | **Principal** | **Interest** |
| 2013 | $ 333,860 | $ 266,777 |
| 2014 | 580,062 | 246,852 |
| 2015 | 223,007 | 227,656 |
| 2016 | 253,651 | 218,484 |
| 2017 | 294,835 | 205,158 |
| 2018-2022 | 1,046,387 | 866,794 |
| 2023-2027 | 728,720 | 654,779 |
| 2028-2032 | 771,243 | 471,017 |
| 2033-2037 | 562,650 | 295,361 |
| 2038-2042 | 350,325 | 174,437 |
| 2043-2047 | 241,920 | 101,842 |
| 2048-2050 | 169,906 | 17,426 |
| **Total debt service requirements....................................** | **5,556,566** | **$ 3,746,583** |
| Unamortized premiums...................... | 190,368 | |
| Deferred amount on refunding......... | (136,904) | |
| **Total principal outstanding.............** | **$ 5,610,030** | |

| | Clemson University | | University of South Carolina | |
|---|---|---|---|---|
| **Year Ending June 30** | **Principal** | **Interest** | **Principal** | **Interest** |
| 2014 | $ 7,235 | $ 1,812 | $ 16,739 | $ 19,498 |
| 2015 | 7,525 | 1,536 | 11,372 | 19,091 |
| 2016 | 7,815 | 1,249 | 13,041 | 18,649 |
| 2017 | 8,255 | 1,079 | 13,530 | 18,143 |
| 2018 | 8,460 | 864 | 13,720 | 17,587 |
| 2019-2023 | 12,045 | 2,382 | 76,750 | 78,778 |
| 2024-2028 | 5,165 | 351 | 88,265 | 60,226 |
| 2029-2033 | — | — | 93,690 | 38,972 |
| 2034-2038 | — | — | 79,170 | 16,677 |
| 2039-2043 | — | — | 23,075 | 2,080 |
| **Total debt service requirements** | **$ 56,500** | **$ 9,273** | **$ 429,352** | **$ 289,701** |
| Unamortized discounts and premiums | 1,724 | | 33,249 | |
| Deferred amount on refunding | (1,621) | | (5,208) | |
| **Total principal outstanding.............** | **$ 56,603** | | **$ 457,393** | |

| Year Ending June 30 | Medical University of South Carolina Principal | Interest |
|---|---|---|
| 2014 | $ 27,479 | $ 19,854 |
| 2015 | 26,651 | 18,819 |
| 2016 | 26,263 | 17,830 |
| 2017 | 26,631 | 16,868 |
| 2018 | 26,536 | 15,960 |
| 2019-2023 | 138,722 | 66,038 |
| 2024-2028 | 144,290 | 42,408 |
| 2029-2033 | 155,340 | 16,723 |
| 2034-2038 | 28,755 | 1,939 |
| **Total debt service requirements** | **600,667** | **$ 216,439** |
| Deferred amount on refunding | (64,902) | |
| **Total principal outstanding** | **$ 535,765** | |

| Year Ending June 30 | State Ports Authority Principal | State Ports Authority Interest | State Housing Authority Principal | State Housing Authority Interest |
|---|---|---|---|---|
| 2014 | $ 5,237 | $ 9,140 | $ 12,305 | $ 28,288 |
| 2015 | 6,020 | 9,067 | 17,070 | 27,873 |
| 2016 | 6,239 | 8,837 | 17,720 | 27,266 |
| 2017 | 6,507 | 8,539 | 18,920 | 26,594 |
| 2018 | 6,805 | 8,230 | 19,980 | 25,821 |
| 2019-2023 | 36,969 | 35,240 | 109,375 | 114,899 |
| 2024-2028 | 31,725 | 24,114 | 125,175 | 86,529 |
| 2029-2033 | 24,790 | 17,453 | 132,935 | 55,169 |
| 2034-2038 | 32,235 | 9,814 | 115,180 | 23,846 |
| 2039-2042 | 23,815 | 1,294 | 72,815 | 4,862 |
| **Total debt service requirements** | **180,342** | **$ 131,728** | **641,475** | **$ 421,147** |
| Unamortized premiums and discounts | 2,279 | | 11,431 | |
| Deferred amount on refunding | — | | (1,808) | |
| **Total principal outstanding** | **$ 182,621** | | **$ 651,098** | |

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, 2013, in governmental functions for these entities as follows (expressed in thousands):

| | Amount |
|---|---|
| Transportation | $ 120,550 |
| **Total allocated interest expense** | **$ 120,550** |

**d. Bond Anticipation Notes**

At June 30, 2013, $28 million in short-term general obligation bond anticipation notes were outstanding at MUSC, a major discretely presented component unit. These notes are due on or before June 30, 2014.

### e. Defeased Bonds

During October 2012, the State Transportation Infrastructure Bank issued $424.910 million in revenue refunding bonds with a 3.38% to 5.00% coupon rate over the life of the issue. The net proceeds after payment of $2.425 million in issuance costs were used to refund $253.970 million of the Series 2003A bonds and $198.810 million of the Series 2004A bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $15.323 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 $104.438 million and to obtain an economic gain of approximately $67.400 million.

In its fiscal year ended December 31, 2012, the Public Service Authority, a major discretely presented component unit issued $99.405 million in 2012 Refunding Series A Bonds, with an aggregate all-in true interest cost of 2.59% to refund $73.535 million of the 2003 Refunding Series A bonds and $34.160 million of the 2004 Series A bonds with an average interest rate of 4.73%. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2030 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next seventeen years by approximately $17.3 million and to obtain an economic gain of approximately $13.7 million.

Also in its fiscal year ended December 31, 2012, the Public Service Authority issued $32.325 million in 2012 Refunding Series B Bonds, with an aggregate all-in true interest cost of 2.59% to refund $37.8 million of the 2002 Refunding Series A bonds with an average interest rate of 5.29%. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next seven years by approximately $8 million and to obtain an economic gain of approximately $6.0 million.

Additionally, in its fiscal year ended December 31, 2012, the Public Service Authority issued $119.145 million in 2012 Refunding Series C Bonds, with an aggregate all-in true interest cost of 2.59% to refund $134.0 million of the 2002 Refunding Series D bonds with an average interest rate of 5.03%. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next seven years by approximately $20 million and to obtain an economic gain of approximately $15.2 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, 2013, the following outstanding bonds of the primary government were considered defeased (expressed in thousands):

| | Governmental Activities |
|---|---|
| Capital improvement bonds | $ 32,210 |
| Economic Development bonds | 28,605 |
| Infrastructure Bank bonds | 487,160 |
| Department of Transportation bonds | 359,450 |
| Tobacco Authority bonds | 64,890 |
| **Totals** | **$ 972,315** |

In addition, at December 31, 2012, $498.905 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, 2013, reported as other liabilities for governmental activities is an arbitrage rebate liability of $214 thousand associated with the State’s General Obligation Debt and a $1.222 million 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, 2013, the outstanding balance of bonds issued was $302.946 million.

The Jobs-Economic Development Authority, a nonmajor discretely presented component unit, 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, 2013, the outstanding balance of bonds issued after June 30, 1995, was $3.254 billion. The original amount of bonds issued prior to that date is not available.

The Housing Authority Fund, a major discretely presented component unit, 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, 2013, the outstanding balance of bonds issued was $206.555 million.

### h. Commercial Paper Notes and Letters of Credit

Note 12 Changes in Liabilities, displays the activity of commercial paper notes and lines of credit during the fiscal year ended June 30, 2013, 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, 2013 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 discretely presented component unit of MUSC, has a line of credit with a maximum borrowing limit of $10 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, 2013, there were no advances under this line of credit. The line of credit expired during April 2013 and was renewed with basically the same terms through June 30, 2014.

The Public Service Authority, a discretely presented component unit, has recorded a $329.283 million liability for commercial paper notes at its fiscal year ended December 31, 2012. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a $500 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement during 2012.

### 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, 2013, the outstanding balance of these advances was $531.557 million. Principal payments began on September 30, 2011, with interest accruing at rates ranging from 2.58% to 2.94% within the fiscal year. Of the balance reported, $456.557 million is considered non-current with $75 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, 2013, a total of $24 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 2013 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 could 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 $16.778 million was paid in September 2012 from the State's Debt Service Fund, with the portion due at June 30, 2013 of $13.339 million reported as accrued interest in the government-wide Statement of Net Position for governmental activities.

# NOTE 12: CHANGES IN LIABILITIES

## a. Long-Term Liabilities

Changes in major classes of long-term liabilities for the fiscal year ended June 30, 2013, were (expressed in thousands):

| | Balances at July 1, 2012 | Increases | Decreases | Balances at June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Primary Government:** | | | | | |
| ***Governmental Activities*** | | | | | |
| Policy claims | $ 699,996 | $ 2,011,080 | $ (1,905,046) | $ 806,030 | $ 561,669 |
| Notes payable | 41,430 | — | (14,304) | 27,126 | 7,907 |
| General obligation bonds payable | 1,503,850 | — | (186,245) | 1,317,605 | 185,255 |
| Unamortized discounts and premiums | 93,678 | — | (12,920) | 80,758 | — |
| Deferred amount on refunding | (25,571) | — | 3,905 | (21,666) | — |
| Total general obligation bonds payable | 1,571,957 | — | (195,260) | 1,376,697 | 185,255 |
| Infrastructure Bank bonds payable | 2,062,214 | 424,910 | (513,509) | 1,973,615 | 71,550 |
| Unamortized discounts and premiums | 93,223 | 53,560 | (25,476) | 121,307 | — |
| Deferred amount on refunding | (81,129) | (15,323) | 5,016 | (91,436) | — |
| Total Infrastructure Bank bonds | 2,074,308 | 463,147 | (533,969) | 2,003,486 | 71,550 |
| Revenue bonds payable | 26,925 | — | (3,015) | 23,910 | 3,155 |
| Unamortized discounts and premiums | 499 | — | (91) | 408 | — |
| Total revenue bonds payable | 27,424 | — | (3,106) | 24,318 | 3,155 |
| Limited obligation bonds payable | 3,835 | — | (1,420) | 2,415 | 1,495 |
| Unamortized discounts | (13) | — | 6 | (7) | — |
| Total limited obligation bonds payable | 3,822 | — | (1,414) | 2,408 | 1,495 |
| Capital leases payable | 318 | 258 | (227) | 349 | 162 |
| Compensated absences payable | 209,690 | 147,978 | (149,696) | 207,972 | 119,954 |
| National Guard Retirement System net pension obligation payable | 9,607 | 3,921 | (4,539) | 8,989 | — |
| Judgments and contingencies payable | 24,364 | 12,576 | (6,770) | 30,170 | 20,530 |
| Arbitrage payable | 1,561 | 1,241 | (1,366) | 1,436 | 1,031 |
| Total long-term liabilities | $ 4,664,477 | $ 2,640,201 | $ (2,815,697) | $ 4,488,981 | $ 972,708 |

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, 2012 Restated | Increases | Decreases | Balances at June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Primary Government:** | | | | | |
| ***Business-type Activities*** | | | | | |
| Policy claims | $ 112,209 | $ — | $ (21,756) | $ 90,453 | $ 6,201 |
| Advances from Federal government | 782,188 | — | (250,631) | 531,557 | 75,000 |
| Notes payable | — | — | — | — | — |
| Unamortized discounts and premiums | — | — | — | — | — |
| Deferred amount on refunding | — | — | — | — | — |
| Total notes payable | — | — | — | — | — |
| General obligation bonds payable | — | — | — | — | — |
| Unamortized discounts and premiums | — | — | — | — | — |
| Deferred amount on refunding | — | — | — | — | — |
| Total general obligation bonds payable | — | — | — | — | — |
| Revenue bonds payable | — | 6,360 | — | 6,360 | 150 |
| Unamortized discounts and premiums | — | — | — | — | — |
| Deferred amount on refunding | — | — | — | — | — |
| Total revenue bonds payable | — | 6,360 | — | 6,360 | 150 |
| Capital leases payable | — | — | — | — | — |
| Compensated absences payable | 803 | 602 | (625) | 780 | 576 |
| Total long-term liabilities | $ 895,200 | $ 6,962 | $ (273,012) | $ 629,150 | $ 81,927 |

| | Balances at January 1, 2012 | Increases | Decreases | Balances at December 31, 2012 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Major Discretely Presented Component Unit:** | | | | | |
| ***Public Service Authority*** | | | | | |
| Policy claims | $ 1,612 | $ 2,392 | $ (2,226) | $ 1,778 | $ 1,778 |
| Revenue bonds payable | 5,158,481 | 867,277 | (469,192) | 5,556,566 | 333,860 |
| Unamortized discounts and premiums | 158,108 | 69,627 | (37,367) | 190,368 | — |
| Deferred amount on refunding | (169,291) | (23,187) | 55,574 | (136,904) | — |
| Total revenue bonds payable | 5,147,298 | 913,717 | (450,985) | 5,610,030 | 333,860 |
| Capital leases payable | 2,469 | — | (1,242) | 1,227 | 982 |
| Compensated absences payable | 18,926 | 2,333 | (12,596) | 8,663 | — |
| Total long-term liabilities | $ 5,170,305 | $ 918,442 | $ (467,049) | $ 5,621,698 | $ 336,620 |

| Major Discretely Presented Component Unit: *State Ports Authority* | Balances at July 1, 2012 | Increases | Decreases | Balances at June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Notes payable | $ 604 | $ 10,342 | $ (604) | $ 10,342 | $ 577 |
| Revenue bonds payable | 174,350 | — | (4,350) | 170,000 | 4,660 |
| Unamortized discounts and premiums | 2,407 | — | (128) | 2,279 | — |
| Total revenue bonds payable | 176,757 | — | (4,478) | 172,279 | 4,660 |
| Capital leases payable | 3 | — | (3) | — | — |
| Compensated absences payable | 2,389 | 2,580 | (2,254) | 2,715 | 2,715 |
| Total long-term liabilities | $ 179,753 | $ 12,922 | $ (7,339) | $ 185,336 | $ 7,952 |

| Major Discretely Presented Component Unit: *Housing Authority* | Balances at July 1, 2012 | Increases | Decreases | Balances at June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds payable | $ 731,780 | $ 115,820 | $ (206,125) | $ 641,475 | $ 12,305 |
| Unamortized discounts and premiums | 9,975 | 2,453 | (997) | 11,431 | — |
| Deferred amount on refunding | (1,392) | (547) | 131 | (1,808) | — |
| Total revenue bonds payable | 740,363 | 117,726 | (206,991) | 651,098 | 12,305 |
| Compensated absences payable | 705 | 571 | (502) | 774 | 502 |
| Arbitrage payable | 54 | 1 | (17) | 38 | — |
| Total long-term liabilities | $ 741,122 | $ 118,298 | $ (207,510) | $ 651,910 | $ 12,807 |

| Major Discretely Presented Component Unit: *Clemson University* | Balances at July 1, 2012 | Increases | Decreases | Balances at June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Notes payable | $ 177 | $ — | $ (177) | $ — | $ — |
| General obligation bonds payable | 93,075 | — | (4,655) | 88,420 | 4,680 |
| Unamortized discounts and premiums | 6,026 | — | (605) | 5,421 | — |
| Deferred amount on refunding | (872) | — | 112 | (760) | — |
| Total general obligation bonds payable | 98,229 | — | (5,148) | 93,081 | 4,680 |
| Revenue bonds payable | 63,220 | — | (6,720) | 56,500 | 7,235 |
| Unamortized discounts and premiums | 2,052 | — | (328) | 1,724 | — |
| Deferred amount on refunding | (1,920) | — | 299 | (1,621) | — |
| Total revenue bonds | 63,352 | — | (6,749) | 56,603 | 7,235 |
| Capital leases payable | — | 16,323 | (412) | 15,911 | 948 |
| Compensated absences payable | 22,953 | 16,586 | (14,680) | 24,859 | 16,397 |
| Total long-term liabilities | $ 184,711 | $ 32,909 | $ (27,166) | $ 190,454 | $ 29,260 |

| | Balances at July 1, 2012 | Increases | Decreases | Balances at June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Major Discretely Presented Component Unit:** | | | | | |
| ***Medical University of South Carolina*** | | | | | |
| Notes payable | $ 70,989 | $ 33,133 | $ (46,331) | $ 57,791 | $ 9,044 |
| Unamortized discounts and premiums | 61 | — | (61) | — | — |
| Deferred amount on refunding | (5,937) | (610) | 959 | (5,588) | — |
| Total notes payable | 65,113 | 32,523 | (45,433) | 52,203 | 9,044 |
| General obligation bonds payable | 47,660 | — | (4,155) | 43,505 | 4,225 |
| Unamortized discounts and premiums | 1,920 | — | (349) | 1,571 | — |
| Deferred amount on refunding | (1,209) | — | 187 | (1,022) | — |
| Total general obligation bonds payable | 48,371 | — | (4,317) | 44,054 | 4,225 |
| Revenue bonds payable | 572,752 | 361,427 | (391,303) | 542,876 | 18,435 |
| Unamortized discounts and premiums | 6,664 | — | (6,664) | — | — |
| Deferred amount on refunding | (27,486) | (46,610) | 14,782 | (59,314) | — |
| Total revenue bonds | 551,930 | 314,817 | (383,185) | 483,562 | 18,435 |
| Capital leases payable | 2,087 | 143 | (780) | 1,450 | 527 |
| Compensated absences payable | 31,808 | 16,212 | (15,601) | 32,419 | 16,018 |
| Total long-term liabilities | $ 699,309 | $ 363,695 | $ (449,316) | $ 613,688 | $ 48,249 |

| | Balances at July 1, 2012 | Increases | Decreases | Balances at June 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Major Discretely Presented Component Unit:** | | | | | |
| ***University of South Carolina*** | | | | | |
| Notes payable | $ 505 | $ 6,236 | $ (245) | $ 6,496 | $ 6,374 |
| General obligation bonds payable | 117,715 | — | (8,360) | 109,355 | 8,510 |
| Revenue bonds payable | 395,125 | 37,186 | (9,455) | 422,856 | 10,365 |
| Unamortized discounts and premiums | 31,040 | 3,954 | (1,745) | 33,249 | — |
| Deferred amount on refunding | (5,604) | — | 396 | (5,208) | — |
| Total revenue bonds | 420,561 | 41,140 | (10,804) | 450,897 | 10,365 |
| Capital leases payable | 18,154 | — | (868) | 17,286 | 983 |
| Compensated absences payable | 30,018 | 17,897 | (15,188) | 32,727 | 16,690 |
| Total long-term liabilities | $ 586,953 | $ 65,273 | $ (35,465) | $ 616,761 | $ 42,922 |

### b. Short-Term Debt

The Medical University of South Carolina, a major discretely presented component unit, 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, 2013 included: BANS for MUSC and commercial paper notes in the Public Service Authority. Short-term debt activity during the fiscal year was as follows (expressed in thousands):

| | Balances at July 1, 2012 | Restatement | Restated Balances at July 1, 2012 | Increases | Decreases | Balances at June 30, 2013 |
|---|---|---|---|---|---|---|
| **Primary Government:** | | | | | | |
| ***Business-type Activities*** | | | | | | |
| General obligation bond anticipation notes payable.................................. | $ 28,000 | $ (28,000) | $ — | $ — | $ — | $ — |

| | Balances at July 1, 2012 | Restatement | Restated Balances at July 1, 2012 | Increases | Decreases | Balances at June 30, 2013 |
|---|---|---|---|---|---|---|
| **Major Component Units:** | | | | | | |
| ***Medical University of South Carolina*** | | | | | | |
| General obligation bond anticipation notes payable.................................. | $ — | $ 28,000 | $ 28,000 | $ 28,000 | $ (28,000) | $ 28,000 |

| | Balances at January 1, 2012 | Restatement | Restated Balances at January 1, 2012 | Increases | Decreases | Balances at December 31, 2012 |
|---|---|---|---|---|---|---|
| ***Public Service Authority*** | | | | | | |
| Commercial paper notes....................... | $ 306,566 | $ — | $ 306,566 | $144,331 | $(121,614) | $ 329,283 |

## NOTE 13: 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, 2013, 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 | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Non-spendable:** | | | | | | |
| Interfund receivables | $ 883 | $ 760 | $ 294,861 | $ — | $ 3,067 | $ 299,571 |
| Inventories | 24,421 | 2,186 | — | 2,487 | — | 29,094 |
| Prepaid items | 7,549 | 5,069 | — | 3,674 | 24 | 16,316 |
| Long-term loans and notes receivable | 34,864 | 451 | 445,739 | 2,769 | 253 | 484,076 |
| Other | — | — | — | 771 | — | 771 |
| Endowments | — | — | — | — | 9,057 | 9,057 |
| Total Non-spendable | 67,717 | 8,466 | 740,600 | 9,701 | 12,401 | 838,885 |
| **Restricted:** | | | | | | |
| Education | 188 | 11,674 | — | — | 84,380 | 96,242 |
| Health | 7,879 | 80,238 | — | — | 30,818 | 118,935 |
| Transportation | — | 4,454 | 477,539 | 10,000 | — | 491,993 |
| Capital Projects | 4,784 | 26,400 | — | — | — | 31,184 |
| Debt Service | — | — | 814,687 | — | 51,579 | 866,266 |
| Waste management | — | 481 | — | — | 39 | 520 |
| Other | 324,836 | 126,635 | — | — | 326,378 | 777,849 |
| Total Restricted | 337,687 | 249,882 | 1,292,226 | 10,000 | 493,194 | 2,382,989 |
| **Committed:** | | | | | | |
| Capital reserve fund | 112,657 | — | — | — | — | 112,657 |
| Education | 89,737 | — | — | — | — | 89,737 |
| Health | 95,867 | — | — | — | — | 95,867 |
| Other | 352,284 | 3,955 | — | 159,627 | 2,623 | 518,489 |
| Total Committed | 650,545 | 3,955 | — | 159,627 | 2,623 | 816,750 |
| **Assigned:** | | | | | | |
| Appropriations to be carried forward | 381,145 | — | — | — | — | 381,145 |
| Capital expenditures | — | — | — | — | 100,124 | 100,124 |
| Education | 95,690 | — | — | — | — | 95,690 |
| Health and Safety | 63,142 | — | — | — | 12,510 | 75,652 |
| Local Infrastructure | 7,323 | — | — | — | 30,896 | 38,219 |
| Social Programs | 10,690 | — | — | — | — | 10,690 |
| Transportation | 340 | — | — | — | — | 340 |
| Other | 438,209 | — | — | — | 13,388 | 451,597 |
| Total Assigned | 996,539 | — | — | — | 156,918 | 1,153,457 |
| Total Unrestricted, unassigned | 791,549 | (30,033) | — | (276,644) | — | 484,872 |
| **Total Fund Balance** | **2,844,037** | **232,270** | **2,032,826** | **(97,316)** | **665,136** | **5,676,953** |

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).

### b. Restricted

#### Education

The balance represents resources received from external parties or through enabling legislation which creates resources and narrowly defines the use of the 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 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.

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 Reserve). The South Carolina Constitution requires that the State maintain this reserve to prevent deficits in the Budgetary General Fund. The Reserve is fully funded for the June 30, 2013 fiscal year if it equals 3 percent of the Budgetary General Fund's revenue (budgetary basis) of the previous fiscal year (increasing to 4.5 percent in 2014 and 5 percent in 2015).

If the State withdraws funds from the Reserve to cover a year-end deficit, it must replace the funds within five 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, 2013, the Reserve was $281.641 million, which exceeds the required fully funded amount of $225.313 million.

## NOTE 14: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The amounts in the "Reporting Entity Changes" column reflect restatements related to the implemntation of GASB Statement No. 61. Based on the new requirements of GASB Statement No. 61, and a review of the financial reporting entity, state-supported universities and technical colleges, and certain other business type activities, previously reported as part of the primary government, are reported as discretely presented component units. The amounts in the "Other Adjustments" column are primarily due to the correction of errors related to prior periods.

| | 7/1/2012 Fund Equity as Previously Reported | GASB 61 Reporting Entity Changes | Fund Reclass-ifications | Other Adjustments | 7/1/2012 Fund Equity as Restated |
|---|---|---|---|---|---|
| **Primary Government** | | | | | |
| **Governmental Funds:** | | | | | |
| General Fund | $ 1,894,049 | $ — | $ — | $ 34,640 | $ 1,928,689 |
| Departmental Program Services | 208,790 | — | — | 46,502 | 255,292 |
| Local Government Infrastructure | 1,951,081 | — | — | 11,434 | 1,962,515 |
| Department of Transportation Special Revenue | (130,553) | — | — | — | (130,553) |
| State Tobacco Settlement | 21,791 | — | (21,791) | — | — |
| Other Nonmajor Governmental Funds | 716,667 | (17,239) | 21,791 | (4,716) | 716,503 |
| **Total Governmental Funds** | 4,661,825 | (17,239) | — | 87,860 | 4,732,446 |
| **Internal Service Funds** | 484,443 | — | — | 294 | 484,737 |
| **Government-wide adjustments:** | | | | | |
| Capital assets | 14,743,854 | — | — | — | 14,743,854 |
| Unavailable deferred revenue | 318,974 | — | — | (11,434) | 307,540 |
| Long-term liabilities | (4,081,105) | — | — | — | (4,081,105) |
| Deferred bond issuance costs | 24,003 | — | — | — | 24,003 |
| Internal service funds consolidation adjustment | 18,273 | (18,273) | — | — | — |
| | 11,023,999 | (18,273) | — | (11,434) | 10,994,292 |
| **Total Governmental Activities** | 16,170,267 | (35,512) | — | 76,720 | 16,211,475 |
| **Business-type Activities - Enterprise Funds:** | | | | | |
| Unemployment Compensation Fund | (427,341) | — | — | — | (427,341) |
| Higher Education | 4,507,573 | (4,507,573) | — | — | — |
| Housing Authority | 338,983 | (338,983) | — | — | — |
| Medical University Hospital Authority | 327,581 | (327,581) | — | — | — |
| Education Assistance Authority | 141,388 | (141,388) | — | — | — |
| Other non-major enterprise funds | 285,954 | (337,769) | — | 674 | (51,141) |
| Internal service funds consolidation adjustment | (18,273) | 18,273 | — | — | — |
| **Total Business-type activities - Enterprise Funds** | 5,155,865 | (5,635,021) | — | 674 | (478,482) |
| **Fiduciary Funds:** | | | | | |
| Pension and Other Post-Employment Trust | 25,612,259 | — | — | — | 25,612,259 |
| Investment Trust Local Government Investment Pool | 3,477,828 | — | — | — | 3,477,828 |
| Private-Purpose Trust | 1,508,698 | — | — | — | 1,508,698 |
| **Total Fiduciary Funds** | 30,598,785 | — | — | — | 30,598,785 |
| **Total Primary Government** | $ 51,924,917 | $ (5,670,533) | $ — | $ 77,394 | $ 46,331,778 |
| **Component Units** | | | | | |
| Public Service Authority | $ 1,889,731 | $ — | $ — | $ — | $ 1,889,731 |
| MUSC | — | 1,391,601 | — | — | 1,391,601 |
| USC | — | 1,532,108 | — | — | 1,532,108 |
| Clemson | — | 1,439,803 | — | — | 1,439,803 |
| State Ports Authority | 884,731 | — | — | — | 884,731 |
| Connector 2000 Association, Inc. | (10,528) | 10,528 | — | — | — |
| Lottery Commission | 889 | (889) | — | — | — |
| Housing Authority | — | 356,222 | — | — | 356,222 |
| Other component units | 619,359 | 1,532,609 | — | — | 2,151,968 |
| **Total Component Units** | $ 3,384,182 | $ 6,261,982 | $ — | $ — | $ 9,646,164 |

During the fiscal year 2012-13, the following errors resulting in a restatement of beginning fund balance were discovered: (1) for the reporting of accounts receivable for several program areas, accounts receivable was understated by $29.924 million in the General Fund and $46.502 million in Departmental Program Services; (2) an error was discovered in the reporting of accounts payable liability for non-major enterprise operations. The accounts payable was overstated by $674 thousand, resulting in restatement of beginning net position in Non-major Enterprise; (3) an error was discovered in the reporting of debt service interest surcharge liability across the funds, with the General Fund being overstated by $4.716 million and the Debt Service Fund (Non-major Governmental fund) understated by $4.716 million, resulting in a restatement in the beginning fund balance in the General Fund and Non-major Governmental Funds; and (4) an error was discovered in the recording of contributions received by the State Infrastructure Bank from the Ports Authority related to the Charleston County project, as the recording of revenues in the amount of $11.434 million were recorded at the government-wide level, but not recorded at the fund level in Local Government Infrastructure. A restatement of the beginning fund balance has been reflected in the Local Government Infrastructure Fund for $11.434 million.

## NOTE 15: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2013 (expressed in thousands):

| Funds | Due From | Due To |
|---|---|---|
| **General Fund** | | |
| Departmental Program Services | $ 72,082 | $ 11,960 |
| Department of Transportation Special Revenue | — | 3,842 |
| Local Government Infrastructure | 20 | 1,092 |
| Nonmajor governmental funds | 59 | 181 |
| Internal service | 617 | 7,802 |
| Fiduciary | 92 | — |
| Unemployment Compensation | 6,962 | — |
| Nonmajor Enterprise Funds | 88 | — |
| | 79,920 | 24,877 |
| **Departmental Program Services** | | |
| General Fund | 11,960 | 72,082 |
| Department of Transportation Special Revenue Fund | 231 | — |
| Internal service | — | 481 |
| | 12,191 | 72,563 |
| **Department of Transportation Special Revenue Fund** | | |
| General Fund | 3,842 | — |
| Departmental Program Services | — | 231 |
| Local Government Infrastructure | 636 | — |
| Fiduciary | — | 12,014 |
| | 4,478 | 12,245 |
| **Local Government Infrastructure** | | |
| General Fund | 1,092 | 20 |
| Department of Transportation Special Revenue Fund | — | 636 |
| | 1,092 | 656 |
| **Nonmajor Governmental Funds** | | |
| General Fund | 181 | 59 |
| Unemployment Compensation | 6,881 | — |
| | 7,062 | 59 |
| **Internal Service** | | |
| General Fund | 7,802 | 617 |
| Departmental Program Services | 481 | — |
| Fiduciary | 205 | — |
| | 8,488 | 617 |
| **Unemployment Compensation** | | |
| General Fund | — | 6,962 |
| Nonmajor governmental funds | — | 6,881 |
| | — | 13,843 |
| **Nonmajor Enterprise Funds** | | |
| General Fund | — | 88 |
| **Fiduciary** | | |
| General Fund | — | 92 |
| Department of Transportation Special Revenue | 12,014 | — |
| Internal service | — | 205 |
| Fiduciary | 54,712 | 54,712 |
| | 66,726 | 55,009 |
| **Totals** | **$ 179,957** | **$ 179,957** |

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 | $ 425 | $ 760 | $ 51 |
| Nonmajor governmental funds | 300 | 1,202 | — |
| Internal service | 157 | 20,170 | 142 |
| | 882 | 22,132 | 193 |
| Departmental Program Services | | | |
| General | 760 | 425 | — |
| Local Government Infrastructure | | | |
| Department of Transportation Special Revenue | 294,861 | — | 271,562 |
| Department of Transportation Special Revenue Fund | | | |
| Local Government Infrastructure | — | 294,861 | — |
| Nonmajor governmental funds | — | 24 | — |
| | — | 294,885 | — |
| Nonmajor Governmental Funds | | | |
| General | 1,202 | 300 | 85 |
| Department of Transportation Special Revenue | 24 | — | — |
| Internal service | 1,841 | 10,305 | — |
| | 3,067 | 10,605 | 85 |
| Nonmajor Enterprise Funds | | | |
| Internal service | — | 3,208 | — |
| Internal Service | | | |
| General | 20,170 | 157 | 20,170 |
| Nonmajor governmental funds | 10,305 | 1,841 | 10,305 |
| Nonmajor enterprise funds | 3,208 | — | 3,208 |
| Internal service | 4,700 | 4,700 | 4,700 |
| | 38,383 | 6,698 | 38,383 |
| **Totals** | **$ 337,953** | **$ 337,953** | **$ 310,223** |

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:

- $294.861 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.
- $20.170 million owed by the General Fund to the internal service funds. The Department of Revenue borrowed money from the Insurance Reserve Fund for security breach remediation.
- $10.305 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.

The following table summarizes interfund transfers during the fiscal year ended June 30, 2013 (expressed in thousands):

| Funds | Transfers In | Transfers Out |
|---|---|---|
| General Fund | | |
| Departmental Program Services | $ 23,217 | $ 115,334 |
| Local Government Infrastructure | 9,572 | 45,526 |
| Department of Transportation Special Revenue | — | 703 |
| Nonmajor governmental funds | 111,295 | 65,864 |
| Unemployment Compensation Benefits | 200 | 73,000 |
| Nonmajor enterprise funds | 10,215 | 104 |
| Internal service | 13,284 | 2,968 |
| | 167,783 | 303,499 |
| Departmental Program Services | | |
| General | 115,334 | 23,217 |
| Nonmajor governmental funds | 11,358 | 25,259 |
| | 126,692 | 48,476 |
| Local Government Infrastructure | | |
| General | 45,526 | 9,572 |
| | 45,526 | 9,572 |
| Department of Transportation Special Revenue Fund | | |
| General | 703 | — |
| Nonmajor Governmental Funds | | |
| General | 65,864 | 111,295 |
| Departmental Program Services | 25,259 | 11,358 |
| | 91,123 | 122,653 |
| Unemployment Compensation Benefits | | |
| General | 73,000 | 200 |
| Nonmajor Enterprise Funds | | |
| General | 104 | 10,215 |
| Internal service | — | 1,721 |
| | 104 | 11,936 |
| Internal Service | | |
| General | 2,968 | 13,284 |
| Nonmajor enterprise funds | 1,721 | — |
| | 4,689 | 13,284 |
| **Totals** | **$ 509,620** | **$ 509,620** |

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: JOINT VENTURE AND JOINT OPERATION

### a. Joint Venture

The Public Service Authority (Authority) is a member of The Energy Authority (TEA). TEA markets wholesale power and coordinates the operation of the generation assets of its members to maximize the efficient use of electrical energy resources, reduce operating costs and increase operating revenues of the members. It is expected to accomplish the foregoing without impacting the safety and reliability of the electric system of each member. TEA does not engage in the construction or ownership of generation or transmission assets. In addition, it assists members with fuel hedging activities and acts as an agent in the execution of forward transactions. The Authority accounts for its investment in TEA under the equity method of accounting.

All of TEA's revenues and costs are allocated to the members. The Authority's exposure relating to TEA is limited to the Authority's capital investment, any accounts receivable and trade guarantees provided by the Authority. These guarantees are within the scope of FASB ASC 952. Upon the Authority making any payments under its electric guarantee, it has certain contribution rights with the other members in order that payments made under the TEA member guarantees would be equalized ratably, based upon each member's equity ownership interest. After such contributions have been affected, the Authority would only have recourse against TEA to recover amounts paid under the guarantee. The term of this guarantee is generally indefinite, but the Authority has the ability to terminate its guarantee obligations by providing advance notice to the beneficiaries thereof. Such termination of its guarantee obligations only applies to TEA transactions not yet entered into at the time the termination takes effect. The Authority's support of TEA's trading activities is limited based on the formula derived from the forward value of TEA's trading positions at a point in time. The formula was approved by the Authority's Board. At December 31, 2012, the trade guarantees are an amount not to exceed approximately $75.9 million.

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 Authority and South Carolina Electric and Gas (SCE&G) are parties to a joint ownership agreement providing that the Authority and SCE&G shall own Unit 1 at the V.C. Summer Nuclear Station with undivided interests of 33.33% and 66.67%, respectively. SCE&G is solely responsible for the design, construction, budgeting, management, operation, maintenance and decommissioning of Unit 1 and the Authority is obligated to pay its ownership share of all costs relating thereto. The Authority receives 33.33% of the net electricity generated. In 2004, the NRC granted a twenty-year extension to the operating license for Unit 1, extending it to August 6, 2042. Nuclear fuel costs are being amortized based on energy expended using the unit-of-production method. Costs include a component for estimated disposal expense of spent nuclear fuel. This amortization is included in fuel expense and recovered through the Authority's rates.

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. In compliance with the applicable NRC regulations, the Authority established an external trust fund and began making deposits into this fund in September 1990. In addition to providing for the minimum requirements imposed by the NRC, the Authority makes deposits into an internal fund in the amount necessary to fund the difference between a site-specific decommissioning study completed in 2012 and the NRC's imposed minimum requirement. Based on these estimates, the Authority's one-third share of the estimated decommissioning costs of Unit 1 equals approximately $315.1 million in 2012 dollars. As deposits are made, the Authority debits FERC account 532 - Maintenance of Nuclear Plant, an amount equal to the deposits made to the internal and external trust funds. These costs are recovered through the Authority's rates.

The Authority and SCE&G plan to construct and operate two additional nuclear generating units (Summer Units 2 and 3) at V.C. Summer Nuclear Station and submitted an application to the NRC in March 2008 for a combined Construction and Operating License (COL) for each of the two new units. On May 22, 2008, the Authority's Board authorized the Authority to execute a Limited Agency Agreement appointing SCE&G to act as the Authority's agent in connection with the performance of an Engineering, Procurement and Construction (EPC) Agreement. On May 23, 2008, SCE&G, acting for itself and as agent for the Authority, entered into an EPC Agreement with Westinghouse and Stone & Webster, Inc., (a subsidiary of The Shaw Group, Inc.), for the engineering, procurement and construction of two 1,100 MW nuclear generating units.

On October 20, 2011, the Authority and SCE&G entered into a Design and Construction Agreement. Among other things, the Design and Construction Agreement allows either or both parties to withdraw from the project under certain circumstances. Also on October 20, 2011, the Authority and SCE&G entered into an Operating and Decommissioning Agreement with respect to the two units. Both the Design and Construction Agreement and the Operating and Decommissioning Agreement define the conditions under which the Authority or SCE&G may convey an undivided ownership interest in the new units to a third party. Together the Design and Construction Agreement and the Operating and Decommissioning Agreement provide for a 45 percent ownership interest by the Authority in each of the two new units and replace the Amended and Restated Bridge Agreement which had governed the relationship between the Authority and SCE&G.

The Authority received the COLs on March 30, 2012 and anticipates that V.C. Summer Units 2 and 3 will go into service in 2017 and 2018, respectively. On April 5, 2012, the Authority's Board authorized the Authority to expend up to $4.9 billion to fund the Authority's share of the EPC Agreement and associated Owner's Costs to complete the project.

As part of its capital improvement program, the Authority has evaluated its level of participation in the new units. Due to developments since initiation of the project, the Authority is taking actions necessary to reduce its 45 percent ownership interest. In 2011, the Authority began deferring a portion of interest expense representing the amount related to the assumed ownership reduction.

## NOTE 17: 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, 2013, the Educational Television Endowment of South Carolina, Inc., disbursed $5.02 million on behalf of the Departmental Program Services Fund, a major governmental fund, for programs, development, advertising, and other costs and had accounts payable to the Departmental Program Services Fund of $148 thousand at June 30, 2013.

During the fiscal year ended June 30, 2013, the State Museum Foundation reimbursed $1.207 million to the State Museum for reimbursement for the *Windows to New Worlds* project. The contribution from the Foundation and expenditures of the Museum are reported in the Capital Projects Fund, a nonmajor governmental fund.

The Education Assistance Authority Fund, a discretely presented component unit, 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, 2013, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC $131.975 million; program revenue from SLC $4.628 million; reimbursements to SLC for administrative costs $627 thousand; and payable to SLC $15.233 million.

## NOTE 18: MAJOR DISCRETELY PRESENTED COMPONENT UNITS

### a. Significant Transactions of Major Component Units with the Primary Government

Clemson University provided computer services and information systems development to other State agencies for a fee. These fees totaled $7.327 million and $14.773 million for the fiscal year ended June 30, 2013.

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 $19.6 million during the Authority's fiscal year ended December 31, 2012.

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, 2013.

### 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 had one customer that accounted for more than ten percent of the Authority's sales for its fiscal year ended December 31, 2012, as follows (expressed in thousands):

| Customer | Revenue | Revenue |
|---|---|---|
| Central Electric Power Cooperative, Inc | $ 1,115,000 | 59% |

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

#### State Ports Authority

During the fiscal year ended June 30, 2013, of the State Ports Authority's total revenues, three customers accounted for approximately 15%, 11%, and 8% 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. Intra-Entity Balances

The following tables summarize intra-entity balances between the primary government and its discretely presented component units at June 30, 2013 (expressed in thousands):

| Funds | Due From | Due To |
|---|---|---|
| General Fund | | |
| Ports Authority | $ — | $ 190,513 |
| Housing Authority | — | 1,563 |
| Clemson | 52 | 8,350 |
| MUSC | — | 336 |
| USC | 329 | 446 |
| Nonmajor discretely presented component units | 1,173 | 9,314 |
| | 1,554 | 210,522 |
| Departmental Program Services | | |
| Clemson | — | 1,889 |
| MUSC | 1,070 | 17,562 |
| USC | — | 1,687 |
| Nonmajor discretely presented component units | — | 937 |
| | 1,070 | 22,075 |
| Department of Transportation Special Revenue Fund | | |
| Clemson | — | 589 |
| Nonmajor Governmental Funds | | |
| Clemson | 98 | 121 |
| MUSC | — | 7,585 |
| USC | 69 | — |
| Nonmajor discretely presented component units | 42,955 | 2,161 |
| | 43,122 | 9,867 |
| Internal Service | | |
| USC | 3,839 | — |
| Nonmajor discretely presented component units | 264 | — |
| | 4,103 | — |
| **Governmental activities total** | **49,849** | **243,053** |
| Ports Authority | | |
| General Fund | 190,513 | — |
| Housing Authority | | |
| General Fund | 1,563 | — |
| Clemson University | | |
| General Fund | 8,350 | 52 |
| Departmental Program Services | 1,889 | — |
| Department of Transportation Special Revenue | 589 | — |
| Nonmajor governmental funds | 121 | 98 |
| | 10,949 | 150 |
| MUSC | | |
| General Fund | 336 | — |
| Departmental Program Services | 17,562 | 1,070 |
| Nonmajor governmental funds | 7,585 | — |
| | 25,483 | 1,070 |
| USC | | |
| General Fund | 446 | 329 |
| Departmental Program Services | 1,687 | — |
| Nonmajor governmental funds | — | 69 |
| Internal service | — | 3,839 |
| | 2,133 | 4,237 |
| Nonmajor Discretely Presented Component Units | | |
| General Fund | 9,314 | 1,173 |
| Departmental Program Services | 937 | — |
| Nonmajor governmental funds | 2,161 | 42,955 |
| Internal service | — | 264 |
| | 12,412 | 44,392 |
| **Discretely presented component units total** | **243,053** | **49,849** |
| **Totals** | **$ 292,902** | **$ 292,902** |

## NOTE 19: CONTINGENCIES AND COMMITMENTS

### a. Litigation

Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2013, are two cases that challenge the legality of certain taxes **(Roper Medical v DOR and Duke Energy v DOR)**. In the event of unfavorable outcomes for these cases, the State estimates the potential loss of $284.9 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 filed a motion to reconsider that decision. The District Court denied the Plaintiff's motion, and the Plaintiffs have appealed to the Fourth Circuit Court of Appeals.

The South Carolina Retirement System is a defendant in a retirement case to ensure that SCRS does not suffer any monetary loss as a result of the service purchase. This case is **Anderson County v Joey Preston and the SCRS** the defendant is a retired member of SCRS who was employed by Anderson County. Plaintiff seeks to rescind a severance agreement entered into between Plaintiff and Preston. Plaintiff agreed to pay, and did pay, approximately $355,000 to the System to purchase retirement service credit on behalf of Preston. By an order date May 3, 2013, the Circuit Court ruled against the Plaintiff Anderson County on all claims, including claims for the return of monies paid to the South Carolina Retirement System. Plaintiff had filed a motion to alter or amend the decision, and that motion is currently pending before the Circuit 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 **(Abbeville County School District vs State of South Carolina).** 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 case, **Kiawah Development Partners II vs SCDHEC-OCRM and State** alleges an unconstitutional taking/inverse condemnation of developer's Kiawah property on a spit of land above mean high-water. Plaintiff claims that the taking is due to the Office of Ocean and Coastal Resource Management's alleged delay and denial of most of its request for a permit to build a revetment in State critical area to protect Kiawah's spit from further erosion. Plaintiff seeks not less than $100 million in damages. The parties agreed to a stay of this suit while the ALC determines Kiawah's appeal of the permitting decision. The ALS ruled in favor of Kiawah and OCRM has appealed. The Supreme Court issued an opinion but withdrew it while it considers a petition for rehearing. Determination of a potential loss at this point would be speculative in that the appeal must be resolved before underlying takings action proceeds. In a third case, **Dean v. SC Department of Public Safety** the plaintiffs seek back wages including overtime pay for all hours during which troopers were on call and during which they were on special duty assignments. The suit seeks payment under the Fair Labor Standards Act and the State Wage Payment Act. The court has ruled that this is an "opt out" class so that it includes all troopers in the state except for the less than 200 who opted out. Questions to be resolved in the case include whether a two or three year statute of limitations applies. The court has ruled that treble damages would not apply to the State. Under the Plaintiffs' theory of the case, in the event of a loss to the State, the amount could exceed $12 million. Lastly, the plaintiffs in **T.R., P.R., and K.W., etc. v. Department of Corrections & Ozmint** contend that a lack of funding has resulted in the unconstitutional treatment of prison inmates with mental illnesses. The Judge recently issued an order granting judgment in favor of the Plaintiffs. The lawsuit did not seek specific monetary damages, but the Order references certain remedies that the Court is requiring the defendants to undertake i.e. developing an adequate system for providing inmates with serious mental illnesses services including additional and better-trained staff. The defendants plan to appeal.

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 $141.083 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 9a), 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 and Ports 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. Several environmental advocacy groups filed suit against the Authority in the Court of Common Pleas in Horry County seeking injunctive relief with regard to closure of ash ponds at the Grainger Generating Station. The suit does not seek damages but alleges that an unlawful discharge of arsenic and other contaminants has occurred and requests that the court order the removal and offsite storage of all ash contained in the ponds. The Authority has filed an Answer to the suit and is defending against the allegations. The Authority intends to properly close the ash ponds in accordance with regulatory requirements.

The Ports Authority has intervened in a lawsuit brought against a passenger cruise line by an environmental group. The effect of this case on the financial position of the Port Authority related to this lawsuit cannot be determined at this time. In January 2013, the Ports Authority intervened in a federal case brought by preservation and environmental groups against the U.S. Army Corps of Engineers, to challenge issuance of authority for the Ports Authority to drive pilings under a building on Union Pier Terminal in renovating the building to accommodate passenger vessels. On September 19, 2013, the federal district court remanded the permit to the Corps for further review and action. Appeal of this administrative ruling is under consideration, which will extend the time before the renovation work can begin. In February 2013, the same cruise terminal opponents and others filed an administrative action challenging the State permit issued for the piling work at Union Pier. A final hearing on the merits is scheduled for February 2014. The Ports Authority intends to defend issuance of the permit. The effect of these administrative permit cases on the financial position of the Ports Authority cannot be determined 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, 2013, 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 non-major component unit, guarantees student loans. At June 30, 2013, these loans totaled $2.420 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, 2013, was 1.5%.

**d. Purchase Commitments**

A breach of taxpayer information was identified during the fiscal year. Approximately 3.5 million taxpayers, individuals, dependents, and businesses, may be affected by the breach. The Department of Revenue has arranged for CSID to provide free protective monitoring for all potential taxpayers affected who sign up for their service from October 2013 to October 2014. The fee to the state is $6.00 per enrollment, however the fee decreases each month based upon the proration of the period remaining on the contract. The contract is capped at $8.5 million.

Major Discretely Presented Component Unit—Public Service Authority

At December 31, 2012, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $1.226 million for coal. In addition, minimum obligations under two purchased power contracts as of December 31, 2012, were approximately $57.200 million with a remaining term of twenty-two years, $19.6 million with a term of two years and $69.7 million with a term of three years. Also at December 31, 2012, the Authority had commitments for nuclear fuel and nuclear fuel conversion contracts of $529.7 million over the next twenty-two years. The enrichment and fabrication component of these commitments in 2013 totaling $9.100 million is contingent upon the operating requirements of the nuclear unit.

The Authority amended a service agreement to an approximate amount of $71.500 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.

Major Discretely Presented Component Unit—Ports Authority

At June 30, 2013, the Ports Authority had construction commitments of $45.172 million. Harbor Deepening, the Ports Authority has $8.0 million remaining as its legal obligation to pay for the completion of this project.

**e. Commitments to Provide Grants and Other Financial Assistance**

As of June 30, 2013, 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 $973.6 million remaining on agreements with various counties to provide financial assistance for highway and transportation facilities projects.
- The Department of Commerce has $98.560 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, $38.590 million will be funded by federal grants and $59.970 million will be funded with private aid.
- The Budget and Control Board has $90.477 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects. Federal grants will fund $18.502 million of this commitment.
- The Division of Aeronautics has $2.984 million for grants made to municipal and county airports for capital improvements. Federal grants will fund $2.000 million of this commitment.
- The State Board for Technical and Comprehensive Education has $21.433 million to provide training for new and expanding business and industry in the State.
- The Department of Public Safety has $35.281 million for pass-through grants to various State agencies, local governments, and not-for-profit entities, of which $35.050 million will be funded by federal grants.
- The South Carolina Law Enforcement Division has $20.988 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 $5.842 million outstanding commitments related to vendor service contracts.
- The Rural Infrastructure Authority has $9.943 million for loans to municipalities, counties, special purpose and public service districts and public works commissions for constructing and improving rural infrastructure facilities.
- The State Housing Finance and Development Authority has $425 thousand for special initiatives under the Program Fund and $5.350 million from the Housing Trust Fund, for affordable housing projects and developments.

**f. 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 high 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 $531.557 million as of June 30, 2013.

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 May of 2011.

## NOTE 20: SUBSEQUENT EVENTS

### a. Federal Funds

On August 14, 2013 the Department of Employment and Workforce received $50 million from the United States Department of Labor for the development and implementation of an enhanced Unemployment Insurance Benefits system for the Southeastern Consortium of Unemployment Benefits Integration, which also includes Georgia and North Carolina. The funds have been obligated via vendor contract and memorandums of understanding between the participating states, and must be liquidated by September 30, 2016.

### b. Biomass Facility Settlement

In August 2004, the University of South Carolina, a major discretely presented component unit, entered into an agreement with Johnson Controls Incorporated (JCI) to construct and operate a Biomass facility. The purpose of the facility is to gasify woodchips for the production of steam at a cost below what would be required using conventional methods. Construction of the facility was completed in June 2007 at which time it was placed in service at a cost of approximately $19.2 million. Since being placed in service the facility has operated intermittently and is inoperable as of the date of this report. During 2013, the University determined that the existing technology employed to operate the facility was not viable and recorded an impairment loss in the amount of the remaining net book value of $13.990 million as of June 30, 2013. This impairment loss is included within the "Loss on disposal of capital assets" on the Statement of Revenues, Expenses and Changes in Net Position. Subsequent to year end, the University received approximately $14.4 million from JCI as a financial settlement for the Biomass facility agreement.

### c. Sale of Portion of V. C. Summer Nuclear Station Units 2 and 3 to South Carolina Electric & Gas (SCE&G)

On January 27, 2014, the Public Service Authority's Board of Directors, a component unit, approved the sale of five percent of its ownership in V.C. Summer Units 2 and 3 to South Carolina Electric & Gas (SCE&G). Under the terms of the new agreement, SCE&G will own 60 percent of the new nuclear units and the Authority, 40 percent. Under the existing ownership agreement, SCE&G owns 55 percent and the Authority owns 45 percent. The five percent ownership interest would be acquired in three stages:

(1) one percent at the commercial operation date of the first new nuclear unit, anticipated to be in late 2017 or the first quarter of 2018;
(2) two percent no later than the first anniversary of such commercial operation date; and
(3) two percent no later than the second anniversary date of such commercial operation date.

The Agreement also provides that the Authority will not transfer any of its remaining ownership interest in the two new units until after the commercial operating date for both units.

### d. South Carolina State University

On January 31, 2014, South Carolina State University, a non-major discretely presented component unit, notified the State that revenue collections have not met revenue estimates because student enrollment has lagged behind university projections. As a result, the University has requested $13 million from the State to pay current bills. The State has requested the University provide it with a detailed financial plan so it could determine the appropriate action to take.

### e. Debt Issuances

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

- The State issued General Obligation economic development bonds, Series 2013A, in the amount of $85 million on December 10, 2013.
- The State issued General Obligation state highway refunding bonds, Series 2013A, in the amount of $23.165 million on December 10, 2013.

- The State issued General Obligation state research university infrastructure bonds, Series 2013A, in the amount of $15.235 million on December 10, 2013.
- The State issued General Obligation state institution bonds, Series 2013A, in the amount of $3.045 million on behalf of Winthrop University, reported as a nonmajor discretely presented component unit, on December 10, 2013.
- The State issued General Obligation state institution bonds, Series 2013B, in the amount of $14.125 million on behalf of Lander University, reported as a nonmajor discretely presented component unit, on December 10, 2013.
- The State issued General Obligation state institution bond anticipation notes, Series 2013A, in the amount of $28 million on behalf of Medical University of South Carolina, reported as a major discretely presented component unit, on December 9, 2013.
- The Medical University Hospital Authority, a component unit, issued hospital facilities refunding revenue bonds, Series 2013, in the amount of $47.442 million on December 30, 2013.
- The Public Service Authority, a major discretely presented component unit, issued tax-exempt bonds, Series 2013A, in the amount of $265.655 million on August 21, 2013.
- The Public Service Authority, a major discretely presented component unit, issued tax-exempt refunding bonds, Series 2013B, in the amount of $388.730 million on August 21, 2013.
- The Public Service Authority, a major discretely presented component unit, issued taxable bonds, Series 2013C, in the amount of $250 million on August 21, 2013.
- The Public Service Authority, a major discretely presented component unit, issued taxable LIBOR Index bonds, Series 2013D, in the amount of $450 million on August 21, 2013.
- The Public Service Authority, a major discretely presented component unit, issued tax-exempt bonds, Series 2013E, in the amount of $506.765 million on October 4, 2013.