BASIC
FINANCIAL STATEMENTS

Statement of Net Position

June 30, 2016
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
ASSETS				
Cash and cash equivalents	$ 4,063,276	$ 592,772	$ 4,656,048	$ 2,314,811
Investments	2,920,349	199,942	3,120,291	1,363,670
Invested securities lending collateral	21,399	634	22,033	7,490
Receivables, net:				
Accounts	427,623	16,207	443,830	405,926
Contributions	131	—	131	150,197
Participants	—	2,016	2,016	—
Accrued interest	20,214	435	20,649	8,666
Income taxes	539,463	—	539,463	—
Sales and other taxes	642,027	—	642,027	—
Student accounts	250	—	250	52,706
Patient accounts	15,265	—	15,265	237,452
Loans and notes	616,444	—	616,444	107,216
Assessments	—	86,714	86,714	—
Due from Federal government and other grantors	730,633	—	730,633	196,727
Internal balances	27,690	(27,690)	—	—
Due from component units	66,405	—	66,405	—
Due from primary government	—	—	—	218,573
Inventories	34,764	2,214	36,978	856,080
Restricted assets:				
Cash and cash equivalents	887,256	—	887,256	1,311,198
Investments	—	—	—	2,984,775
Accounts receivable	143,608	—	143,608	901
Loans receivable	—	—	—	563,770
Other	74,527	—	74,527	9,478
Prepaid items	38,154	618	38,772	76,522
Other assets	504	258	762	581,289
Other assets- asset retirement obligation	—	—	—	940,671
Investment in joint venture	—	—	—	7,001
Capital assets-nondepreciable	4,629,587	187,698	4,817,285	5,071,377
Capital assets-depreciable, net	11,310,336	21,548	11,331,884	9,092,092
Total assets	$ 27,209,905	$ 1,083,366	$ 28,293,271	$ 26,558,588
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	$ 55,214	$ —	$ 55,214	$ 101,129
Deferred amount on refunding	88,235	—	88,235	194,419
Pension contributions subsequent to measurement date	201,218	479	201,697	209,527
Difference between actual and expected experience	58,011	196	58,207	59,911
Net difference between projected and actual earnings on investments	221,600	297	221,897	42,312
Changes in proportion and differences between contributions and proportionate share of plan contributions	28,661	623	29,284	44,864
Total deferred outflows	$ 652,939	$ 1,595	$ 654,534	$ 652,162
LIABILITIES				
Accounts payable	$ 720,851	$ 3,656	$ 724,507	$ 673,584
Accrued salaries and related expenses	155,169	739	155,908	199,040
Accrued interest payable	—	—	—	101,007
Retainages payable	1,731	—	1,731	29,696
Tax refunds payable	814,385	19,844	834,229	—
Payables-aid to individuals/families	4,305	—	4,305	—
Prizes payable	—	—	—	32,764
Unemployment benefits payable	—	682	682	—
Intergovernmental payables	347,330	4,249	351,579	750
Tuition benefits payable	—	125,600	125,600	—
Due to component units	218,573	—	218,573	—
Due to primary government	—	—	—	66,405
Due to fiduciary funds	12,974	—	12,974	—
Unearned revenues and asset retirement obligation	384,344	3,754	388,098	1,262,624
Deposits	72	—	72	17,729
Amounts held in custody for others	—	—	—	92,829
Securities lending collateral	37,620	900	38,520	10,149
Liabilities payable from restricted assets:				
Accrued interest payable	23,663	—	23,663	—
Other	—	2,163	2,163	116,071
Other liabilities	220,450	88	220,538	944,334
Long-term liabilities:	—			
Due within one year	947,424	37,091	984,515	430,563
Due in more than one year	6,201,553	300,681	6,502,234	15,009,850
Total liabilities	$ 10,090,444	$ 499,447	$ 10,589,891	$ 18,987,395
DEFERRED INFLOWS OF RESOURCES				
Accumulated increase in fair value of hedging derivatives	$ —	$ —	$ —	$ 4,701
Deferred gain on refunding	—	—	—	2,630
Deferred nuclear decommissioning costs	—	—	—	211,357
Deferred nonexchange revenues	15,378	—	15,378	194
Difference between actual and expected experience	7,521	18	7,539	4,755
Net difference earnings pension plan investment	198,095	221	198,316	17,746
Changes in proportion and differences between contributions and proportionate share of plan contributions	29,338	68	29,406	12,799
Total deferred inflows	$ 250,332	$ 307	$ 250,639	$ 254,182

Exhibit A-1

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 13,088,862	$ 203,351	$ 13,292,213	$ 5,195,501
Restricted:				
Expendable:				
General government	2,901,513	—	2,901,513	—
Education	275,205	—	275,205	848,122
Health	399,771	—	399,771	—
Transportation	1,403,668	—	1,403,668	879
Capital projects	135,683	—	135,683	465,835
Debt service	895,422	—	895,422	233,234
Loan programs	11,326	—	11,326	420,069
Waste management	174,924	—	174,924	—
Insurance programs	281,670	—	281,670	—
Administration of justice	22,265	—	22,265	—
Economic development	54,482	—	54,482	—
Social programs	15,697	—	15,697	—
Unemployment compensation benefits	—	302,080	302,080	—
Other	—	—	—	13,570
Nonexpendable:				
Education	11,321	—	11,321	1,131,771
Other	108,200	—	108,200	—
Unrestricted	(2,257,941)	79,776	(2,178,165)	(339,808)
Total net position	**$ 17,522,068**	**$ 585,207**	**$ 18,107,275**	**$ 7,969,173**

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

Statement of Activities

For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenues (Expenses)
Functions					
Primary government:					
Governmental activities:					
General government	$ 4,693,397	$ 2,732,909	$ 1,100,037	$ 26,658	$ (833,793)
Education	4,906,919	48,984	965,421	8,414	(3,884,100)
Health and environment	7,683,019	105,004	4,838,827	58,818	(2,680,370)
Social services	1,832,743	10,202	1,625,388	9	(197,144)
Administration of justice	883,458	62,080	30,854	35	(790,489)
Resources and economic development	463,630	68,184	71,136	2,811	(321,499)
Transportation	1,310,449	249,031	191,344	486,195	(383,879)
Unallocated interest expense	23,537	—	—	—	(23,537)
Total governmental activities	**21,797,152**	**3,276,394**	**8,823,007**	**582,940**	**(9,114,811)**
Business-type activities:					
Unemployment compensation benefits	208,710	429,895	11,091	—	232,276
Second Injury	27	59,874	—	—	59,847
Other enterprise activities	45,855	46,759	818	39,480	41,202
Total business-type activities	**254,592**	**536,528**	**11,909**	**39,480**	**333,325**
Total primary government	**$ 22,051,744**	**$ 3,812,922**	**$ 8,834,916**	**$ 622,420**	**$ (8,781,486)**
Component units:					
Public Service Authority	1,849,906	1,879,553	1,405	—	31,052
Medical University of South Carolina	2,138,826	1,973,483	46,155	64,825	(54,363)
University of South Carolina	1,205,950	949,452	116,466	27,147	(112,885)
Clemson University	909,294	669,236	86,429	43,647	(109,982)
State Ports Authority	210,428	211,166	8,800	26,376	35,914
Housing Authority	218,640	37,400	200,818	—	19,578
Lottery Commission	1,604,007	1,604,067	2	—	62
Other	2,250,271	1,553,513	406,703	54,650	(235,405)
Total component units	**$ 10,387,322**	**$ 8,877,870**	**$ 866,778**	**$ 216,645**	**$ (426,029)**

Exhibit A-2

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net position:				
Net revenues (expenses)	$ (9,114,811)	$ 333,325	$ (8,781,486)	$ (426,029)
General revenues:				
Taxes:				
Individual income	3,884,855	—	3,884,855	—
Retail sales and use	4,279,959	—	4,279,959	—
Corporate income	408,297	—	408,297	—
Gas and motor vehicle	698,090	—	698,090	—
Insurance	156,766	—	156,766	—
Hospital	265,689	—	265,689	—
Other	666,017	—	666,017	—
Total taxes	10,359,673	—	10,359,673	—
Unrestricted grants and contributions	90	—	90	—
Unrestricted investment income	108,313	28,952	137,265	—
State Appropriations	—	—	—	630,892
Tobacco legal settlement	71,119	—	71,119	—
Other revenues	53,026	8,946	61,972	—
Additions to endowments	—	—	—	51,812
Transfers–internal activities	918	(918)	—	—
Total general revenues, additions to endowments, and transfers	**10,593,139**	**36,980**	**10,630,119**	**682,704**
Change in net position	**1,478,328**	**370,305**	**1,848,633**	**256,675**
Net position at beginning of year, restated	**16,043,740**	**214,902**	**16,258,642**	**7,712,498**
Net position at end of year	**$ 17,522,068**	**$ 585,207**	**$ 18,107,275**	**$ 7,969,173**

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

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2016
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure
ASSETS			
Cash and cash equivalents	$ 1,805,737	$ 88,382	$ 303,978
Investments	1,899,365	60,124	258,386
Invested securities lending collateral	5,227	296	5,347
Receivables, net:			
Accounts	66,679	117,737	1
Contributions	131	—	—
Accrued interest	8,196	171	3,442
Income taxes	539,463	—	—
Sales and other taxes	529,741	11,449	—
Student accounts	250	—	—
Patient accounts	9,167	6,098	—
Loans and notes	34,392	454	579,553
Due from Federal government and other grantors	7,298	663,987	—
Due from other funds	68,989	8,953	11,296
Due from component units	16,245	765	—
Interfund receivables	25,417	—	226,668
Inventories	25,387	3,269	—
Restricted assets:			
Cash and cash equivalents	—	—	877,225
Accounts receivable, net	—	—	143,608
Other	—	—	39,527
Prepaid items	12,701	2,733	—
Other assets	—	—	—
Total assets	**$ 5,054,385**	**$ 964,418**	**$ 2,449,031**
LIABILITIES			
Accounts payable	253,829	298,821	15,641
Accrued salaries and related expenditures	99,217	29,218	76
Retainages payable	116	900	—
Tax refunds payable	803,686	—	—
Payable–aid to individuals/families	1,808	2,497	—
Intergovernmental payables	20,537	209,309	966
Due to other funds	53,326	66,011	24
Due to component units	185,596	31,978	—
Interfund payables	—	275	—
Unearned revenues	10,950	39,409	100,898
Securities lending collateral	16,785	420	7,195
Other liabilities	94,803	2,256	—
Total liabilities	**1,540,653**	**681,094**	**124,800**
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	1,309	20,696	120,077
Deferred nonexchange revenues	15,378	—	—
Total deferred inflows of resources	**16,687**	**20,696**	**120,077**
FUND BALANCES			
Nonspendable	94,624	6,002	—
Restricted	530,698	852,296	2,204,154
Committed	1,142,072	12,833	—
Assigned	416,089	—	—
Unassigned	1,313,562	(608,503)	—
Total fund balances	**3,497,045**	**262,628**	**2,204,154**
Total liabilities and fund balances	**$ 5,054,385**	**$ 964,418**	**$ 2,449,031**

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
$ 733,388	$ 407,897	$ 3,339,382
—	269,876	2,487,751
1,210	1,493	13,573
12,857	80	197,354
—	—	131
3,400	1,016	16,225
—	—	539,463
9,640	91,197	642,027
—	—	250
—	—	15,265
2,045	—	616,444
58,985	363	730,633
20,384	—	109,622
27	39,199	56,236
—	—	252,085
3,000	—	31,656
10,031	—	887,256
—	—	143,608
—	35,000	74,527
4,325	1	19,760
248	—	248
$ 859,540	**$ 846,122**	**$ 10,173,496**
137,767	$ 10,952	$ 717,010
22,479	213	151,203
—	715	1,731
—	10,699	814,385
—	—	4,305
—	116,517	347,329
16,203	1,103	136,667
639	360	218,573
226,668	4,415	231,358
78,818	—	230,075
1,719	2,121	28,240
—	—	97,059
484,293	**147,095**	**2,977,935**
1,405	—	143,487
—	—	15,378
1,405	**—**	**158,865**
7,573	11,322	119,521
10,031	585,753	4,182,932
356,238	96,641	1,607,784
—	5,311	421,400
—	—	705,059
373,842	**699,027**	**7,036,696**
$ 859,540	**$ 846,122**	**$ 10,173,496**

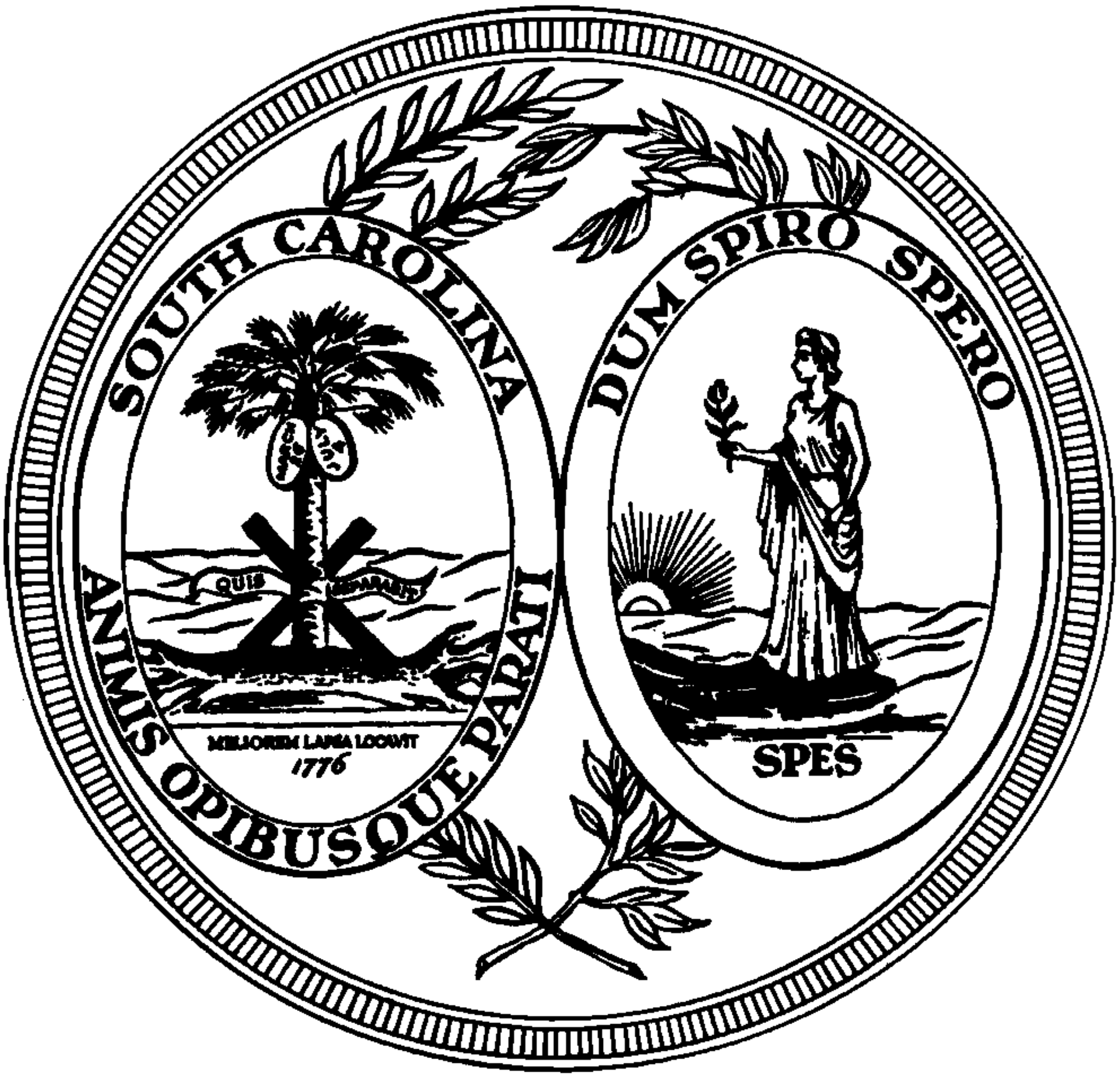
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

Exhibit B-1a

June 30, 2016
(Expressed in Thousands)

Total fund balances–governmental funds		**$ 7,036,696**
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	$ 4,619,815	
Depreciable capital assets	16,921,931	
Accumulated depreciation	(5,713,584)	
Total capital assets		15,828,162
Deferred outflows of resources are recognized in the statement of net position, but are not reported in governmental funds:		
Hedging portion of derivative instruments		55,214
Deferred loss on refunding bonds		88,235
Pension contributions made after the measurement date		198,192
Difference between expected and actual retirement plan experience		55,757
Net difference between projected and actual earnings on investments		220,650
Changes in proportion and differences between contributions and proportionate share of plan contributions		27,752
Deferred inflows of resources are recognized in the statement of net position, but are not reported in governmental funds:		
Difference between expected and actual retirement plan experience		(7,450)
Difference between projected and actual investment earnings		(195,771)
Changes in proportion and differences between contributions and proportionate share of plan contributions		(29,019)
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		143,487
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		596,975
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	(2,826,239)	
Notes payable	(11,337)	
Accrued interest on bonds	(23,541)	
Capital leases	(3,395)	
Net pension liability	(3,241,713)	
Compensated absences	(224,251)	
Policy claims	(34,454)	
Other	(131,882)	
Total long-term liabilities		(6,496,812)
Net position of governmental activities		**$ 17,522,068**

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, 2016
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure
Revenues:			
Taxes:			
Individual income	$ 3,858,585	$ —	$ 26,270
Retail sales and use	3,557,449	1,818	—
Corporate Income	408,297	—	—
Gas and motor vehicle	—	—	—
Insurance	156,766	—	—
Hospital	265,689	—	—
Other	531,470	123,170	—
Licenses, fees, and permits	285,996	29,595	228,571
Interest and other investment income	41,960	1,207	43,342
Federal	60,386	7,611,503	13,108
Local and private grants	6,111	55,989	—
Departmental services	683,164	72,783	122
Contributions	9,149	40,925	74,448
Fines and penalties	93,460	7,792	—
Tobacco legal settlement	—	—	—
Other	187,925	269,967	1
Total revenues	**10,146,407**	**8,214,749**	**385,862**
Expenditures:			
Current:			
General government	541,298	116,231	—
Education	560,778	152,966	—
Health and environment	2,739,410	5,288,491	—
Social services	200,356	1,616,380	—
Administration of justice	779,317	25,923	—
Resources and economic development	188,540	56,187	1,467
Transportation	1,929	1,777	1,282
Capital outlay	47,046	18,608	—
Debt service:			
Principal retirement	135,630	3,159	78,125
Interest and fiscal charges	40,239	258	93,782
Intergovernmental	3,962,461	1,019,053	158,633
Total expenditures	**9,197,004**	**8,299,033**	**333,289**
Excess of revenues over (under) expenditures	**949,403**	**(84,284)**	**52,573**
Other financing sources (uses):			
Bonds and notes issued	—	—	—
Refunding bonds issued	—	—	511,995
Premiums on bonds issued	—	—	21,638
Capital Leases	411	—	—
Payment to refunded bond escrow agent	(139,115)	—	(527,520)
Transfers in	294,512	103,973	3,672
Transfers out	(551,403)	—	—
Total other financing sources (uses)	**(395,595)**	**103,973**	**9,785**
Net change in fund balances	**553,808**	**19,689**	**62,358**
Fund balances at beginning of year	**2,943,237**	**242,939**	**2,141,796**
Fund balances at end of year	**$ 3,497,045**	**$ 262,628**	**$ 2,204,154**

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
$ —	$ —	$ 3,884,855
—	720,692	4,279,959
—	—	408,297
698,090	—	698,090
—	—	156,766
—	—	265,689
1,037	10,340	666,017
—	70,177	614,339
4,842	6,754	98,105
625,716	310	8,311,023
—	—	62,100
77,278	8,044	841,391
—	407,303	531,825
—	78,992	180,244
—	71,119	71,119
9,658	525	468,076
1,416,621	**1,374,256**	**21,537,895**
1	87,671	745,201
—	314,572	1,028,316
—	84,904	8,112,805
—	—	1,816,736
—	26	805,266
—	224	246,418
689,050	—	694,038
467,518	122,831	656,003
43,675	1,390	261,979
19,993	6,783	161,055
300,632	727,776	6,168,555
1,520,869	**1,346,177**	**20,696,372**
(104,248)	**28,079**	**841,523**
—	115,370	115,370
—	61,510	573,505
—	23,214	44,852
—	—	411
—	(25,460)	(692,095)
267,332	182,466	851,955
—	(298,663)	(850,066)
267,332	**58,437**	**43,932**
163,084	**86,516**	**885,455**
210,758	**612,511**	**6,151,241**
$ 373,842	**$ 699,027**	**$ 7,036,696**

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, 2016
(Expressed in Thousands)

Net change in fund balances–total governmental funds		**$ 885,455**
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	$ 656,003	
Depreciation expense	(328,632)	
Excess of capital outlay over depreciation expense		327,371
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		42,423
Loss on disposals of capital assets are reported as a expense in the statement of activities		(9,247)
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	(688,875)	
Net bond premiums and discounts	(44,852)	
Net bond and note proceeds		(733,727)
Losses on bond refundings and hedging portion of derivatives are considered deferred outflows of resources in the statement of net position		14,261
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		(411)
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	256,270	
Bonds repurchased	692,095	
Note principal retirement	4,202	
Capital lease payments	1,508	
Total long-term debt repayment		954,075
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is included in governmental activities in the statement of activities, net of restatements		107,233
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		(40,916)

Exhibit B-2a

Decrease in general operating expense due to the increase in pension expense for the amortization of deferred outflows and inflows of resources related to the net pension liability		260,625
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	$ 7,585	
Unamortized bond premiums and discounts	33,804	
Net pension liability	(328,542)	
Compensated absences payable	(12,179)	
Policy claims payable	1,774	
Other long-term liabilities	(31,256)	
Total additional expenses		(328,814)
Change in net position of governmental activities		**$ 1,478,328**

Statement of Net Position

PROPRIETARY FUNDS

June 30, 2016
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash and cash equivalents	$ 476,600	$ 82,773	$ 33,399	$ 592,772	$ 723,894
Investments	9,658	106,173	84,111	199,942	1,217
Invested securities lending collateral	53	578	3	634	7,826
Receivables, net:					
Accounts	13,437	—	2,770	16,207	229,979
Participants	—	—	578	578	—
Accrued interest	—	387	48	435	3,989
Assessments	86,714	—	—	86,714	—
Due from other funds	—	—	—	—	17,392
Due from component units	—	—	—	—	10,169
Inventories	—	—	2,214	2,214	3,108
Prepaid items	—	—	618	618	18,370
Other current assets	—	—	258	258	—
Total current assets	586,462	189,911	123,999	900,372	1,015,944
Long-term assets:					
Investments	—	—	—	—	431,381
Receivables, net:					
Accounts	—	—	—	—	290
Participants	—	—	1,438	1,438	—
Interfund receivables	—	—	—	—	9,115
Prepaid items	—	—	—	—	24
Other long-term assets	—	—	—	—	256
Non-depreciable capital assets	—	—	187,698	187,698	9,772
Depreciable capital assets, net	—	—	21,548	21,548	101,989
Total long-term assets	—	—	210,684	210,684	552,827
Total assets	**586,462**	**189,911**	**334,683**	**1,111,056**	**1,568,771**
DEFERRED OUTFLOWS OF RESOURCES					
Pension contributions subsequent to measurement date	—	—	479	479	3,026
Difference between actual and expected experience	—	—	196	196	950
Net difference between projected and actual earnings on investments	—	—	297	297	2,254
Changes in proportion and differences between contributions and proportionate share of plan contributions	—	—	623	623	909
Total deferred outflows of resources	**—**	**—**	**1,595**	**1,595**	**7,139**

Exhibit B-3

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	
LIABILITIES					
Current liabilities:					
Accounts payable	$ 11	$ 373	$ 3,272	$ 3,656	$ 3,841
Accrued salaries and related expenses	—	—	739	739	3,966
Tax refunds payable	19,844	—	—	19,844	—
Unemployment benefits payable	682	—	—	682	—
Intergovernmental payables	4,249	—	—	4,249	1
Tuition benefits payable	—	—	13,249	13,249	—
Policy claims	—	33,631	2,870	36,501	576,751
Due to other funds	2,596	—	94	2,690	631
Unearned revenues	—	—	3,754	3,754	154,269
Deposits	—	—	—	—	72
Securities lending collateral	75	821	4	900	9,380
Liabilities payable from restricted assets:					
Accrued interest payable	—	—	—	—	122
Notes payable	—	—	—	—	1,379
Revenue bonds payable	—	—	165	165	2,155
Compensated absences payable	—	—	425	425	2,589
Other current liabilities	—	—	88	88	2,581
Total current liabilities	27,457	34,825	24,660	86,942	757,737
Long-term liabilities:					
Tuition benefits payable	—	—	112,351	112,351	—
Policy claims	—	232,147	51,608	283,755	154,555
Interfund payables	—	—	25,000	25,000	4,842
Other liabilities payable from restricted assets	—	—	2,163	2,163	—
Notes payable	—	—	—	—	4,159
Revenue bonds payable	—	—	5,730	5,730	2,397
Compensated absences payable	—	—	259	259	1,579
Net pension liability	—	—	10,937	10,937	50,952
Total long-term liabilities	—	232,147	208,048	440,195	218,484
Total liabilities	**27,457**	**266,972**	**232,708**	**527,137**	**976,221**
DEFERRED INFLOWS OF RESOURCES					
Difference between actual and expected experience	—	—	18	18	71
Net difference earnings pension plan investment	—	—	221	221	2,324
Changes in proportion and differences between contributions and proportionate share of plan contributions	—	—	68	68	319
Total deferred inflows of resources	**—**	**—**	**307**	**307**	**2,714**

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

Statement of Net Position

Exhibit B-3

PROPRIETARY FUNDS (Continued)

June 30, 2016
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
NET POSITION (DEFICIT)					
Net investment in capital assets	$ —	$ —	$ 203,351	$ 203,351	$ 101,671
Restricted:					
Expendable:					
Loan programs	—	—	—	—	11,326
Unemployment compensation benefits	302,080	—	—	302,080	—
Insurance programs	—	—	—	—	281,670
Unrestricted	256,925	(77,061)	(100,088)	79,776	202,308
Total net position (deficit)	**$ 559,005**	**$ (77,061)**	**$ 103,263**	**$ 585,207**	**$ 596,975**

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

Exhibit B-4

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
Operating revenues:					
Assessments	$ 404,545	$ 59,874	$ —	$ 464,419	$ —
Charges for services	—	—	46,642	46,642	2,612,122
Contributions	—	—	818	818	—
Interest and other investment income	174	2,439	26,215	28,828	—
Federal operating grants and contracts	11,091	—	—	11,091	—
Other operating revenues	25,350	—	117	25,467	245,601
Total operating revenues	**441,160**	**62,313**	**73,792**	**577,265**	**2,857,723**
Operating expenses:					
General operations and administration	—	27	30,441	30,468	399,943
Benefits and claims	208,710	—	13	208,723	2,344,770
Tuition plan disbursements	—	—	14,140	14,140	—
Interest	—	—	—	—	19
Depreciation and amortization	—	—	1,242	1,242	15,359
Other operating expenses	—	—	19	19	4,950
Total operating expenses	**208,710**	**27**	**45,855**	**254,592**	**2,765,041**
Operating income	**232,450**	**62,286**	**27,937**	**322,673**	**92,682**
Nonoperating revenues (expenses):					
Interest income	—	—	136	136	10,208
Contributions	—	—	72	72	90
Interest expense	—	—	(12)	(12)	(219)
Net other nonoperating revenues (expenses)	7,200	6	1,740	8,946	5,554
Losses on sale of capital assets	—	—	—	—	(111)
Total nonoperating revenues (expenses)	**7,200**	**6**	**1,936**	**9,142**	**15,522**
Income before transfers	**239,650**	**62,292**	**29,873**	**331,815**	**108,204**
Capital Contributions	—	—	39,408	39,408	—
Transfers in	—	—	183	183	1,707
Transfers out	(200)	(231)	(670)	(1,101)	(2,678)
Change in net position	**239,450**	**62,061**	**68,794**	**370,305**	**107,233**
Net position (deficit), beginning, as restated	319,555	(139,122)	34,469	214,902	489,742
Net position (deficit) at end of year	**$ 559,005**	**$ (77,061)**	**$ 103,263**	**$ 585,207**	**$ 596,975**

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, 2016
(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	$ 31,283	$ 347	$ 46,570	$ 78,200	$ 2,398,461
Assessments received	429,364	60,016	—	489,380	—
Grants received	11,091	—	—	11,091	—
Tuition plan contributions received	—	—	1,605	1,605	—
Claims and benefits paid	(206,238)	(44,496)	(48,011)	(298,745)	(159,564)
Payments to suppliers for goods and services	—	—	(24,345)	(24,345)	(2,495,829)
Payments to employees	—	—	(7,053)	(7,053)	(49,304)
Internal activity–payments from other funds	—	—	—	—	206,654
Internal activity–payments to other funds	—	—	—	—	(3,506)
Other operating cash receipts	—	22,248	255	22,503	175,466
Other operating cash payments	—	—	—	—	(3)
Net cash provided by (used in) operating activities	**265,500**	**38,115**	**(30,979)**	**272,636**	**72,375**
Cash flows from noncapital financing activities:					
Principal payments received from other funds	—	—	—	—	940
Receipt of interest from other funds	—	—	—	—	37
Other noncapital financing cash receipts	—	—	1,772	1,772	3,409
Other noncapital financing cash payments	—	—	(2,054)	(2,054)	(145)
Transfers in	—	—	183	183	1,707
Transfers out	(200)	(231)	(670)	(1,101)	(2,678)
Net cash provided by (used in) noncapital financing activities	**(200)**	**(231)**	**(769)**	**(1,200)**	**3,270**

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	$ —	$ —	$ (53,618)	$ (53,618)	$ (14,540)
Principal payments on limited obligation bonds	—	—	—	—	(185)
Proceeds from issuance of capital debt	—	—	—	—	5,743
Proceeds from issuance of note	—	—	25,000	25,000	—
Principal payments on capital debt	—	—	(160)	(160)	(2,323)
Interest payments on capital debt	—	—	—	—	(57)
Capital grants and gifts received	—	—	39,408	39,408	—
Proceeds from sale or disposal of capital assets	—	—	103	103	—
Net cash provided by (used in) capital and related financing activities	**—**	**—**	**10,733**	**10,733**	**(11,362)**
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	18,133	43,681	14,171	75,985	67,051
Purchase of investments	(9,658)	(818)	(884)	(11,360)	(74,936)
Interest and dividends on investments	7,394	2,026	26,405	35,825	23,237
Net cash provided by investing activities	**15,869**	**44,889**	**39,692**	**100,450**	**15,352**
Net increase in cash and cash equivalents	**281,169**	**82,773**	**18,677**	**382,619**	**79,635**
Cash and cash equivalents at beginning of year	**195,431**	**—**	**14,722**	**210,153**	**644,259**
Cash and cash equivalents at end of year	**$ 476,600**	**$ 82,773**	**$ 33,399**	**$ 592,772**	**$ 723,894**
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income	$ 232,450	$ 62,286	$ 27,937	$ 322,673	$ 92,682
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation and amortization	—	—	1,242	1,242	15,359
Provision for bad debts	(21,765)	—	—	(21,765)	—
Interest payments reclassified as capital and related financing activities	—	—	—	—	(107)
Interest and dividends on investments and interfund loans	(7,394)	(2,026)	(26,215)	(35,635)	395
Realized losses on sale of assets	—	—	—	—	(444)
Other nonoperating revenues	—	—	24	24	2,401
Other nonoperating expenses	—	(206)	(146)	(352)	(1,298)

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

Continued on Next Page

Statement of Cash Flows

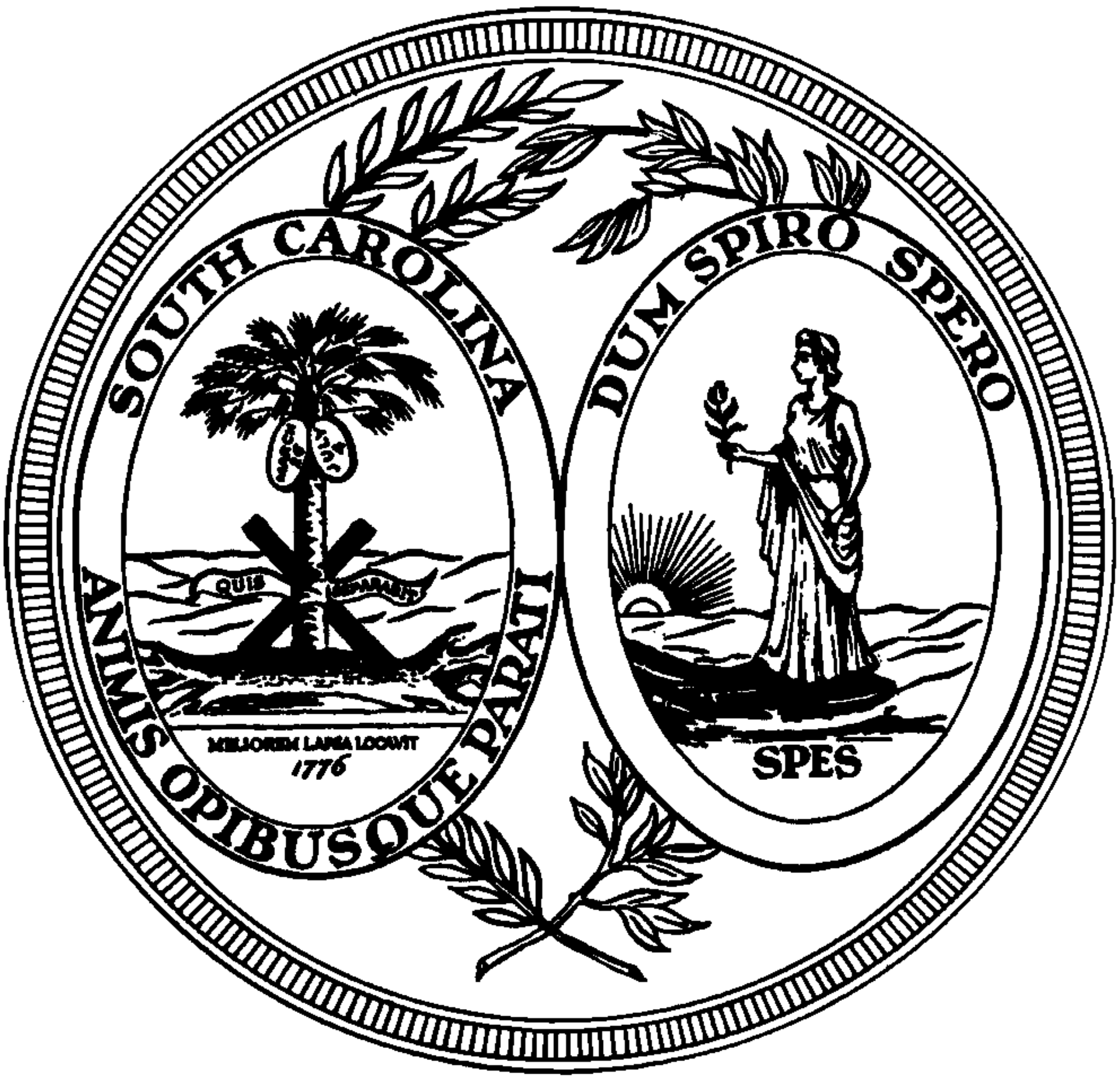
Exhibit B-5

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
Effect of changes in operating assets and liabilities:					
Accounts receivable, net	$ 34,684	$ 142	$ (128)	$ 34,698	$ (72,648)
Accrued interest	7,220	(207)	—	7,013	—
Assessments receivable, net	17,833	—	—	17,833	—
Due from other funds	—	—	—	—	(1,549)
Inventories	—	—	424	424	(9)
Other assets	—	—	(408)	(408)	3,038
Deferred outflows	—	—	(1,091)	(1,091)	(3,118)
Accounts payable	(15)	374	1,733	2,092	(314)
Accrued salaries and related expenses	—	—	140	140	69
Tax refunds payable	1,959	—	—	1,959	—
Unemployment benefits payable	(329)	—	—	(329)	—
Tuition benefits payable	—	—	(24,683)	(24,683)	—
Policy claims	—	(22,248)	(9,852)	(32,100)	36,752
Due to other funds	857	—	(1,997)	(1,140)	532
Unearned revenues	—	—	973	973	244
Compensated absences payable	—	—	(63)	(63)	229
Other liabilities	—	—	1,108	1,108	278
Deferred inflows	—	—	23	23	(117)
Net cash provided by (used in) operating activities	**$ 265,500**	**$ 38,115**	**$ (30,979)**	**$ 272,636**	**$ 72,375**
Noncash capital, investing, and financing activities:					
Disposal of capital assets	$ —	$ —	$ —	$ —	$ 2,064
Increase (decrease) in fair value of investments	—	—	904	904	(13,115)
Total noncash capital, investing, and financing activities	**$ —**	**$ —**	**$ 904**	**$ 904**	**$ (11,051)**

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, 2016
(Expressed in Thousands)

	Pension and Other Post-Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
ASSETS				
Cash and cash equivalents	$ 4,110,053	$ 3,868,519	$ 7,990	$ 445,830
Receivables, net:				
Accounts	—	—	—	7,390
Contributions	233,308	—	—	—
Accrued interest	44,319	2,086	1,630	1,030
Unsettled investment sales	695,775	—	2,497	—
Loans and notes receivables	—	—	—	51
Other investment receivables	40,363	—	—	—
Taxes	—	—	—	543
Total receivables	1,013,765	2,086	4,127	9,014
Due from other funds	65,560	—	—	12,974
Investments, at fair value:				
Short term investments	791,658	—	—	10,829
Debt-domestic	6,641,354	944,225	—	—
Equity-international	9,164,701	—	—	—
Alternatives	8,986,474	—	—	—
Financial and other	56,029	51,967	2,566,713	—
Total investments	25,640,216	996,192	2,566,713	10,829
Invested securities lending collateral	64,572	1,900	14	882
Capital assets, net	2,741	—	—	—
Prepaid items	3,585	—	—	—
Other assets	—	—	4,582	—
Total assets	**30,900,492**	**4,868,697**	**2,583,426**	**479,529**
LIABILITIES				
Accounts payable	9,439	—	1,006	21,463
Accounts payable–unsettled investment purchases	1,439,720	—	2,566	—
Policy claims	273	—	—	—
Due to other funds	65,560	—	—	—
Intergovernmental payables	—	—	—	41,844
Deposits	—	—	—	3,081
Amounts held in custody for others	—	—	—	411,605
Deferred retirement benefits	71,693	—	—	—
Securities lending collateral	111,977	1,900	20	1,254
Due to participants	—	11,387	—	36
Other liabilities	72,015	—	—	246
Total liabilities	**1,770,677**	**13,287**	**3,592**	**479,529**
NET POSITION				
Restricted for pension and other post-employment benefits	29,129,815	—	—	—
Held in trust for:				
External investment pool participants	—	4,855,410	—	—
Other purposes	—	—	2,579,834	—
Total net position	**$ 29,129,815**	**$ 4,855,410**	**$ 2,579,834**	**$ —**

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, 2016
(Expressed in Thousands)

	Pension and Other Post-Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits	$ —	$ —	$ 34
Contributions:			
Employer	1,732,522	—	—
Employee	871,936	—	—
Deposits from pool participants	—	9,165,695	—
Other	—	—	161,620
Total contributions	2,604,458	9,165,695	161,620
Investment income:			
Interest income and net appreciation in investments	106,941	28,376	33,361
Securities lending income	997	23	—
Total investment income	107,938	28,399	33,361
Less investment expense:			
Investment expense	262,629	—	—
Securities lending expense	5	—	—
Net investment income (loss)	(154,696)	28,399	33,361
Assets moved between pension trust funds	1,378	—	—
Total additions	**2,451,140**	**9,194,094**	**195,015**
Deductions:			
Regular retirement benefits	2,839,393	—	—
Supplemental retirement benefits	452	—	—
Deferred retirement benefits	194,844	—	—
Refunds of retirement contributions to members	112,954	—	—
Death benefit claims	22,771	—	—
Accidental death benefits	1,590	—	—
Other post-employment benefits	439,615	—	—
Withdrawals, pool participants	—	8,654,671	—
Distributions to pool participants	—	23,935	—
Depreciation	310	—	—
Administrative expense	15,094	586	10,120
Other expenses	—	—	1,043
Assets moved between pension trust funds	1,378	—	—
Total deductions	**3,628,401**	**8,679,192**	**11,163**
Change in net position	**(1,177,261)**	**514,902**	**183,852**
Net position, beginning	**30,307,076**	**4,340,508**	**2,395,982**
Net position at end of year	**$ 29,129,815**	**$ 4,855,410**	**$ 2,579,834**

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

Statement of Net Position

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2016

(Expressed in Thousands)

	Public Service Authority	Medical University of South Carolina	University of South Carolina	Clemson University	State Ports Authority	Housing Authority
ASSETS						
Cash and cash equivalents	$ 113,413	$ 397,639	$ 456,211	$ 228,767	$ 419,300	$ 18,450
Investments	531,120	155,439	341,582	2,377	36,196	4,910
Invested securities lending collateral	—	112	2,457	1,344	2,700	269
Receivables, net:						
Accounts	175,931	28,584	9,031	8,196	68,773	395
Contributions	—	35,366	44,825	29,016	—	—
Accrued interest	3,357	1,049	820	1,444	—	53
Student accounts	—	571	8,321	5,610	—	—
Patient accounts	—	237,452	—	—	—	—
Loans and notes	—	410	6,436	34	—	26,817
Due from Federal government and other grantors	—	25,892	42,809	21,672	—	681
Due from primary government	—	20,765	9,635	15,813	167,697	1,398
Inventories	795,965	27,169	2,709	3,199	12,366	—
Restricted assets:						
Cash and cash equivalents	169,135	96,653	276,346	363,341	—	48,281
Investments	1,291,912	415,918	69,225	646,963	—	249,307
Accounts receivable	—	—	—	—	—	901
Loans receivable	—	12,801	17,006	7,375	—	513,515
Other	—	—	—	—	—	2,925
Prepaid items	14,695	25,720	4,432	11,581	4,475	—
Other assets	402,217	15,807	12,135	1,892	1,901	962
Other regulatory assets- asset retirement obligation	940,671	—	—	—	—	—
Investment in joint venture	7,001	—	—	—	—	—
Capital assets-nondepreciable	3,484,944	131,937	227,221	305,387	561,611	—
Capital assets-depreciable, net	4,024,177	1,033,451	1,127,892	810,590	288,372	136
Total assets	$ 11,954,538	$ 2,662,735	$ 2,659,093	$ 2,464,601	$ 1,563,391	$ 869,000
DEFERRED OUTFLOWS OF RESOURCES						
Accumulated decrease in fair value of hedging derivatives	$ 91,372	$ 9,757	$ —	$ —	$ —	$ —
Deferred amount on refunding	133,932	47,991	4,967	1,653	—	1,217
Pension contributions subsequent to measurement date	7,633	59,591	44,382	28,887	4,368	694
Difference between actual and expected experience	5,484	18,235	13,994	9,068	1,323	238
Net difference earnings pension plan investment	18,291	6,906	5,297	3,437	499	66
Change between contributions & proportionate share contributions	22	14,455	—	7,744	2,222	—
Total deferred outflows	$ 256,734	$ 156,935	$ 68,640	$ 50,789	$ 8,412	$ 2,215
LIABILITIES						
Accounts payable	$ 353,071	$ 83,656	$ 18,946	$ 47,769	$ 25,580	$ —
Accrued salaries and related expenses	9,684	105,182	18,320	19,423	3,665	868
Accrued interest payable	67,378	2,591	4,944	4,279	14,512	—
Retainages payable	6,643	249	2,983	8,206	7,987	—
Prizes payable	—	—	—	—	—	—
Intergovernmental payables	—	—	—	—	55	—
Due to primary government	—	—	5,113	3,370	—	—
Unearned revenues and asset retirement obligation	1,046,054	20,768	54,969	39,576	—	10,359
Deposits	—	—	2,680	1,417	—	—
Amounts held in custody for others	—	17,852	14,056	50,160	—	—
Securities lending collateral	—	157	3,052	1,865	3,834	382
Liabilities payable from restricted assets:						
Other	—	—	—	—	—	12,821
Other liabilities	804,241	48,625	37,807	12,370	16,701	2,314
Long-term liabilities:						
Due within one year	180,860	55,050	55,162	36,167	10,552	11,583
Due in more than one year	7,607,318	1,628,279	1,404,345	1,083,967	579,701	424,893
Total liabilities	$ 10,075,249	$ 1,962,409	$ 1,622,377	$ 1,308,569	$ 662,587	$ 463,220
DEFERRED INFLOWS OF RESOURCES						
Accumulated increase in fair value of hedging derivatives	$ 4,701	$ —	$ —	$ —	$ —	$ —
Deferred gain on refunding	—	—	—	—	—	2,630
Deferred nuclear decommissioning costs	211,357	—	—	—	—	—
Deferred nonexchange revenues	—	—	—	—	—	—
Difference between actual and expected experience	496	1,814	1,382	901	133	—
Net difference earnings pension plan investment	15,726	—	—	—	—	—
Change between contributions & proportionate share contributions	1,202	8	1,754	28	11	203
Total deferred inflows	$ 233,482	$ 1,822	$ 3,136	$ 929	$ 144	$ 2,833
NET POSITION						
Net investment in capital assets	$ 1,195,402	$ 620,713	$ 757,731	$ 768,710	$ 485,494	$ 136
Restricted:						
Expendable:						
Education	—	233,450	182,032	224,477	—	—
Transportation	—	—	—	—	—	—
Capital projects	4,304	76,012	91,242	54,148	—	—
Debt service	79,771	54,156	7,975	8,026	16,672	20,832
Loan programs	—	—	—	—	—	354,360
Other	—	—	—	—	—	—
Nonexpendable:						
Education	—	240,034	307,995	354,692	—	—
Unrestricted	623,064	(368,926)	(244,755)	(204,161)	406,906	29,834
Total net position	**$ 1,902,541**	**$ 855,439**	**$ 1,102,220**	**$ 1,205,892**	**$ 909,072**	**$ 405,162**

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

Exhibit C-1

Lottery Commission	Nonmajor Component Units	Total
$ 29,477	$ 651,554	$ 2,314,811
—	292,046	1,363,670
—	608	7,490
43,670	71,346	405,926
—	40,990	150,197
—	1,943	8,666
—	38,204	52,706
—	—	237,452
—	73,519	107,216
—	105,673	196,727
—	3,265	218,573
2,621	12,051	856,080
490	356,952	1,311,198
—	311,450	2,984,775
—	—	901
—	13,073	563,770
—	6,553	9,478
—	15,619	76,522
6,140	140,235	581,289
—	—	940,671
—	—	7,001
—	360,277	5,071,377
753	1,806,721	9,092,092
$ 83,151	$ 4,302,079	$ 26,558,588
$ —	$ —	$ 101,129
—	4,659	194,419
708	63,264	209,527
256	11,313	59,911
56	7,760	42,312
5	20,416	44,864
$ 1,025	$ 107,412	$ 652,162
$ 2,036	$ 142,526	$ 673,584
—	41,898	199,040
—	7,303	101,007
—	3,628	29,696
32,764	—	32,764
—	695	750
30,992	26,930	66,405
847	90,051	1,262,624
—	13,632	17,729
—	10,761	92,829
—	859	10,149
—	103,250	116,071
1,474	20,802	944,334
468	80,721	430,563
13,931	2,267,416	15,009,850
$ 82,512	$ 2,810,472	$ 18,987,395
$ —	$ —	$ 4,701
—	—	2,630
—	—	211,357
—	194	194
29	—	4,755
—	2,020	17,746
392	9,201	12,799
$ 421	$ 11,415	$ 254,182
$ 753	$ 1,366,562	$ 5,195,501
—	208,163	848,122
—	879	879
—	240,129	465,835
—	45,802	233,234
—	65,709	420,069
490	13,080	13,570
—	229,050	1,131,771
—	(581,770)	(339,808)
$ 1,243	**$ 1,587,604**	**$ 7,969,173**

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Public Service Authority	$ 1,849,906	$ 1,879,553	$ 1,405	$ —
Medical University of South Carolina	2,138,826	1,973,483	46,155	64,825
University of South Carolina	1,205,950	949,452	116,466	27,147
Clemson University	909,294	669,236	86,429	43,647
State Ports Authority	210,428	211,166	8,800	26,376
Housing Authority	218,640	37,400	200,818	—
Lottery Commission	1,604,007	1,604,067	2	—
Nonmajor component units	2,250,271	1,553,513	406,703	54,650
Totals	**$ 10,387,322**	**$ 8,877,870**	**$ 866,778**	**$ 216,645**

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

Exhibit C-2

Net Revenue (Expenses)	Additions to Endowments	State Appropriations	Net Position Beginning (Restated)	Net Position Ending
$ 31,052	$ —	$ —	$ 1,871,489	$ 1,902,541
(54,363)	8,868	104,859	796,075	855,439
(112,885)	8,468	149,059	1,057,578	1,102,220
(109,982)	22,804	108,812	1,184,258	1,205,892
35,914	—	—	873,158	909,072
19,578	—	—	385,584	405,162
62	—	—	1,181	1,243
(235,405)	11,672	268,162	1,543,175	1,587,604
$ (426,029)	**$ 51,812**	**$ 630,892**	**$ 7,712,498**	**$ 7,969,173**

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Scope of Reporting Entity

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

Component units are legally separate organizations for which the State is accountable for purposes of financial reporting. Blended component units, although legally separate from the State, are part of the State's operations in substance. Accordingly, the State 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 (succeeded, in part, by the State Fiscal Accountability Authority effective July 1, 2015), 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, 2016.

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, 2015. The Palmetto Railways Division is governed by the Secretary of the Department of Commerce which operates as a cabinet agency under the Governor and is subject to state laws and regulations as well maintaining operational responsibility for the blended component unit.

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, 2016. 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, 2015. A financial benefit/burden relationship exists between the State and the Public Service Authority.

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 six 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.

South Carolina Lottery Commission

The South Carolina Lottery Commission was created through an act of the General Assembly to generate entertainment for citizens and visitors of the state while providing revenue for educational purposes. The Commission is 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.

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.

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.

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, 2015.

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, 2015. 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 Fiscal Accountability Authority. The State has the ability to impose its will on the Education Assistance Authority.

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 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 Research Authority was created through an act of the General Assembly, as a legally separate entity, for the development and marketing of a statewide system of research and technology-based infrastructure and to conduct applied research and commercialization services on a contractual basis. The Research Authority is governed by twenty-four board members, of which an executive committee of nine members holds all voting ability. All nine of the executive committee members are State appointees. The State has the ability to impose its will on the Research Authority.

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, 2015.

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

South Carolina Research Authority
315 Sigma Drive
Summerville, SC 29486
http://www.scra.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 Interstate Low-Level Radioactive Waste Management 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 funds:

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. With the ratification of the Workers' Compensation Reform Act the Second Injury Fund was placed in "run-off" and terminated effective July 1, 2013. The Act provided for an orderly termination of the Fund by 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 remaining assets or operational liabilities to the Department of Administration.

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. Revenues not considered available are reported as deferred inflows of resources.

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). 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.

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.

The State reviews the carrying value of property, plant and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. The factors considered by management in performing this assessment include current operating results, trends and the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based upon this assessment there was no impairment as of June 30, 2016.

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.

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.

Losses and gains on bond refundings are reported as deferred outflows or inflows of resources, respectively.

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 mandate payments of resources (from resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable requirement is one that an outside party (such as citizens, public interest groups, or the judiciary) can compel the government to honor. At June 30, 2016, $498.145 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 position 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 decommissioning costs, non-exchange revenues, service concession arrangements, pension contributions subsequent to the measurement date, difference between actual and expected experience on investments, net difference between projected and actual earnings on pension plan investments, and changes in proportion and differences between contributions and proportionate share of contributions.

r. Pension Obligations

The South Carolina Retirement Systems' (the Systems) financial statements are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The State's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the government's balance sheet date. Securities without an established market value are reported at estimated fair value.

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NOTE 2: ACCOUNTING AND REPORTING CHANGES

Adoption of New Accounting Standards

For the fiscal year ended June 30, 2016, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

Statement No. 72, *Fair Value Measurement and Application*, is intended to provide guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the Generally Accepted Accounting Principles (GAAP) hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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, 2016:

Nonmajor Enterprise Funds:	
Patients' Compensation..	$ 51,320
Tuition Prepayment Program.................................	43,268

Actions taken to eliminate deficits include increase of existing fees, assessment of additional fees, purchase of excess loss reinsurance, General Fund appropriations, 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, 2016 was $467.606 million and the bank balance was $1.159 billion. As of June 30, 2016, the reported amount of the primary government's deposits outside of the State Treasurer was $53.526 million and the bank balance was $53.912 million. Of the $15.486 million bank balance exposed to custodial credit risk, $1.472 million was uninsured and uncollateralized, $1.044 million was uninsured and collateralized with securities held by the pledging financial institution, and $12.970 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.

Fair Value

The State categorizes fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These classifications are summarized as follows:

> Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.
>
> Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
>
> Level 3 Inputs: Unobservable inputs for an asset or liability.

In the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk but are based upon the pricing transparency of the investment. In determining the appropriate levels, the State performed a detailed analysis of the assets and liabilities that are subject to GASB Statement No. 72.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy.

Investments classified according to the fair value hierarchy are valued according to pricing policy established by the State's custodian bank. Pricing is based primarily on prices from third-party vendors or other specified alternative sources which are considered to be reliable. Where available, the custodian bank uses more than one vendor for securities of each asset type, class or issue. The price received from a primary source is used in valuation unless a tolerance check, or price challenge, results in the use of a price from a secondary vendor. The State may override prices provided by the custodian bank if it is deemed necessary or appropriate.

Investments by Fair Value Level	At 6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments			
U.S. treasuries	$ 29,206	$ —	$ 29,206
U.S. agencies	989,812	—	989,812
Mortgage backed obligations	84,753	—	84,753
Common stock	45,526	45,526	—
Other equity securities	1,469,887	1,469,887	—
Corporate bonds	4,621,246	—	4,621,246
Municipal bonds	61,376	—	61,376
Asset backed securities	1,207	—	1,207
Commercial paper	3,546,534	—	3,546,534
Money market mutual funds	358,103	358,103	—
Bond mutual funds	535,694	535,694	—
Guaranteed investment contracts	320	—	320
Other	4,130	—	4,130
Total Investments at Fair Value	11,747,794	$ 2,409,210	$ 9,338,584
Investments measured at the amortized cost			
Repurchase agreements	785,041		
Total investments measured at amortized cost	$ 785,041		
Total investments measured at fair value	$ 12,532,835		

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, 2016, as follows:

Primary Government Investment Type	Reported Amount
U.S. treasuries	$ 29,206
U.S. agencies	989,812
Mortgage backed obligations	84,753
Common stock	45,526
Other equity securities	1,469,887
Corporate bonds	4,621,246
Municipal bonds	61,376
Repurchase agreements	785,041
Asset backed securities	1,207
Commercial paper	3,546,534
Money market mutual funds	358,103
Bond mutual funds	535,694
Guaranteed investment contracts	320
Other	4,130
Totals	**$12,532,835**

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, 2016 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	CCC & Below	Alternative Rating Agency	Not Rated
U.S. agencies	$ 757,262	$ 175,076	$ 35,907	$ —	$ —	$ —	$ —	$ —	$ 21,567
Mortgage backed obligations	—	78,924	5,829	—	—	—	—	—	—
Corporate bonds	95,887	973,116	682,716	2,143,184	16,161	2,741	778	447,685	258,978
Municipal bonds	—	56,376	—	—	—	—	—	—	5,000
Repurchase agreements	427,485	—	—	—	—	—	—	—	357,556
Asset backed securities	—	1,207	—	—	—	—	—	—	—
Commercial paper	—	—	3,244,587	—	—	—	—	—	301,947
Money market mutual funds	7,543	20,002	—	—	—	—	—	—	330,558
Bond mutual funds	—	—	—	—	—	—	—	—	535,694
Guaranteed investment contracts	—	—	—	—	—	—	—	—	320
Other	—	3,069	—	—	—	—	—	—	1,061
Totals	**$ 1,288,177**	**$ 1,307,770**	**$ 3,969,039**	**$ 2,143,184**	**$ 16,161**	**$ 2,741**	**$ 778**	**$ 447,685**	**$ 1,812,681**

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, 2016, 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	$ 3,913	$ —	$ 3,913	$ —	$ —
U.S. agencies	490,498	35,940	271,467	140,715	42,376
Mortgage backed obligations	78,924	—	16,436	4,900	57,588
Corporate bonds	3,518,974	2,077,224	1,288,484	151,930	1,336
Repurchase agreements	427,485	427,485	—	—	—
Asset backed securities	1,207	—	—	—	1,207
Other	2,813	—	—	2,813	—
Totals	**$ 4,523,814**	**$ 2,540,649**	**$1,580,300**	**$ 300,358**	**$ 102,507**

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, 2016, 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	$ 25,293	$ 202	$ 24,710	$ 381	$ —
U.S. agencies	493,497	469,736	4,449	19,312	—
Mortgage backed obligations	5,829	—	—	—	5,829
Corporate bonds	1,102,272	469,822	296,962	335,444	44
Municipal bonds	61,376	5,000	—	56,376	—
Repurchase agreements	357,556	357,556	—	—	—
Commercial paper	3,546,534	3,546,534	—	—	—
Money market mutual funds	28,031	28,031	—		—
Bond mutual funds	535,694	—	519,967	—	15,727
Guaranteed investment contracts	320	—	—		320
Other	370	—	—	256	114
Totals	**$ 6,156,772**	**$ 4,876,881**	**$ 846,088**	**$ 411,769**	**$ 22,034**

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, 2016, the State Treasurer had 7.36% 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, 2016, less than 5% of the State's general investment portfolio was in an overnight repurchase agreement with Bank of America.

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, 2016. At June 30, 2016, 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, 2016, 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, 2016, 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, 2016, 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, 2016:

	Amount
Securities lent for cash collateral:	
U.S. Corporate-fixed income	$ 48,748
Total securities lent for cash collateral	**$ 48,748**
Securities lent for non-cash collateral:	
U.S. Corporate-fixed income	$ 1,076
Total securities lent for non-cash collateral	**$ 1,076**
Cash collateral invested as follows:	
Asset backed securities	$ 5,754
Repurchase agreements	24,665
Total for cash collateral invested	**$ 30,419**
Securities received as collateral:	
U.S. treasuries	$ 1,098
Total for securities collateral invested	**$ 1,098**

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, 2016, the carrying amount of the Systems’ deposits was $22.614 million and the bank balance was $34.428 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.

Fair Value Measurements

The Systems categorizes fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Systems have the following recurring fair value measurements as of June 30, 2016 (amounts in thousands):

		Fair Value Measurments Using		
Investments by Fair Value Level	**At 6/30/2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Short Term Investments				
Short Term Investment Funds (U. S. Regulated)	$ 1,728,531	$ 1,728,531	$ —	$ —
Repurchase Agreements	285,065	—	—	285,065
Certificates of Deposit	44,004	—	44,004	—
Commercial Paper	741,379	—	741,379	—
Discount Notes	526,187	—	526,187	—
U. S. Treasury Bills	254,985	254,985	—	—
Corporate Bonds	43,454	—	43,454	—
Total Short Term Investments	$ 3,623,605	$ 1,983,516	$ 1,355,024	$ 285,065
Equity Allocation				
Global Public Equity				
Common Stocks	$ 3,119,528	$ 3,119,528	$ —	$ —
Real Estate Investment Trusts	631,537	631,537	—	—
Preferred	37,690	2,042	35,648	—
Convertible Preferred	1,492	—	1,492	—
Total Equity	$ 3,790,247	$ 3,753,107	$ 37,140	$ —
Fixed Income Allocation				
U. S. Government				
U.S. Government Treasuries	$ 423,833	$ 423,833	$ —	$ —
U.S. Government Agencies	594,259	—	594,259	—
Mortgage Backed				
Government National Mortgage Association	86,341	—	86,341	—
Federal National Mortgage Association	30,740	—	30,740	—
Federal Home Loan Mortgage Association	2,414	—	2,414	—
Federal Home Loan Mortgage Association (Multiclass)	8,534	—	8,534	—
Collateralized Mortgage Obligations	9,015	—	9,015	—
Municipals	32,044	—	32,044	—
Corporate				
Corporate Bonds	2,416,412	—	1,922,945	493,467
Asset Backed Securities	249,757	—	249,757	—
Private Placements	537,216	—	537,216	—
Yankee Bonds	2,203	—	2,203	—
Global Emerging Debt	165,964	165,964	—	—
Total Fixed Income	$ 4,558,732	$ 589,797	$ 3,475,468	$ 493,467
Total Investments by Fair Value Level	$ 11,972,584	$ 6,326,420	$ 4,867,632	$ 778,532

Recurring fair value measurements as of June 30, 2016, continued (amounts in thousands):

Investments measured at the net asset value (NAV)			
Strategic Partnership Short Duration	$ 481,561		
Global Equity	3,345,563		
Global Tactical Asset Allocation	1,963,716		
Mixed Credit	233,515		
Global Emerging Debt	1,068,970		
Hedge Funds	3,132,975		
Private Equity	2,644,469		
Private Debt	1,709,401		
Real Estate	1,499,968		
Total investments measured at the NAV	$ 16,080,138		
Total investments measured at fair value	$ 28,052,722		
Investment derivative instruments			
Short Term Investments			
Options - Cash	$ (420)	$ —	$ (420)
Futures - Cash	(2,018)	(2,018)	0
Equity Investments			
Options - Equity	17,514	0	17,514
Futures - Equity	15,537	15,537	0
Swaps - Equity	32,124	0	32,124
Fixed Income Investments			
Options - Fixed Income	56	(40)	96
Futures - Fixed Income	24,264	24,264	0
Swaps - Fixed Income	(38,152)	0	(38,152)
Alternative Investments			
Swaps - Commodities	(339)	0	(339)
Total investment derivative instruments	$ 48,566	$ 37,743	$ 10,823
Total Invested Assets	$ 28,101,288		

Investments measured at the net asset value (NAV) (amounts in thousands):

	Fair Value	Unfunded Commitments*	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Strategic Partnership Short Duration	$ 481,561	$ —	Monthly	5 - 10 days
Global Equity	3,345,563	—	Daily/Monthly	5 - 30 days
Global Tactical Asset Allocation	1,963,716	—	Monthly/Quarterly	5 - 14 days
Mixed Credit	233,515	—	Monthly	5 - 30 days
International Emerging Debt	1,068,970	—	Daily/Monthly	10-15 days
Hedge Funds	3,132,975	—	Monthly/Quarterly	2 -90 days
Private Equity	2,644,469	839,692	Illiquid	Illiquid
Private Debt	1,709,401	1,479,311	Illiquid	Illiquid
Real Estate	1,499,968	1,078,343	Illiquid	Illiquid
Total investments measured at the NAV	$ 16,080,138			

**For purposes of this table, amounts are reported in thousands in US Dollars. The Private Equity Category includes €86,255,430 and AUD $86,100,000 that have been converted to USD.*

Strategic Partnership Short Duration Funds. This investment type contains two investments in funds that invest primarily in short duration debt instruments which generally have a one to three year maturity. The fair values of the investments have been determined using the percent ownership of the NAV of the fund. Redemptions are generally allowed monthly, provided adequate notice.

Global Equity Funds. This investment type includes nine funds that invest primarily in global developed and emerging equity public markets instruments. The fair values of the investments in this type have been determined using NAV per share of the investments or percent ownership of the NAV of the fund. Redemptions are generally allowed monthly, provided adequate notice.

Global Tactical Asset Allocation Funds. This investment type includes four funds that may be invested in liquid securities and instruments, including but not limited to equities, fixed income securities, bank loans, commodities, futures, swaps, forwards, options and currencies. The fair values of the investments in this type have been determined using NAV per share of the investments or percent ownership of the NAV of the fund. Redemptions are allowed monthly, provided adequate notice, except for one fund that may require a longer redemption timeframe and may be subject to gates and/or lock-ups.

Mixed Credit Funds. This investment type includes three funds that generally invest in high yield, bank loan and structured credit instruments. The fair values of the investments in this type have been determined using NAV per share of the investments or percent ownership of the NAV of the fund. Redemptions are generally allowed monthly, provided adequate notice.

International Emerging Debt Funds. This investment type includes four funds that generally invest in debt securities issued in any currency and may hold foreign currency. The fair values of the investments in this type have been determined using NAV per share of the investments or percent ownership of the NAV of the fund. Redemptions are generally allowed monthly, provided adequate notice, and one fund charges a redemption fee.

Hedge Funds. This investment type includes 16 funds that generally invest in hedge fund strategies that seek alpha in equity or credit markets, or seek to minimize embedded market beta. There are 10 of these funds, or approximately 73 percent of the value of this investment type, invested through strategic partnership investments which may consist of underlying investments in more than one hedge fund. The fair values of the investments in this type have been determined using NAV per share of the investments or percent ownership of the NAV of the fund. Redemptions are generally allowed monthly, provided adequate notice; however, it is common that funds have authority to require longer redemption timeframes and/or make the redemption subject to gates in order to mitigate any detrimental impact to the fund.

Private Equity Funds. This investment type includes 40 funds that consist of investments in limited partnerships or co-investments and four funds that are strategic partnership investments. Strategic partnerships may consist of underlying investments in more than one limited partnership or co-investment fund. The private equity investments span the venture capital, growth equity, fund of funds, secondaries, energy and buyout strategies. Private equity is considered an illiquid investment strategy as funds generally have a life span of seven to 10 years. The nature of investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The fair values of the investments in this type have been determined using percent ownership of the NAV of the fund. Due to the nature of the valuation of the underlying fund investments, it is probable that the investments of this type will be sold at an amount different from the percent ownership of the NAV of the fund.

Private Debt Funds. This investment type includes 20 funds that consist of investments in limited partnerships and 5 funds that are strategic partnership investments. Strategic partnerships may consist of underlying investments in more than one limited partnership or co-investment fund. The private debt investments span the direct lending, distressed, energy, mezzanine, mortgages, opportunistic and other strategies. Private Debt is considered an illiquid investment strategy as funds generally have a life span of seven to 10 years. The nature of investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The fair values of the investments in this type have been determined using percent ownership of the NAV of the fund. Due to the nature of the valuation of the underlying fund investments, it is probable that the investments of this type will be sold at an amount different from the percent ownership of the NAV of the fund.

Real Estate Funds. This investment type includes 22 funds that consist of investments in limited partnerships or co-investments and four funds that are strategic partnership investments. Strategic partnerships may consist of underlying investments in more than one limited partnership or co-investment fund. The real estate investments span the core, diversified, real estate debt, timber, value add and opportunistic strategies. Real Estate is considered an illiquid investment strategy as funds generally have a life span of seven to 10 years. The nature of investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The fair values of the investments in this type have been determined using percent ownership of the NAV of the fund. Due to the nature of the valuation of the underlying fund investments, it is probable that the investments of this type will be sold at an amount different from the percent ownership of the NAV of the fund.

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, 2016, are noted below (amounts in thousands):

Investment Type	Fair Value Total	Fair Value Duration Not Available	Fair Value Duration Available	Effective Duration (option adjusted duration)
Short Term Investments				
Short Term Investment Funds (U.S. Regulated)	$ 1,728,531	$ —	$ 1,728,531	0.08
Repurchase Agreements	285,065	—	285,065	0.08
Invested Securities Lending Collateral	55,737	55,737	—	N/A
Certificates of Deposit	44,004	—	44,004	0.39
Commercial Paper	741,379	24,996	716,383	0.11
U.S. Treasury Bills	254,985	—	254,985	0.22
Discount Notes	526,187	—	526,187	0.04
Corporate Bonds	43,454	261	43,193	0.11
Strategic Partnership Short Duration	481,561	—	481,561	1.16
Options - Cash	(420)	(306)	(114)	(2.20)
Futures - Cash	(2,018)	—	(2,018)	45.18
Total Short Term Investments	4,158,465	80,688	4,077,777	
Equity Allocation				
Preferred	37,690	2,042	35,648	5.52
Convertible Preferred	1,492	1,492	—	N/A
Total Equity Investments	39,182	3,534	35,648	
Fixed Income Allocation				
U.S. Government:				
U.S. Government Treasuries	423,833	—	423,833	10.62
U.S. Government Agencies	594,259	71,765	522,494	0.92
Mortgage Backed:				
Government National Mortgage Association	86,341	—	86,341	1.23
Federal National Mortgage Assocation	30,740	—	30,740	1.85
Federal Home Loan Mortgage Association	2,414	2,055	359	0.90
Federal Home Loan Mortgage Association (multiclass)	8,534	—	8,534	2.77
Collateralized Mortgage Obligations	9,015	449	8,566	4.37
Municipals	32,044	1,531	30,513	9.95
Corporate:				
Corporate Bonds	2,416,412	535,254	1,881,158	3.61
Mixed Credit	233,515	12,579	220,936	4.68
Asset Backed Securities	249,757	39,698	210,059	(0.03)
Private Placements	537,216	128,152	409,064	2.45
Yankee Bonds	2,203	—	2,203	10.06
Global Emerging Debt	1,234,934	165,964	1,068,970	13.42
Options - Fixed Income	56	—	56	65.24
Futures - Fixed Income	24,264	—	24,264	444.06
Swaps - Fixed Income	(38,152)	(834)	(37,318)	12.88
Total Fixed Income	5,847,385	956,613	4,890,772	
Total Invested Assets	**$ 10,045,032**	**$ 1,040,835**	**$ 9,004,197**	
Total Portfolio Effective Duration (option adjusted duration)				**3.58**

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. 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 RSIC's consultant and staff. The Systems' fixed income investments at June 30, 2016 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]	TOTAL
Short Term Investments										
Short Term Investment Funds (U.S. Regulated)	$ 1,728,531	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,728,531
Repurchase Agreements	—	—	—	—	—	—	—	—	285,065	285,065
Investments In Securities Lending Collateral	—	—	—	—	—	—	—	—	55,737	55,737
Commercial Paper	—	352,872	—	351,529	—	—	—	—	36,978	741,379
Certificates of Deposit	—	24,002	—	—	—	—	—	—	20,002	44,004
Discount Notes	426,190	—	—	—	—	—	—	—	99,997	526,187
Corporate Bond	—	5,181	13,053	24,959	—	—	—	—	261	43,454
Strategic Partnership Short Duration	—	—	—	—	—	—	—	—	481,561	481,561
Options - Cash	—	—	—	—	—	—	—	—	(420)	(420)
Futures - Cash	—	—	—	—	—	—	—	—	(2,018)	(2,018)
Equity Investments										
Preferred	—	—	—	7,396	8,250	1,465	—	—	20,579	37,690
Convertible Preferred	—	—	—	1,492	—	—	—	—	—	1,492
Fixed Income Allocation[2]										
Mortgage Backed:										
Federal National Mortgage Association	30,740	—	—	—	—	—	—	—	—	30,740
Federal Home Loan Mortgage Association	2,414	—	—	—	—	—	—	—	—	2,414
Federal Home Loan Mortgage Association (Multiclass)	8,534	—	—	—	—	—	—	—	—	8,534
Collateralized Mortgage Association	9,015	—	—	—	—	—	—	—	—	9,015
Municipals	—	16,338	10,763	—	—	—	—	—	4,943	32,044
Corporate:										
Corporate Bonds	73,256	139,660	377,952	373,009	458,888	354,131	53,857	882	584,777	2,416,412
Mixed Credit	—	—	—	—	—	—	—	—	233,515	233,515
Asset Backed Securities	20,030	26,702	36,810	71,118	20,474	—	—	—	74,623	249,757
Private Placements	43,942	27,938	106,207	62,527	57,609	35,600	16,312	—	187,081	537,216
Yankee Bonds	—	—	—	1,673	530	—	—	—	—	2,203
Global Emerging Debt	—	—	—	—	83,246	—	—	—	1,151,688	1,234,934
Options - Fixed Income	—	—	—	—	—	—	—	—	56	56
Futures - Fixed Income	—	—	—	—	—	—	—	—	24,264	24,264
Swaps - Fixed Income	—	—	—	—	—	—	—	—	(38,152)	(38,152)
Totals	**$2,342,652**	**$592,693**	**$544,785**	**$ 893,703**	**$628,997**	**$391,196**	**$ 70,169**	**$ 882**	**$3,220,537**	**$8,685,614**

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

[2]*U.S. Treasury Bills, Notes and Bonds, Agencies and Government of National Mortgage Association securities with a fair value of $1.36 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, 2016, 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 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, 2016 (amounts in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Futures Contracts	Private Equity	Private Debt	Preferred Securities	Fixed Income	Equity	Total
Australian Dollar............	$ (127)	$ 98,964	$ 706	$ 7,595	$ —	$ —	$ —	$ 59,919	$ 167,057
Brazil Real........................	—	(11,345)	—	—	—	—	11,836	—	491
Canadian Dollar..............	4,576	119,854	1,219	—	—	—	(1,109)	100,385	224,925
Danish Krone..................	133	110	—	—	—	—	—	14,129	14,372
Euro Currency.................	(18,260)	322,302	3,451	165,823	1,519	2,043	186,812	239,792	903,482
Hong Kong Dollar...........	(705)	49,327	2,573	—	—	—	—	31,717	82,912
Israeli Shekel...................	—	—	—	—	—	—	—	4,300	4,300
Japanese Yen..................	1,363	258,674	(16,480)	—	—	—	—	172,251	415,808
Malaysian Ringgit...........	—	(1,159)	—	—	—	—	—	—	(1,159)
Mexican New Peso..........	1,513	(1,059)	—	—	—	—	(374)	2,832	2,912
New Taiwan Dollar..........	—	(2,378)	—	—	—	—	—	—	(2,378)
New Zealand Dollar........	12	—	—	—	—	—	—	2,648	2,660
Norwegian Krone............	48	(128)	—	—	—	—	—	5,659	5,579
Philippines Peso.............	1	—	—	—	—	—	—	—	1
Pound Sterling................	(1,277)	255,072	18,539	—	—	—	4,574	168,204	445,112
Russian Ruble (New)......	—	(699)	—	—	—	—	—	—	(699)
Singapore Dollar.............	524	(11,682)	—	—	—	—	—	5,575	(5,583)
South Korean Won.........	—	(14,060)	—	—	—	—	—	—	(14,060)
Swedish Krona................	(1,801)	41,881	948	—	—	—	—	19,815	60,843
Swiss Franc.....................	62	(495)	—	—	—	—	—	73,838	73,405
Totals...........................	**$ (13,938)**	**$1,103,179**	**$ 10,956**	**$173,418**	**$1,519**	**$ 2,043**	**$ 201,739**	**$ 901,064**	**$2,379,980**

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, total return swaps, interest-only strips, and CMOs to enhance the performance and reduce volatility. To comply with the requirements of multiple exchanges, cash and securities in the amount of $139.7 and $281.9 million, respectively, were held in trust by the clearing brokers on June 30, 2016. 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. The tables below present classification information on the Systems' derivatives at June 30, 2016 (amounts in thousands):

	Changes in Fair Value	
	Classification	Gain/(Loss)
Futures Contracts	Net appreciation/(depreciation)	$ 74,008
Forward Contracts	Net appreciation/(depreciation)	(33,663)
Swaps	Net appreciation/(depreciation)	177
Options	Net appreciation/(depreciation)	33,231

	Fair Value			
	Forward Contracts	Futures	Options	Swaps
Cash & Cash Equivalents	$ (25,320)	$ (2,018)	$ (420)	$ —
Fixed Income	—	24,264	56	(38,152)
Equity	—	15,537	17,514	32,124
Alternatives	—	—	—	(339)
Totals	**$ (25,320)**	**$ 37,783**	**$ 17,150**	**$ (6,367)**

At June 30, 2016, the Systems had the following exposure via futures contracts (amounts in thousands):

Futures Contracts	Expiration	Long/Short	Quantity	Notional Value*
90 Day Eurodollar Future (CME)	March 2017	Short	(10)	$ (2,483)
90 Day Eurodollar Future (CME)	March 2018	Short	(206)	(51,054)
90 Day Eurodollar Future (CME)	June 2017	Short	(176)	(43,679)
90 Day Eurodollar Future (CME)	September 2017	Short	(71)	(17,613)
90 Day Eurodollar Future (CME)	September 2018	Short	(183)	(45,311)
90 Day Eurodollar Future (CME)	December 2017	Short	(147)	(36,447)
90 Day Eurodollar Future (CME)	December 2018	Short	(659)	(163,069)
Total Cash & Cash Equivalents				(359,656)
S&P 500 Emini Ind Future (CME)	September 2016	Long	4,613	482,105
SPI 200 Index Future (SFE)	September 2016	Long	1,123	108,202
DAX Index Future (EUX)	September 2016	Long	544	146,081
IBEX 35 Index Future (MFM)	July 2016	Long	575	51,917
CAC40 Euro Index Future (EOP)	July 2016	Long	3,400	159,928
S&P / MIB Index Future (MIL)	September 2016	Long	376	33,816
Amsterdam Index Future (EOE)	July 2016	Long	546	52,809
FTSE 100 Index Future (ICE)	September 2016	Long	3,277	281,350
Hang Seng Index Future (HKG)	July 2016	Long	432	58,321
TOPIX Index Future (OSE)	September 2016	Long	2,932	355,961
S&P / TSE 60 Index Futures (MSE)	September 2016	Long	1,131	141,830
OMXS30 Index Future (OMX)	July 2016	Long	2,645	41,161
DJ Euro Stoxx Ind 50 Future (EUX)	September 2016	Long	4,934	156,495
Total Equity				2,069,976

US Long Bond Future (CBT).....................	September 2016	Long	1,905	328,315
US 10 Year Treasury Notes (CBT)............	September 2016	Long	2,921	388,447
US 5 Year Treasury Notes (CBT)..............	September 2016	Long	2,262	276,335
US 2 Year Treasury Notes (CBT)..............	September 2016	Long	1,125	246,744
US Long Bond Future (CBT).....................	September 2016	Long	288	49,635
US 10 Year Treasury Notes (CBT)............	September 2016	Long	342	45,481
US 5 Year Treasury Notes (CBT)..............	September 2016	Long	1,364	166,632
EURO-BUND Future (EUX).......................	September 2016	Long	6	1,114
Canada 10 Year Bond Future (MSE).........	September 2016	Long	116	13,223
EURO BTP Future (EUX)............................	September 2016	Long	192	30,419
US 10 Year Ultra Future (CBT)...................	September 2016	Short	(27)	(3,933)
US 10 Year Treasury Notes Future (CBT)	September 2016	Short	(89)	(11,836)
US 5 Year Treasury Notes Future (CBT)..	September 2016	Short	(36)	(4,398)
US 2 Year Treasury Notes Future (CBT)..	September 2016	Long	153	33,557
US Ultra Bond Future (CBT)......................	September 2016	Long	2	373
Total Fixed Income				1,560,108
Totals				**$ 3,270,428**

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, 2016, the Systems had the following forward exposures, listed by counterparty (amounts in thousands):

Broker	Notional Value	Fair Value	Counterparty Exposure
Australia & New Zealand Banking Group Ltd..	$ 1,913	$ (21)	0.07%
Bank of America..	295,808	(5,251)	10.64%
Bank of Montreal..	363,278	1,617	13.07%
Barclays London...	18,281	(262)	0.66%
BNP Paribas...	339,727	(7,060)	12.22%
Bank of New York Mellon...................................	544,088	2,090	19.57%
Citibank NA..	251,211	(1,892)	9.04%
Commonwealth Bank of Australia......................	167,054	(216)	6.01%
Credit Suisse International London....................	2,872	8	0.10%
Deutsche Bank London..	1,860	2	0.07%
Goldman Sachs	52,040	102	1.87%
HSBC Securities...	206,984	(3,815)	7.44%
JP Morgan Chase Bank...	66,584	(1,692)	2.39%
Merrill Lynch International.................................	5,556	2	0.20%
Morgan Stanley Capital Services........................	6,193	(203)	0.22%
National Australia Bank Ltd................................	113,867	(4,048)	4.10%
Societe Generale	3,982	31	0.14%
Standard Chartered Bank......................................	6,871	274	0.25%
State Street Corp...	150,458	(484)	5.41%
UBS AG..	140,633	(4,277)	5.06%
Westpac Banking Corp...	40,925	(225)	1.47%
Totals...	**$ 2,780,185**	**$ (25,320)**	**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, 2016, for currency forwards, swap agreements, options and corresponding amounts subject to credit risk (amounts in thousands):

Quality Rating	Forwards	Swaps	Options	Total
Aa2	$ (10,016)	$ 12,189	$ (175)	$ 1,998
Aa3	(2,386)	3,550	(45)	1,119
A1	(12,487)	3,514	22,424	13,451
A2	(231)	10,513	(5)	10,277
A3	—	(11)	—	(11)
Baa1	—	(65)	—	(65)
Baa2	2	(810)	(39)	(847)
NR	(202)	(1,065)	(5,010)	(6,277)
Total subject to credit risk	$ (25,320)	$ 27,815	$ 17,150	$ 19,645
Centrally cleared:				
Chicago Mercantile Exchange Inc	$ —	$ (23,219)	$ —	$ (23,219)
LCH. Clearnet Ltd	—	(10,963)	—	(10,963)
Total not subject to credit risk	$ —	$ (34,182)	$ —	$ (34,182)
Total	**$(25,320)**	**$ (6,367)**	**$ 17,150**	**$(14,537)**

At June 30, 2016, the Systems held swaps as shown in the tables below (amounts in thousands):

Counterparty	Total Return Swaps	SCRS Pays	SCRS Receives	Maturity Date	Current Notional	Gain (Loss) Since Trade
BNP Paribas	Russell 2000 Total Return (Short)	Russell 2000 Index Total Return	LIBOR 3M Spread -78bps	4/5/2017	$ (98,279)	$ (3,279)
Goldman Sachs	BCOM F3 Preroll w/Gemini Micro	1M US Dollar + 45bps	ABGS1006 INDEX	8/30/2016	117,083	17,083
Goldman Sachs	BCOM F3 Preroll w/Gemini Micro	1M US Dollar + 45bps	ABGS1006 INDEX	9/1/2016	87,246	12,246
JP Morgan	JPM Palmetto Equinox Proxy TR	3M T-Bill + 46.9bps	JMABEQXT INDEX	5/31/2017	116,912	(8,088)
JP Morgan	JPM Enhanced Beta + SSP Proxy	3M T-Bill + 46.9bps	JMABEBSP INDEX	8/31/2016	228,187	13,625
JP Morgan	JPM Palmetto Equinox Proxy TR	3M T-Bill + 46.9bps	JMABEQXT INDEX	9/30/2016	102,221	2,221
Societe Generale	SocGen Congestion Commodities	1M US Dollar + 19bps	SGCOP26E	3/31/2017	234,243	27,083
					$ 787,613	**$ 60,891**

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	$ 12,700	$ 180
Barclays Bank PLC	Credit Default Swaps	Fixed Rate	Variable Rate	6/20/2017	1,100	(7)
Citibank NA	Credit Default Swaps	Variable Rate	Fixed Rate	6/20/2021	9,288	(159)
Credit Suisse AG	Credit Default Swaps	Variable Rate	Fixed Rate	various	12,200	(1,027)
Deutsche Bank AG/London	Credit Default Swaps	Variable Rate	Fixed Rate	10/17/2057	21,700	(810)
Goldman Sachs Bank USA	Interest Rate Swaps	Variable Rate	Fixed Rate	11/16/2025	900	(72)
Goldman Sachs International	Credit Default Swaps	Variable Rate	Fixed Rate	various	14,200	(845)
JPMorgan Chase Bank NA	Credit Default Swaps	Variable Rate	Fixed Rate	various	16,644	(89)
Merrill Lynch & Company Inc.	Interest Rate Swaps	Fixed Rate	Variable Rate	various	950	(65)
Merrill Lynch International/UK	Credit Default Swaps	Variable Rate	Fixed Rate	various	12,100	(635)
Morgan Stanley Capital Services LLC	Credit Default Swaps	Variable Rate	Fixed Rate	various	8,460	(431)
Royal Bank of Scotland PLC	Credit Default Swaps	Variable Rate	Fixed Rate	various	1,700	(11)
					$ 111,942	**$ (3,971)**
Chicago Mercantile Exchange Inc.	Interest Rate Swaps	Fixed / Variable Rate	Fixed / Variable Rate	various	$ 381,299	$ (23,219)
LCH.Clearnet Ltd	Interest Rate Swaps	Fixed / Variable Rate	Fixed / Variable Rate	various	149,800	(10,963)
					$ 531,099	**$ (34,182)**

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, 2016, the Systems had the following option positions (amounts in thousands):

Option Contracts	Underlying Security	Expiration	Quantity	Fair Value
Put Aug 16 1153.000 ED 081016	KRW/USD SPOT OPTION 2016	August	(7,300,000)	$ (108)
Put Aug 16 1132.000 ED 081616	KRW/USD SPOT OPTION 2016	August	(2,300,000)	(18)
Put Jul 16 1150.000 ED 072716	KRW/USD SPOT OPTION 2016	July	(3,300,000)	(35)
Put Jul 16 1150.000 ED 071516	KRW/USD SPOT OPTION 2016	July	(2,200,000)	(17)
Put Jul 16 1150.000 ED 070716	KRW/USD SPOT OPTION 2016	July	(4,700,000)	(21)
Put Jul 16 1133.000 ED 071116	KRW/USD SPOT OPTION 2016	July	(3,100,000)	(5)
Call Aug 16 1222.000 ED 081016	KRW/USD SPOT OPTION 2016	August	(7,300,000)	(16)
Call Aug 16 1205.000 ED 081616	KRW/USD SPOT OPTION 2016	August	(2,300,000)	(10)
Call Jul 16 1217.000 ED 072716	KRW/USD SPOT OPTION 2016	July	(3,300,000)	(4)
Call Dec 16 087.000 ED 120816	RUB/USD SPOT OPTION 2016	December	(2,300,000)	(13)
Put Aug 16 018.300 ED 080916	MXN/USD SPOT OPTION 2016	August	(2,200,000)	(31)
Put Jul 16 018.370 ED 072716	MXN/USD SPOT OPTION 2016	July	(1,100,000)	(15)
Put Jul 16 017.950 ED 070116	MXN/USD SPOT OPTION 2016	July	(2,800,000)	—
Put Jul 16 017.650 ED 070716	MXN/USD SPOT OPTION 2016	July	(2,700,000)	(1)
Call Aug 16 019.800 ED 080916	MXN/USD SPOT OPTION 2016	August	(2,200,000)	(8)
Call Jul 16 019.650 ED 072716	MXN/USD SPOT OPTION 2016	July	(1,100,000)	(3)
Call Aug 16 105.000 ED 080816	JPY/USD SPOT OPTION 2016	August	(3,300,000)	(24)
Call Jul 16 001.378 ED 072716	USD/GBP SPOT OPTION 2016	July	(3,200,000)	(27)
Call Aug 16 001.1275 ED 080816	USD/EUR SPOT OPTION 2016	August	(5,900,000)	(45)
Call Jul 16 000.752 ED 071516	USD/AUD SPOT OPTION 2016	July	(4,300,000)	(16)
Call Jul 16 000.751 ED 071316	USD/AUD SPOT OPTION 2016	July	(800,000)	(3)
Total Cash & Cash Equivalents				(420)
Put Aug 16 132.000 ED 07/22/16	US 10 YR TREAS NTS FUT SEP 16	August	(151)	(40)
Pug Jul 16 001.150 ED 07/05/16	IRS P USD 1Y 3.125 BPS R 1.15%	July	77,500,000	—
Call Dec 16 000.770 ED 122116	IRS P USD 5Y R .41 BPS .77%	December	(16,600,000)	(69)
Call Dec 16 001.000 ED 122116	IRS R 1% P US0006M 12/22/21	December	8,300,000	67
Call Dec 16 076.500 ED 121316	IRS P USD 5Y 42.625 R 0.765%	December	(19,200,000)	(74)
Call Dec 16 001.000 ED 121316	IRS P USD 5Y R .843125 BPS	December	9,600,000	75
Put Aug 18 002.940 ED 08/20/18	IRS P USD 30Y 97BPS R 2.94%	August	1,600,000	46
Put Aug 18 002.800 ED 08/20/18	IRS P USD 5Y 22BPS R 2.8%	August	(6,900,000)	(25)
Put Aug 18 002.905 ED 082018	IRS P USD 30Y 98BPS R 2.905%	August	4,900,000	149
Put Aug 18 002.800 ED 082018	IRS P USD 5Y 22BPS R 2.8%	August	(21,600,000)	(79)
Put Jul 16 001.250 ED 07/05/16	IRS P USD 1Y 3BPS R 1.25%	July	212,400,000	—
Put Jul 16 001.250 ED 07/05/16	IRS P USD 1Y 38BPS R 1.25%	July	134,000,000	—
Call Jan 18 001.100 ED 013018	IRS P USD2Y 100BPS R 1.100%	January	(11,200,000)	(88)
Call Jan 18 001.600 ED 013018	IRS P USD 2Y 100BPS R1.600%	January	(11,200,000)	(161)
Call Jan 18 002.100 ED 1/30/18	IRS P USD 2Y 14BPS R 2.1%	January	11,200,000	255
Total Fixed Income				56
Put Jan 17 1676.220 ED 1/31/17	S & P 500 INDEX (SPX) OTC	January	(161,077)	(3,718)
Call Jan 17 1963.040 ED 013117	S & P 500 INDEX (SPX) OTC	January	(322,154)	(60,230)
Call Jan 17 1862.460 ED 013117	S & P 500 INDEX (SPX) OTC	January	322,154	86,456
Put Jul 16 2020.000 ED 072216	S & P 500 INDEX (SPX)	July	(380)	(327)
Put Jul 16 2065.000 ED 071516	S & P 500 INDEX (SPX)	July	(1,150)	(1,334)
Put Jul 16 2020.000 ED 070116	S & P 500 INDEX (SPX)	July	(380)	(6)
Put Jul 16 2020.000 ED 070816	S & P 500 INDEX (SPX)	July	(380)	(78)
Put Aug 16 2025.000 ED 083116	S & P 500 INDEX (SPX)	August	(1,140)	(3,249)
Total Equity				17,514
Total				**$ 17,150**

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, 2016, the Systems' commitments, including commitments within Strategic Partnerships, are shown in the following table (amounts in thousands):

Limited Partnerships USD	Total Commitment	Amount Funded To Date	Remaining Unfunded Commitment
Private Equity	$ 4,226,328	$ 3,546,567	$ 679,761
Private Debt	4,484,552	3,005,241	1,479,311
Real Estate	3,071,378	1,994,662	1,076,716
Real Assets	30,000	28,373	1,627
Totals	$ 11,812,258	$ 8,574,843	$ 3,237,415
Limited Partnerships Euros			
Private Equity	€ 275,750	€ 189,495	€ 86,255
Private Debt	75,917	75,917	—
Totals	€ 351,667	€ 265,412	€ 86,255
Limited Partnerships AUD			
Private Equity	$ 100,000	$ 13,900	$ 86,100
Totals	$ 100,000	$ 13,900	$ 86,100

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, 2016 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, 2016, the fair value of securities on loan was $146.179 million. The fair value of the invested cash collateral was $55.737 million. Securities lending obligations were $102.965 million with an unrealized loss in invested cash collateral of $47.228 million. The unrealized loss from securities lending activity was determined based on the settlement agreement between BNY Mellon and the State.

Under the agreement with BNY Mellon, the $47.228 million in unrealized loss is being gradually offset by a portion of securities lending earnings over a period of years. The gross securities lending revenue for the fiscal year was $946 thousand, a decrease from $1.980 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, 2016, 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, 2016:

	SCRS	PORS	GARS	JSRS	SCNG	TOTALS
Securities lent for cash collateral:						
Corporate bonds	$ 22,082	$ 3,554	$ 26	$ 127	$ 19	$ 25,808
Common stock	64,486	10,377	75	373	57	75,368
Total securities lent for cash collateral	**$ 86,568**	**$ 13,931**	**$ 101**	**$ 500**	**$ 76**	**$ 101,176**
Securities lent for non-cash collateral:						
Common stock	$ 38,506	$ 6,196	$ 45	$ 222	$ 34	$ 45,003
Total securities lent for non-cash collateral	**$ 38,506**	**$ 6,196**	**$ 45**	**$ 222**	**$ 34**	**$ 45,003**
Cash collateral invested as follows:						
Repurchase agreements	$ 47,690	$ 7,674	$ 56	$ 275	$ 42	$ 55,737
Total cash collateral invested	**$ 47,690**	**$ 7,674**	**$ 56**	**$ 275**	**$ 42**	**$ 55,737**
Securities received as collateral:						
U.S. Government securities	$ 38,748	$ 6,236	$ 45	$ 224	$ 34	$ 45,287
Total securities received as collateral	**$ 38,748**	**$ 6,236**	**$ 45**	**$ 224**	**$ 34**	**$ 45,287**

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, 2016, 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.

Fair Value Measurements

The Trusts categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments by Fair Value Level	At 6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments			
U.S. agencies	$ 140,262	$ —	$ 140,262
Mortgage backed obligations	14,506	—	14,506
Corporate bonds	637,000	—	637,000
Repurchase agreements	74,826	74,826	—
Muncipal bonds	2,201	—	2,201
Commercial paper	56,029	—	56,029
Total Investments at Fair Value	$ 924,824	$ 74,826	$ 849,998

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, 2016, the Trusts' investments were rated by Moody's as follows (expressed in thousands):

Investment Type and Fair Value	AAA / AA	A / A1 / A2	BAA/BA	B/1/B/2/B/3	CAA/CA/C	Not Rated
U.S. agencies	$ 140,262	$ —	$ —	$ —	$ —	$ —
Mortgage backed obligations	14,506	—	—	—	—	—
Corporate bonds	68,631	208,244	354,302	3,530	1,093	1,200
Repurchase agreements	—	—	—	—	—	74,826
Municipal bonds	—	2,201	—	—	—	—
Commercial paper	4,000	30,056	21,973	—	—	—
Totals	**$ 227,399**	**$ 240,501**	**$ 376,275**	**$ 3,530**	**$ 1,093**	**$ 76,026**

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, 2016, the maturities of the investments for the Trusts that will mature were limited according to the following segmented time distribution (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
U.S. agencies	$ 140,262	$ 5,000	$ 17,458	$ 6,521	$ 111,283
Mortgage backed obligations	14,506	—	297	3	14,206
Corporate bonds	637,000	70,272	337,730	225,797	3,201
Repurchase agreements	74,826	74,826	—	—	—
Municipal bonds	2,201	—	2,201	—	—
Commercial paper	56,029	4,218	46,683	5,128	—
Totals	**$ 924,824**	**$ 154,316**	**$ 404,369**	**$ 237,449**	**$ 128,690**

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, 2016, the State Treasurer held investments in overnight repurchase agreement with Bank of America that was fully collateralized by U.S. Treasury and agency obligations of 8.1% for Retiree Health Insurance and 11.1% for Long-Term Disability Insurance.

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, 2016:

	Amount
Securities lent for cash collateral:	
U.S. Corporate-fixed income	$ 9,012
Total securities lent for cash collateral	**$ 9,012**
Securities lent for non-cash collateral:	
U.S. Corporate-fixed income	$ 22
Total securities lent for non-cash collateral	**$ 22**
Cash collateral invested as follows:	
Repurchase agreements	$ 8,814
Total for cash collateral invested	**$ 8,814**
Securities received as collateral:	
U.S. treasuries	$ 22
Total for securities collateral invested	**$ 22**

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, 2016, for the primary government were as follows:

	Governmental Activities					
	Governmental Funds					
Related To	General	Departmental Program Services	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Income taxes	$ 387,350	$ —	$ —	$ —	$ —	$ 387,350
Sales and other taxes	278,071	—	—	42,499	—	320,570
Patient accounts	5,978	1,667	—	—	—	7,645
Student accounts	7	—	—	—	—	7
Other	19,889	63,347	1,065	—	89	84,390
Total allowances for uncollectibles	**$ 691,295**	**$ 65,014**	**$ 1,065**	**$ 42,499**	**$ 89**	**$ 799,962**

The enterprise fund financial statements separately present long-term receivables (net receivable balances not expected to be collected within one year).

	Business-type Activities (Enterprise Funds)
Related To	Unemployment Compensation Benefits
Assessments	$ 57,942
Other	17,329
Total allowances for uncollectibles	**$ 75,271**

Net receivables not expected to be collected within one year in governmental and internal service funds (expressed in thousands) at June 30, 2016, were as follows:

Net Long-term Receivables	General	Departmental Program Services	Local Government Infrastructure	Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts	$ 24,720	$ 19,472	$ 1	$ —	$ —	$ 290	$ 44,483
Income taxes	31,831	—	—	—	—	—	31,831
Sales and other taxes	1,230	—	—	—	1,390	—	2,620
Patient accounts	2,627	2,197	—	—	—	—	4,824
Loans and notes	31,119	454	542,713	1,551	—	—	575,837
Accounts receivable—restricted	—	—	143,608	—	—	—	143,608
Total long-term receivables, net	**$ 91,527**	**$ 22,123**	**$ 686,322**	**$ 1,551**	**$ 1,390**	**$ 290**	**$ 803,203**

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, 2016, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes	$ 1,309	$ —	$ 1,309
Federal grants	20,696	43,632	64,328
Contributions	121,482	179,716	301,198
Departmental services	—	6,727	6,727
Total unearned revenues	$ 143,487	230,075	$ 373,562
Internal service funds		154,269	
Total governmental activities		$ 384,344	

NOTE 6: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2016, for the primary government was as follows:

	Beginning Balances July 1, 2015	Increases	Decreases	Ending Balances June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 1,942,418	$ 78,957	$ (217)	$ 2,021,158
Construction in progress	2,752,351	575,780	(726,996)	2,601,135
Works of art and historical treasures	7,276	6	—	7,282
Intangibles	320	—	(308)	12
Total capital assets not being depreciated	4,702,365	654,743	(727,521)	4,629,587
Capital assets being depreciated:				
Land improvements	113,552	931	(914)	113,569
Infrastructure (road and bridge network)	12,953,477	631,600	(11,306)	13,573,771
Buildings and improvements	2,030,796	70,364	(10,437)	2,090,723
Vehicles	706,262	37,758	(26,317)	717,703
Machinery and equipment	557,854	47,796	(16,978)	588,672
Works of art and historical treasures	1,504	4	—	1,508
Intangibles	135,581	2,290	(1,214)	136,657
Total capital assets being depreciated	16,499,026	790,743	(67,166)	17,222,603
Less accumulated depreciation for:				
Land improvements	(57,533)	(2,723)	—	(60,256)
Infrastructure (road and bridge network)	(3,487,625)	(187,572)	5,173	(3,670,024)
Buildings and improvements	(997,945)	(63,392)	10,613	(1,050,724)
Vehicles	(569,560)	(46,735)	26,011	(590,284)
Machinery and equipment	(412,725)	(38,959)	15,932	(435,752)
Works of art and historical treasures	(421)	(60)	—	(481)
Intangibles	(100,800)	(4,550)	604	(104,746)
Total accumulated depreciation	(5,626,609)	(343,991)	58,333	(5,912,267)
Total capital assets being depreciated, net	10,872,417	446,752	(8,833)	11,310,336
Capital assets for governmental activities, net	**$ 15,574,782**	**$ 1,101,495**	**$ (736,354)**	**$ 15,939,923**

During the fiscal year ended June 30, 2016, depreciation expense was charged to functions of the primary government (expressed in thousands):

	Governmental Funds	Internal Service Funds	Total Governmental Activities
General government	$ 22,107	$ 14,892	$ 36,999
Education	22,727	—	22,727
Health and environment	14,368	—	14,368
Social services	702	—	702
Administration of justice	29,066	467	29,533
Resources and economic development	29,191	—	29,191
Transportation	210,471	—	210,471
Total depreciation expense, governmental activities	**$ 328,632**	**$ 15,359**	**$ 343,991**

	Beginning Balances July 1, 2015	Increases	Decreases	Ending Balances June 30, 2016
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 108,949	$ 43,377	$ (162)	$ 152,164
Construction in progress	26,485	13,617	(4,568)	35,534
Total capital assets not being depreciated	135,434	56,994	(4,730)	187,698
Capital assets being depreciated:				
Land improvements	1,244	—	—	1,244
Buildings and improvements	21,006	308	—	21,314
Vehicles	737	274	(79)	932
Machinery and equipment	7,622	669	(109)	8,182
Intangibles	944	192	—	1,136
Total capital assets being depreciated	31,553	1,443	(188)	32,808
Less accumulated depreciation for:				
Land improvements	(922)	(59)	—	(981)
Buildings and improvements	(4,731)	(576)	—	(5,307)
Vehicles	(713)	(52)	79	(686)
Machinery and equipment	(3,818)	(453)	95	(4,176)
Intangibles	(8)	(102)	—	(110)
Total accumulated depreciation	(10,192)	(1,242)	174	(11,260)
Total capital assets being depreciated, net	21,361	201	(14)	21,548
Capital assets for business-type activities, net	**$ 156,795**	**$ 57,195**	**$ (4,744)**	**$ 209,246**

Capital assets for the State's fiduciary funds were comprised of land totaling $582 thousand, a building totaling $4.749 million and equipment totaling $2.005 million with accumulated depreciation of $4.595 million. Depreciation expense for fiscal year 2016 was $310 thousand. There were additions of $46 thousand for equipment and dispositions of $98 thousand for equipment and related accumulated depreciation during the year.

At June 30, 2016, the primary government had outstanding construction commitments totaling $44.453 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $9.358 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 $184.224 million at June 30, 2016, related to information technology projects.

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 Systems, which was formerly a division of the South Carolina 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 State Fiscal Accountability Authority, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Retirement Systems in conducting that review. This function was previously performed by the Budget and Control Board, which ceased operations effective July 1, 2015. The Systems' financial statements may be obtained by writing to:

Retirement Systems Finance
South Carolina Public Employee Benefit Authority
202 Arbor Lake Drive
Columbia, South Carolina 29223
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. A member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. A 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 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 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 earnable 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 the retirement benefit. 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 earnable 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 the retirement benefit. 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. A member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. A 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 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 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 earnable 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 the retirement benefit. 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 earnable 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 the retirement benefit. 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, persons elected to the General Assembly in November 2012 or after must elect membership in SCRS, the State Optional Retirement Program (State ORP), or may elect non-membership. 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.

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 the retirement benefit. 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 the current active salary). The normal form of payment for a married member is a 33.3% joint and survivor annuity. 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.

Each plan is independent. Assets of each plan may be used only to benefit participants of that plan. PEBA does not have the authority to establish or amend the benefit terms of SCRS, PORS, GARS, JSRS, and SCNG without a legislative change in the code of laws. Additionally, 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.

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.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS), the South Carolina Police Officers Retirement Systems (PORS), the Retirement System for Members of the General Assembly of South Carolina (GARS), the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), and the South Carolina National Guard Supplemental Retirement Plan (SCNG) and additions to/deductions from SCRS', PORS', GARS', JSRS', and SCNG's fiduciary net position have been determined on the same basis as they are reported by SCRS, PORS, GARS, JSRS, and SCNG. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9% of earnable compensation for SCRS and 5% for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

By law, employee contribution requirements for the fiscal year ended June 30, 2016, were as follows:

Plan	Rate
SCRS	8.16% of earnable compensation
PORS	8.74% of earnable compensation
GARS	11.00% of earnable compensation
JSRS	10.00% of earnable compensation
SCNG	Non-contributory by employees

Actuarially-determined employer contribution rates, expressed as percentages of compensation, for the fiscal year ended June 30, 2016, were as follows:

Plan	Rate
SCRS	11.06%
PORS	13.74%
JSRS	47.97%

Contributions to SCRS, PORS, and JSRS from the State were $131.856 million, $50.546 million, and $10.202 million, respectively, for the year ended June 30, 2016. The GARS employer contribution of $4.501 million was actuarily determined and included incidental death benefits. The State appropriated $4.591 million to fund the SCNG actuarially-determined employer contribution for the year ended June 30, 2016.

d. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the State reported $2.441 billion and $654.937 million for its proportionate shares of the net pension liabilities of SCRS and PORS, respectively. The net pension liability of each defined benefit pension plan was determined based on the July 1, 2014 actuarial valuations, using membership data as of July 1, 2014, projected forward to June 30, 2015, and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures. The State's proportion of the net pension liability was based on the State's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the State's SCRS proportion was 12.87%, which was an increase of 0.17% from its proportion measured as of June 30, 2014. The State's PORS proportion of the net pension liability at June 30, 2015 was 30.05%, which was a decrease of 0.32% from its proportion measured as of June 30, 2014.

The State's JSRS, GARS, and SCNG net pension liabilities were also measured by actuarial valuations as of July 1, 2014, using membership data as of July 1, 2014, projected forward to June 30, 2015, and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures. The State assumes 100% of the JSRS, GARS, and SCNG liabilities.

For the year ended June 30, 2016, the State recognized pension expenses of $184.967 million for SCRS, $56.916 million for PORS, $10.296 million for JSRS, $1.687 million for GARS, and $3.521 million for SCNG.

According to South Carolina Code of Laws 9-1-1180, the State is responsible for contributing the employer contributions related to all publicly funded teachers and the employees of the State's technical colleges. However, as these employer contributions related to the State's teachers and technical college employees are not paid by the State directly to SCRS and PORS, but remitted instead to each school district and technical college for their contribution payments, GASB 68 requires that the school districts and technical colleges recognize the portions of the SCRS and PORS net pension liabilities that relate to their respective employees. As the State is actually responsible for these net pension liabilities, the State's effective share of the SCRS net pension liability was approximately $11.111 billion (or 58.59% of the total net SCRS pension liability) at June 30, 2016, with related pension expenses of approximately $796.671 million for the year ended June 30, 2016. Likewise, the State's effective share of the PORS net pension liability was approximately $668.026 million at June 30, 2016 (or 30.65% of the total net PORS pension liability), with related pension expenses of approximately $58.168 million for the year ended June 30, 2016. As prescribed by GASB 68, the teachers and technical college employee-related net pension liabilities and corresponding pension expenses are not included in the State's net pension liability and in the State's pension expense.

At June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions (expressed in thousands) from the following sources:

	SCRS	PORS	JSRS	GARS	SCNG
Deferred Outflows of Resources					
State Contributions Subsequent to the Measurement Date……………...……	$ 131,857	$ 50,546	$ 10,202	$ 4,501	$ 4,591
Change in Proportion and Differences Between Employer Contributions and Proportionate Share of Plan Contributions………………………...	22,185	7,099	—	—	—
Net differences Between Projected and Actual Earnings on Pension Plan Investments…………………………..	155,137	57,090	6,977	1,580	1,113
Differences Between Expected and Actual Experience………………………	44,671	12,981	—	—	555
Total…………………………………...	$ 353,850	$ 127,716	$ 17,179	$ 6,081	$ 6,259
Deferred Inflows of Resources					
Change in Proportion and Differences Between Employer Contributions and Proportionate Share of Plan Contributions………………………...	$ 22,231	$ 7,175	$ —	$ —	$ —
Net differences Between Projected and Actual Earnings on Pension Plan Investments…………………………..	140,106	49,924	6,138	1,346	802
Differences Between Expected and Actual Experience………………………	4,364	—	2,698	263	214
Total…………………………………...	$ 166,701	$ 57,099	$ 8,836	$ 1,609	$ 1,016

$201.697 million reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as net deferred outflows of resources and net deferred inflows of resources related to pensions (expressed in thousands) will be recognized in pension expense as follows:

Year Ended June 30,	SCRS	PORS	JSRS	GARS	SCNG
2017	$ 10,450	$ 2,037	$ (1,265)	$ (316)	$ 43
2018	10,450	2,037	(1,265)	(54)	43
2019	(4,446)	1,463	(921)	(54)	43
2020	38,838	14,534	1,592	395	310
2021	—	—	—	—	32
Thereafter	—	—	—	—	181
	55,292	20,071	(1,859)	(29)	652

The total pension liabilities in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	SCRS	PORS	GARS	JSRS	SCNG
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Actuarial Assumptions:					
Investment Rate of Return	7.5%	7.5%	7.5%	7.5%	7.5%
Projected Salary Increases	3.5% to 12.5% (Varies by Service)	4.0% to 10.0% (Varies by Service)	None	3.0%	None
Inflation Rate	2.75%	2.75%	2.75%	2.75%	2.75%
Benefit Adjustments	Lesser of 1% or $500	Lesser of 1% or $500	None	3.0%	None

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2015.

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and Members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook in 2016. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.50% assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75% real rate of return and a 2.75% inflation component. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	**Target Asset Allocation**	**Expected Arithmetic Real Rate of Return**	**Long-Term Expected Portfolio Real Rate of Return**
Short Term	**5.0%**		
Cash	2.0%	1.9%	0.04%
Short Duration	3.0%	2.0%	0.06%
Domestic Fixed Income	**13.0%**		
Core Fixed Income	7.0%	2.7%	0.19%
Mixed Credit	6.0%	3.8%	0.23%
Global Fixed Income	**9.0%**		
Global Fixed Income	3.0%	2.8%	0.08%
Emerging Markets Debt	6.0%	5.1%	0.31%
Global Public Equity	**31.0%**	7.1%	2.20%
Global Tactical Asset Allocation	**10.0%**	4.9%	0.49%
Alternatives	**32.0%**		
Hedge Funds (Low Beta)	8.0%	4.3%	0.34%
Private Debt	7.0%	9.9%	0.69%
Private Equity	9.0%	9.9%	0.89%
Real Estate (Broad Market)	5.0%	6.0%	0.30%
Commodities	3.0%	5.9%	0.18%
Total Expected Real Return	**100.0%**		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			**8.75%**

The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all SCRS and PORS participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (expressed in thousands).

Changes in the Net Pension Liability

	GARS	JSRS	SCNG
Total Pension Liability			
Service Cost	$ 553	$ 5,760	$ 690
Interest	5,380	19,440	4,481
Benefit Changes	—	666	—
Difference Between Actual and Expected Experience	(294)	(1,138)	612
Benefit Payments	(6,660)	(16,836)	(4,249)
Net Change in Total Pension Liability	(1,021)	7,892	1,534
Total Pension Liability at June 30, 2015	74,787	264,732	61,530
Total Pension Liability at June 30, 2016 (a)	$ 73,766	$ 272,624	$ 63,064
Plan Fiduciary Net Position			
Contributions - Employer	$ 4,275	$ 10,109	$ 4,591
Contributions - Member	369	3,153	—
Retirement Benefits	(6,639)	(16,832)	(4,249)
Death Benefits	(21)	(4)	—
Net Investment Income (Loss)	500	2,216	313
Administrative Expense	(18)	(71)	(11)
Other	(18)	286	—
Net Change in Plan Fiduciary Net Position	(1,552)	(1,143)	644
Plan Fiduciary Net Position at June 30, 2015	34,034	147,496	22,558
Plan Fiduciary Net Position at June 30, 2016 (b)	$ 32,482	$ 146,353	$ 23,202
Net Pension Liability at June 30, 2016 (a) - (b)	$ 41,284	$ 126,271	$ 39,862

The following table presents the State's proportionate share of the net SCRS and PORS pension liabilities and the GARS, JSRS, and SCNG net pension liabilities calculated using the discount rate of 7.50%, as well as what the State's respective net pension liabilities (expressed in thousands) would be if it were calculated using a discount rate of 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SCRS	$ 3,077,718	$ 2,441,249	$ 1,907,808
PORS	892,177	654,937	442,857
GARS	47,751	41,284	35,359
JSRS	155,815	126,271	98,926
SCNG	47,681	39,862	32,891

e. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2016, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	SCNG	Totals
Receivables:						
Contributions	$ 208,735	$ 23,854	$ 57	$ 646	$ 16	$ 233,308
Accrued interest	33,142	5,335	39	192	30	38,738
Unsettled investment sales	595,317	95,801	694	3,439	524	695,775
Other investment receivables	34,535	5,558	40	200	30	40,363
Total receivables	**$ 871,729**	**$ 130,548**	**$ 830**	**$ 4,477**	**$ 600**	**$ 1,008,184**
Due from other funds	**$ —**	**$ 302**	**$ —**	**$ —**	**$ —**	**$ 302**
Investments and invested securities lending collateral:						
Short-term securities	$ 677,357	$ 109,002	$ 790	$ 3,913	$ 596	$ 791,658
Fixed income	5,003,122	805,119	5,834	28,906	4,404	5,847,385
Equity-international	7,841,474	1,261,876	9,144	45,304	6,903	9,164,701
Alternatives	7,688,980	1,237,335	8,966	44,424	6,769	8,986,474
Invested securities lending collateral	47,690	7,674	56	275	42	55,737
Total investments	**$ 21,258,623**	**$ 3,421,006**	**$ 24,790**	**$ 122,822**	**$ 18,714**	**$ 24,845,955**

f. Deferred Retirement Option Plans

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. The TERI program will be closed effective June 30, 2018. Any member entering the TERI program after July 1, 2014 will only be able to participate in program until June 30, 2018.

A total of 8,922 members were participating in the TERI program at June 30, 2016. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2016, was as follows:

Beginning balance of TERI trust accounts	$ 645,739
Additions	261,864
TERI distributions at termination	(123,151)
TERI liability	(71,693)
Ending balance of TERI trust accounts	**$ 712,759**

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, 2016, there was $84 thousand held in this trust.

g. Optional Retirement Program

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. 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 (8.16%) and a portion of the employer contribution (5.00%), which is immediately vested to the employee. A direct remittance is also required to the SCRS for a portion of the employer contribution (5.91%) 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..	$ 1,332,767
Employee contributions to providers.................	108,754
Employer contributions to providers..................	66,638

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, 5.33% of annual covered payroll for fiscal year 2016. The IBD sets the employer contribution rate based on a pay-as-you-go basis. The State paid $433.737 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2016. 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, 2016.

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 ($21.657 million), and income generated from investments ($35.294 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, 2016		June 30, 2015		June 30, 2014	
	Actuarially Required	% Contributed	Actuarially Required	% Contributed	Actuarially Required	% Contributed
SCRHI	$ 749,713	61.06%	$ 747,746	76.44%	$ 778,969	60.73%
LTDI	13,103	54.37%	10,392	67.37%	7,251	95.77%

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	2015	$ 964,186	$ 10,824,335	$ 9,860,149	9%	$ 7,908,625	125%
SCRHITF	2014	784,970	10,124,467	9,339,497	8%	7,669,939	122%
SCRHITF	2013	668,972	10,072,927	9,403,955	7%	7,471,142	126%
LTDITF	2015	36,345	33,161	(3,184)	110%	8,309,688	<1%
LTDITF	2014	36,447	31,048	(5,399)	117%	8,047,421	<1%
LTDITF	2013	35,426	28,248	(7,178)	125%	8,163,269	<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, 2016, for the OPEB plans administered by the Insurance Benefits Division were as follows:

	SCRHI	LTDI	Totals
Receivables:			
Accrued interest	**$ 5,320**	**$ 261**	**$ 5,581**
Due from other funds	**$ 65,258**	**$ —**	**$ 65,258**
Investments and invested securities lending collateral:			
Debt domestic instruments	$ 763,931	$ 30,038	$ 793,969
Financial paper	55,136	893	56,029
Invested securities lending collateral	8,344	491	8,835
Total investments	**$ 827,411**	**$ 31,422**	**$ 858,833**

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
2016	$ 264,339	$ 90,343	$ (90,477)	$ 264,205
2015	258,398	79,931	(73,990)	264,339

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. There have been no claims in excess of coverage.

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 a State Health Plan or a fully funded health plan if available. 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.

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
2016	$ 190,722	$ 2,196,035	$ (2,170,069)	$ 216,688
2015	158,988	1,997,991	(1,966,257)	190,722

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
2016	$ 239,450	$ 58,392	$ (47,429)	$ 250,413
2015	248,100	39,701	(48,351)	239,450

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of $1.000 million are covered up to limits of statutory liability; the Fund retains the risk for the first $1.000 million of loss. Reinsurance reduces the Fund's exposure to losses on insured events related to State-owned aircraft in excess of $1.000 million per occurrence up to a limit of $9.000 million. Reinsurance permits partial recovery of losses from reinsurers; however, the Fund, as the direct insurer of the risks, remains primarily liable. There have been no claims in excess of coverage.

d. Uninsured Employers' Fund

The Uninsured Employers' Fund was established by Section 42-7-200. 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
2016	$ 36,228	$ 4,921	$ (6,695)	$ 34,454
2015	48,000	-	(11,772)	36,228

e. Patients' Compensation Fund

The South Carolina Medical Malpractice Patients' Compensation Fund (PCF) was created by State law. The PCF is accounted for as a nonmajor enterprise fund. The State accounts for the PCF as an insurance enterprise because it primarily covers non-governmental entities. Accordingly, the PCF follows the guidance of FASB ASC 944, *Financial Services - Insurance*, and collectively are referred to below as "the insurance enterprises."

The Medical Malpractice Liability Insurance Joint Underwriting Association (JUA), a discretely presented component unit, 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 includes 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
2016	$ 64,330	$ -	$ (9,852)	$ 54,478
2015	72,268	10,099	(18,037)	64,330

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	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2016	$ 288,026	$ -	$ (22,248)	$ 265,778
2015	309,542	7,399	(28,915)	288,026

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.

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 position at June 30, 2016 for the primary government were as follows (expressed in thousands):

Fiscal Year Ending June 30	Governmental Activities
2017	$ 1,935
2018	1,934
2019	105
2020	105
2021	7
Total minimum payments	**4,086**
Less: interest and executory costs	(691)
Net minimum payments	**$ 3,395**

Assets under capital leases recorded in the accompanying government-wide statement of net position at June 30, 2016, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Governmental Activities
Land and non-depreciable improvements	$ —
Buildings and improvements	—
Machinery and equipment	688
Works of art and historical treasures	—
Assets acquired under capital leases before accumulated amortization	**688**
Less: accumulated amortization	(638)
Assets acquired under capital leases, net	**$ 50**

b. Operating Leases

For the primary government's fiscal year ended June 30, 2016, minimum rental payments under operating leases were $50.986 million and contingent rental payments were $6.518 million. The State's contingent rental payments are primarily for copiers, with expense being determined on a cost-per-copy basis.

At June 30, 2016, 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
2017	$ 30,259	$ 33	$ 30,292
2018	25,095	—	25,095
2019	21,513	—	21,513
2020	18,039	—	18,039
2021	14,660	—	14,660
2022-2026	23,769	—	23,769
2027-2031	988	—	988
Net minimum payments	**$ 134,323**	**$ 33**	**$ 134,356**

c. Facilities and Equipment Leased to Others

At June 30, 2016, State agencies within the primary government had leased to non-State parties certain land, facilities, or equipment having a cost of approximately $59.842 million and related accumulated depreciation of $14.220 million. Future minimum rental payments to be received at June 30, 2016, under these operating leases were as follows (expressed in thousands):

Fiscal Year Ending June 30	Governmental Activities
2017	$ 5,489
2018	3,382
2019	1,611
2020	1,465
2021	1,306
2022-2026	2,521
2027-2031	472
2032-2036	147
Total	**$ 16,393**

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, 2016, were (net of unamortized premiums/discounts, expressed in thousands):

Governmental Activities:		
Capital improvement bonds, 5.00%, maturing serially through 2019	$	55,629
State highway bonds, 4.00% to 5.00%, maturing serially through 2023		263,083
State school facilities bonds, 5.00%, maturing serially through 2018		31,500
Infrastructure Bank bonds, 2.50% to 5.00%, maturing serially through 2028		39,326
State economic development bonds, 0.65% to 5.00%, maturing serially through 2031		426,280
Research university infrastructure bonds, 3.00% to 5.00%, maturing serially through 2029		113,410
Air carrier hub terminal facilities bonds, 1.00% to 4.00%, maturing serially through 2025		32,968
Totals—primary government	**$**	**962,196**

At June 30, 2016, $6.344 million of capital improvement bonds, $106.000 million of State highway bonds, $120.625 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, 2016, future debt service requirements for general obligation bonds for the primary government were (expressed in thousands):

	Governmental Activities			
Year Ending June 30		**Principal**		**Interest**
2017	$	141,770	$	36,720
2018		123,795		30,072
2019		109,845		24,269
2020		93,060		19,041
2021		100,970		14,796
2022-2026		254,685		28,314
2027-2031		42,945		3,406
Total debt service requirements		**867,070**	**$**	**156,618**
Unamortized premiums		95,126		
Total principal outstanding	**$**	**962,196**		

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, 2016, was $44.564 million for highway bonds, $305.837 million for general obligation bonds excluding institution and highway bonds, $11.978 million for economic development bonds, and $15.374 million for research university infrastructure bonds. Excluded from the debt service limit calculations are a $170.000 million 2010 issue and a $50.000 million 2010 issue of air carrier hub terminal facilities bonds and additionally for the economic development bonds, an $85.000 million 2013 issue, and an $18.110 million 2015 issue of economic development bonds which by State Law are not subject to the limitation on maximum annual debt service.

b. Limited Obligation Bonds

Limited obligation bonds are not backed by the full faith, credit, and taxing power of the State. There were no limited obligation bonds outstanding at June 30, 2016, as the final principal payment of $185 thousand was made during the fiscal year. The internal service funds pay all debt service for the lease revenue bonds. At June 30, 2016, there were no limited obligation bonds authorized but unissued.

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, 2016, were (net of unamortized premiums/discounts, expressed in thousands):

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 0.40% to 5.25%, maturing serially through 2041	$ 1,854,451	$ —
Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022	9,592	—
Department of Public Safety bonds, 5.00%, maturing through 2018	4,552	—
Corrections Department notes, 1.81% to 5.25%, maturing through 2020	—	5,265
Judicial Department notes, 2.02%, maturing through 2021	—	4,895
Corrections Department notes, 1.81% to 5.25%, maturing through 2020	—	6,715
Totals—governmental activities	**1,868,595**	**16,875**
Business-Type Activities:		
Nonmajor enterprise fund bonds, 0.11%, maturing through 2038	**5,895**	**—**
Totals—primary government	**$ 1,874,490**	**$ 16,875**

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, 2016, the Bank made variable bond interest payments of $3.355 million and fixed rate payments on the exchange agreement of $13.811 million. The Bank received variable swap payments on the exchange agreement of $395 thousand. The June 30, 2016 mark to market value of this swap was negative $30.097 million, representing a decrease in fair value of $8.296 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.

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	Heritage Trust Revenue Bonds	Department of Public Safety Bonds
Specific revenue pledged	Truck and vehicle registration fees; One-cent gasoline tax; contributions receivable and intergovernmental loans receivable	State Deed Recording Fee dedicated to the Heritage Land Trust Fund	Delinquent registration and license penalties per SC Code Section 56-3-840
Approximate amount of pledge	$429.453 million	10 cents of the $1.30 state deed recording fee imposed on transfers of real property	Penalties range from $10 to $75 depending on length of time delinquent
General purpose for the debt	Provide financial assistance for major transportation projects for DOT	Acquisition of certain high-priority property qualifying for the State's Heritage Trust land conservation program	Acquisition of land and buildings in Blythewood for the new DPS headquarters
Term of commitment	FY 2041	FY 2022	FY 2018
% of revenue stream pledged	50.31%	7.69%	100%
Pledged revenue recognized	$210.290 million	$6.043 million	$4.413 million
Principal & interest paid	$165.674 million	$1.816 million	$2.379 million

Debt Service Requirements

At June 30, 2016, 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**
2017	$ 64,316	$ 75,909	$ 165	$ 9
2018	79,166	75,248	175	8
2019	81,459	71,272	180	8
2020	80,627	67,254	190	8
2021	81,572	63,230	195	8
2022-2026	351,990	263,756	1,125	34
2027-2031	439,275	181,338	1,380	25
2032-2036	395,055	84,764	1,700	14
2037-2041	200,990	27,166	785	2
Total debt service requirements....................................	**1,774,450**	**$ 909,937**	**5,895**	**$ 116**
Net unamortized premiums...............	111,020		—	
Total principal outstanding.............	**$ 1,885,470**		**$ 5,895**	

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, 2016, in governmental functions for these entities as follows (expressed in thousands):

	Amount
Transportation	$ 97,585
Total allocated interest expense	**$ 97,585**

d. Defeased Bonds

During July 2015, the State issued $157.095 million in revenue refunding bonds with a 2.90% to 5.00% coupon rate over the life of the issue. The net proceeds after payment of $796 thousand in issuance costs were used to partially refund $172.620 million of the Series 2005A Transportation Infrastructure Bank Revenue Bonds and Series 2007A Transportation Infrastructure Bank Revenue Bonds. The bonds were refunded to reduce total debt service payments by approximately $27.912 million and to obtain an economic gain of approximately $20.895 million.

During December 2015, the State defeased $22.560 million in Series 2005A Taxable Economic Development General Obligation Bonds, Series 2005E Taxable Economic Development General Obligation Bonds, and Series 2010B Economic Development General Obligation Bonds. The bonds were defeased to obtain an economic gain of approximately $3.529 million.

During March 2016, the State issued $127.425 million in general obligation refunding bonds with a 0.65% to 5.00% coupon rate over the life of the issue. The net proceeds after payment of $621 thousand in issuance costs were used to partially refund $142.015 million of the Series 2005A Taxable Economic Development General Obligation Bonds, Series 2005C Tax Exempt Economic Development General Obligation Bonds, Series 2005D Taxable Economic Development General Obligation Bonds, Series 2005E Taxable Economic Development General Obligation Bonds, Series 2005G Tax Exempt Economic Development General Obligation Bonds, Series 2005F Tax Exempt Economic Development General Obligation Bonds, Series 2006A Tax Exempt Economic Development General Obligation Bonds, Series 2005A Research University General Obligation Bonds, Series 2005B Research University General Obligation Bonds, and Series 2009A Research University General Obligation Bonds. The bonds were refunded to reduce total debt service payments by approximately $18.706 million and to obtain an economic gain of approximately $12.289 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 removed the defeased bonds from the accompanying financial statements. At June 30, 2016, the following outstanding bonds of the primary government were considered defeased (expressed in thousands):

	Governmental Activities
Economic Development bonds	$ 5,710
Research University bonds	20,185
Infrastructure Bank bonds	1,000,715
Department of Transportation bonds	70,900
Tobacco Authority bonds	64,890
Totals	**$ 1,162,400**

e. 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, 2016, there was no arbitrage rebate liability associated with the State's General Obligation Debt and a $1.064 million arbitrage rebate liability associated with revenue bonds of the Local Government Infrastructure Fund (a major governmental fund).

g. Conduit Debt

State law authorizes issuance of certain bonds for which the State assumes no responsibility for repayment. These bonds do not appear as liabilities in the accompanying financial statements.

The Educational Facilities Authority, reported in the General Fund, issues bonds to assist nonprofit educational institutions that do not receive State appropriations in the acquisition, construction, and financing of facilities for educational programs. The bonds are payable solely from, and secured by, a lease agreement on the facilities between the Authority and the institution. When the bonds have been fully paid, the Authority conveys the title for the facility to the institution. At June 30, 2016, the outstanding balance of bonds issued was $236.733 million.

NOTE 12: CHANGES IN LIABILITIES

Changes in major classes of long-term liabilities for the fiscal year ended June 30, 2016, were (expressed in thousands):

	Balances at July 1, 2015	Increases	Decreases	Balances at June 30, 2016	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims	$ 730,739	$ 2,349,691	$ (2,314,670)	$ 765,760	$ 587,154
Notes payable	11,185	10,638	(4,948)	16,875	3,806
General obligation bonds payable	1,038,690	171,985	(343,605)	867,070	141,770
Unamortized discounts and premiums	87,448	23,214	(15,536)	95,126	—
Total general obligation bonds payable	1,126,138	195,199	(359,141)	962,196	141,770
Infrastructure Bank bonds payable	1,834,940	157,095	(248,470)	1,743,565	56,910
Unamortized discounts and premiums	107,516	21,638	(18,268)	110,886	—
Total Infrastructure Bank bonds	1,942,456	178,733	(266,738)	1,854,451	56,910
Revenue bonds payable	17,455	—	(3,445)	14,010	3,600
Unamortized discounts and premiums	225	—	(91)	134	—
Total revenue bonds payable	17,680	—	(3,536)	14,144	3,600
Limited obligation bonds payable	185	—	(185)	—	—
Capital leases payable	4,493	411	(1,509)	3,395	1,556
Compensated absences payable	216,013	165,683	(153,277)	228,419	141,977
Net pension liability	2,960,416	332,249	—	3,292,665	—
Judgments and contingencies payable	15,335	109,370	(114,697)	10,008	10,008
Arbitrage payable	1,213	101	(250)	1,064	643
Total long-term liabilities	$ 7,025,853	$ 3,342,075	$ (3,218,951)	$ 7,148,977	$ 947,424

	Balances at July 1, 2015	Increases	Decreases	Balances at June 30, 2016	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims	$ 352,356	$ 2,342	$ (34,442)	$ 320,256	$ 36,501
Revenue bonds payable	6,055	—	(160)	5,895	165
Compensated absences payable	744	483	(543)	684	425
Net pension liability	3,866	7,071	—	10,937	—
Total long-term liabilities	$ 363,021	$ 9,896	$ (35,145)	$ 337,772	$ 37,091

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, 2016, 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	$ 25,417	$ —	$ —	$ —	$ —	$ 25,417
Inventories	25,387	3,269	—	3,000	—	31,656
Prepaid items	12,701	2,733	—	4,325	1	19,760
Other assets	—	—	—	248	—	248
Long-term loans and notes receivable	31,119	—	—	—	—	31,119
Endowments	—	—	—	—	11,321	11,321
Total Non-spendable	94,624	6,002	—	7,573	11,322	119,521
Restricted:						
Primary and Secondary Education	85	51,523	—	—	96,142	147,750
Health, Human Services and Environment	49,271	58,819	—	—	43,623	151,713
Transportation	—	261	1,325,103	10,031	—	1,335,395
Capital Projects	—	—	—	—	64,215	64,215
Debt Service	—	—	879,051	—	16,371	895,422
Administration of Justice	—	13,277	—	—	—	13,277
Waste management	—	—	—	—	174,924	174,924
General Government	481,342	728,416	—	—	190,478	1,400,236
Total Restricted	530,698	852,296	2,204,154	10,031	585,753	4,182,932
Committed:						
General Government	952,716	12,833	—	356,238	25,173	1,346,960
Capital reserve fund	—	—	—	—	71,468	71,468
Primary and Secondary Education	115,297	—	—	—	—	115,297
Health, Human Services and Environment	74,059	—	—	—	—	74,059
Total Committed	1,142,072	12,833	—	356,238	96,641	1,607,784
Assigned:						
Primary and Secondary Education	12,158	—	—	—	—	12,158
Health, Human Services and Environment	168,688	—	—	—	5,311	173,999
General Government	154,317	—	—	—	—	154,317
Administration of Justice	8,988	—	—	—	—	8,988
Economic Development	54,482	—	—	—	—	54,482
Transportation	1,759	—	—	—	—	1,759
Social Programs	15,697	—	—	—	—	15,697
Total Assigned	416,089	—	—	—	5,311	421,400
Total Unrestricted, unassigned	1,313,562	(608,503)	—	—	—	705,059
Total Fund Balances	**$ 3,497,045**	**$ 262,628**	**$ 2,204,154**	**$ 373,842**	**$ 699,027**	**$ 7,036,696**

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 of 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.

Administration of Justice

This is restricted resources for the continuation and enhancement of programs to improve the safety of the citizens and visitors of the State of South Carolina. Programs promote law enforcement agencies, judicial agencies and corrections of the State, its resources, citizens, and travelers.

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.

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.

Transportation

The fund balance reporting in this category arises primarily from budgetary proviso actions which provide a certain level of funding for use in the maintenance and improvement of highway systems and access to commercial markets through rail, air, and transoceanic.

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, 2016 fiscal year if it equals 5 percent of the Budgetary General Fund's revenue (budgetary basis) of the previous fiscal year.

If the State withdraws funds from the Reserve to cover a year-end deficit, it must replace the funds within 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, 2016, the Reserve was $327.619 million, which meets the required fully funded amount of $327.619 million.

NOTE 14: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The amounts in the "Implementation of GASBs 68 & 71" column reflect restatements related to the implementation of GASB Statements No. 68 and 71 as explained on the page that follows. The amounts in the "Other Adjustments" column are due to the correction of errors related to prior periods, as described on the page that follows.

	7/1/2015 Fund Equity as Previously Reported	Implementation of GASBs 68 & 71	Other Adjustments	7/1/2015 Fund Equity as Restated
Primary Government				
Governmental Funds:				
General Fund	$ 2,943,237	$ —	$ —	$ 2,943,237
Departmental Program Services	242,939	—	—	242,939
Local Government Infrastructure	2,141,796	—	—	2,141,796
Department of Transportation Special Revenue	210,758	—	—	210,758
Other Nonmajor Governmental Funds	612,511	—	—	612,511
Total Governmental Funds	6,151,241	—	—	6,151,241
Internal Service Funds	489,742	—	—	489,742
Government-Wide Adjustments:				
Capital assets	15,467,615	—	—	15,467,615
Net deferred outflows and inflows	323,077	—	—	323,077
Long-term liabilities	(6,387,935)	—	—	(6,387,935)
Total Government-Wide Adjustments	9,402,757	—	—	9,402,757
Total Governmental Activities	16,043,740	—	—	16,043,740
Business-Type Activities - Enterprise Funds:				
Unemployment Compensation Fund	319,555	—	—	319,555
Second Injury Fund	(139,122)	—	—	(139,122)
Other nonmajor enterprise funds	40,086	(5,617)	—	34,469
Total Business-type activities - Enterprise Funds	220,519	(5,617)	—	214,902
Total Primary Government	$ 16,264,259	$ (5,617)	$ —	$ 16,258,642
Component Units				
Public Service Authority	$ 2,132,561	$ (261,072)	$ —	$ 1,871,489
MUSC	796,075	—	—	796,075
USC	1,057,578	—	—	1,057,578
Clemson University	1,184,258	—	—	1,184,258
State Ports Authority	881,261	—	(8,103)	873,158
Housing Authority	385,584	—	—	385,584
Lottery Commission	1,181	—	—	1,181
Nonmajor component units	1,475,253	—	67,922	1,543,175
Total Component Units	$ 7,913,751	$ (261,072)	$ 59,819	$ 7,712,498

The State implemented GASBs 68 and 71 during its fiscal year that ended June 30, 2015. However, it has two component units, one blended and the other discretely presented, with fiscal years ending December 31. In the State's financial statements, it uses financial information from the December 31 year ends of these entities. Both entities properly implemented GASBs 68 and 71 during their fiscal years that ended December 31, 2015, which occurred during the State's 2016 fiscal year. To provide accounting and reporting consistency in the State's financial statements, the impact of implementing GASBs 68 and 71 by these two component units is shown above as restatements of July 1, 2015 fund equity.

During fiscal year 2016, the following prior year errors were discovered: (1) the South Carolina Ports Authority, a major discretely presented component unit, understated harbor deepening feasibility costs and accounts payable by $8.103 million; and (2) the South Carolina Research Authority, which was previously not included in the reporting entity, should have been included as a nonmajor discretely presented component unit, causing an understatement of $67.922 million. These corrections and restatements of July 1, 2015 fund equity are shown in the "Other Adjustments" column above.

NOTE 15: INTERFUND AND INTRAFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2016 (expressed in thousands):

Funds	Due From	Due To
General Fund		
Departmental Program Services	$ 64,949	$ 8,953
Department of Transportation Special Revenue	630	19,832
Local Government Infrastructure	24	9,082
Nonmajor governmental funds	65	—
Internal service	631	15,459
Unemployment Compensation	2,596	—
Nonmajor enterprise funds	94	—
	68,989	53,326
Departmental Program Services		
General Fund	8,953	64,949
Department of Transportation Special Revenue	—	552
Internal service	—	510
	8,953	66,011
Department of Transportation Special Revenue Fund		
General Fund	19,832	630
Departmental Program Services	552	—
Local Government Infrastructure	—	2,214
Internal service	—	385
Fiduciary	—	12,974
	20,384	16,203
Local Government Infrastructure		
General Fund	9,082	24
Department of Transportation Special Revenue Fund	2,214	—
	11,296	24
Nonmajor Governmental Funds		
General Fund	—	65
Internal service	—	1,038
	—	1,103
Internal Service		
General Fund	15,459	631
Departmental Program Services	510	—
Department of Transportation Special Revenue Fund	385	—
Nonmajor governmental funds	1,038	—
	17,392	631
Unemployment Compensation		
General Fund	—	2,596
Nonmajor Enterprise Funds		
General Fund	—	94
Fiduciary		
Department of Transportation Special Revenue	12,974	—
Fiduciary	65,560	65,560
	78,534	65,560
Totals	**$ 205,548**	**$ 205,548**

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 Fund			
Departmental Program Services	$ 275	$ —	$ —
Nonmajor enterprise funds	25,000	—	—
Internal service	142	—	142
	25,417	—	142
Departmental Program Services			
General Fund	—	275	—
Local Government Infrastructure			
Department of Transportation Special Revenue	226,668	—	202,459
Department of Transportation Special Revenue Fund			
Local Government Infrastructure	—	226,668	—
Nonmajor Governmental Funds			
Internal service	—	4,415	—
Nonmajor Enterprise Funds			
General Fund	—	25,000	—
Internal Service			
General Fund	—	142	—
Nonmajor governmental funds	4,415	—	2,260
Internal service	4,700	4,700	—
	9,115	4,842	2,260
Totals	**$ 261,200**	**$ 261,200**	**$ 204,861**

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:

- $226.668 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.
- $25.000 million owed by the Palmetto Railways Fund, a nonmajor enterprise fund, to the General Fund. The $25.000 million is an interest free loan from the Department of Commerce to the Palmetto Railways Fund that matures on June 30, 2017.

The following table summarizes interfund transfers during the fiscal year ended June 30, 2016 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental Program Services	$ —	$ 103,973
Local Government Infrastructure	—	3,672
Department of Transportation	—	267,332
Nonmajor governmental funds	292,248	176,243
Unemployment Compensation Benefits	200	—
Second Injury	231	—
Nonmajor enterprise funds	670	183
Internal service	1,163	—
	294,512	551,403
Departmental Program Services		
General Fund	103,973	—
Local Government Infrastructure		
General Fund	3,672	—
Department of Transportation		
General Fund	267,332	—
Nonmajor Governmental Funds		
General Fund	176,243	292,248
Nonmajor governmental funds	4,708	4,708
Internal Service	1,515	1,707
	182,466	298,663
Unemployment Compensation Benefits		
General Fund	—	200
Second Injury Fund		
General Fund	—	231
Nonmajor Enterprise Funds		
General Fund	183	670
Internal Service		
General Fund	—	1,163
Nonmajor governmental funds	1,707	1,515
	1,707	2,678
Totals	**$ 853,845**	**$ 853,845**

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.

The following tables summarize intra-entity balances between the primary government and its discretely presented component units at June 30, 2016 (expressed in thousands):

Funds	Due From	Due To
General Fund		
Ports Authority	$ —	$ 167,697
Housing Authority	—	1,398
Clemson University	—	11,642
USC	196	2,065
Nonmajor discretely presented component units	16,049	2,794
	16,245	185,596
Departmental Program Services		
Clemson University	—	3,509
MUSC	—	20,765
USC	765	7,364
Nonmajor discretely presented component units	—	340
	765	31,978
Department of Transportation Special Revenue Fund		
Clemson University	—	554
USC	—	85
Nonmajor discretely presented component units	27	—
	27	639
Nonmajor Governmental Funds		
Clemson University	—	108
USC	—	121
Lottery Commission	30,992	—
Nonmajor discretely presented component units	8,207	131
	39,199	360
Internal Service		
Clemson University	3,370	—
USC	4,152	—
Nonmajor discretely presented component units	2,647	—
	10,169	—
Governmental activities total	**66,405**	**218,573**
Ports Authority		
General Fund	167,697	—
Housing Authority		
General Fund	1,398	—
Lottery Commission		
Nonmajor governmental funds	—	30,992
Clemson University		
General Fund	11,642	—
Departmental Program Services	3,509	—
Department of Transportation Special Revenue Fund	554	—
Nonmajor governmental funds	108	—
Internal service	—	3,370
	15,813	3,370
MUSC		
Departmental Program Services	20,765	—
USC		
General Fund	2,065	196
Departmental Program Services	7,364	765
Department of Transportation Special Revenue Fund	85	—
Nonmajor governmental funds	121	—
Internal service	—	4,152
	9,635	5,113
Nonmajor Discretely Presented Component Units		
General Fund	2,794	16,049
Departmental Program Services	340	—
Department of Transportation Special Revenue Fund	—	27
Nonmajor governmental funds	131	8,207
Internal service	—	2,647
	3,265	26,930
Discretely presented component units total	**218,573**	**66,405**
Totals	**$ 284,978**	**$ 284,978**

NOTE 16: 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, 2016, the Educational Television Endowment of South Carolina, Inc., disbursed $6.265 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 $117 thousand at June 30, 2016.

The Education Assistance Authority, 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, 2016, the Authority entered into various transactions with SLC. Approximate amounts within the Authority that represent these transactions include: accounts receivable from SLC $109.840 million; program revenue from SLC $3.495 million; reimbursements to SLC for administrative costs $526 thousand; and payable to SLC $5.908 million.

NOTE 17: CONTINGENCIES AND COMMITMENTS

a. Litigation

Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2016, is one case with Duke Energy that challenges the legality of certain taxes. In the event of an unfavorable outcome for this case, the State estimates the potential loss to be $12.7 million. Although State losses in this case 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 (SCRS) 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, SCRS 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. SCRS 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 appealed to the Fourth Circuit Court of Appeals. On December 5, 2014, the Fourth Circuit ruled in favor of SCRS. No further appeal was taken by the plaintiffs. On March 19, 2015, the same plaintiffs re-filed their claims in state court, alleging violation of their federal constitutional rights. The Circuit Court granted Defandants' motion to dismiss on November 2, 2015 and, on appeal, the South Carolina Supreme Court affirmed the dismissal of Plaintiff's complaint on August 10, 2016. The plaintiffs have filed a petition for certification with the United States Supreme Court on November 8, 2016. SCRS is preparing a response to the petition.

SCRS is a defendant in a retirement case to ensure that SCRS does not suffer any monetary loss as a result of a 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 thousand to the System to purchase retirement service credit on behalf of Preston. By an order dated 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. The case has been briefed and argued at the court of appeals and the parties are awaiting a decision.

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." On November 5, 2015 the S.C. Supreme Court issued an order that facing these districts at both the state and local levels." On November 5, 2015 the S.C. Supreme Court issued an order that within one week of the conclusion of the 2016 legislative session, the State will submit a written summary to the Court detailing their efforts to implement a constitutionally compliant education system, including all proposed, pending or enacted legislation. The Court will conduct a review of the plan and issue an order of the summary analyzing whether the States' efforts are a rational means to bringing the system of public education in South Carolina into constitutional compliance and whether or not the Court's continued maintentance of jurisdiction is necessary. To date, the Court has not issued an order based upon its review of the submissions of the Defendants. The Supreme Court issues an order on September 20,2016 stated in part as follows: "We opt to continue to monitor the progress towards a constitutionally compliant education system by requiring the submission of another report by the parties by June 30, 2017." 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 Administrative Law Court (ALC) determines Kiawah's appeal of the permitting decision. The ALC 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 and remanding the case to that court for further consideration. The ALC issued rulings on remand in March and April, and they are now under appeal. The takings suit remains under a stay. 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 develop an adequate system for providing inmates with serious mental illnesses services including additional and better-trained staff. The case is under appeal, but the appeal has been stayed while the parties participate in mediation. During mediation a settlement was arrived at and is pending judicial approval. Under the settlement, the Department of Corrections is not making any settlement payments but has agreed to make some changes to its mental health systems. Budgeted expenses for 3 years is $8.687 million plus implementation panel fees capped at $300 thousand per year plus mediator fees and the cost of an Electronic Medical Records System.

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 $46 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.

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, 2016, or earlier years will not have a material impact on the State's financial statements.

c. 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. This contract was negotiated for a 5 year term with annual renewals required each October 1. Since that time, this contract has been renewed until October 2016. 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 $6.5 million, the amount of remaining purchase commitment at June 30, 2016 is $5.3 million.

d. Commitments to Provide Grants and Other Financial Assistance

As of June 30, 2016, 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 $1.345 billion remaining on agreements with various counties to provide financial assistance for highway and transportation facilities projects.
- The Department of Commerce has $242.697 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, $51.384 million will be funded by federal grants.
- The Office of Regulatory Staff has $1.675 million for energy efficiency improvement projects. Federal grants will fund $1.675 million of this commitment.
- The Division of Aeronautics has $3.541 million for grants made to municipal and county airports for capital improvements. Federal grants will fund $329 thousand of this commitment.
- The State Board for Technical and Comprehensive Education has $15.526 million to provide training for new and expanding business and industry in the State.
- The Department of Public Safety has $44.252 million for pass-through grants to various State agencies, local governments, and not-for-profit entities, of which $44.003 million will be funded by federal grants.
- The South Carolina Law Enforcement Division has $8.862 million for grant program activities and pass-through grants to subrecipients, of which $8.862 million will be funded by federal grants.
- The South Carolina Judicial Department has $6.571 million outstanding commitments related to vendor service contracts.
- The South Carolina Department of Revenue has $47.250 million outstanding commitments for vendor contracts related to services for the new tax reporting and processing software and identity theft protection.
- The Rural Infrastructure Authority has $95.096 million for loans to municipalities, counties, special purpose and public service districts and public works commissions for constructing and improving rural infrastructure facilities, of which $44.435 million will be funded by federal grants.

f. 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 2017 in maintaining these sites is $7.285 million. The Pinewood Site is $3.9 million of this total. This estimated loss is based upon the current budgetary request of the department and the annual operating costs less capital expenditures for the Pinewood Site. The department is currently awaiting court approval of the new trustee and expects the annual administration costs, and in the long-term, monitoring costs, to decrease, but not until after capital improvements have been made to the site.

NOTE 18: DISCRETELY PRESENTED COMPONENT UNITS

a. Deposits and Investments

Deposits

As of June 30, 2016, the reported amount of the major discretely presented component units' deposits was $369.617 million and the bank balance was $382.068 million. Of the $311.679 million bank balance exposed to custodial credit risk, $86.361 million was uninsured and uncollateralized, $113.235 million was uninsured and collateralized with securities held by the pledging financial institution, and $112.083 million was uninsured and collateralized with securities held by the counterparty's trust department or agent, but not in the State's name.

Investments

The major discretely presented component units categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These classifications are summarized as follows:

> Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.
>
> Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
>
> Level 3 Inputs: Unobservable inputs for an asset or liability.

In the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk but are based upon the pricing transparency of the investment. In determining the appropriate levels, each major discretely presented component units performed a detailed analysis of the assets and liabilities that are subject to GASB Statement No. 72.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy.

Investments classified according to the fair value hierarchy are valued according to pricing policy established by each major discretely presented component units custodian bank. Pricing is based primarily on prices from third-party vendors or other specified alternative sources which are considered to be reliable. Where available, the custodian bank uses more than one vendor for securities of each asset type, class or issue. The price received from a primary source is used in valuation unless a tolerance check, or price challenge, results in the use of a price from a secondary vendor. Each major discretely presented component units may override prices provided by the custodian bank if it is deemed necessary or appropriate.

The major discretely presented component units have the following recurring fair value measurements as of June 30, 2016 (amounts in thousands):

Investments by Fair Value Level	At 6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments			
U.S. treasuries	$ 150,913	$ 150,913	$ —
U.S. agencies	2,041,049	2,041,049	—
Mortgage backed obligations	14,389	14,389	—
Common stock	527,952	527,952	—
Other equity securities	251,990	—	251,990
Corporate bonds	41,110	—	41,110
Repurchase agreements	98,910	98,910	—
Asset backed securities	1,569	1,569	—
Commercial paper	24,976	24,976	—
Money market mutual funds	91,181	91,181	—
Mutual bond funds	141,213	141,213	—
Guaranteed investment contracts	1,160	—	1,160
Other	219,204	219,204	—
Total Investments at Fair Value	$ 3,605,616	$ 3,311,356	$ 294,260

Investments measured at the net asset value (NAV)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private partnership - equity (1)	$ 39,463	$ 34,117	N/A	N/A
Private partnership - real assets (1)	9,692	13,052	N/A	N/A
Hedge funds - absolute return (2)	64,412	—	Monthly to Annually	33-95 days
Hedge funds - long/short equity (3)	18,818	—	Quarterly to Biennially	45-90 days
Equity long/short hedge funds (4)	8,564	—	Quarterly	75 days
Multi-strategy hedge funds (5)	3,821	—	Monthly	60 days
Debt securities hedge funds (6)	11,326	—	Monthly	60 days
Total investments measured at the NAV	$ 156,096	$ 47,169		
Total investments measured at fair value	$ 3,761,712	$ 3,358,525		

Investment derivative instruments			
Alternative Investments			
Interest rate swaps	(8,414)	—	(8,414)
Total investment derivative instruments	$ (8,414)	$ —	$ (8,414)
Total Invested Assets	$ 3,753,298		

(1) Private partnership - equity and Private partnership - real assets. This category includes investments in private equity, buyout, real assets and venture capital funds. These funds invest primarily in domestic companies across a broad spectrum of industries. Fair value of the partnerships is determined by the fund manager using the NAV reported by the underlying partnerships. For real assets, fair value is estimated by the general partner based on an internal valuation of the underlying projects. Generally these funds cannot be redeemed; instead, the nature of the investments is that distributions will be received as the underlying investments of the fund are liquidated.

(2) Hedge funds – absolute return. This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair value of these investments is estimated by the fund managers using the NAV based on valuations received from underlying investment managers.

(3) Hedge funds – long/short equity. This category includes investments in funds that take both long and short positions in domestic and international securities, primarily equity securities. Fair value is reported monthly at NAV based on valuations received from underlying investment managers.

(4) Equity long/short hedge funds. This hedge fund is a multiple-manager investment fund that specializes primarily in classic long/short hedged equity strategies. The hedge fund invests globally, with a majority of the exposure in liquid, developed markets, and invests primarily in private investment partnerships or limited liability companies and in separately managed accounts, each of which are managed by independent managers.

(5) Multi-strategy hedge funds. This hedge fund uses multiple investing strategies in order to diversify risks and reduce volatility. The hedge fund's composite portfolio includes investments in U.S. index funds.

(6) Debt securities hedge funds. This hedge fund invests in a diversified portfolio of the highest grade debt securities (U.S. Government and agency securities, securities rated in the top rating category by one or more nationally recognized statistical rating organizations and unrated securities deemed by the hedge fund manager to be of similar credit quality), including obligations of the U.S. Government, its agencies and instrumentalities, mortgage-related securities, commercial paper and other short term debt obligations. The hedge fund may also invest in repurchase agreements and futures contracts (and options thereon). The hedge fund may borrow money for purposes of leverage in an amount up to three times the hedge fund's total net assets.

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. Category B includes investment securities that are uninsured, not registered in the name of the State, and are held by a counterparty. The portion of the State's major discretely presented component units investments with custodial credit risk is detailed (expressed in thousands) at June 30, 2016, as follows:

Investment Type	Category B	Reported Amount
U.S. treasuries	$ 7,951	$ 150,913
U.S. agencies	42,697	2,041,049
Mortgage backed obligations	6,422	14,389
Common stock	151,711	567,415
Other equity securities	1,868	275,701
Corporate bonds	2,700	41,110
Repurchase agreements	—	98,910
Asset backed securities	—	11,261
Commercial paper	—	24,976
Money market mutual funds	30,643	91,181
Mutual bond funds	65,560	141,213
Guaranteed investment contracts	565	1,160
Other	141,943	302,434
Totals	**$452,060**	**$ 3,761,712**

At fiscal year end, Clemson University, the State Housing Authority, the Medical University of South Carolina, the State Ports Authority, the Public Service Authority, and the University of South Carolina, 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
U.S. agencies	$ 2,018,021	$ 17,466	$ —	$ —	$ 5,562
Mortgage backed obligations	—	7,967	—	—	6,422
Corporate bonds	544	18,255	21,699	612	—
Repurchase agreements	98,910	—	—	—	—
Asset backed securities	—	11,261	—	—	—
Commercial paper	—	—	24,976	—	—
Money market mutual funds	26,003	28,412	—	—	36,766
Mutual bond funds	—	—	—	—	141,213
Guaranteed investment contracts	—	595	—	—	565
Other	—	114,141	—	—	142,455
Totals	**$ 2,143,478**	**$198,097**	**$ 46,675**	**$ 612**	**$ 332,983**

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, 2016, these major discretely presented component units had the following fixed income investments with maturities disclosed by investment category and segmented time distribution stated with fair value (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
U.S. treasuries	$ 150,913	$ 4,580	$ 28,719	$ 3,371	$ 114,243
U.S. agencies	2,041,049	427,515	1,449,416	144,995	19,123
Mortgage backed obligations	14,389	—	7,967	3,499	2,923
Corporate bonds	41,110	3,054	25,965	2,700	9,391
Repurchase agreements	98,910	98,910	—	—	—
Asset backed securities	11,261	—	11,261	—	—
Commercial paper	24,976	24,976	—	—	—
Money market mutual funds	55,445	55,445	—	—	—
Mutual bond funds	484	—	—	390	94
Guaranteed investment contracts	595	595	—	—	—
Other	114,141	—	114,141	—	—
Totals	**$ 2,553,273**	**$ 615,075**	**$ 1,637,469**	**$ 154,955**	**$ 145,774**

b. Capital Assets

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

	Beginning Balances January 1, 2015	Increases	Decreases	Ending Balances December 31, 2015
Public Service Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 145,201	$ 2,480	$ (90)	$ 147,591
Construction in progress	2,712,851	781,076	(156,574)	3,337,353
Total capital assets not being depreciated	2,858,052	783,556	(156,664)	3,484,944
Capital assets being depreciated:				
Buildings and improvements (utility plant)	7,210,972	139,973	(32,994)	7,317,951
Vehicles	62,703	7,249	(7,743)	62,209
Machinery and equipment	44,683	4,719	(4,565)	44,837
Intangibles	78,395	2,152	—	80,547
Total capital assets being depreciated	7,396,753	154,093	(45,302)	7,505,544
Less accumulated depreciation for:				
Buildings and improvements (utility plant)	(3,224,201)	(168,025)	19,434	(3,372,792)
Vehicles	(28,586)	(3,386)	7,713	(24,259)
Machinery and equipment	(18,785)	(747)	4,544	(14,988)
Intangibles	(65,447)	(3,881)	—	(69,328)
Total accumulated depreciation	(3,337,019)	(176,039)	31,691	(3,481,367)
Total capital assets being depreciated, net	4,059,734	(21,946)	(13,611)	4,024,177
Public Service Authority, net	**$ 6,917,786**	**$ 761,610**	**$ (170,275)**	**$ 7,509,121**

	Beginning Balances July 1, 2015	Increases	Decreases	Ending Balances June 30, 2016
State Ports Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 203,281	$ 143	$ (811)	$ 202,613
Construction in progress	257,704	131,528	(38,609)	350,623
Intangibles	2,190	6,185	—	8,375
Total capital assets not being depreciated	463,175	137,856	(39,420)	561,611
Capital assets being depreciated:				
Land improvements	331,704	13,536	(334)	344,906
Buildings and improvements	339,214	12,571	(16,421)	335,364
Machinery and equipment	174,165	13,778	(3,106)	184,837
Intangibles	876	—	—	876
Total capital assets being depreciated	845,959	39,885	(19,861)	865,983
Less accumulated depreciation for:				
Land improvements	(192,993)	(14,576)	—	(207,569)
Buildings and improvements	(230,111)	(9,834)	2,261	(237,684)
Machinery and equipment	(126,614)	(9,444)	4,419	(131,639)
Intangibles	(683)	(36)	—	(719)
Total accumulated depreciation	(550,401)	(33,890)	6,680	(577,611)
Total capital assets being depreciated, net	295,558	5,995	(13,181)	288,372
State Ports Authority, net	**$ 758,733**	**$ 143,851**	**$ (52,601)**	**$ 849,983**

	Beginning Balances July 1, 2015	Increases	Decreases	Ending Balances June 30, 2016
Clemson University:				
Capital assets not being depreciated:				
Land and improvements	$ 43,088	$ 691	$ (57)	$ 43,722
Construction in progress	120,387	216,875	(75,597)	261,665
Total capital assets not being depreciated	163,475	217,566	(75,654)	305,387
Capital assets being depreciated:				
Buildings and improvements	914,193	101,819	(270)	1,015,742
Vehicles	14,728	1,008	(581)	15,155
Machinery and equipment	344,467	44,983	(4,472)	384,978
Intangibles	20,544	3,703	—	24,247
Total capital assets being depreciated	1,293,932	151,513	(5,323)	1,440,122
Less accumulated depreciation for:				
Buildings and improvements	(357,514)	(22,310)	154	(379,670)
Vehicles	(11,817)	(737)	562	(11,992)
Machinery and equipment	(202,814)	(20,860)	4,305	(219,369)
Intangibles	(12,495)	(6,006)	—	(18,501)
Total accumulated depreciation	(584,640)	(49,913)	5,021	(629,532)
Total capital assets being depreciated, net	709,292	101,600	(302)	810,590
Clemson University, net	**$ 872,767**	**$ 319,166**	**$ (75,956)**	**$ 1,115,977**

	Beginning Balances July 1, 2015	Increases	Decreases	Ending Balances June 30, 2016
Medical University of South Carolina:				
Capital assets not being depreciated:				
Land and improvements	$ 85,550	$ 11,784	$ (24)	$ 97,310
Construction in progress	27,334	55,415	(48,310)	34,439
Works of art and historical treasures	188	—	—	188
Total capital assets not being depreciated	113,072	67,199	(48,334)	131,937
Capital assets being depreciated:				
Land improvements	14,652	—	(223)	14,429
Buildings and improvements	1,610,079	39,695	(13,622)	1,636,152
Vehicles	5,456	960	(416)	6,000
Machinery and equipment	396,104	49,030	(28,282)	416,852
Intangibles	62,050	2,865	—	64,915
Total capital assets being depreciated	2,088,341	92,550	(42,543)	2,138,348
Less accumulated depreciation for:				
Land improvements	(7,529)	(675)	37	(8,167)
Buildings and improvements	(722,695)	(67,568)	7,701	(782,562)
Vehicles	(5,028)	(227)	459	(4,796)
Machinery and equipment	(271,370)	(32,628)	26,650	(277,348)
Intangibles	(20,851)	(11,173)	—	(32,024)
Total accumulated depreciation	(1,027,473)	(112,271)	34,847	(1,104,897)
Total capital assets being depreciated, net	1,060,868	(19,721)	(7,696)	1,033,451
MUSC, net	**$ 1,173,940**	**$ 47,478**	**$ (56,030)**	**$ 1,165,388**

	Beginning Balances July 1, 2015	Increases	Decreases	Ending Balances June 30, 2016
University of South Carolina:				
Capital assets not being depreciated:				
Land and improvements	$ 79,919	$ —	$ —	$ 79,919
Construction in progress	105,048	79,657	(72,154)	112,551
Works of art and historical treasures	31,336	3,415	—	34,751
Total capital assets not being depreciated	216,303	83,072	(72,154)	227,221
Capital assets being depreciated:				
Land improvements	108,738	31	—	108,769
Buildings and improvements	1,574,583	66,147	—	1,640,730
Vehicles	17,509	1,047	(308)	18,248
Machinery and equipment	190,976	11,534	(4,696)	197,814
Intangibles	56,666	5,670	—	62,336
Total capital assets being depreciated	1,948,472	84,429	(5,004)	2,027,897
Less accumulated depreciation for:				
Land improvements	(31,828)	(4,103)	—	(35,931)
Buildings and improvements	(640,816)	(39,862)	—	(680,678)
Vehicles	(11,701)	(1,072)	308	(12,465)
Machinery and equipment	(146,942)	(9,574)	4,560	(151,956)
Intangibles	(13,020)	(5,955)	—	(18,975)
Total accumulated depreciation	(844,307)	(60,566)	4,868	(900,005)
Total capital assets being depreciated, net	1,104,165	23,863	(136)	1,127,892
USC, net	**$ 1,320,468**	**$ 106,935**	**$ (72,290)**	**$ 1,355,113**

	Beginning Balances July 1, 2015	Increases	Decreases	Ending Balances June 30, 2016
Lottery Commission:				
Capital assets being depreciated:				
Buildings and improvements	$ 1,315,694	$ —	$ —	$ 1,315,694
Vehicles	138,359	107,744	—	246,103
Machinery and equipment	3,081,737	146,732	—	3,228,469
Intangibles	555,815	—	—	555,815
Total capital assets being depreciated	5,091,605	254,476	—	5,346,081
Less accumulated depreciation for:				
Buildings and improvements	(1,301,556)	—	—	(1,301,556)
Vehicles	(56,834)	(43,650)	—	(100,484)
Machinery and equipment	(2,791,160)	(125,446)	—	(2,916,606)
Intangibles	(198,048)	(76,664)	—	(274,712)
Total accumulated depreciation	(4,347,598)	(245,760)	—	(4,593,358)
Total capital assets being depreciated, net	744,007	8,716	—	752,723
Lottery Commission, net	**$ 744,007**	**$ 8,716**	**$ —**	**$ 752,723**

During the fiscal year ended June 30, 2016, depreciation expense was charged to the major discretely presented component units as follows (expressed in thousands):

	Depreciation Expense
Public Service Authority	$ 176,039
State Ports Authority	33,890
MUSC	112,271
USC	60,566
Clemson University	49,913
Lottery Commission	245,760

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

	Outstanding Construction Commitments
Public Service Authority	$ 2,587,479
State Ports Authority	231,500
MUSC	8,255
USC	52,811
Clemson University	198,019

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	$ 16,694
MUSC	35
USC	3,286
Clemson University	11,290

c. Insurance Activities

Medical Malpractice Liability Insurance Joint Underwriting Association

The South Carolina Medical Malpractice Liability Insurance Joint Underwriting Association (JUA) was created by State law. The JUA is a nonmajor discretely presented component unit of the State and the State accounts for the JUA as an insurance enterprise because it primarily covers non-governmental entities. Accordingly, the JUA follows 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.

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 JUA includes 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 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
2015	$ 82,547	$ 4,461	$ (16,167)	$ 70,841
2014	92,175	7,100	(16,728)	82,547

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 2015. Policies are subject to deductibles ranging from $500 thousand 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 2015, 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, 2015. There have been no third-party claims for environmental damages for 2015.

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 $13.5 billion by the Price-Anderson Indemnification Act. This $13.5 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), $1.5 billion primary and $1.25 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 $7.3 million for the primary policy, $2.3 million for the excess policy and $1.8 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, 2015.

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
2015	$ 1,321	$ 2,377	$ (2,219)	$ 1,479
2014	2,538	2,043	(3,260)	1,321

d. Leases

Capital Leases

The State's discretely presented component units lease 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, 2016 for the State's discretely presented component units were as follows (expressed in thousands):

Fiscal Year Ending June 30	Clemson University	MUSC	USC
2017	$ 1,002	$ 4,032	$ 5,457
2018	714	3,904	1,178
2019	574	3,246	1,172
2020	574	1,490	1,007
2021	574	1,139	960
2022-2026	2,872	1,644	4,940
2027-2031	2,872	—	4,665
2032-2036	2,872	—	3
2037-2039	980	—	—
Total minimum payments....................	**13,034**	**15,455**	**19,382**
Less: interest and executory costs....	(67)	(1,116)	(4,558)
Net minimum payments.......................	**$ 12,967**	**$ 14,339**	**$ 14,824**

Assets under capital leases recorded for the State's discretely presented component units at June 30, 2016, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Clemson University	MUSC	USC
Land and non-depreciable improvements..........	$ —	$ —	$ 270
Buildings and improvements................................	14,300	—	18,815
Machinery and equipment....................................	2,023	16,433	548
Assets acquired under capital leases before accumulated amortization.................................	**16,323**	**16,433**	**19,633**
Less: accumulated amortization..........................	(2,605)	(1,863)	(4,196)
Assets acquired under capital leases, net.........	**$ 13,718**	**$ 14,570**	**$ 15,437**

Operating Leases

For the Public Service Authority, minimum rental payments under operating leases for the fiscal year totaled $2.800 million. The State Ports Authority had minimum rental payments under operating leases with terms of less than twelve months which totaled $2.317 million for the fiscal year. The Housing Authority had minimum rental payments under operating leases for the fiscal year which totaled $353 thousand. For Clemson University, minimum rental payments under operating leases for the fiscal year totaled $123 thousand. MUSC had minimum rental payments under operating leases for the fiscal year which totaled $4.421 million. USC had minimum rental payments under operating leases for the fiscal year which totaled $3.741 million.

At June 30, 2016, future minimum payments under noncancelable operating leases with remaining terms in excess of one year were as follows (expressed in thousands):

Fiscal Year Ending December 31	Public Service Authority
2016	$ 1,638
2017	600
2018	600
2019	600
2020	600
Net minimum payments.................	**$ 4,038**

Fiscal Year Ending June 30	Housing Authority	Clemson University	MUSC	USC	Lottery Commission
2017	$ 341	$ 2,722	$ 15,509	$ 1,641	$ 537
2018	335	2,326	12,490	952	548
2019	343	2,050	10,960	696	560
2020	351	1,310	8,109	313	571
2021	360	1,323	6,027	124	582
2022-2026	—	529	7,551	474	1,814
2027-2031	—	—	1,746	47	—
Net minimum payments.................	**$ 1,730**	**$ 10,260**	**$ 62,392**	**$ 4,247**	**$ 4,612**

Facilities and Equipment Leased to Others

At June 30, 2016, the State Ports Authority had leased to non-State parties certain land and facilities having a cost of approximately $39.786 million and related accumulated depreciation of $17.916 million. Also, at June 30, 2016, MUSC had leased to non-State parties certain land and facilities having a cost of approximately $13.091 million and related accumulated depreciation of $4.189 million. Future minimum rental payments to be received at June 30, 2016, under these operating leases were as follows (expressed in thousands):

Fiscal Year Ending June 30	State Ports Authority	MUSC
2017	$ 1,626	$ 956
2018	1,639	953
2019	1,549	935
2020	1,548	935
2021	1,535	916
2022-2026	6,269	1,197
2027-2031	5,401	425
2032-2036	5,373	425
2037-2041	5,286	425
Thereafter	5,718	5,419
Total...	**$ 35,944**	**$ 12,586**

e. Bonds and Notes Payable

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, 2016, were (net of unamortized premiums/discounts, expressed in thousands):

Clemson University institution bonds, 2.50% to 5.00%, maturing serially through 2034	$	110,832
University of South Carolina institution bonds, 2.00% to 5.00%, maturing serially through 2035		147,990
Medical University of South Carolina institution bonds, 2.50% to 5.00%, maturing serially through 2036		56,930

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**
2017	$ 6,480	$ 4,756	$ 4,935	$ 2,434
2018	5,095	4,444	4,620	2,096
2019	4,800	4,204	4,090	1,881
2020	7,490	3,976	4,245	1,677
2021	7,615	3,613	2,485	1,464
2022-2026	31,515	13,298	12,460	5,473
2027-2031	34,775	5,798	12,620	2,736
2032-2036	6,665	472	7,530	691
Total debt service requirements	**104,435**	**$ 40,561**	**52,985**	**$ 18,452**
Unamortized premiums	6,397		3,945	
Total principal outstanding	**$ 110,832**		**$ 56,930**	

	University of South Carolina	
Year Ending June 30	**Principal**	**Interest**
2017	$ 9,330	$ 6,460
2018	9,725	6,057
2019	10,105	5,644
2020	10,590	5,144
2021	10,990	4,717
2022-2026	48,565	15,926
2027-2031	30,530	6,542
2032-2035	18,155	1,482
Total debt service requirements	**$ 147,990**	**$ 51,972**

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% of the tuition fees received for the fiscal year next preceding. Tuition fee receipts for each university or technical college are earmarked by the State to support the principal and interest payments for the applicable state institution bonds. State institution bonds of $463.365 million were outstanding at June 30, 2016.

Revenue and Other Bonds and Notes

Revenue debt is not backed by the full faith, credit, and taxing power of the State. Revenue and other bonds and notes outstanding at June 30, 2016 and December 31, 2015 (for PSA), were (net of unamortized premiums/discounts, expressed in thousands):

	Bonds	Notes
Major Discretely Presented Component Units:		
Public Service Authority bonds, 1.10% to 8.37%, maturing serially through 2055	$ 7,479,365	$ —
Clemson University bonds, 2.00% to 5.00%, maturing serially through 2046	457,637	—
University of South Carolina bonds and notes, 1.00% to 5.50%, maturing serially through 2045	471,240	5,942
Medical University of South Carolina bonds and notes, 2.25% to 7.50%, maturing serially through 2038	491,778	60,438
State Ports Authority bonds and notes, 2.56% to 5.50%, maturing serially through 2056	471,427	41,056
State Housing Authority bonds, 0.50% to 6.00%, maturing serially through 2046	422,223	—

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 2.85% 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, 2016 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, 2016 was 0.30%. The fair value of this swap, estimated using the zero-coupon method, was negative $8.153 million as of June 30, 2016. 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 decrease in the fair value of the cash flow hedge swap from June 30, 2015 of $4.936 million is not recognized in these financial statements.

In addition, UMA has entered into an interest rate swap agreement with a financial institution to modify interest rates on an outstanding term loan in an effort to convert its variable rate to a synthetic fixed rate of 3.57%. The swap agreement related to the term loan matures January 2, 2019. The notional amount as of June 30, 2016 was $13.586 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, 2016 was 1.76%. The fair value of the term loan swap, estimated using the zero-coupon method, was negative $261 thousand as of June 30, 2016. 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, 2015 of $159 thousand is not recognized in these financial statements.

As of June 30, 2016, 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
2017	$ —	$ 759	$ 1,117	$ 1,876
2018	1,700	738	1,086	3,524
2019	3,500	695	1,023	5,218
2020	2,925	660	971	4,556
2021	2,525	629	925	4,079
2022-2026	13,730	2,651	3,901	20,282
2027-2031	15,715	1,739	2,560	20,014
2032-2036	18,065	693	1,020	19,778
2037-2038	3,925	—	—	3,925
Totals............	**$ 62,085**	**$ 8,564**	**$ 12,603**	**$ 83,252**

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, 2016 were $48.983 million and $20.993 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 $69.975 million at June 30, 2016.

As of June 30, 2016, the swaps had a negative fair value of approximately $1.085 million. The unrealized loss related to these agreements recorded at June 30, 2016 is $111 thousand and is included in interest expense on the Statement of Activities.

Debt Service Requirements

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, the State Ports Authority, and the State Housing Authority ends June 30. At December 31, 2015, the carrying value of the Public Service Authority's debt was $7.134 billion while the fair value was approximately $8.5 billion. At June 30, 2016, the carrying value of the State Ports Authority debt was $490.541 million while the fair value was approximately $467.957 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**
2016	$ 158,347	$ 354,198
2017	116,707	348,640
2018	158,943	342,833
2019	212,131	335,115
2020	192,136	327,029
2021-2025	782,245	1,519,224
2026-2030	711,129	1,364,824
2031-2035	788,547	1,188,648
2036-2040	888,335	960,887
2041-2045	1,045,307	730,756
2046-2050	1,241,345	416,409
2051-2055	839,060	120,623
Total debt service requirements	**7,134,232**	**$ 8,009,186**
Unamortized discounts and premiums	345,133	
Total principal outstanding	**$ 7,479,365**	

	State Ports Authority		State Housing Authority	
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 7,078	$ 23,402	$ 11,060	$ 16,080
2018	7,370	23,086	16,745	15,775
2019	7,674	22,755	16,970	15,233
2020	7,986	22,411	15,765	14,646
2021	8,323	23,274	16,490	14,028
2022-2026	69,040	101,067	89,530	59,353
2027-2031	31,450	92,154	90,115	39,597
2032-2036	40,480	82,927	88,505	19,933
2037-2041	51,800	71,345	64,550	6,919
2042-2046	65,720	57,180	1,845	25
2047-2051	84,175	38,031	—	—
2052-2056	109,445	12,094	—	—
Total debt service requirements	**490,541**	**$ 569,726**	**411,575**	**$ 201,589**
Unamortized premiums and discounts	21,942		10,648	
Total principal outstanding	**$ 512,483**		**$ 422,223**	

Year Ending June 30	Clemson University Principal	Clemson University Interest	University of South Carolina Principal	University of South Carolina Interest
2017	$ 10,240	$ 17,268	$ 19,177	$ 20,259
2018	12,160	16,972	14,340	19,570
2019	10,750	16,585	14,595	18,969
2020	11,245	16,087	15,285	18,293
2021	11,040	15,557	15,675	17,553
2022-2026	60,775	69,754	88,285	75,903
2027-2031	61,025	55,786	98,250	53,634
2032-2036	72,360	43,446	95,390	29,590
2037-2041	86,630	29,189	56,660	8,928
2042-2046	93,825	10,612	12,075	1,046
Total debt service requirements	**$ 430,050**	**$ 291,256**	**$ 429,732**	**$ 263,745**
Unamortized discounts and premiums	27,587		47,450	
Total principal outstanding............	**$ 457,637**		**$ 477,182**	

Year Ending June 30	Medical University of South Carolina Principal	Medical University of South Carolina Interest
2017	$ 29,194	$ 16,635
2018	30,823	15,799
2019	47,422	14,773
2020	29,825	13,542
2021	30,260	12,612
2022-2026	160,644	48,017
2027-2031	155,557	22,857
2032-2036	64,566	3,129
2037-2039	3,925	—
Total debt service requirements....................................	**$ 552,216**	**$ 147,364**

Bond Anticipation Notes

At June 30, 2016, all short-term general obligation bond anticipation notes that were outstanding at the prior fiscal year's end at MUSC were fully defeased.

Defeased Bonds

In its fiscal year ended December 31, 2015, the Public Service Authority issued $497.330 million in 2015 Tax-Exempt Refunding Series A, Series B, Series C Bonds, with an aggregate all-in true interest cost of 4.10% and $91.750 million in 2015 Tax-Exempt Series E Bonds, with an aggregate all-in true interest cost of 4.74%. The $162.290 million of Series A bonds issued were used to refund/restructure $169.960 million of bonds with an average interest rate of 5.16%. This refunding/restructuring included $13.370 million in 2006 Series A bonds, $32.750 million in 2007 Series A bonds, $93.035 million in 2008 Series A bonds, and $30.765 million in 2009 Series B bonds. The bonds were refunded and restructured to increase total debt service payments over the next seventeen years by approximately $16.438 million and to obtain an economic gain of approximately $12.479 million. The $64.870 million of Series B bonds issued were used to refund/restructure $78.150 million in 2005 Refunding Series C bonds with an average interest rate of 4.73%. The bonds were refunded and restructured to increase total debt service payments over the next ten years by approximately $17.463 million and to obtain an economic gain of approximately $12.705 million. The $270.170 million of Series C bonds issued were used to refund/restructure $304.625 million of bonds with an average interest rate of 5.07%. This refunding/restructuring included $87.560 million in 2005 Refunding Series A bonds and $217.065 million in 2005 Refunding Series B bonds. The bonds were refunded and restructured to increase total debt service payments over the next eight years by approximately $44.656 million and to obtain an economic gain of approximately $34.322 million. The $91.750 million of Series E bonds issued were used to restructure $100.00 million in outstanding debt under the long-term portion of the Barclays Revolving Credit Agreement with an average LIBOR-indexed interest rate of 0.22%.

In addition, at December 31, 2015, $1.116 billion of bonds associated with the Public Service Authority were considered defeased.

During September 2015, The University of South Carolina issued $41.930 million in Series 2015 Revenue Refunding Bonds, with an aggregate all-in true interest cost of 2.80%. The net proceeds after payment of $337 thousand in issuance costs were used to refund $46.015 million of the 2005 Series A Bonds with an average interest rate of 4.83%. The refunding transaction resulted in an aggregate debt payment reduction of $5.158 million over the next twenty years and an economic gain of $4.386 million.

During March 2016, The Medical University of South Carolina issued $7.115 million in 2016 State Institution Refunding Series D Bonds, with an aggregate all-in true interest cost of 1.02%. The net proceeds after payment of $82 thousand in issuance costs were used to refund $7.820 million of the 2005 Series A Bonds with an average interest rate of 0.88%. The refunding transaction resulted in an aggregate debt payment reduction of $480 thousand over the next four years and an economic gain of $474 thousand.

Arbitrage Rebate Payable

The Housing Authority recognized a $41 thousand arbitrage rebate liability.

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 Housing Authority 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, 2016, the outstanding balance of bonds issued was $222.914 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, 2016, the outstanding balance of bonds issued after June 30, 1995, was $3.260 billion. The original amount of bonds issued prior to that date is not available.

Commercial Paper Notes and Lines of Credit

The Public Service Authority and the University of South Carolina present their outstanding amounts as commercial paper notes and line of credit, respectively, but all other amounts outstanding on lines of credit at June 30, 2016 are reported as notes payable. Other relevant information regarding these accounts is provided below.

The Public Service Authority has recorded a $597.520 million liability for commercial paper notes at its fiscal year ended December 31, 2015. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has an $800 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement during 2015.

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 0.75% and is secured by all unrestricted accounts receivable. During fiscal year ended June 30, 2016, there were no advances under this line of credit. The line of credit expired during June 2015 and was renewed with basically the same terms through June 22, 2017.

The University of South Carolina Educational Foundation, a discretely presented component unit of USC, has a line of credit with a maximum borrowing limit of $20 million, on which it could draw for working capital. The loan bears interest at the 30-day LIBOR rate plus 1.20%. As of June 30, 2016, the University of South Carolina Educational Foundation has an outstanding balance of $18.933 million on this line of credit. Interest only payments on this line of credit are due beginning in August 2015 and the entire principal balance and any outstanding interest are due in June 2017.

f. Changes in Liabilities

	Balances at January 1, 2015 as Restated	Increases	Decreases	Balances at December 31, 2015	Amounts Due Within One Year
Public Service Authority					
Policy claims	$ 1,321	$ 2,377	$ (2,219)	$ 1,479	$ 1,479
Revenue bonds payable	6,504,182	1,442,855	(812,805)	7,134,232	158,347
Unamortized discounts and premiums	239,713	143,544	(38,124)	345,133	—
Total revenue bonds payable	6,743,895	1,586,399	(850,929)	7,479,365	158,347
Compensated absences payable	20,096	2,630	(1,692)	21,034	21,034
Other long-term obligations	44,956	—	(44,956)	—	—
Net pension liability	290,000	—	(3,700)	286,300	—
Total long-term liabilities	$ 7,100,268	$ 1,591,406	$ (903,496)	$ 7,788,178	$ 180,860

	Balances at July 1, 2015	Increases	Decreases	Balances at June 30, 2016	Amounts Due Within One Year
State Ports Authority					
Notes payable	$ 130,977	$ 19,385	$ (109,306)	$ 41,056	$ 1,808
Revenue bonds payable	160,495	294,025	(5,035)	449,485	5,270
Unamortized discounts and premiums	2,024	20,235	(317)	21,942	—
Total revenue bonds payable	162,519	314,260	(5,352)	471,427	5,270
Compensated absences payable	3,252	2,825	(2,603)	3,474	3,474
Net pension liability	64,821	9,475	—	74,296	—
Total long-term liabilities	$ 361,569	$ 345,945	$ (117,261)	$ 590,253	$ 10,552

	Balances at July 1, 2015	Increases	Decreases	Balances at June 30, 2016	Amounts Due Within One Year
Housing Authority					
Revenue bonds payable	$ 474,620	$ 69,595	$ (132,640)	$ 411,575	$ 11,060
Unamortized discounts and premiums	11,371	2,183	(2,906)	10,648	—
Total revenue bonds payable	485,991	71,778	(135,546)	422,223	11,060
Compensated absences payable	761	583	(523)	821	523
Arbitrage payable	41	—	—	41	—
Net pension liability	12,409	982	—	13,391	—
Total long-term liabilities	$ 499,202	$ 73,343	$ (136,069)	$ 436,476	$ 11,583

	Balances at July 1, 2015	Increases	Decreases	Balances at June 30, 2016	Amounts Due Within One Year
Clemson University					
General obligation bonds payable	$ 110,615	$ —	$ (6,180)	$ 104,435	$ 6,480
Unamortized discounts and premiums	7,165	—	(768)	6,397	—
Total general obligation bonds payable	117,780	—	(6,948)	110,832	6,480
Revenue bonds payable	229,735	209,875	(9,560)	430,050	10,240
Unamortized discounts and premiums	13,258	15,128	(799)	27,587	—
Total revenue bonds	242,993	225,003	(10,359)	457,637	10,240
Capital leases payable	13,993	—	(1,026)	12,967	977
Compensated absences payable	27,301	18,316	(16,661)	28,956	18,470
Net pension liability	452,937	56,805	—	509,742	—
Total long-term liabilities	$ 855,004	$ 300,124	$ (34,994)	$ 1,120,134	$ 36,167

	Balances at July 1, 2015	Increases	Decreases	Balances at June 30, 2016	Amounts Due Within One Year
Medical University of South Carolina					
Notes payable	$ 51,348	$ 15,600	$ (6,510)	$ 60,438	$ 7,206
General obligation bonds payable	35,070	30,095	(12,180)	52,985	4,935
Unamortized discounts and premiums	936	3,359	(350)	3,945	—
Total general obligation bonds payable	36,006	33,454	(12,530)	56,930	4,935
Revenue bonds payable	516,013	—	(24,235)	491,778	21,988
Capital leases payable	2,910	13,490	(2,061)	14,339	3,631
Compensated absences payable	33,478	21,230	(19,996)	34,712	17,290
Net pension liability	912,304	112,828	—	1,025,132	—
Total long-term liabilities	$ 1,552,059	$ 196,602	$ (65,332)	$ 1,683,329	$ 55,050

	Balances at July 1, 2015	Increases	Decreases	Balances at June 30, 2016	Amounts Due Within One Year
University of South Carolina					
Notes payable	$ 7,158	$ —	$ (1,216)	$ 5,942	$ 5,942
General obligation bonds payable	159,830	—	(11,840)	147,990	9,330
Revenue bonds payable	434,815	48,175	(59,200)	423,790	13,235
Unamortized discounts and premiums	42,871	7,231	(2,652)	47,450	—
Total revenue bonds	477,686	55,406	(61,852)	471,240	13,235
Capital leases payable	15,877	—	(1,053)	14,824	4,728
Compensated absences payable	34,594	25,164	(24,391)	35,367	21,927
Net pension liability	713,665	70,479	—	784,144	—
Total long-term liabilities	$ 1,408,810	$ 151,049	$ (100,352)	$ 1,459,507	$ 55,162

Short-Term Debt

The Medical University of South Carolina and the University of South Carolina may issue bond anticipation notes (BANS) to provide interim financing for capital projects while in the process of issuing bonds. The Public Service Authority 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, 2016 included: a line of credit for USC 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, 2015	Increases	Decreases	Balances at June 30, 2016
Medical University of South Carolina				
General obligation bond anticipation notes payable	$ 26,500	$ —	$ (26,500)	$ —

	Balances at January 1, 2015	Increases	Decreases	Balances at December 31, 2015
Public Service Authority				
Commercial paper notes	$ 410,139	$ 246,086	$ (58,705)	$ 597,520

	Balances at July 1, 2015	Increases	Decreases	Balances at June 30, 2016
University of South Carolina				
Line of credit	$ 15,000	$ 3,933	$ —	$ 18,933

g. Joint Venture and Joint Operation

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, 2015, the trade guarantees are an amount not to exceed approximately $93.3 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

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 Nuclear Regulatory Commission (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; however as of May 2015, the Department of Energy suspended the collection of spent fuel disposal fees. Fuel amortization and disposal fees (through April 2014) are included in fuel expense and recovered through the Authority's rates.

The 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 a 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 1,117 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 combined construction and operating licenses on March 30, 2012 and anticipates that V.C. Summer Units 2 and 3 will go into service in 2019 and 2020, 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.

h. Significant Transactions of Major Component Units with the Primary Government

The Public Service Authority makes payments to the General Fund in lieu of taxes each year based on requirements under bond indentures. These payments totaled $20.1 million during the Authority's fiscal year ended December 31, 2015.

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, 2016.

Clemson University provided computer services and information systems development to other State agencies for a fee. These fees totaled $297 million and $49.606 million for the fiscal year ended June 30, 2016.

i. 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, 2015, as follows (expressed in thousands):

Customer	Revenue	Revenue
Central Electric Power Cooperative, Inc	$ 1,070,000	58%

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

State Ports Authority

During the fiscal year ended June 30, 2016, of the State Ports Authority's total revenues, three customers accounted for approximately 23%, 16%, and 11% 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.

j. Contingencies and Commitments

Litigation – Public Service Authority

The Public Service Authority, a major discretely presented component unit and electric utility company, is a party to or has an indirect interest in several lawsuits in which the amounts of potential losses, if any, are not presently determinable. The following paragraph discusses the most significant of these cases.

In May 2013, Horry Cooperative 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. A settlement has been reached in the underlying class action lawsuit against Horry Cooperative. The settlement provides for the establishment of two funds, totaling $6.0 million, to pay the claims of the class members. As of the deadline for filing claims, $1.4 million in claims and attorney fees have been paid. The Authority filed a motion to dismiss the claims brought against it by Horry Cooperative. On June 11, 2014, the Court dismissed the suit, ruling that the majority of the claims were dismissed with prejudice and that the claim for equitable indemnification was dismissed without prejudice. Horry Cooperative has appealed the dismissal of the suit. The Authority cannot predict the outcome of the appeal. On October 20, 2014, the Authority was served with an additional complaint filed by Horry Cooperative in Horry County. The complaint alleges a single cause of action for indemnity arising out of the same underlying factual allegations as the original complaint filed in May of 2013. The Authority has filed a motion to dismiss the complaint. The Authority cannot predict the outcome of this lawsuit.

Litigation – State 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 (The "Corps"), 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 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, briefing is completed, and at this time, arguments were scheduled for November 2016, with a decision likely in late 2016 or early 2017. The decision may be further appealed to the State Supreme Court. The Ports Authority intends to vigorously defend the permits. The effect of these administrative permit cases on the financial position of the Ports Authority cannot be determined at this time.

On October 14, 2012, a portion of the quay wall at Veterans' Terminal (VT) in North Charleston, failed, sending quantities of gravel, certain equipment, and miscellaneous structural materials into the Cooper River. This area is under lease from the Charleston Naval Complex Redevelopment Authority, a jointly governed entity. The failure was apparently due to overloading of the quay wall by Atlantic Coast Materials, LLC (ACM), and a user of the facility that deposited stone in proximity to the wall. Appropriate State and Federal regulatory authorities were timely notified. The State Ports Authority is required to remove the material in the river and rebuild the quay wall facility. At this time, the regulatory process must be completed before obtaining permits to allow reconstruction contracts to be bid. Until contracts are let and the project is completed, there is no final determination of costs and financial impact. The regulatory process has been extended by required consultation procedures with National Marine Fisheries Service and the U.S. Army Corps of Engineers, who are studying potential environmental impacts and restrictions on the remedial work. Commencement of construction is estimated as the third quarter of fiscal year 2017. A preliminary estimate of project costs is approximately $28 million. Property insurance will cover a portion of the costs, but will not cover a significant portion of the loss which is excluded under a pollution exclusion clause. This amount has not been determined at this time.

On October 10, 2014, ACM filed suit against the Ports Authority, alleging various tort and contract claims, and seeking damages for lost material and equipment, estimated at approximately $2 million. The Ports Authority thereafter has served its suit by way of counterclaim against ACM to recover damages estimated at approximately $40 million, which is in excess of ACM's insurance coverage. The case was removed to the State Business Court for Charleston County, is in discovery state at this time, with mediation ongoing. Recovery may be affected by insurance coverages, though it is too early in the discovery phase to estimate recovery.

A claim relating to the quay wall failure and remediation costs has also been asserted by the Ports Authority against the United States Navy for indemnity under Section 330 of the National defense Authorization Act of 1993 (P.L. 102-484), as amended by P.L. 103-160. The claim is related only to oil pollution left by the United States Navy in an underground pipe near the damaged area, which had not been designated as an area of concern, nor disclosed presence of oil, which should have been cleaned out and removed by the Federal Government. Small amounts of oil were released in an investigatory excavation before being sealed off and recovered. The presence of the oil has caused increased costs of remediation, in an amount which cannot be accurately determined until the contract for remedial work has been completed and costs tallied. Department of Defense is defending the 330 indemnity claim and has sought additional information. Under the indemnity claim, the Federal Government would likely be responsible only for the remediation costs related to the oil, which is excluded from insurance coverage by the Ports Authority's property insurance policy.

Construction of the Hugh K. Leatherman, Sr. Terminal was delayed by discovery of issues associated with the design and administration of the project that have required re-engineering of the containment wall structures. An excess cost statement has been delivered to the responsible party to determine recovery of the additional construction costs caused by design and project management issues and to seek resolution by agreement. Discussions of the costs and responsibility will likely occur in the near future, and it is too early in the process to assess the likelihood of resolution or the amount of resolution. Remediation work and construction is continuing.

In October 2002, the Ports Authority and the City of North Charleston (City) entered into a Memorandum of Understanding (MOU) related to certain issues concerning the development of the Hugh K. Leatherman, Sr. Terminal located at the former Charleston Navy Base Facility. One requirement of the MOU is for the City and the Ports Authority to approach the South Carolina General Assembly for the funding of certain infrastructure which is desired by the City. The City has communicated to the Ports Authority that it believes this infrastructure is required prior to the opening of the terminal. While the Authority disagrees with the City on this point, it plans to fully comply with all applicable terms of the MOU. At this time, no measurable impact of the City's position can reasonably be made.

Other Loan Guarantees – South Carolina Education Assistance Authority

The South Carolina Education Assistance Authority, a non-major component unit, guarantees student loans. At June 30, 2016, these loans totaled $1.734 billion. The United States Department of Education reinsures 100% of claims for loans made prior to October 1, 1993; 98% of claims for loans made between October 1, 1993 and October 1, 1998; and 95% of claims made on or after October 1, 1998. If the loan default claims rate exceeds 5% of the loans in repayment status, the United States Department of Education decreases the reinsurance rate. The State's default rate for the preiod ended September 30, 2015, was 0.7%.

Purchase Commitments – Public Service Authority

At December 31, 2015, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $504.674 million for coal. In addition, minimum obligations under two purchased power contracts as of December 31, 2015, were approximately $52.0 million with a remaining term of twenty years and $59.1 million with a remaining term of one year. Also at December 31, 2015, the Authority had commitments for nuclear fuel and nuclear fuel conversion contracts of $508.5 million over the next twenty-two 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 2018.

On November 9, 2016 the Authority was given approval by the S.C. Public Service Commission to increase the construction budget by $1.1 billion as it relates to the Fixed Price Option contract with Westinghouse.

Purchase Commitments – Ports Authority

At June 30, 2016, the Ports Authority had construction commitments of approximately $231.5 million and non-construction commitments for property, plant and equipment of approximately $7.7 million. The Ports Authority recorded a liability of approximately $4.3 million equal to the final project costs on the 45 foot Charleston Harbor deepening project.

Commitments to Provide Grants and Other Financial Assistance – The State Housing Finance and Development Authority

The State Housing Finance and Development Authority, a major discretely presented component unit, has commitments of $250 thousand for special initiatives under the Program Fund and $9.892 million from the Housing Trust Fund for affordable housing projects and developments.22

NOTE 19: SUBSEQUENT EVENTS

a. Debt Issuances

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

- The State Transportation Infrastructure Bank, reported within the Local Government Infrastructure Fund (a major governmental fund), issued $213.595 million in revenue refunding bonds, Series 2016A, on July 20, 2016.
- The State issued higher education revenue bonds and revenue refunding bonds, Series 2016A, in the amount of $67.820 million on behalf of the University of South Carolina, a major discretely presented component unit, on July 21, 2016.
- The State issued athletic facilities revenue refunding bonds, Series 2016A, in the amount of $22.400 million on behalf of the University of South Carolina, a major discretely presented component unit, on July 21, 2016.
- The State issued state institution bonds, Series 2016F, in the amount of $52.395 million on behalf of Clemson University, a major discretely presented component unit, on October 1, 2016.
- The State issued state institution bonds, Series 2016G, in the amount of $8.550 million on behalf of Lander University, a nonmajor discretely presented component unit, on October 1, 2016.
- The State issued higher education revenue bonds, Series 2016, in the amount of $22.415 million on behald of Coastal Carolina University, a non-major discretely presented component unit, on November 23, 2016.
- The State has drawn $14.0 million on a lease for Department of Education related to buses on December 9,2016.

On August 2, 2016, the Housing Authority, a major discretely presented component unit, issued $67.000 million in mortgage revenue refunding bonds, Series 2016B, which will be used to refund all of the Authority's remaining Series 2006C bonds.

The Public Service Authority, a major discretely presented component unit, issued the following revenue bonds after December 31, 2015:

- February 10, 2016 for $543.7 million for a partial refunding of its 2007 Tax-exempt Series A bonds, 2008 Tax-exempt Series A bonds, 2009 Tax-exempt Series A bonds, 2009 Tax-exempt Series B bonds, and its 2014 Tax-exempt Series A bonds.
- May 19, 2016 for $42.143 million in 2016 Series M1 revenue obligation bonds
- July 20, 2016 for $831.355 in 2016 Taxable Series D revenue obligation bonds and 2016 Tax-Exempt Refunding and Improvement Series B revenue obligation bonds for a partial refunding of its 2009 Tax-Exempt Series E revenue obligation bonds
- October 13, 2016 for $52.400 million in 2016 Tax-Exempt Refunding Series C revenue obligation bonds for a partial refunding of its 2006 Series C revenue obligation bonds

b. Palmetto Railways Loan

Subsequent to December 31, 2015, Palmetto Railways, an enterprise fund, made $8.00 million in additional draws on the interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development.

c. South Carolina State University Loans

On January 31, 2014, South Carolina State University, a non-major discretely presented component unit, notified the State that revenue collections had 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, currently known as SFAA, approved and the General Assembly committed an emergency $6.000 million loan to the University on April 30, 2014. The $6.000 million loan also has a stipulation that up to $500 thousand of the $6.000 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. In fiscal year 2015, the Blue Ribbon Committee, appointed by the South Carolina State Legislature, awarded the University a $12.000 million loan to be provided to the University over three years in annual installments of $6.000 million, $4.000 million and $2.000 million, in fiscal 2015, 2016 and 2017, respectively. The South Carolina State Legislature passed a Joint Resolution, 2016 Act 286 (S. 1166) that provided for forgiveness of the SC Blue Ribbon 6-4-2 Loan over a period of three years effective fiscal year 2017. The loan will be forgiven in increments of $8.000 million in fiscal year 2017, and $2.000 million fiscal years 2018 and 2019.

d. Medical University of South Carolina Construction Project

The Medical University of South Carolina (MUSC), a major discretely presented component unit, will be constructing the Shawn Jenkins Children's Hospital and Pearl Tourville Women's Pavilion, which will consist of a seven-story, 255-bed patient tower atop a four-story Diagnostic and Treatment podium. The $385 million, 649,485 square foot design will include labor and delivery rooms, pediatric medical, neonatal intensive care, and ambulatory care clinics. The State appropriated $35.75 million in fiscal years 2016 and 2017 towards the construction of this facility. The majority of the financing is through the Department of Housing and Urban Development's FHA Section 241 Mortgage Insurance Program with a construction start date in the fall of 2016.

e. Coastal Carolina University Construction Project

Athletic facility upgrades commensurate with Coastal Carolina University, a non-major discretely presented component unit, athletic program's new membership in the Sun Belt Conference and in particular, the football program's transition to the FBS (Football Bowl Subdivision), were expected to begin during fiscal year 2015-2016. However the project's required approvals were not obtained until August 2016. As a result, construction for the upgrades is anticipated to begin in summer 2017. General revenue bonds will be issued in the fall of 2016 to fund these upgrades. FBS classification features an average attendance required by NCAA-By-Law 0.9.9.3. Facility expansion is required in order to meet this attendance requirement. The approved budget of the facility upgrade is $31.8 million.

f. Ports Authority Construction Project

During September 2016, the Ports Authority announced plans to develop a second inland port facility in Dillon, South Carolina to support growth of intermodal container volumes and expand access to markets in neighboring states and throughout the Northeast and Midwest. The Ports Authority will break ground in the first quarter of 2017 with plans to open the facility by the end of the year.

g. South Carolina First Steps to School Readiness BabyNet

In September 2016, the Governor of South Carolina issued Executive Order No. 60, which designated the South Carolina Department of Health and Human Services as the lead agency for South Carolina's IDEA Part C program, known locally as "BabyNet". South Carolina First Steps to School Readiness, a non-major discretely presented component unit, was previously the lead agency. This Executive Order took effect immediately with the Department of Health and Human Services formally assuming the IDEA Part C lead agency responsibility beginning July 1, 2017. Funding related to the BabyNet program is expected to be appropriated to the South Carolina Department of Health and Human Service beginning in fiscal year 2018.

h. Education Assistance Authority Guaranty Agreement Termination

As a result of the Health Care and Education Reconciliation Act of 2010 and subsequent actions taken by the federal government which nationalized the federally-guaranteed student loan program, continuing guarantor operations under the guaranty agreement between the Education Assistance Authority, a non-major discretely presented component unit, and the United States Department of Education (USDE) would result in an economic loss to the Authority. Therefore, on June 22, 2016, the SFAA delegated to SCSLC the authority to communicate with USDE at the appropriate time to terminate the guaranty agreements, cease operating as a guaranty agency under the Higher Education Act of 1965 and to present to the South Carolina State Treasurer all necessary documents required to effect such termination. SCSCL notified the USDE on June 22, 2016 of the intention to terminate the guaranty agreement. On July 21, 2016 SCSLC received formal notice from the USDE naming Educational Credit Management Corporation ("ECMC") as the receiving guarantor; however, initial discussion and coordination of the transfer between the parties began on July 7, 2016. The related conversion is scheduled for December 1, 2016. The costs, if any, to the Authority related to the conversion have not been determined or approved at this time.

Recently the Corporation made the decision to transfer the servicing of its loan portfolio to a third party sub-servicer instead of performing the servicing function internally. The first conversion of loans was completed on August 19, 2016, with all conversion phases expected to be completed within the fiscal year ended June 30, 2017. Both the Corporation and the Authority are holders of Federal Family Education Loans (FFEL) which are being transitioned to the sub-servicer.

The Money Purchase Pension Plan (MPPP) and Defined Pension Plan (DPP) experienced a partial termination on August 18, 2016 due to a reduction in workforce at SCSLC. All contributions to the MPPP and DPP for the affected employees were immediately 100% vested.

Also as part of the termination of the guaranty agreement, the USDE has indicated a reserve will be required for any default aversion fees previously earned and received by the Authority that would need to be refunded to the USDE for any future defaults on the loans associated with these default aversion fees. The amount of the reserve has not been determined at this time.

i. Department of Transportation Reform and Criminal Indictments

During the 2015-2016 Legislative session, reform legislation was passed by the General Assembly relative to the Department of Transportation, a governmental fund. Act 275 addressed structure, leadership and provided a moderate increase in revenue. While the governing board of commissions remains the same, all new members will be appointed by the Governor upon advice and consent of the Senate. In a reversal from Act 114 of 2007, appointment of the Secretary of Transportation returns to the Commission with consent from the Senate. Additional approvals include the Long Range Transportation Plan, State Transportation Improvement Plan, project prioritization and the annual budget. The Secretary is solely responsible for the day to day activities of the Department. Lastly, the Department received additional future revenue appropriations estimated in the amount of $215 million.

Subsequent to year end, during July 2016, four employees of the Department were criminally indicted. One of the charges of the indictment identified more than $360 thousand had been improperly received by a Department employee. However, as of the date of issuance of these financial statements, the investigation has not been finalized nor has any employee been found guilty and therefore, no adjustments are included in these financial statements for the year ended June 30, 2016.

j. Natural Disasters

During early October 2015, South Carolina received prolonged torrential rains spawned by Hurricane Joaquin that produced catastrophic statewide flooding. The extent and severity of flooding was unprecedented and resulted in extensive damage to roads and bridges and to private property, polluted water systems, compromised dams, and power outages. As of June 30, 2016 the State of South Carolina has requested reimbursement from FEMA in the amount of $35 million. This grant remains open and recovery is still on-going from this natural disaster.

In October 2015, South Carolina experienced a statewide emergency event related to significant rainfall resulting in widespread flooding. The Department of Transportation, a governmental fund, conducted thorough inspections of all bridges and roads and began recovery of the State Highway System. Total damages on the State Highway System are estimated to be $153 million and many costs are eligible for federal assistance from Federal Highway Administration and Federal Emergency Management. The estimated State portion of damages is expected to be $49 million. During the 2015-2016 Legislative Session, funding in the amount of $49 million was provided to the Department to assist in the recovery and repair process and provide required federal assistance matching funds. The Department has incurred costs through June 30, 2016 of $75 million of which $18 million has been received in federal assistance. Additional federal assistance is expected up to $99 million and will be based upon total costs and their federal assistance eligibility. Additional reimbursements have not been accrued as a receivable for year ended June 30, 2016 as approval of the reimbursements had not yet occurred.

During October 2016, South Carolina received yet another devastiating storm, Hurricane Matthew, which caused significant damage to state parks, roads, electrical infrastructure and other property. On October, 4, 2016 the Governor issued an executive order declaring a state of emergency for the State of South Carolina. On or about October 7, 2016 the President declared the State of South Carolina a disaster area and eligible for FEMA recovery. This storm carried heavy rains which caused flooding and high winds resulting in down trees and debris. The State is in the very early stages of recovery and some sites are still not accessible for damage assessment. The FEMA reimbursement will be at 75% of costs.