BASIC FINANCIAL STATEMENTS

Statement of Net Position

June 30, 2014
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
ASSETS				
Cash and cash equivalents	$ 5,429,990	$ 486,685	$ 5,916,675	$ 1,898,036
Investments	505,212	110,969	616,181	1,285,878
Invested securities lending collateral	5,473	79	5,552	1,849
Receivables, net:				
Accounts	417,677	23,558	441,235	357,792
Contributions	475	—	475	122,968
Participants	—	3,843	3,843	—
Accrued interest	20,175	378	20,553	7,810
Income taxes	397,565	—	397,565	—
Sales and other taxes	580,984	—	580,984	—
Student accounts	40	—	40	50,569
Patient accounts	19,362	—	19,362	227,020
Loans and notes	550,241	—	550,241	120,116
Assessments	—	125,395	125,395	—
Due from Federal government and other grantors	680,933	339	681,272	109,046
Internal balances	6,003	(6,003)	—	—
Due from component units	60,844	—	60,844	—
Due from primary government	—	—	—	254,473
Inventories	36,168	2,875	39,043	772,092
Restricted assets:				
Cash and cash equivalents	864,482	2	864,484	1,126,987
Investments	—	—	—	2,500,100
Accounts receivable	215,240	—	215,240	—
Loans receivable	—	2,153	2,153	591,104
Other	69,168	—	69,168	30,977
Prepaid items	34,139	439	34,578	79,970
Other assets	546	8	554	1,032,959
Other assets- asset retirement obligation	—	—	—	603,663
Investment in joint venture	—	—	—	6,840
Capital assets-nondepreciable	4,537,736	114,402	4,652,138	3,296,616
Capital assets-depreciable, net	10,738,091	22,031	10,760,122	9,058,338
Total assets	$ 25,170,544	$ 887,153	$ 26,057,697	$ 23,535,203
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	$ 21,801	$ —	$ 21,801	$ 23,101
Deferred amount on refunding	108,342	—	108,342	188,401
Total deferred outflows	$ 130,143	$ —	$ 130,143	$ 211,502
LIABILITIES				
Accounts payable	$ 600,906	$ 2,814	$ 603,720	$ 426,216
Accrued salaries and related expenses	142,076	536	142,612	170,479
Accrued interest payable	8,186	—	8,186	122,659
Retainages payable	508	—	508	11,874
Tax refunds payable	721,196	16,620	737,816	—
Payables-aid to individuals/families	6,188	—	6,188	—
Prizes payable	—	—	—	26,647
Unemployment benefits payable	—	1,564	1,564	—
Intergovernmental payables	467,771	2,840	470,611	455
Tuition benefits payable	—	165,670	165,670	—
Due to component units	254,473	—	254,473	—
Due to primary government	—	—	—	60,844
Due to fiduciary funds	12,301	—	12,301	—
Unearned revenues and asset retirement obligation	358,529	4,646	363,175	1,302,199
Deposits	—	—	—	15,338
Amounts held in custody for others	—	—	—	32,767
Securities lending collateral	16,164	232	16,396	5,462
Liabilities payable from restricted assets:				
Accrued interest payable	28,996	32	29,028	—
Other	—	2,195	2,195	18,042
Other liabilities	162,996	4,088	167,084	670,854
Long-term liabilities:	—			
Due within one year	938,993	175,414	1,114,407	378,149
Due in more than one year	3,402,680	609,876	4,012,556	9,666,328
Total liabilities	$ 7,121,963	$ 986,527	$ 8,108,490	$ 12,908,313
DEFERRED INFLOWS OF RESOURCES				
Accumulated increase in fair value of hedging derivatives	$ —	$ —	$ —	$ 8,146
Deferred gain on refunding	—	—	—	412
Deferred nuclear decommissioning costs	—	—	—	185,849
Deferred nonexchange revenues	—	—	—	678
Total deferred outflows	$ —	$ —	$ —	$ 195,085

Exhibit A-1

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 11,892,515	$ 124,223	$ 12,016,738	$ 4,763,347
Restricted:				
Expendable:				
General Government	1,265,085	—	1,265,085	—
Education	528,171	20	528,191	986,176
Health	908,642	—	908,642	—
Transportation	783,474	—	783,474	745
Capital projects	188,811	—	188,811	520,365
Debt service	1,247,323	—	1,247,323	274,433
Loan programs	17,847	—	17,847	319,747
Waste management	173,416	—	173,416	—
Insurance programs	234,179	69,230	303,409	—
Administration of Justice	26,865	—	26,865	—
Economic Development	62,801	—	62,801	—
Social Programs	42,958	—	42,958	—
Other	—	—	—	2,701
Nonexpendable:				
Education	—	—	—	1,054,032
Other	9,057	116,482	125,539	—
Unrestricted	797,580	(409,329)	388,251	2,721,761
Total net position (deficit)	**$ 18,178,724**	**$ (99,374)**	**$ 18,079,350**	**$ 10,643,307**

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

Statement of Activities

For the Fiscal Year Ended June 30, 2014
(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	$ 5,377,689	$ 2,426,885	$ 607,938	$ 119,752	$ (2,223,114)
Education	4,250,632	54,894	884,309	10,944	(3,300,485)
Health and environment	7,071,800	436,105	4,262,519	71,859	(2,301,317)
Social services	1,977,904	16,394	1,682,410	81	(279,019)
Administration of justice	830,536	63,811	53,589	45,786	(667,350)
Resources and economic development	334,898	62,141	58,516	3,475	(210,766)
Transportation	1,159,917	157,372	111,942	554,760	(335,843)
Unallocated interest expense	36,896	—	—	—	(36,896)
Total governmental activities	**21,040,272**	**3,217,602**	**7,661,223**	**806,657**	**(9,354,790)**
Business-type activities:					
Unemployment compensation benefits	342,741	507,907	88,790	—	253,956
Second Injury	2,547	60,043	—	—	57,496
Other enterprise activities	35,194	45,815	1,317	210	12,148
Total business-type activities	**380,482**	**613,765**	**90,107**	**210**	**323,600**
Total primary government	**$ 21,420,754**	**$ 3,831,367**	**$ 7,751,330**	**$ 806,867**	**$ (9,031,190)**
Component units:					
Public Service Authority	1,789,130	1,816,576	1,625	—	29,071
Medical University of South Carolina	1,869,055	1,758,385	193,896	19,637	102,863
University of South Carolina	1,100,388	834,755	338,112	24,364	96,843
Clemson University	792,537	569,498	304,684	18,684	100,329
State Ports Authority	150,698	159,808	4,039	3,934	17,083
Housing Authority	227,823	41,636	199,367	—	13,180
Other	3,051,669	2,389,925	710,914	77,237	126,407
Total component units	**$ 8,981,300**	**$ 7,570,583**	**$ 1,752,637**	**$ 143,856**	**$ 485,776**

Exhibit A-2

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net position:				
Net revenues (expenses)	$ (9,354,790)	$ 323,600	$ (9,031,190)	$ 485,776
General revenues:				
Taxes:				
Individual income	3,422,532	—	3,422,532	—
Retail sales and use	4,178,102	—	4,178,102	—
Corporate income	327,809	—	327,809	—
Gas and motor vehicle	636,216	—	636,216	—
Insurance	138,037	—	138,037	—
Hospital	262,962	—	262,962	—
Other	601,692	—	601,692	—
Total taxes	9,567,350	—	9,567,350	—
Unrestricted grants and contributions	1	—	1	—
Unrestricted investment income	115,150	26,107	141,257	—
Tobacco legal settlement	109,113	—	109,113	—
Other revenues	684,412	204	684,616	—
Additions to endowments	—	—	—	50,278
Transfers–internal activities	(47,900)	47,900	—	—
Total general revenues, additions to endowments, and transfers	**10,428,126**	**74,211**	**10,502,337**	**50,278**
Change in net position	**1,073,336**	**397,811**	**1,471,147**	**536,054**
Net position (deficit) at beginning of year, restated	**17,105,388**	**(497,185)**	**16,608,203**	**10,107,253**
Net position (deficit) at end of year	**$ 18,178,724**	**$ (99,374)**	**$ 18,079,350**	**$ 10,643,307**

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

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2014
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure
ASSETS			
Cash and cash equivalents	$ 3,088,200	$ 182,037	$ 553,955
Investments	43,617	6,606	—
Invested securities lending collateral	144	61	1,673
Receivables, net:			
Accounts	92,901	116,397	13,950
Contributions	184	291	—
Accrued interest	11,928	183	2,696
Income taxes	397,565	—	—
Sales and other taxes	472,300	11,015	—
Student accounts	40	—	—
Patient accounts	15,684	3,678	—
Loans and notes	39,064	532	506,844
Due from Federal government and other grantors	42	612,888	—
Due from other funds	123,292	26,437	1,679
Due from component units	7,609	1,093	—
Interfund receivables	617	760	272,834
Inventories	26,130	4,074	—
Restricted assets:			
Cash and cash equivalents	—	—	853,735
Accounts receivable	—	—	215,240
Other	—	—	35,168
Prepaid items	5,764	1,940	—
Other assets	—	—	—
Total assets	**$ 4,325,081**	**$ 967,992**	**$ 2,457,774**
LIABILITIES			
Accounts payable	152,797	269,489	11,087
Accrued salaries and related expenditures	93,042	25,945	68
Retainages payable	75	327	—
Tax refunds payable	720,934	—	—
Payable–aid to individuals/families	1,648	4,540	—
Intergovernmental payables	72,516	200,864	100
Due to other funds	79,457	119,786	20
Due to component units	215,628	34,774	—
Interfund payables	1,842	475	—
Unearned revenues	18,402	44,773	122,026
Securities lending collateral	426	179	4,936
Other liabilities	43,510	10	—
Total liabilities	**1,400,277**	**701,162**	**138,237**
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	**1,769**	**20,890**	**194,049**
FUND BALANCES (DEFICIT)			
Nonspendable	68,128	7,306	749,181
Restricted	359,073	717,581	1,376,307
Committed	967,245	5,234	—
Assigned	444,630	—	—
Unassigned	1,083,959	(484,181)	—
Total fund balances (deficit)	**2,923,035**	**245,940**	**2,125,488**
Total liabilities and fund balances	**$ 4,325,081**	**$ 967,992**	**$ 2,457,774**

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
$ 319,484	$ 685,301	$ 4,828,977
—	392	50,615
147	308	2,333
14,113	832	238,193
—	—	475
340	910	16,057
—	—	397,565
9,051	88,618	580,984
—	—	40
—	—	19,362
3,508	293	550,241
68,003	—	680,933
49,710	295	201,413
—	47,114	55,816
—	1,423	275,634
2,635	—	32,839
10,747	—	864,482
—	—	215,240
—	34,000	69,168
3,683	21	11,408
215	—	215
$ 481,636	**$ 859,507**	**$ 9,091,990**
153,332	$ 10,396	$ 597,101
19,526	221	138,802
74	32	508
—	262	721,196
—	—	6,188
—	194,140	467,620
13,485	64	212,812
—	4,071	254,473
272,834	8,435	283,586
26,833	—	212,034
433	913	6,887
—	—	43,520
486,517	**218,534**	**2,944,727**
2,242	**—**	**218,950**
8,687	10,501	843,803
10,000	521,021	2,983,982
237,390	104,064	1,313,933
—	5,387	450,017
(263,200)	—	336,578
(7,123)	**640,973**	**5,928,313**
$ 481,636	**$ 859,507**	**$ 9,091,990**

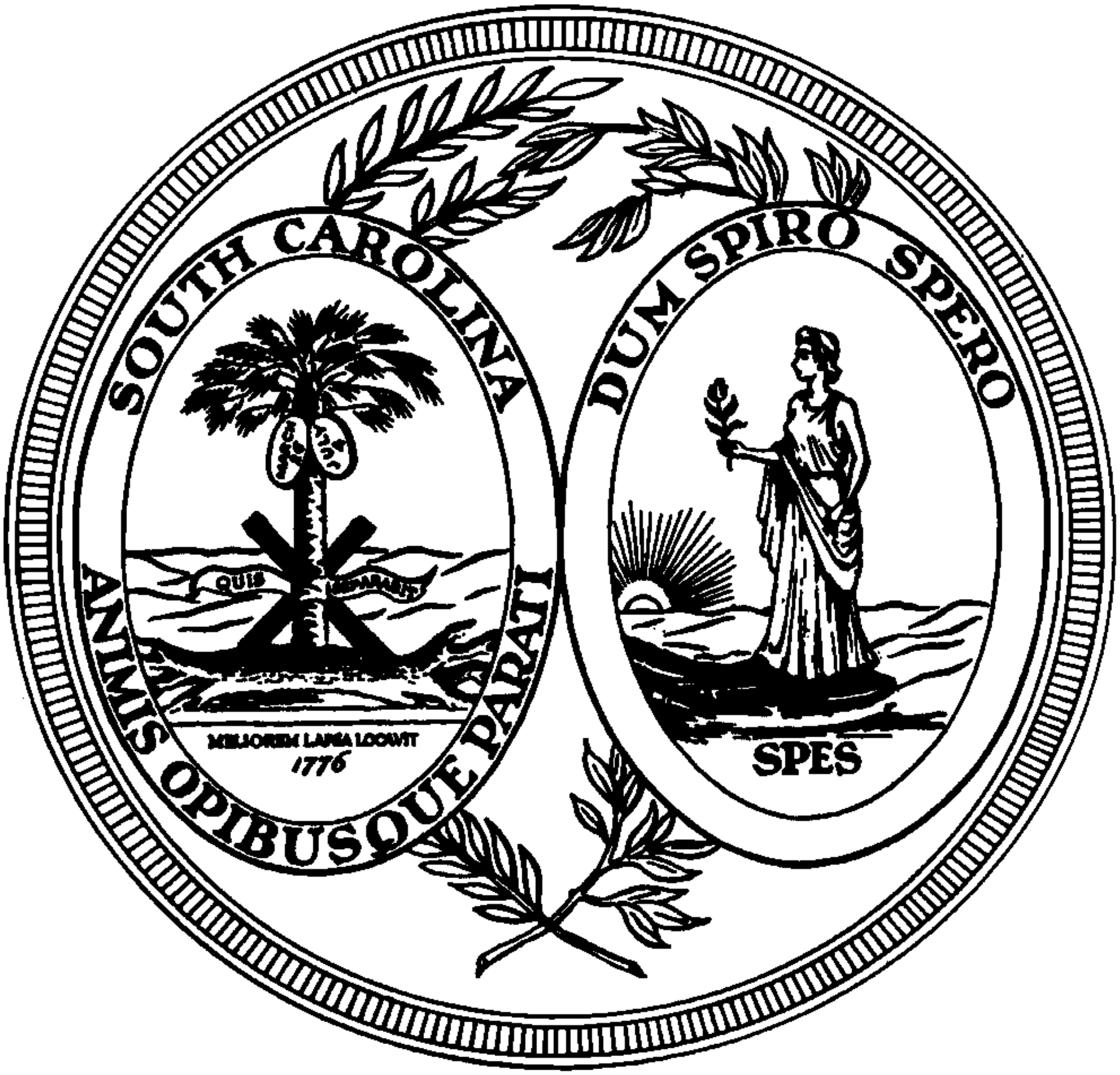
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

Exhibit B-1a

June 30, 2014
(Expressed in Thousands)

Total fund balances–governmental funds		**$ 5,928,313**
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	$ 4,530,839	
Depreciable capital assets	15,841,196	
Accumulated depreciation	(5,198,904)	
Total capital assets		15,173,131
Deferred outflows of resources related to the State's losses on bond refundings are deferred and amortized over the life of the bonds and are included in governmental activities in the statement of net position		108,342
Certain State revenues will be collected after year-end but are not available soon enough to pay for the the current period's expenditures, and therefore are considered deferred inflows of resources		218,950
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		542,403
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	(3,349,366)	
Notes payable	(17,451)	
Accrued interest on bonds	(36,963)	
Capital leases	(6,004)	
Compensated absences	(213,309)	
Policy claims	(48,000)	
Other	(121,322)	
Total long-term liabilities		(3,792,415)
Net position of governmental activities		**$ 18,178,724**

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, 2014
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure
Revenues:			
Taxes:			
Individual income	$ 3,399,439	$ —	$ 23,093
Retail sales and use	3,464,553	1,709	—
Corporate Income	327,809	—	—
Gas and motor vehicle	—	—	—
Insurance	138,037	—	—
Hospital	262,962	—	—
Other	477,282	122,232	—
Licenses, fees, and permits	277,093	29,385	160,795
Interest and other investment income	36,163	1,927	46,639
Federal	51,402	7,095,642	23,491
Local and private grants	5,244	52,345	—
Departmental services	793,229	89,855	253
Contributions	15,247	16,711	68,435
Fines and penalties	133,468	4,795	—
Tobacco legal settlement	—	—	—
Other	499,038	226,762	2,627
Total revenues	**9,880,966**	**7,641,363**	**325,333**
Expenditures:			
Current:			
General government	603,967	95,428	332
Education	567,699	120,381	—
Health and environment	2,528,519	4,793,409	—
Social services	324,402	1,654,183	—
Administration of justice	770,354	27,669	—
Resources and economic development	142,446	59,760	1,034
Transportation	1,553	2,267	507
Capital outlay	78,155	25,637	—
Debt service:			
Principal retirement	149,360	3,705	73,765
Interest and fiscal charges	45,595	367	94,909
Intergovernmental	4,156,234	973,593	70,291
Total expenditures	**9,368,284**	**7,756,399**	**240,838**
Excess of revenues over (under) expenditures	**512,682**	**(115,036)**	**84,495**
Other financing sources (uses):			
Refunding bonds issued	—	—	—
Bonds issued	—	—	—
Premiums on bonds issued	—	—	—
Capital Leases	3,348	4,118	—
Payment to refunded bond escrow agent	—	—	—
Transfers in	332,712	277,022	13,767
Transfers out	(467,392)	(152,434)	(10,113)
Total other financing sources (uses)	**(131,332)**	**128,706**	**3,654**
Net change in fund balances	**381,350**	**13,670**	**88,149**
Fund balances (deficit) at beginning of year, as restated	**2,541,685**	**232,270**	**2,037,339**
Fund balances (deficit) at end of year	**$ 2,923,035**	**$ 245,940**	**$ 2,125,488**

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
$ —	$ —	$ 3,422,532
—	711,840	4,178,102
—	—	327,809
636,216	—	636,216
—	—	138,037
—	—	262,962
—	2,178	601,692
—	76,285	543,558
3,799	7,205	95,733
639,878	2,403	7,812,816
—	—	57,589
58,702	8,715	950,754
—	333,538	433,931
—	8,459	146,722
—	109,113	109,113
12,556	874	741,857
1,351,151	**1,260,610**	**20,459,423**
—	84,788	784,515
—	260,057	948,137
—	1,627	7,323,555
—	—	1,978,585
—	8	798,031
—	593	203,833
687,916	—	692,243
530,626	68,233	702,651
41,964	1,287	270,081
23,878	18,259	183,008
79,543	763,775	6,043,436
1,363,927	**1,198,627**	**19,928,075**
(12,776)	**61,983**	**531,348**
86,575	—	86,575
—	100,235	100,235
15,000	15,389	30,389
—	—	7,466
(101,062)	—	(101,062)
102,456	82,175	808,132
—	(220,043)	(849,982)
102,969	**(22,244)**	**81,753**
90,193	**39,739**	**613,101**
(97,316)	**601,234**	**5,315,212**
$ (7,123)	**$ 640,973**	**$ 5,928,313**

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, 2014
(Expressed in Thousands)

Net change in fund balances–total governmental funds		**$ 613,101**
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	$ 641,635	
Depreciation expense	(301,180)	
Excess of capital outlay over depreciation expense		340,455
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		(10,272)
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	(186,810)	
Net bond premiums and discounts	(30,389)	
Net bond and note proceeds		(217,199)
Losses on bond refundings are considered deferred outflows of resources in the statement of net position		(4,761)
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		(7,466)
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	259,666	
Bonds repurchased	101,062	
Note principal retirement	8,604	
Capital lease payments	1,811	
Total long-term debt repayment		371,143
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		47,809
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 unearned revenues		(74,482)

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	$ 6,949	
Unamortized bond premiums and discounts	13,992	
Compensated absences payable	(9,377)	
Policy claims payable	47,884	
Other long-term liabilities	(44,440)	
Total additional expenses		15,008
Change in net position of governmental activities		**$ 1,073,336**

Statement of Net Position

PROPRIETARY FUNDS

June 30, 2014
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	**Second Injury**	**Nonmajor Enterprise**	**Totals**	**INTERNAL SERVICE FUNDS**
ASSETS					
Current assets:					
Cash and cash equivalents	$ 346,188	$ 116,977	$ 23,520	$ 486,685	$ 601,014
Investments	—	—	110,969	110,969	—
Invested securities lending collateral	10	66	3	79	3,140
Receivables, net:					
Accounts	20,810	141	2,607	23,558	178,433
Participants	—	—	944	944	—
Accrued interest	30	202	146	378	4,118
Assessments	125,395	—	—	125,395	—
Due from Federal government and other grantors	339	—	—	339	—
Due from other funds	—	—	—	—	3,675
Due from component units	—	—	—	—	5,028
Inventories	—	—	2,875	2,875	3,329
Restricted assets:					
Cash and cash equivalents	—	—	2	2	—
Prepaid items	—	—	439	439	21,927
Other current assets	—	—	8	8	—
Total current assets	492,772	117,386	141,513	751,671	820,664
Long-term assets:					
Investments	—	—	—	—	454,597
Receivables, net:					
Accounts	—	—	—	—	1,051
Participants	—	—	2,899	2,899	—
Interfund receivables	—	—	—	—	15,288
Restricted assets:					
Loans receivable	—	—	2,153	2,153	—
Prepaid items	—	—	—	—	804
Other long-term assets	—	—	—	—	331
Non-depreciable capital assets	—	—	114,402	114,402	6,897
Depreciable capital assets, net	—	—	22,031	22,031	95,799
Total long-term assets	—	—	141,485	141,485	574,767
Total assets	**492,772**	**117,386**	**282,998**	**893,156**	**1,395,431**

Exhibit B-3

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable	$ 187	$ 15	$ 2,612	$ 2,814	$ 3,803
Accrued salaries and related expenses	—	—	536	536	3,274
Tax refunds payable	16,620	—	—	16,620	—
Unemployment benefits payable	1,564	—	—	1,564	—
Intergovernmental payables	2,840	—	—	2,840	151
Tuition benefits payable	—	—	26,306	26,306	—
Policy claims	—	41,681	7,040	48,721	504,935
Due to other funds	3,754	—	96	3,850	727
Unearned revenues	—	—	3,735	3,735	146,495
Securities lending collateral	28	196	8	232	9,277
Liabilities payable from restricted assets:					
Accrued interest payable	—	—	32	32	221
Other	—	—	2,195	2,195	—
Advances from Federal government	126,000	—	—	126,000	—
Notes payable	—	—	—	—	281
Revenue bonds payable	—	—	155	155	1,965
Limited obligation bonds payable	—	—	—	—	734
Compensated absences payable	—	—	538	538	2,410
Other current liabilities	—	—	83	83	3,689
Total current liabilities	150,993	41,892	43,336	236,221	677,962
Long-term liabilities:					
Tuition benefits payable	—	—	139,364	139,364	—
Policy claims	—	267,861	65,228	333,089	160,551
Interfund payables	—	—	2,153	2,153	5,183
Unearned revenues	—	—	911	911	—
Advances from Federal government	270,501	—	—	270,501	—
Notes payable	—	—	—	—	533
Revenue bonds payable	—	—	6,055	6,055	6,791
Limited obligation bonds payable	—	—	—	—	185
Compensated absences payable	—	—	231	231	1,823
Other long-term liabilities	—	—	4,005	4,005	—
Total long-term liabilities	270,501	267,861	217,947	756,309	175,066
Total liabilities	**421,494**	**309,753**	**261,283**	**992,530**	**853,028**

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, 2014
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
NET POSITION					
Net investment in capital assets	—	$ —	$ 124,223	$ 124,223	$ 92,207
Restricted:					
Expendable:					
Education	—	—	20	20	—
Loan programs	—	—	—	—	17,847
Unemployment compensation benefits	69,230	—	—	69,230	—
Insurance programs	—	—	—	—	234,179
Other	—	—	116,482	116,482	—
Unrestricted	2,048	(192,367)	(219,010)	(409,329)	198,170
Total net position (deficit)	**$ 71,278**	**$ (192,367)**	**$ 21,715**	**$ (99,374)**	**$ 542,403**

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, 2014
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
Operating revenues:					
Assessments	$ 480,093	$ —	$ —	$ 480,093	$ —
Charges for services	—	60,043	45,702	105,745	2,392,054
Contributions	—	—	1,317	1,317	—
Interest and other investment income	207	3,422	22,398	26,027	—
Licenses, fees, and permits	—	—	—	—	2
Federal operating grants and contracts	88,790	—	—	88,790	—
Other operating revenues	27,814	—	113	27,927	143,445
Total operating revenues	**596,904**	**63,465**	**69,530**	**729,899**	**2,535,501**
Operating expenses:					
General operations and administration	—	205	26,978	27,183	520,418
Benefits and claims	342,741	2,342	(8,070)	337,013	1,975,202
Tuition plan disbursements	—	—	15,237	15,237	—
Interest	—	—	—	—	15
Depreciation and amortization	—	—	1,035	1,035	8,962
Other operating expenses	—	—	14	14	748
Total operating expenses	**342,741**	**2,547**	**35,194**	**380,482**	**2,505,345**
Operating income (loss)	**254,163**	**60,918**	**34,336**	**349,417**	**30,156**
Nonoperating revenues (expenses):					
Interest income	—	—	175	175	19,417
Contributions	—	—	—	—	1
Federal grants and contracts	—	—	210	210	—
Interest expense	—	—	(95)	(95)	(527)
Net other nonoperating revenues (expenses)	(85)	—	289	204	4,859
Losses on sale of capital assets	—	—	—	—	(47)
Total nonoperating revenues (expenses)	**(85)**	**—**	**579**	**494**	**23,703**
Income before transfers	**254,078**	**60,918**	**34,915**	**349,911**	**53,859**
Transfers in	—	—	49,462	49,462	3,358
Transfers out	(200)	—	(1,362)	(1,562)	(9,408)
Change in net position	**253,878**	**60,918**	**83,015**	**397,811**	**47,809**
Net position (deficit), beginning, as restated	(182,600)	(253,285)	(61,300)	(497,185)	494,594
Net position (deficit) at end of year	**$ 71,278**	**$ (192,367)**	**$ 21,715**	**$ (99,374)**	**$ 542,403**

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, 2014
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
Cash flows from operating activities:					
Receipts from customers, patients, and third-party payers	$ 35,778	$ —	$ 44,506	$ 80,284	$ 2,204,237
Assessments received	465,026	59,897	—	524,923	—
Grants received	92,628	—	—	92,628	—
Tuition plan contributions received	—	—	3,559	3,559	—
Claims and benefits paid	(375,338)	(32,867)	(41,743)	(449,948)	(2,016,970)
Payments to suppliers for goods and services	—	(202)	(20,439)	(20,641)	(476,121)
Payments to employees	—	(146)	(6,884)	(7,030)	(47,479)
Payments of funds held for others	—	—	—	—	3,248
Internal activity–payments from other funds	—	—	—	—	190,446
Internal activity–payments to other funds	—	—	(5)	(5)	(3,369)
Other operating cash receipts	—	—	917	917	115,269
Other operating cash payments	—	—	—	—	(4)
Net cash provided by (used in) operating activities	**218,094**	**26,682**	**(20,089)**	**224,687**	**(30,743)**
Cash flows from noncapital financing activities:					
Principal payments received from other funds	—	—	—	—	23,094
Advances received from other funds	—	—	—	—	1,015
Principal payments made to other funds	—	—	—	—	(16)
Receipt of interest from other funds	—	—	—	—	663
Repayment of Advances from Federal government	(135,141)	—	—	(135,141)	—
Interest payments on noncapital debt	—	—	(19)	(19)	(10)
Other noncapital financing cash receipts	—	—	1,213	1,213	4,814
Other noncapital financing cash payments	—	—	(2,086)	(2,086)	5,273
Transfers in	—	—	49,462	49,462	3,358
Transfers out	(200)	—	(1,362)	(1,562)	(9,408)
Net cash provided by (used in) noncapital financing activities	**(135,341)**	**—**	**47,208**	**(88,133)**	**28,783**

Exhibit B-5

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
Cash flows from capital and related financing activities:					
Acquisition of capital assets	$ —	$ —	$ (61,197)	$ (61,197)	$ (8,820)
Principal payments on limited obligation bonds	—	—	—	—	(1,495)
Principal payments on capital debt	—	—	(150)	(150)	(2,127)
Interest payments on capital debt	—	—	—	—	(695)
Capital grants and gifts received	—	—	194	194	—
Proceeds from sale or disposal of capital assets	—	1	150	151	—
Net cash used in capital and related financing activities	**—**	**1**	**(61,003)**	**(61,002)**	**(13,137)**
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	—	—	2,234	2,234	204,140
Purchase of investments	—	—	(7,234)	(7,234)	(215,550)
Interest and dividends on investments	182	3,422	22,690	26,294	15,821
Net cash provided by investing activities	**182**	**3,422**	**17,690**	**21,294**	**4,411**
Net increase (decrease) in cash and cash equivalents	**82,935**	**30,105**	**(16,194)**	**96,846**	**(10,686)**
Cash and cash equivalents at beginning of year, restated	**263,253**	**86,872**	**39,716**	**389,841**	**611,700**
Cash and cash equivalents at end of year	**$ 346,188**	**$ 116,977**	**$ 23,522**	**$ 486,687**	**$ 601,014**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ 254,163	$ 32,555	$ 34,336	$ 321,054	$ 30,156
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	—	—	1,035	1,035	8,962
Provision for bad debts	(8,875)	—	(29)	(8,904)	—
Interest payments reclassified as capital and related financing activities	—	—	—	—	(88)
Interest and dividends on investments and interfund loans	(216)	(3,422)	(22,368)	(26,006)	83
Realized losses on sale of assets	—	(1)	(30)	(31)	3,082
Other nonoperating revenues	—	—	43	43	70
Other nonoperating expenses	—	—	(2,201)	(2,201)	(750)

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

Continued on Next Page

Statement of Cash Flows

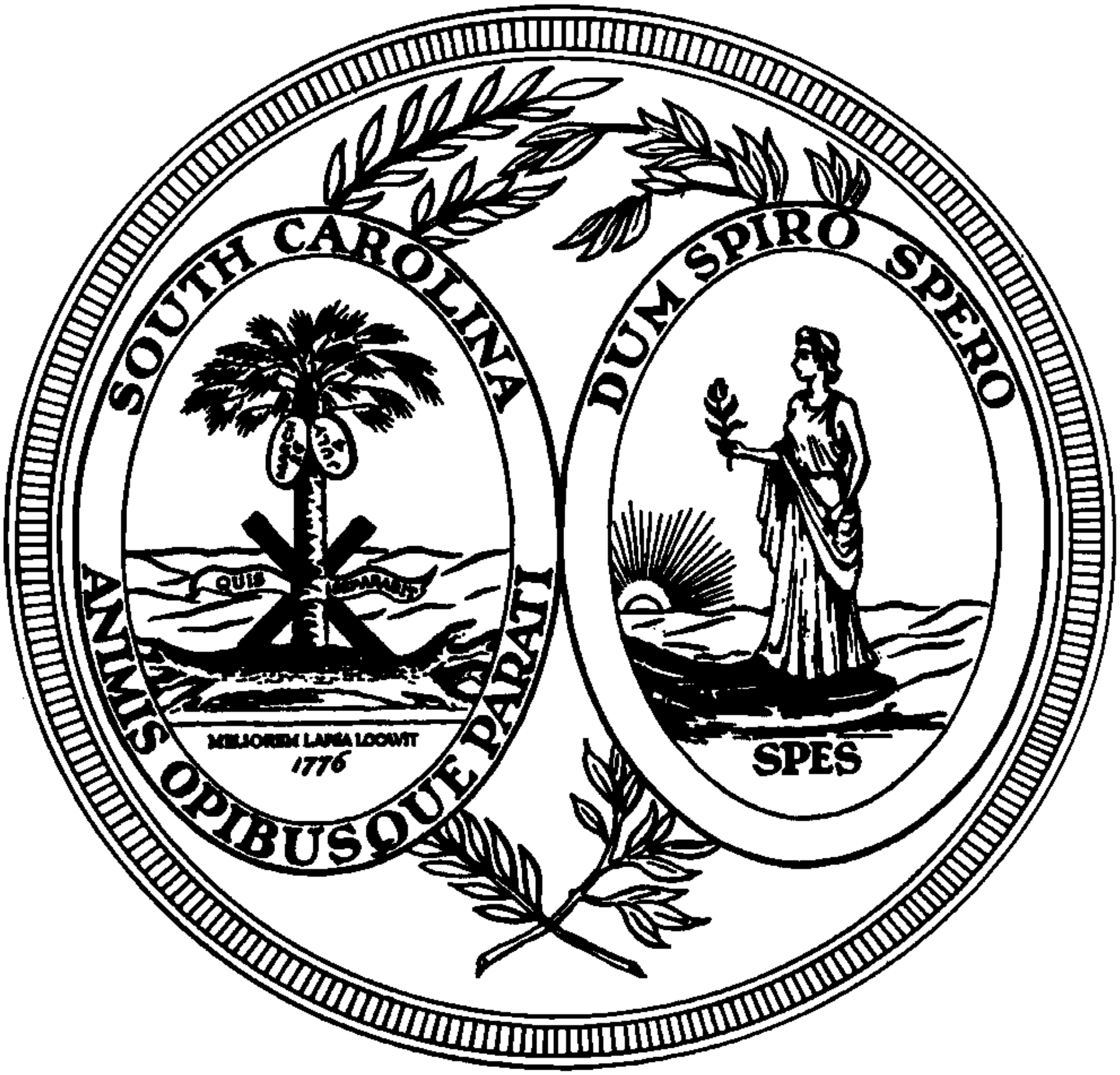
Exhibit B-5

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	
Effect of changes in operating assets and liabilities:					
Accounts receivable, net	$ 9,768	$ (141)	$ 2,370	$ 11,997	$ (29,502)
Accrued interest	8	—	—	8	—
Assessments receivable, net	(7,996)	—	—	(7,996)	—
Due from Federal government and other grantors	3,838	—	—	3,838	—
Due from other funds	—	(202)	—	(202)	(271)
Inventories	—	—	61	61	717
Other assets	—	200	(98)	102	5,886
Accounts payable	(173)	3	2,260	2,090	(410)
Accrued salaries and related expenses	—	(77)	30	(47)	(2)
Tax refunds payable	(916)	—	—	(916)	—
Unemployment benefits payable	(5,248)	—	—	(5,248)	—
Tuition benefits payable	—	—	(16,392)	(16,392)	—
Policy claims	—	(2,164)	(18,185)	(20,349)	(44,659)
Due to other funds	(26,259)	—	(1)	(26,260)	(1,338)
Unearned revenues	—	—	(1,084)	(1,084)	(2,828)
Compensated absences payable	—	(69)	38	(31)	165
Other liabilities	—	—	126	126	(16)
Net cash provided by (used in) operating activities	**$ 218,094**	**$ 26,682**	**$ (20,089)**	**$ 224,687**	**$ (30,743)**
Noncash capital, investing, and financing activities:					
Disposal of capital assets	$ —	$ —	$ —	$ —	$ 6,099
Reduction in advances other than payments	(85)	—	—	(85)	—
Increase (decrease) in fair value of investments	—	—	2,314	2,314	(117)
Total noncash capital, investing, and financing activities	**$ (85)**	**$ —**	**$ 2,314**	**$ 2,229**	**$ 5,982**

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, 2014
(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	$ 3,083,351	$ 2,466,805	$ 20,067	$ 272,315
Receivables, net:				
Accounts	—	2	—	8,475
Contributions	195,502	—	—	—
Accrued interest	42,177	1,357	1,336	218
Unsettled investment sales	850,751	—	2,828	—
Loans and notes receivables	—	—	—	27
Other investment receivables	1,821	—	—	—
Taxes	—	—	—	455
Total receivables	1,090,251	1,359	4,164	9,175
Due from other funds	55,533	—	—	12,588
Investments, at fair value:				
Short term investments	835,867	—	—	—
Debt-domestic	6,340,620	1,350,806	—	—
Debt-international	2,479,437	—	—	—
Equity-domestic	2,528,760	—	—	—
Equity-international	5,929,889	—	—	—
Alternatives	9,256,340	—	—	—
Financial and other	42,734	314,790	2,143,791	—
Total investments	27,413,647	1,665,596	2,143,791	—
Invested securities lending collateral	75,248	—	23	92
Capital assets, net	2,912	—	—	—
Prepaid items	2,348	—	—	—
Other assets	—	—	4,737	—
Total assets	**31,723,290**	**4,133,760**	**2,172,782**	**294,170**
LIABILITIES				
Accounts payable	9,300	—	1,575	8,298
Accounts payable–unsettled investment purchases	711,656	—	2,282	—
Policy claims	271	—	—	—
Due to other funds	55,820	—	—	—
Tax refunds payable	—	—	—	3
Intergovernmental payables	—	—	—	20,709
Deposits	—	—	—	3,668
Amounts held in custody for others	—	—	—	261,180
Deferred retirement benefits	56,901	—	—	—
Securities lending collateral	128,994	—	67	273
Due to participants	—	4,476	—	39
Other liabilities	11,219	—	—	—
Total liabilities	**974,161**	**4,476**	**3,924**	**294,170**
NET POSITION				
Held in trust for:				
Pension and other post-employment benefits	30,749,129	—	—	—
External investment pool participants	—	4,129,284	—	—
Other purposes	—	—	2,168,858	—
Total net position	**$ 30,749,129**	**$ 4,129,284**	**$ 2,168,858**	**$ —**

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, 2014
(Expressed in Thousands)

	Pension and Other Post-Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits	$ —	$ —	$ 38
Contributions:			
Employer	1,617,313	—	—
Employee	751,467	—	—
Deposits from pool participants	—	6,538,350	—
Tuition plan deposits	—	—	127,562
Other	—	—	1,789
Total contributions	2,368,780	6,538,350	129,351
Investment income:			
Interest income and net appreciation in investments	4,574,388	8,404	272,386
Securities lending income	1,768	12	—
Total investment income	4,576,156	8,416	272,386
Less investment expense:			
Investment expense	468,145	—	—
Securities lending expense	5	—	—
Net investment income	4,108,006	8,416	272,386
Assets moved between pension trust funds	2,470	—	—
Total additions	**6,479,256**	**6,546,766**	**401,775**
Deductions:			
Regular retirement benefits	2,631,872	—	—
Supplemental retirement benefits	616	—	—
Deferred retirement benefits	168,999	—	—
Refunds of retirement contributions to members	106,475	—	—
Death benefit claims	21,680	—	—
Accidental death benefits	1,597	—	—
Other post-employment benefits	387,868	—	—
Withdrawals, pool participants	—	6,161,455	—
Distributions to pool participants	—	5,981	—
Depreciation	227	—	—
Administrative expense	13,534	502	10,605
Other expenses	—	—	611
Assets moved between pension trust funds	2,470	—	—
Total deductions	**3,335,338**	**6,167,938**	**11,216**
Change in net assets	**3,143,918**	**378,828**	**390,559**
Net position, beginning, as restated	**27,605,211**	**3,750,456**	**1,778,299**
Net position at end of year	**$ 30,749,129**	**$ 4,129,284**	**$ 2,168,858**

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

Statement of Net Position

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2014

(Expressed in Thousands)

	Public Service Authority	Medical University of South Carolina	University of South Carolina	Clemson University	State Ports Authority
ASSETS					
Cash and cash equivalents	$ 172,738	$ 297,765	$ 372,978	$ 213,790	$ 155,802
Investments	526,584	123,382	337,805	2,753	15,733
Invested securities lending collateral	—	30	853	410	371
Receivables, net:					
Accounts	189,092	15,574	9,819	10,735	26,667
Contributions	—	12,652	35,733	45,961	—
Accrued interest	2,664	609	1,273	1,255	—
Student accounts	—	423	12,827	5,480	—
Patient accounts	—	227,020	—	—	—
Loans and notes	—	559	616	8,567	—
Due from Federal government and other grantors	—	16,201	22,354	19,197	—
Due from primary government	—	36,050	4,578	9,791	193,201
Inventories	724,010	20,790	2,773	2,223	6,718
Restricted assets:					
Cash and cash equivalents	183,990	74,670	236,262	240,385	—
Investments	871,710	408,474	75,659	600,816	—
Loans receivable	—	12,027	18,497	—	—
Other	—	—	—	—	—
Prepaid items	16,035	25,013	14,245	6,448	5,276
Other assets	859,511	6,727	9,448	2,861	3,974
Other regulatory assets- asset retirement obligation	603,663	—	—	—	—
Investment in joint venture	6,840	—	—	—	—
Capital assets-nondepreciable	2,242,698	159,893	154,693	64,876	430,635
Capital assets-depreciable, net	4,132,353	1,022,110	1,106,466	736,254	313,669
Total assets	**$ 10,531,888**	**$ 2,459,969**	**$ 2,416,879**	**$ 1,971,802**	**$ 1,152,046**
DEFERRED OUTFLOWS OF RESOURCES					
Unamortized loss on refunding	$ 119,868	$ 59,687	$ 4,813	$ 1,907	$ —
Accumulated decrease in fair value of hedging derivatives	19,367	3,734	—	—	—
Total deferred outflows	**$ 139,235**	**$ 63,421**	**$ 4,813**	**$ 1,907**	**$ —**
LIABILITIES					
Accounts payable	$ 208,321	$ 75,304	$ 28,806	$ 21,485	$ 16,446
Accrued salaries and related expenses	7,849	87,663	13,965	17,194	3,857
Accrued interest payable	100,159	2,697	3,901	1,425	6,206
Retainages payable	3,616	780	4,383	289	1,326
Prizes payable	—	—	—	—	—
Intergovernmental payables	—	—	—	—	24
Due to primary government	—	1,093	4,075	—	—
Unearned revenues and asset retirement obligation	1,024,253	30,552	41,986	39,178	—
Deposits	—	—	2,288	1,177	—
Amounts held in custody for others	—	17,852	376	3,277	—
Securities lending collateral	—	90	2,517	1,209	1,094
Liabilities payable from restricted assets:					
Other	—	—	—	—	—
Other liabilities	517,142	68,058	28,137	13,840	13,888
Long-term liabilities:					
Due within one year	155,755	46,816	44,989	31,678	8,977
Due in more than one year	6,456,379	596,631	567,374	185,049	190,920
Total liabilities	**$ 8,473,474**	**$ 927,536**	**$ 742,797**	**$ 315,801**	**$ 242,738**
DEFERRED INFLOWS OF RESOURCES					
Accumulated increase in fair value of hedging derivatives	$ 8,146	$ —	$ —	$ —	$ —
Deferred gain on refunding	—	—	—	—	—
Deferred nuclear decommissioning costs	185,849	—	—	—	—
Deferred nonexchange revenues	—	—	—	—	—
Total deferred outflows	**$ 193,995**	**$ —**	**$ —**	**$ —**	**$ —**
NET POSITION					
Net investment in capital assets	$ 893,339	$ 632,472	$ 701,292	$ 648,702	$ 544,688
Restricted:					
Expendable:					
Education	—	197,781	180,709	443,155	—
Transportation	—	—	—	—	—
Capital projects	—	59,548	95,973	111,244	—
Debt service	92,662	48,550	10,386	6,697	9,100
Loan programs	—	—	—	—	—
Other	—	—	—	—	—
Nonexpendable:					
Education	—	218,649	278,905	317,054	—
Unrestricted	1,017,653	438,854	411,630	131,056	355,520
Total net position	**$ 2,003,654**	**$ 1,595,854**	**$ 1,678,895**	**$ 1,657,908**	**$ 909,308**

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

Exhibit C-1

Housing Authority	Nonmajor Component Units	Total
$ 44,466	$ 640,497	$ 1,898,036
—	279,621	1,285,878
34	151	1,849
646	105,259	357,792
—	28,622	122,968
163	1,846	7,810
—	31,839	50,569
—	—	227,020
23,518	86,856	120,116
502	50,792	109,046
1,762	9,091	254,473
—	15,578	772,092
88,730	302,950	1,126,987
225,525	317,916	2,500,100
547,546	13,034	591,104
4,271	26,706	30,977
—	12,953	79,970
353	150,085	1,032,959
—	—	603,663
—	—	6,840
—	243,821	3,296,616
265	1,747,221	9,058,338
$ 937,781	$ 4,064,838	$ 23,535,203
$ —	$ 2,126	$ 188,401
—	—	23,101
$ —	$ 2,126	$ 211,502
$ —	$ 75,854	$ 426,216
836	39,115	170,479
—	8,271	122,659
—	1,480	11,874
—	26,647	26,647
—	431	455
—	55,676	60,844
7,161	159,069	1,302,199
—	11,873	15,338
—	11,262	32,767
101	451	5,462
14,414	3,628	18,042
3,983	25,806	670,854
13,342	76,592	378,149
526,718	1,143,257	9,666,328
$ 566,555	$ 1,639,412	$ 12,908,313
$ —	$ —	$ 8,146
412	—	412
—	—	185,849
—	678	678
$ 412	$ 678	$ 195,085
$ 265	$ 1,342,589	$ 4,763,347
—	164,531	986,176
—	745	745
—	253,600	520,365
63,875	43,163	274,433
264,064	55,683	319,747
—	2,701	2,701
—	239,424	1,054,032
42,610	324,438	2,721,761
$ 370,814	**$ 2,426,874**	**$ 10,643,307**

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Public Service Authority	$ 1,789,130	$ 1,816,576	$ 1,625	$ —
Medical University of South Carolina	1,869,055	1,758,385	193,896	19,637
University of South Carolina	1,100,388	834,755	338,112	24,364
Clemson University	792,537	569,498	304,684	18,684
State Ports Authority	150,698	159,808	4,039	3,934
Housing Authority	227,823	41,636	199,367	—
Nonmajor component units	3,051,669	2,389,925	710,914	77,237
Totals	**$ 8,981,300**	**$ 7,570,583**	**$ 1,752,637**	**$ 143,856**

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

Exhibit C-2

Net Revenue (Expenses)	Additions to Endowments	Net Position Beginning (Restated)	Net Position Ending
$ 29,071	$ —	$ 1,974,583	$ 2,003,654
102,863	11,843	1,481,148	1,595,854
96,843	14,281	1,567,771	1,678,895
100,329	14,493	1,543,086	1,657,908
17,083	—	892,225	909,308
13,180	—	357,634	370,814
126,407	9,661	2,290,806	2,426,874
$ 485,776	**$ 50,278**	**$ 10,107,253**	**$ 10,643,307**

Notes to the Financial Statements—Contents

Notes to the Financial Statements—Contents (Continued)

Notes to the Financial Statements—Contents (Continued)

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Scope of Reporting Entity

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

Component units are legally separate organizations for which the State is accountable for purposes of financial reporting. Blended component units, although legally separate from the State, are part of the State's operations in substance. Accordingly, the State 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, 2014.

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.

Palmetto Railways Division

The Palmetto Railways Division of the Department of Commerce, a blended component unit accounted for as an enterprise fund, has a fiscal year ended December 31, 2013.

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

Palmetto 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, 2014. 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, 2013. 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, 2013.

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, 2013. 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, 2013.

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, Midlands Technical College, Northeastern Technical College, Orangeburg-Calhoun Technical College, Piedmont Technical College, Spartanburg Community College, Technical College of the Lowcountry, 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 Boulevard
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

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

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.

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 *Second Injury Fund* serves as a claims processor for insurance carriers, self-insurers, and the State Accident Fund. The fund processes claims of employees with existing permanent physical impairment who are further injured in the course of their subsequent employment.

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, and employee training. 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 unearned 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 allowances for uncollectible receivables and the net receivables 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. Other regulatory assets- asset retirement obligation

These 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 other regulatory assets- asset retirement obligation. 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.

Losses and gains on bond refundings are reported as deferred outflows or inflows of resources, respectively, 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 losses on bond refundings, 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 and are recognized as deferred outflows or inflows of resources. The State reports bonds payable net of the applicable bond premium or discount.

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 hired prior to July 1, 2012 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 mandates 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, 2014, $508.231 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 either a state statute or constitutional provision constrains the use of resources of the state. 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. Assigned fund balance is constrained through appropriation actions of the legislature. 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 the change in fair value of hedging derivatives, deferred amounts on bond refundings, nuclear decommissiong costs and non-exchange revenues.

NOTE 2: ACCOUNTING AND REPORTING CHANGES

Adoption of New Accounting Standards

For the fiscal year ended June 30, 2014, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement No. 65) establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. See Note 14 on pages 139 – 140 for the effects of this pronouncement on the State's total beginning fund equity.

Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62* (Statement No. 66) was established to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

Statement No. 66 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

Statement No. 66 also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.

Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25* (Statement No. 67) replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of Statement 67 and to defined contribution plans that provide postemployment benefits other than pensions. Statement 67 also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. The implementation of this statement was retroactive and thus the State restated its pension funds beginning balances. See Note 14, Fund Equity Reclassifications and Restatements, on page 139 for further detail.

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (Statement No. 70) is intended to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Statement 70 specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, Statement 70 requires new information to be disclosed by governments that receive nonexchange financial guarantees. Only nonmajor discretely presented component units of the State had such guarantees as of June 30, 2014.

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* (Statement No. 68) in June 2012. This pronouncement takes effect for fiscal years beginning after June 15, 2014. The State is in the process of determining the effect of implementing Statement No. 68, but it is expected to have a material effect on the financial position of the State.

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, 2014:

Nonmajor Enterprise Funds:		
Patients' Compensation	$	63,194
Tuition Prepayment Program		57,430
Internal Service Funds:		
State Accident Fund	$	24,647

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.

Deposit Policy

The State's deposit 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 that of 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, 2014 was $314.988 million and the bank balance was $706.600 million. As of June 30, 2014, the reported amount of the primary government's deposits outside of the State Treasurer was $94.132 million and the bank balance was $94.245 million. Of the $80.515 million bank balance exposed to custodial credit risk, $30 thousand was uninsured and uncollateralized, $4.042 million was uninsured and collateralized with securities held by the pledging financial institution, and $76.443 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, 2014, the reported amount of the major discretely presented component units' deposits was $356.970 million and the bank balance was $363.298 million. Of the $283.357 million bank balance exposed to custodial credit risk, $106.598 million was uninsured and uncollateralized, $101.167 million was uninsured and collateralized with securities held by the pledging financial institution, and $75.592 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 following investment disclosure excludes the primary government's Pension Trust Funds of the South Carolina Retirement 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.

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. Agencies with specific authority to manage their own investments may have custodial credit risk policies that differ from that of the State Treasurer. 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. The primary government'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. The portion of the primary government's investments with custodial credit risk is detailed (expressed in thousands) at June 30, 2014, as follows:

Primary Government Investment Type	Reported Amount
U.S. treasuries	$ 460,660
U.S. agencies	900,578
Mortgage backed obligations	398,491
Equity securities	3,124
Corporate bonds	4,084,985
Muncipal bonds	5,969
Repurchase agreements	500,035
Asset backed securities	3,945
Commercial paper	2,862,696
Other	46,526
Totals	**$ 9,267,009**

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 portion of the State's major discretely presented component units investments with custodial credit risk is detailed (expressed in thousands) at June 30, 2014, as follows:

DCU Investment Type	Reported Amount
U.S. treasuries	$ 119,826
U.S. agencies	1,441,272
Mortgage backed obligations	179,262
Corporate bonds	44,561
Repurchase agreements	238,599
Common stock	148,979
Other equity securities	645,492
Asset backed securities	10,760
Commercial paper	19,988
Money market mutual funds	63,226
Mutual Bonds Funds	130,009
Guaranteed investment contracts	529
Other	342,260
Totals	**$ 3,384,763**

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. Agencies with specific authority to manage their own investments may 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, 2014 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	BB / B	Not Rated
Asset backed securities	$ —	$ —	$ —	$ —	$ —	$ 3,945
Corporate bonds	56,019	891,645	1,963,319	1,089,189	20,673	64,140
Municipal bonds	—	5,969	—	—	—	—
Repurchase agreements	—	—	500,035	—	—	—
Commercial paper	—	—	2,862,696	—	—	—
Other	—	—	30,300	—	—	16,226
Totals	**$ 56,019**	**$ 897,614**	**$ 5,356,350**	**$1,089,189**	**$ 20,673**	**$ 84,311**

At fiscal year end, the Clemson University (June 30, 2014), the State Housing Authority (June 30, 2014), the Medical University of South Carolina (June 30, 2014), State Ports Authority (June 30, 2014), the Public Service Authority (December 31, 2013), and the University of South Carolina (June 30, 2014), 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	BBB	Not Rated
Corporate bonds	$ —	$ 13,388	$ 29,478	$ 1,695	$ —
Repurchase agreements	—	—	—	—	238,599
Asset backed securities	—	—	—	—	10,760
Commercial paper	—	—	19,988	—	—
Money market mutual funds	34,418	—	—	—	28,808
Mutual bond funds	—	—	—	—	130,009
Guaranteed investment contracts	—	—	—	—	529
Other	—	—	—	—	279,468
Totals	**$ 34,418**	**$ 13,388**	**$ 49,466**	**$ 1,695**	**$ 688,173**

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, 2014, the maturities of the securities that will mature were limited according to the following segmented time distribution (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	More than 10
U.S. treasuries	$ 150,541	$ 75,469	$ 75,072	$ —	$ —
U.S. agencies	900,578	145,692	172,739	92,582	489,566
Mortgage backed obligations	398,491	37	11,645	89,317	297,492
Asset backed securities	3,945	—	—	3,945	—
Corporate bonds	4,084,985	659,559	2,858,862	545,430	21,133
Municipal bonds	5,969	—	5,969	—	—
Repurchase agreements	500,035	500,035	—	—	—
Commercial paper	2,862,696	2,862,696	—	—	—
Other	30,300	30,300	—	—	—
Totals	**$ 8,937,540**	**$4,273,787**	**$3,124,287**	**$ 731,274**	**$ 808,191**

Agencies that manage their own investments may have interest rate risk policies that differ from that of the State Treasurer. Some of these agencies may 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, 2014, 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 Type	Fair Value	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	More than 10
U.S. treasuries	$ 20,583	$ 406	$ 19,731	$ 446	$ —
U.S. agencies	402,848	—	397,254	5,302	292
Mortgage backed obligations	14,414	—	1,754	—	12,660
Corporate bonds	1,758,204	1,541	1,421,184	335,437	42
Municipal bonds	90,046	305	—	81,462	8,279
Repurchase agreements	1,368,398	1,365,910	—	2,488	—
Asset backed securities	4,674	4,674	—	—	—
Commercial paper	1,469,621	1,469,621	—	—	—
Mutual funds	8,391	6,675	—	—	1,716
Other	523	—	—	331	192
Totals	**$ 5,137,702**	**$ 2,849,132**	**$ 1,839,923**	**$ 425,466**	**$ 23,181**

The State's major discretely presented component units may have interest rate risk policies that differ from that of the State Treasurer. At June 30, 2014, 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 Type	Fair Value	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	More than 10
U.S. treasuries	$ 119,826	$ 36,767	$ 1,047	$ 80,072	$ 1,940
U.S. agencies	1,441,272	524,943	870,055	641	45,633
Mortgage backed obligations	179,262	—	—	1,791	177,471
Common Stock	148,979	—	—	—	—
Other equity securities	645,492	—	—	—	—
Corporate bonds	44,561	4,568	21,271	3,824	14,899
Repurchase agreements	238,599	238,599	—	—	—
Asset backed securities	10,760	—	—	—	—
Commercial paper	19,988	19,988	—	—	—
Money Market Mutual Funds	63,226	—	—	—	—
Mutual bond funds	130,009	—	—	—	—
Guaranteed investment contracts	529	—	—	—	—
Other	342,260	5,000	—	—	—
Totals	**$ 3,384,763**	**$ 829,865**	**$ 892,373**	**$ 86,328**	**$ 239,943**

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, 2014, the State Treasurer had 33.09% 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. As of June 30, 2014, less than 5% of the State's general investment portfolio was in an overnight repurchase agreement with Bank of America and none of the State's general investment portfolio was in an overnight repurchase agreement with Wells Fargo.

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, 2014. At June 30, 2014, 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, 2014, 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, 2014, 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, 2014, 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, 2014:

	Amount
Securities lent for cash collateral:	
U.S. Corporate-fixed income	$ 21,688
Total securities lent for cash collateral	**$ 21,688**
Securities lent for non-cash collateral:	
U.S. Corporate-fixed income	$ 3,095
Total securities lent for non-cash collateral	**$ 3,095**
Cash collateral invested as follows:	
Asset backed securities	$ 5,612
Repurchase agreements	1,904
Total for cash collateral invested	**$ 7,516**
Securities received as collateral:	
U.S. treasuries	$ 3,154
Total for securities collateral invested	**$ 3,154**

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, 2014, the carrying amount of the Systems' deposits was $39.483 million and the bank balance was $40.524 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 Retirement System Investment Commission (RSIC) has no formal interest rate risk policy, interest rate risk is observed within the portfolio using effective duration (option adjusted 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, 2014, are noted below (dollar amounts expressed in thousands):

Investment Type	Fair Value	Fair Value Duration Not Available	Fair Value Duration Available	Effective Duration
Short Term Investments				
Short Term Investment Funds (U.S. Regulated)	$ 630,452	$ —	$ 630,452	0.08
Repurchase Agreements	668,209	72,645	595,564	0.08
Commercial Paper	515,444	—	515,444	0.07
U.S. Treasury Bills	100	—	100	0.31
Strategic Partnership Short Duration	707,944	—	707,944	1.21
Options - Cash	(35)	30	(65)	0.28
Equity Allocation				
Preferred	26,268	361	25,907	7.04
Convertible Preferred	3,121	3,121	—	—
Futures - Domestic Equity	17,593	17,593	—	—
Futures - Global Equity	(821)	(821)	—	—
Fixed Income Allocation				
U.S. Government:				
U.S. Government Treasuries	1,689,245	—	1,689,245	5.13
U.S. Government Agencies	910,693	1,421	909,272	1.42
Mortgage Backed:				
Government National Mortgage Association	123,671	—	123,671	3.42
Federal National Mortgage Assocation	195,006	—	195,006	4.01
Federal Home Loan Mortgage Association	26,589	—	26,589	4.70
Federal Home Loan Mortgage Association (multiclass)	1,613	—	1,613	0.98
Collateralized Mortgage Obligations	3,696	—	3,696	4.41
Municipals	50,180	—	50,180	9.83
Corporate:				
Corporate Bonds	1,630,666	112,462	1,518,204	3.50
Mixed Credit	496,748	2,625	494,123	3.05
Convertible Bonds	3,492	—	3,492	4.41
Asset Backed Securities	51,625	3,291	48,334	1.08
Private Placements	512,277	10,526	501,751	2.82
Yankee Bonds	23,989	—	23,989	2.70
Options - Domestic Fixed Income	(35)	—	(35)	(721.48)
Futures - Domestic Fixed Income	3	(113)	116	16.40
Swaps - Domestic Fixed Income	5,068	(247)	5,315	1.37
Global Fixed Income:				
International Asset Backed Securities	3,099	—	3,099	0.38
International Commingled Funds	1,103,526	—	1,103,526	5.49
International Corporate Bonds	2,276	—	2,276	0.05
International Emerging Debt	955,968	426,949	529,019	4.32
International Government Bonds	408,846	20,932	387,914	6.56
International Private Placements	3,846	—	3,846	0.30
Options - Global Fixed Income	(27)	(27)	—	—
Futures - Global Fixed Income	499	—	499	7.32
Swaps - Global Fixed Income	1,404	—	1,404	(17.87)
Alternatives				
Commodity Futures	1,923	1,923	—	—
Total Invested Assets	**$ 10,774,161**	**$ 672,671**	**$ 10,101,490**	
Total Portfolio Effective Duration (option adjusted duration)				**3.17**

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	CA	NR[1]
Short Term Investments									
Short Term Investment Funds (U.S. Regulated)	$ 630,452	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Repurchase Agreements	—	—	—	—	—	—	—	—	668,209
Commercial Paper	—	44,969	—	324,808	—	—	—	—	145,667
Strategic Partnership Short Duration	—	—	—	—	—	—	—	—	707,944
Options - Cash	—	—	—	—	—	—	—	—	(35)
Equity Investments									
Preferred	—	—	—	5,455	897	2,081	—	—	17,835
Convertible Preferred	—	—	—	1,270	—	—	—	—	1,851
Futures - Domestic Equity	—	—	—	—	—	—	—	—	17,593
Futures - Global Equity	—	—	—	—	—	—	—	—	(821)
Fixed Income Allocation[2]									
Mortgage Backed:									
Federal National Mortgage Association	195,006	—	—	—	—	—	—	—	—
Federal Home Loan Mortgage Association (Multiclass)	1,613	—	—	—	—	—	—	—	—
Federal Home Loan Mortgage Association	26,589	—	—	—	—	—	—	—	—
Collateralized Mortgage Association	3,696	—	—	—	—	—	—	—	—
Municipals	—	32,262	12,509	—	—	—	—	—	5,409
Corporate:									
Corporate Bonds	27,105	78,311	322,003	506,283	266,027	205,820	63,508	—	161,609
Mixed Credit	—	—	—	—	—	—	—	—	496,748
Convertible Bonds	—	—	—	—	—	—	—	—	3,492
Asset Backed Securities	23,554	3,420	2,710	3,291	15	—	—	—	18,635
Private Placements	127,090	16,871	58,236	38,294	53,697	80,222	46,615	188	91,064
Yankee Bonds	—	—	18,925	1,916	3,148	—	—	—	—
Options - Domestic Fixed Income	—	—	—	—	—	—	—	—	(35)
Futures - Domestic Fixed Income	—	—	—	—	—	—	—	—	3
Swaps - Domestic Fixed Income	—	—	—	—	—	—	—	—	5,068
Global Fixed Income:									
International Asset Backed	1,865	—	—	—	—	—	—	—	1,234
International Commingled Funds	—	—	—	—	—	—	—	—	1,103,526
International Corporate Bonds	—	2,276	—	—	—	—	—	—	—
International Emerging Debt	—	—	—	—	138,324	—	—	—	817,644
International Government Bonds	17,792	5,867	35,565	268,326	29,429	—	38,358	—	13,509
International Private Placements	1,851	—	—	1,995	—	—	—	—	—
Options - Global Fixed Income	—	—	—	—	—	—	—	—	(27)
Futures - Global Fixed Income	—	—	—	—	—	—	—	—	499
Swaps - Global Fixed Income	—	—	—	—	—	—	—	—	1,404
Alternatives									
Futures Contracts	—	—	—	—	—	—	—	—	1,923
Totals	**$ 1,056,613**	**$ 183,976**	**$ 449,948**	**$ 1,151,638**	**$ 491,537**	**$ 288,123**	**$ 148,481**	**$ 188**	**$ 4,279,948**

[1]*NR represents securities that were either not rated or had a withdrawn rating.*

[2]*U.S. Government guaranteed securities with a fair value of $2.72 billion are not included in the above table because they are not subject to credit risk.*

Concentration of Credit Risk –Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of 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, 2014, 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, 2014 (expressed in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Futures Contracts	Private Equity	Private Debt	Fixed Income	Equity
Australian Dollar	$ (4,158)	$ 129,744	$ (1,353)	$ —	$ —	$ 17,516	$ —
Brazil Real	—	(38,253)	—	—	—	47,549	—
British Pound Sterling	(3,041)	439,311	(856)	—	—	—	26,132
Canadian Dollar	8,465	187,867	2,006	—	—	—	2,043
Euro Currency	17,380	701,405	(9,102)	203,344	3,185	36,769	48,648
Hong Kong Dollar	468	63,280	648	—	—	—	19,098
Japanese Yen	17,487	525,650	8,647	—	—	(783)	52,918
New Mexico Peso	54	(85)	—	—	—	155	—
South Korean Won	—	10,619	—	—	—	—	—
Swedish Krona	(11)	60,431	(377)	—	—	—	—
Swiss Franc	—	—	—	—	—	—	35,416
Totals	**$ 36,644**	**$2,079,969**	**$ (387)**	**$203,344**	**$ 3,185**	**$ 101,206**	**$ 184,255**

Derivatives

Derivatives are financial instruments for which the 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, credit default, and total return swaps; interest-only strips; and CMOs to enhance the performance and reduce volatility. The Systems' derivatives, consisting of futures, options, forward contracts and swaps are presented in the tables on the following pages. Investments in limited partnerships and commingled funds may include derivatives that are not shown in the derivative totals.

Derivatives directly managed by the Investment Commission are used 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

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 trade 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 Fiduciary Net Position. To comply with the requirements of multiple exchanges, cash and securities (GNMAs) in the amount of $154.922 million and $48.383 million, respectively, were held in trust by the clearing brokers on June 30, 2014, to satisfy the required margin to trade in exchange traded derivatives and the over the counter market. The tables below present classification information on the Systems' derivatives at June 30, 2014 (expressed in thousands):

	Changes in Fair Value	
	Classification	Gain/(Loss)
Futures Contracts	Net appreciation/(depreciation)	$ 67,818
Forward Contracts	Net appreciation/(depreciation)	82,131
Swaps	Net appreciation/(depreciation)	68,998
Options	Net appreciation/(depreciation)	1,050

	Fair Value			
	Forward Contracts	Futures	Options	Swaps
Cash & Cash Equivalents	$ 23,276	$ —	$ (35)	$ —
Domestic Fixed Income	—	3	(35)	5,068
Global Fixed Income	—	499	(27)	1,404
Domestic Equity	—	17,593	(1)	(7,580)
Global Equity	—	(821)	—	—
Alternatives	—	1,923	—	—
	$ 23,276	**$ 19,197**	**$ (98)**	**$ (1,108)**

As of June 30, 2014, the Systems had the following exposure via futures contracts (dollar amounts expressed in thousands):

Futures Contracts	Expiration	Long/Short	Quantity	Notional Value*
Amsterdam Index Future........................	July	Long	542	$ 61,333
CAC 40 Euro Index Future.....................	July	Long	3,376	204,396
DAX Index Future...................................	September	Long	581	196,075
DJ EURO STOXX Index 50 Future.......	September	Long	4,868	215,414
FTSE 100 Index Future...........................	September	Long	3,550	407,356
FTSE/MIB Index Future.........................	September	Long	339	49,438
Hang Seng Index Future........................	July	Long	449	66,924
IBEX 35 Index Future.............................	July	Long	473	70,301
OMXS 30 Index Future...........................	July	Long	2,948	60,831
S&P/TSE 60 Index Future......................	September	Long	1,236	200,447
SPI 200 Index Future..............................	September	Long	1,163	146,927
TOPIX Index Future................................	September	Long	3,190	397,549
Total Global Equity				2,076,991
S&P 500 EMINI Future...........................	September	Long	15,388	1,502,177
Total Large Cap Equity				1,502,177
US Treasury Bond Future......................	September	Short	(18)	(2,469)
US Treasury Bond Future......................	September	Long	294	40,333
US Treasury Note 10 Year Future.........	September	Long	208	26,036
US Treasury Note 2 Year Future...........	September	Short	(141)	(30,963)
US Treasury Note 2 Year Future...........	September	Long	242	53,142
US Treasury Note 5 Year Future...........	September	Long	316	37,749
US Treasury Note Future.......................	September	Long	245	30,667
US Ultra Bond Future.............................	September	Long	34	5,098
USD IRS 10 Year PRIM Future..............	September	Short	(121)	(12,707)
Total Domestic Fixed Income				146,886
Australian 10 Year Bond Future...........	September	Short	(578)	(65,723)
EURO-BOBL Future................................	September	Long	191	33,507
EURO-BUND Future...............................	September	Long	693	139,486
EURO-OAT Future.................................	September	Short	(238)	(45,793)
EURO-SCHATZ Future..........................	September	Long	83	12,575
Japan 10 Year Bond Future....................	September	Long	98	140,898
UK Long GILT Future............................	September	Long	159	29,884
Total Global Fixed Income				244,834
Gold 100 OZ Future.................................	August	Long	309	40,850
Total Commodities				40,850
Totals				**$ 4,011,738**

***Notional value is the nominal or face amount that is used to calculate payments made on derivative instruments (futures, forwards, swaps, and options). 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

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 Fiduciary Net Position. As of June 30, 2014, the Systems had the following forward exposures, listed by counterparty (dollar amounts expressed in thousands):

Broker	Notional Value	Fair Value	Counterparty Exposure
Bank of America	$ 30,024	$ (12)	0.71%
Barclays London	617,336	6,987	14.50%
BNP Paribas	209,539	(3,149)	4.92%
BNY Mellon	604,344	7,039	14.19%
Chase Manhattan NA	5,122	(1)	0.12%
Citibank NA	316,554	(1,579)	7.44%
Credit Suisse International London	623,331	6,896	14.64%
Deutsche Bank London	6,198	(4)	0.15%
Goldman Sachs	542,731	(6,487)	12.75%
HSBC Bank USA	607,864	7,053	14.28%
JP Morgan Chase Bank	2,494	(5)	0.05%
Royal Bank of Canada	14,832	(47)	0.35%
Societe Generale	13,618	(301)	0.32%
State Street Capital	605	(6)	0.01%
UBS AG	61,813	(146)	1.45%
Westpac Banking Corporation	601,106	7,038	14.12%
Totals	**$ 4,257,511**	**$ 23,276**	**100.00%**

Swaps

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 and are included in the net appreciation/(depreciation) in the fair value of investments total of the Statement of Changes in Fiduciary Net Position. The table below reflects the counterparty credit ratings at June 30, 2014, for currency forwards, swap agreements, and options (expressed in thousands):

Quality Rating	Forwards	Swaps	Options	Total
Aaa	$ —	$ —	$ 83	$ 83
Aa1	13,881	3,057	—	16,938
Aa3	7,533	239	—	7,772
A1	2,325	1,625	(76)	3,874
A2	(463)	(10,294)	(1)	(10,758)
Baa1	—	5	(39)	(34)
NR	—	490	—	490
Total subject to credit risk	$ 23,276	$ (4,878)	$ (33)	$ 18,365
Centrally cleared:				
Chicago Mercantile Exchange Inc	$ —	$ 3,770	$ —	$ 3,770
London International Futures and Options Exchange	—	—	(65)	(65)
Total not subject to credit risk	$ —	$ 3,770	$ (65)	$ 3,705
Total	**$ 23,276**	**$ (1,108)**	**$ (98)**	**$ 22,070**

At June 30, 2014, the Systems held swaps as shown in the tables below (amounts expressed in thousands):

Counterparty	Total Return Swaps	SCRS Pays	SCRS Receives	Maturity Date	Current Notional	Gain (Loss) Since Trade
Societe Generale	DJ-UBS Roll Select TR Index Pr	3 Month T-Bill + 12 bps	DJ-UBS Commodities TR	8/29/2014	$ 241,956	$ 9,783
JP Morgan	JPM Enhanced Beta DJUBS Proxy	3 Month T-Bill + 16.9 bps	DJ-UBS Commodities TR	2/27/2015	255,481	5,481
Societe Generale	DJUBS Pre-Roll Excess Return	13 bps	DJ-UBS Commodities TR	3/31/2015	100,742	742
Goldman Sachs	Russell 2000 Proxy (Short)	Russell 2000 Total Index Return	3 Month US LIBOR - 49 bps	10/8/2014	(313,790)	(13,974)
			Total		**$ 284,389**	**$ 2,032**

Counterparty	Fixed Income Swaps	SCRS Pays	SCRS Receives	Maturity Date	Current Notional	Fair Value*
Bank of America NA	Credit Default Swaps	Variable Rate	Fixed Rate	Various	$ 4,799	$ 68
Barclays Bank PLC	Credit Default Swaps	Fixed / Variable Rate	Fixed / Variable Rate	Various	3,062	246
BNP Paribas Securities Corp	Credit Default Swaps	Fixed Rate	Variable Rate	Various	2,500	(17)
Citibank NA	Credit Default Swaps	Fixed / Variable Rate	Fixed / Variable Rate	Various	8,048	1,568
Deutsche Bank AG/London	Credit Default Swaps	Variable Rate	Fixed Rate	Various	1,599	47
Goldman Sachs Bank USA	Credit Default Swaps	Fixed Rate	Variable Rate	Various	4,000	(7)
Goldman Sachs International	Credit Default Swaps	Variable Rate	Fixed Rate	Various	4,993	190
HSBC Securities Inc	Credit Default Swaps	Variable Rate	Fixed Rate	Various	1,400	3
JP Morgan Chase Bank NA	Credit Default Swaps	Variable Rate	Fixed Rate	Various	1,676	131
Morgan Stanley Capital Services LLC	Credit Default Swaps	Variable Rate	Fixed Rate	Various	5,900	490
Royal Bank of Scotland PLC	Credit Default Swaps	Variable Rate	Fixed Rate	Various	1,700	5
Citibank NA	Interest Rate Swaps	Variable Rate	Fixed Rate	Various	2,076	70
Chicago Mercantile Exchange Inc	Interest Rate Swaps	Fixed / Variable Rate	Fixed / Variable Rate	Various	385,913	3,770
Deutsche Bank AG/London	Interest Rate Swaps	Variable Rate	Fixed Rate	Various	5,427	154
			Total		**$ 433,093**	**$ 6,718**

*****_Fair value is the amount reasonably expected to be received if the underlying positions were liquidated on the following business day._

Options

Options are exchange traded agreements between two parties for a future transaction on an underlying asset at a reference or strike price. The buyer of an option has the right, but not the obligation, to transact. The seller of an option has the obligation to transact if forced by the buyer. The price of an option is derived by taking the difference in the underlying asset and the strike price plus a premium for the remaining time until expiration. As of June 30, 2014, the Systems had the following option positions (amounts expressed in thousands):

Option Contracts	Underlying Security	Expiration	Quantity	Fair Value
Put Sep 14 097.750 ED 09/12/14	EURO$ 2YR MID-CRV FUT SEP 16	September	696	$ 30
Call Dec 14 099.500 ED 12/15/14	3MO EURO EURIBOR FUTURE (LIF)	December	(1,116)	(64)
Put Dec 14 099.500 ED 12/15/14	3MO EURO EURIBOR FUTURE (LIF)	December	558	(1)
Total Cash & Cash Equivalents				(35)
Put Oct 20 000.980 ED 10/13/20	INF FLR CPURNSA 218.011	October	558	(1)
Total Domestic Equity				(1)
Put Aug 14 123.000 ED 07/25/14	US 10YR TREAS NTS FUT SEP 14	July	(55)	(52)
Put Aug 14 124.000 ED 07/25/14	US 10YR TREAS NTS FUT SEP 14	July	(55)	96
Put Aug 14 122.000 ED 07/25/14	US 10YR TREAS NTS FUT SEP 14	July	(2,100,000)	9
Put Sep 15 002.500 ED 09/21/15	IRS R US0003M P 2.5% 9/23/20	September	(35,600,000)	(536)
Put Sep 15 002.500 ED 09/21/15	IRS P US0003M R 3ML 2.5% CBK	September	(35,000,000)	(310)
Put Sep 15 003.450 ED 09/21/15	IRS R US0003M P 3.45% 09/23/45	September	(20,200,000)	498
Put Sep 15 003.450 ED 09/21/15	IRS R US0003M P 3.45% CBK	September	8,400,000	260
Total Domestic Fixed Income				(35)
Put Sep 14 000.950 ED 09/17/14	CDS SP UL ITRAXX MAIN21 V1 5YR	September	4,400,000	(27)
Total Global Fixed Income				(27)
Total				**$ (98)**

Alternative Investments

The Alternative Investment category includes the following asset classes: private equity, hedge funds, private debt, real estate, and commodities.

Private equity, private debt, and real estate 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. Hedge fund and commodities investments are typically on subscription basis with a single, initial investment with no further commitment.

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 may include allocations to any asset class including those considered alternative investments. Assets of Strategic Partnerships are reported within their respective asset class totals.

The Investment Commission's intent is to access superior risk-adjusted returns through investing in alternative investment asset classes. Due to their low correlation to traditional asset classes, alternative investments diversify the portfolio and help reduce the risk associated with volatility of returns.

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, private debt/opportunistic credit and real estate investments. As of June 30, 2014, the Systems' commitments, including commitments within Strategic Partnerships, are shown in the following table (amounts expressed in thousands):

Limited Partnerships USD	Total Commitment	Amount Funded To Date	Remaining Unfunded Commitment
Private Equity......................................	$ 3,946,641	$ 2,994,971	$ 951,670
Private Debt/Opportunistic Credit...	3,388,016	2,726,569	661,447
Real Estate...	1,705,890	1,264,237	441,653
Real Assets..	30,000	24,439	5,561
Total	$ 9,070,547	$ 7,010,216	$ 2,060,331
Limited Partnerships Euros			
Private Equity......................................	€ 200,750	€ 154,916	€ 45,834
Private Debt/Opportunistic Credit...	75,917	75,917	—
Total	€ 276,667	€ 230,833	€ 45,834

Securities Lending

The Retirement Systems' investment portfolio currently participates in a securities lending program, managed by BNY Mellon ("Securities Lending Program"), whereby securities are loaned for the purpose of generating additional income. BNY Mellon is responsible for making loans of securities on a collateralized basis from the Systems' investment portfolio to various third party broker-dealers and financial institutions. The market value of the required cash collateral must initially meet or exceed 102.0 percent of the market value of the securities loaned, providing a margin against a decline in the market value of collateral. If the collateral value falls below 100.0 percent, the borrower must post additional collateral. In conjunction with generating revenue, the collateral pool seeks to maintain a net asset value (NAV) of $1.00, which is determined by dividing the market value of the assets by the cost of those assets.

There are no restrictions on the amount of securities that may be loaned and conservative investment guidelines continue to be maintained within the Securities Lending Program. The re-investment of the cash collateral is restricted to short duration, very low risk securities and is monitored by RSIC on an ongoing basis. The types of securities available for loan during the year ended June 30, 2014 included U.S. Government securities, U.S. Government agencies, corporate bonds and equities. The contractual agreement between the State Treasurer as custodian and BNY Mellon 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 are received as collateral for these loans. Collateral securities cannot be pledged or sold without a borrower default. Cash collateral received is invested; and accordingly, investments made with cash collateral are reported 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, 2014, the fair value of securities on loan was $118.697 million. The fair value of the invested cash collateral was $72.645 million. Securities lending obligations were $121.313 million with an unrealized loss in invested cash collateral of $48.668 million. The gross securities lending revenue for the fiscal year was $1.730 million, a decrease from $2.513 million in the prior year. Since November 2008, gains and losses from the Securities Lending Program have been excluded from the Total Plan performance calculations.

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, 2014, 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, 2014:

	SCRS	PORS	GARS	JSRS	SCNG	TOTALS
Securities lent for cash collateral:						
U.S. Government securities	$ 4,109	$ 634	$ 5	$ 23	$ 4	$ 4,775
Corporate bonds	47,772	7,373	60	270	38	55,513
Common stock	50,264	7,758	63	283	41	58,409
Total securities lent for cash collateral	**$ 102,145**	**$ 15,765**	**$ 128**	**$ 576**	**$ 83**	**$ 118,697**
Securities lent for non-cash collateral:						
Corporate bonds	$ 12,613	$ 1,947	$ 16	$ 71	$ 10	$ 14,657
Common stock	3,482	537	4	20	3	4,046
	$ 16,095	**$ 2,484**	**$ 20**	**$ 91**	**$ 13**	**$ 18,703**
Cash collateral invested as follows:						
Repurchase agreements	$ 62,515	$ 9,648	$ 78	$ 353	$ 51	$ 72,645
Total for cash collateral invested	**$ 62,515**	**$ 9,648**	**$ 78**	**$ 353**	**$ 51**	**$ 72,645**
Securities received as collateral:						
U.S. Government securities	$ 16,617	$ 2,565	$ 21	$ 94	$ 14	$ 19,311
	$ 16,617	**$ 2,565**	**$ 21**	**$ 94**	**$ 14**	**$ 19,311**

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, 2014, 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, 2014, the Trusts' debt investments were rated by Standard & Poor's as follows (expressed in thousands):

Investment Type and Fair Value	AAA / AA	A / A1 / A2	BBB / BB	Not Rated
U.S. agencies	$ 15,007	$ —	$ —	$ —
Mortgage backed obligations	29,927	—	—	—
Corporate bonds	83,606	187,478	249,566	8,253
Repurchase agreements	—	—	—	109,325
Commercial paper	—	22,026	—	16,108
Municipal bonds	—	1,999	—	—
Money market mutual funds	—	—	—	6
Totals	**$128,540**	**$211,503**	**$249,566**	**$133,692**

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, 2014, 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	$ 44,858	$ 675	$ 2,928	$ 778	$ 40,477
U.S. agencies	15,007	10,004	5,003	—	—
Mortgage backed obligations	29,927	—	—	4,287	25,640
Corporate bonds	528,903	161,270	122,763	220,460	24,410
Repurchase agreements	109,325	109,325	—	—	—
Commercial paper	38,134	38,134	—	—	—
Municipal bonds	1,999	1,999	—	—	—
Money market mutual funds	6	6	—	—	—
Totals	**$ 768,159**	**$ 321,413**	**$130,694**	**$225,525**	**$ 90,527**

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, 2014, the State Treasurer had approximately 5.84% 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, 2014:

		Amount
Securities lent for cash collateral:		
U.S. Corporate-fixed income	$	7,510
Total securities lent for cash collateral	**$**	**7,510**
Securities lent for non-cash collateral:		
U.S. Corporate-fixed income	$	3,066
Total securities lent for non-cash collateral	**$**	**3,066**
Cash collateral invested as follows:		
Asset backed securities	$	1,943
Repurchase agreements		660
Total for cash collateral invested	**$**	**2,603**
Securities received as collateral:		
U.S. treasuries	$	3,125
Total for securities collateral invested	**$**	**3,125**

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, 2014, 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	$ 294,338	$ —	$ —	$ —	$ —	$ 294,338
Sales and other taxes receivable	105,312	7	—	17,589	—	122,908
Patient accounts receivable	55	721	—	—	—	776
Other receivables	17,353	39,251	2,037	89	127	58,857
Total allowances for uncollectibles	**$417,058**	**$ 39,979**	**$ 2,037**	**$ 17,678**	**$ 127**	**$ 476,879**

	Business-type Activities (Enterprise Funds)
	Unemployment Compensation Benefits
Assessments receivable	$ 12,766
Other receivables	8,127
Total allowances for uncollectibles	**$ 20,893**

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, 2014, 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	$ 36,691	$ 31,472	$ 5,332	$ —	$ —	$ 1,051	$ 74,546
Contributions	—	240	—	—	—	—	240
Income taxes receivable	4,784	—	—	—	—	—	4,784
Sales and other taxes receivable	2,605	—	—	—	1,471	—	4,076
Patient accounts receivable	3,523	2,289	—	—	—	—	5,812
Loans and notes receivable	35,617	532	476,347	2,369	—	—	514,865
Accounts receivable—restricted	—	—	215,240	—	—	—	215,240
Total long-term receivables, net	**$ 83,220**	**$ 34,533**	**$ 696,919**	**$ 2,369**	**$ 1,471**	**$ 1,051**	**$ 819,563**

Governmental funds report unearned 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 unearned revenue in the governmental funds (expressed in thousands) at June 30, 2014, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes	$ —	$ 15,165	$ 15,165
Federal grants	20,890	229	21,119
Contributions	196,291	148,868	345,159
Departmental services	1,769	47,772	49,541
Total unearned revenues	$ 218,950	212,034	$ 430,984
Internal service funds		146,495	
Total governmental activities		$ 358,529	

NOTE 6: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2014, for the primary government was as follows:

	Beginning Balances July 1, 2013	Increases	Decreases	Ending Balances June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 1,865,355	$ 24,019	$ (4,523)	$ 1,884,852
Construction in progress	2,414,808	553,980	(323,514)	2,645,274
Works of art and historical treasures	3,979	3,297	—	7,276
Intangibles	292	47	(5)	334
Total capital assets not being depreciated	4,284,434	581,343	(328,041)	4,537,736
Capital assets being depreciated:				
Land improvements	112,992	434	—	113,426
Infrastructure (road and bridge network)	12,338,108	290,605	(8,724)	12,619,989
Buildings and improvements	2,000,288	9,909	(741)	2,009,456
Vehicles	650,911	34,468	(27,278)	658,101
Machinery and equipment	521,071	51,108	(24,894)	547,285
Works of art and historical treasures	1,500	—	—	1,500
Intangibles	141,685	1,809	(8,158)	135,336
Total capital assets being depreciated	15,766,555	388,333	(69,796)	16,085,093
Less accumulated depreciation for:				
Land improvements	(52,017)	(2,854)	—	(54,871)
Infrastructure (road and bridge network)	(3,137,423)	(176,924)	8,201	(3,306,146)
Buildings and improvements	(871,645)	(56,747)	654	(927,738)
Vehicles	(559,606)	(29,637)	27,582	(561,661)
Machinery and equipment	(399,035)	(32,165)	23,719	(407,481)
Works of art and historical treasures	(301)	(60)	—	(361)
Intangibles	(85,144)	(11,755)	8,155	(88,744)
Total accumulated depreciation	(5,105,171)	(310,142)	68,312	(5,347,002)
Total capital assets being depreciated, net	10,661,384	78,191	(1,484)	10,738,091
Capital assets for governmental activities, net	**$ 14,945,818**	**$ 659,534**	**$ (329,525)**	**$ 15,275,827**

	Beginning Balances July 1, 2013 As Restated	Increases	Decreases	Ending Balances June 30, 2014
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 40,481	$ 52,029	$ —	$ 92,510
Construction in progress	18,116	4,565	(789)	21,892
Total capital assets not being depreciated	58,597	56,594	(789)	114,402
Capital assets being depreciated:				
Land improvements	1,244	—	—	1,244
Buildings and improvements	13,855	8,382	(67)	22,170
Vehicles	748	14	—	762
Machinery and equipment	6,808	772	(140)	7,440
Intangibles	2,300	—	—	2,300
Total capital assets being depreciated	24,955	9,168	(207)	33,916
Less accumulated depreciation for:				
Land improvements	(476)	(416)	—	(892)
Buildings and improvements	(3,998)	(405)	67	(4,336)
Vehicles	(742)	(17)	—	(759)
Machinery and equipment	(3,769)	(82)	138	(3,713)
Intangibles	(2,070)	(115)	—	(2,185)
Total accumulated depreciation	(11,055)	(1,035)	205	(11,885)
Total capital assets being depreciated, net	13,900	8,133	(2)	22,031
Capital assets for business-type activities, net	**$ 72,497**	**$ 64,727**	**$ (791)**	**$ 136,433**

Capital assets for the State's fiduciary funds were comprised of land totaling $582 thousand, a building totaling $4.749 million and equipment totaling $1.706 million with accumulated depreciation of $4.125 million. Depreciation expense for fiscal year 2014 was $227 thousand. There were additions of $56 thousand for equipment and $54 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, 2013	Increases	Decreases	Ending Balances December 31, 2013
Public Service Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 120,104	$ 21,963	$ —	$ 142,067
Construction in progress	1,643,507	644,343	(187,219)	2,100,631
Total capital assets not being depreciated	1,763,611	666,306	(187,219)	2,242,698
Capital assets being depreciated:				
Buildings and improvements (utility plant)	6,993,172	129,575	(19,594)	7,103,153
Vehicles	47,191	20,749	(2,024)	65,916
Machinery and equipment	30,065	15,700	(745)	45,020
Intangibles	72,608	1,302	(873)	73,037
Total capital assets being depreciated	7,143,036	167,326	(23,236)	7,287,126
Less accumulated depreciation for:				
Buildings and improvements (utility plant)	(2,865,560)	(168,406)	—	(3,033,966)
Vehicles	(23,872)	(8,557)	1,996	(30,433)
Machinery and equipment	(13,554)	(4,508)	726	(17,336)
Intangibles	(55,743)	(18,168)	873	(73,038)
Total accumulated depreciation	(2,958,729)	(199,639)	3,595	(3,154,773)
Total capital assets being depreciated, net	4,184,307	(32,313)	(19,641)	4,132,353
Public Service Authority, net	**$ 5,947,918**	**$ 633,993**	**$ (206,860)**	**$ 6,375,051**

	Beginning Balances July 1, 2013	Increases	Decreases	Ending Balances June 30, 2014
State Ports Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 197,232	$ 4,445	$ (2)	$ 201,675
Construction in progress	207,602	83,265	(64,097)	226,770
Intangibles	2,190	—	—	2,190
Total capital assets not being depreciated	407,024	87,710	(64,099)	430,635
Capital assets being depreciated:				
Land improvements	284,490	41,469	(112)	325,847
Buildings and improvements	337,817	5,660	(3,823)	339,654
Machinery and equipment	160,792	12,726	(3,033)	170,485
Intangibles	876	—	—	876
Total capital assets being depreciated	783,975	59,855	(6,968)	836,862
Less accumulated depreciation for:				
Land improvements	(164,751)	(13,666)	—	(178,417)
Buildings and improvements	(215,865)	(10,369)	3,696	(222,538)
Machinery and equipment	(116,199)	(8,380)	2,990	(121,589)
Intangibles	(613)	(36)	—	(649)
Total accumulated depreciation	(497,428)	(32,451)	6,686	(523,193)
Total capital assets being depreciated, net	286,547	27,404	(282)	313,669
State Ports Authority, net	**$ 693,571**	**$ 115,114**	**$ (64,381)**	**$ 744,304**

	Beginning Balances July 1, 2013	Increases	Decreases	Ending Balances June 30, 2014
Medical University of South Carolina:				
Capital assets not being depreciated:				
Land and improvements	$ 68,751	$ —	$ —	$ 68,751
Construction in progress	96,412	75,827	(81,285)	90,954
Works of art and historical treasures	188	—	—	188
Total capital assets not being depreciated	165,351	75,827	(81,285)	159,893
Capital assets being depreciated:				
Land improvements	12,849	1,287	—	14,136
Buildings and improvements	1,455,971	77,922	(2,056)	1,531,838
Vehicles	6,838	173	(1,796)	5,215
Machinery and equipment	446,518	38,693	(80,097)	405,113
Intangibles	28,871	1,138	(77)	29,932
Total capital assets being depreciated	1,951,047	119,214	(84,025)	1,986,235
Less accumulated depreciation for:				
Land improvements	(6,709)	(575)	—	(7,284)
Buildings and improvements	(596,476)	(62,271)	1,671	(657,077)
Vehicles	(6,176)	(356)	1,795	(4,737)
Machinery and equipment	(297,783)	(48,523)	70,105	(276,202)
Intangibles	(14,728)	(4,175)	77	(18,826)
Total accumulated depreciation	(921,872)	(115,900)	73,647	(964,125)
Total capital assets being depreciated, net	1,029,175	3,313	(10,378)	1,022,110
MUSC, net	**$ 1,194,526**	**$ 79,140**	**$ (91,663)**	**$ 1,182,003**

	Beginning Balances July 1, 2013 As Restated	Increases	Decreases	Ending Balances June 30, 2014
University of South Carolina:				
Capital assets not being depreciated:				
Land and improvements	$ 79,919	$ —	$ —	$ 79,919
Construction in progress	90,459	114,227	(157,334)	47,352
Works of art and historical treasures	22,220	5,202	—	27,422
Total capital assets not being depreciated	192,598	119,429	(157,334)	154,693
Capital assets being depreciated:				
Land improvements	103,680	1,255	—	104,934
Buildings and improvements	1,382,047	160,991	—	1,543,039
Vehicles	15,971	1,125	(581)	16,515
Machinery and equipment	174,722	13,267	(6,053)	181,936
Intangibles	34,682	8,606	(617)	42,671
Total capital assets being depreciated	1,711,102	185,244	(7,251)	1,889,095
Less accumulated depreciation for:				
Land improvements	(23,296)	(4,187)	—	(27,483)
Buildings and improvements	(556,407)	(41,852)	—	(598,259)
Vehicles	(10,603)	(1,032)	615	(11,020)
Machinery and equipment	(132,872)	(11,009)	5,284	(138,597)
Intangibles	(3,627)	(4,260)	617	(7,269)
Total accumulated depreciation	(726,805)	(62,340)	6,516	(782,629)
Total capital assets being depreciated, net	984,297	122,904	(735)	1,106,466
USC, net	**$ 1,176,895**	**$ 242,333**	**$ (158,069)**	**$ 1,261,159**

	Beginning Balances July 1, 2013	Increases	Decreases	Ending Balances June 30, 2014
Clemson University:				
Capital assets not being depreciated:				
Land and improvements	$ 41,674	$ —	$ —	$ 41,674
Construction in progress	94,522	44,647	(115,967)	23,202
Total capital assets not being depreciated	136,196	44,647	(115,967)	64,876
Capital assets being depreciated:				
Buildings and improvements	867,488	46,799	(225)	914,062
Vehicles	15,575	509	(575)	15,509
Machinery and equipment	266,536	73,511	(4,586)	335,461
Intangibles	2,680	16,400	—	19,080
Total capital assets being depreciated	1,152,279	137,219	(5,386)	1,284,112
Less accumulated depreciation for:				
Buildings and improvements	(314,312)	(22,042)	203	(336,151)
Vehicles	(5,140)	(60)	571	(4,629)
Machinery and equipment	(186,328)	(17,902)	4,159	(200,071)
Intangibles	(2,584)	(4,423)	—	(7,007)
Total accumulated depreciation	(508,364)	(44,427)	4,933	(547,858)
Total capital assets being depreciated, net	643,915	92,792	(453)	736,254
Clemson, net	**$ 780,111**	**$ 137,439**	**$ (116,420)**	**$ 801,130**

During the fiscal year ended June 30, 2014, 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	$ 26,795	$ 8,446	$ 35,241
Education	12,920	—	12,920
Health and environment	11,428	—	11,428
Social services	550	—	550
Administration of justice	27,713	516	28,230
Resources and economic development	27,733	—	27,733
Transportation	194,040	—	194,040
Total depreciation expense, governmental activities	**$ 301,180**	**$ 8,962**	**$ 310,142**

	Major Component Units
Public Service Authority	$ 199,639
State Ports Authority	32,451
MUSC	115,900
USC	62,340
Clemson	44,427

At June 30, 2014, the primary government had outstanding construction commitments totaling $42.503 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $18.589 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 $9.502 million at June 30, 2014, 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	$ 3,469,000
State Ports Authority	37,914
MUSC	14,527
USC	116,434
Clemson	9,756

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	$ 8,268
MUSC	446
USC	4,906

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 comprehensive annual financial report for the five retirement plans 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, 2014, is as follows (dollars expressed in thousands):

	SCRS	PORS	GARS	JSRS	SCNG
State and school districts					
Number of employers	151	88	1	1	1
Annual covered payroll	$5,396,642	$ 366,777	$ 2,646	$ 17,837	N/A [a]
Average number of contributing members	132,068	9,651	170	153	N/A [b]
Other participating employers					
Number of employers	577	323	—	—	—
Annual covered payroll	$2,029,949	$ 705,426	$ —	$ —	$ —
Average number of contributing members	53,287	17,057	—	—	—

[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 12,222.

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, 2014, were as follows:

Plan	Rate
SCRS	7.5% of earnable compensation
PORS	7.84% of earnable compensation
GARS	11.0% of earnable compensation
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, 2014, were as follows:

Plan	Rate
SCRS	10.60%
PORS	12.84%
JSRS	47.97%

The GARS employer contribution of $4.063 million was actuarily determined and included incidental death benefits. The State appropriated $4.586 million to fund the SCNG actuarially determined employer contribution for the fiscal year ended June 30, 2014.

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, 2014 under this type of agreement.

d. Annual Pension Cost

The 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	$ 4,063	$ 9,659	$ 4,442
Employer contributions made	$ 4,063	$ 9,659	$ 4,586
Actuarial valuation date	July 1, 2013	July 1, 2013	July 1, 2013
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar, closed	Level percent, open	Level dollar, closed
Remaining amortization period	14 years	28 years	19 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, 2014 (expressed in thousands):

	SCNG
Actuarially required contribution (ARC).....	$ 4,586
Interest on the NPO...	674
Adjustment to the ARC.................................	(818)
Annual pension cost......................................	4,442
Contributions made..	(4,586)
Decrease in NPO...	(144)
NPO beginning of year..................................	8,989
NPO end of year...	**$ 8,845**

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, 2014		June 30, 2013		June 30, 2012	
	(1) Required	% Contributed	(1) Required	% Contributed	Required	% Contributed
SCRS–State:						
Primary government.......	$ 122,348	100.0%	$ 123,651	100.0%	$ 255,277	100.0%
Component units............	190,639	100.0%	187,620	100.0%	15,050	100.0%
PORS–State:						
Primary government.......	46,907	100.0%	44,393	100.0%	43,776	100.0%
Component units............	3,350	100.0%	3,101	100.0%	85	100.0%

(1) In fiscal year 2013, 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.

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	2014	$ 4,063	100.00%	$ —
	2013	2,831	100.00%	—
	2012	2,532	100.00%	—
JSRS	2014	9,659	100.00%	—
	2013	8,667	100.00%	—
	2012	8,414	100.00%	—
SCNG	2014	4,442	103.24%	8,845
	2013	4,405	103.04%	8,989
	2012	3,775	104.29%	9,123

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	2013	$ 25,753,068	$ 41,196,062	$ 15,442,994	62.5%	$ 7,434,820	207.7%
	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%
PORS	2013	3,922,041	5,663,756	1,741,715	69.2%	1,033,189	168.6%
	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%

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	2013	$ 38,033	$ 75,639	$ 37,606	50.3%	$ 2,688	1399.0%
	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%
JSRS	2013	147,648	256,988	109,340	57.5%	20,407	535.8%
	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%
SCNG	2013	22,208	61,576	39,368	36.1%	N/A	N/A
	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

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, 2014, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	SCNG	Totals
Receivables:						
Contributions	$ 174,015	$ 20,548	$ 172	$ 751	$ 16	$ 195,502
Accrued interest	32,286	4,983	40	182	26	37,517
Unsettled investment sales	732,115	112,991	918	4,132	595	850,751
Other investment receivables	1,567	242	2	9	1	1,821
Total receivables	**$ 939,983**	**$ 138,764**	**$ 1,132**	**$ 5,074**	**$ 638**	**$ 1,085,591**
Due from other funds	**$ 268**	**$ 949**	**$ —**	**$ —**	**$ —**	**$ 1,217**
Investments and invested securities lending collateral:						
Short-term securities	$ 719,307	$ 111,015	$ 901	$ 4,060	$ 584	$ 835,867
Debt-domestic	4,926,250	760,296	6,174	27,804	4,002	5,724,526
Debt-international	2,133,683	329,303	2,675	12,043	1,733	2,479,437
Equity-domestic	2,176,128	335,854	2,727	12,283	1,768	2,528,760
Equity-international	5,102,975	787,571	6,396	28,801	4,146	5,929,889
Alternatives	7,965,558	1,229,369	9,983	44,958	6,472	9,256,340
Invested securities lending collateral	62,515	9,648	78	353	51	72,645
Total investments	**$ 23,086,416**	**$ 3,563,056**	**$ 28,934**	**$ 130,302**	**$ 18,756**	**$ 26,827,464**

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 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 9,644 members were participating in the TERI program at June 30, 2014. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2014, was as follows:

Beginning balance of TERI trust accounts	$ 468,074
Additions	281,757
TERI distributions at termination	(179,664)
Ending balance of TERI trust accounts	**$ 570,167**

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, 2014, there were no benefits held in trust.

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 (7.50%) 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	$ 1,171,274
Employee contributions	87,846
Employer contributions	58,564

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, 4.92% of annual covered payroll for fiscal year 2014. The IBD sets the employer contribution rate based on a pay-as-you-go basis. The State paid $377.145 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2014. 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, 2014.

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 ($93.521 million), and income generated from investments ($23.707 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, 2014		June 30, 2013		June 30, 2012	
	Actuarially Required	% Contributed	Actuarially Required	% Contributed	Actuarially Required	% Contributed
SCRHI	$ 778,969	60.73%	$ 818,861	50.02%	$ 787,293	53.22%
LTDI	7,251	95.77%	9,410	72.23%	9,231	73.11%

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	2013	$ 668,972	$ 10,072,927	$ 9,403,955	7%	$ 7,471,142	126%
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%
LTDITF	2013	35,426	28,248	(7,178)	125%	8,163,269	<1%
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%

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, 2014, for the OPEB plans administered by the Insurance Benefits Division were as follows:

	SCRHI	LTDI	Totals
Receivables:			
Accrued interest	**$ 4,365**	**$ 295**	**$ 4,660**
Due from other funds	**$ 54,316**	**$ —**	**$ 54,316**
Investments and invested securities lending collateral:			
Debt domestic	$ 585,188	$ 30,906	$ 616,094
Financial paper	40,133	2,601	42,734
Invested securities lending collateral	2,513	90	2,603
Total investments	**$ 627,834**	**$ 33,597**	**$ 661,431**

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
2014	$ 259,649	$ 72,921	$ (74,172)	$ 258,398
2013	244,520	79,507	(64,378)	259,649

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 8 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 8.

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, 2014, $45 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
2014	$ 214,496	$ 1,836,473	$ (1,891,981)	$ 158,988
2013	176,801	1,817,587	(1,779,892)	214,496

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
2014	$ 236,000	$ 62,387	$ (50,287)	$ 248,100
2013	235,450	53,271	(52,721)	236,000

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. Uninsured Employers' Fund

The Uninsured Employers' Fund was established by Section 42-7-200, which effective July 1, 2013 the powers, duties, obligations and responsibilities of the Second Injury Fund that relate to the South Carolina Workers' Compensation Uninsured Employers' Fund were devolved upon the South Carolina Workers' Compensation Uninsured Employers' Fund within the State Accident Fund. This fund is included in the Other Special Revenue Fund located in Exhibit D-1.

Per Section 42-7-200(a) of the South Carolina Code of Laws of 1976, as amended, the Uninsured Employers' 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
2014	$ 95,884	$ (41,525)	$ (6,359)	$ 48,000
2013	43,224	105,574	(52,914)	95,884

e. 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
2014	$ 90,453	$ (8,070)	$ (10,115)	$ 72,268
2013	112,209	(3,727)	(18,029)	90,453

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
2013	$ 110,508	$ 2,117	$ (20,450)	$ 92,175
2012	124,891	14,091	(28,474)	110,508

f. Second Injury Fund

The Second Injury Fund, a major enterprise fund, was created by Code of Laws Section 42-7-310. It established the guidelines by which to pay compensation claims in those cases where an individual having an existing permanent physical impairment incurs a subsequent disability from injury by accident arising out of and in the course of employment. Funding for payment of compensation awards and for Fund operating costs is provided by equitable assessments upon all workmen's compensation insurance carriers, self-insurers, and the South Carolina State Accident Fund (approximately 360 entities). Participation is mandatory as required by State law. Participants of the fund are responsible for the fund's liabilities. Payments of claims and awards are made directly to the carriers and self-insurers. The State of South Carolina will not be responsible for any expense or liabilities of the fund, except the State Accident Fund, who is a participant in 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 (as Restated)	Current Year Claims and Changes in Estimates (as Restated)	Claim Payments (as Restated)	Balance at Fiscal Year-End (as Restated)
2014	$ 340,067	$ 180	$ (30,705)	$ 309,542
2013	294,239	98,484	(52,656)	340,067

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.

g. 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 2013. 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 2013, 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, 2013. There have been no third-party claims for environmental damages for 2013.

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 $13.6 billion by the Price-Anderson Indemnification Act. This $13.6 billion would be covered by nuclear liability insurance of $375.0 million per reactor unit, with potential retrospective assessments of up to $127.3 million per licensee for each nuclear incident occurring at any reactor in the United States (payable at a rate not to exceed $18.9 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 $42.4 million, not to exceed approximately $6.3 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 $2.25 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 $3.8 million for the primary policy, $4.0 million for the excess policy and $1.4 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 $2.75 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 thousand 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 thousand to $75 thousand.

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, 2013.

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
2013	$ 1,778	$ 2,940	$ (2,180)	$ 2,538
2012	1,612	2,392	(2,226)	1,778

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, 2014 for the primary government and the State's discretely presented component units were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government Governmental Activities
2015	$ 2,008
2016	1,952
2017	1,858
2018	1,828
Total minimum payments	**7,646**
Less: interest and executory costs	(1,642)
Net minimum payments	**$ 6,004**

Fiscal Year Ending December 31	Discretely Presented Component Unit Public Service Authority
2014	$ 244
Total minimum payments	**244**
Less: interest and executory costs	(7)
Net minimum payments	**$ 237**

	Discretely Presented Component Units		
Fiscal Year Ending June 30	Clemson University	MUSC	USC
2015	$ 1,043	$ 555	$ 1,659
2016	1,043	371	1,669
2017	1,027	33	5,505
2018	723	20	1,227
2019	574	—	1,220
2020-2024	2,872	—	4,989
2025-2029	2,872	—	4,973
2030-2034	2,872	—	1,720
2035-2038	2,128	—	—
Total minimum payments	**15,154**	**979**	**22,962**
Less: interest and executory costs	(191)	(49)	(6,310)
Net minimum payments	**$ 14,963**	**$ 930**	**$ 16,652**

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2014, 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...............................	—	10,200	14,300	—	18,815
Machinery and equipment...................................	922	—	2,023	3,339	548
Works of art and historical treasures.................	—	—	—	—	204
Assets acquired under capital leases before accumulated amortization...............................	**922**	**10,200**	**16,323**	**3,339**	**19,837**
Less: accumulated amortization..........................	(767)	(8,700)	(1,019)	(1,868)	(3,026)
Assets acquired under capital leases, net.........	**$ 155**	**$ 1,500**	**$ 15,304**	**$ 1,471**	**$ 16,811**

b. Operating Leases

For the primary government's fiscal year ended June 30, 2014, minimum rental payments under operating leases were $46.343 million and contingent rental payments were $3.198 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 $1.700 million. The Housing Authority, a major discretely presented component unit, had minimum rental payments under operating leases for the fiscal year which totaled $348 thousand. For Clemson University, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $122 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 $3.340 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 $1.614 million for the fiscal year.

At June 30, 2014, 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**
2015	$ 24,029	$ 37	$ 24,066
2016	20,951	37	20,988
2017	17,743	36	17,779
2018	14,370	4	14,374
2019	11,827	4	11,831
2020-2024	27,689	—	27,689
2025-2029	2,436	—	2,436
2030-2034	379	—	379
2035-2039	5	—	5
Thereafter	10	—	10
Net minimum payments.......................	**$ 119,439**	**$ 118**	**$ 119,557**

Fiscal Year Ending December 31	Discretely Presented Component Unit Public Service Authority
2014	$ 1,045
2015	711
2016	600
2017	600
2018	600
Net minimum payments.................	**$ 3,556**

	Discretely Presented Component Units			
Fiscal Year Ending June 30	**Housing Authority**	**Clemson University**	**MUSC**	**USC**
2015	$ 353	$ 55	$ 16,189	$ 2,277
2016	360	41	11,023	970
2017	124	26	7,169	506
2018	—	—	3,634	443
2019	—	—	2,550	337
2020-2024	—	—	6,047	655
2025-2029	—	—	2,122	500
2030-2034	—	—	—	500
2035-2038	—	—	—	400
Net minimum payments...............	**$ 837**	**$ 122**	**$ 48,734**	**$ 6,588**

c. Facilities and Equipment Leased to Others

At June 30, 2014, the State agencies within the primary government had leased to non-State parties certain land, facilities, or equipment having a cost of approximately $54.077 million and related accumulated depreciation of $12.220 million. In addition at June 30, 2014, 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 $14.021 million and related accumulated depreciation of $9.067 million. Also, at June 30, 2014, MUSC, a major discretely presented component unit, had leased to non-State parties certain land and facilities having a cost of approximately $27.112 million and related accumulated depreciation of $12.767 million. Future minimum rental payments to be received at June 30, 2014, 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**
2015	$ 4,307	$ 1,889	$ 898
2016	2,296	2,036	883
2017	2,064	1,402	828
2018	1,887	1,223	828
2019	1,191	1,178	828
2020-2024	3,096	5,562	2,651
2025-2029	272	4,084	421
2030-2034	114	4,180	421
2035-2039	—	4,332	421
Thereafter	—	3,046	8,584
Total...	**$ 15,227**	**$ 28,932**	**$ 16,763**

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, 2014, were (net of unamortized premiums/discounts, expressed in thousands):

Governmental Activities:		
Capital improvement bonds, 4.00% to 5.00%, maturing serially through 2019................	$	148,642
State highway bonds, 2.00% to 5.00%, maturing serially through 2023..........................		358,484
State school facilities bonds, 5.00%, maturing serially through 2018..............................		143,868
Infrastructure Bank bonds, 2.50% to 5.00%, maturing serially through 2028.................		44,533
State economic development bonds, 1.00% to 6.50%, maturing serially through 2031......................		436,379
Research university infrastructure bonds, 3.00% to 5.00%, maturing serially through 2029......................		149,609
Air carrier hub terminal facilities bonds, 1.00% to 4.00%, maturing serially through 2025......................		39,017
Totals—primary government.......................	**$**	**1,320,532**
Major Discretely Presented Component Units:		
Clemson University institution bonds, 2.50% to 5.00%, maturing serially through 2034......................	$	124,705
University of South Carolina institution bonds, 2.25% to 5.25%, maturing serially through 2034......................		116,035
Medical University of South Carolina institution bonds, 2.25% to 5.00%, maturing serially through 2031......................		40,517

At June 30, 2014, $6.344 million of capital improvement bonds, $106 million of State highway bonds, $77.185 million of State economic development bonds, and $13.680 million of State research university infrastructure bonds were authorized by the General Assembly but unissued.

At June 30, 2014, future debt service requirements for general obligation bonds for the primary government were (expressed in thousands):

	Governmental Activities	
Year Ending June 30	**Principal**	**Interest**
2015	$ 201,950	$ 55,301
2016	177,470	46,462
2017	142,080	35,649
2018	124,505	28,663
2019	112,555	22,709
2020-2024	378,500	49,416
2025-2029	79,110	5,386
2030-2032	6,360	209
Total debt service requirements.......................	**1,222,530**	**$ 243,795**
Unamortized premiums........................	98,002	
Total principal outstanding.......................	**$ 1,320,532**	

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, 2014, was $35.949 million for highway bonds,

$207.442 million for general obligation bonds excluding institution and highway bonds, $7.407 million for economic development bonds, and $10.237 million for research university infrastructure bonds. Excluded from the debt service limit calculations are a $170 million 2010 issue and an $85 million 2013 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**
2015	$ 6,155	$ 5,115	$ 4,210	$ 1,698
2016	6,180	5,054	4,360	1,525
2017	6,480	4,756	4,495	1,346
2018	5,095	4,444	4,035	1,156
2019	4,800	4,204	3,460	989
2020-2024	33,195	16,503	10,430	3,149
2025-2029	34,105	8,765	5,635	1,471
2030-2034	20,760	1,889	2,655	201
Total debt service requirements	**116,770**	**$ 50,730**	**39,280**	**$ 11,535**
Unamortized premiums	7,935		1,237	
Total principal outstanding	**$ 124,705**		**$ 40,517**	

	University of South Carolina	
Year Ending June 30	**Principal**	**Interest**
2015	$ 9,395	$ 4,901
2016	9,700	4,596
2017	7,725	4,181
2018	8,065	3,825
2019	8,395	3,462
2020-2024	41,990	11,079
2025-2029	22,365	3,979
2030-2034	8,400	785
Total debt service requirements	**$ 116,035**	**$ 36,808**

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 and bond anticipation notes of $491.52 million were outstanding at June 30, 2014.

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, 2014, which are reported in the internal service funds, totaled $919 thousand and mature serially through 2016. Interest rates on these bonds ranged from 4.75% to 6.1%. At June 30, 2014, 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, 2014, future debt service requirements for limited obligation bonds were (expressed in thousands):

	Governmental Activities (Internal Service Funds)	
Year Ending June 30	**Principal**	**Interest**
2015	$ 735	$ 32
2016	185	9
Total debt service requirements	**920**	**$ 41**
Unamortized discounts	(1)	
Total principal outstanding	**$ 919**	

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, 2014, were (net of unamortized premiums/discounts, expressed in thousands):

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 0.70% to 5.50%, maturing serially through 2041	$ 2,016,518	$ —
Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022	12,316	—
Department of Public Safety bonds, 5.00%, maturing through 2018	8,756	—
Judicial Department note, 1.92%, maturing in 2016	—	793
Corrections Department notes, 1.81% to 5.97%, maturing through 2020	—	11,858
Criminal Justice Academy note, 3.41%, maturing through 2016	—	3,425
Department of Revenue note, 1.43%, maturing through 2015	—	157
Budget and Control Board notes, 3.20% to 3.74%, maturing through 2018	—	2,032
Totals—governmental activities	**2,037,590**	**18,265**
Business-Type Activities:		
Nonmajor enterprise fund bonds and notes, 0.19% to 3.84%, maturing through 2038	**6,210**	**—**
Totals—primary government	**$ 2,043,800**	**$ 18,265**
Major Discretely Presented Component Units:		
Public Service Authority bonds, 1.10% to 8.37%, maturing serially through 2053	$ 6,544,850	$ —
Clemson University bonds and notes, 2.00% to 6.00%, maturing serially through 2031	50,717	—
University of South Carolina bonds and notes, 2.00% to 5.50%, maturing serially through 2031	440,221	5,799
Medical University of South Carolina bonds and notes, 4.00% to 4.30%, maturing serially through 2031	522,159	47,598
State Ports Authority bonds and notes, 2.56% to 5.50%, maturing serially through 2041	167,491	29,458
State Housing Authority bonds and notes, 0.60% to 6.00%, maturing serially through 2042	539,249	—

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, 2014, the Bank made variable bond interest payments of $3.391 million and fixed rate payments on the exchange agreement of $13.862 million. The Bank received variable swap payments on the exchange agreement of $412 thousand. The June 30, 2014, mark to market value of this swap was negative $21.801 million, representing a decrease in fair value of $4.766 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, 2014 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, 2014 was 0.10%. The fair value of this swap, estimated using the zero-coupon method, was negative $1.592 million as of June 30, 2014. 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, 2013 of $829 thousand 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, 2014 was $17.378 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, 2014 was 1.45%. The fair value of the term loan swap, estimated using the zero-coupon method, was negative $668 thousand as of June 30, 2014. 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 $261 thousand is not recognized in these financial statements.

As of June 30, 2014, 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
2015	$ —	$ 617	$ 1,242	$ 1,859
2016	—	617	1,242	1,859
2017	—	617	1,242	1,859
2018	—	617	1,242	1,859
2019	1,700	599	1,209	3,508
2020-2024	14,185	2,556	5,149	21,890
2025-2029	14,505	1,869	3,767	20,141
2030-2034	16,645	1,087	2,191	19,923
2035-2038	15,050	230	463	15,743
Totals............	**$ 62,085**	**$ 8,809**	**$ 17,747**	**$ 88,641**

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, 2014 were $56.543 million and $24.233 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 $80.775 million at June 30, 2014.

As of June 30, 2014, the swaps had a negative fair value of approximately $1.870 million. The unrealized loss related to these agreements recorded at June 30, 2014 is $436 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, 2014, 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
2015	$ 77,498	$ 90,792	$ 155	$ 9
2016	83,765	86,804	160	9
2017	62,279	83,152	165	9
2018	77,376	79,678	175	9
2019	79,640	75,715	180	8
2020-2024	374,974	319,539	1,030	37
2025-2029	398,245	229,542	1,275	29
2030-2034	518,610	124,502	1,560	19
2035-2039	182,245	44,256	1,510	6
2040-2042	86,453	4,597	—	—
Total debt service requirements	**1,941,085**	**$ 1,138,577**	**6,210**	**$ 135**
Net unamortized premiums	114,770		—	
Total principal outstanding	**$ 2,055,855**		**$ 6,210**	

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, 2013, the carrying value of the Public Service Authority's debt was $6.447 billion while the fair value was approximately $7.0 billion. At June 30, 2014, the carrying value of the State Ports Authority debt was $194.798 million while the fair value was approximately $182.816 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**
2014	$ 121,775	$ 312,201
2015	555,502	296,367
2016	333,878	283,381
2017	242,690	270,291
2018	191,822	260,770
2019-2023	974,581	1,155,976
2024-2028	670,884	972,057
2029-2033	757,025	802,882
2034-2038	848,755	590,684
2039-2043	838,615	380,331
2044-2048	492,600	194,209
2049-2050	374,165	51,177
Total debt service requirements....................................	**6,402,292**	**$ 5,570,326**
Unamortized premiums......................	142,558	
Total principal outstanding.............	**$ 6,544,850**	

	Clemson University		University of South Carolina	
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**
2015	$ 7,525	$ 1,536	$ 16,644	$ 19,139
2016	7,815	1,248	12,595	18,642
2017	8,255	1,080	13,105	18,137
2018	8,460	864	13,295	17,581
2019	2,665	661	13,820	17,057
2020-2024	11,905	1,954	77,330	75,357
2025-2029	2,640	119	88,530	56,152
2030-2034	—	—	94,605	34,451
2035-2039	—	—	69,425	12,125
2040-2043	—	—	13,840	1,571
Total debt service requirements	**$ 49,265**	**$ 7,462**	**$ 413,189**	**$ 270,212**
Unamortized discounts and premiums	1,452		32,831	
Total principal outstanding.............	**$ 50,717**		**$ 446,020**	

Year Ending June 30	Medical University of South Carolina Principal	Interest
2015	$ 25,659	$ 17,759
2016	26,408	16,790
2017	26,764	15,872
2018	26,654	15,005
2019	27,509	14,132
2020-2024	140,077	57,699
2025-2029	147,105	35,346
2030-2034	128,145	11,477
2035-2038	21,436	1,007
Total debt service requirements	**$ 569,757**	**$ 185,087**

Year Ending June 30	State Ports Authority		State Housing Authority	
	Principal	Interest	Principal	Interest
2015	$ 6,029	$ 9,068	$ 12,825	$ 23,046
2016	6,249	8,838	15,440	22,571
2017	6,517	8,539	16,615	22,010
2018	6,810	8,230	17,600	21,351
2019	7,114	7,906	17,590	20,619
2020-2024	56,959	33,333	91,175	90,982
2025-2029	28,730	22,579	105,370	67,302
2030-2034	26,130	16,081	114,965	40,942
2035-2039	33,970	8,030	81,420	16,049
2040-2042	16,290	439	56,145	2,495
Total debt service requirements	**194,798**	**$ 123,043**	**529,145**	**$ 327,367**
Unamortized premiums and discounts	2,151		10,104	
Total principal outstanding	**$ 196,949**		**$ 539,249**	

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, 2014, in governmental functions for these entities as follows (expressed in thousands):

	Amount
Transportation	$ 113,790
Total allocated interest expense	**$ 113,790**

d. Bond Anticipation Notes

At June 30, 2014, $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, 2015.

e. Defeased Bonds

During December 2013, the State issued $23.165 million in general obligation refunding bonds with a 2.00% to 5.00% coupon rate over the life of the issue. The net proceeds after payment of $188 thousand in issuance costs were used to refund $25.730 million of the Series 2003B bonds. 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 $2.634 million and to obtain an economic gain of approximately $2.418 million.

During May 2014, the State issued $63.41 million in general obligation refunding bonds with a 5.00% coupon rate over the life of the issue. The net proceeds after payment of $326 thousand in issuance costs were used to refund $70.9 million of the Series 2005A bonds. 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 $4.352 million and to obtain an economic gain of approximately $4.22 million.

In its fiscal year ended December 31, 2013, the Public Service Authority, a major discretely presented component unit issued $388.73 million in 2013 Tax-Exempt Refunding Series B Bonds, with an aggregate all-in true interest cost of 5.46%. Of the $388.73 million of bonds issued, $361.2 million in bonds with an average interest rate of 5.09% were used to refund $209.426 million of the 2003 Refunding Series A bonds, $7.07 million of the 2004 Series A bonds, $5.0 million of the 2006 Series A bonds, $6.565 million of the 2007 Series A bonds, $82.605 million of the 2008 Taxable Series B bonds, $1.125 million of the 2009 Series B bonds, $30.158 million of the 2011 Taxable Series A (LIBOR Index) bonds, and $2.04 million of the 2012 Series D bonds with an average interest rate of 4.85%. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2043 using the effective-interest method. The bonds were refunded and restructured to increase total debt service payments over the next thirty-one years by approximately $413.2 million and to obtain an economic loss of approximately $11.5 million.

Also in its fiscal year ended December 31, 2013, the Public Service Authority issued $250 million in 2013 Taxable Refunding Series C Bonds, with an aggregate all-in true interest cost of 5.46%. Of the $250 million of bonds issued, $137.8 million in bonds with an average interest rate of 5.78% were used to refund $35.584 million of the 2003 Refunding Series A bonds and $97.695 million of the 2008 Taxable Series B bonds with an average interest rate of 5.09%. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2036 using the effective-interest method. The bonds were refunded and restructured to increase total debt service payments over the next twenty-four years by approximately $155.6 million and to obtain an economic loss of approximately $12.6 million.

Additionally, in its fiscal year ended December 31, 2013, the Public Service Authority issued $450.0 million in 2013 Taxable Refunding Series D (LIBOR Index) Bonds, with an aggregate all-in true interest cost of 5.46%. Of the $450.0 million of bonds issued, $203.7 million in bonds with an average interest rate of 1.09% were used to refund $54.7 million of the 2008 Series B bonds, $138.159 million of the 2011 Series A (LIBOR Index) bonds, and $8.0 million of the 2012 Refunding Series C bonds with an average interest rate of 1.12%. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2015 using the effective-interest method. The bonds were refunded and restructured to increase total debt service payments over the next three years by approximately $4.8 million and to obtain an economic gain of approximately $6.8 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, 2014, the following outstanding bonds of the primary government were considered defeased (expressed in thousands):

	Governmental Activities
Economic Development bonds.................	$ 13,790
Infrastructure Bank bonds........................	486,585
Department of Transportation bonds......	416,375
Tobacco Authority bonds........................	64,890
Totals...	**$ 981,640**

In addition, at December 31, 2013, $340.345 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, 2014, reported as other liabilities for governmental activities is an arbitrage rebate liability of $4 thousand associated with the State's General Obligation Debt and a $1.476 million arbitrage rebate liability associated with revenue bonds of the Local Government Infrastructure Fund (a major governmental fund). Additionally, the Housing Authority, a major discretely presented component unit, recognized a $39 thousand arbitrage rebate liability.

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, 2014, the outstanding balance of bonds issued was $246.203 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, 2014, the outstanding balance of bonds issued after June 30, 1995, was $3.683 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, 2014, the outstanding balance of bonds issued was $181.545 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, 2014, 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, 2014 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, 2014, there were no advances under this line of credit. The line of credit expired during June 2014 and was renewed with basically the same terms through June 30, 2015.

The Public Service Authority, a discretely presented component unit, has recorded a $372.073 million liability for commercial paper notes at its fiscal year ended December 31, 2013. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a $800 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement during 2013.

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, 2014, the outstanding balance of these advances was $396.501 million. Principal payments began on September 30, 2011, with interest accruing at rates ranging from 2.39% to 2.58% within the fiscal year. Of the balance reported, $270.501 million is considered non-current with $126 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, 2014, a total of $85 thousand in FUTA tax adjustments decreased the Fund's balance. 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 2014 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 $10.310 million was paid in September 2014 from the State's Debt Service Fund, with the portion due at June 30, 2014 of $8.186 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, 2014, were (expressed in thousands):

	Balances at July 1, 2013 as Restated	Increases	Decreases	Balances at June 30, 2014	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims	$ 806,030	$ 1,930,256	$ (2,022,800)	$ 713,486	$ 516,935
Notes payable	27,126	—	(8,861)	18,265	7,073
General obligation bonds payable	1,317,605	186,810	(281,885)	1,222,530	201,950
Unamortized discounts and premiums	80,758	30,389	(13,145)	98,002	—
Total general obligation bonds payable	1,398,363	217,199	(295,030)	1,320,532	201,950
Infrastructure Bank bonds payable	1,973,615	—	(71,550)	1,902,065	67,125
Unamortized discounts and premiums	121,307	—	(6,854)	114,453	—
Total Infrastructure Bank bonds	2,094,922	—	(78,404)	2,016,518	67,125
Revenue bonds payable	23,910	—	(3,155)	20,755	3,300
Unamortized discounts and premiums	408	—	(91)	317	—
Total revenue bonds payable	24,318	—	(3,246)	21,072	3,300
Limited obligation bonds payable	2,415	—	(1,495)	920	735
Unamortized discounts	(7)	—	6	(1)	(1)
Total limited obligation bonds payable	2,408	—	(1,489)	919	734
Capital leases payable	349	7,466	(1,811)	6,004	1,439
Compensated absences payable	207,972	160,316	(150,746)	217,542	124,366
National Guard Retirement System net pension obligation payable	8,989	4,442	(4,586)	8,845	—
Judgments and contingencies payable	30,170	25,519	(38,679)	17,010	15,174
Arbitrage payable	1,436	308	(264)	1,480	897
Total long-term liabilities	$ 4,602,083	$ 2,345,506	$ (2,605,916)	$ 4,341,673	$ 938,993

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, 2013	Increases	Decreases	Balances at June 30, 2014	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims	$ 90,453	$ 332,177	$ (40,820)	$ 381,810	$ 48,721
Advances from Federal government	531,557	—	(135,056)	396,501	126,000
Revenue bonds payable	6,360	—	(150)	6,210	155
Compensated absences payable	780	574	(585)	769	538
Total long-term liabilities	$ 629,150	$ 332,751	$ (176,611)	$ 785,290	$ 175,414

	Balances at July 1, 2013 as Restated	Increases	Decreases	Balances at June 30, 2014	Amounts Due Within One Year
Major Discretely Presented Component Unit:					
Public Service Authority					
Policy claims	$ 1,778	$ 2,940	$ (2,180)	$ 2,538	$ 2,538
Revenue bonds payable	5,556,566	1,873,808	(1,028,082)	6,402,292	133,427
Unamortized discounts and premiums	190,368	(11,742)	(36,068)	142,558	—
Total revenue bonds payable	5,746,934	1,862,066	(1,064,150)	6,544,850	133,427
Capital leases payable	1,227	—	(990)	237	237
Compensated absences payable	8,663	13,052	(2,162)	19,553	19,553
Other long-term obligations	—	44,956	—	44,956	—
Total long-term liabilities	$ 5,758,602	$ 1,923,014	$ (1,069,482)	$ 6,612,134	$ 155,755

	Balances at July 1, 2013	Increases	Decreases	Balances at June 30, 2014	Amounts Due Within One Year
Major Discretely Presented Component Unit:					
State Ports Authority					
Notes payable	$ 10,342	$ 19,700	$ (584)	$ 29,458	$ 1,184
Revenue bonds payable	170,000	—	(4,660)	165,340	4,845
Unamortized discounts and premiums	2,279	—	(128)	2,151	—
Total revenue bonds payable	172,279	—	(4,788)	167,491	4,845
Compensated absences payable	2,715	2,572	(2,339)	2,948	2,948
Total long-term liabilities	$ 185,336	$ 22,272	$ (7,711)	$ 199,897	$ 8,977

	Balances at July 1, 2013 as Restated	Increases	Decreases	Balances at June 30, 2014	Amounts Due Within One Year
Major Discretely Presented Component Unit:					
Housing Authority					
Revenue bonds payable	$ 641,475	$ —	$ (112,330)	$ 529,145	$ 12,825
Unamortized discounts and premiums	11,431	—	(1,327)	10,104	—
Total revenue bonds payable	652,906	—	(113,657)	539,249	12,825
Compensated absences payable	774	515	(517)	772	517
Arbitrage payable	38	1	—	39	—
Total long-term liabilities	$ 653,718	$ 516	$ (114,174)	$ 540,060	$ 13,342

	Balances at July 1, 2013 as Restated	Increases	Decreases	Balances at June 30, 2014	Amounts Due Within One Year
Major Discretely Presented Component Unit:					
Clemson University					
General obligation bonds payable	$ 88,420	$ 33,030	$ (4,680)	$ 116,770	$ 6,155
Unamortized discounts and premiums	5,421	3,284	(770)	7,935	—
Total general obligation bonds payable	93,841	36,314	(5,450)	124,705	6,155
Revenue bonds payable	56,500	—	(7,235)	49,265	7,525
Unamortized discounts and premiums	1,724	—	(272)	1,452	—
Total revenue bonds	58,224	—	(7,507)	50,717	7,525
Capital leases payable	15,911	—	(948)	14,963	970
Compensated absences payable	24,859	17,635	(16,152)	26,342	17,028
Total long-term liabilities	$ 192,835	$ 53,949	$ (30,057)	$ 216,727	$ 31,678

	Balances at July 1, 2013 as Restated	Increases	Decreases	Balances at June 30, 2014	Amounts Due Within One Year
Major Discretely Presented Component Unit:					
University of South Carolina					
Notes payable	$ 6,360	$ —	$ (561)	$ 5,799	$ 5,799
General obligation bonds payable	109,355	15,190	(8,510)	116,035	9,395
Revenue bonds payable	417,330	—	(9,940)	407,390	10,845
Unamortized discounts and premiums	33,249	1,478	(1,896)	32,831	—
Total revenue bonds	450,579	1,478	(11,836)	440,221	10,845
Capital leases payable	16,788	548	(684)	16,652	776
Compensated absences payable	31,446	20,390	(18,180)	33,656	18,174
Total long-term liabilities	$ 614,528	$ 37,606	$ (39,771)	$ 612,363	$ 44,989

	Balances at July 1, 2013 as Restated	Increases	Decreases	Balances at June 30, 2014	Amounts Due Within One Year
Major Discretely Presented Component Unit:					
Medical University of South Carolina					
Notes payable	$ 57,791	$ —	$ (10,193)	$ 47,598	$ 6,420
General obligation bonds payable	43,505	—	(4,225)	39,280	4,210
Unamortized discounts and premiums	1,571	—	(334)	1,237	—
Total general obligation bonds payable	45,076	—	(4,559)	40,517	4,210
Revenue bonds payable	542,876	47,442	(68,159)	522,159	19,239
Capital leases payable	1,450	29	(549)	930	523
Compensated absences payable	32,419	18,757	(18,933)	32,243	16,424
Total long-term liabilities	$ 679,612	$ 66,228	$ (102,393)	$ 643,447	$ 46,816

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, 2014 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, 2013	Increases	Decreases	Balances at June 30, 2014
Major Component Units:				
Medical University of South Carolina				
General obligation bond anticipation notes payable	$ 28,000	$ 28,000	$ (28,000)	$ 28,000
	Balances at January 1, 2013	**Increases**	**Decreases**	**Balances at December 31, 2013**
Public Service Authority				
Commercial paper notes	$ 329,283	$284,897	$(242,107)	$ 372,073

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, 2014, 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	$ 617	$ 760	$ 272,834	$ —	$ 1,423	$ 275,634
Inventories	26,130	4,074	—	2,635	—	32,839
Prepaid items	5,764	1,940	—	3,683	21	11,408
Long-term loans and					—	
notes receivable	35,617	532	476,347	2,369	—	514,865
Endowments	—	—	—	—	9,057	9,057
Total Non-spendable	68,128	7,306	749,181	8,687	10,501	843,803
Restricted:						
Primary and Secondary Education	61,893	97,201	—	—	84,502	243,596
Health, Human Services and Environment	49,100	267,828	—	—	54,267	371,195
Transportation	—	—	535,686	10,000	—	545,686
Capital Projects	94,645	132	—	—	31,197	125,974
Debt Service	93,042	—	840,621	—	51,268	984,930
Waste management	—	—	—	—	173,416	173,416
General Government	60,393	352,420	—	—	126,371	539,184
Total Restricted	359,073	717,581	1,376,307	10,000	521,021	2,983,982
Committed:						
General Government	837,464	5,234	—	—	41,187	883,885
Capital reserve fund	—	—	—	—	62,877	62,877
Primary and Secondary Education	82,042	—	—	—	—	82,042
Health, Human Services and Environment	47,739	—	—	—	—	47,739
Transportation	—	—	—	237,390		237,390
Total Committed	967,245	5,234	—	237,390	104,064	1,313,933
Assigned:						
Primary and Secondary Education	21,159	—	—	—	—	21,159
Health, Human Services and Environment	197,329	—	—	—	5,387	202,716
General Government	132,863	—	—	—	—	132,863
Administration of Justice	22,785	—	—	—	—	22,785
Economic Development	57,719	—	—	—	—	57,719
Social Programs	12,775	—	—	—	—	12,775
Total Assigned	444,630	—	—	—	5,387	450,017
Total Unrestricted, unassigned	1,083,959	(484,181)	—	(263,200)	—	336,578
Total Fund Balances	**$ 2,923,035**	**$ 245,940**	**$ 2,125,488**	**$ (7,123)**	**$ 640,973**	**$ 5,928,313**

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

Primary and Secondary 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, Human Services and Environment

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.

Waste Management

The balance represents resources received from external parties which requires the use of the resources for governmental actions involving uncontrolled hazardous waste sites.

General Government

General Government 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

General Government

This represents the portion of the fund balance, which 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.

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.

Primary and Secondary 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, Human Services and Environment

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.

Transportation

This represents the portion of the fund balance, which is constrained through enabling legislation for use in the maintenance and improvement highway systems and access to commercial markets through rail, air, and transoceanic.

d. Assigned

Primary and Secondary 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, Human Services and Environment

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.

General Government

The fund balance reported in this category 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.

Administration of Justice

The fund balance reported in this category arises primarily from budgetary proviso actions which provide a certain level of funding to the courts to ensure the safety of its citizens and visitors.

Economic Development

The fund balance reported in this category arises primarily from budgetary proviso actions which provide a certain level of funding to assist in bringing businesses to South Carolina or expanding current businesses within South Carolina as it relates to infrastructure.

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.

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, 2014 fiscal year if it equals 4.5 percent of the Budgetary General Fund's revenue (budgetary basis) of the previous fiscal year (increasing to 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, 2014, the Reserve was $292.889 million, which exceeds the required fully funded amount of $263.601 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):

	7/1/2013 Fund Equity as Previously Reported	Implementation of GASB 65	Fund Reclass-ifications	Other Adjustments	7/1/2013 Fund Equity as Restated
Primary Government					
Governmental Funds:					
General Fund	$ 2,844,037	$ —	$ 4,055	$ (306,407)	$ 2,541,685
Departmental Program Services	232,270	—	—	—	232,270
Local Government Infrastructure	2,032,826	—	—	4,513	2,037,339
Department of Transportation Special Revenue	(97,316)	—	—	—	(97,316)
Other Nonmajor Governmental Funds	665,136	—	—	(63,902)	601,234
Total Governmental Funds	5,676,953	—	4,055	(365,796)	5,315,212
Internal Service Funds	493,505	—	(4,055)	5,144	494,594
Government-Wide Adjustments:					
Capital assets	14,842,948	—	—	—	14,842,948
Deferred bond issuance costs	12,862	(12,862)	—	—	—
Unavailable deferred revenue	293,432	—	—	—	293,432
Long-term liabilities	(3,840,798)	—	—	—	(3,840,798)
Total Government-Wide Adjustments	11,308,444	(12,862)	—	—	11,295,582
Total Governmental Activities	17,478,902	(12,862)	—	(360,652)	17,105,388
Business-Type Activities - Enterprise Funds:					
Unemployment Compensation Fund	(182,600)	—	—	—	(182,600)
Second Injury Fund	(132)	—	—	(253,153)	(253,285)
Other nonmajor enterprise funds	(59,123)	—	—	(2,177)	(61,300)
Total Business-type activities - Enterprise Funds	(241,855)	—	—	(255,330)	(497,185)
Fiduciary Funds:					
Pension and Other Post-Employment Trust	27,203,154	—	—	402,057	27,605,211
Investment Trust Local Government Investment Pool	3,750,456	—	—	—	3,750,456
Private-Purpose Trust	1,778,299	—	—	—	1,778,299
Total Fiduciary Funds	32,731,909	—	—	402,057	33,133,966
Total Primary Government	$ 49,968,956	$ (12,862)	$ —	$ (213,925)	$ 49,742,169
Component Units					
Public Service Authority	$ 1,974,583	$ —	$ —	$ —	$ 1,974,583
MUSC	1,488,647	(7,499)	—	—	1,481,148
USC	1,601,505	—	—	(33,734)	1,567,771
Clemson	1,543,899	(813)	—	—	1,543,086
State Ports Authority	891,544	—	—	681	892,225
Housing Authority	364,267	(6,633)	—	—	357,634
Nonmajor component units	2,284,274	(3,376)	—	9,908	2,290,806
Total Component Units	$ 10,148,719	$ (18,321)	$ —	$ (23,145)	$ 10,107,253

During fiscal year 2014, 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 overstated by $11.857 million in the General Fund, (2) for the reporting of cash in the Department of Revenue within the General Fund, cash was overstated by $295.511 million, (3) in prior years the Second Injury Fund recognized claims liabilities only to the extent that the fund's assets were available to pay its claims, causing a $253.153 million understatement of its liabilities, (4) an error was discovered in the reporting of the nonmajor enterprise for accounts receivable ($1.505 million), interest income ($426 thousand) and cash ($1.098 million) causing fund balance to be overstated by $2.177 million, (5) Fiduciary funds restated balance by $400.440 million as a result of a retroactive change in accounting principle, prior period amounts have been restated to report a liability only for benefits immediately due and payable but not yet distributed at June 30 and $1.617 million for an error discovered in recording market to market accrued interest and interest income (6) an error was discovered in the recording of securities lending assets and liabilities for General Fund in the amount of $961 thousand, $4.513 million for Local Infrastructure, $5.144 million for Internal Service funds, and $681 thousand for Ports Authority, these amounts result in an overall net increase to equity and (7) an error was discovered in the reporting of capital projects funds that related to component units in the amount of $63.902 million.

Changes to the reporting entity in fiscal year 2014 caused a restatement of net position for discretely presented component units. The South Carolina Research Foundation and the School of Medicine Education Trust, both discretely presented component units of the University of South Carolina (USC), were removed from the State's reporting entity, resulting in a decrease in beginning net position for USC as reported in the State's CAFR of $33.734 million. For two higher education institutions reported as nonmajor discretely presented component units, Francis Marion University, and Piedmont Technical College, material foundations presented as discretly presented component units of those entities were brought into the State's reporting entity.

NOTE 15: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2014 (expressed in thousands):

Funds	Due From	Due To
General Fund		
Departmental Program Services	$ 118,563	$ 26,437
Department of Transportation Special Revenue	363	48,778
Local Government Infrastructure	20	1,145
Nonmajor governmental funds	64	—
Internal service	727	3,097
Unemployment Compensation	3,459	—
Nonmajor Enterprise Funds	96	—
	123,292	79,457
Departmental Program Services		
General Fund	26,437	118,563
Department of Transportation Special Revenue Fund	—	932
Internal service	—	291
	26,437	119,786
Department of Transportation Special Revenue Fund		
General Fund	48,778	363
Departmental Program Services	932	—
Local Government Infrastructure	—	534
Fiduciary	—	12,588
	49,710	13,485
Local Government Infrastructure		
General Fund	1,145	20
Department of Transportation Special Revenue Fund	534	—
	1,679	20
Nonmajor Governmental Funds		
General Fund	—	64
Unemployment Compensation	295	—
	295	64
Internal Service		
General Fund	3,097	727
Departmental Program Services	291	—
Fiduciary	287	—
	3,675	727
Unemployment Compensation		
General Fund	—	3,459
Nonmajor governmental funds	—	295
	—	3,754
Nonmajor Enterprise Funds		
General Fund	—	96
Fiduciary		
Department of Transportation Special Revenue	12,588	—
Internal service	—	287
Fiduciary	55,533	55,533
	68,121	55,820
Totals	**$ 273,209**	**$ 273,209**

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	$ 475	$ 760	—
Nonmajor governmental funds	—	1,082	—
Internal service	142	—	142
	617	1,842	142
Departmental Program Services			
General	760	475	—
Local Government Infrastructure			
Department of Transportation Special Revenue	272,834	—	250,114
Department of Transportation Special Revenue Fund			
Local Government Infrastructure	—	272,834	—
Nonmajor Governmental Funds			
General	1,082	—	18
Internal service	341	8,435	—
	1,423	8,435	18
Nonmajor Enterprise Funds			
Internal service	—	2,153	—
Internal Service			
General	—	142	—
Nonmajor governmental funds	8,435	341	6,470
Nonmajor enterprise funds	2,153	—	2,153
Internal service	4,700	4,700	—
	15,288	5,183	8,623
Totals	**$ 290,922**	**$ 290,922**	**$ 258,897**

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:

- $272.834 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.
- $8.435 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, 2014 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental Program Services	$ 152,394	$ 272,863
Local Government Infrastructure	10,113	13,767
Department of Transportation	—	102,456
Nonmajor governmental funds	168,389	74,839
Unemployment Compensation Benefits	200	—
Nonmajor enterprise funds	1,362	327
Internal service	254	3,140
	332,712	467,392
Departmental Program Services		
General	272,863	152,394
Nonmajor governmental funds	2,559	—
Nonmajor enterprise funds	—	40
Internal service	1,600	—
	277,022	152,434
Local Government Infrastructure		
General	13,767	10,113
Department of Transportation		
General	102,456	—
Nonmajor Governmental Funds		
General	74,839	168,389
Departmental Program Services	—	2,559
Internal Service	7,336	—
Nonmajor enterprise funds	—	49,095
	82,175	220,043
Unemployment Compensation Benefits		
General	—	200
Nonmajor Enterprise Funds		
General	327	1,362
Department Program Services	40	—
Nonmajor governmental funds	49,095	—
	49,462	1,362
Internal Service		
General	3,140	254
Nonmajor governmental funds	—	7,336
Department Program Services	—	1,600
Internal Service	218	218
	3,358	9,408
Totals	**$ 860,952**	**$ 860,952**

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, 2013, the trade guarantees are an amount not to exceed approximately $72.9 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 are constructing and and plan to operate two additional nuclear generating units (Summer Units 2 and 3) at the V.C. Summer Nuclear Station. 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 Chicago Bridge & Iron Company), 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% 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 2018 and 2019, 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% ownership interest. In 2011, the Authority began deferring a portion of interest expense representing the amount related to the assumed ownership reduction. In 2013, the Authority continued deferring and began capitalizing portions of related interest expense based on revised ownership assumptions.

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, 2014, the Educational Television Endowment of South Carolina, Inc., disbursed $5.506 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 $184 thousand at June 30, 2014.

During the fiscal year ended June 30, 2014, the State Museum Foundation reimbursed $3.882 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, 2014, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC $125.287 million; program revenue from SLC $4.849 million; reimbursements to SLC for administrative costs $618 thousand; and payable to SLC $14.050 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 $9.926 million and $18.519 million for the fiscal year ended June 30, 2014.

The Public Service Authority makes payments to the General Fund in lieu of taxes each year based on requirements under bond indentures. These payments totaled $20.4 million during the Authority's fiscal year ended December 31, 2013.

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 $1.0 million during the fiscal year ended June 30, 2014.

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, 2013, as follows (expressed in thousands):

Customer	Revenue	Revenue
Central Electric Power Cooperative, Inc	$ 1,038,000	58%

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

State Ports Authority

During the fiscal year ended June 30, 2014, of the State Ports Authority's total revenues, three customers accounted for approximately 17%, 12%, and 9% each. The Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Authority maintains reserves for potential credit losses.

c. Intra-Entity Balances

The following tables summarize intra-entity balances between the primary government and its discretely presented component units at June 30, 2014 (expressed in thousands):

Funds	Due From	Due To
General Fund		
Ports Authority	$ —	$ 193,201
Housing Authority	—	1,762
Clemson	—	9,437
MUSC	—	3,006
USC	286	3,308
Nonmajor discretely presented component units	7,323	4,914
	7,609	215,628
Departmental Program Services		
Clemson	—	354
MUSC	1,093	33,044
USC	—	1,270
Nonmajor discretely presented component units	—	106
	1,093	34,774
Nonmajor Governmental Funds		
Nonmajor discretely presented component units	47,114	4,071
	47,114	4,071
Internal Service		
USC	3,789	—
Nonmajor discretely presented component units	1,239	—
	5,028	—
Governmental activities total	**60,844**	**254,473**
Ports Authority		
General Fund	193,201	—
Housing Authority		
General Fund	1,762	—
Clemson University		
General Fund	9,437	—
Departmental Program Services	354	—
	9,791	—
MUSC		
General Fund	3,006	—
Departmental Program Services	33,044	1,093
	36,050	1,093
USC		
General Fund	3,308	286
Departmental Program Services	1,270	—
Internal service	—	3,789
	4,578	4,075
Nonmajor Discretely Presented Component Units		
General Fund	4,914	7,323
Departmental Program Services	106	—
Nonmajor governmental funds	4,071	47,114
Internal service	—	1,239
	9,091	55,676
Discretely presented component units total	**254,473**	**60,844**
Totals	**$ 315,317**	**$ 315,317**

NOTE 19: CONTINGENCIES AND COMMITMENTS

a. Litigation

Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2014, 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. On December 5, 2014, the Fourth Circuit ruled in favor of the system and as of the date of issuance no appeal has been filed with the U.S. Supreme court.

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** and 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 has appealed to the South Carolina Court of Appeals, and this matter is currently pending before the Court, briefs have been filed and oral agruments are expected to begin around March 2015.

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. On November 12, 2014, the Supreme Court issued an opinion in favor of the Plaintiffs. The Court directed the Plaintiffs and the Defendants "to reappear before this Court within a reasonable time from the issuance of this opinion, and present a plan to address the constitutional violation … with special emphasis on the statutory and administrative pieces necessary to aid the myriad troubles facing these districts at both the state and local levels." The court has set the deadline for any petitions for rehearing in this case for December 30, 2014. 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. The 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 the related State critical area to protect Kiawah's spit from further erosion. The 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. On December 10, 2014, the Court reversed the ALC decision. The possible outcome of the takings proceeding in light of the Supreme Court's decision is still being assessed. Therefore, no determination has yet been made as to a risk of loss. 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 $47.235 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 $221.6 million. In addition the Authority has paid the court ordered attorney fees and costs of $10.4 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. On February 14, 2013 the Armed Services Board of Contract Appeals (ASBCA) ruled that the Authority was entitled to $234.9 million for costs incurred as a result of this litigation. Additionally, the ASBCA ruled that the Authority is entitled to interest on the costs pursuant to the Contract Disputes Act, calculated from August 20, 2001 until paid. The Corps has appealed this decision to the United States Court of Appeals for the Federal Circuit. The Authority expects that the Court of Appeals will render a decision on the appeal in 2014. On May 28, 2014. The U.S. Department of Justice, acting on behalf of the Corp of Engineers, entered into a legal settlement with the Authority. Pursuant to the Settlement Agreement, the Corp of Engineers is required to pay the Authority $257,113,405 plus interest in that amount running from May 1, 2014. On August 1, 2014, the Authority received payment in the amount of $258,463,250.66, which fully resolved the claim.

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.

In May 2013, Horry Cooperative, a member of Central, sued the Authority seeking indemnification for claims in a class action lawsuit brought against Horry Cooperative by certain of its customers. The customers allege mold damage to their homes was caused by vapor barriers installed in accordance with the Authority's energy efficiency recommendations. Horry Cooperative's complaint alleges the Authority knew the vapor barrier could cause moisture problems but failed to disclose the information to Horry Cooperative and failed to advise Horry Cooperative that the vapor barrier should be a recommendation rather than a requirement. The Authority does not yet know the number of customers or the amount of claims involved. The Authority intends to vigorously defend the lawsuit but cannot predict the outcome.

The Ports Authority has intervened in a lawsuit brought against a passenger cruise line by an environmental group. On January 22, 2014, the South Carolina Supreme Court dismissed remaining claims, thus ending the case in favor of the Ports Authority. 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. The Ports Authority appealed the ruling, but when the Corps of Engineers withdrew its appeal the Ports Authority did not oppose. Thus, the permit application is under review by the Corps of Engineers on remand. The Ports Authority intends to continue pursuing the federal permit and to continue any legal actions necessary to perfect the final permit. 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. The South Carolina Administrative Law Court granted summary judgment in favor of the Ports Authority, and dismissed the challenge on April 21, 2014. The case is now on appeal under the briefing schedule, with a decision likely within the fiscal year 2015. The decision may be further appealed to the State Supreme Court. 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. In 2013, suit by lessee of property in Port Royal resulted in a verdict against the Ports Authority in the amount of $1.1 million, alleging that a parking lot parcel was within the lease, but was not owned by the Ports Authority. The Ports Authority denied that the parcel was within the lease. The Ports Authority filed a notice of appeal, after which the case was settled, and is now ended. In the process, the Authority's Port Royal property was cleared of the encumbering lease and the Ports Authority took ownership of the restaurant and rights to future revenues.

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, 2014, 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, 2014, these loans totaled $2.192 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, 2014, was 2.4%.

d. Purchase Commitments

A breach of taxpayer information was identified in fiscal year 2013. Approximately 3.5 million taxpayers, including individuals, dependents, and businesses, have been affected by the breach. The Department of Revenue initially 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. Since that time, this contract has since been extended until October 2015. 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, 2013, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $945.888 million for coal. In addition, minimum obligations under two purchased power contracts as of December 31, 2013, were approximately $54.6 million with a remaining term of twenty-one years, $9.9 million with a term of one year, and $46.4 million with a term of two years. Also at December 31, 2013, the Authority had commitments for nuclear fuel and nuclear fuel conversion contracts of $490.4 million over the next twenty-one years.

The Authority amended a service agreement to an approximate amount of $97.2 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, 2014, the Ports Authority had construction commitments of $37.914 million. The Ports Authority has $4.3 million remaining as its legal obligation to pay for the completion of the Harbor Deepening project.

e. Commitments to Provide Grants and Other Financial Assistance

As of June 30, 2014, 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 $1.571 billion remaining on agreements with various counties to provide financial assistance for highway and transportation facilities projects.
- The Department of Commerce has $137.892 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, $38.016 million will be funded by federal grants and $99.876 million will be funded with private aid.

- The Budget and Control Board has $128.124 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects. Federal grants will fund $25.285 million of this commitment.
- The Division of Aeronautics has $3.471 million for grants made to municipal and county airports for capital improvements. Federal grants will fund $1.792 million of this commitment.
- The State Board for Technical and Comprehensive Education has $19.870 million to provide training for new and expanding business and industry in the State.
- The Department of Public Safety has $35.516 million for pass-through grants to various State agencies, local governments, and not-for-profit entities, of which $35.288 million will be funded by federal grants.
- The South Carolina Law Enforcement Division has $16.169 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 $2.130 million outstanding commitments related to vendor service contracts.
- The Rural Infrastructure Authority has $23.319 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 $250 thousand for special initiatives under the Program Fund and $6.935 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 $396.501 million as of June 30, 2014.

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.

g. DHEC Remedial Activities

DHEC has four sites where remediation activity is currently occurring. These sites are: The Palmetto Wood National Priority List Site, The Frank Elmore national Priority List Site, The Brewer Gold Mine Site and The Pinewood Site. The estimated future loss expected in fiscal year 2015 in maintaining these sites is $7.730 million. The Pinewood Site is $6.296 million of this total. The estimated loss is based upon the audit of the Pinewood trust and an analysis of the cash flows which shows that the trust will not have enough funds to cover the average remediation expenses that have historically occurred. Therefore, placing the cost burden on the State of South Carolina to cover these costs annually starting in fiscal year 2015.

NOTE 20: SUBSEQUENT EVENTS

a. Debt Issuances

On July 1, 2014, the Housing Authority called all outstanding Series 2004A Bonds. The call was funded by Series 2004A funds, other available funds from the Mortgage Revenue Bond Indenture and funds transferred from the Housing Authority's Revenue Reserve Fund.

On September 17, 2014, the Housing Authority received preliminary approval to issue up to $70 million in Mortgage Revenue Bonds and $30 million in Refunding Bonds to refund Series 2005A. The Housing Authority anticipates completing this transaction around December 16, 2014.

During August 2014, the Ports Authority entered into an agreement with a bank for a line of credit in the amount of $200 million. The line of credit will be used to meet short term funding needs for capital projects. During August 2014, the Ports Authority made its first draw on the line of credit in the amount of approximately $80.430 million. The interest rate adjusts monthly and is tied to 67% of the sum of the 30 day LIBOR rate plus a negotiated fixed spread. The agreement requires monthly interest only payments until it expires in August 2016 when the entire outstanding principal amount is due.

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

- Florence-Darlington Technical College, a nonmajor discretely presented component unit, issued refunding bonds, Series 2014, in the amount of $16.240 million on August 28, 2014.
- The State issued athletic facilities refunding revenue bonds, Series 2014, in the amount of $1.05 million on behalf of The Citadel, reported as a nonmajor discretely presented component unit, on November 5, 2014.

- The State issued General Obligation state institution bond anticipation notes, Series 2014, in the amount of $13 million on behalf of the University of South Carolina, reported as a major discretely presented component unit, on November 20, 2014.
- The State issued academic and administrative facilities revenue bonds, Series 2014, in the amount of $54.255 million on behalf of the College of Charleston, reported as a nonmajor discretely presented component unit, on December 4, 2014.
- The State issued General Obligation state institution bond anticipation notes, Series 2013A, in the amount of $26.5 million on behalf of Medical University of South Carolina, reported as a major discretely presented component unit, on December 5, 2014.
- The State issued athletic facilities revenue bond anticipation notes, Series 2014, in the amount of $30 million on behalf of the University of South Carolina, reported as a major discretely presented component unit, on December 15, 2014.
- The State issued athletic facilities revenue bonds in the amount of $30.845 million, Series 2014A, taxable athletic facilities revenue bonds in the amount of $9.455 million, Series 2014B, and athletic facilities refunding revenue bonds in the amount of $10.545 million on behalf of Clemson University, reported as a major major discretely presented component unit, on December 18, 2014.

The Public Service Authority issued the following revenue bonds after December 31, 2013:

- May 22, 2014 for $32.393 million for capital program and $7.192 million in capital appreciation bonds for capital program.
- July 9, 2014 for $600.000 million for capital program and $42.275 million for refunding a portion of the 2004 Series A bonds.
- October 28, 2014 for $704.525 million and $31.795 million to refund a portion of bonds from 2003 -2013 reducing true interest costs to 3.78 percent and 3.38 percent respectively.

b. 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.

c. MUSC- Hospital Authority

After June 30, 2014, the MUSC- Hospital Authority recorded the impact of filed Medicare cost report due 11/30/14 for FYE 6/30/14which resulted in a $5.6 million increase to the change in net position shown in audited financial statements. Also, the major supplier of pharmaceuticals changed the billing methodology in May, 2014. After issuance of audited statements, it was discovered and verified that we were under-billed by $3.7 million resulting in a decrease in change in net position. The net impact to our change in net position is $1.9 million.

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 requested $13 million to pay current bills and the State's Budget and Control Board approved an emergency $6 million loan to the University on April 30, 2014. The $6 million loan also has a stipulation that up to $500 thousand of the $6 million must be used to hire consultants to assess the University's financial needs and operations. The loan was due in full on June 30, 2015, although the University received a four-year extension on December, 3, 2014, as well as received an additional $12 million to be added to the emergency loan. The $12 million will be loaned to the University in three increments: $6 million in fiscal year 2015, $4 million in fiscal year 2016, and $2 million in fiscal year 2017. Additionally, the $12 million loan stipulates that the University may not run a deficit (excluding overdue bills) in fiscal year 2015. The interest rates and other related loan stipulations are currently under negotiation between the State and the University.