BASIC FINANCIAL STATEMENTS

Statement of Net Position

June 30, 2017
(Expressed in Thousands)

	PRIMARY GOVERNMENT Governmental Activities	PRIMARY GOVERNMENT Business-type Activities	PRIMARY GOVERNMENT Totals	COMPONENT UNITS
ASSETS				
Cash and cash equivalents	$ 3,227,103	$ 779,680	$ 4,006,783	$ 2,480,253
Investments	3,988,991	263,011	4,252,002	1,716,989
Invested securities lending collateral	14,709	722	15,431	5,600
Receivables, net:				
Accounts	548,837	17,477	566,314	395,383
Contributions	91	—	91	134,313
Participants	—	1,380	1,380	—
Accrued interest	34,910	978	35,888	8,989
Income taxes	609,924	—	609,924	—
Sales and other taxes	700,425	—	700,425	—
Student accounts	125	—	125	44,737
Patient accounts	14,901	—	14,901	255,003
Loans and notes	638,809	—	638,809	101,445
Assessments	—	106,246	106,246	—
Due from Federal government and other grantors	868,970	—	868,970	159,643
Internal balances	53,021	(53,021)	—	—
Due from component units	50,014	—	50,014	—
Due from primary government	—	—	—	37,305
Inventories	45,199	2,062	47,261	772,024
Restricted assets:				
Cash and cash equivalents	801,232	3,654	804,886	1,083,107
Investments	—	—	—	2,675,160
Accounts receivable	119,765	—	119,765	2,210
Loans receivable	—	—	—	595,119
Other	62,385	—	62,385	5,775
Prepaid items	35,212	1,045	36,257	72,202
Other assets	461	—	461	474,772
Other assets- asset retirement obligation	—	—	—	906,251
Investment in joint venture	—	—	—	6,569
Capital assets-nondepreciable	4,862,596	233,759	5,096,355	6,101,183
Capital assets-depreciable, net	11,898,857	22,456	11,921,313	9,183,428
Total assets	$ 28,576,537	$ 1,379,449	$ 29,955,986	$ 27,217,460
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	$ 29,733	$ —	$ 29,733	$ 44,669
Deferred amount on refunding	86,303	—	86,303	243,054
Pension contributions subsequent to measurement date	226,853	536	227,389	226,934
Difference between actual and expected experience	40,174	151	40,325	46,890
Net difference between projected and actual earnings on investments	328,968	1,224	330,192	365,518
Changes in proportion and differences between contributions and proportionate share of plan contributions	64,560	1,782	66,342	50,562
Total deferred outflows	$ 776,591	$ 3,693	$ 780,284	$ 977,627

Exhibit A-1

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-type Activities	Totals	COMPONENT UNITS
LIABILITIES				
Accounts payable	$ 655,742	$ 4,830	$ 660,572	$ 424,147
Accrued salaries and related expenses	159,394	1,081	160,475	205,757
Accrued interest payable	—	—	—	85,414
Retainages payable	3,791	—	3,791	34,775
Tax refunds payable	845,537	23,426	868,963	—
Payables-aid to individuals/families	2,156	—	2,156	—
Prizes payable	—	—	—	34,135
Unemployment benefits payable	—	534	534	—
Intergovernmental payables	396,490	5,587	402,077	653
Tuition benefits payable	—	105,027	105,027	—
Due to component units	37,305	—	37,305	—
Due to primary government	—	—	—	50,014
Due to fiduciary funds	13,313	—	13,313	—
Unearned revenues and asset retirement obligation	519,429	3,650	523,079	974,186
Deposits	116	—	116	17,869
Amounts held in custody for others	—	—	—	103,739
Securities lending collateral	24,137	1,027	25,164	7,972
Liabilities payable from restricted assets:				
Accrued interest payable	21,274	—	21,274	—
Other	—	156	156	15,255
Other liabilities	373,278	109	373,387	716,681
Long-term liabilities:				
Due within one year	990,957	26,553	1,017,510	385,592
Due in more than one year	6,376,615	292,316	6,668,931	16,404,499
Total liabilities	$ 10,419,534	$ 464,296	$ 10,883,830	$ 19,460,688
DEFERRED INFLOWS OF RESOURCES				
Accumulated increase in fair value of hedging derivatives	$ —	$ —	$ —	$ 9,991
Deferred gain on refunding	—	—	—	3,596
Deferred nuclear decommissioning costs	—	—	—	218,497
Deferred service concession arrangement receipts	—	—	—	2,977
Deferred nonexchange revenues	18,481	—	18,481	1,119
Difference between actual and expected experience	8,240	15	8,255	2,840
Changes in proportion and differences between contributions and proportionate share of plan contributions	66,454	100	66,554	48,687
Changes in assumptions	—	—	—	55
Total deferred inflows	$ 93,175	$ 115	$ 93,290	$ 287,762
NET POSITION				
Net investment in capital assets	$ 14,133,938	$ 216,697	$ 14,350,635	$ 5,232,130
Restricted:				
Expendable:				
General government	3,406,140	—	3,406,140	—
Education	389,603	—	389,603	886,262
Health	975,617	—	975,617	—
Transportation	982,728	—	982,728	1,095
Capital projects	139,888	—	139,888	467,275
Debt service	1,143,284	—	1,143,284	215,100
Loan programs	95	—	95	414,500
Waste management	172,755	—	172,755	—
Insurance programs	501,121	—	501,121	—
Administration of justice	264,670	—	264,670	—
Economic development	51,817	—	51,817	—
Social programs	20,889	—	20,889	—
Unemployment compensation benefits	—	792,899	792,899	—
Other	—	—	—	40,723
Nonexpendable:				
Education	10,923	—	10,923	1,243,512
Other	144,593	—	144,593	—
Unrestricted	(3,497,642)	(90,865)	(3,588,507)	(53,960)
Total net position	**$ 18,840,419**	**$ 918,731**	**$ 19,759,150**	**$ 8,446,637**

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

Statement of Activities

For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenues (Expenses)
Functions					
Primary government:					
Governmental activities:					
General government	$ 5,507,990	$ 2,797,733	$ 1,120,335	$ 31,424	$ (1,558,498)
Education	4,991,282	46,015	979,889	4,967	(3,960,411)
Health and environment	8,156,599	175,928	5,064,519	53,101	(2,863,051)
Social services	1,766,719	10,671	1,642,543	—	(113,505)
Administration of justice	938,748	60,629	34,543	161	(843,415)
Resources and economic development	484,902	68,880	98,606	7,041	(310,375)
Transportation	1,481,762	246,234	187,540	716,928	(331,060)
Unallocated interest expense	25,865	—	—	—	(25,865)
Total governmental activities	**23,353,867**	**3,406,090**	**9,127,975**	**813,622**	**(10,006,180)**
Business-type activities:					
Unemployment compensation benefits	199,409	385,759	22,049	—	208,399
Second Injury	600	59,848	—	—	59,248
Other enterprise activities	52,900	51,405	659	18,998	18,162
Total business-type activities	**252,909**	**497,012**	**22,708**	**18,998**	**285,809**
Total primary government	**$ 23,606,776**	**$ 3,903,102**	**$ 9,150,683**	**$ 832,620**	**$ (9,720,371)**
Component units:					
Public Service Authority	1,668,477	1,745,657	10,313	—	87,493
Medical University of South Carolina	2,297,531	2,079,168	117,648	59,167	(41,548)
University of South Carolina	1,290,381	1,005,727	182,529	17,870	(84,255)
Clemson University	957,705	712,323	197,058	59,749	11,425
State Ports Authority	330,429	233,648	7,740	15,256	(73,785)
Housing Authority	218,550	29,564	205,671	—	16,685
Lottery Commission	1,639,441	1,639,322	2	—	(117)
Other	2,162,493	1,430,949	456,990	63,760	(210,794)
Total component units	**$ 10,565,007**	**$ 8,876,358**	**$ 1,177,951**	**$ 215,802**	**$ (294,896)**

Exhibit A-2

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net position:				
Net revenues (expenses)	$ (10,006,180)	$ 285,809	$ (9,720,371)	$ (294,896)
General revenues:				
Taxes:				
Individual income	4,143,217	—	4,143,217	—
Retail sales and use	4,436,958	—	4,436,958	—
Corporate income	340,327	—	340,327	—
Gas and motor vehicle	883,891	—	883,891	—
Insurance	168,974	—	168,974	—
Hospital	267,235	—	267,235	—
Other	661,573	—	661,573	—
Total taxes	10,902,175	—	10,902,175	—
Unrestricted investment income	191,486	22,777	214,263	—
State Appropriations	—	—	—	723,697
Tobacco legal settlement	73,533	—	73,533	—
Other revenues	154,778	1,802	156,580	—
Additions to endowments	—	—	—	49,026
Transfers–internal activities	2,559	(2,559)	—	—
Total general revenues, additions to endowments, and transfers	**11,324,531**	**22,020**	**11,346,551**	**772,723**
Change in net position	**1,318,351**	**307,829**	**1,626,180**	**477,827**
Net position at beginning of year, restated	**17,522,068**	**610,902**	**18,132,970**	**7,968,810**
Net position at end of year	**$ 18,840,419**	**$ 918,731**	**$ 19,759,150**	**$ 8,446,637**

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

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2017
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure
ASSETS			
Cash and cash equivalents	$ 966,753	$ 128,415	$ 169,317
Investments	2,760,196	69,337	368,750
Invested securities lending collateral	4,679	247	3,870
Receivables, net:			
Accounts	84,716	207,245	—
Contributions	26	65	—
Accrued interest	23,452	304	4,178
Income taxes	609,924	—	—
Sales and other taxes	570,241	11,127	—
Student accounts	125	—	—
Patient accounts	10,565	4,336	—
Loans and notes	36,240	429	598,647
Due from Federal government and other grantors	37,783	659,006	—
Due from other funds	64,258	8,984	10,893
Due from component units	9,841	4,782	—
Interfund receivables	51,417	650	202,458
Inventories	25,598	14,566	—
Restricted assets:			
Cash and cash equivalents	—	—	791,201
Accounts receivable, net	—	—	119,765
Other	—	—	27,385
Prepaid items	10,146	1,399	—
Other assets	—	—	—
Total assets	**$ 5,265,960**	**$ 1,110,892**	**$ 2,296,464**
LIABILITIES			
Liabilities:			
Accounts payable	191,230	284,724	11,871
Accrued salaries and related expenditures	100,197	31,785	91
Retainages payable	1,267	1,585	—
Tax refunds payable	845,479	—	—
Payable–aid to individuals/families	1,697	459	—
Intergovernmental payables	84,133	200,245	14,975
Due to other funds	66,881	79,104	15,478
Due to component units	13,248	22,271	—
Interfund payables	650	275	—
Unearned revenues	12,866	62,505	80,567
Securities lending collateral	9,687	352	5,509
Other liabilities	217,161	17	—
Total liabilities	**1,544,496**	**683,322**	**128,491**
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	2,757	20,834	84,096
Deferred nonexchange revenues	18,481	—	—
Total deferred inflows of resources	**21,238**	**20,834**	**84,096**
FUND BALANCES			
Nonspendable	120,194	16,615	—
Restricted	604,959	1,043,994	2,083,877
Committed	2,137,028	18,135	—
Assigned	397,688	—	—
Unassigned	440,357	(672,008)	—
Total fund balances	**3,700,226**	**406,736**	**2,083,877**
Total liabilities and fund balances	**$ 5,265,960**	**$ 1,110,892**	**$ 2,296,464**

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
$ 843,096	$ 359,426	$ 2,467,007
—	336,654	3,534,937
1,454	1,249	11,499
9,644	32	301,637
—	—	91
496	1,661	30,091
—	—	609,924
9,839	109,218	700,425
—	—	125
—	—	14,901
3,493	—	638,809
172,168	13	868,970
68,880	—	153,015
258	27,033	41,914
—	—	254,525
2,423	—	42,587
10,031	—	801,232
—	—	119,765
—	35,000	62,385
5,003	116	16,664
242	—	242
$ 1,127,027	**$ 870,402**	**$ 10,670,745**
153,526	$ 11,940	$ 653,291
23,445	264	155,782
453	486	3,791
—	58	845,537
—	—	2,156
—	97,137	396,490
15,997	372	177,832
—	1,786	37,305
202,458	2,260	205,643
212,978	—	368,916
2,070	1,783	19,401
—	—	217,178
610,927	**116,086**	**3,083,322**
952	—	108,639
—	—	18,481
952	**—**	**127,120**
7,668	11,039	155,516
10,031	659,094	4,401,955
497,449	73,084	2,725,696
—	11,099	408,787
—	—	(231,651)
515,148	**754,316**	**7,460,303**
$ 1,127,027	**$ 870,402**	**$ 10,670,745**

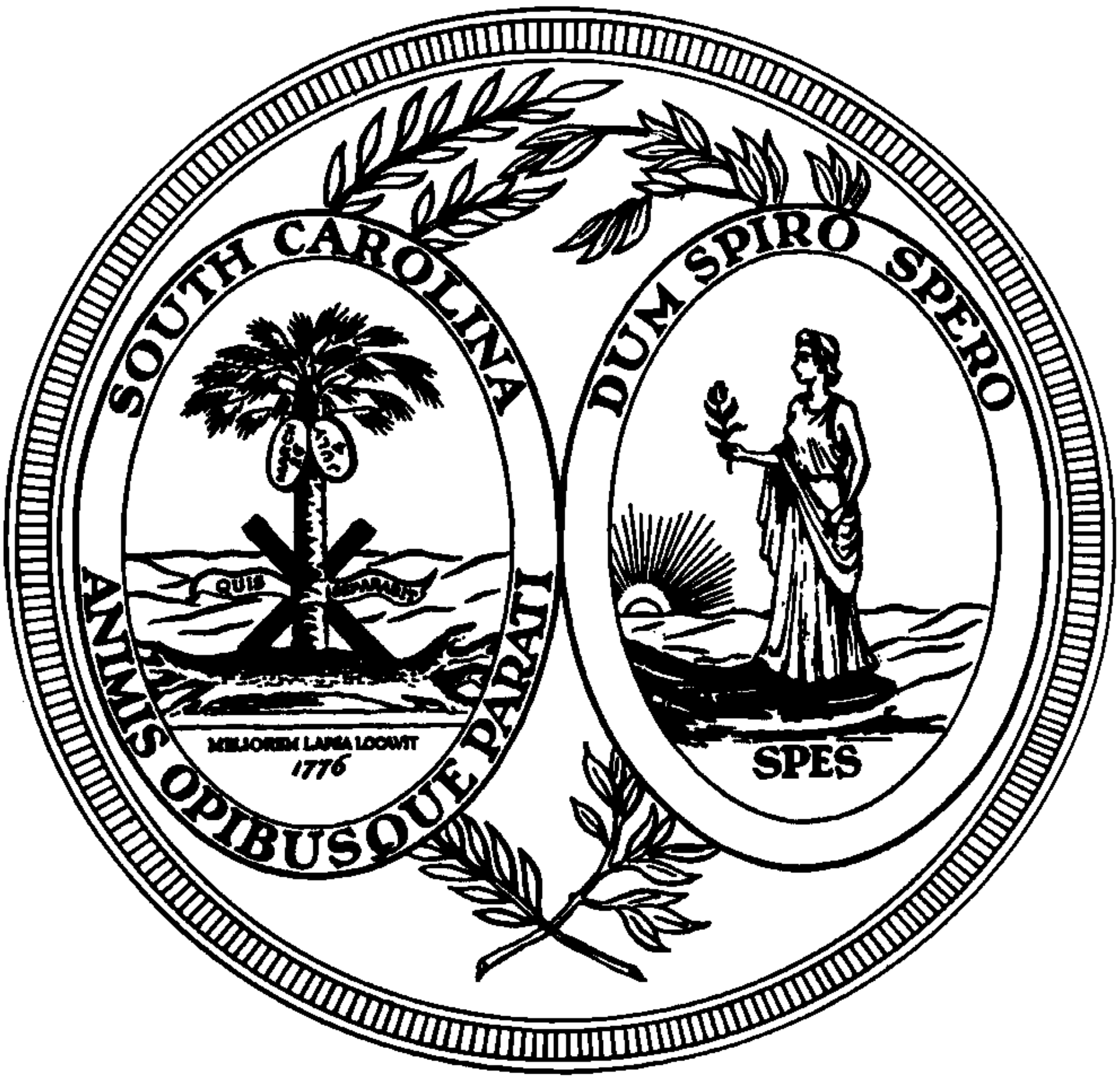
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

Exhibit B-1a

June 30, 2017
(Expressed in Thousands)

Total fund balances–governmental funds		**$ 7,460,303**
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not considered current financial resources and therefore are not reported in the funds:		
Non-depreciable capital assets	$ 4,853,363	
Depreciable capital assets	17,774,218	
Accumulated depreciation	(5,982,615)	
Total capital assets		16,644,966
Deferred outflows of resources are recognized in the Statement of Net Position, but are not reported in governmental funds:		
Hedging portion of derivative instruments		29,733
Deferred loss on refunding bonds		86,303
Pension contributions made after the measurement date		223,429
Difference between expected and actual retirement plan experience		39,540
Net difference between projected and actual earnings on investments		323,877
Changes in proportion and differences between contributions and proportionate share of plan contributions		59,235
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		(8,186)
Changes in proportion and differences between contributions and proportionate share of plan contributions		(65,491)
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		108,639
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		642,496
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	(2,586,369)	
Notes payable	(22,953)	
Accrued interest on bonds	(21,210)	
Capital leases	(1,871)	
Net pension liability	(3,644,515)	
Compensated absences	(225,239)	
Policy claims	(35,505)	
Other	(166,763)	
Total long-term liabilities		(6,704,425)
Net position of governmental activities		**$ 18,840,419**

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, 2017
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure
Revenues:			
Taxes:			
Individual income	$ 4,118,671	$ —	$ 24,546
Retail sales and use	3,627,303	3,783	—
Corporate Income	340,327	—	—
Gas and motor vehicle	—	—	—
Insurance	168,974	—	—
Hospital	267,235	—	—
Other	537,147	121,030	—
Licenses, fees, and permits	269,248	30,051	184,456
Interest and other investment income	59,974	9,190	37,130
Federal	85,018	7,914,939	24,351
Local and private grants	7,907	62,149	—
Departmental services	730,417	66,563	413
Contributions	9,880	17,805	70,813
Fines and penalties	77,653	6,854	—
Tobacco legal settlement	—	—	—
Other	180,791	364,998	—
Total revenues	**10,480,545**	**8,597,362**	**341,709**
Expenditures:			
Current:			
General government	573,727	126,716	—
Education	567,931	156,759	—
Health and environment	2,904,557	5,585,245	—
Social services	197,548	1,543,118	—
Administration of justice	820,582	24,703	—
Resources and economic development	183,623	76,692	9,058
Transportation	1,852	1,791	14,393
Capital outlay	100,884	21,522	3
Debt service:			
Principal retirement	147,648	960	59,215
Interest and fiscal charges	28,486	146	80,734
Intergovernmental	4,660,235	907,365	225,733
Total expenditures	**10,187,073**	**8,445,017**	**389,136**
Excess of revenues over (under) expenditures	**293,472**	**152,345**	**(47,427)**
Other financing sources (uses):			
Bonds and notes issued	—	—	—
Refunding bonds issued	—	—	213,595
Premiums on bonds issued	—	—	17,560
Capital leases	47	—	—
Payment to refunded bond escrow agent	—	—	(229,205)
Transfers in	116,728	4,325	—
Transfers out	(207,066)	(12,562)	(74,800)
Total other financing sources (uses)	**(90,291)**	**(8,237)**	**(72,850)**
Net change in fund balances	**203,181**	**144,108**	**(120,277)**
Fund balances at beginning of year	**3,497,045**	**262,628**	**2,204,154**
Fund balances at end of year	**$ 3,700,226**	**$ 406,736**	**$ 2,083,877**

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
$ —	$ —	$ 4,143,217
—	805,872	4,436,958
—	—	340,327
883,891	—	883,891
—	—	168,974
—	—	267,235
199	3,197	661,573
—	69,035	552,790
5,328	39,535	151,157
906,983	2,928	8,934,219
—	—	70,056
118,124	12,465	927,982
—	404,911	503,409
—	81,054	165,561
—	73,533	73,533
15,762	1,139	562,690
1,930,287	**1,493,669**	**22,843,572**
—	117,869	818,312
—	377,959	1,102,649
—	73,770	8,563,572
—	—	1,740,666
—	6	845,291
—	385	269,758
1,026,310	—	1,044,346
753,574	109,895	985,878
43,615	9,595	261,033
17,402	623	127,391
135,437	797,983	6,726,753
1,976,338	**1,488,085**	**22,485,649**
(46,051)	**5,584**	**357,923**
—	51,103	51,103
—	—	213,595
—	4,904	22,464
—	—	47
—	—	(229,205)
187,357	141,214	449,624
—	(147,516)	(441,944)
187,357	**49,705**	**65,684**
141,306	**55,289**	**423,607**
373,842	**699,027**	**7,036,696**
$ 515,148	**$ 754,316**	**$ 7,460,303**

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, 2017
(Expressed in Thousands)

Net change in fund balances–total governmental funds		**$ 423,607**
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 and reported as depreciation expense. In the current period these amounts are:		
Capital outlay	$ 985,878	
Depreciation expense	(338,600)	
Excess of capital outlay over depreciation expense		647,278
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		198,768
Loss on disposals of capital assets are reported as a expense in the Statement of Activities		(29,242)
Bond, note, and capital lease 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, notes, and capital leases issued	(264,745)	
Bond premiums net of discounts	(22,464)	
Net bond and note proceeds		(287,209)
Losses on bond refundings and hedging portion of derivatives are considered deferred outflows of resources in the Statement of Net Position		(27,413)
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, note, and capital lease retirement	261,033	
Payment to refunded bond escrow agent	229,205	
Total long-term debt repayment		490,238
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		45,521
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		(34,848)

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		302,293
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	$ 2,331	
Unamortized bond premiums and discounts	26,749	
Net pension liability	(402,802)	
Compensated absences payable	(988)	
Policy claims payable	(1,051)	
Other long-term liabilities	(34,881)	
Total additional expenses		(410,642)
Change in net position of governmental activities		**$ 1,318,351**

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

Statement of Net Position

PROPRIETARY FUNDS

June 30, 2017
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash and cash equivalents	$ 691,457	$ 55,741	$ 32,482	$ 779,680	$ 760,096
Investments	12,437	177,895	72,679	263,011	1,564
Invested securities lending collateral	47	672	3	722	3,210
Receivables, net:					
Accounts	14,201	—	3,276	17,477	246,929
Participants	—	—	424	424	—
Accrued interest	60	848	70	978	4,819
Assessments	106,246	—	—	106,246	—
Due from other funds	—	—	—	—	14,540
Due from component units	—	—	—	—	8,100
Inventories	—	—	2,062	2,062	2,612
Restricted assets:					
Cash and cash equivalents	—	—	3,654	3,654	—
Prepaid items	—	—	1,045	1,045	18,530
Total current assets	824,448	235,156	115,695	1,175,299	1,060,400
Long-term assets:					
Investments	—	—	—	—	452,490
Receivables, net:					
Accounts	—	—	—	—	271
Participants	—	—	956	956	—
Interfund receivables	—	—	—	—	2,260
Prepaid items	—	—	—	—	18
Other long-term assets	—	—	—	—	218
Non-depreciable capital assets	—	—	233,759	233,759	9,233
Depreciable capital assets, net	—	—	22,456	22,456	107,254
Total long-term assets	—	—	257,171	257,171	571,744
Total assets	**824,448**	**235,156**	**372,866**	**1,432,470**	**1,632,144**
DEFERRED OUTFLOWS OF RESOURCES					
Pension contributions subsequent to measurement date	—	—	536	536	3,424
Difference between actual and expected experience	—	—	151	151	634
Net difference between projected and actual earnings on investments	—	—	1,224	1,224	5,091
Changes in proportion and differences between contributions and proportionate share of plan contributions	—	—	1,782	1,782	5,325
Total deferred outflows of resources	**—**	**—**	**3,693**	**3,693**	**14,474**

Exhibit B-3

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	
LIABILITIES					
Current liabilities:					
Accounts payable	$ 11	$ —	$ 4,819	$ 4,830	$ 2,451
Accrued salaries and related expenses	—	—	1,081	1,081	3,612
Accrued interest payable	—	—	—	—	64
Tax refunds payable	23,426	—	—	23,426	—
Unemployment benefits payable	534	—	—	534	—
Intergovernmental payables	5,587	—	—	5,587	—
Tuition benefits payable	—	—	13,538	13,538	—
Policy claims	—	20,057	5,865	25,922	598,603
Due to other funds	1,924	—	97	2,021	1,015
Unearned revenues	—	—	3,650	3,650	150,513
Deposits	—	—	—	—	116
Securities lending collateral	67	956	4	1,027	4,736
Notes payable	—	—	—	—	3,258
Revenue bonds payable	—	—	175	175	2,305
Compensated absences payable	—	—	456	456	2,914
Other current liabilities	—	—	109	109	2,518
Total current liabilities	31,549	21,013	29,794	82,356	772,105
Long-term liabilities:					
Tuition benefits payable	—	—	91,489	91,489	—
Policy claims	—	229,829	42,497	272,326	160,763
Interfund payables	—	—	51,000	51,000	142
Other liabilities payable from restricted assets	—	—	156	156	—
Notes payable	—	—	—	—	10,760
Revenue bonds payable	—	—	5,555	5,555	—
Compensated absences payable	—	—	199	199	1,246
Net pension liability	—	—	14,236	14,236	58,089
Total long-term liabilities	—	229,829	205,132	434,961	231,000
Total liabilities	**31,549**	**250,842**	**234,926**	**517,317**	**1,003,105**
DEFERRED INFLOWS OF RESOURCES					
Difference between actual and expected experience	—	—	15	15	54
Changes in proportion and differences between contributions and proportionate share of plan contributions	—	—	100	100	963
Total deferred inflows of resources	**—**	**—**	**115**	**115**	**1,017**

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

Continued on Next Page

Statement of Net Position

Exhibit B-3

PROPRIETARY FUNDS (Continued)

June 30, 2017
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
NET POSITION (DEFICIT)					
Net investment in capital assets	$ —	$ —	$ 216,697	$ 216,697	$ 100,164
Restricted:					
Loan programs	—	—	—	—	95
Unemployment compensation benefits	792,899	—	—	792,899	—
Insurance programs	—	—	—	—	501,121
Unrestricted	—	(15,686)	(75,179)	(90,865)	41,116
Total net position (deficit)	**$ 792,899**	**$ (15,686)**	**$ 141,518**	**$ 918,731**	**$ 642,496**

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

Exhibit B-4

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	ENTERPRISE FUNDS				
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
Operating revenues:					
Assessments	$ 358,487	$ 59,843	$ —	$ 418,330	$ —
Charges for services	—	5	51,288	51,293	2,703,932
Contributions	—	—	659	659	—
Interest and other investment income	12,398	2,341	20,459	35,198	—
Federal operating grants and contracts	9,651	—	—	9,651	—
Other operating revenues	27,272	—	117	27,389	300,791
Total operating revenues	**407,808**	**62,189**	**72,523**	**542,520**	**3,004,723**
Operating expenses:					
General operations and administration	—	595	35,993	36,588	458,824
Benefits and claims	199,409	5	—	199,414	2,522,687
Tuition plan disbursements	—	—	14,435	14,435	—
Depreciation and amortization	—	—	1,421	1,421	17,027
Other operating expenses	—	—	1,051	1,051	470
Total operating expenses	**199,409**	**600**	**52,900**	**252,909**	**2,999,008**
Operating income	**208,399**	**61,589**	**19,623**	**289,611**	**5,715**
Nonoperating revenues (expenses):					
Interest income	—	—	135	135	40,329
Contributions	—	—	61	61	—
Interest expense	—	—	(158)	(158)	(251)
Net other nonoperating revenues (expenses)	—	11	1,791	1,802	6,832
Losses on sale of capital assets	—	—	—	—	(1,983)
Total nonoperating revenues (expenses)	**—**	**11**	**1,829**	**1,840**	**44,927**
Income before transfers	**208,399**	**61,600**	**21,452**	**291,451**	**50,642**
Capital Contributions	—	—	18,937	18,937	—
Transfers out	(200)	(225)	(2,134)	(2,559)	(5,121)
Change in net position	**208,199**	**61,375**	**38,255**	**307,829**	**45,521**
Net position (deficit), beginning, as restated	584,700	(77,061)	103,263	610,902	596,975
Net position (deficit) at end of year	**$ 792,899**	**$ (15,686)**	**$ 141,518**	**$ 918,731**	**$ 642,496**

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, 2017
(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	$ 27,689	$ —	$ 51,299	$ 78,988	$ 2,493,361
Assessments received	363,469	59,859	—	423,328	—
Grants received	9,651	—	—	9,651	—
Tuition plan contributions received	—	—	767	767	—
Internal activity–payments from other funds	—	—	—	—	220,674
Other operating cash receipts	—	15,892	261	16,153	281,841
Claims and benefits paid	(195,309)	(32,357)	(39,799)	(267,465)	(229,771)
Payments to suppliers for goods and services	—	—	(30,137)	(30,137)	(2,673,197)
Payments to employees	—	—	(7,612)	(7,612)	(55,256)
Internal activity–payments to other funds	—	—	—	—	(3,276)
Other operating cash payments	—	(400)	—	(400)	—
Net cash provided by (used in) operating activities	**205,500**	**42,994**	**(25,221)**	**223,273**	**34,376**
Cash flows from noncapital financing activities:					
Other noncapital financing cash receipts	—	—	1,963	1,963	1,994
Other noncapital financing cash payments	—	—	(164)	(164)	—
Transfers out	(200)	(225)	(2,134)	(2,559)	(5,121)
Net cash used in noncapital financing activities	**(200)**	**(225)**	**(335)**	**(760)**	**(3,127)**

Exhibit B-5

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Totals	
Cash flows from capital and related financing activities:					
Acquisition of capital assets	$ —	$ —	$ (48,323)	$ (48,323)	$ (19,581)
Proceeds from issuance of note	—	—	26,000	26,000	—
Proceeds from issuance of capital debt	—	—	—	—	10,930
Principal payments on capital debt	—	—	(165)	(165)	(4,605)
Interest payments on capital debt	—	—	—	—	(1,070)
Capital grants and gifts received	—	—	18,937	18,937	—
Proceeds from sale or disposal of capital assets	—	—	13	13	1,157
Net cash used in capital and related financing activities	**—**	**—**	**(3,538)**	**(3,538)**	**(13,169)**
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	—	—	14,350	14,350	396,038
Purchase of investments	(2,780)	(71,681)	(3,076)	(77,537)	(408,231)
Interest and dividends on investments	12,337	1,880	20,557	34,774	30,315
Net cash provided by (used in) investing activities	**9,557**	**(69,801)**	**31,831**	**(28,413)**	**18,122**
Net increase (decrease) in cash and cash equivalents	**214,857**	**(27,032)**	**2,737**	**190,562**	**36,202**
Cash and cash equivalents at beginning of year	**476,600**	**82,773**	**33,399**	**592,772**	**723,894**
Cash and cash equivalents at end of year	**$ 691,457**	**$ 55,741**	**$ 36,136**	**$ 783,334**	**$ 760,096**
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income	$ 208,399	$ 61,589	$ 19,623	$ 289,611	$ 5,715
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation and amortization	—	—	1,421	1,421	17,027
Provision for bad debts	(29,354)	—	—	(29,354)	—
Interest payments reclassified as capital and related financing activities	—	—	—	—	(159)
Interest and dividends on investments and interfund loans	(12,337)	(1,880)	(20,459)	(34,676)	198
Realized losses on sale of assets	—	—	13	13	(1,837)
Other nonoperating revenues	—	12	1,958	1,970	1,936
Other nonoperating expenses	—	—	(1,030)	(1,030)	—

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

Continued on Next Page

Statement of Cash Flows

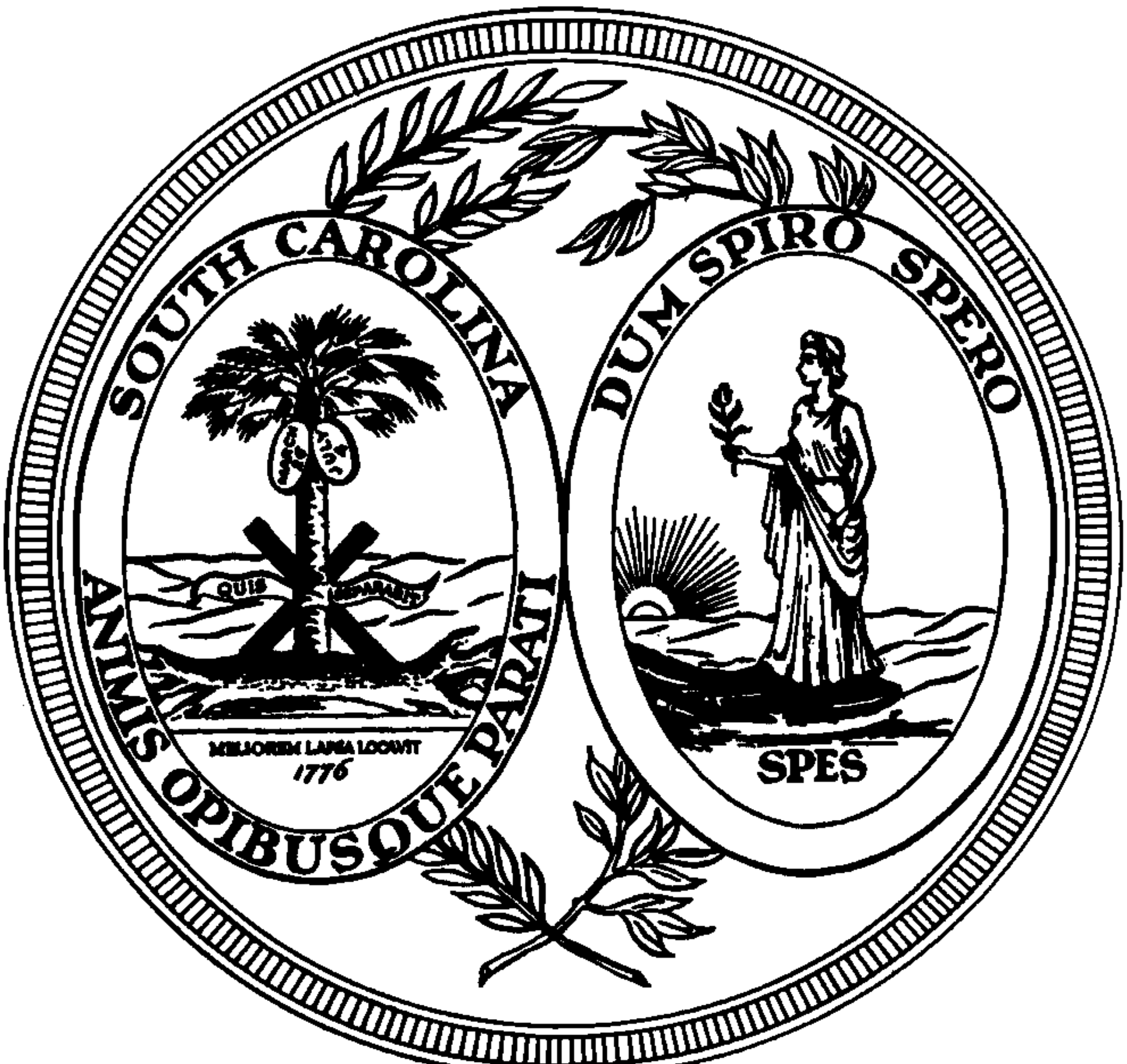
Exhibit B-5

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2017
(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	$ 7,261	$ —	$ 131	$ 7,392	$ (10,793)
Accrued interest	(60)	(461)	—	(521)	—
Assessments receivable, net	27,492	—	—	27,492	—
Due from other funds	—	—	—	—	5,641
Inventories	—	—	152	152	497
Other assets	—	—	(171)	(171)	(118)
Deferred outflows	—	—	(2,101)	(2,101)	(7,339)
Accounts payable	(2)	(374)	1,544	1,168	(1,388)
Accrued salaries and related expenses	—	—	343	343	(349)
Tax refunds payable	3,582	—	—	3,582	—
Unemployment benefits payable	(148)	—	—	(148)	—
Tuition benefits payable	—	—	(20,573)	(20,573)	—
Policy claims	—	(15,892)	(6,116)	(22,008)	28,060
Due to other funds	667	—	4	671	(4,316)
Unearned revenues	—	—	(105)	(105)	(3,755)
Compensated absences payable	—	—	(31)	(31)	(10)
Other liabilities	—	—	368	368	7,062
Deferred inflows	—	—	(192)	(192)	(1,696)
Net cash provided by (used in) operating activities	**$ 205,500**	**$ 42,994**	**$ (25,221)**	**$ 223,273**	**$ 34,376**
Noncash capital, investing, and financing activities:					
Disposal of capital assets	$ —	$ —	$ —	$ —	$ 9,312
Increase (decrease) in fair value of investments	—	—	(105)	(105)	7,887
Total noncash capital, investing, and financing activities	**$ —**	**$ —**	**$ (105)**	**$ (105)**	**$ 17,199**

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, 2017
(Expressed in Thousands)

	Pension and Other Post-Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
ASSETS				
Cash and cash equivalents	$ 2,808,380	$ 3,606,466	$ 10,755	$ 474,015
Receivables, net:				
Accounts	—	—	—	4,667
Contributions	256,491	—	—	—
Accrued interest	49,782	2,344	1,980	1,467
Unsettled investment sales	756,013	—	2,114	—
Loans and notes receivables	—	—	—	51
Other investment receivables	809	—	—	—
Taxes	—	—	—	590
Total receivables	1,063,095	2,344	4,094	6,775
Due from other funds	64,335	—	—	13,313
Investments, at fair value:				
Short term investments	653,510	—	—	15,116
Debt-domestic	7,273,829	1,965,084	—	—
Equity-international	12,005,303	—	—	—
Alternatives	8,944,090	—	—	—
Financial and other	43,042	89,836	3,076,974	—
Total investments	28,919,774	2,054,920	3,076,974	15,116
Invested securities lending collateral	125,191	—	14	876
Capital assets, net	2,537	—	—	—
Prepaid items	3,846	—	—	—
Other assets	—	—	4,526	—
Total assets	**32,987,158**	**5,663,730**	**3,096,363**	**510,095**
LIABILITIES				
Accounts payable	12,767	—	1,018	24,199
Accounts payable–unsettled investment purchases	1,251,053	—	2,822	—
Policy claims	665	—	—	—
Due to other funds	64,335	—	—	—
Intergovernmental payables	—	—	—	34,993
Deposits	—	—	—	3,320
Amounts held in custody for others	—	—	—	446,334
Deferred retirement benefits	95,327	—	—	—
Securities lending collateral	172,496	—	19	1,247
Due to participants	—	—	—	2
Other liabilities	22,115	—	—	—
Total liabilities	**1,618,758**	**—**	**3,859**	**510,095**
NET POSITION				
Restricted for pension and other post-employment benefits	31,368,400	—	—	—
Held in trust for:				
External investment pool participants	—	5,663,730	—	—
Other purposes	—	—	3,092,504	—
Total net position	**$ 31,368,400**	**$ 5,663,730**	**$ 3,092,504**	**$ —**

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, 2017
(Expressed in Thousands)

	Pension and Other Post-Employment Benefit Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits	$ —	$ —	$ 25
Contributions:			
Employer	1,879,720	—	—
Employee	957,779	—	—
Deposits from pool participants	—	10,102,903	—
Tuition plan deposits	—	—	1,045
Other	—	—	233,660
Total contributions	2,837,499	10,102,903	234,705
Investment income:			
Interest income and net appreciation in investments	3,597,004	42,907	289,475
Securities lending income	813	2	—
Total investment income	3,597,817	42,909	289,475
Less investment expense:			
Investment expense	314,592	—	—
Securities lending expense	4	—	—
Net investment income	3,283,221	42,909	289,475
Assets moved between pension trust funds	1,550	—	—
Total additions	**6,122,270**	**10,145,812**	**524,205**
Deductions:			
Regular retirement benefits	2,956,627	—	—
Supplemental retirement benefits	408	—	—
Deferred retirement benefits	332,414	—	—
Refunds of retirement contributions to members	125,762	—	—
Death benefit claims	25,133	—	—
Accidental death benefits	1,748	—	—
Other post-employment benefits	424,296	—	—
Withdrawals, pool participants	—	9,290,454	—
Distributions to pool participants	—	46,115	—
Depreciation	269	—	—
Administrative expense	15,478	923	10,414
Other expenses	—	—	1,121
Assets moved between pension trust funds	1,550	—	—
Total deductions	**3,883,685**	**9,337,492**	**11,535**
Change in net position	**2,238,585**	**808,320**	**512,670**
Net position, beginning	**29,129,815**	**4,855,410**	**2,579,834**
Net position at end of year	**$ 31,368,400**	**$ 5,663,730**	**$ 3,092,504**

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

Statement of Net Position

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2017

(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	$ 90,873	$ 522,470	$ 483,707	$ 257,696	$ 415,550	$ 22,357
Investments	725,865	187,407	436,380	2,542	36,241	—
Invested securities lending collateral	—	93	1,259	999	2,327	302
Receivables, net:						
Accounts	198,532	13,127	15,510	12,445	44,076	348
Contributions	—	36,343	38,517	26,819	—	—
Accrued interest	3,425	1,056	1,102	1,455	—	57
Student accounts	—	903	2,488	5,607	—	—
Patient accounts	—	255,003	—	—	—	—
Loans and notes	—	558	6,466	13	—	26,556
Due from Federal government and other grantors	—	42,306	47,652	22,443	—	719
Due from primary government	—	13,448	4,694	10,353	—	—
Inventories	715,970	28,237	2,169	3,230	7,678	—
Restricted assets:						
Cash and cash equivalents	87,775	99,167	289,595	274,010	—	70,050
Investments	923,415	419,607	33,071	728,150	—	221,364
Accounts receivable	—	—	—	—	—	2,210
Loans receivable	—	12,918	16,723	7,464	—	545,850
Other	—	20	—	—	—	2,990
Prepaid items	13,636	27,061	2,655	9,012	4,639	—
Other assets	310,829	9,308	10,895	2,060	1,128	1,580
Other regulatory assets- asset retirement obligation	906,251	—	—	—	—	—
Investment in joint venture	6,569	—	—	—	—	—
Capital assets-nondepreciable	4,443,163	206,166	194,271	236,872	678,086	—
Capital assets-depreciable, net	3,771,624	963,880	1,171,769	1,042,863	346,853	164
Total assets	$ 12,197,927	$ 2,839,078	$ 2,758,923	$ 2,644,033	$ 1,536,578	$ 894,547
DEFERRED OUTFLOWS OF RESOURCES						
Accumulated decrease in fair value of hedging derivatives	$ 39,630	$ 5,039	$ —	$ —	$ —	$ —
Deferred amount on refunding	180,349	42,192	13,414	1,155	—	1,056
Pension contributions subsequent to measurement date	8,257	65,095	49,596	32,131	1,515	791
Difference between actual and expected experience	5,058	12,329	9,217	5,974	904	150
Net difference earnings pension plan investment	26,728	99,974	74,396	48,434	7,334	1,198
Change between contributions & proportionate share contributions	1,035	29,116	—	5,625	—	—
Total deferred outflows	$ 261,057	$ 253,745	$ 146,623	$ 93,319	$ 9,753	$ 3,195
LIABILITIES						
Accounts payable	$ 222,807	$ 80,158	$ 14,810	$ 20,432	$ 25,169	$ —
Accrued salaries and related expenses	10,838	109,891	18,645	20,310	5,485	927
Accrued interest payable	54,418	2,351	4,967	4,310	13,452	—
Retainages payable	11,059	63	2,363	6,962	11,651	—
Prizes payable	—	—	—	—	—	—
Intergovernmental payables	—	—	—	—	20	—
Due to primary government	—	4,782	4,416	—	—	—
Unearned revenues and asset retirement obligation	739,821	22,005	52,604	46,745	—	13,856
Deposits	—	—	3,116	2,208	—	—
Amounts held in custody for others	—	17,852	18,209	56,787	—	—
Securities lending collateral	—	132	1,791	1,423	3,313	430
Liabilities payable from restricted assets:						
Other	—	—	—	—	—	12,844
Other liabilities	580,629	62,561	22,285	12,427	18,752	1,660
Long-term liabilities:						
Due within one year	136,074	58,110	52,070	34,786	11,576	12,191
Due in more than one year	8,481,772	1,779,806	1,512,681	1,182,200	621,507	429,824
Total liabilities	$ 10,237,418	$ 2,137,711	$ 1,707,957	$ 1,388,590	$ 710,925	$ 471,732
DEFERRED INFLOWS OF RESOURCES						
Accumulated increase in fair value of hedging derivatives	$ 9,991	$ —	$ —	$ —	$ —	$ —
Deferred gain on refunding	—	—	—	—	—	3,596
Deferred nuclear decommissioning costs	218,497	—	—	—	—	—
Deferred service concession arrangement receipts	—	—	—	—	—	—
Deferred nonexchange revenues	—	—	—	—	—	—
Difference between actual and expected experience	2,167	1,273	941	615	(3,512)	—
Change between contributions & proportionate share contributions	822	139	3,764	1,136	3,631	567
Changes in assumptions	55	—	—	—	—	—
Total deferred inflows	$ 231,532	$ 1,412	$ 4,705	$ 1,751	$ 119	$ 4,163
NET POSITION						
Net investment in capital assets	$ 1,168,907	$ 612,136	$ 776,862	$ 779,672	$ 462,400	$ 164
Restricted:						
Expendable:						
Education	—	247,569	156,491	263,100	—	—
Transportation	—	—	—	—	—	—
Capital projects	1,663	76,596	77,511	101,566	—	—
Debt service	39,158	53,520	9,387	8,784	16,805	37,360
Loan programs	—	—	—	—	—	353,399
Other	—	—	—	—	—	—
Nonexpendable:						
Education	—	251,211	369,197	363,654	—	—
Unrestricted	780,306	(287,332)	(196,564)	(169,765)	356,082	30,924
Total net position	**$ 1,990,034**	**$ 953,700**	**$ 1,192,884**	**$ 1,347,011**	**$ 835,287**	**$ 421,847**

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

Exhibit C-1

Lottery Commission	Nonmajor Component Units	Total
$ 21,316	$ 666,284	$ 2,480,253
—	328,554	1,716,989
—	620	5,600
41,640	69,705	395,383
—	32,634	134,313
—	1,894	8,989
—	35,739	44,737
—	—	255,003
—	67,852	101,445
—	46,523	159,643
—	8,810	37,305
3,093	11,647	772,024
492	262,018	1,083,107
—	349,553	2,675,160
—	—	2,210
—	12,164	595,119
—	2,765	5,775
—	15,199	72,202
5,672	133,300	474,772
—	—	906,251
—	—	6,569
—	342,625	6,101,183
634	1,885,641	9,183,428
$ 72,847	$ 4,273,527	$ 27,217,460
$ —	$ —	$ 44,669
—	4,888	243,054
752	68,797	226,934
156	13,102	46,890
1,267	106,187	365,518
11	14,775	50,562
$ 2,186	$ 207,749	$ 977,627
$ 2,627	$ 58,144	$ 424,147
—	39,661	205,757
—	5,916	85,414
—	2,677	34,775
34,135	—	34,135
—	633	653
18,826	21,990	50,014
681	98,474	974,186
—	12,545	17,869
—	10,891	103,739
—	883	7,972
—	2,411	15,255
1,350	17,017	716,681
481	80,304	385,592
15,321	2,381,388	16,404,499
$ 73,421	$ 2,732,934	$ 19,460,688
$ —	$ —	$ 9,991
—	—	3,596
—	—	218,497
—	2,977	2,977
—	1,119	1,119
16	1,340	2,840
470	38,158	48,687
—	—	55
$ 486	$ 43,594	$ 287,762
$ 634	$ 1,431,355	$ 5,232,130
—	219,102	886,262
—	1,095	1,095
—	209,939	467,275
—	50,086	215,100
—	61,101	414,500
492	40,231	40,723
—	259,450	1,243,512
—	(567,611)	(53,960)
$ 1,126	**$ 1,704,748**	**$ 8,446,637**

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Public Service Authority	$ 1,668,477	$ 1,745,657	$ 10,313	$ —
Medical University of South Carolina	2,297,531	2,079,168	117,648	59,167
University of South Carolina	1,290,381	1,005,727	182,529	17,870
Clemson University	957,705	712,323	197,058	59,749
State Ports Authority	330,429	233,648	7,740	15,256
Housing Authority	218,550	29,564	205,671	—
Lottery Commission	1,639,441	1,639,322	2	—
Nonmajor component units	2,162,493	1,430,949	456,990	63,760
Totals	**$ 10,565,007**	**$ 8,876,358**	**$ 1,177,951**	**$ 215,802**

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
$ 87,493	$ —	$ —	$ 1,902,541	$ 1,990,034
(41,548)	10,206	129,603	855,439	953,700
(84,255)	16,185	158,734	1,102,220	1,192,884
11,425	10,385	119,309	1,205,892	1,347,011
(73,785)	—	—	909,072	835,287
16,685	—	—	405,162	421,847
(117)	—	—	1,243	1,126
(210,794)	12,250	316,051	1,587,241	1,704,748
$ (294,896)	**$ 49,026**	**$ 723,697**	**$ 7,968,810**	**$ 8,446,637**

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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 and the Retirement Systems Investment Commission (RSIC), which consists of eight members appointed by the Governor, the other four members of the State Fiscal Accountability Authority, a retired member of one of the five systems appointed by the other RSIC directors, and the ex-officio Executive director of PEBA, are co-trustees of the assets of the retirement system. PEBA also serves as the custodian of the assets of the retirement system.

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, 2017.

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 his designee, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The State receives the funding from the bond issuances, except in the event that the Authority issues bonds expressly to refund its outstanding bonds.

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, 2016. 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

Major 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, 2017. 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, 2016. 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. 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 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.

Nonmajor Discretely Presented Component Units

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, 2016.

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, 2016. 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. 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.

The 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, 2016.

The 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

South Carolina Lottery Commission
Post Office Box 11949
Columbia, South Carolina 29211
www.sceducationlottery.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://osa.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.sctechsystem.com

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 Research Authority
315 Sigma Drive
Summerville, SC 29486
http://www.scra.org

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.scpcf.com

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

Related Organizations

A related organization is one for which the primary government is accountable but not *financially accountable.* The South Carolina Reinsurance Facility, the Associated Auto Insurers Plan, regional housing authorities, and the Rural Crossroads Institute are related organizations because the State is not financially accountable for them despite the fact that the Governor appoints a voting majority of their governing boards. County boards of disabilities and special needs and redevelopment authorities are related organizations if the Governor appoints a voting majority of the members.

Jointly Governed Organizations

The Governor, in conjunction with officials of certain local governments, appoints the board members of three military-defense facility redevelopment authorities. The three authorities include the Charleston Naval Complex Redevelopment Authority, the Myrtle Beach Air Force Base Redevelopment Authority and the Savannah River Site Redevelopment Authority. The State does not have an ongoing financial interest in these authorities.

The State of South Carolina is a member state within the Atlantic 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 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 State Fiscal Accountability Authority (SFAA).

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 Supplemental Retirement Plan, 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 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.

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 and vaccines 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 mostly in the highest investment grade securities. 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 acquisition 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 were no material impairments as of June 30, 2017.

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, 2017, $785.538 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, 2017, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for governments whose employees are provided with other post-employment benefits (OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. It is noted that as the State does not have specific tax abatement agreements with individual businesses that offer more incentives over what is commonly given within the tax code, the disclosure requirements of this pronouncement have no impact on the State.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

Statement No. 80, *Blending Requirements for Certain Component Units*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Future Adoption of New Accounting Standards

GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in June 2015. This pronouncement takes effect for fiscal years beginning after June 15, 2017 (fiscal year 2018). The State is in the process of determining the effect of implementing Statement No. 75, but it is expected to have a material effect on the financial position of the State.

NOTE 3: DEFICITS OF INDIVIDUAL FUNDS

The accompanying fund financial statements display deficit fund balances and deficit net position balances for individual major funds, if applicable, Nonmajor funds had the following deficit net position balances (expressed in thousands) at June 30, 2017:

Patients' Compensation	$ 42,207
Tuition Prepayment Program	36,806

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. See Note 1, sections d and e for additional information on 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, 2017 was $1.475 billion and the bank balance was $1.690 billion. As of June 30, 2017, the reported amount of the primary government's deposits outside of the State Treasurer was $48.889 million and the bank balance was $50.337 million. Of the $8.286 million bank balance exposed to custodial credit risk, $1.517 million was uninsured and uncollateralized, $1.657 million was uninsured and collateralized with securities held by the pledging financial institution, and $5.112 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 not having a readily determinable fair value is established using net asset value (or amortized cost) 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 6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments			
U.S. treasuries	$ 539,927	$ —	$ 539,927
U.S. agencies	4,489,901	—	4,489,901
Common stock	46,518	46,518	—
Other equity securities	1,810,539	1,810,539	—
Corporate bonds	4,926,792	—	4,926,792
Municipal bonds	4,992	—	4,992
Asset backed securities	9,178	—	9,178
Commercial paper	4,496,923	—	4,496,923
Money market mutual funds	410,171	410,171	—
Bond mutual funds	601,425	601,425	—
Other	44,008	—	44,008
Total investments at fair value	17,380,374	$ 2,868,653	$ 14,511,721
Investments measured at amortized cost			
Repurchase agreements	549,481		
Total investments measured at fair value	$ 17,929,855		

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, 2017, as follows:

Primary Government Investment Type	Reported Amount
U.S. treasuries	$ 539,927
U.S. agencies	4,489,901
Common stock	46,518
Other equity securities	1,810,539
Corporate bonds	4,926,792
Municipal bonds	4,992
Repurchase agreements	549,481
Asset backed securities	9,178
Commercial paper	4,496,923
Money market mutual funds	410,171
Bond mutual funds	601,425
Other	44,008
Totals	**$17,929,855**

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, 2017 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	CCC & Below	Not Rated
U.S. agencies	$ 2,139,800	$ 1,142,496	$ 1,005,330	$ 10,449	$ —	$ —	$ 191,826
Corporate bonds	117,832	703,058	2,456,973	1,237,931	30,882	—	380,116
Municipal bonds	—	—	—	—	—	—	4,992
Repurchase agreements	—	—	—	—	—	—	549,481
Asset backed securities	—	—	—	—	—	6,086	3,092
Commercial paper	—	—	4,201,071	—	—	—	295,852
Money market mutual funds	7,578	—	—	—	—	—	402,593
Bond mutual funds	—	—	—	—	—	—	601,425
Other	—	6,823	—	—	—	—	37,185
Totals	**$ 2,265,210**	**$ 1,852,377**	**$ 7,663,374**	**$ 1,248,380**	**$ 30,882**	**$ 6,086**	**$ 2,466,562**

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, 2017, 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. agencies	$ 3,390,899	$ 1,806,516	$ 756,732	$ 124,818	$ 702,833
Corporate bonds	4,249,446	1,052,393	2,994,217	199,332	3,504
Repurchase agreements	15,839	15,839	—	—	—
Asset backed securities	9,178	—	—	—	9,178
Commercial paper	1,335,629	1,335,629	—	—	—
Other	43,023	26,200	10,000	6,823	—
Totals	**$ 9,044,014**	**$ 4,236,577**	**$3,760,949**	**$ 330,973**	**$ 715,515**

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, 2017, 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	$ 539,927	$ 527,922	$ 11,530	$ 475	$ —
U.S. agencies	1,094,964	1,090,635	4,038	291	—
Corporate bonds	677,346	345,354	331,456	458	78
Municipal bonds	4,992	4,992	—	—	—
Repurchase agreements	533,642	533,642	—	—	—
Commercial paper	3,161,294	3,161,294	—	—	—
Money market mutual funds	7,578	7,578	—	—	—
Bond mutual funds	601,425	—	582,830	—	18,595
Totals	**$ 6,621,168**	**$ 5,671,417**	**$ 929,854**	**$ 1,224**	**$ 18,673**

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, 2017, the State Treasurer had 7.37% 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, 2017, 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, 2017. At June 30, 2017, 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, 2017, 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, 2017, the State met the 102.0% 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, 2017, 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, 2017:

	Amount
Securities lent for cash collateral:	
U.S. Corporate-fixed income	$ 25,790
Total securities lent for cash collateral	**$ 25,790**
Securities lent for non-cash collateral:	
U.S. Corporate-fixed income	$ 6,653
Total securities lent for non-cash collateral	**$ 6,653**
Cash collateral invested as follows:	
Asset backed securities	$ 4,514
Repurchase agreements	11,807
Total for cash collateral invested	**$ 16,321**
Securities received as collateral:	
U.S. treasuries	$ 6,788
Total for securities collateral invested	**$ 6,788**

At June 30, 2017, the fair value of securities on loan was $16.321 million. The fair value of the invested cash collateral was $16.321 million. Securities lending obligations were $26.431 million with an unrealized loss in invested cash collateral of $10.113 million. The unrealized loss from securities lending activity was determined based on the settlement agreement between BNY Mellon and the State.

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. 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.

As of June 30, 2017, the carrying amount of the Systems' deposits was $30.497 million and the bank balance was $30.583 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, 2017 (amounts in thousands):

		Fair Value Measurments Using		
Investments by Fair Value Level	**At 6/30/2017**	**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)	$ 1,323,167	$ 1,323,167	$ —	$ —
Repurchase Agreements	307,428	—	26,600	280,828
Certificates of Deposit	30,515	—	30,515	—
Commercial Paper	656,904	—	656,904	—
Discount Notes	26,032	—	26,032	—
U. S. Treasury Bills	272,129	272,129	—	—
Global Short Term	3,440	—	3,440	—
Corporate Bonds	5,679	—	5,679	—
Total Short Term Investments	$ 2,625,294	$ 1,595,296	$ 749,170	$ 280,828
Equity Allocation				
Global Public Equity				
Common Stocks	$ 4,201,014	$ 4,201,014	$ —	$ —
Real Estate Investment Trusts	705,235	705,235	—	—
Preferred	52,730	6,114	46,616	—
Convertible Preferred	1,458	—	1,458	—
Total Equity	$ 4,960,437	$ 4,912,363	$ 48,074	$ —
Fixed Income Allocation				
U. S. Government				
U.S. Government Treasuries	$ 266,452	$ 266,452	$ —	$ —
U.S. Government Agencies	578,079	—	578,079	—
Mortgage Backed				
Government National Mortgage Association	72,534	—	72,534	—
Federal National Mortgage Association	29,044	—	29,044	—
Federal Home Loan Mortgage Association	6,546	—	6,546	—
Federal Home Loan Mortgage Association (Multiclass)	14,629	—	14,629	—
Collateralized Mortgage Obligations	25,027	—	25,027	—
Municipals	13,486	—	13,486	—
Corporate				
Corporate Bonds	2,755,797	—	2,127,617	628,180
Asset Backed Securities	430,715	—	430,715	—
Private Placements	944,290	—	944,290	—
Yankee Bonds	928	—	928	—
Total Fixed Income	$ 5,137,527	$ 266,452	$ 4,242,895	$ 628,180
Total Investments by Fair Value Level	$ 12,723,258	$ 6,774,111	$ 5,040,139	$ 909,008

(continued)

Recurring fair value measurements as of June 30, 2017, continued (amounts in thousands):

Investments measured at net asset value (NAV)	
Strategic Partnership Short Duration	$ 239,713
Global Equity	4,251,506
Global Tactical Asset Allocation	2,065,561
Mixed Credit	7,882
Emerging Debt	1,245,242
Hedge Funds	3,033,440
Private Equity	2,322,317
Private Debt	1,782,647
Real Estate	1,814,011
Total investments measured at NAV	16,762,319
Total investments measured at fair value	$ 29,485,577

Investment derivative instruments	At 6/30/2017	Fair Value Measurments Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurments Using: Significant Other Observable Inputs (Level 2)
Short Term Investments			
Options - Cash	$ 740	$ 764	$ (24)
Futures - Cash	76	76	—
Equity Investments			
Options - Equity	753,471	—	753,471
Futures - Equity	(24,645)	(24,645)	—
Swaps - Equity	(1,027)	—	(1,027)
Fixed Income Investments			
Options - Fixed Income	851	746	105
Futures - Fixed Income	(1,377)	(1,377)	—
Swaps - Fixed Income	2,136	—	2,136
Alternative Investments			
Swaps - Commodities	(8,325)	—	(8,325)
Total investment derivative instruments	$ 721,900	$ (24,436)	$ 746,336
Total Invested Assets	$ 30,207,477		

For investments measured at net asset value (NAV) (amounts in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Strategic Partnership Short Duration	$ 239,713	$ -	Monthly	5 - 10 days
Global Equity	4,251,506	-	Daily/Monthly	5 - 30 days
Global Tactical Asset Allocation	2,065,561	-	Monthly/Quarterly	5 - 14 days
Mixed Credit	7,882	-	Monthly	5 - 30 days
Emerging Debt	1,245,242	-	Daily/Monthly	10 - 15 days
Hedge Funds	3,033,440	-	Monthly/Quarterly	2 - 90 days
Private Equity	2,322,317	921,804	Illiquid	Illiquid
Private Debt	1,782,647	1,656,108	Illiquid	Illiquid
Real Estate	1,814,011	812,614	Illiquid	Illiquid
Total investments measured at the NAV	$ 16,762,319			

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.

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 15 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 eight of these funds, or approximately 55 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 44 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, 2017, 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)	$ 1,323,167	$ —	$ 1,323,167	0.08
Repurchase Agreements	307,428	—	307,428	0.07
Invested Securities Lending Collateral	123,275	—	123,275	0.01
Certificates of Deposit	30,515	—	30,515	0.39
Commercial Paper	656,904	5,000	651,904	0.11
Discount Notes	26,032	—	26,032	0.21
U.S. Treasury Bills	272,129	—	272,129	0.24
Global Short Term	3,440	—	3,440	0.13
Corporate Bonds	5,679	—	5,679	0.16
Strategic Partnership Short Duration	239,713	—	239,713	0.06
Options - Cash	740	—	740	(23.83)
Futures - Cash	76	—	76	0.25
Total Short Term Investments	2,989,098	5,000	2,984,098	
Equity Allocation				
Preferred	$ 52,730	$ 5,362	$ 47,368	6.70
Convertible Preferred	1,458	—	1,458	9.52
Total Equity Investments	54,188	5,362	48,826	
Fixed Income Allocation				
U.S. Government:				
U.S. Government Treasuries	266,452	—	266,452	9.50
U.S. Government Agencies	578,079	5,741	572,338	0.68
Mortgage Backed:				
Government National Mortgage Association	72,534	—	72,534	2.82
Federal National Mortgage Assocation	29,044	—	29,044	3.14
Federal Home Loan Mortgage Association	6,546	—	6,546	4.31
Federal Home Loan Mortgage Association (FHLMC Multiclass)	14,629	—	14,629	5.98
Collateralized Mortgage Obligations	25,027	—	25,027	5.00
Municipals	13,486	—	13,486	7.07
Corporate:				
Corporate Bonds	2,755,797	630,604	2,125,193	3.71
Mixed Credit	7,882	7,882	—	
Asset Backed Securities	430,715	33,022	397,693	1.42
Private Placements	944,290	188,030	756,260	2.59
Yankee Bonds	928	—	928	14.60
Emerging Debt	1,245,242	—	1,245,242	5.59
Options - Fixed Income	851	745	106	(188.77)
Futures - Fixed Income	(1,377)	—	(1,377)	(1.13)
Swaps - Fixed Income	2,136	(535)	2,671	(5.75)
Total Fixed Income	6,392,261	865,489	5,526,772	
Total Invested Assets	**$ 9,435,547**	**$ 875,851**	**$ 8,559,696**	
Total Portfolio Effective Duration (option adjusted duration)				**2.51**

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, 2017 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)	$ 1,323,167	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,323,167
Repurchase Agreements	—	—	—	—	—	—	—	—	307,428	307,428
Investments In Securities Lending Collateral	—	—	—	—	—	—	—	—	123,275	123,275
Certificates of Deposit	—	11,500	9,400	—	—	—	—	—	9,615	30,515
Commercial Paper	—	200,386	—	428,621	—	—	—	—	27,897	656,904
Discount Notes	26,032	—	—	—	—	—	—	—	—	26,032
Global Short Term	—	—	—	—	—	—	—	—	3,440	3,440
Corporate Bond	—	5,005	—	—	—	—	—	—	674	5,679
Strategic Partnership Short Duration	—	—	—	—	—	—	—	—	239,713	239,713
Options - Cash	—	—	—	—	—	—	—	—	740	740
Futures - Cash	—	—	—	—	—	—	—	—	76	76
Equity Investments										
Preferred	—	—	—	14,371	18,242	—	—	—	20,117	52,730
Convertible Preferred	—	—	—	1,458	—	—	—	—	—	1,458
Fixed Income Allocation[2]										
Mortgage Backed:										
Federal National Mortgage Association	29,044	—	—	—	—	—	—	—	—	29,044
Federal Home Loan Mortgage Association	6,546	—	—	—	—	—	—	—	—	6,546
Federal Home Loan Mortgage Association (Multiclass)	14,629	—	—	—	—	—	—	—	—	14,629
Collateralized Mortgage Association	25,027	—	—	—	—	—	—	—	—	25,027
Municipals	2,401	2,370	—	1,123	—	—	—	—	7,592	13,486
Corporate:										
Corporate Bonds	138,628	161,222	393,559	414,166	277,428	351,365	66,957	2,755	949,717	2,755,797
Mixed Credit	—	—	—	—	—	—	—	—	7,882	7,882
Asset Backed Securities	110,311	17,350	62,538	39,921	79,223	7,698	4,748	—	108,926	430,715
Private Placements	84,638	114,595	172,506	61,202	71,879	90,357	60,588	—	288,525	944,290
Yankee Bonds	—	—	—	928	—	—	—	—	—	928
Emerging Debt	—	—	—	—	—	—	—	—	1,245,242	1,245,242
Options - Fixed Income	—	—	—	—	—	—	—	—	851	851
Futures - Fixed Income	—	—	—	—	—	—	—	—	(1,377)	(1,377)
Swaps - Fixed Income	—	—	—	—	—	—	—	—	2,136	2,136
Totals	**$1,760,423**	**$512,428**	**$638,003**	**$ 961,790**	**$446,772**	**$449,420**	**$132,293**	**$ 2,755**	**$3,342,469**	**$8,246,353**

[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 National Mortgage Association securities with a fair value of $1.19 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 6.0% exposure to any single issuer." As of June 30, 2017, there is no single issuer exposure within the portfolio that comprises 5.0% 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, 2017 (amounts in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Futures Contracts	Private Equity	Preferred Securities	Fixed Income	Equity	Total
Australian Dollar	$ 902	$ 75,569	$ 311	$ 32,153	$ —	$ —	$ 100,400	$ 209,335
Brazil Real	144	869	—	—	—	8,675	—	9,688
Canadian Dollar	1,922	95,058	(1,733)	—	—	(210)	169,766	264,803
Danish Krone	332	(78,915)	—	—	—	76,816	24,238	22,471
Euro Currency	5,641	215,923	(13,313)	176,507	6,114	249,744	450,656	1,091,272
Hong Kong Dollar	2,274	40,489	(174)	—	—	—	69,182	111,771
Israeli Shekel	183	—	—	—	—	—	4,348	4,531
Japanese Yen	5,949	264,204	1,048	—	—	(177)	345,645	616,669
Mexican New Peso	3,768	(3,517)	—	—	—	—	4,506	4,757
New Taiwan Dollar	—	(32,405)	—	—	—	—	—	(32,405)
New Zealand Dollar	299	—	—	—	—	—	4,580	4,879
Norwegian Krone	79	(96)	—	—	—	—	14,289	14,272
Pound Sterling	(19)	193,942	(4,077)	—	—	9,880	261,706	461,432
Russian Ruble (New)	(768)	(202)	—	—	—	—	—	(970)
Singapore Dollar	476	(14,825)	—	—	—	—	16,505	2,156
South African Rand	—	124	—	—	—	—	—	124
South Korean Won	—	(23,110)	—	—	—	—	—	(23,110)
Swedish Krona	2,014	23,122	(678)	—	—	5,029	52,149	81,636
Swiss Franc	354	4,665	—	—	—	—	101,988	107,007
Totals	**$ 23,550**	**$ 760,895**	**$(18,616)**	**$208,660**	**$ 6,114**	**$ 349,757**	**$1,619,958**	**$2,950,318**

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 $107.1 and $306.9 million, respectively, were held in trust by the clearing brokers on June 30, 2017. 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, 2017 (amounts in thousands):

	Changes in Fair Value	
	Classification	Gain/(Loss)
Futures Contracts	Net appreciation/(depreciation)	$ (63,729)
Forward Contracts	Net appreciation/(depreciation)	18,304
Swaps	Net appreciation/(depreciation)	1,631
Options	Net appreciation/(depreciation)	27,580

	Fair Value			
	Forward Contracts	Futures	Options	Swaps
Cash & Cash Equivalents	$ (7,023)	$ 76	$ 740	$ —
Fixed Income	—	(1,377)	851	2,136
Equity	—	(24,645)	753,471	(1,027)
Alternatives	—	—	—	(8,325)
Totals	**$ (7,023)**	**$ (25,946)**	**$755,062**	**$ (7,216)**

At June 30, 2017, the Systems had the following exposure via futures contracts (amounts in thousands):

Futures Contracts	Expiration	Long/Short	Quantity	Notional Value*
90DAY EURODOLLAR FUTURE (CME).	EXP MAR 18	Short	(158)	$ (38,884)
90DAY EURODOLLAR FUTURE (CME).	EXP JUN 18	Short	(342)	(84,102)
90DAY EURODOLLAR FUTURE (CME).	EXP DEC 17	Short	(110)	(27,094)
90DAY EURODOLLAR FUTURE (CME).	EXP DEC 18	Short	(148)	(36,334)
Total Cash & Cash Equivalents				(186,414)
SPI 200 INDEX FUTURE (SFE)	EXP SEP 17	Long	671	72,687
S&P/TSE 60 INDEX FUTURE (MSE)	EXP SEP 17	Long	691	94,624
DAX INDEX FUTURE (EUX)	EXP SEP 17	Long	295	103,630
EURO STOXX 50 FUTURE (EUX)	EXP SEP 17	Long	2,784	108,944
IBEX 35 INDEX FUTURE (MFM)	EXP JUL 17	Long	329	39,047
CAC 40 EURO INDEX FUTURE (EOP)	EXP JUL 17	Long	2,025	118,171
S & P/MIB INDEX FUTURE (MIL)	EXP SEP 17	Long	244	28,524
AMSTERDAM INDEX FUTURE(E0E)	EXP JUL 17	Long	347	40,092
HANG SENG INDEX FUTURE (HKG)	EXP JUL 17	Long	257	42,115
TOPIX INDEX FUTURE (OSE)	EXP SEP 17	Long	1,708	244,966
FTSE 100 INDEX FUTURE (ICF)	EXP SEP 17	Long	1,893	178,087
OMX INDEX FUTURE (SSE)	EXP JUL 17	Long	1,548	29,416
S & P 500 EMINI IND FUT (CME)	EXP SEP 17	Long	14,603	1,767,620
Total Equity				2,867,923

US TREAS BD FUTURE (CBT).................	EXP SEP 17	Long	46	7,070
US TREAS BD FUTURE (CBT).................	EXP SEP 17	Long	75	11,527
US TREAS BD FUTURE (CBT).................	EXP SEP 17	Long	398	61,168
US ULTRA BOND (CBT)...........................	EXP SEP 17	Long	435	72,156
US ULTRA BOND (CBT)...........................	EXP SEP 17	Long	16	2,654
US 10YR ULTRA FUTURE (CBT).............	EXP SEP 17	Long	5	674
US 10YR ULTRA FUTURE (CBT).............	EXP SEP 17	Long	114	15,369
US 10 YR TREAS NTS FUTURE(CBT)....	EXP SEP 17	Long	1,619	203,235
US 10 YR TREAS NTS FUTURE(CBT)....	EXP SEP 17	Long	1,454	182,523
US 10 YR TREAS NTS FUTURE(CBT)....	EXP SEP 17	Short	(56)	(7,030)
US 5YR TREAS NTS FUTURE (CBT)......	EXP SEP 17	Long	2,619	308,612
US 5YR TREAS NTS FUTURE (CBT)......	EXP SEP 17	Long	1,625	191,483
US 5YR TREAS NTS FUTURE (CBT)......	EXP SEP 17	Short	(172)	(20,268)
US 2YR TREAS NTS FUT (CBT)..............	EXP SEP 17	Long	1,116	241,178
US 2YR TREAS NTS FUT (CBT)..............	EXP SEP 17	Long	141	30,471
EURO-OAT FUTURE (EUX)......................	EXP SEP 17	Short	(354)	(59,949)
CANADA 10YR BOND FUTURE (MSE).	EXP SEP 17	Long	28	3,030
EURO-BUND FUTURE (EUX)...................	EXP SEP 17	Long	52	9,600
JPN 10Y BOND FUTURE (OSE)................	EXP SEP 17	Short	(18)	(24,048)
LONG GILT FUTURE (ICF)........................	EXP SEP 17	Short	(116)	(18,921)
Total Fixed Income				1,210,534
Totals				**$ 3,892,043**

***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, 2017, the Systems had the following forward exposures, listed by counterparty (amounts in thousands):

Broker	Notional Value	Fair Value	Counterparty Exposure
Bank of America	$ 78,818	$ (2,377)	3.63%
Bank of Montreal	178,668	520	8.23%
BNP Paribas	503,108	(2,744)	23.16%
BNY Mellon	251,107	(2,751)	11.56%
Brown Brothers Harriman	12,202	(223)	0.56%
Citibank	23,103	(166)	1.07%
Credit Suisse International London	25,083	396	1.15%
Deutsche Bank London	4,187	(1)	0.19%
Goldman Sachs	83,851	(1,562)	3.86%
HSBC Bank PLC London	3,248	5	0.15%
JP Morgan Chase Bank	87,105	68	4.01%
Merrill Lynch International London	819	(3)	0.04%
Morgan Stanley	2,575	(104)	0.12%
Royal Bank of Canada	178,609	579	8.22%
Standard Chartered Bank London	198,519	350	9.14%
State Street Boston Capital Market	179,053	401	8.24%
Toronto Dominion	5,849	(3)	0.27%
UBS AG/Stamford	356,353	592	16.40%
Totals	**$ 2,172,257**	**$ (7,023)**	**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, 2017, for currency forwards, swap agreements, options and corresponding amounts subject to credit risk (amounts in thousands):

Quality Rating	Forwards	Swaps	Options	Total
Aa2	$ 2	$ —	$ —	$ 2
Aa3	468	(6,836)	—	(6,368)
A1	(8,104)	(2,991)	764	(10,331)
A2	350	(397)	—	(47)
A3	(104)	—	82	(22)
Baa1	(3)	—	745	742
Baa2	(1)	—	—	(1)
NR	369	—	—	369
Total subject to credit risk	$ (7,023)	$ (10,224)	$ 1,591	$ (15,656)
Centrally cleared:				
Chicago Mercantile Exchange Inc	$ —	$ 1,768	$ —	$ 1,768
Chicago Board Options Exchange	—	—	(8,538)	(8,538)
Intercontinental Exchange	—	(1,223)	—	(1,223)
LCH. Ltd	—	2,463	—	2,463
Total not subject to credit risk	$ —	$ 3,008	$ (8,538)	$ (5,530)
Total	**$ (7,023)**	**$ (7,216)**	**$ (6,947)**	**$(21,186)**

At June 30, 2017, 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	Fair Value*	Gain (Loss) Since Trade
Bank of America	Russell 2000 Proxy	Russell 2000 Index Total Return	3M T Bill - 29 bps	3/29/2018	$ (232,592)	$ 25	$ (5,592)
Barclays	Barclays US Agg Proxy	1M US Dollar + 10 bps	LBUSTRUU Index	2/28/2018	357,207	(359)	7,207
Barclays	Barclays US Agg Proxy	1M US Dollar - 8 bps	LBUSTRUU Index	9/29/2017	495,155	(497)	(4,845)
Barclays	Barclays US Credit Proxy	1M US Dollar - 15 bps	LUCRTRUU Index	9/29/2017	200,399	397	399
BNP	Russell 2000 Proxy	Russell 2000 Index Total Return	3M T Bill - 27 bps	4/30/2018	(65,000)	(580)	(0)
Goldman Sachs	BCOM F3 Preroll w/Gemini Micro	45 bps	ABGS1006 Index	8/30/2017	110,764	(868)	10,764
Goldman Sachs	BCOM F3 Preroll w/Gemini Micro	45 bps	ABGS1006 Index	9/5/2017	82,537	(4,079)	7,536
JP Morgan	JPM Enhanced Beta + SSP Proxy	3MT-Bill + 46.9 bps	JMABEBSP Index	8/31/2017	217,766	(557)	3,205
JP Morgan	JPM Palmetto Equinox Proxy TR	46.9 bps	JMABEQXT Index	9/29/2017	101,132	(938)	1,132
JP Morgan	Bloomberg Select Petroleum	9.97 bps	BCOMRPE Index	5/31/2018	49,814	(1,830)	(186)
JP Morgan	JPM Palmetto Equinox Proxy TR	3MT-Bill + 46.9 bps	JMABEQXT Index	5/31/2018	64,478	(340)	648
Societe Generale	SocGen Congestion Commodities	19 bps	SGCOP26E Index	3/29/2018	221,530	(397)	(6,347)
					$ 1,603,190	**$ (10,023)**	**$ 13,921**

Counterparty	Fixed Income Swaps	SCRS Pays	SCRS Receives	Maturity Date	Current Notional	Fair Value*
Credit Suisse AG	Credit Default Swaps	Variable Rate	Fixed Rate	9/17/2058	$ 12,500	$ (171)
JPMorgan Chase Bank	Credit Default Swaps	Variable Rate	Fixed Rate	9/17/2058	2,200	(30)
Chicago Mercantile Exchange	Credit Default and Interest Rate Swaps	Fixed / Variable Rate	Fixed / Variable Rate	various	547,287	1,768
Intercontinental Exchange	Credit Default Swaps	Variable Rate	Fixed Rate	various	136,186	2,463
LCH Ltd	Interest Rate Swaps	Fixed	Variable Rate	various	128,221	(1,223)
					$ 826,394	**$ 2,807**

******_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, 2017, the Systems had the following option positions (amounts in thousands):

Option Contracts	Underlying Security	Expiration	Quantity	Fair Value
Put July 17 001.263 ED 07/03/17	USD/GBP SPOT OPTION 2017	July 2017	(3,100,000)	$ (19)
Put July 17 001.264 ED 07/03/17	USD/GBP SPOT OPTION 2017	July 2017	(800,000)	(5)
Call Mar 18 098.75 ED 03/19/18	90DAY EURODOLLAR FUTURE MAR 18	March 2018	(444)	(17)
Put Dec 19 097.625 ED 12/16/19	90DAY EURODOLLAR FUT DEC 19	December 2019	1,229	745
Put Mar 18 098.250 ED 03/19/18	90DAY EURODOLLAR FUTURE MAR 18	March 2018	444	36
Total Cash & Cash Equivalents				740
Put July 17 101.87109375 ED70617	COMMIT TO PUR FNMA SF MTG	July 2017	(20,000,000)	$ (1)
Put Aug 18 002.800 ED 082018	IRS P USD 5Y 22BPS R 2.8%	August 2018	(21,600,000)	(99)
Put Aug 18 002.905 ED 082018	IRS P USD 30Y 98BPS R 2.905%	August 2018	4,900,000	181
Put Aug 18 002.800 ED 08/20/18	IRS P USD 5Y 22BPS R 2.8%	August 2018	(6,900,000)	(31)
Put Aug 18 002.940 ED 08/20/18	IRS P USD 30Y 97BPS R 2.94%	August 2018	1,600,000	55
Put Sept 17 084.000 ED 09/15/17	ISHARES IBOXX USD HIGH YIELD	September 2017	7,494	307
Call Sept 17 127.000 ED 091517	ISHARES 20+ YEAR TREASURY BO	September 2017	6,358	846
Call Sept 17 130.000 ED 091517	ISHARES 20+ YEAR TREASURY BO	September 2017	(6,358)	(407)
Total Fixed Income				851
Put July 17 2435.000 ED 070717	S&P 500 INDEX SPX	July 2017	(370)	$ (618)
Put July 17 2420.000 ED 072117	S&P 500 INDEX (SPX)	July 2017	(1,129)	(2,077)
Put July 17 2430.000 ED 071417	S&P 500 INDEX SPX	July 2017	(371)	(686)
Put July 17 2435.000 ED 072817	S&P 500 INDEX SPX	July 2017	(371)	(1,013)
Call Aug 17 2420.000 ED 083117	S&P 500 INDEX SPX	August 2017	(1,120)	(4,144)
Total Equity				(8,538)
Total				**$ (6,947)**

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, 2017, 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	$ 4,082,263	$ 3,354,186	$ 728,077
Private Debt	4,918,202	3,262,094	1,656,108
Real Estate	3,224,963	2,412,972	811,991
Real Assets	30,000	29,377	623
Totals	$ 12,255,428	$ 9,058,629	$ 3,196,799
Limited Partnerships Euros			
Private Equity	€ 345,750	€ 213,146	€ 132,604
Totals	€ 345,750	€ 213,146	€ 132,604
Limited Partnerships AUD			
Private Equity	$ 100,000	$ 44,600	$ 55,400
Totals	$ 100,000	$ 44,600	$ 55,400

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% 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%, 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, 2017 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, 2017, the fair value of securities on loan was $265.793 million. The fair value of the invested cash collateral was $123.275 million. Securities lending obligations were $170.536 million with an unrealized loss in invested cash collateral of $47.261 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 $47.261 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 $773 thousand, a decrease from $946 thousand 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, 2017, 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, 2017:

	SCRS	PORS	GARS	JSRS	SCNG	TOTALS
Securities lent for cash collateral:						
Corporate bonds	$ 13,085	$ 2,166	$ 15	$ 76	$ 12	$ 15,354
Global Public Equity	121,287	20,076	141	702	111	142,317
Global Fixed Income	5,950	985	7	34	6	6,982
Total securities lent for cash collateral	**$ 140,322**	**$ 23,227**	**$ 163**	**$ 812**	**$ 129**	**$ 164,653**
Securities lent for non-cash collateral:						
Corporate bonds	$ 6,347	$ 1,050	$ 7	$ 37	$ 6	$ 7,447
Global Public Equity	79,848	13,217	93	462	73	93,693
Total securities lent for non-cash collateral	**$ 86,195**	**$ 14,267**	**$ 100**	**$ 499**	**$ 79**	**$ 101,140**
Cash collateral invested as follows:						
Repurchase agreements	$ 105,059	$ 17,390	$ 122	$ 608	$ 96	$ 123,275
Total cash collateral invested	**$ 105,059**	**$ 17,390**	**$ 122**	**$ 608**	**$ 96**	**$ 123,275**
Securities received as collateral:						
U.S. Government securities	$ 88,525	$ 14,653	$ 103	$ 513	$ 81	$ 103,875
Total securities received as collateral	**$ 88,525**	**$ 14,653**	**$ 103**	**$ 513**	**$ 81**	**$ 103,875**

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, 2017, 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 the Trust's investments in the State internal cash management pool, all of the Trust'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.

The Trusts have the following recurring fair value measurements as of June 30, 2017 (amounts in thousands):

Investments by Fair Value Level	At 6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments			
Collateralized mortgage-backed obligations	$ 81,539	$ —	$ 81,539
Other Governmental guaranteed investments	190,421	—	190,421
Federal agencies	21,833	—	21,833
Repurchase agreements	20	20	—
Commercial paper	145,827	—	145,827
Corporate bonds	586,745	—	586,745
Financial paper	44,042	—	44,042
Total Investments at Fair Value	$ 1,070,427	$ 20	$ 1,070,407

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, 2017, 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	Not Rated
Collateralized mortgage-backed obligations	$ 81,539	$ —	$ —	$ —	$ —
Other Governmental guaranteed investments	190,421	—	—	—	—
Federal agencies	21,833	—	—	—	—
Repurchase Agreements	—	20	—	—	—
Commercial paper	2,000	142,226	1,601	—	—
Corporate Bonds	72,281	198,846	306,749	965	7,904
Financial Paper	—	29,275	14,767	—	—
Totals	**$ 368,074**	**$ 370,367**	**$ 323,117**	**$ 965**	**$ 7,904**

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, 2017, 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
Collateralized mortgage-backed obligations	$ 81,539	$ —	$ 192	$ 2	$ 81,345
Other Governmental guaranteed investments	190,421	77	3,715	7,941	178,688
Federal agencies	21,833	21,833	—	—	—
Repurchase Agreements	20	20	—	—	—
Commercial Paper	145,827	145,827	—	—	—
Corporate bonds	586,745	73,254	341,955	170,370	1,166
Financial paper	44,042	7,002	33,006	4,034	—
Totals	**$ 1,070,427**	**$ 248,013**	**$ 378,868**	**$ 182,347**	**$ 261,199**

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, 2017, 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 5.23% for Retiree Health Insurance.

Securities Lending

The Trusts participate in the Securities Lending Program as described in section c of this note. The Trusts have no securities lending losses as of June 30, 2017. 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, 2017:

	Amount
Securities lent for cash collateral:	
U.S. Corporate-fixed income	$ 1,916
Total securities lent for cash collateral	**$ 1,916**
Cash collateral invested as follows:	
Repurchase agreements	$ 1,916
Total for cash collateral invested	**$ 1,916**

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 governmental activities uncollectible receivables (expressed in thousands) at June 30, 2017, for the primary government were as follows:

	Governmental Activities					
	Governmental Funds					
Allowances related to	General	Departmental Program Services	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Income taxes	$ 405,070	$ —	$ —	$ —	$ —	$ 405,070
Sales and other taxes	249,793	—	—	36,249	—	286,042
Patient accounts	3,383	2,332	—	—	—	5,715
Student accounts	—	—	—	—	—	—
Other	11,849	50,113	445	—	89	62,496
Total allowances for uncollectibles	**$ 670,095**	**$ 52,445**	**$ 445**	**$ 36,249**	**$ 89**	**$ 759,323**

The enterprise fund financial statements separately present long-term receivables (net receivable balances not expected to be collected within one year). Allowances for business-type activities uncollectible receivables (expressed in thousands) at June 30, 2017 were as follows:

	Business-type Activities (Enterprise Funds)
Allowances related to	Unemployment Compensation Benefits
Assessments	$ 36,614
Other	9,305
Total allowances for uncollectibles	**$ 45,919**

Net receivables not expected to be collected within one year in governmental and internal service funds (expressed in thousands) at June 30, 2017, were as follows:

	Governmental Activities						
	Governmental Funds						
Net Long-term Receivables	General	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts	$ 21,937	$ 23,531	$ —	$ —	$ —	$ 271	$ 45,739
Income taxes	25,614	—	—	—	—	—	25,614
Sales and other taxes	476	—	—	—	—	—	476
Patient accounts	2,645	3,537	—	—	—	—	6,182
Loans and notes	33,033	429	561,476	1,087	—	—	596,025
Accounts receivable—restricted	—	—	119,765	—	—	—	119,765
Total long-term receivables, net	**$ 83,705**	**$ 27,497**	**$ 681,241**	**$ 1,087**	**$ —**	**$ 271**	**$ 793,801**

Governmental funds 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, 2017, were as follows:

	Unavailable	Unearned	Total Governmental Funds
Taxes	$ 2,757	$ —	$ 2,757
Federal grants	20,834	69,508	90,342
Contributions	85,048	293,545	378,593
Departmental services	—	5,863	5,863
Total unearned revenues	$ 108,639	368,916	$ 477,555
Internal service funds		150,513	
Total governmental activities		$ 519,429	

NOTE 6: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2017, for the primary government was as follows:

	Beginning Balances July 1, 2016	Increases	Decreases	Ending Balances June 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 2,021,158	$ 30,377	$ (2,128)	$ 2,049,407
Construction in progress	2,601,135	1,160,056	(955,290)	2,805,901
Works of art and historical treasures	7,282	—	(6)	7,276
Intangibles	12	—	—	12
Total capital assets not being depreciated	4,629,587	1,190,433	(957,424)	4,862,596
Capital assets being depreciated:				
Land improvements	113,569	1,374	(994)	113,949
Infrastructure (road and bridge network)	13,573,771	704,071	(4,015)	14,273,827
Buildings and improvements	2,090,723	101,908	(31,153)	2,161,478
Vehicles	717,703	112,224	(45,668)	784,259
Machinery and equipment	588,672	51,785	(27,759)	612,698
Works of art and historical treasures	1,508	—	—	1,508
Intangibles	136,657	1,877	(697)	137,837
Total capital assets being depreciated	17,222,603	973,239	(110,286)	18,085,556
Less accumulated depreciation for:				
Land improvements	(60,256)	(2,743)	992	(62,007)
Infrastructure (road and bridge network)	(3,670,024)	(196,374)	2,929	(3,863,469)
Buildings and improvements	(1,050,724)	(62,428)	9,373	(1,103,779)
Vehicles	(590,284)	(60,151)	43,408	(607,027)
Machinery and equipment	(435,752)	(32,155)	24,176	(443,731)
Works of art and historical treasures	(481)	(60)	—	(541)
Intangibles	(104,746)	(1,716)	317	(106,145)
Total accumulated depreciation	(5,912,267)	(355,627)	81,195	(6,186,699)
Total capital assets being depreciated, net	11,310,336	617,612	(29,091)	11,898,857
Capital assets for governmental activities, net	**$ 15,939,923**	**$ 1,808,045**	**$ (986,515)**	**$ 16,761,453**

During the fiscal year ended June 30, 2017, depreciation expense was charged to functions of the primary government (expressed in thousands):

	Governmental Funds	Internal Service Funds	Total Governmental Activities
General government	$ 3,183	$ 16,567	$ 19,750
Education	27,393	—	27,393
Health and environment	13,834	—	13,834
Social services	814	—	814
Administration of justice	27,531	460	27,991
Resources and economic development	29,794	—	29,794
Transportation	236,051	—	236,051
Total depreciation expense, governmental activities	**$ 338,600**	**$ 17,027**	**$ 355,627**

	Beginning Balances July 1, 2016	Increases	Decreases	Ending Balances June 30, 2017
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	$ 152,164	$ 18,937	$ —	$ 171,101
Construction in progress	35,534	28,006	(882)	62,658
Total capital assets not being depreciated	187,698	46,943	(882)	233,759
Capital assets being depreciated:				
Land improvements	1,244	—	—	1,244
Buildings and improvements	21,314	914	—	22,228
Vehicles	932	453	(15)	1,370
Machinery and equipment	8,182	834	(59)	8,957
Intangibles	1,136	129	—	1,265
Total capital assets being depreciated	32,808	2,330	(74)	35,064
Less accumulated depreciation for:				
Land improvements	(981)	(84)	—	(1,065)
Buildings and improvements	(5,307)	(599)	—	(5,906)
Vehicles	(686)	(73)	15	(744)
Machinery and equipment	(4,176)	(545)	58	(4,663)
Intangibles	(110)	(120)	—	(230)
Total accumulated depreciation	(11,260)	(1,421)	73	(12,608)
Total capital assets being depreciated, net	21,548	909	(1)	22,456
Capital assets for business-type activities, net	**$ 209,246**	**$ 47,852**	**$ (883)**	**$ 256,215**

Capital assets for the State's fiduciary funds were comprised of land totaling $582 thousand, a building totaling $4.749 million and equipment totaling $2.070 million with accumulated depreciation of $4.864 million. Depreciation expense for fiscal year 2017 was $269 thousand. There were additions of $65 thousand for equipment during the year.

At June 30, 2017, the primary government had outstanding construction commitments totaling $23.659 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $13.741 million for significant permanent improvement projects. 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 $172.771 million at June 30, 2017, 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 or her 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.

A summary of information related to members of the five plans is as follows at June 30, 2017:

	SCRS	PORS	GARS	JSRS	SCNG
Active Contributing Members	190,923	26,651	102	157	12,253
Retirees and Beneficiaries Currently Receiving Benefits	137,855	17,288	358	210	4,709
Terminated Members Entitiled to But Not Yet Receiving Benefits	169,806	15,001	32	2	1,969
Total Membership	498,584	58,940	492	369	18,931

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, 2017, were as follows:

Plan	Rate
SCRS	8.66% of earnable compensation
PORS	9.24% 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, 2017, were as follows:

Plan	Rate
SCRS	11.56%
PORS	14.24%
JSRS	47.97%

Contributions to SCRS, PORS, and JSRS from the State were $152.191 million, $55.534 million, and $10.534 million, respectively, for the year ended June 30, 2017. The GARS employer contribution of $4.539 million was actuarily determined and included incidental death benefits. The State contributed $4.591 million to fund the SCNG actuarially-determined employer contribution for the year ended June 30, 2017.

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

At June 30, 2017, the State reported $2.763 billion and $732.637 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, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to June 30, 2016, and financial information of the pension trust funds as of June 30, 2016, 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, 2016, the State's SCRS proportion was 12.94%, which was an increase of 0.07% from its proportion measured as of June 30, 2015. The State's PORS proportion of the net pension liability at June 30, 2016 was 28.88%, which was a decrease of 1.17% from its proportion measured as of June 30, 2015.

The State's JSRS, GARS, and SCNG net pension liabilities were also measured by actuarial valuations as of July 1, 2015, using membership data as of July 1, 2015, projected forward to June 30, 2016, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. The State assumes 100% of the JSRS, GARS, and SCNG liabilities.

For the year ended June 30, 2017, the State recognized pension expenses of $256.505 million for SCRS, $72.463 million for PORS, $13.300 million for JSRS, $4.000 million for GARS, and $3.871 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 $12.439 billion (or 58.24% of the total net SCRS pension liability) at June 30, 2017, with related pension expenses of approximately $1.081 billion for the year ended June 30, 2017. Likewise, the State's effective share of the PORS net pension liability was approximately $747.683 million at June 30, 2017 (or 29.48% of the total net PORS pension liability), with related pension expenses of approximately $74.142 million for the year ended June 30, 2017. 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, 2017, 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……………..……	$ 152,191	$ 55,534	$ 10,534	$ 4,539	$ 4,591
Change in Proportion and Differences Between Employer Contributions and Proportionate Share of Plan Contributions…………………………..	50,856	15,486	—	—	—
Net differences Between Projected and Actual Earnings on Pension Plan Investments…………………………….	232,468	83,062	10,476	2,389	1,797
Differences Between Expected and Actual Experience………………………	28,643	10,869	—	314	499
Total……………………………………..	$ 464,158	$ 164,951	$ 21,010	$ 7,242	$ 6,887
Deferred Inflows of Resources					
Change in Proportion and Differences Between Employer Contributions and Proportionate Share of Plan Contributions…………………………..	$ 51,001	$ 15,553	$ —	$ —	$ —
Differences Between Expected and Actual Experience………………………	3,000	—	4,165	—	1,090
Total……………………………………..	$ 54,001	$ 15,553	$ 4,165	$ —	$ 1,090

$227.389 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, 2018. 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
2018	$ 64,095	$ 21,149	$ 414	$ 786	$ 326
2019	49,119	20,598	757	472	326
2020	92,684	33,233	3,270	920	593
2021	52,068	18,884	1,870	525	315
2022	—	—	—	—	(59)
Thereafter	—	—	—	—	(295)
	257,966	93,864	6,311	2,703	1,206

The total pension liabilities in the July 1, 2015 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. Assumptions used in the July 1, 2015 valuations for SCRS and PORS are as follows:

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 at the end of the third quarter 2015. 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
Global Equity	**43.0%**		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	**8.0%**		
Real Estate (Broad Market)	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	**20.0%**		
GTAA/Risk Parity	10.0%	3.90%	0.39%
Hedge Funds (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	**17.0%**		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	**100.0%**		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			**7.85%**

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 (for SCRS and PORS participation amounts see final paragraph on page 105). 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	$ 493	$ 5,886	$ 689
Interest	5,301	20,022	4,594
Difference Between Actual and Expected Experience	798	(3,085)	(992)
Benefit Payments	(6,656)	(17,191)	(4,310)
Net Change in Total Pension Liability	(64)	5,632	(19)
Total Pension Liability at June 30, 2016	73,766	272,624	63,064
Total Pension Liability at June 30, 2017 (a)	$ 73,702	$ 278,256	$ 63,045
Plan Fiduciary Net Position			
Contributions - Employer	$ 4,501	$ 10,202	$ 4,591
Contributions - Member	292	2,303	—
Refunds of Contributions to Members	(22)	(60)	—
Retirement Benefits	(6,625)	(16,989)	(4,310)
Death Benefits	(9)	(143)	—
Net Investment Income (Loss)	(266)	(871)	(121)
Administrative Expense	(18)	(75)	(12)
Other	(147)	(3)	—
Net Change in Plan Fiduciary Net Position	(2,294)	(5,636)	148
Plan Fiduciary Net Position at June 30, 2016	32,482	146,353	23,202
Plan Fiduciary Net Position at June 30, 2017 (b)	$ 30,188	$ 140,717	$ 23,350
Net Pension Liability at June 30, 2017 (a) - (b)	$ 43,514	$ 137,539	$ 39,695

The following table presents the State's proportionate share of the SCRS and PORS net 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	$ 3,447,333	$ 2,763,455	$ 2,194,150
PORS	960,184	732,637	528,144
GARS	49,789	43,514	38,104
JSRS	167,529	137,539	112,020
SCNG	47,433	39,695	33,327

e. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2017, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	SCNG	Totals
Receivables:						
Contributions	$ 229,633	$ 26,152	$ 42	$ 662	$ 2	$ 256,491
Accrued interest	36,851	6,108	44	217	36	43,256
Unsettled investment sales	644,299	106,647	746	3,729	592	756,013
Other investment receivables	690	114	1	4	—	809
Total receivables	**$ 911,473**	**$ 139,021**	**$ 833**	**$ 4,612**	**$ 630**	**$ 1,056,569**
Due from other funds	**$ —**	**$ 397**	**$ —**	**$ —**	**$ —**	**$ 397**
Investments and invested securities lending collateral:						
Short-term securities	$ 556,942	$ 92,187	$ 645	$ 3,224	$ 512	$ 653,510
Fixed income	5,447,691	901,724	6,306	31,535	5,005	6,392,261
Equity-international	10,231,306	1,693,527	11,843	59,227	9,400	12,005,303
Alternatives	7,622,442	1,261,697	8,823	44,125	7,003	8,944,090
Invested securities lending collateral	105,059	17,390	122	608	96	123,275
Total investments	**$ 23,963,440**	**$ 3,966,525**	**$ 27,739**	**$ 138,719**	**$ 22,016**	**$ 28,118,439**

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, 2015 will only be able to participate in program until June 30, 2018.

A total of 7,210 members were participating in the TERI program at June 30, 2017. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2017, was as follows:

Beginning balance of TERI trust accounts	$ 712,759
Additions	307,662
TERI distributions at termination	(377,371)
Ending balance of TERI trust accounts	**$ 643,050**

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, 2017, there was $208 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 (8.66%) 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 (6.41%) 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	$ 1,422,607
Employee contributions to providers	123,198
Employer contributions to providers	71,130

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 through 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 2017. The IBD sets the employer contribution rate based on a pay-as-you-go basis. The State paid $411.799 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2017. 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, 2017.

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 ($76.932 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, 2017		June 30, 2016		June 30, 2015	
	Actuarially Required	% Contributed	Actuarially Required	% Contributed	Actuarially Required	% Contributed
SCRHI	$ 796,345	61.67%	$ 749,713	61.06%	$ 747,746	76.44%
LTDI	13,442	57.20%	13,103	54.37%	10,392	67.37%

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	2016	$ 1,026,309	$ 11,512,836	$ 10,486,527	9%	$ 8,137,662	129%
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%
LTDITF	2016	36,853	35,189	(1,664)	105%	8,376,907	<1%
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%

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, 2017, for the OPEB plans administered by the Insurance Benefits Division were as follows:

	SCRHI	LTDI	Totals
Receivables:			
Accrued interest	**$ 6,266**	**$ 260**	**$ 6,526**
Due from other funds	**$ 63,938**	**$ —**	**$ 63,938**
Investments and invested securities lending collateral:			
Debt domestic instruments	$ 848,872	$ 32,696	$ 881,568
Financial paper	42,232	810	43,042
Invested securities lending collateral	1,916	—	1,916
Total investments	**$ 893,020**	**$ 33,506**	**$ 926,526**

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
2017	$ 264,205	$ 123,375	$ (104,845)	$ 282,735
2016	264,339	90,343	(90,477)	264,205

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.

At June 30, 2017 the IRF had a balance of $9.620 million in reinsurance recoverable receivables and had expenses of $36.867 million in reinsurance premiums for the 2017 fiscal year.

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
2017	$ 216,688	$ 2,344,347	$ (2,338,418)	$ 222,617
2016	190,722	2,196,035	(2,170,069)	216,688

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
2017	$ 250,413	$ 51,595	$ (47,994)	$ 254,014
2016	239,450	58,392	(47,429)	250,413

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.

At June 30, 2017 the Fund had a balance of $1.249 million in reinsurance recoverable receivables and had expenses of $2.895 million in reinsurance premiums for the 2017 fiscal year.

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
2017	$ 34,454	$ 7,393	$ (6,342)	$ 35,505
2016	36,228	4,921	(6,695)	34,454

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
2017	$ 54,478	$ 1,362	$ (7,478)	$ 48,362
2016	64,330	-	(9,852)	54,478

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**
2017	$ 265,778	$ 573	$ (16,465)	$ 249,886
2016	288,026	-	(22,248)	265,778

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, currently known as the SFAA.

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, 2017 for the primary government were as follows (expressed in thousands):

Fiscal Year Ending June 30	Governmental Activities
2018	$ 1,953
2019	121
2020	107
2021	7
Total minimum payments	**2,188**
Less: interest and executory costs	(317)
Net minimum payments	**$ 1,871**

Assets under capital leases recorded in the accompanying government-wide statement of net position at June 30, 2017, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Governmental Activities
Machinery and equipment	$ 7,813
Assets acquired under capital leases before accumulated amortization	**7,813**
Less: accumulated amortization	(7,121)
Assets acquired under capital leases, net	**$ 692**

b. Operating Leases

For the primary government's fiscal year ended June 30, 2017, minimum rental payments under operating leases were $49.399 million and contingent rental payments were $6.098 million. The State's contingent rental payments are primarily for copiers, with expense being determined on a cost-per-copy basis.

At June 30, 2017, future minimum payments under noncancelable operating leases with initial or remaining terms in excess of one year were as follows (expressed in thousands):

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities	Totals
2018	$ 29,923	$ 31	$ 29,954
2019	25,679	32	25,711
2020	22,963	33	22,996
2021	18,514	34	18,548
2022	13,491	35	13,526
2023-2027	16,469	73	16,542
2028-2032	788	—	788
Net minimum payments	**$ 127,827**	**$ 238**	**$ 128,065**

c. Facilities and Equipment Leased to Others

At June 30, 2017, State agencies within the primary government had leased to non-State parties certain land, facilities, or equipment having a cost of approximately $59.783 million and related accumulated depreciation of $14.976 million. Future minimum rental payments to be received at June 30, 2017, under these operating leases were as follows (expressed in thousands):

Fiscal Year Ending June 30	Governmental Activities
2018	$ 5,225
2019	2,340
2020	1,949
2021	1,626
2022	1,403
2023-2027	2,021
2028-2032	456
2033-2037	61
Total	**$ 15,081**

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, 2017, were (net of unamortized premiums/discounts, expressed in thousands):

Governmental Activities:	
Capital improvement bonds, 5.00%, maturing serially through 2019	$ 26,564
State highway bonds, 4.00% to 5.00%, maturing serially through 2023	213,686
State school facilities bonds, 5.00%, maturing serially through 2018	9,021
Infrastructure Bank bonds, 2.50% to 5.00%, maturing serially through 2028	36,630
State economic development bonds, 0.65% to 5.00%, maturing serially through 2031	342,669
Research university infrastructure bonds, 3.00% to 5.00%, maturing serially through 2029	97,783
Air carrier hub terminal facilities bonds, 1.00% to 4.00%, maturing serially through 2025	29,819
Totals—primary government	**$ 756,172**

At June 30, 2017, $4.725 million of capital improvement bonds, $106.000 million of State highway bonds, $161.125 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, 2017, future debt service requirements for general obligation bonds for the primary government were (expressed in thousands):

	Governmental Activities	
Year Ending June 30	**Principal**	**Interest**
2018	$ 121,350	$ 28,255
2019	102,765	22,575
2020	85,765	17,656
2021	96,315	13,683
2022	67,945	9,629
2023-2027	171,650	17,703
2028-2031	30,750	1,898
Total debt service requirements	**676,540**	**$ 111,399**
Unamortized premiums	79,632	
Total principal outstanding	**$ 756,172**	

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, 2017, was $50.227 million for highway bonds, $357.069 million for general obligation bonds excluding institution and highway bonds, $19.010 million for economic development bonds, and $17.313 million for research university infrastructure bonds. Excluded from the debt service limit calculations are a $170.000 million 2010 issue, an $85.000 million 2013 issue, and an $18.110 million 2015 issue of economic development bonds and a $50.000 million 2010 issue of air carrier hub terminal facilities bonds which by State Law are not subject to the limitation on maximum annual debt service.

b. 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, 2017, were (net of unamortized premiums/discounts, expressed in thousands):

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 0.40% to 5.50%, maturing serially through 2041	$ 1,788,232	$ —
Department of Mental Health bonds, 2.00% to 5.00%, maturing through 2038	41,964	—
Department of Public Safety bonds, 5.00%, maturing through 2018	2,306	—
Department of Administration notes, 1.66% to 2.80%, maturing through 2022	—	14,018
Department of Education notes, 1.44%, maturing through 2022	—	14,043
Judicial Department note, 2.02%, maturing through 2021	—	3,955
Corrections Department notes, 1.81% to 5.25%, maturing through 2020	—	4,955
Totals—governmental activities	**1,832,502**	**36,971**
Business-Type Activities:		
Nonmajor enterprise fund bonds, 0.43%, maturing through 2038	**5,730**	**—**
Totals—primary government	**$ 1,838,232**	**$ 36,971**

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%, on such notional amount. For the fiscal year ended June 30, 2017, the Bank made variable bond interest payments of $2.808 million and fixed rate payments on the exchange agreement of $12.595 million. The Bank received variable swap payments on the exchange agreement of $1.549 million. The June 30, 2017 mark to market value of this swap was negative $29.733 million, representing an increase in fair value of $25.473 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	Department of Public Safety Bonds
Specific revenue pledged	Truck and vehicle registration fees; One-cent gasoline tax; contributions receivable and intergovernmental loans receivable	Delinquent registration and license penalties per SC Code Section 56-3-840
Approximate amount of pledge	$366.959 million	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 land and buildings in Blythewood for the new DPS headquarters
Term of commitment	FY 2041	FY 2018
% of revenue stream pledged	62.03%	100%
Pledged revenue recognized	$163.390 million	$4.413 million
Principal & interest paid	$139.670 million	$2.376 million

Debt Service Requirements

At June 30, 2017, 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**
2018	$ 82,888	$ 66,479	$ 175	$ 9
2019	85,451	62,285	180	8
2020	84,664	58,272	190	8
2021	85,637	54,225	195	8
2022	87,071	50,167	205	7
2023-2027	354,965	205,624	1,175	33
2028-2032	468,439	143,347	1,435	23
2033-2037	332,641	66,199	1,775	11
2038-2041	165,580	17,672	400	1
Total debt service requirements	**1,747,336**	**$ 724,270**	**5,730**	**$ 108**
Net unamortized premiums	122,137		—	
Total principal outstanding	**$ 1,869,473**		**$ 5,730**	

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, 2017, in governmental functions for these entities as follows (expressed in thousands):

	Amount
Transportation	$ 86,216
Total allocated interest expense	**$ 86,216**

c. Defeased Bonds

During July 2016, the State issued $213.595 million in revenue refunding bonds with a 2.00% to 5.00% coupon rate over the life of the issue. The net proceeds after payment of $2.932 million in issuance costs were used to refund $229.205 million of the Series 2007A and 2007B Transportation Infrastructure Bank Revenue Bonds. The bonds were refunded to reduce total debt service payments by approximately $61.909 million and to obtain an economic gain of approximately $45.813 million.

During December 2016, the State defeased the final $8.150 million in its Series 2006 Revenue Bonds. The bonds were defeased to obtain an economic gain of approximately $379 thousand.

During January 2017, the State defeased $48.760 million in Series 2006A Economic Development General Obligation Bonds, Series 2010B Economic Development General Obligation Bonds, and Series 2012A Economic Development General Obligation Bonds. The bonds were defeased to obtain an economic gain of approximately $5.700 million.

For all defeasances involving advance refundings in the current and prior years, the securities purchased were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the State has removed the defeased bonds from the accompanying financial statements. At June 30, 2017, the following outstanding bonds of the primary government were considered defeased (expressed in thousands):

	Governmental Activities
Economic Development bonds	$ 52,645
Research University bonds	20,185
Tobacco Authority bonds	64,890
Totals	**$ 137,720**

d. 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, 2017, there was no arbitrage rebate liability associated with the State's General Obligation Debt and a $545 thousand arbitrage rebate liability associated with revenue bonds of the Local Government Infrastructure Fund (a major governmental fund).

e. 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, 2017, the outstanding balance of bonds issued was $212.163 million.

NOTE 12: CHANGES IN LIABILITIES

Changes in major classes of long-term liabilities for the fiscal year ended June 30, 2017, were (expressed in thousands):

	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims	$ 765,760	$ 2,526,710	$ (2,497,599)	$ 794,871	$ 605,704
Notes payable	16,875	24,973	(4,877)	36,971	8,513
General obligation bonds payable	867,070	—	(190,530)	676,540	121,350
Unamortized discounts and premiums	95,126	—	(15,494)	79,632	—
Total general obligation bonds payable	962,196	—	(206,024)	756,172	121,350
Infrastructure Bank bonds payable	1,743,565	213,595	(286,115)	1,671,045	71,260
Unamortized discounts and premiums	110,886	17,560	(11,259)	117,187	—
Total Infrastructure Bank bonds	1,854,451	231,155	(297,374)	1,788,232	71,260
Revenue bonds payable	14,010	37,060	(11,750)	39,320	3,115
Unamortized discounts and premiums	134	4,905	(89)	4,950	45
Total revenue bonds payable	14,144	41,965	(11,839)	44,270	3,160
Capital leases payable	3,395	47	(1,571)	1,871	1,675
Compensated absences payable	228,419	165,801	(164,821)	229,399	166,658
Net pension liability	3,292,665	409,939	—	3,702,604	—
Judgments and contingencies payable	10,008	12,637	(10,008)	12,637	12,637
Arbitrage payable	1,064	—	(519)	545	—
Total long-term liabilities	$ 7,148,977	$ 3,413,227	$ (3,194,632)	$ 7,367,572	$ 990,957

	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims	$ 320,256	$ 1,935	$ (23,943)	$ 298,248	$ 25,922
Revenue bonds payable	5,895	—	(165)	5,730	175
Compensated absences payable	684	437	(466)	655	456
Net pension liability	10,937	3,299	—	14,236	—
Total long-term liabilities	$ 337,772	$ 5,671	$ (24,574)	$ 318,869	$ 26,553

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, 2017, 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	$ 51,417	$ 650	$ —	$ —	$ —	$ 52,067
Inventories	25,598	14,566	—	2,423	—	42,587
Prepaid items	10,146	1,399	—	5,003	116	16,664
Other assets	—	—	—	242	—	242
Long-term loans and notes receivable	33,033	—	—	—	—	33,033
Endowments	—	—	—	—	10,923	10,923
Total Non-spendable	120,194	16,615	—	7,668	11,039	155,516
Restricted:						
Primary and Secondary Education	144,449	75,676	—	—	104,708	324,833
Health, Human Services and Environment	148,189	538,346	—	—	43,420	729,955
Transportation	—	5,321	954,836	10,031	—	970,188
Capital Projects	—	—	—	—	67,151	67,151
Debt Service	—	—	1,129,041	—	14,243	1,143,284
Administration of Justice	—	236,187	—	—	—	236,187
Waste management	—	—	—	—	172,755	172,755
General Government	312,321	188,464	—	—	256,817	757,602
Total Restricted	604,959	1,043,994	2,083,877	10,031	659,094	4,401,955
Committed:						
General Government	1,998,369	18,135	—	497,449	347	2,514,300
Capital reserve fund	—	—	—	—	72,737	72,737
Primary and Secondary Education	53,943	—	—	—	—	53,943
Health, Human Services and Environment	84,716	—	—	—	—	84,716
Total Committed	2,137,028	18,135	—	497,449	73,084	2,725,696
Assigned:						
Primary and Secondary Education	10,827	—	—	—	—	10,827
Health, Human Services and Environment	155,662	—	—	—	5,283	160,945
General Government	128,424	—	—	—	5,816	134,240
Administration of Justice	28,483	—	—	—	—	28,483
Economic Development	51,817	—	—	—	—	51,817
Transportation	1,587	—	—	—	—	1,587
Social Programs	20,889	—	—	—	—	20,889
Total Assigned	397,688	—	—	—	11,099	408,787
Total Unrestricted, unassigned	440,357	(672,008)	—	—	—	(231,651)
Total Fund Balances	**$ 3,700,226**	**$ 406,736**	**$ 2,083,877**	**$ 515,148**	**$ 754,316**	**$ 7,460,303**

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

These are 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

These are 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, 2017 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, 2017, the Reserve met the legally-required fully funded amount.

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 "Other Adjustments" column are due to the correction of errors related to prior periods, as described on the page that follows.

	7/1/2016 Fund Equity as Previously Reported	Adjustments	7/1/2016 Fund Equity as Restated
Primary Government			
Governmental Funds:			
General Fund	$ 3,497,045	$ —	$ 3,497,045
Departmental Program Services	262,628	—	262,628
Local Government Infrastructure	2,204,154	—	2,204,154
Department of Transportation Special Revenue	373,842	—	373,842
Other Nonmajor Governmental Funds	699,027	—	699,027
Total Governmental Funds	7,036,696	—	7,036,696
Internal Service Funds	596,975	—	596,975
Government-Wide Adjustments:			
Capital assets	15,828,162	—	15,828,162
Net deferred outflows and inflows	557,047	—	557,047
Long-term liabilities	(6,496,812)	—	(6,496,812)
Total Government-Wide Adjustments	9,888,397	—	9,888,397
Total Governmental Activities	17,522,068	—	17,522,068
Business-Type Activities - Enterprise Funds:			
Unemployment Compensation Fund	559,005	25,695	584,700
Second Injury Fund	(77,061)	—	(77,061)
Other nonmajor enterprise funds	103,263	—	103,263
Total Business-Type Activities - Enterprise Funds	585,207	25,695	610,902
Total Primary Government	$ 18,107,275	$ 25,695	$ 18,132,970
Component Units			
Public Service Authority	$ 1,902,541	$ —	$ 1,902,541
MUSC	855,439	—	855,439
USC	1,102,220	—	1,102,220
Clemson University	1,205,892	—	1,205,892
State Ports Authority	909,072	—	909,072
Housing Authority	405,162	—	405,162
Lottery Commission	1,243	—	1,243
Nonmajor component units	1,587,604	(363)	1,587,241
Total Component Units	$ 7,969,173	$ (363)	$ 7,968,810

During fiscal year 2017, the following prior year errors were discovered: (1) the Unemployment Compensation Fund, a major enterprise fund, overstated its prior year allowance for doubtful accounts related to its assessments receivable by $25.695 million (2) Denmark Technical College, a nonmajor discretely presented component unit, had prior year overstatements in grants receivable, accounts receivable, inventory, and funds held for others, which totaled $363 thousand. These corrections and restatements of July 1, 2016 fund equity are shown in the "Adjustments" column above.

NOTE 15: INTERFUND AND INTRAFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2017 (expressed in thousands):

Funds	Due From	Due To
General Fund		
Departmental Program Services	$ 60,696	$ 8,984
Department of Transportation Special Revenue	751	35,356
Local Government Infrastructure	31	9,469
Nonmajor governmental funds	79	—
Internal service	680	13,072
Unemployment Compensation	1,924	—
Nonmajor enterprise funds	97	—
	64,258	66,881
Departmental Program Services		
General Fund	8,984	60,696
Department of Transportation Special Revenue	—	18,077
Internal service	—	331
	8,984	79,104
Department of Transportation Special Revenue Fund		
General Fund	35,356	751
Departmental Program Services	18,077	—
Local Government Infrastructure	15,447	1,424
Internal service	—	509
Fiduciary	—	13,313
	68,880	15,997
Local Government Infrastructure		
General Fund	9,469	31
Department of Transportation Special Revenue Fund	1,424	15,447
	10,893	15,478
Nonmajor Governmental Funds		
General Fund	—	79
Internal service	—	293
	—	372
Internal Service		
General Fund	13,072	680
Departmental Program Services	331	—
Department of Transportation Special Revenue Fund	509	—
Nonmajor governmental funds	293	—
Internal service	335	335
	14,540	1,015
Unemployment Compensation		
General Fund	—	1,924
Nonmajor Enterprise Funds		
General Fund	—	97
Fiduciary		
Department of Transportation Special Revenue	13,313	—
Fiduciary	64,335	64,335
	77,648	64,335
Totals	**$ 245,203**	**$ 245,203**

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.

Funds	Interfund Receivables	Interfund Payables	Receivables Long-term Portion
General Fund			
Departmental Program Services	$ 275	$ 650	$ —
Nonmajor enterprise funds	51,000	—	—
Internal service	142	—	142
	51,417	650	142
Departmental Program Services			
General Fund	650	275	—
Local Government Infrastructure			
Department of Transportation Special Revenue	202,458	—	177,451
Department of Transportation Special Revenue Fund			
Local Government Infrastructure	—	202,458	—
Nonmajor Governmental Funds			
Internal service	—	2,260	—
Nonmajor Enterprise Funds			
General Fund	—	51,000	—
Internal Service			
General Fund	—	142	—
Nonmajor governmental funds	2,260	—	—
	2,260	142	—
Totals	**$ 256,785**	**$ 256,785**	**$ 177,593**

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:

- $202.458 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.
- $51.000 million owed by the Palmetto Railways Fund, a nonmajor enterprise fund, to the General Fund. The $51.000 million is an interest free loan from the Department of Commerce to the Palmetto Railways Fund that matures on May 31, 2018.

The following table summarizes interfund transfers during the fiscal year ended June 30, 2017 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental Program Services	$ 12,562	$ —
Local Government Infrastructure	24,800	—
Department of Transportation	—	137,357
Nonmajor governmental funds	76,011	69,709
Unemployment Compensation Benefits	200	—
Second Injury	225	—
Nonmajor enterprise funds	2,134	—
Internal service	796	—
	116,728	207,066
Departmental Program Services		
General Fund	—	12,562
Internal service	4,325	—
	4,325	12,562
Local Government Infrastructure		
General Fund	—	24,800
Department of Transportation	—	50,000
	—	74,800
Department of Transportation		
General Fund	137,357	—
Local Government Infrastructure	50,000	—
	187,357	—
Nonmajor Governmental Funds		
General Fund	69,709	76,011
Nonmajor governmental funds	71,505	71,505
	141,214	147,516
Unemployment Compensation Benefits		
General Fund	—	200
Second Injury Fund		
General Fund	—	225
Nonmajor Enterprise Funds		
General Fund	—	2,134
Internal Service		
General Fund	—	796
Department Program Services	—	4,325
	—	5,121
Totals	**$ 449,624**	**$ 449,624**

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, 2017 (expressed in thousands):

Funds	Due From	Due To
General Fund		
USC	$ 149	$ 612
Clemson University	—	6,274
Nonmajor discretely presented component units	9,692	6,362
	9,841	13,248
Departmental Program Services		
MUSC	4,782	13,448
USC	—	3,814
Clemson University	—	3,928
Nonmajor discretely presented component units	—	1,081
	4,782	22,271
Department of Transportation Special Revenue Fund		
Nonmajor discretely presented component units	258	—
	258	—
Nonmajor Governmental Funds		
USC	—	268
Clemson University	—	151
Lottery Commission	18,826	—
Nonmajor discretely presented component units	8,207	1,367
	27,033	1,786
Internal Service		
USC	4,267	—
Nonmajor discretely presented component units	3,833	—
	8,100	—
Governmental activities total	**50,014**	**37,305**
MUSC		
Nonmajor governmental funds	13,448	4,782
USC		
General Fund	612	149
Departmental Program Services	3,814	—
Nonmajor governmental funds	268	—
Internal service	—	4,267
	4,694	4,416
Clemson University		
General Fund	6,274	—
Departmental Program Services	3,928	—
Nonmajor governmental funds	151	—
	10,353	—
Lottery Commission		
Departmental Program Services	—	18,826
Nonmajor Discretely Presented Component Units		
General Fund	6,362	9,692
Departmental Program Services	1,081	—
Department of Transportation Special Revenue Fund	—	258
Nonmajor governmental funds	1,367	8,207
Internal service	—	3,833
	8,810	21,990
Discretely presented component units total	**37,305**	**50,014**
Totals	**$ 87,319**	**$ 87,319**

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, 2017, the Educational Television Endowment of South Carolina, Inc., disbursed $5.841 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 $78 thousand at June 30, 2017.

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, 2017, the Authority entered into various transactions with SLC. Approximate amounts within the Authority that represent these transactions include: accounts receivable from SLC $101.928 million; program revenue from SLC $3.258 million; reimbursements to SLC for administrative costs $474 thousand; and payable to SLC $798 thousand.

NOTE 17: CONTINGENCIES AND COMMITMENTS

a. Litigation

Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2017, are two cases with Duke Energy that challenge the legality of certain taxes and refunds. In the event of an unfavorable outcome for these cases, the State estimates the potential loss to be $16.0 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. On February 21, 2017, the United States Supreme Court declined to review the matter, thereby bringing the case to a close.

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 SCRS. 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. At the trial of this matter before the circuit court and on appeal to the court of appeals, Plaintiff modified its request for relief related to SCRS such that it is no longer seeking a return of funds from the SCRS, but is only seeking to attach Preston's retirement benefits, thereby removing SCRS from the litigation.

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 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 issued an order on September 20, 2016 stating 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." The parties have submitted the required reports by the June 30, 2017 deadline.

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 remanded the case to that court for further consideration. The ALC issued rulings on remand in March and April, and they are now under appeal. Oral arguments were heard on September 27, 2017 but the court has not yet made a decision. The takings suit remains under a stay. Therefore, no determination has yet been made as to a risk of loss.

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 $9.9 million and $16.0 million in lost future revenues. 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, 2017, 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 2017. 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, 2017 is $5.3 million.

d. Commitments to Provide Grants and Other Financial Assistance

As of June 30, 2017, 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 $1.134 billion remaining on agreements with various counties to provide financial assistance for highway and transportation facilities projects.
- The Department of Commerce has $225.040 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, $48.889 million will be funded by federal grants.
- The Office of Regulatory Staff has $2.246 million for energy efficiency improvement projects. Federal grants will fund $2.246 million of this commitment.
- The Division of Aeronautics has $4.128 million for grants made to municipal and county airports for capital improvements. Federal grants will fund $54 thousand of this commitment.
- The State Board for Technical and Comprehensive Education has $25.599 million to provide training for new and expanding business and industry in the State.
- The Department of Public Safety has $66.666 million for pass-through grants to various State agencies, local governments, and not-for-profit entities, of which $66.561 million will be funded by federal grants.
- The South Carolina Law Enforcement Division has $7.036 million for grant program activities and pass-through grants to subrecipients, of which $7.036 million will be funded by federal grants.
- The South Carolina Judicial Department has $6.497 million outstanding commitments related to vendor service contracts.
- The South Carolina Department of Revenue has $41.645 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 $216.551 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 $104.826 million will be funded by federal grants.

e. 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 2018 in maintaining these sites is $6.892 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. On September 13, 2016 the court approved the establishment of Pinewood Trustee, Inc. to be the new trustee for the Pinewood Site. For FY2017, $5.2 million in capital budgeted funds have been deposited with the trustee to continue site improvements that will result in lower operating costs once they are completed and the budgeted $3.9 million operating funds have been placed in care of the trustee. The balances in these two accounts at June 30, 2017 were $4.7 million and $941 thousand respectively. In July 2016, the trustee embarked on a maintenance project which resulted in an extraordinary amount of leachate being removed from the site. This leachate had to be hauled out of state for disposal causing a significant increase in expenditures. This increase in spending was covered by a loan from the New Enviromental Impairment Trust Fund held by Synovus Trust. In the FY2018 budget, the legislature approved an increase of $1.8 million in order to repay this loan.

NOTE 18: DISCRETELY PRESENTED COMPONENT UNITS

a. Deposits and Investments

Deposits

As of June 30, 2017, the reported amount of the major discretely presented component units' deposits was $438.674 million and the bank balance was $451.331 million. Of the $392.331 million bank balance exposed to custodial credit risk, $42.114 million was uninsured and uncollateralized, $89.926 million was uninsured and collateralized with securities held by the pledging financial institution, and $228.640 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 unit 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 unit 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, 2017 (amounts in thousands):

Investments by Fair Value Level	At 6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments			
U.S. treasuries	$ 163,846	$ 163,846	$ —
U.S. agencies	1,830,196	1,830,196	—
Mortgage backed obligations	12,688	12,688	—
Common stock	165,954	165,954	—
Other equity securities	744,224	744,224	—
Corporate bonds	45,033	—	45,033
Repurchase agreements	54,453	—	54,453
Asset backed securities	1,041	1,041	—
Commercial paper	24,982	—	24,982
Money market mutual funds	109,231	109,231	—
Mutual bond funds	156,243	156,243	—
Other	242,763	242,763	—
Total Investments at Fair Value	$ 3,550,654	$ 3,426,186	$ 124,468

Investments measured at the net asset value (NAV)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private partnership - equity (1)	$ 45,997	$ 34,277	N/A	N/A
Private partnership - real assets (1)	9,934	16,586	N/A	N/A
Hedge funds - absolute return (2)	65,737	—	Monthly to Annually	33-95 days
Hedge funds - long/short equity (3)	25,903	—	Quarterly to Biennially	45-90 days
Equity long/short hedge funds (4)	3,441	—	Quarterly	75 days
Multi-strategy hedge funds (5)	11,316	—	Monthly	60 days
Debt securities hedge funds (6)	9,695	—	Monthly	60 days
Total investments measured at the NAV	$ 172,023	$ 50,863		
Total investments measured at fair value	$ 3,722,677	$ 3,477,049		

Investment derivative instruments			
Alternative Investments			
Interest rate swaps	(3,761)	—	(3,761)
Total investment derivative instruments	$ (3,761)	$ —	$ (3,761)
Total Invested Assets	$ 3,718,916		

(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. The portion of the State's major discretely presented component units investments with custodial credit risk is detailed (expressed in thousands) at June 30, 2017, as follows:

Investment Type	Reported Amount
U.S. treasuries	$ 163,846
U.S. agencies	1,830,196
Mortgage backed obligations	12,688
Common stock	165,954
Other equity securities	814,674
Corporate bonds	45,033
Repurchase agreements	54,453
Asset backed securities	10,974
Commercial paper	24,982
Money market mutual funds	109,231
Mutual bond funds	156,243
Other	334,403
Totals	**$ 3,722,677**

At fiscal year end, Clemson University, the Medical University of South Carolina, the State Ports Authority, and the Public Service Authority, 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	Not Rated
U.S. agencies	$ 1,795,171	$ 29,684	$ —	$ 5,341
Mortgage backed obligations	—	—	—	12,688
Corporate bonds	1,028	6,821	26,459	10,725
Repurchase agreements	54,453	—	—	—
Asset backed securities	—	—	—	10,974
Commercial paper	—	—	24,982	—
Money market mutual funds	37,574	—	—	71,657
Mutual bond funds	—	—	—	156,243
Other	—	—	—	279,914
Totals	**$ 1,888,226**	**$ 36,505**	**$ 51,441**	**$ 547,542**

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, 2017, 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	$ 163,846	$ 88,651	$ 53,511	$ —	$ 21,684
U.S. agencies	1,830,196	951,733	608,044	168,363	102,056
Mortgage backed obligations	12,688	—	9,092	2,245	1,351
Corporate bonds	45,033	8,034	25,102	11,897	—
Repurchase agreements	54,453	54,453	—	—	—
Asset backed securities	10,974	—	10,974	—	—
Commercial paper	24,982	24,982	—	—	—
Money Market Mutual Funds	75,352	75,352	—	—	—
Mutual bond funds	526	—	—	379	147
Other	120,038	—	120,038	—	—
Totals	**$ 2,338,088**	**$ 1,203,205**	**$ 826,761**	**$ 182,884**	**$ 125,238**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a component unit's investments in a single issuer. As of June 30, 2017, the Public Service Authority has 98.39% of the US Agencies investments with four issuers. 38.50% of the investments are with the Federal Home Loan Bank, 14.99% are with the Federal National Mortgage Association, 22.66% are with the Federal Farm Credit Bank, and 22.24% are with the Federal Home Loan Mortgage Corporation.

Securities Lending Program

The following securities lending disclosures apply to the State's discretely presented component units. 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, 2017. At June 30, 2017, 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, 2017, 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, 2017, 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, 2017, 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, 2017:

	Amount
Securities lent for cash collateral:	
U.S. Corporate-fixed income	$ 7,777
Total securities lent for cash collateral	**$ 7,777**
Securities lent for non-cash collateral:	
U.S. Corporate-fixed income	$ 2,007
Total securities lent for non-cash collateral	**$ 2,007**
Cash collateral invested as follows:	
Asset backed securities	$ 1,549
Repurchase agreements	4,051
Total for cash collateral invested	**$ 5,600**
Securities received as collateral:	
U.S. treasuries	$ 2,047
Total for securities collateral invested	**$ 2,047**

At June 30, 2017, the fair value of securities on loan was $16.321 million. The fair value of the invested cash collateral was $5.600 million. Securities lending obligations were $170.536 million with an unrealized loss in invested cash collateral of $2.371 million. The unrealized loss from securities lending activity was determined based on the settlement agreement between BNY Mellon and the State.

b. Capital Assets

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

	Beginning Balances January 1, 2016	Increases	Decreases	Ending Balances December 31, 2016
Public Service Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 147,591	$ 2,665	$ —	$ 150,256
Construction in progress	3,337,353	1,136,928	(181,374)	4,292,907
Total capital assets not being depreciated	3,484,944	1,139,593	(181,374)	4,443,163
Capital assets being depreciated:				
Buildings and improvements (utility plant)	7,317,951	173,266	(283,493)	7,207,724
Vehicles	62,209	517	(639)	62,087
Machinery and equipment	44,837	3,632	(2,450)	46,019
Intangibles	80,547	1,396	(479)	81,464
Total capital assets being depreciated	7,505,544	178,811	(287,061)	7,397,294
Less accumulated depreciation for:				
Buildings and improvements (utility plant)	(3,372,792)	(159,948)	28,231	(3,504,509)
Vehicles	(24,259)	(3,338)	601	(26,996)
Machinery and equipment	(14,988)	(9,607)	2,423	(22,172)
Intangibles	(69,328)	(3,144)	479	(71,993)
Total accumulated depreciation	(3,481,367)	(176,037)	31,734	(3,625,670)
Total capital assets being depreciated, net	4,024,177	2,774	(255,327)	3,771,624
Public Service Authority, net	**$ 7,509,121**	**$ 1,142,367**	**$ (436,701)**	**$ 8,214,787**

	Beginning Balances July 1, 2016	Increases	Decreases	Ending Balances June 30, 2017
State Ports Authority:				
Capital assets not being depreciated:				
Land and improvements	$ 202,613	$ 3,746	$ (162)	$ 206,197
Construction in progress	350,623	205,153	(86,077)	469,699
Intangibles	8,375	—	(6,185)	2,190
Total capital assets not being depreciated	561,611	208,899	(92,424)	678,086
Capital assets being depreciated:				
Land improvements	344,906	42,881	(461)	387,326
Buildings and improvements	335,364	25,906	(13,958)	347,312
Machinery and equipment	184,837	17,287	(2,231)	199,893
Intangibles	876	—	—	876
Total capital assets being depreciated	865,983	86,074	(16,650)	935,407
Less accumulated depreciation for:				
Land improvements	(207,569)	(16,153)	363	(223,359)
Buildings and improvements	(237,684)	(9,622)	25,096	(222,210)
Machinery and equipment	(131,639)	(12,782)	2,190	(142,231)
Intangibles	(719)	(35)	—	(754)
Total accumulated depreciation	(577,611)	(38,592)	27,649	(588,554)
Total capital assets being depreciated, net	288,372	47,482	10,999	346,853
State Ports Authority, net	**$ 849,983**	**$ 256,381**	**$ (81,425)**	**$ 1,024,939**

	Beginning Balances July 1, 2016	Increases	Decreases	Ending Balances June 30, 2017
Clemson University:				
Capital assets not being depreciated:				
Land and improvements	$ 43,722	$ —	$ (457)	$ 43,265
Construction in progress	261,665	114,610	(182,668)	193,607
Total capital assets not being depreciated	305,387	114,610	(183,125)	236,872
Capital assets being depreciated:				
Buildings and improvements	1,015,742	261,749	(650)	1,276,841
Vehicles	15,155	3,710	(765)	18,100
Machinery and equipment	384,978	20,038	(14,215)	390,801
Intangibles	24,247	36	—	24,283
Total capital assets being depreciated	1,440,122	285,533	(15,630)	1,710,025
Less accumulated depreciation for:				
Buildings and improvements	(379,670)	(25,219)	130	(404,759)
Vehicles	(11,992)	(1,147)	763	(12,376)
Machinery and equipment	(219,369)	(22,574)	13,279	(228,664)
Intangibles	(18,501)	(2,862)	—	(21,363)
Total accumulated depreciation	(629,532)	(51,802)	14,172	(667,162)
Total capital assets being depreciated, net	810,590	233,731	(1,458)	1,042,863
Clemson University, net	**$ 1,115,977**	**$ 348,341**	**$ (184,583)**	**$ 1,279,735**

	Beginning Balances July 1, 2016	Increases	Decreases	Ending Balances June 30, 2017
Medical University of South Carolina:				
Capital assets not being depreciated:				
Land and improvements	$ 97,310	$ —	$ (5,929)	$ 91,381
Construction in progress	34,439	104,357	(25,643)	113,153
Works of art and historical treasures	188	1,444	—	1,632
Total capital assets not being depreciated	131,937	105,801	(31,572)	206,166
Capital assets being depreciated:				
Land improvements	14,429	—	—	14,429
Buildings and improvements	1,636,152	21,899	(43,564)	1,614,487
Vehicles	6,000	591	(496)	6,095
Machinery and equipment	416,852	27,620	(27,583)	416,889
Intangibles	64,915	495	(50)	65,360
Total capital assets being depreciated	2,138,348	50,605	(71,693)	2,117,260
Less accumulated depreciation for:				
Land improvements	(8,167)	(626)	—	(8,793)
Buildings and improvements	(782,562)	(65,364)	36,022	(811,904)
Vehicles	(4,796)	(306)	496	(4,606)
Machinery and equipment	(277,348)	(34,042)	26,491	(284,899)
Intangibles	(32,024)	(11,204)	50	(43,178)
Total accumulated depreciation	(1,104,897)	(111,542)	63,059	(1,153,380)
Total capital assets being depreciated, net	1,033,451	(60,937)	(8,634)	963,880
MUSC, net	**$ 1,165,388**	**$ 44,864**	**$ (40,206)**	**$ 1,170,046**

	Beginning Balances July 1, 2016	Increases	Decreases	Ending Balances June 30, 2017
University of South Carolina:				
Capital assets not being depreciated:				
Land and improvements	$ 79,919	$ 2,356	$ —	$ 82,275
Construction in progress	112,551	79,307	(117,142)	74,716
Works of art and historical treasures	34,751	2,529	—	37,280
Total capital assets not being depreciated	227,221	84,192	(117,142)	194,271
Capital assets being depreciated:				
Land improvements	108,769	1,652	—	110,421
Buildings and improvements	1,640,730	112,764	(31,028)	1,722,466
Vehicles	18,248	1,321	(812)	18,757
Machinery and equipment	197,814	18,558	(5,621)	210,751
Intangibles	62,336	1,407	(71)	63,672
Total capital assets being depreciated	2,027,897	135,702	(37,532)	2,126,067
Less accumulated depreciation for:				
Land improvements	(35,931)	(4,110)	—	(40,041)
Buildings and improvements	(680,678)	(41,281)	6,684	(715,275)
Vehicles	(12,465)	(1,130)	802	(12,793)
Machinery and equipment	(151,956)	(11,672)	3,673	(159,955)
Intangibles	(18,975)	(7,288)	29	(26,234)
Total accumulated depreciation	(900,005)	(65,481)	11,188	(954,298)
Total capital assets being depreciated, net	1,127,892	70,221	(26,344)	1,171,769
USC, net	**$ 1,355,113**	**$ 154,413**	**$ (143,486)**	**$ 1,366,040**

	Beginning Balances July 1, 2016	Increases	Decreases	Ending Balances June 30, 2017
Lottery Commission:				
Capital assets being depreciated:				
Buildings and improvements	$ 1,316	$ —	$ —	$ 1,316
Vehicles	246	129	—	375
Machinery and equipment	3,228	21	—	3,249
Intangibles	556	—	—	556
Total capital assets being depreciated	5,346	150	—	5,496
Less accumulated depreciation for:				
Buildings and improvements	(1,301)	—	—	(1,301)
Vehicles	(100)	(56)	—	(156)
Machinery and equipment	(2,917)	(136)	—	(3,053)
Intangibles	(275)	(77)	—	(352)
Total accumulated depreciation	(4,593)	(269)	—	(4,862)
Total capital assets being depreciated, net	753	(119)	—	634
Lottery Commission, net	**$ 753**	**$ (119)**	**$ —**	**$ 634**

During the fiscal year ended June 30, 2017, depreciation expense was charged to the major discretely presented component units as follows (expressed in thousands):

	Depreciation Expense
Public Service Authority	$ 176,037
State Ports Authority	38,592
MUSC	111,542
USC	65,481
Clemson University	51,802
Lottery Commission	269

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

	Outstanding Construction Commitments
Public Service Authority	$ 2,457,607
State Ports Authority	160,800
MUSC	5,735
USC	96,795
Clemson University	58,111

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	$ 22,548
MUSC	8
USC	4,394
Clemson University	13,271

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
2016	$ 70,841	$ 8,253	$ (12,529)	$ 66,565
2015	82,547	4,461	(16,167)	70,841

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 2016. Policies are subject to deductibles ranging from $500 thousand to $2.000 million, with the exception of named storm losses which carry deductibles from $2.000 million up to $5.000 million. Also a $1.400 million general liability self-insured layer exists between the Authority's primary and excess liability policies. During 2016, 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 $2.000 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, 2016. There have been no third-party claims for environmental damages for 2016.

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 $13.400 billion by the Price-Anderson Indemnification Act. This $13.400 billion would be covered by nuclear liability insurance of $375.000 million per reactor unit, with potential retrospective assessments of up to $127.300 million per licensee for each nuclear incident occurring at any reactor in the United States (payable at a rate not to exceed $18.900 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 $42.400 million, not to exceed approximately $6.300 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), $1.500 billion primary and $1.250 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 $7.200 million for the primary policy, $3.200 million for the excess policy and $1.800 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 $2.750 billion accidental nuclear property damage with a sub-limit of $500.000 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 $5.000 million. This policy also carries a potential retrospective premium of approximately $42.000 million. Based on the Authority's current 45 percent ownership interest, the Authority's maximum retrospective premium would be approximately $18.900 million. The marine cargo/transit policy provides coverage of $300.000 million, with deductibles ranging from $25 thousand to $75 thousand.

On July 31, 2017 the Authority, along with SCE&G, halted the V.C. Summer Units 2 and 3 project. See Note 19 for more information.

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, 2016.

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
2016	$ 1,479	$ 2,625	$ (2,085)	$ 2,019
2015	1,321	2,377	(2,219)	1,479

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, 2017 for the State's discretely presented component units were as follows (expressed in thousands):

Fiscal Year Ending June 30	Clemson University	MUSC	USC
2018	$ 716	$ 4,579	$ 196
2019	574	3,630	177
2020	574	1,866	39
2021	574	1,497	—
2022	574	981	—
2023-2027	2,872	1,717	—
2028-2032	2,872	—	—
2033-2037	2,872	—	—
2038	404	—	—
Total minimum payments....................	**12,032**	**14,270**	**412**
Less: interest and executory costs....	(43)	(1,201)	(16)
Net minimum payments.......................	**$ 11,989**	**$ 13,069**	**$ 396**

Assets under capital leases recorded for the State's discretely presented component units at June 30, 2017, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Clemson University	MUSC	USC
Land and non-depreciable improvements..........	$ —	$ —	$ 245
Buildings and improvements...............................	14,300	—	394
Machinery and equipment...................................	1,909	18,913	548
Assets acquired under capital leases before accumulated amortization.................................	**16,209**	**18,913**	**1,187**
Less: accumulated amortization..........................	(3,415)	(5,375)	(517)
Assets acquired under capital leases, net.........	**$ 12,794**	**$ 13,538**	**$ 670**

Operating Leases

For the Public Service Authority, minimum rental payments under operating leases for the fiscal year totaled $2.100 million. The State Ports Authority had minimum rental payments under operating leases with terms of less than twelve months which totaled $2.214 million for the fiscal year. The Housing Authority had minimum rental payments under operating leases for the fiscal year which totaled $341 thousand. For Clemson University, minimum rental payments under operating leases for the fiscal year totaled $131 thousand. MUSC had minimum rental payments under operating leases for the fiscal year which totaled $4.823 million. USC had minimum rental payments under operating leases for the fiscal year which totaled $5.950 million.

At June 30, 2017, future minimum payments under noncancelable operating leases with initial or remaining terms in excess of one year were as follows (expressed in thousands):

Fiscal Year Ending December 31	Public Service Authority
2017	$ 700
2018	600
2019	600
2020	600
2021	600
Net minimum payments................	**$ 3,100**

Fiscal Year Ending June 30	Housing Authority	Clemson University	MUSC	USC	Lottery Commission
2018	$ 334	$ 3,176	$ 15,726	$ 4,634	$ 548
2019	344	2,801	14,061	1,930	560
2020	351	1,885	11,620	1,273	571
2021	360	1,563	9,278	990	582
2022	369	386	5,651	1,007	593
2023-2027	506	347	7,682	4,460	1,221
2028-2032	—	—	1,250	—	—
Net minimum payments.................	**$ 2,264**	**$ 10,158**	**$ 65,268**	**$ 14,294**	**$ 4,075**

Facilities and Equipment Leased to Others

At June 30, 2017, the State Ports Authority had leased to non-State parties certain land and facilities having a cost of approximately $35.758 million and related accumulated depreciation of $22.118 million. Also, at June 30, 2017, MUSC had leased to non-State parties certain land and facilities having a cost of approximately $1.500 million and related accumulated depreciation of $745 thousand. Future minimum rental payments to be received at June 30, 2017, under these operating leases were as follows (expressed in thousands):

Fiscal Year Ending June 30	State Ports Authority	MUSC
2018	$ 3,121	$ 141
2019	2,966	107
2020	2,792	107
2021	2,771	63
2022	1,201	—
2023-2027	4,785	—
2028-2032	5,349	—
2033-2037	5,359	—
2038-2042	5,850	—
Thereafter	5,912	—
Total...	**$ 40,106**	**$ 418**

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, 2017, were (net of unamortized premiums/discounts, expressed in thousands):

Clemson University institution bonds, 2.00% to 5.00%, maturing serially through 2036	$	160,163
University of South Carolina institution bonds, 2.50% to 5.00%, maturing serially through 2035		138,660
Medical University of South Carolina institution bonds, 2.50% to 5.00%, maturing serially through 2036		51,409

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**
2018	$ 6,950	$ 6,261	$ 4,620	$ 2,096
2019	6,750	5,929	4,090	1,881
2020	9,535	5,602	4,245	1,677
2021	9,765	5,137	2,485	1,464
2022	7,995	4,680	2,610	1,340
2023-2027	45,700	17,059	12,155	4,897
2028-2032	45,440	7,311	11,735	2,199
2033-2036	18,215	1,237	6,110	465
Total debt service requirements	**150,350**	**$ 53,216**	**48,050**	**$ 16,019**
Unamortized premiums	9,813		3,359	
Total principal outstanding	**$ 160,163**		**$ 51,409**	

	University of South Carolina	
Year Ending June 30	**Principal**	**Interest**
2018	$ 9,725	$ 6,057
2019	10,105	5,644
2020	10,590	5,144
2021	10,990	4,717
2022	11,525	4,172
2023-2027	42,875	13,582
2028-2032	29,275	5,317
2033-2036	13,575	879
Total debt service requirements	**$ 138,660**	**$ 45,512**

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 $483.275 million were outstanding at June 30, 2017.

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, 2017 and December 31, 2016 (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 2056	$ 8,268,971	$ —
Clemson University bonds, 2.00% to 5.00%, maturing serially through 2046	446,094	—
University of South Carolina bonds and notes, 1.00% to 5.00%, maturing serially through 2047	508,386	5,019
Medical University of South Carolina bonds and notes, 2.25% to 7.50%, maturing serially through 2037	514,519	43,644
State Ports Authority bonds and notes, 2.06% to 5.50%, maturing serially through 2056	465,732	84,808
State Housing Authority bonds, 0.63% to 5.50%, maturing serially through 2047	426,786	—

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 8.00% of the one-month LIBOR rate. The interest rate swap agreement matures on July 1, 2037. The notional amount as of June 30, 2017 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 67.00% of the one-month LIBOR rate. The variable rate in effect at June 30, 2017 was 0.77%. The fair value of this swap, estimated using the zero-coupon method, was negative $3.701 million as of June 30, 2017. 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, 2016 of $4.452 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, 2017 was $6.003 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, 2017 was 2.36%. The fair value of the term loan swap, estimated using the zero-coupon method, was negative $59 thousand as of June 30, 2017. 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, 2016 of $202 thousand is not recognized in these financial statements.

As of June 30, 2017, 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 June 30	Variable Rate Debt Principal	Variable Rate Debt Interest	Interest Rate Swaps, Net	Totals
2018	$ 1,700	$ 929	$ 805	$ 3,434
2019	3,500	875	759	5,134
2020	2,925	830	720	4,475
2021	2,525	791	686	4,002
2022	2,600	751	652	4,003
2023-2027	14,105	3,117	2,705	19,927
2028-2032	16,170	1,939	1,683	19,792
2033-2037	18,560	587	509	19,656
Totals............	**$ 62,085**	**$ 9,819**	**$ 8,519**	**$ 80,423**

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 70.00% of the one-month LIBOR on such notional amount. The notional amounts at June 30, 2017 were $44.993 million and $19.283 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 $64.275 million at June 30, 2017.

As of June 30, 2017, the swaps had a negative fair value of approximately $889.000 million. The unrealized loss related to these agreements recorded at June 30, 2017 is $196 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, 2016, the carrying value of the Public Service Authority's debt was $7.696 billion while the fair value was approximately $8.800 billion. At June 30, 2017, the carrying value of the State Ports Authority debt was $529.023 million while the fair value was approximately $458.000 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**
2017	$ 134,055	$ 372,670
2018	202,388	365,887
2019	202,640	359,202
2020	182,051	350,906
2021	229,378	342,783
2022-2026	1,020,387	1,586,037
2027-2031	756,670	1,413,139
2032-2036	972,136	1,221,966
2037-2041	841,172	987,869
2042-2046	1,198,035	741,352
2047-2051	1,233,380	404,068
2052-2056	823,260	102,092
Total debt service requirements	**7,795,552**	**$ 8,247,971**
Unamortized discounts and premiums	473,419	
Total principal outstanding	**$ 8,268,971**	

	State Ports Authority		State Housing Authority	
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**
2018	$ 8,698	$ 24,279	$ 11,590	$ 15,283
2019	9,485	23,922	16,775	14,960
2020	9,840	23,543	14,710	14,463
2021	10,220	23,144	15,355	13,962
2022	10,635	22,720	15,935	13,417
2023-2027	76,401	104,439	84,930	57,521
2028-2032	44,802	93,773	92,830	40,016
2033-2037	57,172	82,462	87,265	20,981
2038-2042	54,390	70,027	62,655	8,701
2043-2047	68,875	55,541	13,855	1,470
2048-2052	88,715	35,702	—	—
2053-2056	89,790	9,737	—	—
Total debt service requirements	**529,023**	**$ 569,289**	**415,900**	**$ 200,774**
Unamortized premiums and discounts	21,517		10,886	
Total principal outstanding	**$ 550,540**		**$ 426,786**	

Year Ending June 30	Clemson University Principal	Clemson University Interest	University of South Carolina Principal	University of South Carolina Interest
2018	$ 12,160	$ 16,972	$ 20,029	$ 25,877
2019	10,750	16,584	14,990	20,072
2020	11,245	16,088	15,700	19,368
2021	11,040	15,557	16,125	18,594
2022	11,540	15,048	16,900	17,820
2023-2027	61,185	66,919	94,720	76,178
2028-2032	62,590	53,220	101,415	52,927
2033-2037	74,855	40,950	94,255	28,565
2038-2042	90,045	25,769	52,680	9,764
2043-2047	74,400	6,881	19,305	2,000
Total debt service requirements	**$ 419,810**	**$ 273,988**	**$ 446,119**	**$ 271,165**
Unamortized discounts and premiums	26,284		67,286	
Total principal outstanding............	**$ 446,094**		**$ 513,405**	

Year Ending June 30	Medical University of South Carolina Principal	Medical University of South Carolina Interest
2018	$ 30,093	$ 15,293
2019	46,653	14,331
2020	36,343	23,428
2021	37,723	23,173
2022	38,965	21,931
2023-2027	172,830	64,369
2028-2032	151,705	17,251
2033-2037	41,685	1,466
Total debt service requirements	**$ 555,997**	**$ 181,242**
Unamortized discounts and premiums	2,166	
Total principal outstanding............	**$ 558,163**	

Bond Anticipation Notes

At June 30, 2017, 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, 2016, the Public Service Authority issued $543.745 million of 2016 Tax-Exempt Refunding Series A Bonds with an all-in true interest cost of 3.66%, which were used to refund $562.950 million of bonds with an average interest rate of 5.36%. The bonds were refunded and restructured to decrease total debt service payments over the next thirty-four years by approximately $122.440 million and to obtain an economic gain of approximately $77.674 million.

Also in its fiscal year ended December 31, 2016, the Public Service Authority issued $508.705 million of 2016 Tax-Exempt Refunding Series B Bonds with an all-in true interest cost of 3.75%, which were used to refund $97.715 million of bonds with an average interest rate of 5.00%. The bonds were refunded and restructured to decrease total debt service payments over the next twenty-five years by approximately $13.783 million and to obtain an economic gain of approximately $9.207 million.

Finally, in its fiscal year ended December 31, 2016, the Public Service Authority issued $52.400 million of 2016 Tax-Exempt Refunding Series C Bonds with an all-in true interest cost of 3.11%, which were used to refund $60.725 million of bonds with an average interest rate of 4.74%. The bonds were refunded and restructured to increase total debt service payments over the next twenty-one years by approximately $10.640 million and to obtain an economic gain of approximately $2.119 million.

In addition, at December 31, 2016, $1.053 billion of bonds associated with the Public Service Authority were considered defeased.

During July 2016, The University of South Carolina issued $67.820 million in Series 2016 Revenue Refunding Bonds, with an aggregate all-in true interest cost of 2.79%. The net proceeds after payment of $511 thousand in issuance costs were used to refund $52.450 million of the 2008 Series A Revenue Bonds and $23.510 million of Series 2009A Revenue Bonds with an average interest rate of 4.72%. The refunding transaction resulted in an aggregate debt payment reduction of $18.011 million over the next twenty three years and an economic gain of $14.335 million.

Also, during July 2016, The University of South Carolina issued $22.400 million in Series 2016A Athletic Facilities Revenue Refunding Bonds, with an aggregate all-in true interest cost of 2.75%. The net proceeds after payment of $195 thousand in issuance costs were used to refund $24.040 million of the 2008 Series A Athletic Facilities Revenue Bonds with an average interest rate of 4.30%. The refunding transaction resulted in an aggregate debt payment reduction of $6.781 million over the next twenty-two years and an economic gain of $5.475 million.

During April 2017, The Medical University of South Carolina issued $25.115 million in Series 2017 Revenue Refunding Bonds, with an aggregate all-in true interest cost of 2.73%. The net proceeds after payment of $253 thousand in issuance costs were used to refund $27.080 million of the Series 2006 Revenue Bonds with an average interest rate of 4.23%. The refunding transaction resulted in an aggregate debt payment reduction of $3.519 million over the next fourteen years and an economic gain of $2.638 million.

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, 2017, the outstanding balance of bonds issued was $287.504 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, 2017, the outstanding balance of bonds issued after June 30, 1995, was $3.742 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, 2017 are reported as notes payable. Other relevant information regarding these accounts is provided below.

The Public Service Authority has recorded a $399.899 million liability for commercial paper notes at its fiscal year ended December 31, 2016. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has an $750.000 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement during 2016.

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 $10.000 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, 2017, there were no advances under this line of credit. The line of credit expired during June 2017 and was renewed with essentially the same terms through June 22, 2018.

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 $20.000 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, 2017, the University of South Carolina Educational Foundation has an outstanding balance of $3.933 million on this line of credit. Interest only payments on this line of credit were due beginning in August 2015 and the entire principal balance and any outstanding interest are due in June 2019.

f. Changes in Liabilities

Public Service Authority	Balances at January 1, 2016	Increases	Decreases	Balances at December 31, 2016	Amounts Due Within One Year
Policy claims	$ 1,479	$ 2,625	$ (2,085)	$ 2,019	$ 2,019
Revenue bonds payable	7,134,232	1,572,590	(911,270)	7,795,552	134,055
Unamortized discounts and premiums	345,133	173,145	(44,859)	473,419	—
Total revenue bonds payable	7,479,365	1,745,735	(956,129)	8,268,971	134,055
Compensated absences payable	21,034	2,879	(2,013)	21,900	—
Net pension liability	286,300	38,656	—	324,956	—
Total long-term liabilities	$ 7,788,178	$ 1,789,895	$ (960,227)	$ 8,617,846	$ 136,074

State Ports Authority	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017	Amounts Due Within One Year
Notes payable	$ 41,056	$ 45,000	$ (1,248)	$ 84,808	$ 3,163
Revenue bonds payable	449,485	—	(5,270)	444,215	5,535
Unamortized discounts and premiums	21,942	—	(425)	21,517	—
Total revenue bonds payable	471,427	—	(5,695)	465,732	5,535
Compensated absences payable	3,474	2,217	(2,813)	2,878	2,878
Net pension liability	74,296	5,369	—	79,665	—
Total long-term liabilities	$ 590,253	$ 52,586	$ (9,756)	$ 633,083	$ 11,576

Housing Authority	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017	Amounts Due Within One Year
Revenue bonds payable	$ 411,575	$ 117,000	$ (112,675)	$ 415,900	$ 11,590
Unamortized discounts and premiums	10,648	4,034	(3,796)	10,886	—
Total revenue bonds payable	422,223	121,034	(116,471)	426,786	11,590
Compensated absences payable	821	578	(601)	798	601
Arbitrage payable	41	—	(41)	—	—
Net pension liability	13,391	1,040	—	14,431	—
Total long-term liabilities	$ 436,476	$ 122,652	$ (117,113)	$ 442,015	$ 12,191

Clemson University	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017	Amounts Due Within One Year
General obligation bonds payable	$ 104,435	$ 52,395	$ (6,480)	$ 150,350	$ 6,950
Unamortized discounts and premiums	6,397	4,405	(989)	9,813	—
Total general obligation bonds payable	110,832	56,800	(7,469)	160,163	6,950
Revenue bonds payable	430,050	—	(10,240)	419,810	12,160
Unamortized discounts and premiums	27,587	—	(1,303)	26,284	—
Total revenue bonds	457,637	—	(11,543)	446,094	12,160
Capital leases payable	12,967	—	(978)	11,989	709
Compensated absences payable	28,956	10,648	(14,033)	25,571	14,967
Net pension liability	509,742	63,427	—	573,169	—
Total long-term liabilities	$ 1,120,134	$ 130,875	$ (34,023)	$ 1,216,986	$ 34,786

Medical University of South Carolina	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017	Amounts Due Within One Year
Notes payable	$ 60,438	$ —	$ (16,794)	$ 43,644	$ 6,686
General obligation bonds payable	52,985	—	(4,935)	48,050	4,620
Unamortized discounts and premiums	3,945	—	(586)	3,359	—
Total general obligation bonds payable	56,930	—	(5,521)	51,409	4,620
Revenue bonds payable	491,778	69,644	(49,069)	512,353	23,407
Unamortized discounts and premiums	—	2,237	(71)	2,166	—
Total revenue bonds	491,778	71,881	(49,140)	514,519	23,407
Capital leases payable	14,339	2,974	(4,244)	13,069	4,164
Compensated absences payable	34,712	19,899	(23,449)	31,162	19,233
Net pension liability	1,025,132	158,981	—	1,184,113	—
Total long-term liabilities	$ 1,683,329	$ 253,735	$ (99,148)	$ 1,837,916	$ 58,110

Lottery Commission	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017	Amounts Due Within One Year
Compensated absences payable	$ 794	$ 475	$ (498)	$ 771	$ 481
Net pension liability	13,605	1,426	—	15,031	—
Total long-term liabilities	$ 14,399	$ 1,901	$ (498)	$ 15,802	$ 481

	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017	Amounts Due Within One Year
University of South Carolina					
Notes payable	$ 5,942	$ 77	$ (1,000)	$ 5,019	$ 5,019
General obligation bonds payable	147,990	—	(9,330)	138,660	9,725
Revenue bonds payable	423,790	130,545	(113,235)	441,100	15,010
Unamortized discounts and premiums	47,450	22,923	(3,087)	67,286	—
Total revenue bonds	471,240	153,468	(116,322)	508,386	15,010
Capital leases payable	14,824	—	(14,428)	396	185
Compensated absences payable	35,367	25,700	(28,523)	32,544	22,131
Net pension liability	784,144	95,602	—	879,746	—
Total long-term liabilities	$ 1,459,507	$ 274,847	$ (169,603)	$ 1,564,751	$ 52,070

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, 2017 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 January 1, 2016	Increases	Decreases	Balances at December 31, 2016
Public Service Authority				
Commercial paper notes	$ 597,520	$ 137,089	$(334,710)	$ 399,899

	Balances at July 1, 2016	Increases	Decreases	Balances at June 30, 2017
University of South Carolina				
Line of credit	$ 18,933	$ —	$ (15,000)	$ 3,933

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, 2016, the trade guarantees are an amount not to exceed approximately $84.500 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 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 $369.600 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 45.00% 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 $5.100 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 45.00% 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.

On July 31, 2017 the Authority, along with SCE&G, halted the V.C. Summer Units 2 and 3 project. See Note 19 for more information.

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 $19.200 million during the Authority's fiscal year ended December 31, 2016.

During the fiscal year ended June 30, 2002, the State Ports Authority resolved to contribute a total of $45.000 million over twenty-six years to the Local Government Infrastructure Fund, a major governmental fund, for the Cooper River Bridge project in Charleston. The Authority made a payment of $1.000 million during the fiscal year ended June 30, 2017.

Clemson University provided computer services and information systems development to other State agencies for a fee. These fees totaled $594 thousand and $39.048 million for the fiscal year ended June 30, 2017.

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, 2016, as follows (expressed in thousands):

Customer	Revenue	Revenue
Central Electric Power Cooperative, Inc	$ 1,018,000	59%

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

State Ports Authority

During the fiscal year ended June 30, 2017, of the State Ports Authority's total revenues, three customers accounted for approximately 25%, 16%, and 12% each. The Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Authority maintains reserves for potential credit losses.

j. Contingencies and Commitments

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 heard on February 15, 2017 by the Court of Appeals. 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. 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. The matter has been resolved against one contractor through a settlement agreement, while the litigation continues against the remaining contractor defendant. 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. 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 Authority and the USDE would result in an economic loss to the Authority. Therefore on June 22, 2016, the State Fiscal Accountability Authority delegated to the South Carolina Student Loan Corporation (SCSLC) the authority to communicate with the United States Department of Education (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 affect 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. Effective December 1, 2016, the Authority transferred to ECMC and ECMC accepted the transfer of all of the Authority's outstanding guarantees and its post-claim portfolio. In addition, the Authority and ECMC agreed to a sixty-month period beginning December 1, 2016 through December 1, 2021, during which the Authority will reimburse ECMC up to $737,000 of the Default Aversion Fee previously earned from USDE which must be rebated to the USDE due to claims filed by the eligible lender during this sixty-month period. The quarterly billing of these rebates will be paid from the Agency Operating Fund. The State's default rate for the period ended September 30, 2016, was 2.0%.

Purchase Commitments – Public Service Authority

At December 31, 2016, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $297.918 million for coal. In addition, minimum obligations under two purchased power contracts as of December 31, 2016, were approximately $49.400 million with a remaining term of nineteen years. Also at December 31, 2016, the Authority had commitments for nuclear fuel and nuclear fuel conversion contracts of $357.200 million over the next twenty-one years.

The Authority amended a service agreement to an approximate amount of $97.200 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 July 31, 2017 the Authority, along with SCE&G, halted the V.C. Summer Units 2 and 3 project. See Note 19 for more information.

Purchase Commitments – Ports Authority

At June 30, 2017, the Ports Authority had construction commitments of approximately $160.800 million and non-construction commitments for property, plant and equipment of approximately $22.600 million. The Ports Authority recorded a liability of approximately $4.200 million equal to the final project costs on the 52 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 $8.022 million from the Housing Trust Fund for affordable housing projects and developments.

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 $188.725 million in revenue refunding bonds, Series 2017, on July 27, 2017.
- The State issued state institution bonds, Series 2017B, in the amount of $39.450 million on behalf of the University of South Carolina, a major discretely presented component unit, on August 24, 2017.
- The State issued higher education revenue refunding bonds, Series 2017A, in the amount of $20.840 million on behalf of the University of South Carolina, a major discretely presented component unit, on September 14, 2017.
- The State issued athletic facilities revenue bonds, Series 2017B, in the amount of $46.990 million on behalf of the University of South Carolina, a major discretely presented component unit, on September 14, 2017.
- The State issued state institution bonds, Series 2017A, in the amount of $75.005 million on behalf of Clemson University, a major discretely presented component unit, on August 24, 2017.
- The State issued state institution refunding bonds, Series 2017A, in the amount of $45.880 million on behalf of Clemson University, a major discretely presented component unit, on August 24, 2017.

On September 7, 2017, the Housing Authority, a major discretely presented component unit, issued $55.000 million in mortgage revenue bonds, Series 2017B.

The Public Service Authority, a major discretely presented component unit, drew $40.500 million from a revolving credit agreement after December 31, 2016.

b. Palmetto Railways

On March 9, 2017, the Division signed an Asset Purchase and Sale Agreement with Hampton & Branchville Railroad Company to purchase the railroad and related assets of a 45+ mile railroad in Hampton and Colleton County for $6.5 million.

On March 2, 2017, the Division sold 9.3 acres of land in North Charleston for $2.1 million.

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 former State Budget and Control Board, currently known as State Fiscal Accountability Authority, 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, a 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 Blue Ribbon Committee's 6-4-2 Loan over a period of three years effective fiscal year 2017. $8.000 million of the loan was forgiven in fiscal year 2017, and $2.000 million in each fiscal year 2018 and 2019 will be forgiven as well.

d. Ports Authority Construction Project

On July 19, 2017, the Ports Authority executed a Project Partnership Agreement (PPA) with the Department of the Army to commence the construction of the harbor deepening project for the Charleston Harbor. As of the effective date of the agreement, construction costs are projected to be $533 million. The State of South Carolina has appropriated $300 million plus interest earned for the harbor deepening project with the remainder of the costs, not allocated by the federal government for their defined share, being the responsibility of the Ports Authority. The current estimated difference between funds currently on hand and those left to be allocated to complete the project is the $221.9 million. The US Army Corps of Engineers Charleston District was awarded $17.5 million in Federal appropriated funds in May 2017 and requests have and will be made in timely manner for the appropriation of the remaining federal share. However, award of these funds is not guaranteed.

Subsequent to fiscal year-end, the Ports Authority has provided $243 million of State appropriated funds under the terms of the PPA.

The Port Royal property was transferred to the Department of Administration for negotiating the sale of the property and vetting the potential purchasers of the property .On September 20, 2017, the Department of Administration closed on the sale of the Port Royal property with a sales price of $9 million. After settlement of all fees and costs associated with the sale, the net proceeds to the Ports Authority is $8.7 million. The Ports Authority has reflected this transaction in the financial statements as of June 30, 2017.

e. 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 (DHSS) 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. The transfer of the BabyNet program to DHHS will result in First Steps recognizing a decrease in net position of $267,035 which will be recognized during the fiscal year ending June 30, 2018. This amount represents the net position of First Steps that will be transferred to DHHS, which consists of a portion of capital assets related to the operations of the BabyNet program. No other consideration will be received or provided by First Steps.

f. Department of Transportation 2017 Legislative Actions

During the 2017 Legislative session Act 40, the "Roads Bill", was adopted to provide the Department with a sustainable and significant increase in revenue. The motor fuel user fees will increase by 2 cents per year, beginning July 2017, and continue to increase by 2 cents per year for the next 6 years for a total of 12 cents by July 2022. In addition to motor fuel user fees, Act 40 increased a variety of motor vehicle fees, the maximum sales and use tax and created an infrastructure maintenance fee. During FY17-18, the Department expects to receive an additional $169 million in Act 40 revenues. The new revenues are to be largely allocated specifically to the long term maintenance and preservation of the state road system. Over the next ten years, with the assistance of these funds, the Department will improve dangerous rural roads, replace fifty percent of the state's structurally deficient bridges, resurface and rebuild fifty percent of the state's highways and embark on various Interstate widening projects. At full implementation, the 2017 Roads Bill will add an estimated additional $600 million for South Carolina highway infrastructure.

g. 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, 2017 the State of South Carolina has requested reimbursement from FEMA in the amount of $3.8 million. The recovery from this storm remains primarily related to roads, bridges and other transportation infrastructure. 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, 2017 of $110.7 million of which $64.6 million has been received in federal assistance. Additional federal assistance is expected up to $24.9 million and will be based upon total costs and their federal assistance eligibility.

During October 2016, South Carolina received another devastating 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. As of June 30, 2017 the State of South Carolina has requested reimbursement from FEMA in the amount of $8.5 million. Again the primary impact of this storm was with roads, bridges and infrastructure. 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 $100.1 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 $30.4 million. During the 2017 Legislative Session, the General Assembly provided funding to the Department as the required match to Federal Emergency Management assistance. The Department has incurred costs through June 30, 2017 of $54.8 million of which $7.0 million has been received in federal assistance. Additional approved federal assistance of $22.8 million has been accrued as of June 30, 2017.

h. Public Service Authority Ceases the Joint Construction Project (V.C. Summer Units 2 and 3)

On July 31, 2017, the Public Service Authority (the Authority) and SCE&G (the Authority's project partner- see note 18 g) halted construction and announced their decision to cease construction on the V.C. Summer Units 2 and 3 project. In 2008 the Authority and SCE&G entered into a fixed-price contract with Westinghouse Electric Company to construct the two units. However, since the project's inception it had experienced significant cost overruns and delays, producing escalating estimates of the total costs for project, which had increased to more than twice the initial $11.500 billion total cost estimates. Complicating these problems, Westinghouse filed for chapter 11 bankruptcy protection on March 29, 2017.

The Authority estimates that at July 31, 2017, it had $4.800 billion of construction in progress attributed to this halted project. In addition, the Authority is aware of approximately $132.750 million in mechanics liens filed against the project. On the other hand, the Authority anticipates a settlement payment of $898.684 million from Toshiba, the parent company of Westinghouse, as a result of the bankruptcy settlement.

The State is currently evaluating options that include selling the Authority or selling the related construction in progress to another entity to finish the project, yet it has made no decision at this time. In addition, the Authority has not yet determined how it will account for the ceased project and reflected in its December 31, 2017 financial statements.