



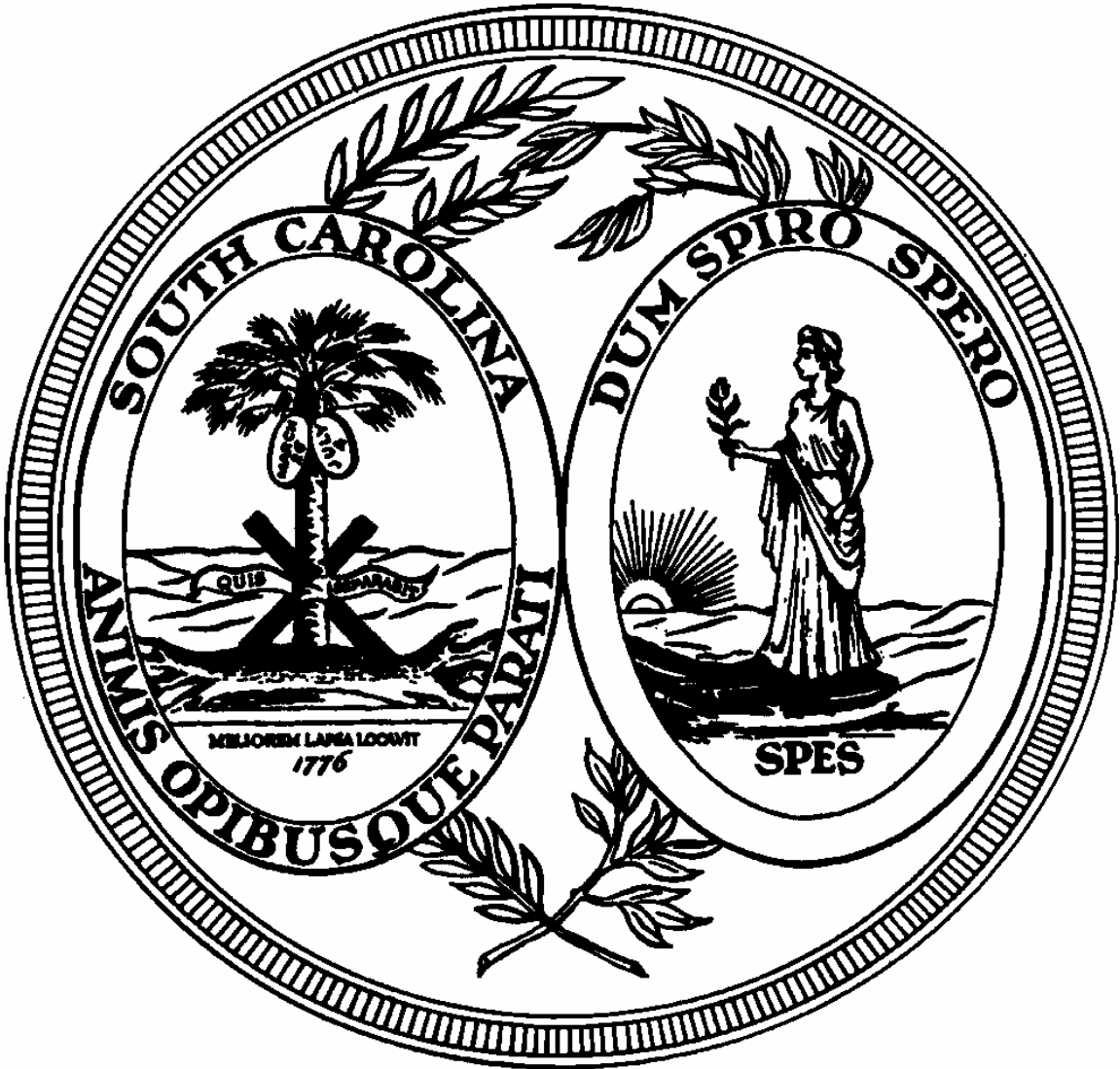
**STATE OF
SOUTH CAROLINA**

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30,**

2007

Prepared by the Comptroller General's Office



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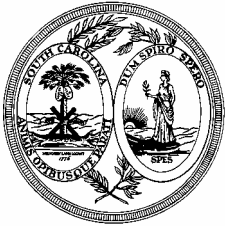
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Introductory Section



Letter of Transmittal
Certificate of Achievement
Principal State Officials
Organization Chart



State of South Carolina
Office of Comptroller General

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RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

NATHAN KAMINSKI, JR., Esq.
CHIEF OF STAFF

November 15, 2007

**To the Citizens, Governor and
Members of the South
Carolina General Assembly**

I am pleased to present to the citizens of South Carolina this Comprehensive Annual Financial Report for the State of South Carolina for the fiscal year ended June 30, 2007. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year. For the convenience of users, we have divided the report into three sections as follows:

- The Introductory Section, containing this letter of transmittal; the Certificate of Achievement for Excellence in Financial Reporting that we recently received for our report as of June 30, 2006; a list of State officials; and an organizational chart of State government.
- The Financial Section, including the report of the independent auditors, management's discussion and analysis, government-wide financial statements, fund financial statements, required supplementary information, other combining financial statements, and schedules.
- The Statistical Section, presenting comparative financial data and other non-financial data.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that was established for this purpose. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor and Clifton Gunderson LLP, an independent certified public accounting firm, jointly performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2007. The auditors have issued an unqualified opinion, the most favorable outcome of the audit process.

This letter of transmittal is designed to complement management's discussion and analysis that immediately follows the report of the independent auditors.

PROFILE OF THE GOVERNMENT

South Carolina extends from the Atlantic Ocean westward to the Blue Ridge Mountains, containing over 30,000 square miles. Fortieth in geographic area among the fifty states, South Carolina ranks twenty-fifth in population with approximately 4.3 million citizens.

As shown in the organization chart on page 17, State government is divided into three separate branches: legislative, executive, and judicial. The State's citizens elect the legislative and executive branch officials. The General Assembly elects certain members of the judicial branch, including the Supreme Court. The principal State officials currently in office are listed on page 16.

State government provides a full range of services to South Carolina's citizens including educational, health, social/human, transportation, public safety, regulatory, and conservation/natural resources services. In addition, the State provides grants and loans to assist local governments, including school districts, within its borders.

Certain legally separate entities are included in these financial statements because they function, in essence, as part of State government. The Governor appoints the governing boards for the Public Service Authority, a public utility company, and the State Ports Authority. The Connector 2000 Association, Inc. assists the State's Department of Transportation on a toll road project. The Lottery Commission transfers its net proceeds to the State for educational programs. Other entities benefit and support institutions of higher education, provide medical malpractice insurance, and address medical and educational needs of South Carolina's children. Additional information on these legally separate entities can be found in the notes to the financial statements.

South Carolina's annual Appropriations Act includes legally adopted budgets for the Budgetary General Fund and for Total Funds. The initial budget appears in the annual Appropriations Act. After the budget year begins, the State Budget and Control Board, comprised of five key executive and legislative officials, may order spending cuts if revenue collections fail to reach predicted levels. Departments and agencies may request transfers of appropriations among programs if the transfer request does not exceed 20% of the program budget. The Budget and Control Board has the authority to approve additional transfers of appropriations between personal service and other operating expense accounts. For additional information, see the notes to the required supplementary information - budgetary.

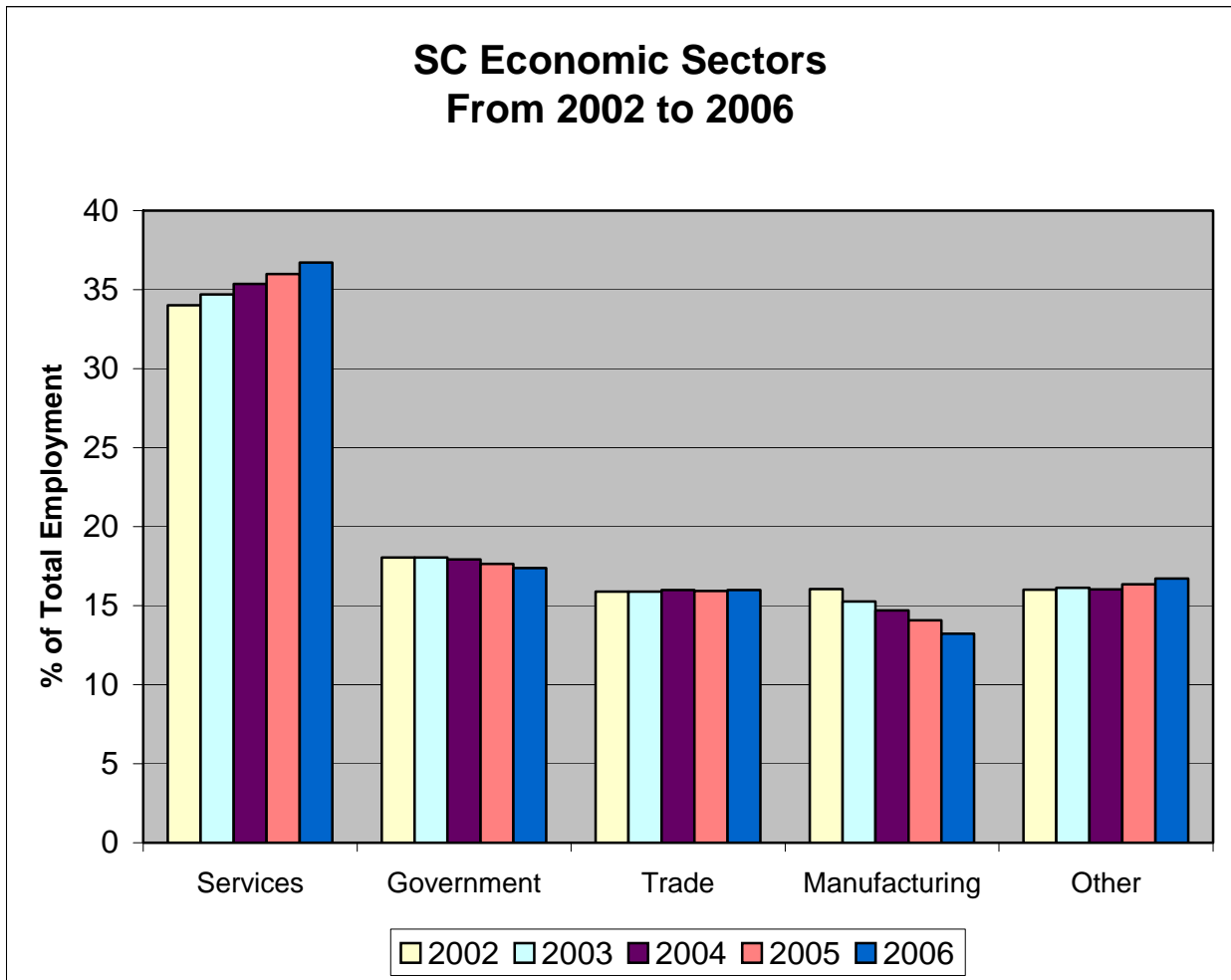
STATE ECONOMY

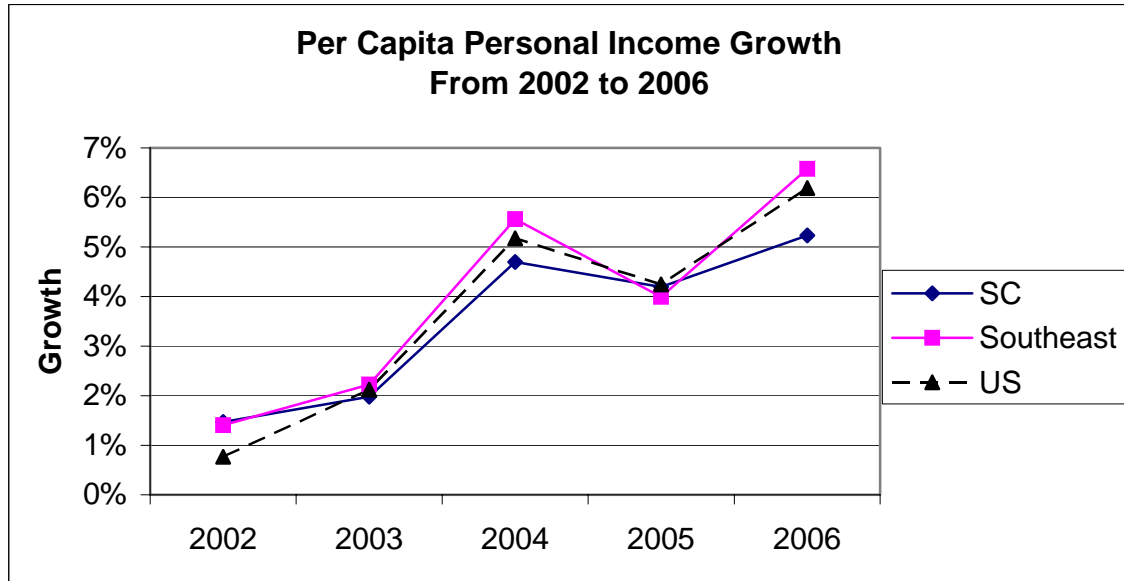
South Carolina historically has been a diverse manufacturing state; however, the State's economic base has undergone a gradual transition to other sectors such as trade, health care, services, and durable goods manufacturing. Businesses have migrated here from all over the world to take advantage of the State's skilled labor force, competitive wages, lower-priced land, excellent port facilities, and accessibility to markets, and in recent years, substantial tax incentives.

Overall, South Carolina continues to post strong job growth with total employment up 33,100 jobs, a gain of 1.7% over the last twelve months. Although manufacturing still plays a big role in the State's economy, South Carolina's economic base has become more diversified including growth in leisure and hospitality, retail trade and service. Employment in the State's manufacturing sector has been declining and now represents only about 14%, a decrease from 16% over the past five years. Non-durable goods manufacturing, primarily related to the textile and apparel industry, has seen the greatest decline over the past five years. Offsetting these declines was growth in the manufacturing of other goods, such as the production of transportation equipment, fabricated metals, and chemicals. The strongest employment gains have been in the State's service sector which has risen from 34% of

total employment to 37% during the past five years. This sector, fueled by tourism, educational, and healthcare industries has contributed to a more diversified overall employment base and improved income levels.

Although the State's unemployment rate is higher than the national average, the State has experienced growth in its labor force. As the State's economy has continued to generate jobs, the jobless rate has fallen from 6.8% for the calendar year 2005 to 6.5% for the calendar year 2006. However, because the size of the labor force had been growing at approximately the same pace as total employment, the unemployment rate has not decreased substantially. Beginning in calendar year 2006 and continuing into 2007, the rapid influx of new job seekers slowed, resulting in a decrease in the unemployment rate.





South Carolina's per capita income for 2006 increased to \$29,688, or 5.2% over 2005. Although the 2006 increase was below the national (6.2%) and southeastern states (6.6%) growth rates, it ranked as the highest per capita personal income growth rate for the State in the last five years.

South Carolina's population at July 1, 2006, was 4.3 million. The State's rate of population growth is presently the fourteenth fastest in the nation.

For the calendar year 2006, the South Carolina Department of Commerce reported \$2.99 billion in new capital investment that is expected to create about 14,000 new jobs. The State's rural communities will benefit from this growth with nearly 30% of the newly created jobs being located in rural communities.

LONG-TERM FINANCIAL PLANNING

Beginning with fiscal year 2005–2006, State law requires agencies receiving 1% or more of the total annual General Fund appropriations to provide an estimate of their general fund expenditures for the next three fiscal years. The State Budget Office combines these expenditure estimates with long-term revenue estimates made by the State's *Board of Economic Advisors* (BEA) to create a three-year financial plan. The three-year financial plan will assist the State in strategically assessing its future financial commitments. The plan is updated annually and provided to the State's Budget and Control Board, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate during the second quarter of each fiscal year.

Principal financial challenges facing state government include anticipated future spending increases for Medicaid, State retirement and health benefits (including post employment benefits), and elementary and secondary education.

The State's long-term financial management practices include a five-year capital improvement plan, which requires funding to be in place before beginning construction on any capital improvement projects.

RELEVANT FINANCIAL POLICIES

The State's legislature is required to adopt a balanced budget annually based on revenue projections provided by the BEA. State law requires the BEA to meet at least quarterly to review how actual revenue collections compare with its earlier projections, and to adjust its projections if necessary. If the BEA reduces revenue projections significantly once the budget year begins, the State's Budget and Control Board is responsible for taking appropriate action to keep the State's budget in balance. If the Board anticipates a year-end operating deficit as a result of the BEA reducing its revenue projections, it must first reduce amounts set-aside in the Annual Appropriations Act for the 2% Capital Reserve. If the anticipated deficit is greater than the 2% Capital Reserve, then the Board must reduce most agency appropriations evenly across-the-board. The State also is required to maintain a 3% General Reserve that can be used only for eliminating a year-end operating deficit. If the State's budgetary General Fund subsequently experiences a year-end operating deficit even after applying all the actions described above, the Board is required to meet within sixty days of August 31 to adopt a plan to liquidate the deficit.

Legislation also exists directing that in closing the books each year the Comptroller General shall suspend, to the extent necessary, any budgetary surplus appropriations in a general or supplemental act or Capital Reserve appropriations, if the State's GAAP-basis General Fund reports a negative unreserved fund balance.

The State's General Fund experienced a budgetary operating surplus and a positive GAAP unreserved fund balance for the fiscal year ended June 30, 2007. Therefore, no appropriation reductions were necessary.

MAJOR INITIATIVES

Finance and Budgeting

The General Assembly made tax relief a priority again this year by approving a budget for fiscal year 2007-2008 that includes \$221 million in tax relief. The tax relief will be applied principally to reduce homeowner property taxes. Also, the tax rate imposed on the lowest bracket of taxable income for individuals is being reduced from 2.5 percent to zero percent, effective for taxable years beginning after 2006. In addition, certain groceries were exempted from sales tax beginning November 1, 2007.

The 2007-2008 Appropriations Act includes a 3% pay raise for state employees, a cost of living adjustment for public retirees, and funding for increased health insurance costs to avoid increasing premiums to subscribers.

Reforms

The General Assembly agreed on a plan to reform the South Carolina Department of Transportation. Reforms include establishing qualifications and requiring screening for Commissioners, creating a Secretary of Transportation appointed by the governor, providing for ethics training for employees, creating the position of chief internal auditor who reports directly to the Commission, requiring compliance and performance audits by external parties, and mandating objective criteria to prioritize road projects.

The State reformed the workers' compensation system through legislation that establishes new requirements for proving claims using expert medical testimony and increases penalties for making fraudulent claims.

Business and Economic Development

The General Assembly approved a joint resolution that creates the South Carolina Broadband Technology and Communications Study Committee to examine opportunities for providing all South Carolinians with affordable high-speed Internet access and other broadband products and services critical for economic development and educational advancement.

The “Omnibus Coastal Property Insurance Reform Act of 2007” was signed into law which addresses the recent scarcity of affordable insurance for homes located along the South Carolina coast. This comprehensive legislation provides, among other things, for a state tax deduction for a contribution by a homeowner to a Catastrophe Savings Account to cover deductibles and self-insured losses under residential property insurance policies for floods and catastrophic windstorm events. This law also contains provisions for certain tax credits for 1) homeowner insurance premium costs for flood and windstorm policies; 2) costs for retrofitting residences to make them more storm resistant; and 3) a nonrefundable credit against the premium tax for insurers providing full property and casualty coverage, including wind and hail, to property owners in the coastal area.

Education

The 2007-2008 Appropriations Act provides an additional \$94 million to fully fund the Education Finance Act. Other important legislation in support of education includes the enactment of the South Carolina Virtual School Program (which expands educational opportunities by using computer technology), school bus safety reforms, scholarship enhancements for students majoring in science or mathematics, and funding to provide nurses in every elementary school.

Energy Conservation

The State encourages renewable energy infrastructure through programs that award grants and provide low interest loans for building production facilities that produce energy through biomass, solar, or wind resources. The newly-approved South Carolina Hydrogen Infrastructure Development Act promotes the growth of hydrogen and fuel cell technologies, and the Energy Freedom and Rural Development Act provides tax credits, rebates, and incentives to encourage biomass fuel development and use. The Energy Independence and Sustainable Construction Act of 2007 establishes standards for “green buildings” for construction and renovation projects by the State.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of South Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. This was the nineteenth consecutive year that the State of South Carolina has achieved this recognition. In order to be awarded a Certificate of Achievement, a government must publish a timely, easily readable, and efficiently organized CAFR. The CAFR must comply with both generally accepted accounting principles and applicable legal requirements.

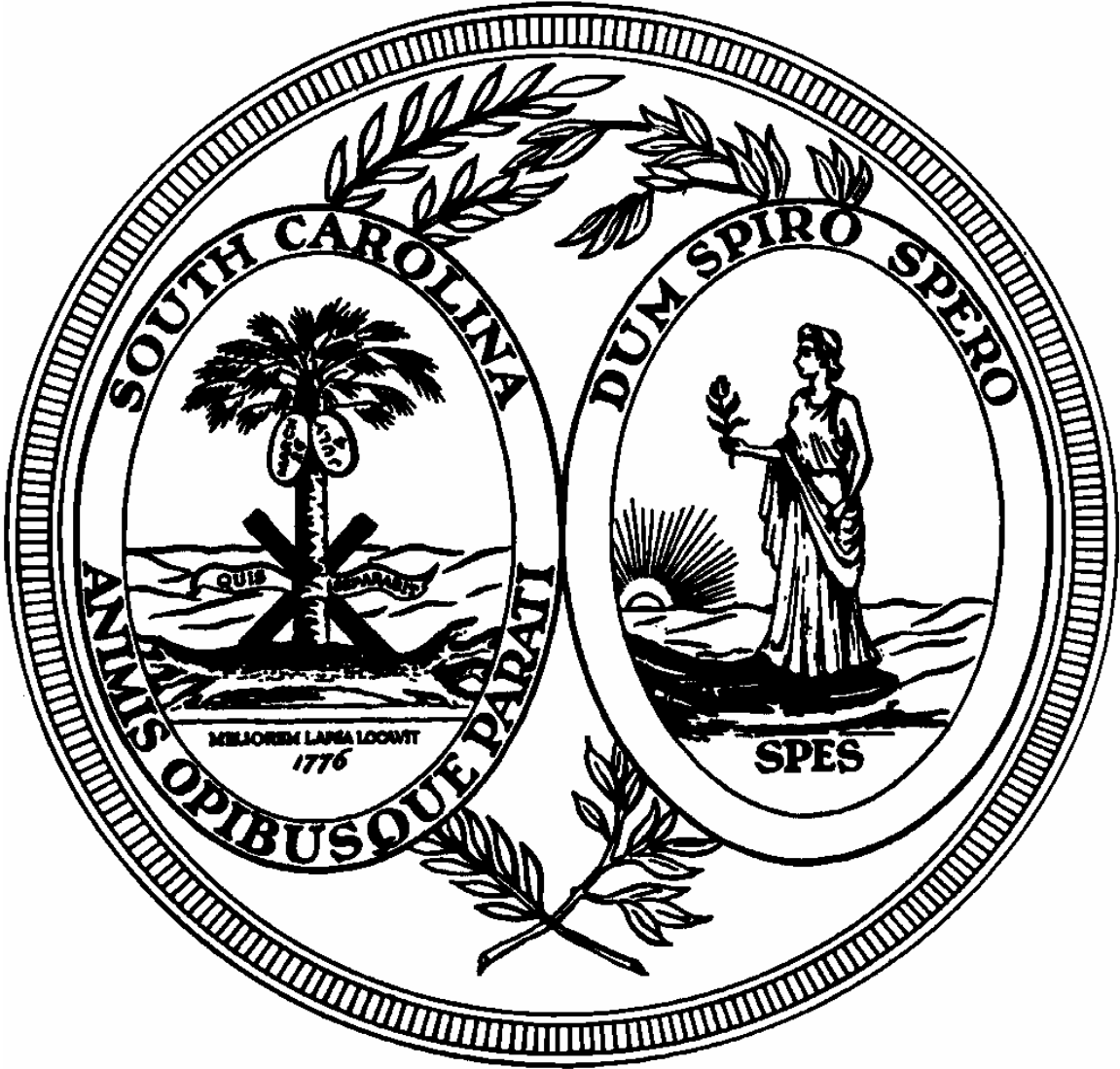
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Production of the CAFR was made possible only by the support of all State agencies and component units that supplied financial data to our office on a timely basis. We extend special appreciation to Mr. Larry Pearce, Director of Publications and Printing at the University of South Carolina, for providing the CAFR's attractive cover.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Eckstrom". The signature is written in a cursive style with a large initial "R".

Richard Eckstrom, CPA
Comptroller General



SOUTH CAROLINA

DUM SPIRO SPERO

QUI PROPARAT
MELIOREM LAMPA LOQUIT
1776
ANIMIS OPIBUSQUE PARATI

SPES

**CERTIFICATE
OF ACHIEVEMENT
FOR EXCELLENCE IN
FINANCIAL REPORTING**

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Principal State Officials

LEGISLATIVE—THE GENERAL ASSEMBLY

André Bauer, President of the Senate and Lieutenant Governor
Glenn F. McConnell, President Pro Tempore of the Senate
Robert W. Harrell, Jr., Speaker, House of Representatives

EXECUTIVE

STATE BUDGET AND CONTROL BOARD

Marshall (Mark) Clement Sanford, Jr., Chairman, Governor
Converse Chellis, State Treasurer
Richard Eckstrom, Comptroller General
Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee
Daniel T. Cooper, Chairman, House Ways and Means Committee

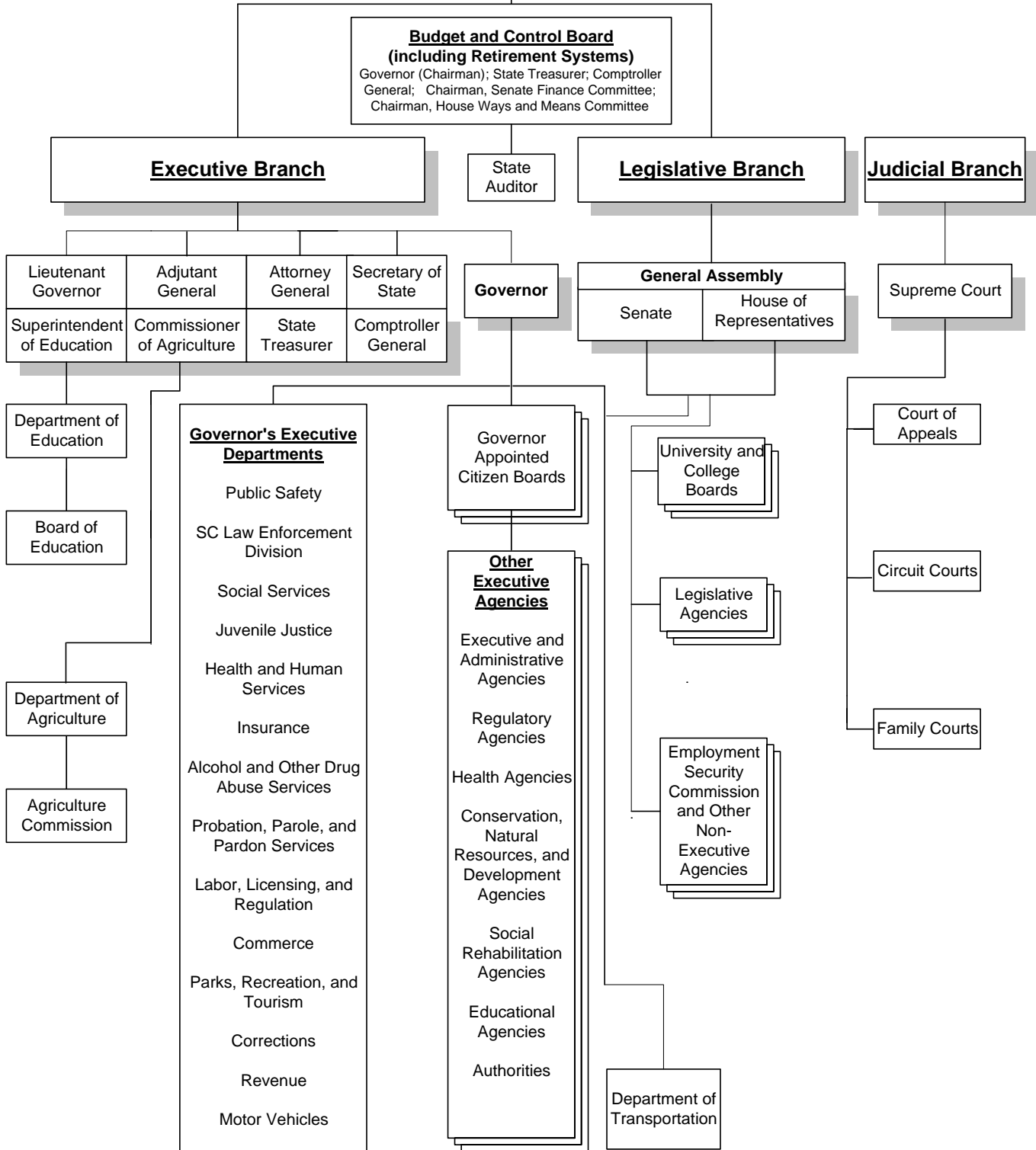
Mark Hammond, Secretary of State
Henry McMaster, Attorney General
James Rex, State Superintendent of Education
Major General Stanhope S. Spears, Adjutant General
Hugh E. Weathers, Commissioner of Agriculture

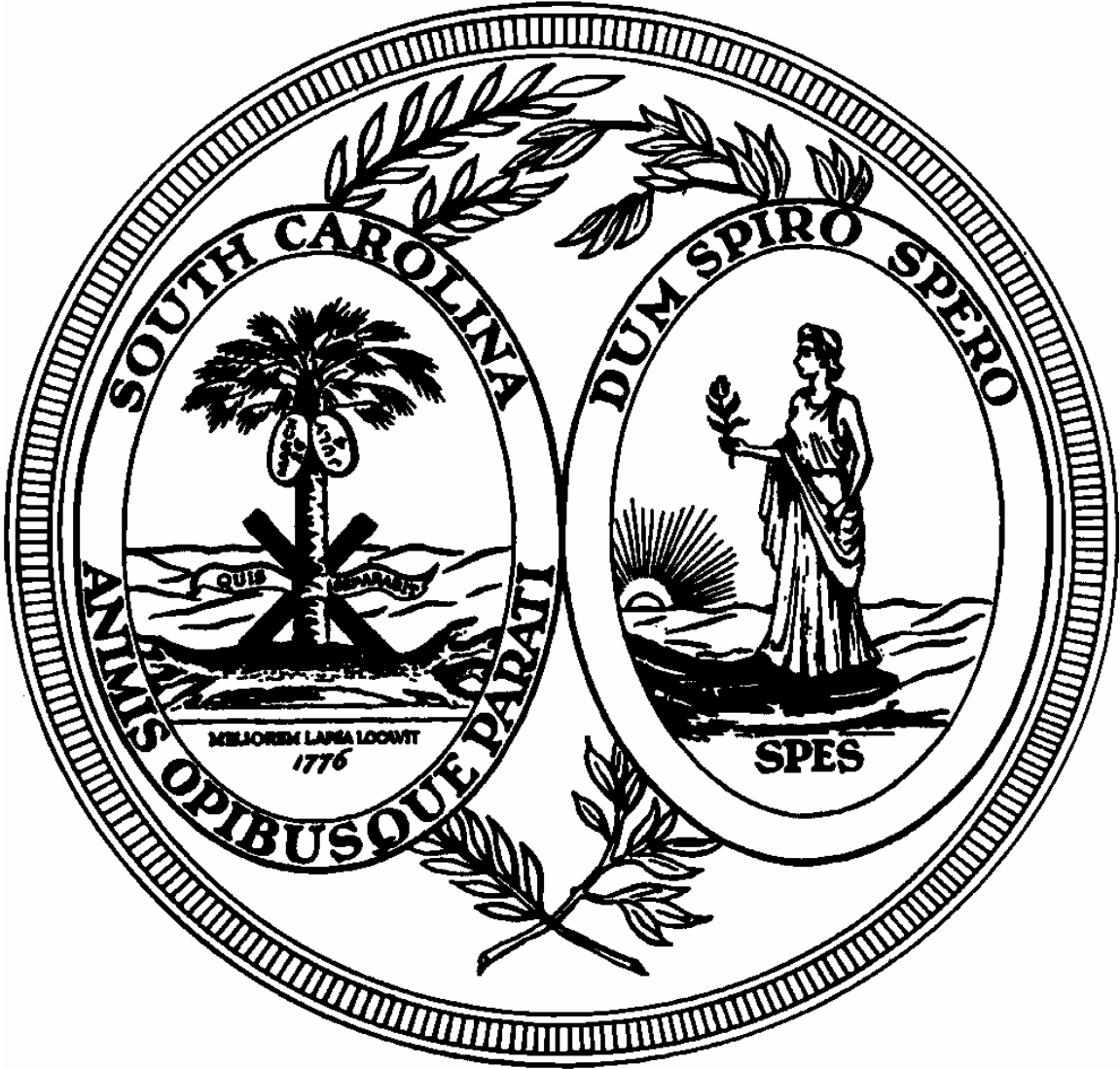
JUDICIAL

Jean H. Toal, Chief Justice, Supreme Court

The State's citizens elect the legislative and executive branch officials named above. The General Assembly elects certain members of the judicial branch, including the Supreme Court.

Organization Chart





Financial Section



Independent Auditors' Report
Management's Discussion and Analysis (Unaudited)
Basic Financial Statements
Required Supplementary Information (Unaudited)
Supplementary Information



Office of the State Auditor

Independent Auditor's Report

The Honorable Mark Sanford, Governor
 and Members of the General Assembly
 State of South Carolina
 Columbia, South Carolina

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina (the State), as of and for the year ended June 30, 2007, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain agencies and component units of the State of South Carolina, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it related to the amounts included for those agencies and component units, is based solely on the reports of the other auditors.

| | Percentage audited by other auditors | |
|-------------------------------|---|------------------|
| | Total Assets | Total Revenue |
| <u>Government-wide</u> | | |
| Governmental activities | 65 | 19 |
| Business-type activities | 96 | 80 |
| Component units | 100 | 100 |
| <u>Fund Statements</u> | | |
| Governmental Funds | 24 | 11 |
| Enterprise Funds | 96 | 80 |
| Internal Service Funds | 82 | 92 |
| Fiduciary Funds | 99 | 100 |

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component units identified in Note 1(a) were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

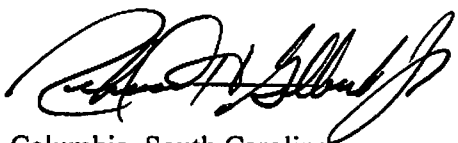
An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in paragraph one present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis and required supplementary information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, supplementary information to the financial statements and the statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information to the financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Columbia, South Carolina
November 15, 2007



Baltimore, Maryland
November 15, 2007

**MANAGEMENT'S DISCUSSION
AND ANALYSIS—
Required Supplementary Information
(Unaudited)**

Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2007. Please read it together with (1) the Comptroller's *Letter of Transmittal* at the front of this report and (2) the financial statements, which follow this section.

Overview of the Financial Statements

This discussion and analysis provides an introduction to the State of South Carolina's basic financial statements, which include the following parts: (1) *government-wide financial statements*, (2) *fund financial statements*, (3) *component unit financial statements*, and (4) *notes to the financial statements*. This annual report also contains certain *required supplementary information* and other *supplementary information*.

Government-wide Financial Statements

The government-wide statements present a long-term view of the State's finances *as a whole*, using *accrual-basis accounting*—the same accounting methods that most businesses use. The basic government-wide financial statements are presented on pages 36 through 41 of this report.

There are two government-wide financial statements:

Statement of net assets: This statement presents information on *all* of the State's assets and liabilities, both short-term (*current*) and long-term (*non-current*). In addition, the statement reports the difference between assets and liabilities as *net assets*. Over time, the comparison of net assets to liabilities may indicate whether the State's financial health is strengthening or weakening. However, the statement of net assets does not tell the whole story. To assess the State's overall financial health, you would also need to consider factors such as the State's economy and the condition of its *capital assets* such as its buildings and *infrastructure* (roads and bridges).

Statement of activities: This statement presents information showing how the State's overall net assets changed during the year. The State reports a change in its net assets as soon as an underlying event occurs that would cause a change. The statement of activities accounts for all current-year revenues and expenses, regardless of when the State received or paid cash. Although governments compile the statement of activities using accounting methods similar to businesses, the format of this statement is quite different from the format of a business's income statement. The statement of activities can help to show how much it costs the State to provide various services. It also can help to show the extent to which each government function covers its own costs through user fees, charges, or grants. The net *revenue (expense)* column on the far right of this statement page 40 shows how much a particular function relies on taxes and other general revenues to finance its programs.

The government-wide statements present three different kinds of *activities*:

Governmental activities: Most of the State's basic services are included here, such as general government, education, health and environment, social services, administration of justice, and transportation. Taxes (primarily income and sales taxes) and federal grants finance most of these services.

Business-type activities: These activities usually recover all, or a significant portion, of the costs of their services or goods by charging fees to customers. Higher education (State-supported colleges and universities), unemployment compensation benefits, financing of housing facilities, and financing of student loans are the most significant of South Carolina's business-type activities.

Component units: Although component units are legally separate from the State, the State's elected officials are financially accountable for them. The Public Service Authority (Santee-Cooper, an electric utility company), the State Ports Authority, the Connector 2000 Association, Inc. (which operates the Southern Connector, a toll road), and the Lottery Commission are the State's major component units. Some financial information for these component units is included in this report. You also can obtain complete financial statements for these component units from their respective administrative offices (see Note 1a of the notes to the financial statements).

Fund Financial Statements

The fund financial statements on pages 42 through 65 of this report provide detailed information about the State's most significant funds—not the State as a whole. Funds are accounting designations that the State uses to track specific funding sources and spending for particular purposes. South Carolina, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State reports three types of *funds*:

State of South Carolina

Governmental funds: The State reports most of its basic services in governmental funds. Governmental funds account for activities that the State reports as *governmental activities* in its government-wide statements. These funds focus on *short-term* inflows and outflows of expendable resources. The balances remaining at the end of the year help determine whether a fund has more or less financial resources available to spend in the near future. Because the governmental fund statements lack the additional long-term focus of the government-wide statements, we provide a reconciliation that explains the relationship (or differences) between the two kinds of statements. By comparing the two kinds of statements and examining the reconciliation, you may better understand the long-term impact of the State's near-term financing decisions.

The basic governmental fund statements are on pages 42 through 49 of this report.

Proprietary funds: Proprietary funds charge customers for the services they provide—whether they are outside customers (*enterprise funds*) or other State agencies and other governments (*internal service funds*). Proprietary funds use the *accrual basis of accounting* like businesses use. The State reports all of its enterprise funds (proprietary funds providing services to outside customers) as *business-type activities* in the government-wide statements. However, because our internal service fund operations primarily benefit other State agencies or other governments, these proprietary funds are included as *governmental activities* in the government-wide financial statements.

The basic proprietary fund statements are on pages 50 through 63 of this report.

Fiduciary funds: The State is the trustee, or *fiduciary*, for its employees' retirement plans. The State also is responsible for other assets that, because of a trust agreement, it is to use only for trust beneficiaries such as an investment pool operated on behalf of local governments. We *exclude* these activities from the State's government-wide financial statements because the State is not to use these assets to finance its operations. The State has an obligation to ensure that the net assets it reports in fiduciary funds are used for their intended purposes.

The basic fiduciary fund statements are on pages 64 and 65 of this report.

Component Unit Financial Statements

The *Government-wide Financial Statements* section on the preceding page identifies the State's major component units under the *Component units* subheading. More detailed financial statements which include these component units are on pages 66 through 69 of this report.

Notes to the Financial Statements

Immediately following the financial statements are *notes* that help explain some of the information in the financial statements and provide more detailed data. The notes on pages 73 through 138 are necessary to fully understand the financial statements.

Required Supplementary Information

This section addresses budgetary matters and provides certain *required* reporting information that supplements the basic financial statements. Included in this section is a schedule that compares the State's legally adopted General Fund budget with actual revenues collected and expenditures paid for the year. Note 5 to the required supplementary information is a reconciliation that helps explain differences between the changes in fund balance of certain funds when presented on the budgetary-basis and the changes in fund balance of these funds when presented on the GAAP-basis as reported in the governmental fund statements. This required supplementary information is on pages 140 through 145 of this report.

Government-wide Financial Analysis

Exhibits 1 and 2 summarize the State's overall financial position and results of operations for the past two years based on information included in the government-wide financial statements.

Exhibit 1
Government-wide Net Assets
As of June 30, 2007, with Restated Comparative Data as of June 30, 2006
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Totals— Primary Government | | Total Percentage Change 2006-2007 |
|--|----------------------------|----------------------|-----------------------------|---------------------|-------------------------------|----------------------|--|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | |
| Assets | | | | | | | |
| Current and other assets..... | \$ 9,770,290 | \$ 8,874,046 | \$ 5,241,492 | \$ 4,876,142 | \$ 15,011,782 | \$ 13,750,188 | 9.2% |
| Capital assets..... | 13,393,469 | 13,047,645 | 3,538,949 | 3,174,806 | 16,932,418 | 16,222,451 | 4.4% |
| Total assets..... | 23,163,759 | 21,921,691 | 8,780,441 | 8,050,948 | 31,944,200 | 29,972,639 | 6.6% |
| Liabilities | | | | | | | |
| Long-term liabilities..... | 5,233,071 | 5,178,649 | 3,758,680 | 3,476,631 | 8,991,751 | 8,655,280 | 3.9% |
| Other liabilities..... | 4,122,957 | 3,836,837 | 887,398 | 905,140 | 5,010,355 | 4,741,977 | 5.7% |
| Total liabilities..... | 9,356,028 | 9,015,486 | 4,646,078 | 4,381,771 | 14,002,106 | 13,397,257 | 4.5% |
| Net Assets | | | | | | | |
| Invested in capital assets, net of debt..... | 9,706,055 | 9,371,744 | 2,133,862 | 1,973,060 | 11,839,917 | 11,344,804 | 4.4% |
| Restricted..... | 3,498,173 | 3,089,099 | 1,406,468 | 1,253,359 | 4,904,641 | 4,342,458 | 12.9% |
| Unrestricted..... | 603,503 | 445,362 | 594,033 | 442,758 | 1,197,536 | 888,120 | 34.8% |
| Total net assets..... | \$ 13,807,731 | \$ 12,906,205 | \$ 4,134,363 | \$ 3,669,177 | \$ 17,942,094 | \$ 16,575,382 | 8.2% |

Net Assets

As we noted earlier, the comparison of net assets to liabilities may serve, over time, as a useful indicator of the State's financial strength. At the end of the 2006-2007 accounting year, the State's net assets totaled \$17.942 billion.

The largest portion of the State's net assets reflects its *investment in capital assets* (for example, buildings, roads, and bridges), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, they are *not* available for future spending. Further, the State cannot sell the capital assets themselves to repay the related debt because it needs the assets for its operations; so it must find other resources to repay the debt.

Restricted net assets generally are available for future spending but are subject to external restrictions, such as bond covenants, federal government grant restrictions, or restrictions imposed by enabling State legislation or through State constitutional provisions. The State's largest restricted balances include capital improvement bond proceeds (restricted for various capital projects), and loan program funds (restricted primarily for local government water and sewer projects).

Unrestricted net assets—resources available for future spending without restrictions—reported a balance of \$1.198 billion at June 30, 2007. This represents an improvement of \$309.416 million over the prior year. Much of this improvement resulted from a \$158.141 million increase in the unrestricted net assets reported for the State's *governmental activities*, which reported a \$603.503 million balance in unrestricted net assets for the current fiscal year versus a \$445.362 million balance in the prior year.

The State's *business-type activities* also reported a \$594.033 million unrestricted net asset balance. This resulted from net positive balances of \$830.380 million associated with higher education and certain other business-type activities. However, that positive balance was partially offset by a \$208.165 million accumulated deficit in the State-run medical malpractice insurance program and a \$28.182 million accumulated deficit in the State-run college tuition prepayment program.

Exhibit 2
Government-wide Changes in Net Assets
 For the Fiscal Year Ended June 30, 2007, with Restated Comparative Data for the Fiscal Year Ended June 30, 2006^a
 (Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Totals—Primary Government | | Total Percentage Change |
|--|-------------------------|----------------------|--------------------------|---------------------|---------------------------|----------------------|-------------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006-2007 |
| Revenues | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services..... | \$ 2,071,357 | \$ 2,003,181 | \$ 3,614,333 | \$ 3,415,687 | \$ 5,685,690 | \$ 5,418,868 | 4.9% |
| Operating grants and contributions..... | 5,848,554 | 5,773,902 | 577,625 | 478,462 | 6,426,179 | 6,252,364 | 2.8% |
| Capital grants and contributions..... | 503,633 | 621,512 | 86,807 | 74,224 | 590,440 | 695,736 | (15.1%) |
| General revenues: | | | | | | | |
| Individual income tax..... | 3,349,358 | 3,156,028 | — | — | 3,349,358 | 3,156,028 | 6.1% |
| Retail sales and use tax..... | 3,803,732 | 3,613,754 | — | — | 3,803,732 | 3,613,754 | 5.3% |
| Other taxes..... | 1,787,974 | 1,753,214 | — | — | 1,787,974 | 1,753,214 | 2.0% |
| Unrestricted grants and contributions..... | 15,642 | 18,664 | — | — | 15,642 | 18,664 | (16.2%) |
| Unrestricted investment income..... | 134,196 | 69,438 | — | — | 134,196 | 69,438 | 93.3% |
| Tobacco legal settlement..... | 79,912 | 67,841 | — | — | 79,912 | 67,841 | 17.8% |
| Other..... | 61,926 | 67,012 | — | — | 61,926 | 67,012 | (7.6%) |
| Total revenues..... | 17,656,284 | 17,144,546 | 4,278,765 | 3,968,373 | 21,935,049 | 21,112,919 | 3.9% |
| Expenses | | | | | | | |
| Governmental activities: | | | | | | | |
| General government..... | 3,434,216 | 2,650,722 | — | — | 3,434,216 | 2,650,722 | 29.6% |
| Education..... | 4,078,954 | 2,452,623 | — | — | 4,078,954 | 2,452,623 | 66.3% |
| Health and environment..... | 4,897,060 | 6,025,626 | — | — | 4,897,060 | 6,025,626 | (18.7%) |
| Social services..... | 1,152,324 | 1,347,522 | — | — | 1,152,324 | 1,347,522 | (14.5%) |
| Administration of justice..... | 742,064 | 873,911 | — | — | 742,064 | 873,911 | (15.1%) |
| Resources and economic development..... | 371,918 | 276,968 | — | — | 371,918 | 276,968 | 34.3% |
| Transportation..... | 1,018,800 | 1,166,910 | — | — | 1,018,800 | 1,166,910 | (12.7%) |
| Other..... | 108,401 | 100,109 | — | — | 108,401 | 100,109 | 8.3% |
| Business-type activities: | | | | | | | |
| Higher education..... | — | — | 3,120,278 | 2,871,493 | 3,120,278 | 2,871,493 | 8.7% |
| Higher education institution support ^a | — | — | 965,686 | 881,583 | 965,686 | 881,583 | 9.5% |
| Unemployment compensation benefits..... | — | — | 390,087 | 365,091 | 390,087 | 365,091 | 6.8% |
| Financing of housing facilities..... | — | — | 158,031 | 150,626 | 158,031 | 150,626 | 4.9% |
| Medical malpractice insurance..... | — | — | 24,809 | 52,598 | 24,809 | 52,598 | (52.8%) |
| Financing of student loans..... | — | — | 61,537 | 61,472 | 61,537 | 61,472 | 0.1% |
| Tuition prepayment program..... | — | — | 8,100 | 38,849 | 8,100 | 38,849 | (79.2%) |
| Other..... | — | — | 36,072 | 32,619 | 36,072 | 32,619 | 10.6% |
| Total expenses..... | 15,803,737 | 14,894,391 | 4,764,600 | 4,454,331 | 20,568,337 | 19,348,722 | 6.3% |
| Excess (deficiency) before transfers and extraordinary items..... | 1,852,547 | 2,250,155 | (485,835) | (485,958) | 1,366,712 | 1,764,197 | (22.5%) |
| Extraordinary items..... | — | — | — | (539) | — | (539) | 100.0% |
| Net transfers..... | (951,021) | (784,746) | 951,021 | 784,746 | — | — | — |
| Increase in net assets..... | 901,526 | 1,465,409 | 465,186 | 298,249 | 1,366,712 | 1,763,658 | (22.5%) |
| Net assets, beginning of year (restated)^b | 12,906,205 | 11,440,796 | 3,669,177 | 3,370,928 | 16,575,382 | 14,811,724 | 11.9% |
| Net assets, end of year..... | \$ 13,807,731 | \$ 12,906,205 | \$ 4,134,363 | \$ 3,669,177 | \$ 17,942,094 | \$ 16,575,382 | 8.2% |

^a The higher education institution support activity represents certain associations, foundations, and authorities created for the benefit of the State's higher education institutions.
^b Revenues and expenses of governmental activities were restated for 2006 by a net amount of \$2.633 million for the Governor's School for the Arts Foundation. (See Note 2c to the financial statements.) Revenues of business-type activities were restated for 2006 by \$4.887 million for the State Housing and Finance Development Authority. (See Note 2a to the financial statements.) Expenses of governmental activities were reclassified for 2006 to report expenses previously reported as intergovernmental expenses in their respective functional category.

Changes in Net Assets

The State's total net assets increased \$1.367 billion (8.2%) over the prior year's net assets as a result of its governmental activities and its business-type activities.

Governmental Activities

Net assets of the State's governmental activities increased by \$901.526 million (7.0%), partly due to a \$418.068 million increase in general tax revenues over last year. Revenues that support governmental activities are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the comparative sources of revenues that support governmental activities.

Expenses associated with governmental activities increased by \$909.346 million (6.1%) for the fiscal year ended June 30, 2007. These expenses were mostly associated with services provided for health and environment, education, general government, social services, and transportation. *Exhibit 4* compares the cost of these services with their *program revenues*—revenues derived directly from the program itself or from parties outside the State’s taxpayers or citizenry. The difference between the two represents the *net cost* of these services that taxes and other general revenues financed. For the fiscal year ended June 30, 2007, the State used \$9.233 billion in tax and other general revenues to finance the net cost of all services that the State’s governmental activities provided. Governmental activities reported \$951.021 million in net transfers to the State’s business-type activities, most of which represents support provided to the State’s public colleges and universities.

The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2006-2007 fiscal year:

- Individual income taxes and sales taxes increased by a combined \$383.308 million (5.7%). The increase in individual income tax revenue corresponds to the growth in South Carolina’s per capita income. Sales tax revenue increased as capital investment and new job creation continued to bring increased business to the State.
- General government expenses increased \$783.494 million (29.6%) due in part to restoration of trust funds from unobligated General Fund revenues and increased spending in insurance-related internal service funds.
- Expenses for education increased \$1.626 billion (66.3%) because of spending for new early childhood programs for at-risk students, school bus replacement, and increased funding over prior year levels for various other educational programs.

Exhibit 3
Sources of Revenues Supporting Governmental Activities
For the Fiscal Year Ended June 30, 2007

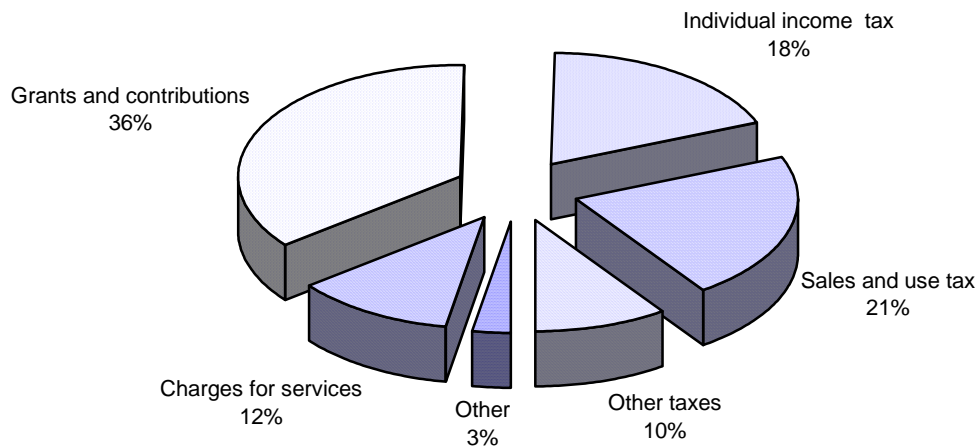
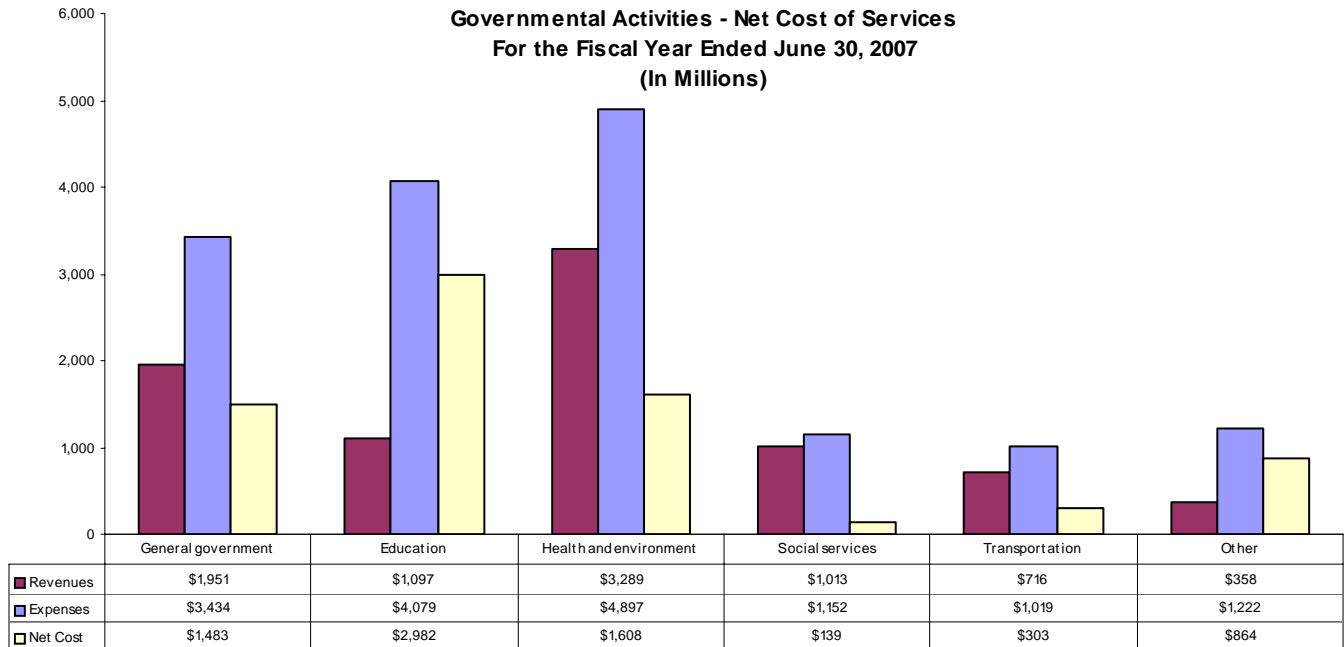


Exhibit 4

**Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2007
(In Millions)**



Business-type Activities

Net assets of the State’s business-type activities increased \$465.186 million (12.7%).

Revenues from business-type activities included charges for services (84.5%) and grants and contributions (including federal aid) (15.5%). Expenses from business-type activities were mostly to provide higher education services and support (85.8%), unemployment compensation benefits (8.2%), and financing of housing facilities (3.3%).

Most business-type activities are self-supporting. Tuition and student fees, research and other grants (both private and governmental), and other charges primarily pay for the services that the Higher Education Fund provides. However, the Higher Education Fund receives substantial resources (primarily transfers of annual appropriations) from the State’s governmental activities. Essentially, net transfers to the Higher Education Fund, which totaled \$978.900 million for the year ended June 30, 2007, represent the cost of educational services that taxes and other general revenues of governmental activities support.

Higher education and related institution support expense increased \$332.888 million during the 2006-2007 fiscal year. This increase resulted primarily from a rise in general operations and administrative costs.

Financial Analysis of the State's Funds

The State of South Carolina uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the fund financial statements, the focus is on reporting major funds.

Governmental Funds

Exhibit 5 shows the components of fund balance for the State's various governmental funds as of June 30, 2007.

Exhibit 5
Governmental Fund Balances
As of June 30, 2007
(Expressed in Thousands)

| | General Fund | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue | State Tobacco Settlement | Nonmajor Governmental Funds | Total Governmental Funds |
|----------------------------------|---------------------|---------------------------------------|--|---|---------------------------------|------------------------------------|---------------------------------|
| Reserved..... | \$ 413,157 | \$ 22,534 | \$ 1,901,091 | \$ 12,220 | \$ — | \$ 217,241 | \$ 2,566,243 |
| Unreserved, designated..... | 679,780 | — | — | — | — | 255,851 | 935,631 |
| Unreserved, undesignated..... | — | 522,029 | (182,655) | (53,951) | 510,900 | 643,513 | 1,439,836 |
| Totals..... | \$ 1,092,937 | \$ 544,563 | \$ 1,718,436 | \$ (41,731) | \$ 510,900 | \$ 1,116,605 | \$ 4,941,710 |
| Change from prior year... | \$ (20,908) | \$ 13,370 | \$ 284,878 | \$ 9,135 | \$ 15,535 | \$ 80,048 | \$ 382,058 |
| Percentage change..... | (1.9%) | 2.5% | 19.9% | 18.0% | 3.1% | 7.7% | 8.4% |

At June 30, 2007, total ending fund balance for the State's governmental funds was \$4.942 billion, which represents an increase of \$382.058 million (8.4%) from the prior year. Approximately half of this total (48.1%) consists of *unreserved* fund balance—the amount available for spending in the coming year. The remaining fund balance is *reserved* and is *not* available for future appropriation because it is accessible only for specific purposes. The following paragraphs discuss the activities of the General Fund and other major governmental funds that had significant changes in fund balance:

The *General Fund* is one of two large State operating funds. This fund includes resources that pay for the services that the State traditionally has provided to its citizens. These resources, such as taxes, are accounted for in the General Fund unless State law requires them to be accounted for in another fund. During the 2006-2007 accounting year, the total fund balance of the General Fund decreased \$20.908 million (1.9%) from last year. Individual income taxes increased \$207.758 million (6.7%); sales and use taxes increased \$100.022 million (4.0%); and corporate and other taxes increased \$3.900 million (0.50%). In addition, interest earnings increased \$66.554 million (106%) due to increased cash balances and higher interest rates. Overall, revenues were \$378.195 million (5.2%) greater than the previous year. However, total expenditures increased by \$712.573 million (12.3%) over the prior year. The most significant expenditure increases were attributable to general government, up \$200.933 million (65.5%), and health and environment, up \$143.431 million (9.0%). Operating transfers out of the General Fund increased \$290.541 million (31.9%). This increase was attributable in part to legislation that distributed increased tax revenues to certain State agencies.

The *Local Government Infrastructure Special Revenue Fund* accounts for grants, loans, and other financial assistance to local governments for infrastructure purposes. Fund balance increased \$284.878 million during 2006-2007 primarily due to the issuance of revenue bonds, which are reported as an other financing source for governmental funds.

The *Department of Transportation (DOT) Special Revenue Fund* accounts for various gasoline taxes, fees, fines, and federal grant resources. The DOT uses these resources to pay for its general operations, which include maintenance, regulation, and construction of public highways and bridges. While this fund had a negative fund balance at the beginning of the fiscal year, the fund balance increased \$9.135 million during 2006-2007 leaving a negative fund balance of \$41.731 million at the end of the fiscal year. The negative fund balance occurred primarily because of long-term commitments by DOT to provide funding to local governments for highway construction projects administered by the State Infrastructure Bank (included within the Local Government Infrastructure Fund, a major governmental fund). These commitments are recorded as interfund payables by the DOT Special Revenue Fund and as interfund receivables by the Local Government Infrastructure Fund. The commitments are discharged (i.e., reduced) as DOT provides construction services to the Bank.

Proprietary Funds

Exhibit 6 shows the components of net assets for the State’s various proprietary funds at June 30, 2007.

Exhibit 6
Proprietary Fund Net Assets
 As of June 30, 2007
 (Expressed in Thousands)

| Fund Net Assets | Enterprise Funds | | | | | | | Internal Service Funds |
|---|---------------------|---------------------------|-------------------|---------------------------------------|--------------------------------|---------------------|---------------------|------------------------|
| | Higher Education | Unemployment Compensation | Housing Authority | Medical University Hospital Authority | Education Assistance Authority | Nonmajor Enterprise | Total Enterprise | |
| Invested in capital assets (net of related debt)..... | \$ 2,026,122 | \$ — | \$ 771 | \$ 56,688 | \$ 257 | \$ 50,024 | \$ 2,133,862 | \$ 102,315 |
| Restricted, expendable..... | 418,314 | 355,433 | 264,126 | 71,975 | 136,496 | 43,952 | 1,290,296 | 447,805 |
| Restricted, nonexpendable..... | 85,890 | — | — | — | — | 30,282 | 116,172 | — |
| Unrestricted..... | 518,058 | — | 19,532 | 128,841 | 1,173 | (78,196) | 589,408 | (20,658) |
| Totals..... | \$ 3,048,384 | \$ 355,433 | \$ 284,429 | \$ 257,504 | \$ 137,926 | \$ 46,062 | \$ 4,129,738 | \$ 529,462 |
| Change from prior year..... | \$ 368,153 | \$ (31,499) | \$ 17,199 | \$ 26,379 | \$ 7,485 | \$ 88,980 | \$ 476,697 | \$ 228,496 |
| Percentage change..... | 13.7% | (8.1%) | 6.4% | 11.4% | 5.7% | 207.3% | 13.0% | 75.9% |

The State has two kinds of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are reported as business-type activities in the government-wide financial statements. Enterprise funds sell goods or services primarily to parties outside of State government.

The *Higher Education Fund*, a major enterprise fund, increased by \$368.153 million (13.7%) primarily due to an increase in its sources of revenues such as charges for services, contributions, and investment income.

The *Medical University Hospital Authority*, another enterprise fund, manages and operates the hospitals and clinics associated with the Medical University of South Carolina (MUSC). MUSC is included in the *Higher Education Fund* described above. The Authority’s net assets increased \$26.379 million (11.4%) primarily due to increases in patient activity and comprehensive rate increases.

South Carolina’s *internal service funds* provide certain services (including maintenance, insurance, printing, information technology, and motor pool services) and some goods (such as office supplies) primarily to other State funds but sometimes to local governments as well. The objective of an internal service fund is to charge its customers for the costs of the services or goods that it provides. Because internal service funds primarily benefit State government, South Carolina reports them as governmental activities in the government-wide financial statements.

Budgetary General Fund Highlights

Original estimated revenues for the 2006–2007 accounting year were \$6.089 billion. The BEA revised upward its original revenue estimate three separate times during the course of the year by a total of \$586.285 million. The upward revisions resulted from the BEA’s review of tax revenue collections and economic conditions as the year progressed. Actual revenues at June 30, 2007, were \$569.631 million (9.4%) over the BEA’s original revenue estimate yet they were \$16.654 million less than the BEA’s final revised estimate. Actual revenues also exceeded prior year revenue collections by \$432.476 million (6.9%). Individual income and sales taxes, the fund’s primary revenue sources, were greater than expected because of favorable economic conditions that lead to increased job growth and consumer spending.

Furthermore, actual revenues were \$541.192 million greater than actual expenditures because conservative revenue estimates limited increases in agency spending. Transfers out during the year totaled \$447.983 million, which included \$102.326 million of 2006–2007 Capital Reserve Appropriations, \$171.541 million of Contingency Reserve transfers, and \$174.116 million of Trust Fund Repayment. The State was able to end the year with an accumulated budgetary general fund balance of \$1.081 billion.

See the *Required Supplementary Information* section on pages 140 through 145 of this report for a detailed budgetary comparison schedule.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2006-2007 accounting year, the State had \$16.932 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$709.959 million, or 4.4%, over the previous accounting year (see *Exhibit 7*).

Exhibit 7
Capital Assets, Net of Depreciation
As of June 30 for the Years Indicated
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Totals—Primary Government | |
|--|----------------------------|----------------------|-----------------------------|---------------------|---------------------------|----------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Land and improvements..... | \$ 1,589,510 | \$ 1,522,999 | \$ 330,991 | \$ 223,495 | \$ 1,920,501 | \$ 1,746,494 |
| Infrastructure..... | 6,476,211 | 6,423,305 | — | — | 6,476,211 | 6,423,305 |
| Buildings and improvements..... | 1,019,474 | 1,009,521 | 2,339,054 | 2,150,777 | 3,358,528 | 3,160,298 |
| Vehicles..... | 197,595 | 155,527 | 13,634 | 12,391 | 211,229 | 167,918 |
| Machinery and equipment..... | 138,454 | 123,424 | 270,777 | 238,105 | 409,231 | 361,529 |
| Works of art and historical treasures..... | 3,957 | 3,596 | 25,975 | 23,666 | 29,932 | 27,262 |
| Construction in progress..... | 3,961,700 | 3,800,167 | 555,545 | 522,507 | 4,517,245 | 4,322,674 |
| Intangible assets..... | 6,568 | 9,114 | 2,973 | 3,865 | 9,541 | 12,979 |
| Total..... | \$ 13,393,469 | \$ 13,047,653 | \$ 3,538,949 | \$ 3,174,806 | \$ 16,932,418 | \$ 16,222,459 |

The State’s investment in land and improvements increased significantly, primarily because of the public colleges and universities expanding their campus facilities. The University of South Carolina improved land sites for several major building projects in progress that are expected to be completed in 2008, including two additional parking garages, and Tri-County Technical College established a new campus requiring site, parking lot, and infrastructure development.

State vehicles increased significantly due to the Department of Education increasing its bus fleet by \$46.155 million.

As in prior years, machinery and equipment increased significantly due, in large part, to acquisitions by public universities. Clemson University, The Medical University of South Carolina, and the University of South Carolina all made significant investments in computing, testing, medical, scientific, and laboratory equipment and equipping newly-established facilities.

Intangible assets decreased from last fiscal year primarily because state-wide depreciation expense exceeded investment in additional intangible assets.

See Note 7 in the notes to the financial statements within this report for additional information on the State’s capital assets.

Long-term Debt

At June 30, 2007, the State had \$8.539 billion in bonds and notes outstanding—an increase of \$322.439 million, or 3.9%, over last year (see *Exhibit 8*).

Exhibit 8
Outstanding Bonds and Notes
As of June 30 for the Years Indicated
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Totals—Primary Government | | Total Percentage Change 2006-2007 |
|--------------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------------|---------------------|--|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | |
| Backed by the State: | | | | | | | |
| General obligation bonds..... | \$ 2,214,865 | \$ 2,405,119 | \$ 356,795 | \$ 249,514 | \$ 2,571,660 | \$ 2,654,633 | (3.1%) |
| Backed by specific revenues: | | | | | | | |
| Revenue bonds and notes..... | 56,666 | 43,190 | 2,962,501 | 2,782,026 | 3,019,167 | 2,825,216 | 6.9% |
| Infrastructure Bank bonds..... | 2,162,973 | 1,917,706 | — | — | 2,162,973 | 1,917,706 | 12.8% |
| Tobacco Authority bonds..... | 769,755 | 796,900 | — | — | 769,755 | 796,900 | (3.4%) |
| Limited obligation bonds..... | 10,985 | 15,291 | — | — | 10,985 | 15,291 | (28.2%) |
| Bond anticipation notes..... | — | — | 4,500 | 6,855 | 4,500 | 6,855 | (34.4%) |
| Total..... | \$ 5,215,244 | \$ 5,178,206 | \$ 3,323,796 | \$ 3,038,395 | \$ 8,539,040 | \$ 8,216,601 | 3.9% |

New debt reported in governmental activities resulted primarily from the issuance of revenue bonds by the South Carolina Transportation Infrastructure Bank. The Bank issued \$388.370 million in revenue bonds, including refunding bonds to advance refund \$98.855 million in bonds. Also, the Department of Natural Resources issued \$20.295 million in Heritage Trust Revenue Bonds. New debt reported in business-type activities resulted mainly from the issuance of revenue bonds by the *enterprise funds*. The Housing Authority issued \$83.540 million in bonds for housing programs, the Education Assistance Authority issued \$172.700 million in bonds to provide financing for student loans, and the Medical University of South Carolina issued \$38.000 million in facilities revenue bonds.

Three bond rating services assign ratings to bonds that the State backs with its own taxing authority (*general obligation bonds*). Fitch Ratings rated these bonds as “AAA” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2007, the highest ratings that these services assign. Standard & Poor’s rated these bonds as “AA+” during the same period.

The State limits the amount of annual payments for principal and interest on general obligation bonds and notes rather than directly limiting the amount of those bonds and notes that the State may have outstanding. At June 30, 2007, the State legally could issue additional bonds as long as the new debt would not increase the State’s annual principal and interest payments by more than the following amounts: \$50.249 million for institution bonds (*Institution bonds* are general obligation bonds that benefit the State’s Higher Education Fund.), \$24.362 million for highway bonds, \$145.086 million for general obligation bonds, excluding institution and highway bonds, \$9.591 million for economic development bonds, and \$16.993 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements for additional information about the State’s long-term debt.

Economic Factors and Next Year’s Budget

The “Rainy Day Account”

At June 30, 2007, the General Reserve Fund, sometimes called the *rainy day account*, was fully funded at \$167.732 million. The State’s Constitution requires restoration of the reserve to full funding within three years after a withdrawal. State law defines full funding for the reserve as 3% of the Budgetary General Fund’s revenues for the latest completed accounting year. The 2006-2007 Appropriations Act passed by the General Assembly appropriated \$14.244 million to fully fund the rainy day account.

Budgetary General Fund for the 2007-2008 Accounting Year

For fiscal year 2007-2008, estimated revenues in the 2007-2008 Appropriations Act were \$6.622 billion, or \$36 million less than 2006–2007 revenue collections. This estimate may be subsequently revised.

Economic Conditions

Budgetary General Fund revenues for the first three months of the 2007-2008 fiscal year were \$26.011 million, 1.7% higher than during the same period for fiscal year 2006-2007. South Carolina's three major revenue sources continue to experience modest gains, indicating that the State economy, while not showing the same vibrant growth as seen in the past three fiscal years, has not slipped into recession. For the first three months, individual income taxes are up \$33.930 million (3.7%), as withholdings increased 3.1% and estimated tax payments increased 11.1%. Corporate income taxes have decreased by \$17.485 million (23.5%); although a preliminary analysis of October 2007 corporate income tax remittances reveals a significant recovery in this category of revenues. Sales taxes have increased \$12.495 million (2.8%) despite higher gasoline prices experienced during this period.

The BEA has adopted a preliminary Budgetary General Fund revenue estimate of \$7.336 billion for the 2008-2009 accounting year. This revenue forecast represents a 3.2% increase under the original base for 2007-2008. The BEA will review this estimate in February 2008 and adjust or finalize it then.

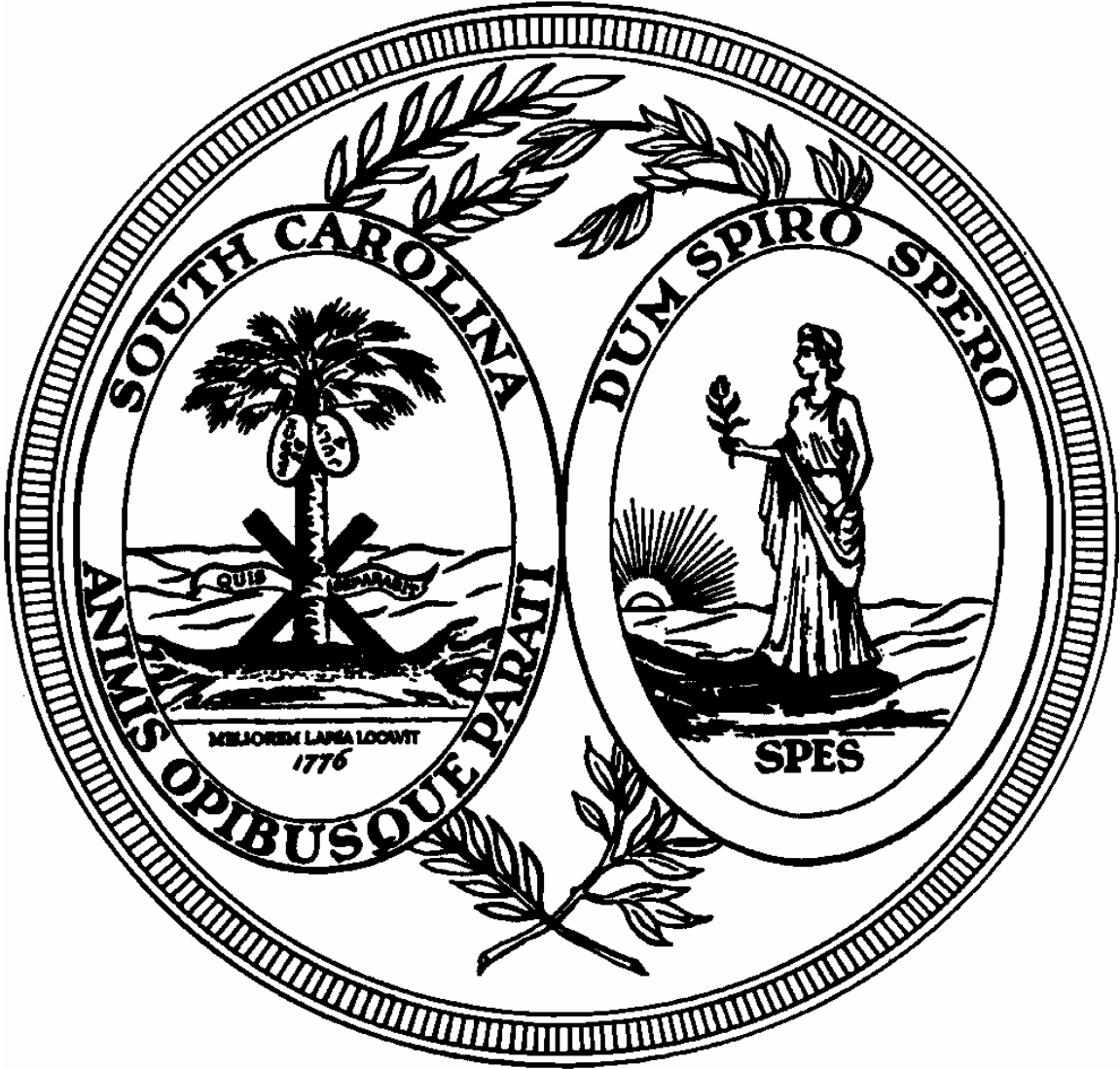
Other Issues Expected to Impact Future Operations

In June 2004, the Governmental Accounting Standards Board (GASB) adopted Statement No. 43 and No. 45 which are new accounting and reporting standards for other post employment benefits (OPEB). OPEB include post employment benefits such as medical, prescription drug, and dental insurance benefits provided for retired State government and school district employees. Currently, the State funds these benefits on a pay-as-you-go basis. The new standards, which the State will adopt during 2007-2008, will require the State to record the annual required cost to fund these benefits and disclose in the notes to the basic financial statements the actuarially determined unfunded liability (an estimate of accumulated benefits expected to be paid in future years) along with current costs associated with these benefits.

Requests For Information

The primary purpose of this financial report is to provide South Carolina's citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Please address any questions concerning information in this report to:

Office of the Comptroller General
1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201



**BASIC
FINANCIAL STATEMENTS**

Statement of Net Assets

June 30, 2007

(Expressed in Thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|---|----------------------------|-----------------------------|-------------------|--------------------|
| | Governmental Activities | Business-type Activities | Totals | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents..... | \$ 4,550,543 | \$ 1,586,925 | \$ 6,137,468 | \$ 312,189 |
| Investments..... | — | 147,083 | 147,083 | 104,511 |
| Invested securities lending collateral..... | 946,829 | 108,510 | 1,055,339 | 22,450 |
| Receivables, net: | | | | |
| Accounts..... | 274,853 | 74,879 | 349,732 | 217,577 |
| Contributions..... | — | 8,674 | 8,674 | 2,689 |
| Participants..... | — | 23,324 | 23,324 | — |
| Accrued interest..... | 32,271 | 8,215 | 40,486 | 5,742 |
| Income taxes..... | 387,249 | — | 387,249 | — |
| Sales and other taxes..... | 545,720 | — | 545,720 | — |
| Student accounts..... | 10 | 39,827 | 39,837 | — |
| Patient accounts..... | 14,562 | 150,978 | 165,540 | — |
| Loans and notes..... | 27,929 | 94,948 | 122,877 | — |
| Assessments..... | — | 50,835 | 50,835 | — |
| Due from Federal government and other grantors..... | 655,341 | 107,482 | 762,823 | 19 |
| Internal balances..... | (34,100) | 34,100 | — | — |
| Due from component units..... | 21,856 | 129,592 | 151,448 | — |
| Due from primary government..... | — | — | — | 167,542 |
| Inventories..... | 51,094 | 31,993 | 83,087 | 238,530 |
| Restricted assets: | | | | |
| Cash and cash equivalents..... | 71,971 | 307,455 | 379,426 | 95,832 |
| Investments..... | 111,750 | 10,585 | 122,335 | 110,683 |
| Loans receivable..... | — | 54,896 | 54,896 | — |
| Other..... | 71,165 | 10,130 | 81,295 | 3 |
| Prepaid items..... | 23,695 | 31,752 | 55,447 | 8,289 |
| Other current assets..... | — | 23,756 | 23,756 | 24,928 |
| Deferred charges..... | — | — | — | 1,704 |
| Total current assets..... | <u>7,752,738</u> | <u>3,035,939</u> | <u>10,788,677</u> | <u>1,312,688</u> |

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

Statement of Net Assets (Continued)

June 30, 2007

(Expressed in Thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|--------------------------------------|----------------------------|-----------------------------|--------------------------|-------------------------|
| | Governmental Activities | Business-type Activities | Totals | |
| Long-term assets: | | | | |
| Receivables, net: | | | | |
| Accounts..... | \$ 22,741 | \$ 233 | \$ 22,974 | \$ 1,939 |
| Contributions..... | — | 595 | 595 | 38,229 |
| Participants..... | — | 12,618 | 12,618 | — |
| Income taxes..... | 74,410 | — | 74,410 | — |
| Sales and other taxes..... | 18,212 | — | 18,212 | — |
| Patient accounts..... | 12,768 | — | 12,768 | — |
| Loans and notes..... | 474,710 | 787,450 | 1,262,160 | — |
| Investments..... | 372,080 | 19,662 | 391,742 | 769,286 |
| Restricted assets: | | | | |
| Cash and cash equivalents..... | 564,767 | 489,839 | 1,054,606 | 54,077 |
| Investments..... | — | 107,228 | 107,228 | 300,543 |
| Accounts receivable..... | 446,899 | — | 446,899 | — |
| Loans receivable..... | — | 705,872 | 705,872 | — |
| Other..... | 4,820 | 23,826 | 28,646 | 1 |
| Prepaid items..... | — | 13,448 | 13,448 | — |
| Other long-term assets..... | 771 | 33,665 | 34,436 | 20,267 |
| Deferred charges..... | 25,374 | 11,117 | 36,491 | 513,293 |
| Investment in joint venture..... | — | — | — | 7,672 |
| Non-depreciable capital assets..... | 5,536,175 | 787,534 | 6,323,709 | 1,655,705 |
| Depreciable capital assets, net..... | 7,857,294 | 2,751,415 | 10,608,709 | 2,899,262 |
| Total long-term assets..... | <u>15,411,021</u> | <u>5,744,502</u> | <u>21,155,523</u> | <u>6,260,274</u> |
| Total assets..... | <u>23,163,759</u> | <u>8,780,441</u> | <u>31,944,200</u> | <u>7,572,962</u> |

Continued on Next Page

Statement of Net Assets (Continued)

June 30, 2007

(Expressed in Thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|---|----------------------------|-----------------------------|------------------|--------------------|
| | Governmental Activities | Business-type Activities | Totals | |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 721,928 | \$ 174,673 | \$ 896,601 | \$ 234,273 |
| Accrued salaries and related expenses..... | 124,864 | 68,606 | 193,470 | 9,868 |
| Accrued interest payable..... | 35,471 | 12,288 | 47,759 | 82,722 |
| Retainages payable..... | 2,877 | 18,146 | 21,023 | 170 |
| Tax refunds payable..... | 598,572 | 6,169 | 604,741 | — |
| Payables-aid to individuals/families..... | 1,305 | — | 1,305 | — |
| Prizes payable..... | — | — | — | 25,692 |
| Unemployment benefits payable..... | — | 8,418 | 8,418 | — |
| Intergovernmental payables..... | 371,395 | 3,600 | 374,995 | 649 |
| Tuition benefits payable..... | — | 15,284 | 15,284 | — |
| Policy claims..... | 472,374 | 30,000 | 502,374 | 47,402 |
| Due to component units..... | 167,542 | — | 167,542 | — |
| Due to primary government..... | — | — | — | 155,174 |
| Unearned revenues and deferred credits..... | 240,938 | 159,763 | 400,701 | 25,962 |
| Deposits..... | — | 5,643 | 5,643 | 13 |
| Amounts held in custody for others..... | — | 7,303 | 7,303 | — |
| Securities lending collateral..... | 946,829 | 108,510 | 1,055,339 | 22,450 |
| Liabilities payable from restricted assets: | | | | |
| Accounts payable..... | — | 414 | 414 | 226 |
| Accrued interest payable..... | 31,954 | 31,799 | 63,753 | 1,766 |
| Bonds payable..... | 44,355 | 28,550 | 72,905 | — |
| Other..... | — | 57,438 | 57,438 | — |
| Notes payable..... | 4,610 | 15,556 | 20,166 | 445 |
| Revenue bonds anticipation notes payable..... | — | 4,500 | 4,500 | — |
| General obligation bonds payable..... | 199,225 | 18,835 | 218,060 | — |
| Revenue bonds payable..... | 2,355 | 24,141 | 26,496 | 79,805 |
| Limited obligation bonds payable..... | 1,640 | — | 1,640 | — |
| Capital leases payable..... | 544 | 6,591 | 7,135 | 2,781 |
| Commercial paper notes..... | — | — | — | 195,072 |
| Compensated absences payable..... | 121,184 | 68,112 | 189,296 | 2,996 |
| Other current liabilities | 32,995 | 13,059 | 46,054 | 78,211 |
| Total current liabilities..... | <u>4,122,957</u> | <u>887,398</u> | <u>5,010,355</u> | <u>965,677</u> |

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

Statement of Net Assets (Continued)

June 30, 2007

(Expressed in Thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|---|-----------------------------|-----------------------------|-----------------------------|----------------------------|
| | Governmental Activities | Business-type Activities | Totals | |
| Long-term liabilities: | | | | |
| Retainages payable..... | \$ — | \$ 677 | \$ 677 | \$ 63,582 |
| Intergovernmental payables..... | 200 | — | 200 | — |
| Tuition benefits payable..... | — | 188,267 | 188,267 | — |
| Policy claims..... | 106,746 | 168,622 | 275,368 | 157,368 |
| Unearned revenues and deferred credits..... | — | 638 | 638 | 277,920 |
| Amounts held in custody for others..... | — | — | — | 2,732 |
| Other liabilities payable from restricted assets..... | — | 5,650 | 5,650 | — |
| Notes payable..... | 11,012 | 237,801 | 248,813 | 1,984 |
| General obligation bonds payable..... | 2,015,640 | 337,960 | 2,353,600 | — |
| Tobacco Authority bonds payable..... | 769,755 | — | 769,755 | — |
| Infrastructure Bank bonds payable..... | 2,118,618 | — | 2,118,618 | — |
| Revenue bonds payable..... | 38,689 | 2,656,453 | 2,695,142 | 3,503,120 |
| Limited obligation bonds payable..... | 9,345 | — | 9,345 | — |
| Capital leases payable..... | 395 | 39,478 | 39,873 | 7,173 |
| Compensated absences payable..... | 94,437 | 59,134 | 153,571 | 15,936 |
| Other long-term liabilities..... | 68,234 | 64,000 | 132,234 | 41,263 |
| Total long-term liabilities..... | <u>5,233,071</u> | <u>3,758,680</u> | <u>8,991,751</u> | <u>4,071,078</u> |
| Total liabilities..... | <u>9,356,028</u> | <u>4,646,078</u> | <u>14,002,106</u> | <u>5,036,755</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt..... | 9,706,055 | 2,133,862 | 11,839,917 | 1,125,093 |
| Restricted: | | | | |
| Expendable: | | | | |
| Unemployment compensation benefits..... | — | 355,433 | 355,433 | — |
| Education..... | 326,600 | 221,749 | 548,349 | 221,533 |
| Health..... | 20,814 | — | 20,814 | — |
| Transportation..... | 237,292 | — | 237,292 | — |
| Capital projects..... | 357,095 | 193,133 | 550,228 | 20,863 |
| Debt service..... | 1,180,967 | 263,435 | 1,444,402 | 91,230 |
| Loan programs..... | 631,558 | 256,546 | 888,104 | — |
| Waste management..... | 209,950 | — | 209,950 | — |
| Insurance programs..... | 427,805 | — | 427,805 | — |
| Other..... | 103,706 | — | 103,706 | 167,424 |
| Nonexpendable: | | | | |
| Education..... | — | 116,172 | 116,172 | 311,777 |
| Other..... | 2,386 | — | 2,386 | — |
| Unrestricted..... | 603,503 | 594,033 | 1,197,536 | 598,287 |
| Total net assets..... | <u>\$ 13,807,731</u> | <u>\$ 4,134,363</u> | <u>\$ 17,942,094</u> | <u>\$ 2,536,207</u> |

Statement of Activities

For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

| | Expenses | Program Revenues | | | Net (Expenses) Revenues |
|--|----------------------|-------------------------|--|--|-------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Functions | | | | | |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government..... | \$ 3,434,216 | \$ 1,617,400 | \$ 325,630 | \$ 8,247 | \$ (1,482,939) |
| Education..... | 4,078,954 | 37,539 | 1,056,484 | 2,825 | (2,982,106) |
| Health and environment..... | 4,897,060 | 136,792 | 3,146,444 | 5,360 | (1,608,464) |
| Social services..... | 1,152,324 | 2,436 | 1,010,925 | — | (138,963) |
| Administration of justice..... | 742,064 | 121,981 | 35,718 | 1,341 | (583,024) |
| Resources and economic development..... | 371,918 | 57,067 | 125,487 | 15,983 | (173,381) |
| Transportation..... | 1,018,800 | 98,142 | 147,866 | 469,877 | (302,915) |
| Unallocated interest expense..... | 108,401 | — | — | — | (108,401) |
| Total governmental activities..... | 15,803,737 | 2,071,357 | 5,848,554 | 503,633 | (7,380,193) |
| Business-type activities: | | | | | |
| Higher education..... | 3,120,278 | 2,116,206 | 295,063 | 86,750 | (622,259) |
| Higher education institution support..... | 965,686 | 984,723 | 74,444 | — | 93,481 |
| Unemployment compensation benefits..... | 390,087 | 339,715 | 18,323 | — | (32,049) |
| Financing of housing facilities..... | 158,031 | 48,871 | 124,600 | — | 15,440 |
| Medical malpractice insurance..... | 24,809 | 39,313 | 364 | — | 14,868 |
| Financing of student loans..... | 61,537 | 48,975 | 20,047 | — | 7,485 |
| Tuition prepayment program..... | 8,100 | — | 42,035 | — | 33,935 |
| State maritime museum..... | 7,061 | 7,709 | 1,332 | — | 1,980 |
| Insurance claims processing..... | 1,553 | 1,548 | — | — | (5) |
| Other..... | 27,458 | 27,273 | 1,417 | 57 | 1,289 |
| Total business-type activities..... | 4,764,600 | 3,614,333 | 577,625 | 86,807 | (485,835) |
| Total primary government..... | \$ 20,568,337 | \$ 5,685,690 | \$ 6,426,179 | \$ 590,440 | \$ (7,866,028) |
| Component units: | | | | | |
| Public Service Authority..... | \$ 1,369,560 | \$ 1,421,910 | \$ 35,466 | \$ — | \$ 87,816 |
| State Ports Authority..... | 110,241 | 161,244 | 7,372 | 168,263 | 226,638 |
| Connector 2000 Association, Inc..... | 25,994 | 5,085 | 956 | — | (19,953) |
| Lottery Commission..... | 995,109 | 991,739 | 1,245 | — | (2,125) |
| Other..... | 116,186 | 50,392 | 168,800 | — | 103,006 |
| Total component units..... | \$ 2,617,090 | \$ 2,630,370 | \$ 213,839 | \$ 168,263 | \$ 395,382 |

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

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Changes in net assets: | | | | |
| Net (expense) revenue | \$ (7,380,193) | \$ (485,835) | \$ (7,866,028) | \$ 395,382 |
| General revenues: | | | | |
| Taxes: | | | | |
| Individual income..... | 3,349,358 | — | 3,349,358 | — |
| Retail sales and use..... | 3,803,732 | — | 3,803,732 | — |
| Other..... | 1,787,974 | — | 1,787,974 | — |
| Total taxes..... | 8,941,064 | — | 8,941,064 | — |
| Unrestricted grants and contributions..... | 15,642 | — | 15,642 | — |
| Unrestricted investment income..... | 134,196 | — | 134,196 | — |
| Tobacco legal settlement..... | 79,912 | — | 79,912 | — |
| Other revenues..... | 61,926 | — | 61,926 | — |
| Transfers—internal activities..... | (951,021) | 951,021 | — | — |
| Total general revenues and transfers..... | 8,281,719 | 951,021 | 9,232,740 | — |
| Change in net assets..... | 901,526 | 465,186 | 1,366,712 | 395,382 |
| Net assets at beginning of year (restated)..... | 12,906,205 | 3,669,177 | 16,575,382 | 2,140,825 |
| Net assets at end of year..... | \$ 13,807,731 | \$ 4,134,363 | \$ 17,942,094 | \$ 2,536,207 |

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2007

(Expressed in Thousands)

| | General Fund | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue |
|--|---------------------|--------------------------------------|---------------------------------------|--|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ 1,413,878 | \$ 474,017 | \$ 274,303 | \$ 232,109 |
| Investments..... | 48,988 | 416 | — | — |
| Invested securities lending collateral..... | 592,883 | 7,512 | 106,474 | 22,707 |
| Receivables, net: | | | | |
| Accounts..... | 2,042 | 115,643 | 2,832 | 18,009 |
| Accrued interest..... | 10,106 | 474 | 5,101 | 1,316 |
| Income taxes..... | 461,659 | — | — | — |
| Sales and other taxes..... | 355,157 | 12,441 | — | 8,692 |
| Student accounts..... | — | 10 | — | — |
| Patient accounts..... | 13,281 | 14,049 | — | — |
| Loans and notes..... | 5 | 531 | 466,618 | 8,707 |
| Due from Federal government and other grantors..... | 5,463 | 551,882 | — | 94,427 |
| Due from other funds..... | 41,006 | 23,028 | 13,045 | 13,879 |
| Due from component units..... | — | — | — | — |
| Interfund receivables..... | 9,204 | 705 | 303,241 | — |
| Inventories..... | 15,385 | 22,003 | — | 5,511 |
| Restricted assets: | | | | |
| Cash and cash equivalents..... | — | — | 626,731 | 10,000 |
| Investments..... | — | — | — | — |
| Accounts receivable..... | — | — | 446,899 | — |
| Other..... | — | — | 33,676 | — |
| Prepaid items..... | — | — | — | 6,770 |
| Other assets..... | — | — | — | 771 |
| Total assets..... | \$ 2,969,057 | \$ 1,222,711 | \$ 2,278,920 | \$ 422,898 |
| LIABILITIES AND FUND BALANCES (DEFICITS) | | | | |
| Liabilities: | | | | |
| Accounts payable..... | \$ 340,778 | \$ 338,971 | \$ 12,027 | \$ 83,510 |
| Accrued salaries and related expenditures..... | 69,046 | 31,316 | 76 | 17,996 |
| Retainages payable..... | 18 | 176 | — | 1,988 |
| Tax refunds payable..... | 598,055 | — | — | — |
| Payable—aid to individuals/families..... | 1,305 | — | — | — |
| Intergovernmental payables..... | 25,403 | 164,697 | 2,237 | — |
| Due to other funds..... | 90,292 | 62,603 | 1,036 | 14,560 |
| Due to component units..... | 1 | — | — | — |
| Interfund payables..... | — | 8,859 | — | 303,241 |
| Deferred revenues..... | 111,314 | 63,995 | 438,634 | 20,627 |
| Securities lending collateral..... | 592,883 | 7,512 | 106,474 | 22,707 |
| Other liabilities..... | 47,025 | 19 | — | — |
| Total liabilities..... | 1,876,120 | 678,148 | 560,484 | 464,629 |
| Fund balances (deficits): | | | | |
| Reserved..... | 413,157 | 22,534 | 1,901,091 | 12,220 |
| Unreserved, designated reported in: | | | | |
| General Fund..... | 679,780 | — | — | — |
| Special revenue funds..... | — | — | — | — |
| Capital Projects Fund..... | — | — | — | — |
| Unreserved, undesignated reported in: | | | | |
| Special revenue funds..... | — | 522,029 | (182,655) | (53,951) |
| Permanent funds..... | — | — | — | — |
| Total fund balances (deficits)..... | 1,092,937 | 544,563 | 1,718,436 | (41,731) |
| Total liabilities and fund balances..... | \$ 2,969,057 | \$ 1,222,711 | \$ 2,278,920 | \$ 422,898 |

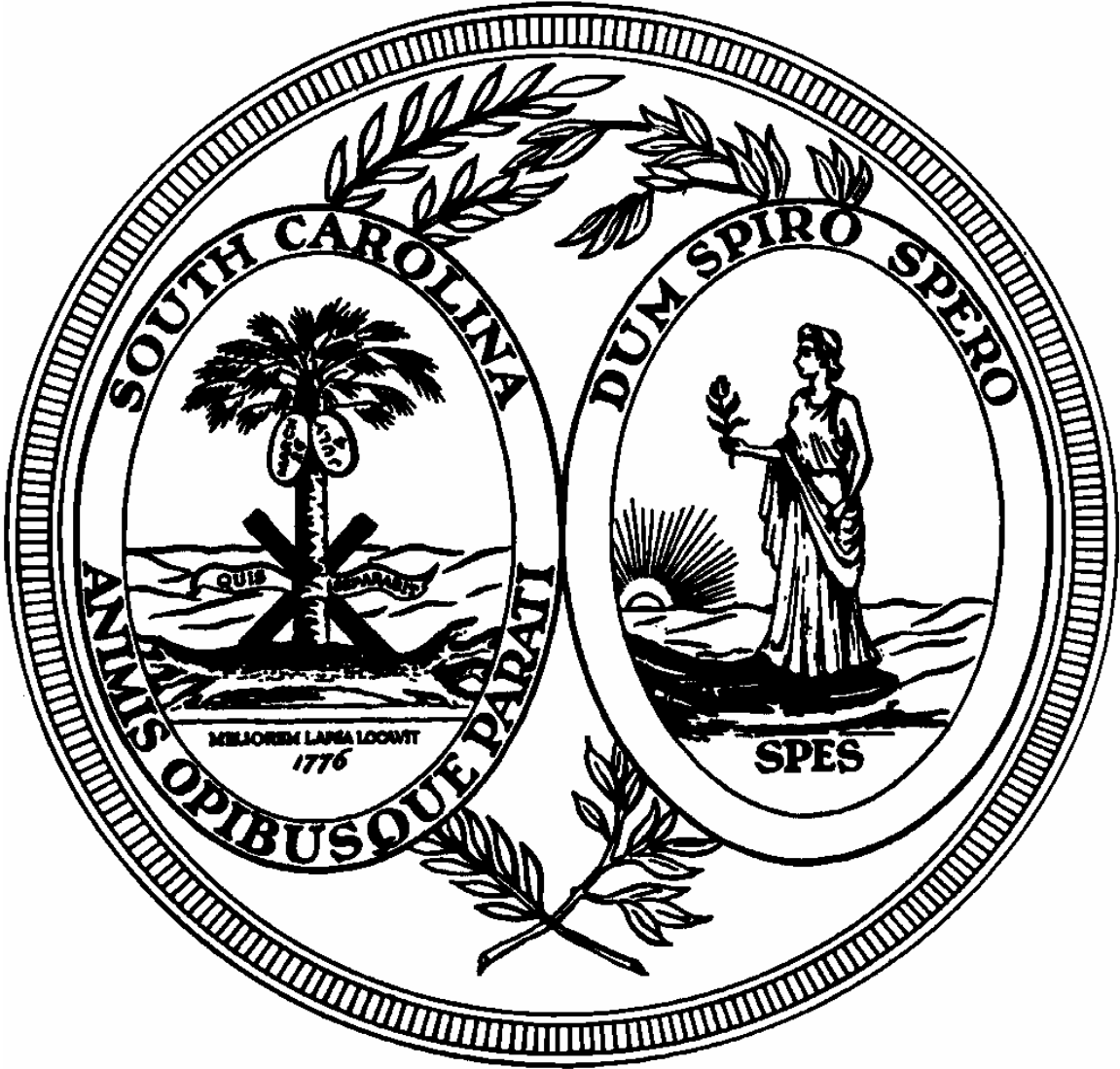
The Notes to the Financial Statements are an integral part of this statement.

| State Tobacco Settlement | Nonmajor Governmental Funds | Totals |
|--------------------------------|-----------------------------------|---------------------|
| \$ 510,761 | \$ 1,026,566 | \$ 3,931,634 |
| — | — | 49,404 |
| 5,280 | 104,527 | 839,383 |
| — | 2,836 | 141,362 |
| 314 | 7,890 | 25,201 |
| — | — | 461,659 |
| — | 187,641 | 563,931 |
| — | — | 10 |
| — | — | 27,330 |
| — | 26,778 | 502,639 |
| — | 3,569 | 655,341 |
| — | 13,601 | 104,559 |
| — | 21,848 | 21,848 |
| — | 3,942 | 317,092 |
| — | 88 | 42,987 |
| — | 7 | 636,738 |
| — | 111,750 | 111,750 |
| — | — | 446,899 |
| — | 42,310 | 75,986 |
| — | — | 6,770 |
| — | — | 771 |
| \$ 516,355 | \$ 1,553,353 | \$ 8,963,294 |
| \$ 1 | \$ 44,801 | \$ 820,088 |
| — | 2,096 | 120,530 |
| — | 681 | 2,863 |
| — | 516 | 598,571 |
| — | — | 1,305 |
| 173 | 178,886 | 371,396 |
| 1 | 45,717 | 214,209 |
| — | — | 1 |
| — | 20,393 | 332,493 |
| — | 38,510 | 673,080 |
| 5,280 | 104,527 | 839,383 |
| — | 621 | 47,665 |
| 5,455 | 436,748 | 4,021,584 |
| — | 217,241 | 2,566,243 |
| — | — | 679,780 |
| — | 15,717 | 15,717 |
| — | 240,134 | 240,134 |
| 510,900 | 642,443 | 1,438,766 |
| — | 1,070 | 1,070 |
| 510,900 | 1,116,605 | 4,941,710 |
| \$ 516,355 | \$ 1,553,353 | \$ 8,963,294 |

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

June 30, 2007
(Expressed in Thousands)

| | | |
|---|--------------------|-----------------------------|
| Total fund balances—governmental funds..... | | \$ 4,941,710 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | |
| Non-depreciable capital assets..... | \$ 5,529,878 | |
| Depreciable capital assets..... | 11,159,957 | |
| Accumulated depreciation..... | <u>(3,442,085)</u> | |
| Total capital assets..... | | 13,247,750 |
| Bond issue costs are reported as current expenditures in the funds. However, issue costs are deferred and amortized over the life of the bonds and are included in governmental activities in the statement of net assets..... | | 25,249 |
| Certain State revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds..... | | 579,049 |
| Interest receivable not due in the current period and therefore not reported in the funds..... | | 2,772 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets..... | | 529,462 |
| Eliminations relating to the consolidation of internal service funds resulted in an amount due from governmental activities to business-type activities in the statement of net assets..... | | (4,625) |
| 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..... | (5,167,880) | |
| Notes payable..... | (2,217) | |
| Accrued interest on bonds..... | (66,721) | |
| Capital leases..... | (379) | |
| Compensated absences..... | (209,162) | |
| Intergovernmental payable..... | (200) | |
| Policy claims..... | (19,967) | |
| Other..... | <u>(47,110)</u> | |
| Total long-term liabilities..... | | <u>(5,513,636)</u> |
| Net assets of governmental activities..... | | <u>\$ 13,807,731</u> |



SOUTH CAROLINA

DUM SPIRO SPERO

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SPES

Statement of Revenues, Expenditures, and Changes in Fund Balances

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

| | General Fund | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue |
|---|---------------------|--------------------------------------|---------------------------------------|--|
| Revenues: | | | | |
| Taxes: | | | | |
| Individual income..... | \$ 3,323,665 | \$ — | \$ 13,647 | \$ — |
| Retail sales and use..... | 2,633,562 | 1,625 | — | — |
| Other..... | 877,147 | 42,867 | 20,000 | 556,503 |
| Licenses, fees, and permits..... | 121,056 | 162,657 | 92,735 | — |
| Interest and other investment income..... | 129,320 | 3,648 | 61,617 | 11,806 |
| Federal..... | 91,041 | 5,062,968 | 21,245 | 557,489 |
| Local and private grants..... | 892 | 8,722 | — | — |
| Departmental services..... | 424,704 | 171,916 | 20,004 | 16,494 |
| Contributions..... | 14,999 | 32,467 | 43,482 | — |
| Fines and penalties..... | 21,393 | 68,086 | — | — |
| Tobacco legal settlement..... | — | — | — | — |
| Other..... | 29,626 | 86,882 | — | 8,124 |
| Total revenues..... | 7,667,405 | 5,641,838 | 272,730 | 1,150,416 |
| Expenditures: | | | | |
| Current: | | | | |
| General government..... | 507,866 | 218,946 | 509 | — |
| Education..... | 334,738 | 170,078 | — | — |
| Health and environment..... | 1,744,123 | 3,255,713 | — | — |
| Social services..... | 131,719 | 998,246 | — | — |
| Administration of justice..... | 561,717 | 120,343 | — | — |
| Resources and economic development..... | 111,216 | 112,534 | 1,337 | — |
| Transportation..... | — | — | 4,926 | 737,373 |
| Capital outlay..... | — | — | — | 262,286 |
| Debt service: | | | | |
| Principal retirement..... | 158,318 | 485 | 42,740 | 36,279 |
| Interest and fiscal charges..... | 72,242 | 43 | 93,204 | 37,468 |
| Intergovernmental..... | 2,894,039 | 869,400 | 124,657 | 77,100 |
| Total expenditures..... | 6,515,978 | 5,745,788 | 267,373 | 1,150,506 |
| Excess (deficiency) of revenues over (under) expenditures..... | 1,151,427 | (103,950) | 5,357 | (90) |
| Other financing sources (uses): | | | | |
| Bonds and notes issued..... | — | 100 | 286,355 | — |
| Refunding bonds issued..... | — | — | 102,015 | — |
| Premiums on bonds issued..... | — | — | 9,456 | — |
| Discounts on bonds issued..... | — | — | — | — |
| Payment to refunded bond escrow agent..... | — | — | (118,350) | — |
| Transfers in..... | 29,235 | 168,183 | 1,064 | 10,941 |
| Transfers out..... | (1,201,570) | (50,963) | (1,019) | (1,716) |
| Total other financing sources (uses)..... | (1,172,335) | 117,320 | 279,521 | 9,225 |
| Net change in fund balances..... | (20,908) | 13,370 | 284,878 | 9,135 |
| Fund balances (deficit) at beginning of year..... | 1,113,845 | 531,193 | 1,433,558 | (50,866) |
| Fund balances (deficit) at end of year..... | \$ 1,092,937 | \$ 544,563 | \$ 1,718,436 | \$ (41,731) |

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

| <u>State Tobacco Settlement</u> | <u>Nonmajor Governmental Funds</u> | <u>Totals</u> |
|---|--|---------------------|
| \$ — | \$ — | \$ 3,337,312 |
| — | 1,170,441 | 3,805,628 |
| — | 266,191 | 1,762,708 |
| — | 143,259 | 519,707 |
| 17,513 | 50,045 | 273,949 |
| — | 38,168 | 5,770,911 |
| — | 101 | 9,715 |
| — | 5,323 | 638,441 |
| — | 282,290 | 373,238 |
| — | 23,861 | 113,340 |
| — | 79,912 | 79,912 |
| 5 | 2,220 | 126,857 |
| 17,518 | 2,061,811 | 16,811,718 |
| 80 | 129,958 | 857,359 |
| — | 306,649 | 811,465 |
| 28 | 243,808 | 5,243,672 |
| — | 14,002 | 1,143,967 |
| — | 16,369 | 698,429 |
| — | 6,381 | 231,468 |
| — | — | 742,299 |
| — | 80,571 | 342,857 |
| — | 27,145 | 264,967 |
| — | 51,981 | 254,938 |
| 1,959 | 1,145,937 | 5,113,092 |
| 2,067 | 2,022,801 | 15,704,513 |
| 15,451 | 39,010 | 1,107,205 |
| — | 20,536 | 306,991 |
| — | — | 102,015 |
| — | — | 9,456 |
| — | (8) | (8) |
| — | — | (118,350) |
| 399 | 174,933 | 384,755 |
| (315) | (154,423) | (1,410,006) |
| 84 | 41,038 | (725,147) |
| 15,535 | 80,048 | 382,058 |
| 495,365 | 1,036,557 | 4,559,652 |
| \$ 510,900 | \$ 1,116,605 | \$ 4,941,710 |

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

For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

| | | |
|---|------------|-------------------|
| Net change in fund balances--total governmental funds..... | | \$ 382,058 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period, these amounts are: | | |
| Capital outlay..... | \$ 467,002 | |
| Depreciation expense..... | (224,541) | |
| Excess of capital outlay over depreciation expense..... | | 242,461 |
| Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources..... | | 107,947 |
| Losses on disposals of capital assets are reported as an expense in the statement of activities..... | | (6,296) |
| Bond and note proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from: | | |
| Bonds and notes issued..... | (306,991) | |
| Refunding bonds issued..... | (102,015) | |
| Bond premiums and discounts..... | (9,448) | |
| Net bond and note proceeds..... | | (418,454) |
| Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets..... | | 3,887 |
| Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of: | | |
| Bond principal retirement..... | 260,312 | |
| Note principal retirement..... | 4,343 | |
| Capital lease payments..... | 312 | |
| Payment to bond refunding agent..... | 118,350 | |
| Total long-term debt repayment..... | | 383,317 |
| 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..... | | 228,496 |
| Because certain receivables will not be collected soon enough after the State's fiscal year ends, the related revenues are not considered "available" and are deferred in the governmental funds. | | |
| Decrease in deferred revenues..... | | (18,422) |
| Interest receivable not due in the current period and therefore not reported in the funds..... | | 2,772 |

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

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

For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

| | | | |
|--|----|----------|--------------------------|
| Eliminations relating to the consolidation of internal service funds resulted in a net decrease in expenses for the business-type activities in the statement of activities..... | | \$ | 11,511 |
| 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 activities consist of: | | | |
| Net increase in accrued interest..... | \$ | (6,564) | |
| Interest accreted on capital appreciation debt..... | | (1,026) | |
| Amortization of bond issuance costs..... | | (1,139) | |
| Net amortization of bond premiums and discounts..... | | 2,409 | |
| Amortization of deferred losses on refunding of debt..... | | (3,090) | |
| Net increase in compensated absences payable..... | | (13,186) | |
| Decrease in intergovernmental payable..... | | 100 | |
| Increase in policy claims payable..... | | (6,431) | |
| Net decrease in other payables..... | | 11,176 | |
| Total additional expenses..... | | | <u>(17,751)</u> |
| Change in net assets of governmental activities..... | | | <u>\$ 901,526</u> |

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2007

(Expressed in Thousands)

| | ENTERPRISE | | |
|---|-----------------------------|--------------------------------------|------------------------------|
| | <u>Higher Education</u> | <u>Unemployment Compensation</u> | <u>Housing Authority</u> |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 615,162 | \$ 318,823 | \$ 31,531 |
| Investments..... | 57,233 | — | — |
| Invested securities lending collateral..... | 70,530 | 4,464 | 2,103 |
| Receivables, net: | | | |
| Accounts..... | 34,674 | 7,862 | 82 |
| Contributions..... | 8,590 | — | — |
| Participants..... | — | — | — |
| Accrued interest..... | 5,613 | 268 | 104 |
| Student accounts..... | 39,827 | — | — |
| Patient accounts..... | — | — | — |
| Loans and notes..... | 15 | — | 2,933 |
| Assessments..... | — | 50,835 | — |
| Due from Federal government and other grantors..... | 106,267 | 491 | 554 |
| Due from other funds..... | 58,766 | 1 | — |
| Due from component units..... | 129,592 | — | — |
| Inventories..... | 13,942 | — | — |
| Restricted assets: | | | |
| Cash and cash equivalents..... | 155,147 | — | 45,741 |
| Investments..... | 73 | — | — |
| Loans receivable..... | 33 | — | 54,776 |
| Other..... | 4,052 | — | 5,315 |
| Prepaid items..... | 20,890 | — | — |
| Other current assets..... | 21,992 | — | — |
| Total current assets..... | <u>1,342,398</u> | <u>382,744</u> | <u>143,139</u> |
| Long-term assets: | | | |
| Investments..... | 16,172 | — | — |
| Receivables, net: | | | |
| Accounts..... | 233 | — | — |
| Contributions..... | 560 | — | — |
| Participants..... | — | — | — |
| Loans and notes..... | 700 | — | 65,067 |
| Interfund receivables..... | — | — | — |
| Restricted assets: | | | |
| Cash and cash equivalents..... | 235,003 | — | 152,469 |
| Investments..... | 17 | — | 2,397 |
| Loans receivable..... | 54,329 | — | 641,192 |
| Other..... | 23,169 | — | — |
| Prepaid items..... | 919 | — | — |
| Other long-term assets..... | 5,716 | — | — |
| Deferred charges..... | 1,401 | — | 5,767 |
| Non-depreciable capital assets..... | 536,908 | — | — |
| Depreciable capital assets, net..... | 2,435,086 | — | 771 |
| Total long-term assets..... | <u>3,310,213</u> | <u>—</u> | <u>867,663</u> |
| Total assets..... | <u>4,652,611</u> | <u>382,744</u> | <u>1,010,802</u> |

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

| FUNDS | | | | | |
|--|---|--------------------------------|------------------|--|---------------------------------------|
| Medical University Hospital Authority | Education Assistance Authority | Nonmajor Enterprise | Totals | | INTERNAL SERVICE FUNDS |
| \$ 63,165 | \$ 354,855 | \$ 203,389 | \$ 1,586,925 | | \$ 618,908 |
| — | — | 89,850 | 147,083 | | — |
| — | — | 31,413 | 108,510 | | 107,446 |
| 14,309 | 14,239 | 3,713 | 74,879 | | 121,856 |
| — | — | 84 | 8,674 | | — |
| — | — | 23,324 | 23,324 | | — |
| — | 1,053 | 1,177 | 8,215 | | 4,298 |
| — | — | — | 39,827 | | — |
| 118,713 | — | 32,265 | 150,978 | | — |
| — | 92,000 | — | 94,948 | | — |
| — | — | — | 50,835 | | — |
| — | — | 170 | 107,482 | | — |
| 1,583 | 146 | 9,686 | 70,182 | | 46,824 |
| — | — | — | 129,592 | | 8 |
| 14,319 | — | 3,732 | 31,993 | | 8,108 |
| 18,195 | 34,955 | 53,417 | 307,455 | | — |
| — | — | 10,512 | 10,585 | | — |
| — | — | 87 | 54,896 | | — |
| — | — | 763 | 10,130 | | — |
| 9,900 | — | 962 | 31,752 | | 16,926 |
| — | — | 1,764 | 23,756 | | — |
| 240,184 | 497,248 | 466,308 | 3,072,021 | | 924,374 |
| — | — | 3,490 | 19,662 | | 322,676 |
| — | — | — | 233 | | 118 |
| — | — | 35 | 595 | | — |
| — | — | 12,618 | 12,618 | | — |
| — | 721,683 | — | 787,450 | | — |
| — | — | 37,641 | 37,641 | | 33,290 |
| 88,405 | — | 13,962 | 489,839 | | — |
| 38,842 | — | 65,972 | 107,228 | | — |
| — | — | 10,351 | 705,872 | | — |
| — | — | 657 | 23,826 | | — |
| — | — | 12,529 | 13,448 | | — |
| 18,787 | — | 9,162 | 33,665 | | — |
| — | 3,949 | — | 11,117 | | 125 |
| 224,271 | — | 26,355 | 787,534 | | 6,297 |
| 237,488 | 257 | 77,813 | 2,751,415 | | 139,422 |
| 607,793 | 725,889 | 270,585 | 5,782,143 | | 501,928 |
| 847,977 | 1,223,137 | 736,893 | 8,854,164 | | 1,426,302 |

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2007

(Expressed in Thousands)

| | ENTERPRISE | | |
|---|-----------------------------|--------------------------------------|------------------------------|
| | <u>Higher Education</u> | <u>Unemployment Compensation</u> | <u>Housing Authority</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable..... | \$ 83,613 | \$ 1,223 | \$ — |
| Accrued salaries and related expenses..... | 40,724 | — | 462 |
| Accrued interest payable..... | 9,645 | — | — |
| Retainages payable..... | 7,445 | — | — |
| Tax refunds payable..... | — | 6,169 | — |
| Unemployment benefits payable..... | — | 8,418 | — |
| Intergovernmental payables..... | — | 3,352 | 248 |
| Tuition benefits payable..... | — | — | — |
| Policy claims..... | — | — | — |
| Due to other funds..... | 18,131 | 3,685 | 26 |
| Unearned revenues..... | 141,914 | — | — |
| Deposits..... | 5,643 | — | — |
| Amounts held in custody for others..... | 7,303 | — | — |
| Securities lending collateral..... | 70,530 | 4,464 | 2,103 |
| Liabilities payable from restricted assets: | | | |
| Accounts payable..... | 414 | — | — |
| Accrued interest payable..... | — | — | 18,255 |
| Bonds payable..... | — | — | 22,360 |
| Other..... | — | — | 5,126 |
| Notes payable..... | 7,459 | — | — |
| Revenue bond anticipation notes payable..... | 4,500 | — | — |
| General obligation bonds payable..... | 18,835 | — | — |
| Revenue bonds payable..... | 21,491 | — | — |
| Limited obligation bonds payable..... | — | — | — |
| Capital leases payable..... | 5,758 | — | — |
| Compensated absences payable..... | 46,820 | — | 452 |
| Other current liabilities..... | 8,077 | — | 397 |
| Total current liabilities..... | <u>498,302</u> | <u>27,311</u> | <u>49,429</u> |
| Long-term liabilities: | | | |
| Retainages payable..... | 677 | — | — |
| Tuition benefits payable..... | — | — | — |
| Policy claims..... | — | — | — |
| Interfund payables..... | 41,149 | — | — |
| Unearned revenues..... | — | — | — |
| Other liabilities payable from restricted assets..... | — | — | — |
| Notes payable..... | 97,135 | — | — |
| General obligation bonds payable..... | 337,960 | — | — |
| Revenue bonds payable..... | 470,733 | — | 676,663 |
| Limited obligation bonds payable..... | — | — | — |
| Capital leases payable..... | 39,125 | — | — |
| Compensated absences payable..... | 57,574 | — | 281 |
| Other long-term liabilities..... | 61,572 | — | — |
| Total long-term liabilities..... | <u>1,105,925</u> | <u>—</u> | <u>676,944</u> |
| Total liabilities..... | <u>1,604,227</u> | <u>27,311</u> | <u>726,373</u> |

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

| FUNDS | | | | INTERNAL SERVICE FUNDS |
|--|---|--------------------------------|-------------------------|---------------------------------------|
| Medical University Hospital Authority | Education Assistance Authority | Nonmajor Enterprise | Totals | |
| \$ 34,739 | \$ 37,515 | \$ 10,023 | \$ 167,113 | \$ 13,522 |
| 17,793 | — | 9,627 | 68,606 | 4,335 |
| 2,494 | — | 149 | 12,288 | 704 |
| 10,701 | — | — | 18,146 | 13 |
| — | — | — | 6,169 | — |
| — | — | — | 8,418 | — |
| — | — | — | 3,600 | — |
| — | — | 15,284 | 15,284 | — |
| — | — | 30,000 | 30,000 | 463,874 |
| 7,818 | — | 4,685 | 34,345 | 2,172 |
| 4,925 | — | 12,924 | 159,763 | 146,907 |
| — | — | — | 5,643 | — |
| — | — | — | 7,303 | — |
| — | — | 31,413 | 108,510 | 107,446 |
| — | — | — | 414 | — |
| — | 13,331 | 213 | 31,799 | — |
| — | 6,190 | — | 28,550 | — |
| — | — | 52,312 | 57,438 | — |
| 3,137 | — | 4,960 | 15,556 | 3,246 |
| — | — | — | 4,500 | — |
| — | — | — | 18,835 | — |
| 1,585 | — | 1,065 | 24,141 | 1,385 |
| — | — | — | — | 1,640 |
| 674 | — | 159 | 6,591 | 369 |
| 17,261 | 272 | 3,307 | 68,112 | 3,700 |
| 130 | 1,655 | 2,800 | 13,059 | 6,455 |
| <u>101,257</u> | <u>58,963</u> | <u>178,921</u> | <u>914,183</u> | <u>755,768</u> |
| — | — | — | 677 | — |
| — | — | 188,267 | 188,267 | — |
| — | — | 168,622 | 168,622 | 95,279 |
| — | — | 10,414 | 51,563 | 3,967 |
| — | — | 638 | 638 | — |
| — | 5,650 | — | 5,650 | — |
| 15,525 | — | 125,141 | 237,801 | 10,159 |
| — | — | — | 337,960 | — |
| 473,661 | 1,019,707 | 15,689 | 2,656,453 | 19,372 |
| — | — | — | — | 9,345 |
| 30 | — | 323 | 39,478 | 191 |
| — | — | 1,279 | 59,134 | 2,759 |
| — | 891 | 1,537 | 64,000 | — |
| <u>489,216</u> | <u>1,026,248</u> | <u>511,910</u> | <u>3,810,243</u> | <u>141,072</u> |
| <u>590,473</u> | <u>1,085,211</u> | <u>690,831</u> | <u>4,724,426</u> | <u>896,840</u> |

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2007

(Expressed in Thousands)

| | ENTERPRISE | | |
|--|-----------------------------|--------------------------------------|------------------------------|
| | <u>Higher Education</u> | <u>Unemployment Compensation</u> | <u>Housing Authority</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | \$ 2,026,122 | \$ — | \$ 771 |
| Restricted: | | | |
| Expendable: | | | |
| Unemployment compensation benefits..... | — | 355,433 | — |
| Education..... | 191,784 | — | — |
| Capital projects..... | 189,590 | — | — |
| Debt service..... | 36,940 | — | 47,835 |
| Loan programs..... | — | — | 216,291 |
| Insurance programs..... | — | — | — |
| Nonexpendable: | | | |
| Education..... | 85,890 | — | — |
| Unrestricted..... | 518,058 | — | 19,532 |
| Total net assets..... | <u>\$ 3,048,384</u> | <u>\$ 355,433</u> | <u>\$ 284,429</u> |
| Adjustment in Higher Education Fund related to consolidation of internal service funds | | | |
| Net assets of business-type activities..... | | | |

| FUNDS | | | | | INTERNAL SERVICE FUNDS |
|--|---------------------------------------|----------------------------|------------------|---------------------|-------------------------------|
| Medical University Hospital Authority | Education Assistance Authority | Nonmajor Enterprise | Totals | | |
| \$ 56,688 | \$ 257 | \$ 50,024 | \$ 2,133,862 | | \$ 102,315 |
| — | — | — | 355,433 | | — |
| — | — | 29,965 | 221,749 | | — |
| — | — | 3,543 | 193,133 | | — |
| 71,975 | 96,241 | 10,444 | 263,435 | | — |
| — | 40,255 | — | 256,546 | | 20,000 |
| — | — | — | — | | 427,805 |
| — | — | 30,282 | 116,172 | | — |
| 128,841 | 1,173 | (78,196) | 589,408 | | (20,658) |
| \$ 257,504 | \$ 137,926 | \$ 46,062 | 4,129,738 | | \$ 529,462 |
| | | | | 4,625 | |
| | | | | \$ 4,134,363 | |

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

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | ENTERPRISE | | |
|--|---------------------|------------------------------|----------------------|
| | Higher Education | Unemployment Compensation | Housing Authority |
| Operating revenues: | | | |
| Assessments..... | \$ — | \$ 281,783 | \$ — |
| Charges for services..... | 1,023,729 | — | 9,705 |
| Contributions..... | — | — | — |
| Interest and other investment income..... | — | — | 51,166 |
| Licenses, fees, and permits..... | — | — | — |
| Operating revenues pledged for revenue bonds..... | 156,893 | — | — |
| Federal operating grants and contracts..... | 467,027 | 40,631 | — |
| State operating grants and contracts..... | 207,468 | — | — |
| Local/private operating grants and contracts..... | 64,802 | — | — |
| Other operating revenues..... | 209,962 | 21,582 | — |
| Total operating revenues..... | 2,129,881 | 343,996 | 60,871 |
| Operating expenses: | | | |
| General operations and administration..... | 2,747,237 | 263 | 9,727 |
| Benefits and claims..... | — | 389,824 | — |
| Tuition plan disbursements..... | — | — | — |
| Interest..... | — | — | 35,331 |
| Depreciation and amortization..... | 145,153 | — | 877 |
| Scholarships and fellowships..... | 170,771 | — | — |
| Other operating expenses..... | — | — | 2,839 |
| Total operating expenses..... | 3,063,161 | 390,087 | 48,774 |
| Operating income (loss)..... | (933,280) | (46,091) | 12,097 |
| Nonoperating revenues (expenses): | | | |
| Federal and local government appropriations..... | 62,525 | — | — |
| Interest income..... | 57,952 | 14,042 | — |
| Contributions..... | 102,017 | — | — |
| Federal grants and contracts..... | 16,802 | — | 112,600 |
| Local/private grants and contracts..... | 6,189 | — | — |
| Interest expense..... | (37,760) | — | — |
| Net other nonoperating revenues (expenses)..... | 17,410 | — | (109,257) |
| Total nonoperating revenues (expenses)..... | 225,135 | 14,042 | 3,343 |
| Income (loss) before other revenues, expenses, losses, and transfers..... | (708,145) | (32,049) | 15,440 |
| Capital contributions..... | — | — | — |
| Federal capital grants and contracts..... | 16,958 | — | — |
| Local/private capital grants and contracts..... | 68,635 | — | — |
| Additions to endowments..... | 11,805 | — | — |
| Transfers in..... | 1,004,685 | 2,400 | 2,009 |
| Transfers out..... | (25,785) | (1,850) | (250) |
| Change in net assets..... | 368,153 | (31,499) | 17,199 |
| Net assets (deficit) at beginning of year (restated)..... | 2,680,231 | 386,932 | 267,230 |
| Net assets at end of year..... | \$ 3,048,384 | \$ 355,433 | \$ 284,429 |

Adjustment in Higher Education Fund related to consolidation of internal service funds.....

Change in net assets of business-type activities.....

FUNDS

| Medical University Hospital Authority | Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
|--|---|--------------------------------|-------------------|---------------------------------------|
| \$ — | \$ — | \$ — | \$ 281,783 | \$ — |
| 733,301 | 48,975 | 325,339 | 2,141,049 | 1,839,201 |
| — | — | 18,878 | 18,878 | — |
| — | 20,920 | 23,157 | 95,243 | 959 |
| — | — | — | — | 5 |
| — | — | 2,281 | 159,174 | — |
| — | — | — | 507,658 | — |
| — | — | — | 207,468 | — |
| — | — | — | 64,802 | — |
| 15,749 | 750 | 39,071 | 287,114 | 78,463 |
| 749,050 | 70,645 | 408,726 | 3,763,169 | 1,918,628 |
| 690,850 | 19,174 | 261,929 | 3,729,180 | 344,432 |
| — | — | 23,577 | 413,401 | 1,439,099 |
| — | — | 8,100 | 8,100 | — |
| — | 38,383 | — | 73,714 | 9 |
| 22,945 | 494 | 4,148 | 173,617 | 14,008 |
| — | — | — | 170,771 | — |
| — | 3,486 | 219 | 6,544 | 5,715 |
| 713,795 | 61,537 | 297,973 | 4,575,327 | 1,803,263 |
| 35,255 | 9,108 | 110,753 | (812,158) | 115,365 |
| — | — | — | 62,525 | — |
| 3,164 | — | 8,916 | 84,074 | 43,508 |
| — | — | 3,635 | 105,652 | — |
| — | — | — | 129,402 | — |
| — | — | 254 | 6,443 | — |
| (9,829) | — | (7,081) | (54,670) | (2,164) |
| — | (1,623) | (1,530) | (95,000) | 210 |
| (6,665) | (1,623) | 4,194 | 238,426 | 41,554 |
| 28,590 | 7,485 | 114,947 | (573,732) | 156,919 |
| — | — | 57 | 57 | 98 |
| — | — | — | 16,958 | — |
| — | — | — | 68,635 | — |
| — | — | 1,436 | 13,241 | — |
| — | — | 3,648 | 1,012,742 | 94,281 |
| (2,211) | — | (31,108) | (61,204) | (22,802) |
| 26,379 | 7,485 | 88,980 | 476,697 | 228,496 |
| 231,125 | 130,441 | (42,918) | | 300,966 |
| \$ 257,504 | \$ 137,926 | \$ 46,062 | | \$ 529,462 |
| | | | (11,511) | |
| | | | \$ 465,186 | |

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | ENTERPRISE | | |
|--|-----------------------------|--------------------------------------|------------------------------|
| | <u>Higher Education</u> | <u>Unemployment Compensation</u> | <u>Housing Authority</u> |
| Cash flows from operating activities: | | | |
| Receipts from customers, patients, and third-party payers..... | \$ 1,243,072 | \$ — | \$ — |
| Assessments received..... | — | 285,771 | — |
| Grants received..... | 716,791 | 42,376 | — |
| Receipts from collection of loans and notes..... | 365,130 | — | 112,112 |
| Receipts of funds held for others..... | 158,373 | — | — |
| Internal activity—payments from other funds..... | 72,610 | — | — |
| Tuition plan contributions received..... | — | — | — |
| Other operating cash receipts..... | 43,398 | 21,607 | 11,598 |
| Claims and benefits paid..... | — | (388,646) | (613) |
| Payments to suppliers for goods and services..... | (1,077,643) | — | (5,425) |
| Payments to employees..... | (1,716,766) | — | (6,869) |
| Payments for scholarships and fellowships..... | (145,701) | — | — |
| Loans issued to students..... | (366,942) | — | — |
| Payments of funds held for others..... | (133,653) | — | — |
| Program loans issued..... | — | — | (206,845) |
| Internal activity—payments to other funds..... | — | — | — |
| Other operating cash payments..... | (1,598) | (263) | — |
| Net cash provided by (used in) operating activities..... | (842,929) | (39,155) | (96,042) |
| Cash flows from noncapital financing activities: | | | |
| State, county, and local appropriations..... | 54,227 | — | — |
| Federal appropriations..... | 20,928 | — | — |
| Funds held for others..... | (105) | — | — |
| Principal payments received from other funds..... | — | — | — |
| Principal payments made to other funds..... | — | — | — |
| Receipt of interest from other funds..... | — | — | — |
| Interest payments made to other funds..... | — | — | — |
| Loans received from other funds..... | — | — | (2,653) |
| Proceeds from sale of noncapital revenue bonds..... | — | — | 83,540 |
| Principal payments on noncapital revenue bonds..... | — | — | (59,186) |
| Proceeds from issuance of noncapital debt..... | — | — | — |
| Principal paid on noncapital debt..... | — | — | — |
| Interest payments on noncapital debt..... | (89) | — | (31,764) |
| Payment of bond issuance costs..... | — | — | (856) |
| Gifts and grants for other than capital purposes..... | 147,478 | — | — |
| Federal revenue..... | — | — | 112,600 |
| Payments from Federal grants..... | — | — | (109,257) |
| Other cash receipts..... | 9,506 | — | — |
| Other cash payments..... | (2,935) | — | — |
| Transfers in..... | 1,003,060 | 2,400 | 17,149 |
| Transfers out..... | (28,295) | (1,850) | (15,391) |
| Net cash provided by (used in) noncapital financing activities..... | 1,203,775 | 550 | (5,818) |

| FUNDS | | | | INTERNAL SERVICE FUNDS |
|--|---------------------------------------|----------------------------|------------------|-------------------------------|
| Medical University Hospital Authority | Education Assistance Authority | Nonmajor Enterprise | Totals | |
| \$ 737,406 | \$ 91,649 | \$ 309,875 | \$ 2,382,002 | \$ 1,366,252 |
| — | — | 94,208 | 379,979 | — |
| — | — | — | 759,167 | — |
| — | 645,962 | — | 1,123,204 | — |
| — | — | — | 158,373 | — |
| — | — | — | 72,610 | 494,902 |
| — | — | 8,822 | 8,822 | — |
| 15,232 | — | 47,580 | 139,415 | 67,365 |
| — | — | (160,850) | (550,109) | (1,418,906) |
| (313,550) | (147,987) | (98,642) | (1,643,247) | (269,728) |
| (310,122) | (3,575) | (149,886) | (2,187,218) | (73,608) |
| — | — | — | (145,701) | — |
| — | — | — | (366,942) | — |
| — | — | — | (133,653) | — |
| — | (514,200) | — | (721,045) | — |
| (72,610) | — | — | (72,610) | (11,844) |
| — | — | (15,646) | (17,507) | (327) |
| 56,356 | 71,849 | 35,461 | (814,460) | 154,106 |
| — | — | — | 54,227 | — |
| — | — | — | 20,928 | — |
| — | — | — | (105) | — |
| — | — | — | — | 3,371 |
| — | — | (3,976) | (3,976) | (196) |
| — | — | (929) | (929) | (755) |
| — | — | — | (2,653) | 7,027 |
| — | 172,700 | — | 256,240 | — |
| — | (51,770) | — | (110,956) | — |
| — | — | 1,700 | 1,700 | — |
| — | — | (4,051) | (4,051) | — |
| — | (35,936) | (4,024) | (71,813) | — |
| — | (843) | — | (1,699) | — |
| — | — | 4,044 | 151,522 | — |
| — | — | — | 112,600 | — |
| — | — | — | (109,257) | — |
| — | — | 1,654 | 11,160 | — |
| — | (3,266) | (18) | (6,219) | — |
| — | — | 3,751 | 1,026,360 | 94,281 |
| (552) | — | (31,108) | (77,196) | (22,802) |
| (552) | 80,885 | (32,957) | 1,245,883 | 80,926 |

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | ENTERPRISE | | |
|--|-----------------------------|--------------------------------------|------------------------------|
| | <u>Higher Education</u> | <u>Unemployment Compensation</u> | <u>Housing Authority</u> |
| Cash flows from capital and related financing activities: | | | |
| Capital appropriations..... | \$ 12,978 | \$ — | \$ — |
| Acquisition of capital assets | (363,874) | — | (32) |
| Principal payments on notes payable | (3,998) | — | — |
| Principal payments on limited obligation bonds..... | — | — | — |
| Proceeds from issuance of capital debt..... | 203,428 | — | — |
| Principal paid on capital debt and lease..... | (58,215) | — | — |
| Interest payments on capital debt..... | (36,177) | — | — |
| Payment of agent and broker fees..... | (897) | — | — |
| Proceeds from sale or disposal of capital assets..... | 20,950 | — | — |
| Capital grants and gifts received..... | 23,850 | — | — |
| Net cash provided by (used in) capital and related financing activities..... | (201,955) | — | (32) |
| Cash flows from investing activities: | | | |
| Proceeds from sales and maturities of investments..... | 451,500 | — | (23) |
| Purchase of investments | (451,214) | — | — |
| Interest and dividends on investments..... | 33,331 | 13,961 | 12,478 |
| Transfer of endowment funds..... | (7,000) | — | — |
| Collection of escrow payments from borrower..... | — | — | — |
| Net cash provided by (used in) investing activities..... | 26,617 | 13,961 | 12,455 |
| Net increase (decrease) in cash and cash equivalents..... | 185,508 | (24,644) | (89,437) |
| Cash and cash equivalents at beginning of year (restated)..... | 819,804 | 343,467 | 319,178 |
| Cash and cash equivalents at end of year..... | \$ 1,005,312 | \$ 318,823 | \$ 229,741 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Operating income (loss) | \$ (933,280) | \$ (46,091) | \$ 12,097 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 145,153 | — | 1,141 |
| Provision for bad debts..... | 5 | — | — |
| Realized gains and losses on investments..... | — | — | — |
| Issuance of loans and notes..... | — | — | (206,845) |
| Collection of loans and notes..... | — | — | 72,766 |
| Interest payments reclassified as noncapital financing activities..... | — | — | 35,332 |
| Interest and dividends on investments and interfund loans..... | — | — | (12,272) |
| Amounts received for payment of claims..... | — | — | — |
| Payment of claims..... | — | — | — |
| Other nonoperating revenues..... | 323 | — | — |
| Other nonoperating expenses..... | — | — | — |
| Other..... | (67) | — | — |

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

| FUNDS | | | | |
|--|---|--------------------------------|---------------------|---------------------------------------|
| Medical University Hospital Authority | Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| \$ — | \$ — | \$ — | \$ 12,978 | \$ — |
| (101,509) | (126) | (10,115) | (475,656) | (17,475) |
| — | — | — | (3,998) | — |
| — | — | — | — | (4,320) |
| 10,675 | — | — | 214,103 | 1,385 |
| (6,978) | — | (1,894) | (67,087) | (11,769) |
| (27,348) | — | (4,928) | (68,453) | — |
| (2,006) | — | (28) | (2,931) | — |
| 3 | — | 1 | 20,954 | 819 |
| — | — | — | 23,850 | — |
| (127,163) | (126) | (16,964) | (346,240) | (31,360) |
| 13,022 | — | 90,911 | 555,410 | 230,012 |
| (7,830) | — | (116,102) | (575,146) | (366,237) |
| 9,804 | 20,215 | 38,071 | 127,860 | 60,784 |
| — | — | — | (7,000) | — |
| — | — | 2,043 | 2,043 | — |
| 14,996 | 20,215 | 14,923 | 103,167 | (75,441) |
| (56,363) | 172,823 | 463 | 188,350 | 128,231 |
| 226,128 | 216,987 | 270,305 | 2,195,869 | 490,677 |
| \$ 169,765 | \$ 389,810 | \$ 270,768 | \$ 2,384,219 | \$ 618,908 |

| | | | | |
|-----------|----------|------------|--------------|------------|
| \$ 35,255 | \$ 9,108 | \$ 110,753 | \$ (812,158) | \$ 115,365 |
| 22,945 | 494 | 4,148 | 173,881 | 14,008 |
| 82,588 | (73) | 36,786 | 119,306 | — |
| — | — | (9,663) | (9,663) | — |
| — | (33,612) | — | (240,457) | — |
| — | 32,744 | — | 105,510 | — |
| — | 38,616 | — | 73,948 | — |
| — | (20,868) | (23,157) | (56,297) | — |
| — | — | 92,659 | 92,659 | — |
| — | — | (118,488) | (118,488) | — |
| — | — | 2,599 | 2,922 | 1,720 |
| — | — | — | — | (1,244) |
| 664 | — | 1,779 | 2,376 | — |

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | ENTERPRISE | | |
|--|-----------------------------|--------------------------------------|------------------------------|
| | <u>Higher Education</u> | <u>Unemployment Compensation</u> | <u>Housing Authority</u> |
| Effect of change in operating assets and liabilities: | | | |
| Accounts receivable, net..... | \$ (58,031) | \$ 25 | \$ 288 |
| Receivable from participants, net..... | — | — | — |
| Accrued interest..... | — | — | (81) |
| Loans receivable..... | (1,770) | — | 52,787 |
| Due from Federal government and other grantors..... | — | (264) | 495 |
| Due from other funds..... | — | — | — |
| Inventories..... | — | — | — |
| Other assets..... | 197 | 2,579 | (54,812) |
| Accounts payable..... | (11,477) | 30 | — |
| Accrued salaries and related expenses..... | 2,129 | — | 26 |
| Accrued interest payable..... | — | — | — |
| Retainages payable..... | — | — | — |
| Tax refunds payable..... | — | 1,409 | — |
| Unemployment benefits payable..... | — | 1,443 | — |
| Intergovernmental payables..... | — | (295) | 234 |
| Tuition benefits payable..... | — | — | — |
| Policy claims..... | — | — | — |
| Due to other funds..... | — | 2,009 | (429) |
| Unearned revenues..... | 15,145 | — | — |
| Deposits..... | 387 | — | — |
| Liabilities payable from restricted assets..... | — | — | (1,480) |
| Compensated absences payable..... | 7,769 | — | 23 |
| Other liabilities..... | (9,412) | — | 4,688 |
| Net cash provided by (used in) operating activities..... | <u>\$ (842,929)</u> | <u>\$ (39,155)</u> | <u>\$ (96,042)</u> |
| Noncash capital, investing, and financing activities: | | | |
| Acquisition of capital assets through: | | | |
| Assumption of liabilities..... | \$ 5,849 | \$ — | \$ — |
| Donations..... | 30,277 | — | — |
| Disposal of capital assets..... | (1,296) | — | — |
| Increase (decrease) in fair value of investments..... | 14,235 | — | 66 |
| Decrease in investments for amortization and accretion..... | — | — | — |
| Accrual of arbitrage income..... | — | — | — |
| Long-term debt forgiven..... | 284 | — | — |
| Total noncash capital, investing, and financing activities..... | <u>\$ 49,349</u> | <u>\$ —</u> | <u>\$ 66</u> |

| FUNDS | | | | INTERNAL SERVICE FUNDS |
|--|---------------------------------------|----------------------------|---------------------|-------------------------------|
| Medical University Hospital Authority | Education Assistance Authority | Nonmajor Enterprise | Totals | |
| \$ (83,925) | \$ (343) | \$ (39,045) | \$ (181,031) | \$ (2,197) |
| — | — | (10,187) | (10,187) | — |
| — | — | — | (81) | 14 |
| — | 120,171 | — | 171,188 | — |
| — | — | — | 231 | — |
| — | — | 13 | 13 | (1,758) |
| — | — | (102) | (102) | (180) |
| (9,776) | — | 81 | (61,731) | (1,105) |
| 5,336 | (74,045) | 5,087 | (75,069) | 6,260 |
| — | — | 1,763 | 3,918 | 153 |
| — | — | — | — | (100) |
| — | — | — | — | (20) |
| — | — | — | 1,409 | — |
| — | — | — | 1,443 | — |
| — | — | — | (61) | — |
| — | — | (172) | (172) | — |
| — | — | (18,784) | (18,784) | 23,233 |
| — | — | (495) | 1,085 | (557) |
| 4,925 | — | (690) | 19,380 | 147 |
| — | — | — | 387 | — |
| — | — | — | (1,480) | — |
| — | 35 | 373 | 8,200 | 367 |
| (1,656) | (378) | 203 | (6,555) | — |
| \$ 56,356 | \$ 71,849 | \$ 35,461 | \$ (814,460) | \$ 154,106 |
| \$ — | \$ — | \$ — | \$ 5,849 | \$ — |
| — | — | — | 30,277 | — |
| — | — | — | (1,296) | — |
| — | — | 5,029 | 19,330 | 3,200 |
| — | — | — | — | (13,472) |
| — | (1,623) | — | (1,623) | — |
| — | — | — | 284 | 1,290 |
| \$ — | \$ (1,623) | \$ 5,029 | \$ 52,821 | \$ (8,982) |

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2007

(Expressed in Thousands)

| | Pension Trust | Investment Trust Local Government Investment Pool | Private-Purpose Trust | Agency |
|---|-----------------------------|---|----------------------------|-----------------------|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ 6,064,921 | \$ 1,559,065 | \$ 27,490 | \$ 175,425 |
| Receivables, net: | | | | |
| Accounts..... | — | — | — | 5,924 |
| Contributions..... | 159,370 | — | — | — |
| Employer long-term..... | 867 | — | — | — |
| Accrued interest..... | 131,741 | 6,170 | 966 | 1,478 |
| Unsettled investment sales..... | 471,858 | — | 414 | — |
| Other investment receivables..... | 18,054 | — | — | — |
| Taxes..... | — | — | — | 2,866 |
| Total receivables..... | <u>781,890</u> | <u>6,170</u> | <u>1,380</u> | <u>10,268</u> |
| Due from other funds..... | <u>8,153</u> | <u>—</u> | <u>—</u> | <u>55,941</u> |
| Investments, at fair value: | | | | |
| United States government securities..... | 563,024 | — | — | — |
| United States government agencies and government-insured securities..... | 3,611,347 | 224,894 | — | — |
| Corporate bonds..... | 3,543,185 | 434,671 | — | — |
| Financial and other..... | 1,314,164 | 88,828 | 975,221 | 29,598 |
| Equities..... | 13,156,728 | — | — | — |
| Total investments..... | <u>22,188,448</u> | <u>748,393</u> | <u>975,221</u> | <u>29,598</u> |
| Securities held in lieu of surety bonds..... | — | — | — | 293,468 |
| Invested securities lending collateral..... | 5,085,506 | 133,569 | 1,244 | 18,329 |
| Capital assets, net | 3,577 | — | — | — |
| Prepaid items..... | 495 | — | — | — |
| Other assets..... | — | — | 5,027 | — |
| Total assets..... | <u>34,132,990</u> | <u>2,447,197</u> | <u>1,010,362</u> | <u>583,029</u> |
| LIABILITIES | | | | |
| Accounts payable..... | 7,605 | 2 | 809 | 17,006 |
| Accounts payable—unsettled investment purchases..... | 282,602 | — | 239 | — |
| Due to other funds..... | 34,933 | — | — | — |
| Tax refunds payable..... | — | — | — | 629 |
| Intergovernmental payables..... | — | — | — | 2,492 |
| Deposits..... | — | — | — | 2,838 |
| Amounts held in custody for others..... | — | — | — | 541,484 |
| Deferred retirement benefits..... | 641,750 | — | — | — |
| Securities lending collateral..... | 5,085,506 | 133,569 | 1,244 | 18,329 |
| Other liabilities..... | 31,814 | 642 | — | 251 |
| Total liabilities..... | <u>6,084,210</u> | <u>134,213</u> | <u>2,292</u> | <u>583,029</u> |
| NET ASSETS | | | | |
| Held in trust for: | | | | |
| Pension benefits..... | 28,048,780 | — | — | — |
| External investment pool participants..... | — | 2,312,984 | — | — |
| Other purposes..... | — | — | 1,008,070 | — |
| Total net assets..... | <u>\$ 28,048,780</u> | <u>\$ 2,312,984</u> | <u>\$ 1,008,070</u> | <u>\$ —</u> |

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

Statement of Changes in Fiduciary Net Assets

FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Pension Trust | Investment Trust Local Government Investment Pool | Private-Purpose Trust |
|--|----------------------|---|--------------------------|
| Additions: | | | |
| Licenses, fees, and permits..... | \$ — | \$ — | \$ 159 |
| Contributions: | | | |
| Employer..... | 764,115 | — | — |
| Employee..... | 578,019 | — | — |
| Deposits from pool participants..... | — | 5,615,337 | — |
| Tuition plan deposits..... | — | — | 169,583 |
| Total contributions..... | 1,342,134 | 5,615,337 | 169,583 |
| Investment income: | | | |
| Interest income and net appreciation in investments..... | 3,422,258 | 110,636 | 121,684 |
| Securities lending income..... | 293,125 | 10,954 | — |
| Total investment income..... | 3,715,383 | 121,590 | 121,684 |
| Less investment expense: | | | |
| Investment expense..... | 36,147 | — | — |
| Securities lending expense..... | 281,435 | 10,706 | — |
| Net investment income..... | 3,397,801 | 110,884 | 121,684 |
| Transfers between pension trust funds..... | 1,745 | — | — |
| Transfers in..... | 1,637 | — | 597 |
| Total additions..... | 4,743,317 | 5,726,221 | 292,023 |
| Deductions: | | | |
| Regular retirement benefits..... | 1,704,424 | — | — |
| Supplemental retirement benefits..... | 1,587 | — | — |
| Deferred retirement benefits..... | 240,580 | — | — |
| Refunds of retirement contributions to members..... | 89,825 | — | — |
| Group life insurance claims..... | 18,253 | — | — |
| Accidental death benefits..... | 1,198 | — | — |
| Withdrawals, pool participants..... | — | 5,278,207 | — |
| Distributions to pool participants..... | — | 109,011 | — |
| Depreciation..... | 119 | — | — |
| Administrative expense..... | 18,754 | 102 | 6,250 |
| Payments in accordance with trust agreements..... | — | — | 143 |
| Other expenses..... | — | — | 77 |
| Transfers between pension trust funds..... | 1,745 | — | — |
| Total deductions..... | 2,076,485 | 5,387,320 | 6,470 |
| Change in net assets..... | 2,666,832 | 338,901 | 285,553 |
| Net assets at beginning of year..... | 25,381,948 | 1,974,083 | 722,517 |
| Net assets at end of year..... | \$ 28,048,780 | \$ 2,312,984 | \$ 1,008,070 |

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2007

(Expressed in Thousands)

| | Public Service Authority | State Ports Authority | Connector 2000 Association, Inc. | Lottery Commission | Nonmajor Component Units | Totals |
|--|--------------------------------|-----------------------------|---|-----------------------|--------------------------------|------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents..... | \$ 106,179 | \$ 157,802 | \$ 704 | \$ 14,332 | \$ 33,172 | \$ 312,189 |
| Investments..... | 18,326 | — | 321 | — | 85,864 | 104,511 |
| Invested securities lending collateral..... | — | 21,506 | — | 43 | 901 | 22,450 |
| Receivables, net | | | | | | |
| Accounts..... | 167,798 | 18,611 | — | 29,679 | 1,489 | 217,577 |
| Contributions..... | — | — | — | — | 2,689 | 2,689 |
| Accrued interest..... | 4,437 | — | — | 494 | 811 | 5,742 |
| Due from Federal government and other grantors.. | — | — | — | — | 19 | 19 |
| Due from primary government..... | — | 167,541 | — | — | 1 | 167,542 |
| Inventories..... | 231,481 | 4,716 | 89 | 2,244 | — | 238,530 |
| Restricted assets: | | | | | | |
| Cash and cash equivalents..... | 76,995 | — | 1,501 | 411 | 16,925 | 95,832 |
| Investments..... | 109,666 | — | 1,017 | — | — | 110,683 |
| Other..... | — | — | 3 | — | — | 3 |
| Prepaid items..... | 3,933 | 4,172 | 38 | — | 146 | 8,289 |
| Other current assets..... | 23,770 | — | — | 840 | 318 | 24,928 |
| Deferred charges..... | — | — | — | — | 1,704 | 1,704 |
| Total current assets..... | 742,585 | 374,348 | 3,673 | 48,043 | 144,039 | 1,312,688 |
| Long-term assets: | | | | | | |
| Receivables, net: | | | | | | |
| Accounts..... | — | — | — | — | 1,939 | 1,939 |
| Contributions..... | — | — | — | — | 38,229 | 38,229 |
| Investments..... | 79,758 | 6,206 | — | — | 683,322 | 769,286 |
| Restricted assets: | | | | | | |
| Cash and cash equivalents..... | 53,510 | — | 567 | — | — | 54,077 |
| Investments..... | 284,664 | — | 15,879 | — | — | 300,543 |
| Other..... | — | — | 1 | — | — | 1 |
| Other long-term assets..... | 2,424 | 11,669 | — | 6,162 | 12 | 20,267 |
| Deferred charges..... | 493,589 | 15,715 | 3,989 | — | — | 513,293 |
| Investment in joint venture..... | 7,672 | — | — | — | — | 7,672 |
| Non-depreciable capital assets..... | 1,387,409 | 259,325 | — | — | 8,971 | 1,655,705 |
| Depreciable capital assets, net..... | 2,488,882 | 244,348 | 162,651 | 2,645 | 736 | 2,899,262 |
| Total long-term assets..... | 4,797,908 | 537,263 | 183,087 | 8,807 | 733,209 | 6,260,274 |
| Total assets..... | 5,540,493 | 911,611 | 186,760 | 56,850 | 877,248 | 7,572,962 |

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

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2007

(Expressed in Thousands)

| | Public Service Authority | State Ports Authority | Connector 2000 Association, Inc. | Lottery Commission | Nonmajor Component Units | Totals |
|--|--------------------------------|-----------------------------|---|-----------------------|--------------------------------|---------------------|
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable..... | \$ 209,858 | \$ 18,267 | \$ 70 | \$ 3,863 | \$ 2,215 | \$ 234,273 |
| Accrued salaries and related expenses..... | 7,654 | 1,379 | — | 771 | 64 | 9,868 |
| Accrued interest payable..... | 79,742 | 2,980 | — | — | — | 82,722 |
| Retainages payable..... | — | 170 | — | — | — | 170 |
| Prizes payable..... | — | — | — | 25,692 | — | 25,692 |
| Intergovernmental payables..... | — | 636 | — | — | 13 | 649 |
| Policy claims..... | 2,402 | — | — | — | 45,000 | 47,402 |
| Due to primary government..... | — | — | 3,726 | 21,848 | 129,600 | 155,174 |
| Deferred revenues and deferred credits..... | — | — | 158 | 431 | 25,373 | 25,962 |
| Deposits..... | — | — | 13 | — | — | 13 |
| Securities lending collateral..... | — | 21,506 | — | 43 | 901 | 22,450 |
| Liabilities payable from restricted assets: | | | | | | |
| Accounts payable..... | — | — | — | — | 226 | 226 |
| Accrued interest payable..... | — | — | 1,766 | — | — | 1,766 |
| Notes payable..... | — | 445 | — | — | — | 445 |
| Revenue bonds payable..... | 76,475 | 3,330 | — | — | — | 79,805 |
| Capital leases payable..... | 2,738 | 43 | — | — | — | 2,781 |
| Commercial paper notes..... | 195,072 | — | — | — | — | 195,072 |
| Compensated absences payable..... | — | 2,531 | — | 425 | 40 | 2,996 |
| Other current liabilities..... | 64,488 | 13,064 | — | 212 | 447 | 78,211 |
| Total current liabilities..... | 638,429 | 64,351 | 5,733 | 53,285 | 203,879 | 965,677 |
| Long-term liabilities: | | | | | | |
| Retainages payable..... | 63,582 | — | — | — | — | 63,582 |
| Policy claims..... | — | — | — | — | 157,368 | 157,368 |
| Deferred revenues and deferred credits..... | 277,920 | — | — | — | — | 277,920 |
| Amounts held in custody for others..... | — | — | — | — | 2,732 | 2,732 |
| Notes payable..... | — | 1,984 | — | — | — | 1,984 |
| Revenue bonds payable..... | 3,082,795 | 130,868 | 289,457 | — | — | 3,503,120 |
| Capital leases payable..... | 7,158 | 15 | — | — | — | 7,173 |
| Compensated absences payable..... | 15,393 | — | — | 509 | 34 | 15,936 |
| Other long-term liabilities..... | 30,830 | — | — | — | 10,433 | 41,263 |
| Total long-term liabilities..... | 3,477,678 | 132,867 | 289,457 | 509 | 170,567 | 4,071,078 |
| Total liabilities..... | 4,116,107 | 197,218 | 295,190 | 53,794 | 374,446 | 5,036,755 |
| NET ASSETS (DEFICITS) | | | | | | |
| Invested in capital assets, net of related debt..... | 787,362 | 366,209 | (40,829) | 2,645 | 9,706 | 1,125,093 |
| Restricted: | | | | | | |
| Expendable: | | | | | | |
| Education..... | — | — | — | — | 221,533 | 221,533 |
| Capital projects..... | 20,854 | — | 9 | — | — | 20,863 |
| Debt service..... | 84,804 | 6,227 | 199 | — | — | 91,230 |
| Other..... | 164,677 | — | — | 411 | 2,336 | 167,424 |
| Nonexpendable, education..... | — | — | — | — | 311,777 | 311,777 |
| Unrestricted..... | 366,689 | 341,957 | (67,809) | — | (42,550) | 598,287 |
| Total net assets (deficit)..... | \$ 1,424,386 | \$ 714,393 | \$ (108,430) | \$ 3,056 | \$ 502,802 | \$ 2,536,207 |

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--------------------------------------|---------------------|-----------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Public Service Authority..... | \$ 1,369,560 | \$ 1,421,910 | \$ 35,466 | \$ — |
| State Ports Authority..... | 110,241 | 161,244 | 7,372 | 168,263 |
| Connector 2000 Association, Inc..... | 25,994 | 5,085 | 956 | — |
| Lottery Commission..... | 995,109 | 991,739 | 1,245 | — |
| Nonmajor component units..... | 116,186 | 50,392 | 168,800 | — |
| Totals..... | \$ 2,617,090 | \$ 2,630,370 | \$ 213,839 | \$ 168,263 |

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

| Net (Expense) Revenue | Net Assets (Deficit) Beginning of Year | Net Assets (Deficit) End of Year |
|--------------------------------------|---|---|
| \$ 87,816 | \$ 1,336,570 | \$ 1,424,386 |
| 226,638 | 487,755 | 714,393 |
| (19,953) | (88,477) | (108,430) |
| (2,125) | 5,181 | 3,056 |
| 103,006 | 399,796 | 502,802 |
| \$ 395,382 | \$ 2,140,825 | \$ 2,536,207 |

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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 financially accountable. Blended component units, although legally separate from the State, are part of the State's operations in substance. Accordingly, the State presents them as funds in its fund financial statements and as activities in its government-wide financial statements. In contrast, the State excludes its discretely presented component units from the fund financial statements included within its basic financial statements and it reports the discretely presented component units separately in its government-wide financial statements.

As explained more fully below, the State's primary government and its component units include various State funds, agencies, departments, institutions, authorities, and other organizations.

Primary Government

The State's primary government includes all constitutional offices, departments, agencies, commissions, and authorities unless otherwise noted below. Most of these have executives or boards appointed by the Governor, the General Assembly, or a combination thereof. These entities are financially accountable to, and fiscally dependent on, the State.

Although they operate somewhat autonomously, the entities listed below are included in the State's primary government because they lack full corporate powers.

Fiscal year ended June 30, 2007:

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

Fiscal year ended December 31, 2006:

- The Public Railways Division of the Department of Commerce

The State's five retirement systems are part of the State's primary government. The State Budget and Control Board, which consists of five elected officials, serves as trustee of the systems. The State Treasurer is custodian of the funds.

The State reports ten State-supported universities and sixteen area technical colleges within its Higher Education Fund as part of the primary government. Although the universities and colleges operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and the General Assembly appoint most of their boards and budget a significant portion of their funds.

The accompanying financial statements exclude the related foundations listed in Note 20 because the State does not significantly influence operations of the related foundations nor are the related foundations accountable to the State for fiscal matters.

Blended Component Units

Unless otherwise indicated below, the blended component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2007.

Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority, a blended component unit accounted for as a governmental fund, commenced operations in August 2000. Its creation was 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.

Blended Component Units Associated with the Higher Education Fund

The State's enterprise funds include the following blended component units, all of which are associated with the Higher Education Fund, a major enterprise fund:

The *Medical University Hospital Authority* (the Authority) was created to manage and operate the Medical University of South Carolina's hospitals and clinics. The legislation establishing the Authority requires that the members of the Medical University's Board of Trustees also constitute the Authority's Board of Trustees. The Authority also is a major enterprise fund.

The *Citadel Trust, Inc.*, was formed to provide scholarship and other financial assistance or support to The Citadel.

The *University of South Carolina Trust (the Trust)* operates exclusively for the benefit of the University's School of Medicine to augment and aid education, research, and service in the field of health sciences. The financial information presented in the accompanying financial statements is for the Trust's fiscal year ended December 31, 2006.

University Medical Associates (UMA) was established to promote and support educational, medical, scientific, and research purposes of the Medical University of South Carolina (MUSC). UMA promotes the recruitment and retention of superior faculty at MUSC. UMA is a blended component unit because it almost exclusively benefits MUSC even though UMA does not provide all of its services directly to MUSC.

The *Medical University Facilities Corporation* was established to obtain financing for the Medical University of South Carolina to purchase land, an office building, and a parking garage.

The *CHS Development Company* was established to provide financing services for the Medical University of South Carolina by developing and leasing property.

The *Pharmaceutical Education and Development Foundation (PEDF)* promotes educational, research, clinical, and other facilities and programs of the Medical University of South Carolina's College of Pharmacy. PEDF is a nongovernmental component unit.

The *Enterprise Campus Authority* was established to provide for the management, development, and operation of the Enterprise Campus of Midlands Technical College.

Obtaining More Information about Blended Component Units

One may obtain complete financial statements for the above blended component units from the following administrative offices:

South Carolina Tobacco Settlement
Management Revenue Authority
122 Wade Hampton Office Building
Capitol Complex
Columbia, South Carolina 29201

Medical University Hospital Authority
Fiscal Services Offices
Post Office Box 250603
Charleston, South Carolina 29425

The Citadel Trust
c/o The Citadel
171 Moultrie Street
Charleston, South Carolina 29409

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

University Medical Associates
1180 Sam Rittenberg Boulevard
Suite 355
Charleston, South Carolina 29407

Medical University Facilities Corporation
c/o Medical University of South Carolina
Controller's Office
19 Hagood Avenue
Post Office Box 250817
Charleston, South Carolina 29425

CHS Development Company
c/o Medical University of South Carolina
Controller's Office
19 Hagood Avenue
Post Office Box 250817
Charleston, South Carolina 29425

Pharmaceutical Education and Development
Foundation
c/o Health Sciences Foundation
18 Bee Street
Post Office Box 250450
Charleston, South Carolina 29425

Enterprise Campus Authority
c/o Midlands Technical College
Vice President for Business Affairs
Post Office Box 2408
Columbia, South Carolina 29202

Discretely Presented Component Units

Unless otherwise indicated below, the discretely presented component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2007.

Public Service Authority

The State General Assembly created the South Carolina Public Service Authority (Santee Cooper), a public utility company, in 1934. The Authority's primary purpose is to provide electric power and wholesale water to the people of South Carolina. The Governor appoints the Authority's Board of Directors. The Governor 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 in the accompanying financial statements is for the Authority's fiscal year ended December 31, 2006.

State Ports Authority

The State General Assembly created the South Carolina State Ports Authority in 1942 to develop and improve the State's harbors and seaports. The State Ports Authority owns and operates eight ocean terminals that handle import and export cargo. The Governor appoints the members of the Authority's governing board. The Governor has the ability to remove the appointed members at will. The State's primary government has provided financial support to the Authority in the past, and State law grants the primary government access to the Authority's surplus net revenues.

Connector 2000 Association, Inc.

Connector 2000 Association, Inc., was created in 1996 to assist the Department of Transportation in financing, acquiring, constructing, and operating turnpikes and other transportation projects, primarily the project known as the Southern Connector in Greenville County. The Department of Transportation initially set the toll rates for the Southern Connector and has the right, but not the obligation, to revise the rates. The rates must be in compliance with revenue covenants of the Association's financing agreements. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2006.

Lottery Commission

The South Carolina Lottery Commission commenced operations in July 2001 in accordance with an act of the General Assembly. The Commission, established to serve the State's citizens, 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 that the Commission transfer its net proceeds to the State to support improvements and enhancements for educational purposes and programs.

Other Discretely Presented Component Units

The State considers the four discretely presented component units described above as its major component units. The State's government-wide financial statements also include the following non-major discretely presented component units:

The *Clemson Foundation (the Foundation)* is a non-profit, tax-exempt public charity that was established to raise and manage private gifts for the advancement and benefit of Clemson University. The Foundation is governed by an independent, forty-three member volunteer board of directors, with additional honorary and ex-officio directors as approved.

The *University of South Carolina Educational Foundation (the Foundation)* is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. The Foundation establishes and implements long-range fund raising programs to assist in the expansion and improvement of the educational functions of the University. The Foundation is governed by a self-perpetuating board of directors consisting of at least twenty-four members, including four ex-officio directors.

The *South Carolina Medical Malpractice Liability Joint Underwriting Association (the Association)* was established to provide medical malpractice insurance on a self-supporting basis. The Association is governed by a board of thirteen directors, all of whom are appointed by the Governor. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2006.

The *South Carolina First Steps to School Readiness Board of Trustees* was established in 1999 as a non-profit, tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The corporation was 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 South Carolina First Steps to School Readiness initiative for improving early childhood development. 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.

State of South Carolina

The *Children's Trust Fund of South Carolina, Inc. (the Fund)*, is a non-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Fund's purpose is 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 Trustees' nine members. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Fund's fiscal year ended December 31, 2006.

Obtaining More Information about Discretely Presented Component Units

One may obtain complete financial statements for the discretely presented component units from the following administrative offices:

South Carolina Public Service Authority
(Santee Cooper)
One Riverwood Drive
Post Office Box 2946101
Moncks Corner, South Carolina 29461

South Carolina State Ports Authority
Post Office Box 22287
Charleston, South Carolina 29413

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

The South Carolina Lottery Commission
Post Office Box 11949
Columbia, South Carolina 29211

Clemson University Foundation
110 Daniel Drive
Clemson, South Carolina 29634

University of South Carolina Educational
Foundation
208 Osborne Building
University of South Carolina
Columbia, South Carolina 29208

The South Carolina Medical Malpractice
Liability Joint Underwriting Association
c/o Patient's Compensation Fund
121 Executive Center Drive
Suite 110
Columbia, South Carolina 29210

The Children's Trust Fund
1205 Pendleton Street, Suite 506
Columbia, South Carolina 29201

Fund financial statements for the South Carolina First Steps to School Readiness Board of Trustees are included in the Supplementary Information section of the State's Comprehensive Annual Financial Report. This entity does not issue separate financial statements.

Related Organizations

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

Jointly Governed Organizations

The Governor, in conjunction with officials of certain local governments, appoints the board members of two military facility redevelopment authorities. The State does not have an ongoing financial interest in these authorities. The Governor appoints one out of seven board members of the Charleston Naval Complex Redevelopment Authority and three out of nine board members of the Myrtle Beach Air Force Base Redevelopment Authority.

During the 2001-2002 fiscal year, the State joined the Atlantic Low-Level Radioactive Waste Compact, a voluntary association of states that, by federal law, is legally separate from each of the party states. South Carolina does not have an ongoing financial interest in the Compact.

b. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and the statement of activities report information about all activities of the primary government and its component units, except for fiduciary activities. These statements distinguish between the State's *governmental* and *business-type activities*. Taxes, federal revenues, and other nonexchange transactions primarily finance the governmental activities whereas fees charged to external parties finance, in whole or in part, the business-type activities. All of the State's governmental and internal service funds are reported in the government-wide financial statements as governmental activities and all of its enterprise funds are reported as business-type activities. (See the *Fund Financial Statements* subsection for more information about fund types.)

Statement of Activities and Eliminations

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The State does not eliminate direct expenses and does not allocate indirect expenses to functions in the statement of activities. In the statement of activities, reimbursements under indirect cost plans for federal reimbursement purposes are reported as program revenues of the function that includes the reimbursed expenses.

Eliminations have been made to minimize the double-counting of internal activities. For example, the State eliminates payments the Department of Health and Human Services makes to the Department of Mental Health for providing Medicaid services because it reports both departments in its health and environment function. An exception to this general rule is that interfund services provided or used between functions have not been eliminated in the statement of activities because to do so would distort the net cost data for functional activities as reported in the total column of that statement. The State treats these internal payments as program revenues and treats interfund reimbursements in the statement of activities in the same manner as described below for fund financial statements. For example, when the Department of Health and Human Services purchases computer services from one of the State's higher education institutions, the health and environment governmental function reports an expense, and the higher education business-type activity reports program revenue (charges for services).

Program revenues include: (a) fees, fines, and charges paid by the recipients of goods, services, or privileges offered by the programs; (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and (c) investment earnings that are legally restricted for a specific program. The State classifies as *general revenues* all revenues that are not program revenues, including all taxes.

Major Component Units

The State's management designates the Public Service Authority, the State Ports Authority, the Connector 2000 Association, Inc., and the Lottery Commission as major component units. The nonmajor component units include aggregate totals of all remaining discretely presented component units. In determining which discretely presented component units to designate as major, the State considered each component unit's significance relative to the other discretely presented component units and the nature and significance of its relationship to the primary government.

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, during the fiscal year ended June 30, 2007, 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 special revenue monies. 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, the 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 General Operating Fund* accounts for resources, other than General Fund resources, that State agencies may use for operating purposes. These resources include significant amounts of federal grant receipts.

The *Local Governmental Infrastructure Fund* accounts for grants, loans, and other financial assistance to local governments for infrastructure purposes. Certain motor fuel taxes, federal funds, and transfers from other funds are the fund's primary resources. This fund includes operations of the South Carolina Transportation Infrastructure Bank.

The *Department of Transportation Special Revenue Fund* accounts for the various gasoline taxes, fees, fines, and federal grant resources that the Department of Transportation uses in its general operations. Those operations include highway maintenance and repair as well as most of the Department's administrative activities.

The *State Tobacco Settlement Fund* accounts for revenues received from the General Fund and from the Tobacco Settlement Revenue Management Authority, a blended component unit and nonmajor governmental fund designated to receive and manage South Carolina's share of the multi-state legal settlement with the tobacco industry. Various healthcare and local government programs use these funds and the related interest.

The State aggregates other nonmajor governmental funds in a single column in its fund financial statements.

Enterprise Funds

Enterprise funds (which are reported as business-type activities in the government-wide financial statements) report activities that charge fees to external users for goods or services. The State reports the following major enterprise funds:

The *Higher Education Fund* accounts for the general operations of ten four-year higher education institutions and sixteen area technical colleges, all of which are part of the State's primary government.

The *Unemployment Compensation Fund* accounts for the State's unemployment compensation benefits. Revenues consist of assessments on employers to pay benefits to qualified unemployed persons.

The *Housing Authority Fund* facilitates medium-income and low-income housing opportunities by providing reasonable financing to the State's citizens. To provide such financing, the Fund issues bonds and notes and administers federal grants and contracts. Mortgage interest is a primary resource for the Fund.

The *Medical University Hospital Authority* manages and operates the Medical University of South Carolina's hospitals and clinics. Revenues consist of payments from patients and third-party payors including Medicare and Medicaid.

The *Education Assistance Authority Fund* issues bonds to make loans to individuals to enable students to attend higher education institutions. Resources include interest charges, subsidies from the United States Department of Education, loan repayments, and investment earnings.

The State aggregates other nonmajor enterprise funds in a single column in its fund financial statements.

Other Fund Types

The State reports the following fund types in addition to governmental and enterprise funds:

Internal service funds account for various goods and services provided to other State departments or agencies (primarily to governmental funds), or to other governments, on a cost-reimbursement basis. Services provided by these funds include several risk management activities for which the State is the primary participant, including underwriting related to the following risks: public buildings and their contents, torts, medical malpractice, automobile use by public employees in the performance of their official duties, employee health and disability, and workers' compensation benefits. Other services include those relating to telecommunications, computer operations, office rental, janitorial, building maintenance, lease and repair of fleet vehicles, procurement, employee training, and management of public employee retirement systems. The internal service funds also sell goods produced with prison inmate labor. In addition, the internal service funds purchase selected supplies and equipment in bulk and sell these items to other State funds (primarily governmental funds) and to local governmental units. The State's internal service funds are considered to be governmental activities because they primarily serve governmental funds.

Pension trust funds account for the pension benefits of the South Carolina Retirement System, the Police Officers' Retirement System, the General Assembly Retirement System, the Judges' and Solicitors' Retirement System, and the National Guard Retirement System.

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

Private-purpose trust funds include a tuition savings plan benefiting college students. Another private-purpose trust fund sets aside assets for site stabilization and closure of a nuclear waste site operated by a private company within the State's borders in the event that the company ceases operations or loses its license to operate. The private-purpose trust funds also include 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 deposits of insurance companies in lieu of surety bonds; employee and employer payroll deductions and contributions for the short period of time between the issuance of payroll checks and payment to the recipients; and various other assets held for prisoners, patients of State institutions, and other external parties.

Operating and Nonoperating Revenues and Expenses in Proprietary Fund Financial Statements

Enterprise and internal service funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally are limited to items resulting from the provision of services and goods in connection with the fund's principal ongoing operations. The State generally classifies revenues and expenses as operating only if the related cash flows appear in the operating section on the statement of cash flows. Accordingly, grants and grant-like transactions are reportable as operating revenues only if they are essentially the same as contracts for services (i.e., exchange transactions) and 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 most expenses it pays from operating revenues but usually reports interest expense as nonoperating.

In accordance with the general policy stated in the preceding paragraph, the *Higher Education Fund's* principal operating revenues include tuition; student fees; student loans; scholarships and grants (including Pell grants) where the provider has identified the student recipients; sales of miscellaneous goods and services; and certain research grants that, in substance, are contracts for services rather than nonexchange revenues. However, the Higher Education Fund generally does not report as revenue third-party loan amounts that it receives and disburses. (In a third-party loan, a student or a student's parents secure(s) a student loan from a governmental fund or from another lender such as the federal government; the Higher Education Fund then receives funds from the lender and disburses the funds to the student or applies amounts to the student's account.)

For the *Unemployment Compensation Fund*, principal operating revenues include amounts received from covered employers and from federal agencies. The amounts received from federal agencies are classified as operating revenues because they are provided to the State primarily to provide unemployment benefits, although amounts not needed for that purpose may be used for other purposes. This fund's operating expenses consist primarily of unemployment compensation benefits paid. Interest income is classified as nonoperating revenue.

For the *Housing Authority Fund* and the *Education Assistance Authority Fund*, principal operating items include revenues and expenses associated with program loans that provide direct benefits to individuals.

For the *Medical University Hospital Authority*, principal operating items include revenues and expenses associated with managing and operating the Medical University of South Carolina's hospitals and clinics.

Component Unit Financial Statements

The State presents a statement of net assets and a statement of activities for each of its major discretely presented component units and for the aggregate of its nonmajor discretely presented component units.

Use of Private-Sector Accounting and Financial Reporting Principles

The government-wide and proprietary fund financial statements reflect the State's compliance with private-sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also may opt to follow private-sector guidance issued after November 30, 1989, for their business-type activities (enterprise funds) and for their discretely presented component units that follow enterprise fund accounting, subject to the same limitation. Only the Public Service Authority and the State Ports Authority, major discretely presented component units, have selected this option.

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. 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 bases of accounting as described below.

Accrual Basis

The State uses the accrual basis of accounting in reporting its government-wide financial statements, as well as its proprietary and fiduciary fund financial statements and its major component unit financial statements. Under the accrual basis, the State generally records revenues when earned and reasonably measurable and records expenses when a liability is incurred, regardless of the timing of related cash flows. Revenues collected in advance are deferred until the period in which it is earned.

Significant nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, and donations. On the accrual basis, the State recognizes income, sales, and similar taxes in the period when the underlying income or sales transactions occur, net of estimated overpayments (refunds).

The State recognizes grants, donations, and similar items as revenue as soon as it meets all eligibility requirements. Pledges are recognized as receivables and revenues, net of estimated uncollectible amounts, if all eligibility requirements are met, the promise is verifiable, and the resources are measurable and probable of collection. Note 17b provides additional details regarding pledges that were not measurable at June 30, 2007.

Modified Accrual Basis

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the

State considers revenues to be available if they are collected within one month of the end of the current fiscal period with the following exceptions—tax and grant revenues are considered available if collected within one year; interest on investments is recorded as earned because it is deemed available when earned. Receivables not expected to be collected within the established availability periods are offset by deferred revenues.

Recognition of Specific Grant and Shared Revenue Transactions

The State reports the receipt of food commodities as revenue and the distribution of commodities as expenditures/expenses. 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 expenditures/expenses 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 petty cash, cash on deposit in banks, restricted cash and cash equivalents on deposit with external parties, 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 and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

Most entities in the primary government and the discretely presented governmental component units participate in the cash management pool. Significant exceptions, however, are: retirement plans, the Local Government Investment Pool (an external investment pool), the Tobacco Settlement Revenue Management Authority (a blended component unit and a nonmajor governmental fund), the Housing Authority (a major enterprise fund), and certain activities of the Higher Education Fund (a major enterprise fund). Of the discretely presented component units, the State Ports Authority, the Lottery Commission, and the South Carolina First Steps to School Readiness Board of Trustees participate in the pool. For activities excluded from the pool, cash equivalents include investments in short-term, highly liquid securities having an initial maturity 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, federal agency or other federally guaranteed obligations with a market value in excess of 100.0% of funds advanced), United States Treasury bills, federal agency discount notes, and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities (i.e., those rated at least A by two leading national rating services). In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

Certain agencies and component units have specific authority to manage deposits and investments under their control. The investment policies of these entities may differ from those of the State Treasurer.

State law has established a six-member Investment Commission with fiduciary responsibility for all of the State Retirement Systems' investments. The chief investment officer may invest no more than 70.0% of the Systems' investment portfolio in equity securities.

Substantially all of the State's investments are presented at fair value; securities are valued at the last reported sales price as provided by an independent pricing service. In contrast the State has presented at historical cost the investment securities and other instruments that the Chief Insurance Commissioner holds for insurance companies in lieu of surety bonds. These

securities are separately classified in the accompanying financial statements as *securities held in lieu of surety bonds*. These instruments are recorded in the State's agency funds and are not held for investment purposes.

Pursuant to State law, the primary government and its discrete component units do not maintain deposits or make investments in foreign currencies.

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

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

g. Receivables and Payables

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

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

h. Inventories

The State values its inventories at cost, 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.

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 are not available. Donated capital assets are recorded at estimated fair market 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 in the construction in progress account. Net interest incurred by a proprietary fund during the construction phase of a major capital asset is included as part of the capitalized value of such asset.

An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost as follows: more than \$5 thousand for vehicles, machinery and equipment, and works of art and historical treasures; more than \$100 thousand for buildings and improvements, depreciable land improvements, and intangible assets; and more than \$500 thousand for roads and bridges. All land and non-depreciable land improvements are capitalized and reported, regardless of cost. Certain State agencies also capitalize those assets with a useful life between one and two years that meet the preceding dollar thresholds, and the Lottery Commission, a major discretely presented component unit, capitalizes all property and equipment purchases of \$1 thousand or more.

Once the State or one of its discretely presented component units places a depreciable capital asset in service, depreciation is recorded using the straight-line method over the following estimated useful lives:

| Asset Category | Years |
|---|---------|
| Land improvements..... | 3 - 60 |
| Infrastructure—highways..... | 75 |
| Infrastructure—bridges..... | 50 |
| Buildings and improvements..... | 5 - 55 |
| Vehicles..... | 3 - 20 |
| Machinery and equipment..... | 2 - 25 |
| Works of art; historical treasures..... | 10 - 25 |
| Intangible assets..... | 3 - 38 |

The State does not depreciate 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 portraits of political leaders, historical relics, antiques, fossils, and other South Carolina artifacts.

The State reports losses on disposals of capital assets as expenses of its General Government function and gains on such disposals as general revenues in the government-wide statement of activities.

The State reports the Southern Connector toll road as a capital asset of the Connector 2000 Association, Inc., the major discretely presented component unit that financed, constructed, and is responsible for maintaining and operating the toll road. Under an agreement between the Association and the State Department of Transportation (DOT), the DOT retains fee simple title to the road.

k. Deferred Charges

Deferred costs to be recovered from future revenues of the South Carolina Public Service Authority (a regulated utility reported as a major discretely presented component unit) are recorded as deferred charges. The Authority’s rates are based upon debt service and operating fund requirements. The Authority recognizes differences between debt principal maturities and straight-line depreciation as costs to be recovered from future revenue. The recovery of outstanding amounts recorded as costs to be recovered from future revenue will coincide with the repayment of the outstanding long-term debt of the Authority.

The South Carolina Medical Malpractice Liability Joint Underwriting Association, a non-major discretely presented component unit, defers certain policy acquisition costs for new and renewal business. The Association amortizes these costs based on the related written and unearned premiums.

Unamortized bond issuance costs are reported as deferred charges and are amortized as described in Note 1m.

l. Tax Refunds Payable

Most of the tax refunds payable balance in the General Fund relates to individual income tax. During the calendar year, the State collects employee withholdings and taxpayers’ payments. Taxpayers file returns by April 15 for the preceding calendar year. At June 30, the State estimates the amount it owes taxpayers for overpayments during the preceding six months. The State records this estimated payable as tax refunds payable and a reduction of tax revenues.

m. Long-Term Obligations

The State records general long-term debt and other long-term obligations of the primary government’s governmental funds in the governmental activities reported in its government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are recorded as liabilities in the appropriate funds.

The State defers and amortizes bond premiums and discounts, as well as issuance costs, over the life of the bonds predominantly using the effective interest method. For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is also deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. The State reports bonds payable net of the applicable bond premium or discount and deferred amount on refunding. Unamortized issuance costs are reported as deferred charges.

n. Compensated Absences

During their first ten years of service, most full-time permanent State employees annually earn 15 days of vacation leave and 15 days of sick leave. After ten years, most employees earn an additional 1.25 days of vacation leave for each year of service over ten until they reach the maximum of 30 days per year. Employees may carry forward up to 45 days of vacation leave and 180 days of sick leave from one calendar year to the next. Upon termination of employment, the State pays employees for accumulated vacation leave at the pay rate then in effect. Employees do not receive pay for accumulated sick

leave when they terminate. However, at retirement, employees participating in the South Carolina Retirement System and the South Carolina Police Officers' Retirement System may receive additional service credit for up to 90 days of accumulated unused sick leave.

The government-wide and proprietary fund statements record an expense and a liability when employees earn compensated absence credits. Governmental fund financial statements record a liability for compensated absences payable at June 30 only if the liability has matured but has not yet been paid at that date (for example, as a result of employee resignations and retirements). The State does not record a liability for unpaid accumulated sick leave.

o. Perkins Loan Liability

The Higher Education Fund, a major enterprise fund, records a liability related to the Perkins student loan program and certain other federal student loan programs to reflect the amount of capital contributions received to date from the federal government plus any other amounts that ultimately are refundable to the federal government under the programs. The State has recorded this liability as part of its other liabilities account.

p. Restricted Net Assets

The State reports a portion of its net assets in its government-wide statements as restricted. Net assets are reported as restricted when constraints placed on net assets 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, 2007, \$1.269 billion was reported as restricted net assets because of restrictions imposed by enabling legislation.

q. Flow Assumption, Net Assets

The State's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

r. Escheat Property

The State accounts for its escheat property in the General Fund, the fund to which the property ultimately escheats. To the extent it is probable that such property will be reclaimed and paid to claimants, the State records a liability and reduces revenue in the General Fund.

NOTE 2: ACCOUNTING AND REPORTING CHANGES

a. Correction of Error: Housing Authority

During the fiscal year ended June 30, 2007, the State Housing and Finance Development Authority, a major enterprise fund, determined that revenues and expenses related to its in-house single family mortgage servicing operations were not properly reported in the Authority's financial statements in past fiscal years. In prior years, all activity of the servicing operations was included in the Single Family Finance Programs Fund through increases or decreases to cash with corresponding entries to the mortgage escrow liability account. As a result, certain amounts earned under these servicing activities were not properly recognized by the Authority. These amounts were not significant to the Authority on a year by year basis; however, the single family mortgage servicing activities have grown significantly in recent years and the amounts have now (in aggregate) been deemed significant by the Authority. Additionally, the Authority believes that all associated revenues and expenses (as well as the amounts that the Authority holds in escrow on behalf of the borrowers) should be reported in the Authority's General Operating Fund. The adjustment of \$4.887 million is reported as an increase to beginning net assets for the Fund's business-type activity in the government-wide statements and major enterprise fund in the proprietary fund statements.

b. Change in Reporting Entity: Non-major Enterprise Fund

Effective June 30, 2006, the board of directors of the MUSC Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF), a non-major enterprise fund, gave consent for dissolution of PEDF and revalued PEDF's assets and liabilities to the amounts expected to be paid during the liquidation. The dissolution of PEDF was subsequently approved by the South Carolina Attorney General on August 21, 2006. The accounting for the dissolution was recorded as of June 30, 2006; however, in the current year there was limited cash flow activity related to the dissolution

of the entity. Therefore, no financial information other than the statement of cash flows for fiscal year 2006-2007 is presented for PEDF.

c. Change in Reporting Entity: Internal Service Fund

In prior fiscal years, the Governor’s School for the Arts Foundation was reported as a blended component unit of the South Carolina Governor’s School for the Arts and Humanities and was included in the State’s internal service funds. Due to changes in the organization and operation of the Foundation, it is no longer considered a component unit of the Governor’s School. The removal of the Foundation from the State’s reporting entity resulted in a \$2.633 million decrease to beginning net assets for the governmental activities in the government-wide statements and internal service funds in the proprietary fund statements. Capital assets for governmental activities have been restated by \$8 thousand for machinery and equipment and related accumulated depreciation to reflect this change in reporting entity.

NOTE 3: DEFICITS OF INDIVIDUAL FUNDS

The accompanying fund financial statements display deficit fund balances and deficit net asset balances for individual major funds, if applicable. Nonmajor funds had the following deficit net asset balances (expressed in thousands) at June 30, 2007:

| | |
|-----------------------------------|------------|
| Nonmajor Enterprise Funds: | |
| Patients' Compensation..... | \$ 208,165 |
| Tuition Prepayment Program..... | 28,182 |
| Internal Service Funds: | |
| State Accident Fund..... | 107,010 |
| Pension Administration..... | 883 |

Actions taken to eliminate deficits include increase of existing fees, assessment of additional fees, purchase of excess loss reinsurance, and implementation of cost containment programs.

NOTE 4: DEPOSITS AND INVESTMENTS

By law, all deposits and investments are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units. The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

a. Deposits

The following deposits disclosure excludes the primary government’s Pension Trust Funds of the South Carolina Retirement Systems (the Systems) which are described in subsection d.

Policy

The State’s policy by law, requires all banks or savings and loan associations that receive State funds deposited by the State Treasurer, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss. Agencies with specific authority manage their deposits outside of the State Treasurer and may have custodial credit risk policies that differ from the State Treasurer. Therefore, some deposits presented below have custodial credit risk. Note 1, subsections d and e explain other policies concerning deposits.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a depository financial institution’s failure, the State will not be able to recover 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, 2007 was \$437.461 million and the bank balance was \$812.197 million. As of June 30, 2007, the reported amount of the primary government’s deposits outside of the State Treasurer was \$289.899 million and the bank balance was \$311.040 million. Of the \$197.742 million bank balance exposed to custodial credit risk, \$99.036 million was uninsured and uncollateralized, and \$98.706 million was uninsured and collateralized with securities held by the counterparty’s trust department or agent but not in the State’s name.

As of June 30, 2007, the reported amount of the major discretely presented component units' deposits was \$35.298 million and the bank balance was \$36.812 million. Of the \$11.911 million bank balance exposed to custodial credit risk, \$449 thousand was uninsured and uncollateralized; and \$11.462 million was uninsured and collateralized with securities held by the counterparty's trust department or agent, but not in the State's name.

b. Investments

The investment disclosures exclude the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection d.

Investment Policy

The State's investment policy by law authorizes investments that vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper. Substantially all of the State's investments are presented at fair value. Securities are valued at the last reported sales price as provided by an independent pricing service. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest income earned. Other investment policies for the State and its component units are explained in Note 1, subsection f.

Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of investments or collateral securities that are in possession of an outside party. All of the State Treasurer's investments are fully insured or collateralized. Certain agencies with specific authority manage their own investments and may have custodial credit risk policies that differ from the State Treasurer. The primary government's investments and the major discretely presented component unit's investments that are exposed to custodial credit risk have been classified into two categories of custodial credit risk. Category A includes investment securities that are uninsured, not registered in the name of the State, and are held by a counterparty. Category B includes investment securities that are uninsured, not registered in the name of the State, and are held by a counterparty's trust department or agent but not in a State entity's name. The portion of the primary government's investments with custodial credit risk is classified by risk category (expressed in thousands) at June 30, 2007, as follows:

| Primary Government Investment Type | Category | | Reported Amount |
|---------------------------------------|------------------|-------------------|--------------------|
| | A | B | |
| U.S. Treasuries..... | \$ 2,397 | \$ 15,079 | \$ 17,476 |
| U.S. agencies..... | 8,759 | 8,334 | 17,093 |
| Corporate bonds..... | — | 200 | 200 |
| Equity securities..... | — | 8,996 | 8,996 |
| Repurchase agreements..... | 58,850 | 36,911 | 95,761 |
| Asset backed securities..... | 4,400 | — | 4,400 |
| Commercial paper..... | — | 32,943 | 32,943 |
| Totals..... | \$ 74,406 | \$ 102,463 | \$ 176,869 |

The State's major discretely presented component units hold investments in U.S. Treasuries that are exposed to custodial credit risk. At June 30 investments with a reported value of \$6.206 million were classified as Category B.

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. Certain agencies with specific authority to manage their own investments outside of the State Treasurer have credit risk policies that differ from that of the State Treasurer. Debt investments for the primary government were rated as of June 30, 2007 using the Standard and Poor's rating scale. The following table provides information on investment ratings (expressed in thousands):

State of South Carolina

| Investment Type and Fair Value | AAA | AA | A | BBB | BB | B | A-1 | Not Rated |
|--------------------------------------|---------------------|-------------------|-------------------|-------------------|-----------------|---------------|---------------------|---------------------|
| Corporate bonds..... | \$ 61,527 | \$ 170,418 | \$ 532,573 | \$ 175,184 | \$ 1,893 | \$ 462 | \$ 11,000 | \$ 18,893 |
| Municipal bonds..... | 415,761 | 54,215 | 24,172 | — | — | — | — | 33,134 |
| Repurchase agreements..... | 1,364,295 | — | — | — | — | — | 1,128,426 | 219,946 |
| Asset backed securities..... | 498,743 | — | 13,694 | 2,909 | — | — | — | 42,390 |
| Commercial paper..... | — | — | 16,000 | — | — | — | 1,072,180 | 683 |
| Mutual funds..... | 11,290 | — | — | — | — | — | — | 1,109,123 |
| Yankee bonds..... | 20,067 | — | 10,073 | — | — | — | — | — |
| Corporate private placements..... | 14,543 | 40,276 | 2,539 | 1,788 | — | — | — | 4,411 |
| Guaranteed investment contracts..... | 151,009 | — | — | — | — | — | — | — |
| Totals..... | \$ 2,537,235 | \$ 264,909 | \$ 599,051 | \$ 179,881 | \$ 1,893 | \$ 462 | \$ 2,211,606 | \$ 1,428,580 |

At fiscal year end, the State Ports Authority (June 30, 2007), the Public Service Authority (December 31, 2006), and the Connector 2000 Association, Inc. (December 31, 2006), all major discretely presented component units, held investments in U.S. government securities which do not require disclosure of credit quality. In addition to U.S. government securities, the State Ports Authority and the Connector 2000 Association, Inc. held investments as listed below using the Standard and Poor's rating scale (expressed in thousands):

| Investment Type and Fair Value | AAA | A-1 | Not Rated |
|--------------------------------|-------------------|-----------------|------------------|
| Repurchase agreements..... | \$ 130,337 | \$ — | \$ 16,175 |
| Mutual funds..... | 2,068 | 5,246 | — |
| Totals..... | \$ 132,405 | \$ 5,246 | \$ 16,175 |

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 manages interest rate sensitivity by investing in securities with a range of maturities from one day to thirty years using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It 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. At June 30, 2007, the effective duration and fair value of the State Treasurer's investments by investment type, are as follows (expressed in thousands):

| Investment Type | Fair Value | Effective Duration |
|-----------------------------------|---------------------|--------------------|
| <u>U.S. Government</u> | | |
| U.S. Treasuries..... | \$ 19,164 | 1.00 |
| U.S. agencies..... | 2,668,364 | 3.57 |
| <u>Corporate</u> | | |
| Corporate bonds..... | 728,915 | 2.23 |
| Corporate asset backed..... | 526,210 | 3.39 |
| Private placements..... | 40,337 | 2.72 |
| Yankee bonds..... | 30,140 | 0.43 |
| <u>Short Term Investments</u> | | |
| Commercial paper..... | 449,986 | 0.11 |
| Repurchase agreements..... | 1,453,050 | 0.00 |
| Total Invested Assets..... | \$ 5,916,166 | |

Agencies that manage their own investments have interest rate risk policies that differ from the State Treasurer. Some of these agencies do not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. At June 30, 2007, agencies within the State's primary government that

manage their own investments limited the maturities of their securities according to the following segmented time distribution (expressed in thousands):

| Investment Type | Fair Value | Investment Maturities (in years) | | | | No Maturity |
|---------------------------------------|---------------------|----------------------------------|-------------------|------------------|-------------------|---------------------|
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 | |
| U.S. Treasuries..... | \$ 537,114 | \$ 274,449 | \$ 261,746 | \$ 770 | \$ 149 | \$ — |
| U.S. agencies..... | 400,402 | 364,431 | 13,546 | 1,615 | 20,810 | — |
| Collateralized mortgage obligations.. | 1,377 | — | — | — | 1,377 | — |
| Corporate bonds..... | 252,509 | 191,735 | 22,640 | 2,638 | 34,910 | 586 |
| Municipal bonds..... | 527,282 | 48,402 | 155,277 | 40,127 | 283,476 | — |
| Equity securities..... | 112,810 | — | — | — | — | 112,810 |
| Repurchase agreements..... | 1,259,617 | 1,259,617 | — | — | — | — |
| Asset backed securities..... | 250,511 | — | 244,591 | 436 | 5,484 | — |
| Commercial paper..... | 638,877 | 638,830 | — | — | — | 47 |
| Mutual funds..... | 1,120,413 | 41,016 | 4,303 | 86 | 55 | 1,074,953 |
| Corporate private placements..... | 23,220 | 19,783 | — | — | 3,437 | — |
| Guaranteed investment contracts..... | 151,009 | 88,716 | — | — | — | 62,293 |
| Totals..... | \$ 5,275,141 | \$ 2,926,979 | \$ 702,103 | \$ 45,672 | \$ 349,698 | \$ 1,250,689 |

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2007, these major discretely presented component units had the following investments with maturities disclosed by investment category and segmented time distribution stated with fair value (expressed in thousands):

| Investment Type | Fair Value | Investment Maturities (in years) | | | |
|----------------------------|-------------------|----------------------------------|-------------------|-------------|------------------|
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| U.S. Treasuries..... | \$ 251,902 | \$ 185,719 | \$ 66,183 | \$ — | \$ — |
| U.S. agencies..... | 337,272 | — | 337,272 | — | — |
| Repurchase agreements..... | 146,513 | 130,337 | — | — | 16,176 |
| Mutual funds..... | 7,314 | 7,314 | — | — | — |
| Totals..... | \$ 743,001 | \$ 323,370 | \$ 403,455 | \$ — | \$ 16,176 |

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. The State sponsors the Local Government Investment Pool (LGIP), an external investment pool reported as an investment trust fund. As of June 30, 2007, the State Treasurer had approximately 44.9% of the LGIP investment portfolio in an overnight repurchase agreement with a South Carolina bank that was fully collateralized by U.S. Treasuries and U.S. agency obligations.

c. Securities Lending Program

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

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 loans during the fiscal year and at June 30, 2007. At June 30, 2007, 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

State of South Carolina

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, 2007, 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, 2007, 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, 2007, 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, 2007:

| | <u>Amount</u> |
|---------------------------------------|----------------------------|
| Securities lent for cash collateral: | |
| U.S. Treasuries..... | \$ 945,773 |
| U.S. agencies..... | 253,458 |
| Corporate bonds..... | 1,353 |
| Total for cash collateral..... | <u>\$ 1,200,584</u> |
| Cash collateral invested: | |
| Repurchase agreements..... | \$ 202,935 |
| Corporate bonds..... | 574,299 |
| Asset backed securities..... | 312,666 |
| Bank obligations..... | 141,031 |
| Total collateral invested..... | <u>\$ 1,230,931</u> |

d. South Carolina Retirement Systems

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the Systems' 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. All deposits are required to be insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100 thousand or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. As of June 30, 2007, the reported amount of the Systems' deposits was \$16.692 million.

Investments

Investing for the Systems is governed by State law allowing investments to be made in a variety of instruments including obligations of the United States and its agencies, securities fully guaranteed by the United States, certain corporate obligations, collateralized repurchase agreements, and equity securities. The market value must not be less than the amount of either the certificate of deposit so secured, including interest, or the amount of the repurchase agreement so collateralized, including interest.

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. Collateral held for certificates of deposit or repurchase agreements must be obligations of the United States or investment grade corporate obligations held by a third party as escrow agent or custodian. At June 30, 2007, all of the Systems' investments were insured or collateralized.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It 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. The Systems' investment policy requires that the weighted average maturity and weighted average duration of the actively managed fixed income portfolio should not exceed 175 percent of the benchmark index averages. The effective duration and the fair value of the Systems' investments by investment type at June 30, 2007 (expressed in thousands), is as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Effective Duration</u> |
|---|----------------------|---------------------------|
| <u>U.S. Government</u> | | |
| U.S. Treasuries..... | \$ 340,536 | 2.84 |
| U.S. agencies..... | 47,793 | 0.66 |
| <u>Mortgage Backed</u> | | |
| Collateralized mortgage obligations..... | 267,543 | 3.70 |
| Government National Mortgage Association..... | 3,558,312 | 4.79 |
| Federal National Mortgage Association..... | 5,254 | 5.91 |
| <u>Corporate</u> | | |
| Corporate bonds..... | 3,655,568 | 8.73 |
| Corporate asset backed..... | 150,927 | 1.95 |
| Private placements..... | 847,150 | 9.40 |
| <u>Short Term Investments</u> | | |
| Commercial paper..... | 313,109 | 0.08 |
| Repurchase agreements | 5,413,509 | 0.00 |
| U.S. Treasury Bills..... | 228,244 | 0.24 |
| U.S. Government Agencies..... | 325,941 | 0.06 |
| <u>Equity</u> | | |
| Domestic..... | 4,901,266 | Not Required |
| <u>Commingled Funds</u> | | |
| Common equity funds..... | 8,284,196 | Not Required |
| Money market funds..... | 2,657 | Not Required |
| Total Invested Assets..... | \$ 28,342,005 | |

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. The investment policy for credit quality of debt securities states that securities must bear an investment grade rating from at least two of the national rating agencies. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least two nationally recognized rating services. 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, 2007, the Systems' applicable debt investments (expressed in thousands) were rated by Standard & Poor's and are presented below:

State of South Carolina

| Investment Type and Fair Value | AAA | AA | A | BBB | BB | B | A-1 | Not Rated |
|--------------------------------|-------------------|-------------------|---------------------|---------------------|-------------------|-----------------|---------------------|------------------|
| Fixed Income | | | | | | | | |
| Corporate: | | | | | | | | |
| Corporate bonds..... | \$ 55,840 | \$ 156,357 | \$ 1,533,349 | \$ 1,762,631 | \$ 121,171 | \$ 6,140 | \$ — | \$ 11,942 |
| Corporate asset backed..... | 106,245 | — | 13,439 | 31,243 | — | — | — | — |
| Private placements..... | 50,447 | 138,622 | 357,197 | 242,948 | 2,996 | — | — | 54,940 |
| Short Term Investments | | | | | | | | |
| Money market funds..... | 343 | — | — | — | — | — | — | 2,314 |
| Commercial paper..... | — | — | — | — | — | — | 313,109 | — |
| Repurchase agreements..... | — | — | — | — | — | — | 5,413,509 | — |
| Totals..... | \$ 212,875 | \$ 294,979 | \$ 1,903,985 | \$ 2,036,822 | \$ 124,167 | \$ 6,140 | \$ 5,726,618 | \$ 69,196 |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Systems' policy for reducing this risk is to comply with State law requiring that the fixed income portfolio shall contain no more than 5% exposure to any single issuer, except for United States Treasury and agency obligations. At June 30, 2007, the Systems had approximately 18.43% of its investments in an overnight repurchase agreement with a South Carolina bank that was fully collateralized by United States Treasury and Agency obligations.

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 and forwards. Currency forwards are used to manage currency fluctuations and are permitted by investment policy. The 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, 2007, (amounts expressed in thousands):

| Currency | Cash | Cash Equivalents | Forward Contracts |
|-----------------------------|------------------|-------------------|---------------------|
| Australian Dollar..... | \$ (1,849) | \$ 501 | \$ 97,382 |
| British Pound Sterling..... | 2,278 | (4,277) | 431,236 |
| Canadian Dollar..... | 1,487 | (1,980) | 163,639 |
| Euro Currency | 17,785 | (439) | 1,558,815 |
| Hong Kong Dollar..... | 236 | 1,440 | — |
| Japanese Yen..... | (961) | (965) | 689,183 |
| Totals..... | \$ 18,976 | \$ (5,720) | \$ 2,940,255 |

Derivatives

Derivatives are financial instruments whose value is derived from underlying assets or data. They generally take the form of contracts in which two parties agree to make payments at a later date based on the value of the underlying assets or data. The main types of derivatives that are common in today's financial markets are futures, forwards, options, and swaps.

Futures are contractual obligations that require the buyer (seller) to buy (sell) assets at a predetermined date at a predetermined price. These contracts are standardized and traded on an organized exchange with gains and losses settled daily thereby minimizing credit and default risk. To comply with the requirements of multiple exchanges, \$230.000 million in performance bonds (U.S. Treasury Bills) were held in trust by the clearing broker on June 30, 2007. These assets represent the required margin amount to establish the Systems' futures exposure. As of June 30, 2007, the Systems had the following exposure to futures contracts:

| <u>Futures Contracts</u> | <u>Expiration</u> | <u>Long/Short</u> | <u>Quantity</u> | <u>Notional Value*</u> |
|----------------------------------|-------------------|-------------------|-----------------|----------------------------|
| MTF CAC40 10EU | July | Long | 1,710 | \$ 140,585 |
| EURX DAX INDEX | September | Long | 470 | 128,544 |
| EURX ER STX 50 | September | Long | 7,181 | 439,061 |
| NEW FTSE 100 | September | Long | 2,783 | 371,097 |
| HKFE - HIS | July | Long | 264 | 36,934 |
| IBEX 35 PLUS | July | Long | 250 | 50,187 |
| IDEM S&P/MIB | September | Long | 175 | 50,199 |
| TSE TOPIX | September | Long | 2,370 | 341,512 |
| ME S&P CAN 60 | September | Long | 935 | 141,277 |
| SFE SPI 200 | September | Long | 745 | 99,291 |
| Total International Equity | | | | <u>1,798,687</u> |
| CAN GOVT BOND | September | Long | 227 | 23,612 |
| EURX EUR-BOBL | September | Long | 1,185 | 170,213 |
| EURX EUR-BUND | September | Long | 2,440 | 365,946 |
| EURX E-SHATZ | September | Long | 1,631 | 226,381 |
| TSE 10 YR JGB | September | Long | 325 | 348,297 |
| LIF LONG GILT | September | Long | 328 | 68,346 |
| Total International Fixed Income | | | | <u>1,202,795</u> |
| S&P 500 INDEX | September | Short | (546) | (206,852) |
| EMINI S&P 500 | September | Short | (9,020) | (683,445) |
| Total Large Cap Equity | | | | <u>(890,297)</u> |
| IMM MINI RUSL | September | Short | (181) | (15,242) |
| IMM EMINI MDCP | September | Short | (179) | (16,185) |
| Total Small/Mid Cap Equity | | | | <u>(31,427)</u> |
| Totals | | | | <u>\$ 2,079,758</u> |

*Notional value is the nominal or face amount that is used to calculate payments made on derivative instruments (futures, forwards, swaps, etc.). This amount generally does not change hands and is thus referred to as notional. The notional amount represents the economic equivalent to an investment in the physical securities represented by the derivative contract.

Forwards are contractual obligations that require the delivery of assets at a fixed price on a predetermined date. These contracts are "over-the-counter" instruments, meaning they are not traded on an organized exchange. As of June 30, 2007, the Systems had the following forward exposures, listed by counterparty:

| <u>Broker</u> | <u>Notional Value*</u> | <u>Base Gain/(Loss)</u> | <u>Base Exposure</u> |
|----------------------------------|----------------------------|-------------------------|-----------------------|
| Morgan Stanley..... | \$ 575,904 | \$ (791) | 19.33% |
| Bank of America..... | 557,859 | 417 | 18.72% |
| UBS..... | 472,028 | 1,410 | 15.84% |
| Royal Bank of Scotland..... | 407,331 | 1,877 | 13.67% |
| Brown Brothers Harriman..... | 247,756 | (1,007) | 8.32% |
| HSBC..... | 240,663 | 1,457 | 8.08% |
| Deutsche Bank..... | 189,027 | (535) | 6.34% |
| Lehman Brothers..... | 175,218 | 531 | 5.88% |
| State Street Global Advisors.... | 92,861 | 584 | 3.12% |
| Goldman Sachs..... | 20,966 | 28 | 0.70% |
| Totals..... | <u>\$ 2,979,613</u> | <u>\$ 3,971</u> | <u>100.00%</u> |

Counterparty risk, or default risk, is the risk that either 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.

As of June 30, 2007, the Systems was exposed to counterparty risk through currency forwards. The Systems does not anticipate any default in our contractual positions.

Limited Partnerships

To further diversify Systems assets, the Commission approved commitments in private equities. These investments are legally structured as limited partnerships. In this structure, the Systems is one of several limited partners, while the investment manager serves as the general partner. Investing in limited partnerships legally obligates the Systems to invest the committed amount until the investment is fully funded. As of June 30, 2007, the Systems had completed an initial funding of one limited partnership to Aquiline Capital Partners, LP, for \$25.900 million.

Commitments

During the year and subsequent to year-end, the Systems entered into commitment agreements with numerous investment managers for future funding of various asset classes including private equity, hedge fund and global fixed income investments. There are varying degrees and understandings regarding the commitments across the individual managers. The total amount of investment commitments outstanding as of June 30, 2007 was \$6.457 billion and €55.750 million (Euros), with additional commitments of \$3.030 billion subsequent to year-end. The commitment agreements represent the Investment Commission's continued reallocation and transition efforts for investments.

Securities Lending Program

Through a custodial agent, the South Carolina Retirement System (SCRS), the Police Officers' Retirement System (PORS), the General Assembly Retirement System (GARS), the Judges' and Solicitors' Retirement System (JSRS), and the National Guard Retirement System (NGRS) participate in a securities lending program whereby securities are loaned for the purpose of generating additional income to the Systems. The Systems lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100%.

There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2007, included U.S. Government securities, U.S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodian provides indemnification in the event the borrower fails to return the loaned securities or fails to pay the Systems' income distribution by the securities issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The Systems cannot pledge or sell collateral securities without a borrower default. The Systems invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded, as the Systems must return the cash collateral to the borrower upon the expiration of the loan. With regard to custodial credit risk, the Systems' cash collateral invested is held by the counterparty and is uninsured. The weighted average maturity of the Systems' collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2007. At June 30, 2007, 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, 2007:

| | SCRS | PORS | GARS | JSRS | NGPS | Totals |
|---------------------------------------|---------------------|-------------------|-----------------|------------------|-----------------|---------------------|
| Securities lent for cash collateral: | | | | | | |
| U.S. Treasuries..... | \$ 282,335 | \$ 41,811 | \$ 542 | \$ 1,671 | \$ 214 | \$ 326,573 |
| U.S. agencies..... | 2,779,436 | 411,604 | 5,335 | 16,454 | 2,102 | 3,214,931 |
| Corporate bonds..... | 23,198 | 3,435 | 45 | 137 | 18 | 26,833 |
| Common stock..... | 1,202,491 | 178,076 | 2,308 | 7,118 | 910 | 1,390,903 |
| Total securities lent..... | \$ 4,287,460 | \$ 634,926 | \$ 8,230 | \$ 25,380 | \$ 3,244 | \$ 4,959,240 |
| Cash collateral invested: | | | | | | |
| Repurchase agreements..... | \$ 876,952 | \$ 129,867 | \$ 1,683 | \$ 5,191 | \$ 664 | \$ 1,014,357 |
| Corporate bonds..... | 2,008,446 | 297,428 | 3,856 | 11,890 | 1,519 | 2,323,139 |
| Asset backed securities..... | 1,215,006 | 179,929 | 2,332 | 7,193 | 919 | 1,405,379 |
| Bank notes..... | 296,218 | 43,867 | 569 | 1,753 | 224 | 342,631 |
| Total collateral invested..... | \$ 4,396,622 | \$ 651,091 | \$ 8,440 | \$ 26,027 | \$ 3,326 | \$ 5,085,506 |

Equity Investments

The Systems retain a consultant to provide investment-consulting services necessary to fulfill the duties for investing in equity securities. As of June 30, 2007, nineteen individual agreements were in place between the Systems and equity investment managers.

The State Retirement System Preservation and Investment Reform Act became effective July 1, 2005, and established a six-member Investment Commission made up of financial experts, the State Treasurer, and a nonvoting retired member. Fiduciary responsibility for all investments was moved to the Commission. This Act also created the position of chief investment officer and stated that equity investments cannot exceed 70.0% of the Systems' total portfolio.

Collateral Mortgage Obligations (CMOs) and Asset Backed Securities

On June 30, 2007, the Systems held collateralized mortgage obligations (CMOs) in its portfolios. The CMOs in these portfolios consist of the planned amortizations class-1 (PAC-1) and the very accurately defined maturity (VADM) tranches of these issues. These securities are all rated AAA by the major rating agencies and are highly marketable.

On June 30, 2007, the Systems also held asset-backed securities in its portfolios. These securities had an average life of one to three years with a legal final maturity of two to five years. These securities represent an undivided ownership interest in a trust consisting of auto loan receivables. These securities are rated AAA by the major rating agencies. In addition, under the asset-backed securities category, the Systems held bonds issued by the South Carolina Tobacco Settlement Revenue Management Authority, a non-major governmental fund. These securities are rated Baa2/BBB and have an average life of 4.12 years with a legal maturity of 2016.

NOTE 5: RECEIVABLES

Receivable balances are disaggregated by type according to their liquidity characteristics and are presented separately in the financial statements, net of applicable allowances. Allowances for uncollectible receivables (expressed in thousands) at June 30, 2007, for the primary government were as follows:

| Allowances for Uncollectibles | Governmental Activities | | | | | |
|---|-------------------------|--------------------------------|--|-----------------------------|------------------------|-------------------------------|
| | Governmental Funds | | | | | Total Governmental Activities |
| | General | Departmental General Operating | Department of Transportation Special Revenue | Nonmajor Governmental Funds | Internal Service Funds | |
| Income taxes receivable..... | \$ 58,649 | \$ — | \$ — | \$ — | \$ — | \$ 58,649 |
| Sales and other taxes receivable..... | 6,268 | 25 | — | 2,847 | — | 9,140 |
| Patient accounts receivable..... | 15,598 | 35,839 | — | — | — | 51,437 |
| Loans and notes receivable..... | 24 | — | — | 837 | — | 861 |
| Other receivables..... | — | 12,781 | 4,397 | — | 229 | 17,407 |
| Total allowances for uncollectibles..... | \$ 80,539 | \$ 48,645 | \$ 4,397 | \$ 3,684 | \$ 229 | \$ 137,494 |

| Business-type Activities (Enterprise Funds) | | | | | |
|---|------------------|------------------------------------|---------------------------------------|---------------------------|--------------------------------|
| Allowances for Uncollectibles | Higher Education | Unemployment Compensation Benefits | Medical University Hospital Authority | Nonmajor Enterprise Funds | Total Business-type Activities |
| Contributions receivable..... | \$ 543 | \$ — | \$ — | \$ 53 | \$ 596 |
| Student accounts receivable..... | 7,824 | — | — | — | 7,824 |
| Patient accounts receivable..... | — | — | 87,500 | 72,060 | 159,560 |
| Loans and notes receivable—restricted..... | 723 | — | — | 296 | 1,019 |
| Assessments receivable..... | — | 6,511 | — | — | 6,511 |
| Other receivables..... | 467 | 2,430 | — | 31 | 2,928 |
| Total allowances for uncollectibles..... | \$ 9,557 | \$ 8,941 | \$ 87,500 | \$ 72,440 | \$ 178,438 |

The enterprise fund financial statements separately present long-term receivables (net receivable balances not expected to be collected within one year). Net receivables not expected to be collected within one year in governmental and internal service funds (expressed in thousands) at June 30, 2007, were as follows:

| Governmental Activities | | | | | | | |
|--|------------------|--------------------------------|---------------------------------|--|-----------------------------|------------------------|-------------------------------|
| Governmental Funds | | | | | | | |
| Net Long-term Receivables | General | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue | Nonmajor Governmental Funds | Internal Service Funds | Total Governmental Activities |
| Accounts receivable..... | \$ 177 | \$ 21,395 | \$ 1,051 | \$ — | \$ — | \$ 118 | \$ 22,741 |
| Income taxes receivable..... | 74,410 | — | — | — | — | — | 74,410 |
| Sales and other taxes receivable..... | 12,204 | — | — | — | 6,008 | — | 18,212 |
| Patient accounts receivable..... | 8,651 | 4,117 | — | — | — | — | 12,768 |
| Loans and notes receivable..... | 4 | 531 | 442,483 | 6,709 | 24,983 | — | 474,710 |
| Accounts receivable—restricted..... | — | — | 446,899 | — | — | — | 446,899 |
| Total long-term receivables, net..... | \$ 95,446 | \$ 26,043 | \$ 890,433 | \$ 6,709 | \$ 30,991 | \$ 118 | \$ 1,049,740 |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. The components of deferred revenue and unearned revenue in the governmental funds (expressed in thousands) at June 30, 2007, were as follows:

| | Unavailable | Unearned | Total Governmental Funds |
|-------------------------------------|-------------------|------------------|--------------------------|
| Taxes | \$ 92,622 | \$ 32,475 | \$ 125,097 |
| Federal grants..... | — | 36,472 | 36,472 |
| Contributions..... | 436,598 | 22,663 | 459,261 |
| Departmental services..... | 49,829 | 2,421 | 52,250 |
| Total deferred revenues..... | \$ 579,049 | \$ 94,031 | \$ 673,080 |

NOTE 6: DETAILS OF RESTRICTED ASSETS

The purposes and amounts of the State’s restricted assets (including the major discretely presented component units) at June 30, 2007 (expressed in thousands) were as follows:

| Asset/Restricted For | Govern- mental Activities | Business- type Activities | Major Component Units |
|---|---------------------------------|---------------------------------|-----------------------------|
| Current: | | | |
| Cash and cash equivalents | | | |
| Debt service..... | \$ 71,971 | \$ 87,434 | \$ 78,487 |
| Capital projects..... | — | 113,951 | 9 |
| Student loan programs..... | — | 238 | — |
| Donor/sponsor specified..... | — | 42,341 | — |
| Second Injury Fund claims..... | — | 51,775 | — |
| Other..... | — | 11,716 | 411 |
| Total cash and cash equivalents..... | \$ 71,971 | \$ 307,455 | \$ 78,907 |
| Investments | | | |
| Debt service..... | \$ 111,750 | \$ 316 | \$ 82,583 |
| Donor/sponsor specified..... | — | 10,196 | — |
| Endowments..... | — | 73 | — |
| Other..... | — | — | 28,100 |
| Total investments..... | \$ 111,750 | \$ 10,585 | \$ 110,683 |
| Loans receivable | | | |
| Debt service..... | — | 54,776 | — |
| Student loan programs..... | — | 120 | — |
| Total loans receivable..... | \$ — | \$ 54,896 | \$ — |
| Other | | | |
| Debt service..... | \$ 71,165 | \$ 5,315 | \$ 3 |
| Donor/sponsor specified..... | — | 264 | — |
| Endowments..... | — | 3,932 | — |
| Second Injury Fund claims..... | — | 619 | — |
| Total other..... | \$ 71,165 | \$ 10,130 | \$ 3 |

| Asset/Restricted For | Govern- mental Activities | Business- type Activities | Major Component Units |
|--|---------------------------------|---------------------------------|-----------------------------|
| Noncurrent: | | | |
| Cash and cash equivalents | | | |
| Debt service..... | \$ 354,743 | \$ 93,481 | \$ 9,633 |
| Capital projects..... | 200,024 | 254,527 | 44,440 |
| Student loan programs..... | — | 10,407 | — |
| Endowments..... | — | 53,257 | — |
| Other..... | 10,000 | 78,167 | 4 |
| Total cash and cash equivalents.... | \$ 564,767 | \$ 489,839 | \$ 54,077 |
| Investments | | | |
| Debt service..... | \$ — | \$ 59,646 | \$ 62,844 |
| Capital projects..... | — | 6 | 151,171 |
| Student loan programs..... | — | 1,038 | — |
| Endowments..... | — | 46,521 | — |
| Other..... | — | 17 | 86,528 |
| Total investments..... | \$ — | \$ 107,228 | \$ 300,543 |
| Accounts receivable | | | |
| Debt service..... | \$ 446,899 | \$ — | \$ — |
| Loans receivable | | | |
| Debt service..... | \$ — | \$ 651,481 | \$ — |
| Student loan programs..... | — | 54,391 | — |
| Total loans receivable..... | \$ — | \$ 705,872 | \$ — |
| Other | | | |
| Debt service..... | \$ 4,820 | \$ 353 | \$ 1 |
| Capital projects..... | — | 24 | — |
| Donor/sponsor specified..... | — | 627 | — |
| Endowments..... | — | 22,822 | — |
| Total other..... | \$ 4,820 | \$ 23,826 | \$ 1 |

NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2007, for the primary government was as follows:

| | Restated [*] Beginning Balances July 1, 2006 | Increases | Decreases | Ending Balances June 30, 2007 |
|---|--|--------------------------|----------------------------|-------------------------------------|
| Governmental activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land and improvements..... | \$ 1,503,998 | \$ 66,721 | \$ (195) | \$ 1,570,524 |
| Construction in progress..... | 3,800,167 | 344,135 | (182,602) | 3,961,700 |
| Works of art and historical treasures..... | 3,590 | 361 | — | 3,951 |
| <i>Total capital assets not being depreciated....</i> | <u>5,307,755</u> | <u>411,217</u> | <u>(182,797)</u> | <u>5,536,175</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Land improvements..... | 57,077 | 1,640 | — | 58,717 |
| Infrastructure (road and bridge network)..... | 8,492,197 | 176,612 | (5,245) | 8,663,564 |
| Buildings and improvements..... | 1,583,413 | 50,974 | (3,324) | 1,631,063 |
| Vehicles..... | 555,191 | 84,684 | (33,024) | 606,851 |
| Machinery and equipment..... | 429,699 | 48,597 | (23,219) | 455,077 |
| Works of art and historical treasures..... | 8 | — | — | 8 |
| Intangibles..... | 52,390 | 1,356 | — | 53,746 |
| Total capital assets being depreciated, at historical cost..... | <u>11,169,975</u> | <u>363,863</u> | <u>(64,812)</u> | <u>11,469,026</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements..... | (38,076) | (1,655) | — | (39,731) |
| Infrastructure (road and bridge network)..... | (2,068,892) | (122,547) | 4,086 | (2,187,353) |
| Buildings and improvements..... | (573,892) | (39,948) | 2,251 | (611,589) |
| Vehicles..... | (399,664) | (38,827) | 29,235 | (409,256) |
| Machinery and equipment..... | (306,283) | (31,604) | 21,264 | (316,623) |
| Works of art and historical treasures..... | (2) | — | — | (2) |
| Intangibles..... | (43,276) | (3,902) | — | (47,178) |
| Total accumulated depreciation..... | <u>(3,430,085)</u> | <u>(238,483)</u> | <u>56,836</u> | <u>(3,611,732)</u> |
| <i>Total capital assets being depreciated, net.....</i> | <u>7,739,890</u> | <u>125,380</u> | <u>(7,976)</u> | <u>7,857,294</u> |
| Capital assets for governmental activities, net..... | <u>\$ 13,047,645</u> | <u>\$ 536,597</u> | <u>\$ (190,773)</u> | <u>\$ 13,393,469</u> |

* Beginning balances were restated due to removal of capital assets and accumulated depreciation for the Governor's School for the Arts Foundation. See Note 2c.

| | Beginning Balances July 1, 2006 | Increases | Decreases | Ending Balances June 30, 2007 |
|--|---------------------------------------|--------------------------|----------------------------|-------------------------------------|
| Business-type activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land and improvements..... | \$ 179,690 | \$ 35,740 | \$ (372) | \$ 215,058 |
| Construction in progress..... | 522,507 | 386,495 | (353,457) | 555,545 |
| Works of art and historical treasures..... | 16,782 | 164 | (15) | 16,931 |
| <i>Total capital assets not being depreciated.....</i> | <u>718,979</u> | <u>422,399</u> | <u>(353,844)</u> | <u>787,534</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Land improvements..... | 81,895 | 82,666 | (5) | 164,556 |
| Buildings and improvements..... | 3,417,557 | 293,268 | (11,831) | 3,698,994 |
| Vehicles..... | 42,241 | 4,166 | (2,027) | 44,380 |
| Machinery and equipment..... | 663,572 | 96,730 | (26,957) | 733,345 |
| Works of art and historical treasures..... | 12,162 | 2,548 | — | 14,710 |
| Intangibles..... | 16,860 | 444 | (400) | 16,904 |
| Total capital assets being depreciated, at historical cost..... | <u>4,234,287</u> | <u>479,822</u> | <u>(41,220)</u> | <u>4,672,889</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements..... | (38,090) | (10,680) | 147 | (48,623) |
| Buildings and improvements..... | (1,266,780) | (97,258) | 4,098 | (1,359,940) |
| Vehicles..... | (29,850) | (2,801) | 1,905 | (30,746) |
| Machinery and equipment..... | (425,467) | (60,372) | 23,271 | (462,568) |
| Works of art and historical treasures..... | (5,278) | (388) | — | (5,666) |
| Intangibles..... | (12,995) | (1,230) | 294 | (13,931) |
| Total accumulated depreciation..... | <u>(1,778,460)</u> | <u>(172,729)</u> | <u>29,715</u> | <u>(1,921,474)</u> |
| <i>Total capital assets being depreciated, net.....</i> | <u>2,455,827</u> | <u>307,093</u> | <u>(11,505)</u> | <u>2,751,415</u> |
| Capital assets for business-type activities, net..... | <u>\$ 3,174,806</u> | <u>\$ 729,492</u> | <u>\$ (365,349)</u> | <u>\$ 3,538,949</u> |

State of South Carolina

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

| | Beginning Balances January 1, 2006 | Increases | Decreases | Ending Balances December 31, 2006 |
|--|--|--------------------------|----------------------------|---|
| Public Service Authority: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land and improvements..... | \$ 98,916 | \$ 2,194 | \$ (340) | \$ 100,770 |
| Construction in progress..... | 1,057,193 | 577,839 | (348,393) | 1,286,639 |
| <i>Total capital assets not being depreciated.....</i> | <u>1,156,109</u> | <u>580,033</u> | <u>(348,733)</u> | <u>1,387,409</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and improvements (utility plant)..... | 4,229,816 | 332,146 | (77,586) | 4,484,376 |
| Vehicles..... | 39,118 | 212 | (1,225) | 38,105 |
| Machinery and equipment..... | 20,948 | 986 | (528) | 21,406 |
| Intangibles..... | 43,439 | 5,141 | (519) | 48,061 |
| Total capital assets being depreciated, at historical cost..... | <u>4,333,321</u> | <u>338,485</u> | <u>(79,858)</u> | <u>4,591,948</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements (utility plant)..... | (1,894,625) | (154,792) | 15,616 | (2,033,801) |
| Vehicles..... | (19,631) | (1,856) | 1,222 | (20,265) |
| Machinery and equipment..... | (8,865) | (1,056) | 526 | (9,395) |
| Intangibles..... | (37,681) | (2,443) | 519 | (39,605) |
| Total accumulated depreciation..... | <u>(1,960,802)</u> | <u>(160,147)</u> | <u>17,883</u> | <u>(2,103,066)</u> |
| <i>Total capital assets being depreciated, net.....</i> | <u>2,372,519</u> | <u>178,338</u> | <u>(61,975)</u> | <u>2,488,882</u> |
| Public Service Authority, net..... | <u>\$ 3,528,628</u> | <u>\$ 758,371</u> | <u>\$ (410,708)</u> | <u>\$ 3,876,291</u> |
| | | | | |
| | Beginning Balances January 1, 2006 | Increases | Decreases | Ending Balances December 31, 2006 |
| Connector 2000 Association: | | | | |
| <i>Capital assets being depreciated:</i> | | | | |
| Infrastructure (toll road)..... | \$ 192,472 | \$ 9 | \$ — | \$ 192,481 |
| Machinery and equipment..... | 586 | 45 | (5) | 626 |
| Total capital assets being depreciated, at historical cost..... | <u>193,058</u> | <u>54</u> | <u>(5)</u> | <u>193,107</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure (toll road)..... | (24,696) | (5,243) | — | (29,939) |
| Machinery and equipment..... | (497) | (25) | 5 | (517) |
| Total accumulated depreciation..... | <u>(25,193)</u> | <u>(5,268)</u> | <u>5</u> | <u>(30,456)</u> |
| <i>Total capital assets being depreciated, net.....</i> | <u>167,865</u> | <u>(5,214)</u> | <u>—</u> | <u>162,651</u> |
| Connector 2000 Association, net..... | <u>\$ 167,865</u> | <u>\$ (5,214)</u> | <u>\$ —</u> | <u>\$ 162,651</u> |

| | Beginning Balances July 1, 2006 | Increases | Decreases | Ending Balances June 30, 2007 |
|--|---------------------------------------|--------------------------|---------------------------|-------------------------------------|
| State Ports Authority: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land and improvements..... | \$ 166,731 | \$ 3,002 | \$ (2,378) | \$ 167,355 |
| Construction in progress..... | 58,949 | 78,202 | (47,371) | 89,780 |
| Intangibles..... | 2,190 | — | — | 2,190 |
| <i>Total capital assets not being depreciated.....</i> | <u>227,870</u> | <u>81,204</u> | <u>(49,749)</u> | <u>259,325</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Land improvements..... | 161,593 | 7,345 | — | 168,938 |
| Buildings and improvements..... | 269,764 | 1,484 | (617) | 270,631 |
| Machinery and equipment..... | 103,792 | 37,538 | (2,405) | 138,925 |
| Intangibles..... | 692 | 184 | — | 876 |
| Total capital assets being depreciated, at historical cost..... | <u>535,841</u> | <u>46,551</u> | <u>(3,022)</u> | <u>579,370</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements..... | (105,282) | (6,349) | — | (111,631) |
| Buildings and improvements..... | (149,638) | (9,992) | 581 | (159,049) |
| Machinery and equipment..... | (57,460) | (8,892) | 2,405 | (63,947) |
| Intangibles..... | (281) | (114) | — | (395) |
| Total accumulated depreciation..... | <u>(312,661)</u> | <u>(25,347)</u> | <u>2,986</u> | <u>(335,022)</u> |
| <i>Total capital assets being depreciated, net.....</i> | <u>223,180</u> | <u>21,204</u> | <u>(36)</u> | <u>244,348</u> |
| State Ports Authority, net..... | <u>\$ 451,050</u> | <u>\$ 102,408</u> | <u>\$ (49,785)</u> | <u>\$ 503,673</u> |

| | Beginning Balances July 1, 2006 | Increases | Decreases | Ending Balances June 30, 2007 |
|--|---------------------------------------|--------------------------|----------------------|-------------------------------------|
| Lottery Commission: | | | | |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and improvements..... | \$ 700 | \$ 255 | \$ — | \$ 955 |
| Vehicles..... | 69 | — | — | 69 |
| Machinery and equipment..... | 20,322 | 551 | (19) | 20,854 |
| Total capital assets being depreciated, at historical cost..... | <u>21,091</u> | <u>806</u> | <u>(19)</u> | <u>21,878</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements..... | (528) | (133) | — | (661) |
| Vehicles..... | (69) | — | — | (69) |
| Machinery and equipment..... | (14,926) | (3,593) | 16 | (18,503) |
| Total accumulated depreciation..... | <u>(15,523)</u> | <u>(3,726)</u> | <u>16</u> | <u>(19,233)</u> |
| <i>Total capital assets being depreciated, net.....</i> | <u>5,568</u> | <u>(2,920)</u> | <u>(3)</u> | <u>2,645</u> |
| Lottery Commission, net..... | <u>\$ 5,568</u> | <u>\$ (2,920)</u> | <u>\$ (3)</u> | <u>\$ 2,645</u> |

During the fiscal year ended June 30, 2007, depreciation expense was charged to functions of the primary government and its major discretely presented component units as shown on the following page (expressed in thousands):

| | Governmental Funds | Internal Service Funds | Total Governmental Activities |
|---|-------------------------------|---------------------------------------|--|
| General government..... | \$ 14,876 | \$ 8,928 | \$ 23,804 |
| Education..... | 23,006 | 1,303 | 24,309 |
| Health and environment..... | 11,458 | 1,130 | 12,588 |
| Social services..... | 367 | 1,349 | 1,716 |
| Administration of justice..... | 22,160 | 1,026 | 23,186 |
| Resources and economic development..... | 14,958 | 206 | 15,164 |
| Transportation..... | 137,716 | — | 137,716 |
| Total depreciation expense, governmental activities..... | <u>\$ 224,541</u> | <u>\$ 13,942</u> | <u>\$ 238,483</u> |

| | Business- type Activities |
|--|--|
| Higher Education..... | \$ 145,049 |
| Housing Authority..... | 126 |
| Medical University Hospital Authority... | 22,945 |
| Education Assistance Authority..... | 92 |
| Other..... | 4,517 |
| Total depreciation expense, business-type activities..... | <u>\$ 172,729</u> |

Included in the \$4.517 million for other business-type activities is depreciation expense of \$866 thousand that is reported in nonoperating revenues (expenses) in the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds.

| | Major Component Units |
|--------------------------------------|--------------------------------------|
| Public Service Authority..... | \$ 160,147 |
| State Ports Authority..... | 25,347 |
| Connector 2000 Association, Inc..... | 5,268 |
| Lottery Commission..... | 3,726 |

At June 30, 2007, the primary government had outstanding construction commitments totaling \$700.243 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled \$60.445 million for significant permanent improvement projects that will not increase State assets. Projects that will not be capitalized as State assets upon completion include projects for replacements, repairs, and/or renovations to existing facilities. In addition, the primary government had outstanding commitments totaling \$184 thousand at June 30, 2007, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: \$556.180 million for the Public Service Authority at December 31, 2006, and \$10.274 million for the State Ports Authority at June 30, 2007.

The total interest expense incurred by the State’s enterprise and internal service funds during the current fiscal year was \$142.723 million and \$2.173 million, respectively. Of the amount incurred by the State’s enterprise funds, \$14.339 million was included as part of the cost of capital assets under construction, net of interest earnings.

The Public Service Authority, a major discretely presented component unit, incurred total interest costs of \$185.505 million during its fiscal year ended December 31, 2006, none of which was included in the cost of capital assets under construction. The State Ports Authority, a major discretely presented component unit, incurred total interest costs of \$6.789 million during its fiscal year ended June 30, 2007, of which \$1.611 million was included as part of the cost of capital assets under construction.

NOTE 8: RETIREMENT PLANS**a. Plan Descriptions**

The South Carolina Retirement Systems (the Systems), a part of the State Budget and Control Board, administers five defined benefit retirement plans: the South Carolina Retirement System (SCRS), the South Carolina Police Officers' Retirement System (PORS), the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), and the National Guard Retirement System (NGPS). The System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for all five plans. The report may be obtained by writing to:

The South Carolina Retirement Systems
Fontaine Business Center
202 Arbor Lake Drive
Columbia, South Carolina 29223

SCRS, established by Section 9-1-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits employees of public schools, the State, and its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. Vested members who retire at age sixty-five or with twenty-eight years of service at any age receive an annual benefit, payable monthly, for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 1.82% of average final compensation times years of service. Reduced benefits are payable as early as age fifty-five.

PORS, established by Section 9-11-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits police officers and fire fighters employed by the State or its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. An annual benefit is payable at age fifty-five for members who retire with a minimum of five years service. Vested members who retire with twenty-five years of service receive an annual benefit, payable monthly for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 2.14% of average final compensation times years of service.

GARS, established by Section 9-9-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits members of the South Carolina General Assembly. Membership is required as a condition of taking office as a member of the General Assembly, unless exempted by State law. Both the members of the General Assembly and the State must contribute. Benefits vest after eight years of service. Vested members who retire at age sixty or at any age with thirty years of service receive an annual benefit, payable monthly, for life. Effective January 1, 2003, a member at age seventy or with thirty years of service is eligible to retire and draw an annuity while continuing to serve in the General Assembly. The annual benefit amount is 4.82% of earnable compensation times years of service. Earnable compensation is defined as forty days' pay at the rate currently paid to members of the General Assembly plus \$12 thousand.

JSRS, established by Section 9-8-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits the judges of the State's Supreme Court, Court of Appeals, circuit courts, family courts, and the State's circuit solicitors. Membership is required as a condition of taking office, unless exempted by State law. Both judges and the State must contribute. Benefits vest after ten years of service in a position as a judge and eight years in a position as a solicitor. Members may retire at age seventy with fifteen years of service, at age sixty-five with twenty years of service, at age sixty-five with four years in a JSRS position and twenty-five years other service with the State, twenty-five years service regardless of age for a judge or twenty-four years of service for a solicitor regardless of age. Members receive a retirement benefit equal to 71.3% of the current active salary of the position occupied at retirement.

NGPS was established by Section 25-1-3210 of the South Carolina Code of Laws. Effective January 1, 2006, Section 25-1-3210 was repealed and replaced by Section 9-10-30. This legislation transferred administrative responsibility of the plan from the Adjutant General's Office to the South Carolina Retirement Systems. NGPS provides benefits to South Carolina National Guard members. The plan had been closed to new entrants since July 1, 1993; however, legislation reopened the plan effective January 1, 2007. National Guard members are considered to be federal government employees. The federal government pays Guard members' drill pay and summer camp pay. In accordance with State law, the State's General Fund pays Guard members' salaries only if the Governor activates the National Guard for service to the State. The pension benefit that the State provides is intended only to supplement the retirement benefit that Guard members receive from the federal government. Members who retire at age sixty with twenty years of military service, including at least fifteen years of South Carolina National Guard duty, ten of which immediately precede retirement, and who have received an

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honorable discharge, are entitled to monthly pension benefits. The pension amount is equal to \$50 per month for twenty years of creditable service with an additional \$5 per month for each additional year of service, provided that the total pension shall not exceed \$100 per month.

Information regarding the number of participating employers (dollars expressed in thousands) at June 30, 2007, is as follows:

| | SCRS | PORS | GARS | JSRS | NGPS |
|--|--------------|------------|----------|-----------|------------------|
| State and school | | | | | |
| Number of employers..... | 105 | 5 | 1 | 1 | 1 |
| Annual covered payroll..... | \$ 5,055,714 | \$ 350,845 | \$ 3,191 | \$ 15,894 | N/A ^a |
| Average number of contributing members.... | 143,283 | 10,500 | 170 | 128 | N/A ^b |
| Other participating employers | | | | | |
| Number of employers..... | 579 | 270 | — | — | — |
| Annual covered payroll..... | \$ 1,666,090 | \$ 580,962 | \$ — | \$ — | \$ — |
| Average number of contributing members.... | 52,823 | 15,861 | — | — | — |

^a Annual covered payroll is not applicable for NGPS because it is based on years of service rather than payroll.

^b Members do not contribute; average number of members is 11,088.

The plans provide retirement, death, and disability benefits to State employees; public school employees; and employees of counties, municipalities, and certain other State political subdivisions. The NGPS provides retirement benefits to members that served in the South Carolina National Guard. Each plan is independent. Assets of each plan may be used only to benefit participants of that plan.

b. Summary of Significant Accounting Policies—Basis of Accounting and Valuation of Investments

The financial statements of the previously-described plans are prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period in which the contributions are due. Retirement benefits and refund expenses are recognized when due and payable in accordance with the terms of each plan.

Note 1f specifies the method used to value pension trust fund investments.

c. Funding Policies

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws prescribes requirements relating to membership, benefits, and employee/employer contributions for each plan. The following paragraphs summarize those requirements.

By law, employee contribution requirements for the fiscal year ended June 30, 2007, were as follows:

| Plan | Rate |
|------|--------------------------------|
| SCRS | 6.5% of earnable compensation |
| PORS | 6.5% of earnable compensation |
| GARS | 10.0% of earnable compensation |
| JSRS | 10.0% of earnable compensation |
| NGPS | Non-contributory |

Actuarially determined employer contribution rates, expressed as percentages of compensation, for the fiscal year ended June 30, 2007, were as follows:

| Plan | Rate |
|------|--------|
| SCRS | 8.20% |
| PORS | 10.70% |
| GARS | 73.90% |
| JSRS | 42.10% |

The State appropriated \$3.948 million to fund the NGPS actuarially determined employer contribution for the fiscal year ended June 30, 2007.

Under certain conditions, new employers entering the plans are allowed up to ten years to remit matching employer contributions resulting from their employees' purchase of prior service credits. Interest is assessed annually on the unpaid balance. The amounts outstanding at June 30, 2007, were \$845 thousand for SCRS and \$22 thousand for PORS.

d. Annual Pension Cost

Annual pension cost (dollars expressed in thousands) and related actuarial data for the State's single-employer defined benefit pension plans were as follows:

| | <u>GARS</u> | <u>JSRS</u> | <u>NGPS</u> |
|---------------------------------------|------------------------|------------------------|------------------------|
| Annual pension cost..... | \$2,358 | \$6,706 | \$3,022 |
| Employer contributions made..... | \$2,358 | \$6,706 | \$3,948 |
| Actuarial valuation date..... | July 1, 2006 | July 1, 2006 | July 1, 2006 |
| Actuarial cost method..... | Entry age | Entry age | Entry age |
| Amortization method..... | Level percent, closed | Level percent, open | Level dollar open |
| Remaining amortization period..... | 19 years | 29 years | 30 years |
| Asset valuation method..... | 5 year smoothed market | 5 year smoothed market | 5 year smoothed market |
| Actuarial assumptions: | | | |
| Investment rate of return..... | 7.25% | 7.25% | 7.25% |
| Projected salary increases..... | None | 3.25% | None |
| Assumed inflation rate..... | 3.00% | 3.00% | 3.00% |
| Assumed cost-of-living adjustments... | None | 3.25% | None |

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2007 (expressed in thousands):

| | <u>NGPS</u> |
|--|-----------------|
| Actuarially required contribution (ARC)..... | \$ 3,022 |
| Interest on the NPO..... | 574 |
| Adjustment to the ARC..... | (643) |
| Annual pension cost..... | 2,953 |
| Contributions made..... | (3,948) |
| Decrease in NPO..... | (995) |
| NPO beginning of year..... | 7,866 |
| NPO end of year..... | \$ 6,871 |

e. Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due.

For the cost-sharing multiple-employer defined benefit pension plans in which the State participates, the State's required contributions in dollars (expressed in thousands) and the percentages of those amounts contributed for the three latest available years were as follows. Also see Note 8f for funding status and progress.

| | <u>Fiscal Year Ended</u> | | | | | |
|-------------------------|--------------------------|-------------|----------------------|-------------|----------------------|-------------|
| | <u>June 30, 2007</u> | | <u>June 30, 2006</u> | | <u>June 30, 2005</u> | |
| | Required | Contributed | Required | Contributed | Required | Contributed |
| SCRS—State: | | % | | % | | % |
| Primary government..... | \$ 202,865 | 100.0% | \$ 184,109 | 100.0% | \$ 177,112 | 100.0% |
| Component units..... | 11,614 | 100.0% | 10,517 | 100.0% | 10,253 | 100.0% |
| PORS—State: | | | | | | |
| Primary government..... | 39,589 | 100.0% | 37,256 | 100.0% | 32,813 | 100.0% |
| Component units..... | 72 | 100.0% | 54 | 100.0% | 51 | 100.0% |

The following table presents (dollars expressed in thousands) the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the three latest available years for the State's single-employer defined benefit plans. Also see Note 8f for funding status and progress:

| Plan | Fiscal Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|------|---------------------------|---------------------------|-------------------------------|------------------------|
| GARS | 2005 | \$ 2,890 | 100.0% | \$ — |
| | 2006 | 2,171 | 100.0% | — |
| | 2007 | 2,358 | 100.0% | — |
| JSRS | 2005 | 6,260 | 100.0% | — |
| | 2006 | 6,511 | 100.0% | — |
| | 2007 | 6,706 | 100.0% | — |
| NGPS | 2005 | 2,887 | 69.2% | 8,978 |
| | 2006 | 2,969 | 132.8% | 7,866 |
| | 2007 | 3,948 | 130.6% | 6,871 |

f. Funding Status and Progress (Unaudited)

The following schedule (dollars expressed in thousands) describes the funding progress for the SCRS and the PORS, cost-sharing multiple-employer defined benefit plans, for the three latest available years:

| Plan | Actuarial Valuation Date July 1 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|------|---------------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| SCRS | 2004 | \$ 20,862,659 | \$ 25,977,852 | \$ 5,115,193 | 80.3% | \$ 6,180,599 | 82.8% |
| | 2005 | 21,625,510 | 30,217,471 | 8,591,961 | 71.6% | 6,356,489 | 135.2% |
| | 2006 | 22,293,446 | 32,018,519 | 9,725,073 | 69.6% | 6,733,379 | 144.4% |
| PORS | 2004 | 2,616,835 | 2,984,584 | 367,749 | 87.7% | 822,448 | 44.7% |
| | 2005 | 2,774,606 | 3,173,930 | 399,324 | 87.4% | 850,610 | 46.9% |
| | 2006 | 2,935,841 | 3,466,281 | 530,440 | 84.7% | 931,815 | 56.9% |

The following schedule (dollars expressed in thousands) describes the funding progress for the State’s single-employer defined benefit plans for the three latest available years:

| Plan | Actuarial Valuation Date July 1 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|------|---------------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| GARS | 2004 | \$ 45,087 | \$ 68,332 | \$ 23,245 | 66.0% | \$ 3,839 | 605.5% |
| | 2005 | 46,316 | 69,161 | 22,845 | 67.0% | 3,853 | 592.9% |
| | 2006 | 46,075 | 69,734 | 23,659 | 66.1% | 3,854 | 613.9% |
| JSRS | 2004 | 112,016 | 185,052 | 73,036 | 60.5% | 14,870 | 491.2% |
| | 2005 | 118,888 | 204,847 | 85,959 | 58.0% | 15,465 | 555.8% |
| | 2006 | 124,837 | 211,384 | 86,547 | 59.1% | 15,929 | 543.3% |

| Plan | Actuarial Valuation Date June 30 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|------|-------------------------------------|----------------------------------|--|------------------------------|-----------------------|------------------------|--|
| NGPS | 2004 | \$ 13,567 | \$ 47,281 | \$ 33,714 | 28.7% | \$ N/A | N/A |
| | 2005 | 12,151 | 46,985 | 34,834 | 25.9% | N/A | N/A |
| | 2006 | 14,046 | 48,755 | 34,709 | 28.8% | N/A | N/A |

Included among the measurements of long-term funding progress for defined benefit pension plans are whether a plan's funding ratio is increasing and whether a plan's unfunded liability (UAAL) as a percentage of covered payroll is decreasing. The tables above present the results of those measurements.

The State records the pension liability for cost of living adjustments (COLAs) in the SCRS and PORS only as COLAs are granted. Accordingly, because COLA benefits are not automatically guaranteed, the plans exclude from their actuarial accrued liability calculations and from their funding formulas the costs of providing future COLA benefits.

While the State Budget and Control Board is annually authorized under certain conditions to defer granting COLAs, the Board historically has granted COLAs, even in years when those conditions permitted a deferral. Plan actuaries have determined that the unfunded liabilities for SCRS and PORS would be significantly higher than amounts presented in the table above if the estimated costs of providing future COLA benefits were included in each plan's actuarial accrued liability calculation.

g. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2007, for the plans administered by the South Carolina Retirement Systems were as follows:

| | SCRS | PORS | GARS | JSRS | NGPS | Totals |
|--|----------------------|---------------------|------------------|-------------------|------------------|----------------------|
| Receivables: | | | | | | |
| Contributions..... | \$ 143,392 | \$ 15,348 | \$ 61 | \$ 569 | \$ — | \$ 159,370 |
| Employer long-term..... | 845 | 22 | — | — | — | 867 |
| Accrued interest..... | 114,178 | 16,592 | 222 | 669 | 80 | 131,741 |
| Unsettled investment sales..... | 418,554 | 50,017 | 787 | 2,160 | 340 | 471,858 |
| Other investment receivables.. | 15,987 | 1,948 | 33 | 83 | 3 | 18,054 |
| Total receivables..... | \$ 692,956 | \$ 83,927 | \$ 1,103 | \$ 3,481 | \$ 423 | \$ 781,890 |
| Due from other funds..... | \$ 7,487 | \$ 526 | \$ 4 | \$ 136 | \$ — | \$ 8,153 |
| Investments and invested securities lending collateral: | | | | | | |
| United States government securities..... | \$ 489,589 | \$ 69,349 | \$ 960 | \$ 2,822 | \$ 304 | \$ 563,024 |
| United States government agencies and government-insured securities..... | 3,122,153 | 462,357 | 5,993 | 18,482 | 2,362 | 3,611,347 |
| Corporate bonds..... | 3,063,224 | 453,630 | 5,880 | 18,134 | 2,317 | 3,543,185 |
| Financial and other..... | 1,136,519 | 167,886 | 2,183 | 6,719 | 857 | 1,314,164 |
| Equities..... | 11,668,536 | 1,398,188 | 22,514 | 60,219 | 7,271 | 13,156,728 |
| Invested securities lending collateral..... | 4,396,622 | 651,091 | 8,440 | 26,027 | 3,326 | 5,085,506 |
| Total investments..... | \$ 23,876,643 | \$ 3,202,501 | \$ 45,970 | \$ 132,403 | \$ 16,437 | \$ 27,273,954 |

h. Teacher and Employee Retention Incentive Program

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

TERI participants retain the same status and employment rights they held upon entering the program but are not considered active employees for purposes of the group life insurance and disability retirement programs. A TERI retiree's monthly benefits are accrued and remain in the SCRS trust account during the TERI participation period, but no interest is accrued or paid thereon. Upon termination of employment or at the end of the TERI participation period (whichever is

earlier), a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution.

A total of 9,049 members were participating in the TERI program at June 30, 2007. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2007, was as follows:

| | | |
|--|-----------|----------------|
| Beginning balance of TERI trust accounts.. | \$ | 670,527 |
| Additions | | 240,580 |
| TERI distributions at termination..... | | (269,357) |
| Ending balance of TERI trust accounts | \$ | 641,750 |

i. Defined Contribution Plan

As an alternative to membership in SCRS, certain State and public school employees may elect to participate in State ORP. Participants in 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). Covered payroll amounts as well as the amounts of actual employer and employee contributions to the State ORP are summarized in the following schedule (expressed in thousands) for the fiscal year ended June 30, 2007:

| | | |
|-----------------------------|----|---------|
| Covered payroll..... | \$ | 715,979 |
| Employee contributions..... | | 46,539 |
| Employer contributions..... | | 35,799 |

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental benefits to certain former State and school district employees and to certain of their surviving dependents. Generally, retirees are eligible for the benefits if they have established at least ten years of retirement service credit, whereas other former employees are eligible only if they have established at least twenty years of retirement service credit. Benefits become effective when the former employee retires under a State retirement system. Currently, 30,246 State retirees meet these eligibility requirements.

Eligible retirees choose among two health insurance plans and Health Maintenance Organization (HMO) options, all of which are underwritten by the State. The two health insurance plans are the Standard Plan and the Savings Plan. In accordance with contractual provisions of these plans, participants must meet specified annual deductible requirements. The Standard Plan and the Savings Plan pay 80.0% of allowable claims in excess of deductibles. The CIGNA HMO has no annual deductible requirements. The BlueChoice HMO pays 90.0% of allowable claims and the CIGNA HMO pays 80.0% of allowable claims, all after co-payments. Participants in the health insurance plans and the HMO options must pay co-payments for prescriptions. The State pays 100.0% of allowable claims after the participant has paid the specified annual out-of-pocket limit prescribed by each option. All options disallow claims in excess of specified annual and lifetime maximums. Participants entitled to receive Medicare benefits may, in some cases, receive reduced State health benefits, although total benefits (State plus Medicare) are equivalent to those received by retirees not entitled to Medicare.

The State also underwrites a dental care plan. Contractual provisions of the plan specify deductible requirements as well as annual and lifetime maximums.

The State finances all health plan options and the dental plan on a pay-as-you-go basis. During the fiscal year ended June 30, 2007, the State recognized expenses (net of participant contributions) of \$130.003 million to provide health and dental benefits to State participants in post-employment status.

NOTE 10: INSURANCE ACTIVITIES

a. Insurance Reserve Fund

The State generally does not purchase commercial insurance for the risks of losses for property damage, including theft of, damage to, and destruction of assets; automobile liability; tort liability; and medical professional liability. Instead, State management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its Insurance Reserve Fund (IRF), within the internal service funds. The IRF services claims for risk of loss to which the State is exposed, including the following: property insurance on government owned buildings, the contents of such buildings, equipment, and automobiles; automobile liability insurance on government owned vehicles and school buses; tort liability insurance for government premises and operations; and medical professional liability for hospitals. Although the State is the predominant participant in the IRF, county and municipal governments, school districts and special purpose political subdivisions also participate. The IRF allocates the cost of providing claims servicing and claims payment by charging each participant an actuarially determined "premium."

The IRF reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of the unpaid claims liability. The liability is reported net of receivables for salvage, subrogation, and reinsurance. The unpaid policy claims liability of \$201.183 million at June 30, 2007, includes a provision for claims in the process of review and for 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 of previous payments, changes in number of members and participants, inflation, and award trends. 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):

| <u>Fiscal Year Ended June 30</u> | <u>Beginning-of Fiscal-Year Liability</u> | <u>Current-Year Claims and Changes in Estimates</u> | <u>Claim Payments</u> | <u>Balance at Fiscal Year-End</u> |
|--|---|---|---------------------------|---|
| 2006 | \$ 251,956 | \$ 11,205 | \$ (48,510) | \$ 214,651 |
| 2007 | 214,651 | 20,518 | (33,986) | 201,183 |

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 \$2.000 million per location and \$10.000 million per occurrence. Reinsurance permits partial recovery of losses from reinsurers; but the IRF, as direct insurer of the risks, remains primarily liable.

b. Employee Insurance Programs Fund

State law established the Employee Insurance Programs Fund, part of the State's internal service funds, to provide health and dental insurance coverage for eligible employees and retirees of State agencies and school districts and to provide group life and long-term disability insurance coverage to eligible active State and public school employees. The State, the predominant participant, retains the risk of loss. Under the health insurance program, participants elect coverage through either self-insured health maintenance organizations (HMO) or State self-insured plans. All dental, group life, and long-term disability coverages are provided through the State's self-insured plans. State funds and payroll deductions pay health and dental premiums for eligible State and public school employees. Agencies and school districts pay the employer share of premiums for retirees. Retirees directly pay their own share of premiums. Agencies and school districts pay the premiums for group life and long-term disability for their employees.

The Employee Insurance Programs Fund establishes claims liabilities when information before the issuance of the financial statements indicates that a liability is probable and estimable at the date of the financial statements. The calculation of the unpaid claims liability includes amounts for allocated and unallocated claims adjustment expenses. The unpaid policy claims liability of \$198.778 million at June 30, 2007, includes a provision for claims in the process of review 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 of previous payments, 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.

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Claim costs for long-term disability coverage are actuarially calculated using the one-year term cost method; the cost of coverage is the present value of all benefit payments that will be made on expected claims incurred during the year following the valuation date. Claim liabilities are equal to the present value, as of the valuation date, of all future payments to be made for disabilities and deaths up to that date. Actuarial assumptions include an interest rate of 6.25% for 2007, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2007, \$25.611 million relates to group life and long-term disability insurance coverage and \$7.854 million relates to the HMO self-insured managed care plan liability. The State does not discount its claims liabilities for health and dental insurance coverage to present value.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

| Fiscal Year Ended June 30 | Beginning-of Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|--|---|---|---------------------------|---|
| 2006 | \$ 184,928 | \$ 1,222,827 | \$ (1,213,995) | \$ 193,760 |
| 2007 | 193,760 | 1,329,600 | (1,324,582) | 198,778 |

c. State Accident Fund

State law established the State Accident Fund (the 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. 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 and a rating modifier based on claims experience.

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The claims liabilities include specific incremental claims adjustment expenses but not administrative expenses. The Fund deducts reasonably estimable amounts of salvage and subrogation and reinsurance recoverable, if any, on both settled and unsettled claims from the liability for unpaid claims. The Fund periodically recomputes claims liabilities using a variety of actuarial and statistical techniques to produce current estimates. The Fund charges or credits expense in the period when it adjusts claims liabilities. At June 30, 2007, the Fund's policy claims liability was \$159.191 million. Policy claims in the financial statements include the liabilities for claims reported but not yet paid and for claims incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in legal doctrines, and damage awards, computation of the claims liability does not necessarily result in an exact amount.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

| Fiscal Year Ended June 30 | Beginning-of Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|--|---|---|---------------------------|---|
| 2006 | \$ 127,366 | \$ 50,780 | \$ (50,637) | \$ 127,509 |
| 2007 | 127,509 | 81,970 | (50,287) | 159,192 |

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; but the Fund, as direct insurer of the risks, remains primarily liable.

d. Patients' Compensation Fund and Medical Malpractice Liability Insurance Joint Underwriting Association

The South Carolina Medical Malpractice Patients' Compensation Fund (PCF) and the South Carolina Medical Malpractice Liability Insurance Joint Underwriting Association (JUA) were created by State law. The PCF is accounted for as a nonmajor enterprise fund, and the JUA is a nonmajor discretely presented component unit of the State. The State accounts for the PCF and the JUA as insurance enterprises because they primarily cover non-governmental entities.

Accordingly, the PCF and JUA follow the guidance of FASB Statement 60, *Accounting and Reporting by Insurance Enterprises*, and collectively are referred to below as “the insurance enterprises.”

The JUA is responsible for payment of that portion of any covered entity’s medical malpractice claim, settlement, or judgment up to \$200 thousand per incident or \$600 thousand in the aggregate for one year. The PCF is responsible for payments exceeding these thresholds. In the event that the PCF incurs a liability exceeding \$200 thousand to any person under a single occurrence, the PCF may ultimately pay the claim in full, but it generally may not pay more than \$200 thousand per year on such claim unless agreed to by the PCF’s Board of Governors to avoid payment of interest.

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 licensed health care providers. All providers licensed in South Carolina are eligible to participate upon remittance of the annual assessment fees.

The State actuarially establishes claims liabilities for the insurance enterprises based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The policy claims liabilities were \$198.622 million for the PCF at June 30, 2007, and \$202.368 million for the JUA at December 31, 2006, and these amounts include a provision for claims reported but not settled and for claims incurred but not reported. Amounts for claims adjustment expenses, when applicable, have been included in the calculation of the unpaid claims liabilities of the insurance enterprises. The enterprises charge or credit expense, as appropriate, in the period when they adjust claims liabilities. The length of time for which claims costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as medical technology, changes in doctrines of legal liability, and damage awards, the process for computing claims liabilities does not necessarily result in an exact amount. The insurance enterprises and their actuaries recompute claims liabilities annually, using a variety of actuarial and statistical techniques, to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit because the insurance enterprises and their actuaries rely both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience.

e. Second Injury Fund

The State accounts for the South Carolina Second Injury Fund, a nonmajor enterprise fund, as a public benefit program rather than an insurance program primarily because its participants—workers’ compensation insurance carriers and self-insured employers—do not transfer their risk to the Fund. The Fund services claims in cases where an individual with a preexisting permanent physical impairment incurs a subsequent disability from injury or accident arising out of and in the course of employment. Participants of the Fund, rather than the State, are ultimately responsible for these liabilities.

The Fund collects and invests assessments received from its participants and pays claims on behalf of its participants to the extent that Fund resources are available to pay such claims. The Fund reports these activities in its statement of cash flows. In accordance with accounting principles used by claims processors, the Fund reports as revenue only that portion of assessments and interest earnings intended to cover the Fund’s administrative costs, including capital costs. Likewise, the Fund records no claims expense, and it records claims liabilities only to the extent that Fund assets are available to pay such claims.

f. Discretely Presented Component Unit—Public Service Authority (Santee Cooper)

The Public Service Authority (Santee Cooper), a major discretely presented component unit with a fiscal year ended December 31, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions. The Authority purchases commercial insurance to cover these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Policies are subject to deductibles ranging from \$5 thousand to \$1.000 million with the exception of named storm losses, which carry deductibles from \$1.000 million up to \$5.000 million. In addition, a \$1.400 million self-insured layer exists between the Authority’s primary and excess liability policies.

The Authority self-insures its risks related to auto, dental, and environmental incidents that do not arise out of an insured event. Automotive exposure is up to \$2.000 million per incident. Risk exposure for the dental plan is limited by plan provisions. There have not been any third-party claims for environmental damages for calendar year 2006.

The State reports all of the Authority’s risk management activities within the Public Service Authority’s accounts. The State reports the Authority’s claims expenses and liabilities when it is probable that a loss has occurred and the amount of the loss is reasonably estimable.

At December 31, 2006, the policy claims liabilities were \$2.402 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

| <u>Fiscal Year Ended December 31</u> | <u>Beginning-of Fiscal-Year Liability</u> | <u>Current-Year Claims and Changes in Estimates</u> | <u>Claim Payments</u> | <u>Balance at Fiscal Year-End</u> |
|--------------------------------------|---|---|-----------------------|-----------------------------------|
| 2005 | \$ 2,375 | \$ 1,724 | \$ (1,502) | \$ 2,597 |
| 2006 | 2,597 | 1,375 | (1,570) | 2,402 |

NOTE 11: LEASES

a. Lease Commitments

The State leases land, office facilities, equipment, and other assets under both capital and operating leases. The present value of future minimum capital lease payments and total minimum annual lease payments for capital leases recorded in the government-wide statement of net assets at June 30, 2007 (expressed in thousands) for the primary government and the State’s discretely presented component units were as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Totals</u> |
|---|--------------------------------|---------------------------------|------------------|
| 2008 | \$ 663 | \$ 8,773 | \$ 9,436 |
| 2009 | 286 | 7,739 | 8,025 |
| 2010 | 144 | 6,816 | 6,960 |
| 2011 | 5 | 4,422 | 4,427 |
| 2012 | — | 3,268 | 3,268 |
| 2013-2017 | — | 21,180 | 21,180 |
| 2018-2022 | — | 5,568 | 5,568 |
| 2023-2027 | — | 493 | 493 |
| 2028-2032 | — | 394 | 394 |
| Total minimum payments..... | 1,098 | 58,653 | 59,751 |
| Less: interest and executory costs..... | (159) | (12,584) | (12,743) |
| Present value of net minimum payments..... | \$ 939 | \$ 46,069 | \$ 47,008 |

| <u>Fiscal Year Ending December 31</u> | <u>Public Service Authority</u> |
|---|---------------------------------|
| 2007 | \$ 3,335 |
| 2008 | 3,038 |
| 2009 | 2,737 |
| 2010 | 1,934 |
| 2011 | 1,610 |
| 2012-2016 | 2,619 |
| Total minimum payments..... | 15,273 |
| Less: interest and executory costs..... | (5,377) |
| Present value of net minimum payments..... | \$ 9,896 |

| Fiscal Year Ending June 30 | State Ports Authority |
|---|-----------------------------|
| 2008 | \$ 47 |
| 2009 | 15 |
| Total minimum payments..... | 62 |
| Less: interest and executory costs..... | (4) |
| Present value of net minimum payments..... | \$ 58 |

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2007, were as follows (expressed in thousands):

| Assets Acquired Under Capital Leases | Primary Government | | | Component Units | |
|--|----------------------------|---------------------------------|------------------|--------------------------------|-----------------------------|
| | Governmental Activities | Business- type Activities | Totals | Public Service Authority | State Ports Authority |
| Land and non-depreciable improvements..... | \$ — | \$ 9,497 | \$ 9,497 | \$ — | \$ — |
| Buildings and improvements..... | 6,540 | 67,766 | 74,306 | 89,500 | — |
| Machinery and equipment..... | 2,648 | 46,120 | 48,768 | — | 185 |
| Works of art and historical treasures..... | — | 330 | 330 | — | — |
| Assets acquired under capital leases before accumulated amortization..... | 9,188 | 123,713 | 132,901 | 89,500 | 185 |
| Less: accumulated amortization..... | (4,373) | (42,810) | (47,183) | (81,900) | (136) |
| Assets acquired under capital leases, net..... | \$ 4,815 | \$ 80,903 | \$ 85,718 | \$ 7,600 | \$ 49 |

For the primary government's fiscal year ended June 30, 2007, minimum rental payments under operating leases were \$78.992 million and contingent rental payments were \$9.814 million. The State's contingent rental payments are for copiers, with expense being determined on a cost-per-copy basis.

For the Public Service Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$7.300 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$1.064 million. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$717 thousand.

At June 30, 2007, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) were as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Primary Government</u> | <u>Component Unit Lottery Commission</u> |
|------------------------------------|-------------------------------|--|
| 2008 | \$ 43,411 | \$ 665 |
| 2009 | 39,877 | 685 |
| 2010 | 31,555 | 701 |
| 2011 | 23,389 | 705 |
| 2012 | 16,891 | 640 |
| 2013-2017 | 30,225 | 2,173 |
| 2018-2022 | 13,160 | — |
| 2023-2027 | 4,796 | — |
| 2028-2032 | 567 | — |
| 2033-2037 | 500 | — |
| 2038-2042 | 100 | — |
| Total minimum payments..... | \$ 204,471 | \$ 5,569 |

| <u>Fiscal Year Ending December 31</u> | <u>Public Service Authority</u> |
|---------------------------------------|-------------------------------------|
| 2007 | \$ 5,200 |
| 2008 | 4,900 |
| 2009 | 296 |
| Total minimum payments..... | \$ 10,396 |

b. Facilities Leased to Others

At June 30, 2007, the State Ports Authority, a major discretely presented component unit, had leased to non-State parties certain land and facilities having a cost of approximately \$479.280 million and related accumulated depreciation of \$214.423 million. Future minimum rental payments to be received at June 30, 2007, under these operating leases (expressed in thousands) were as follows:

| <u>Fiscal Year Ending June 30</u> | <u>State Ports Authority</u> |
|-----------------------------------|--------------------------------------|
| 2008 | \$ 35,315 |
| 2009 | 34,267 |
| 2010 | 23,153 |
| 2011 | 9,563 |
| 2012 | 6,770 |
| 2013-2017 | 1,722 |
| 2018-2022 | 908 |
| 2023-2027 | 500 |
| 2028-2032 | 500 |
| 2033-2037 | 217 |
| Total..... | \$ 112,915 |

NOTE 12: BONDS AND NOTES PAYABLE

a. General Obligation Bonds

General obligation bonds are backed by the full faith, credit, and taxing power of the State. General obligation bonds (expressed in thousands) outstanding at June 30, 2007, were:

| | |
|--|----------------------------|
| Governmental Activities | |
| Capital improvement bonds, 1.75% to 5.90%, maturing serially through 2019..... | \$ 603,762 |
| State highway bonds, 2.00% to 6.50%, maturing serially through 2023..... | 663,582 |
| State school facilities bonds, 3.00% to 5.75%, maturing serially through 2018..... | 523,305 |
| Infrastructure Bank bonds, 3.00% to 5.00%, maturing through 2028..... | 55,491 |
| State economic development bonds, 1.00% to 6.75%, maturing serially through 2031..... | — 227,992 |
| Research university infrastructure bonds, 3.00% to 6.25%, maturing serially through 2021..... | 140,733 |
| Subtotal—governmental activities..... | <u>2,214,865</u> |
| Business-type Activities, Higher Education Fund | |
| State institution bonds, 2.50% to 6.25%, maturing serially through 2027..... | 356,795 |
| Total—general obligation bonds payable..... | <u>\$ 2,571,660</u> |

At June 30, 2007, \$6.344 million of capital improvement bonds, \$42.185 million of State economic development bonds, and \$35.850 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2007, future debt service requirements (expressed in thousands) for general obligation bonds were:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | | <u>Business-type Activities (Higher Education Fund)</u> | |
|---|--------------------------------|--------------------------|---|--------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 199,225 | \$ 97,591 | \$ 18,835 | \$ 15,314 |
| 2009 | 204,699 | 88,593 | 19,370 | 14,495 |
| 2010 | 187,500 | 79,197 | 19,440 | 13,654 |
| 2011 | 184,485 | 70,409 | 20,030 | 12,813 |
| 2012 | 175,205 | 61,765 | 20,580 | 11,935 |
| 2013-2017 | 837,220 | 188,929 | 113,880 | 45,374 |
| 2018-2022 | 355,775 | 45,807 | 91,835 | 21,449 |
| 2023-2027 | 47,480 | 7,530 | 53,580 | 5,117 |
| 2028-2031 | 17,585 | 1,131 | — | — |
| Total debt service requirements..... | <u>2,209,174</u> | <u>\$ 640,952</u> | <u>357,550</u> | <u>\$ 140,151</u> |
| Unamortized premiums..... | 15,933 | | 269 | |
| Deferred amount on refunding... | (10,242) | | (1,024) | |
| Total principal outstanding..... | <u>\$ 2,214,865</u> | | <u>\$ 356,795</u> | |

The Department of Transportation Special Revenue Fund, a major governmental fund, pays the debt service for the State highway bonds. The Local Government Infrastructure Fund, a major governmental fund, pays the debt service for the Infrastructure Bank bonds. The General Fund pays the debt service for the other general obligation bonds recorded for governmental activities. The Higher Education Fund, a major enterprise fund, pays the debt service for general obligation bonds recorded in that fund.

Rather than directly limiting the amount of outstanding general obligation debt, State law imposes a limitation on annual debt service expenditures. The legal annual debt service margin at June 30, 2007, was \$50.249 million in total for all institution bonds, \$24.362 million for highway bonds, \$145.086 million for general obligation bonds excluding institution and highway bonds, \$9.591 million for economic development bonds, and \$16.993 million for research university infrastructure bonds. South Carolina State University exceeded its legal debt service limit on its State institution bonds by approximately \$530 thousand at June 30, 2007. The University will adjust tuition fees in subsequent years to cover the debt requirement.

b. Limited Obligation Bonds

Limited obligation bonds are not backed by the full faith, credit, and taxing power of the State. Limited obligation bonds outstanding at June 30, 2007, which are reported in the internal service funds, totaled \$10.985 million and mature serially through 2016. Interest rates on these bonds ranged from 4.00% to 6.10%.

At June 30, 2007, there were no limited obligation bonds authorized but unissued.

The State issued limited obligation lease revenue bonds to finance the cost of capital facilities for use by certain State agencies. Pledges of lease rental payments that the agencies will pay from their governmental funds secure the bonds.

At June 30, 2007, future debt service requirements (expressed in thousands) for limited obligation bonds were:

| <u>Year Ending June 30</u> | Governmental Activities (Internal Service Funds) | |
|---|---|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 1,640 | \$ 542 |
| 2009 | 1,730 | 465 |
| 2010 | 1,200 | 384 |
| 2011 | 1,280 | 322 |
| 2012 | 1,345 | 256 |
| 2013-2016 | 3,835 | 337 |
| Total debt service requirements..... | 11,030 | \$ 2,306 |
| Unamortized discounts..... | (45) | |
| Total principal outstanding..... | \$ 10,985 | |

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

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

Revenue debt is not backed by the full faith, credit, and taxing power of the State. Revenue, Tobacco Settlement Revenue Management Authority (Tobacco Authority), Infrastructure Bank, and other bonds and notes (expressed in thousands) outstanding at June 30, 2007, were:

| | <u>Bonds</u> | <u>Notes</u> |
|--|----------------------------|--------------------------|
| Primary Government: | | |
| Governmental Activities: | | |
| Infrastructure Bank bonds, 3.00% to 6.00%, maturing serially through 2033..... | \$ 2,162,973 | \$ — |
| Tobacco Authority bonds, 6.00% to 7.67%, maturing serially through 2030... | 769,755 | — |
| Heritage Trust Revenue bonds, 4.00% to 4.25%, maturing in 2022..... | 20,287 | — |
| Educational Television Network note, 3.29%, maturing in 2008..... | — | 760 |
| Education Department note, 3.29%, maturing in 2011..... | — | 545 |
| Corrections Department note, 3.34%, maturing in 2008..... | — | 571 |
| Probation Parole and Pardon Department note, 4.04%, maturing in 2012..... | — | 241 |
| Budget and Control Board bond and notes, 3.00% to 5.00%, maturing through 2018..... | 20,757 | 13,505 |
| Totals—governmental activities..... | <u>2,973,772</u> | <u>15,622</u> |
| Business-type Activities: | | |
| Higher Education Fund bonds and notes, 2.00% to 7.75%, maturing serially through 2035..... | 492,224 | 104,594 |
| Housing Authority Fund bonds, 2.60% to 8.30%, maturing serially through 2037..... | 699,023 | — |
| Medical University Hospital Authority bonds and note, 3.92% to 5.38%, maturing through 2034..... | 475,246 | 18,662 |
| Education Assistance Authority Fund bonds, 3.50% to 6.30%, maturing serially through 2026..... | 1,025,897 | — |
| Nonmajor enterprise funds: | | |
| Nonmajor enterprise fund bonds and notes, 3.00% to 8.00%, maturing through 2025..... | 16,754 | 43,198 |
| Direct note obligations, 5.82% to 6.82%, maturing serially through 2027..... | — | 86,903 |
| Totals—business-type activities..... | <u>2,709,144</u> | <u>253,357</u> |
| Totals—primary government..... | <u>\$ 5,682,916</u> | <u>\$ 268,979</u> |
| Major Discretely Presented Component Units: | | |
| Public Service Authority bonds, 2.50% to 7.42%, maturing serially through 2039..... | <u>\$ 3,159,270</u> | <u>\$ —</u> |
| State Ports Authority bonds and notes, 3.78% to 5.92%, maturing serially through 2028..... | <u>\$ 134,198</u> | <u>\$ 2,429</u> |
| Connector 2000 Association, Inc. bonds, 5.25% to 6.30%, maturing serially through 2038..... | <u>\$ 289,457</u> | <u>\$ —</u> |

During a prior fiscal year, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate swap agreement with a termination date of October 1, 2013 to reduce net interest costs on certain revenue bonds. Under this fixed-to-variable interest-rate swap, the Bank receives a fixed rate of 3.595% semi-annually while paying a variable rate monthly based on the BMA Municipal Bond Index. The notional amount for this agreement is \$49.440 million. The swap agreement was terminated on December 7, 2006 at a termination value of \$692 thousand. As of that date, the Bank had received net revenues of \$2.900 million since the inception of the interest rate swap.

During a prior fiscal year, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate exchange agreement with a termination date of October 1, 2031, to enhance savings and offset changes in tax-exempt variable interest rates on certain revenue bonds. Under this variable-to-fixed interest rate exchange, the Bank pays a 3.825% fixed rate on a notional amount, having an amortization schedule equal to that of the revenue bonds. 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 on such notional amount. For the fiscal year ended June 30, 2007, the Bank made variable bond interest payments of \$13.379 million and fixed rate payments on the exchange agreement of \$13.998 million. The Bank received variable swap payments on the exchange agreement of \$13.049 million. The June 30, 2007, mark to market value of this swap was \$1.740 million.

University Medical Associates of the Medical University of South Carolina (UMA) is a blended component unit and nonmajor enterprise fund. UMA has issued several direct note obligations, select auction variable rate securities. In prior

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years, UMA entered into interest-rate swap agreements to modify interest rates on a portion of its Series 1994, and all of the 1999A and 1999B direct note obligations in an effort to convert its variable-rate debt to a fixed rate of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations. These agreements were required by the municipal bond insurance company MBIA, at a time when UMA was experiencing operating losses. The note obligations and related swap agreements mature on May 15, 2024, for the 1994 and 1999A portions and May 15, 2027, for the 1999B portion. The notional amounts as of June 30, 2007, are as follows: Series 1994 obligations—\$8.650 million; Series 1999A obligations—\$33.650 million; and Series 1999B obligations—\$39.300 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$9.950 million. Under the swap agreements, UMA pays the counterparty a fixed interest payment of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations, and receives a variable payment based upon the auction rate every thirty-five days. The variable rates in effect at June 30, 2007, were 3.75% for the 1994 obligations, 3.75% for the 1999A obligations, and 3.84% for the 1999B obligations. On May 1, 2000, these swap agreements were amended to mitigate adverse income tax consequences to the counterparty should certain triggering events occur in the future, resulting in a payment to UMA of \$1.850 million for the remaining life of the agreements. UMA has recorded this amount in deferred revenue and is amortizing it as a reduction of interest expense over the terms of the related obligations on the straight-line method. For the fiscal year ended June 30, 2007, interest expense was reduced by amortization of approximately \$77 thousand. Interest rates have declined since execution of the swap agreements resulting in the swaps having negative fair values of approximately \$1.770 million on the 1994 obligations, \$6.561 million on the 1999A obligations, and \$5.131 million for the 1999B obligations as of June 30, 2007. The fair value was estimated using the zero-coupon method. UMA will be exposed to the risk of fluctuating interest rates of the variable-rate debt agreements if the swap agreements are terminated.

In a prior year, the Medical University Facilities Corporation, a blended component unit and nonmajor enterprise fund, entered into an interest-rate swap agreement to hedge its interest-rate exposure and establish a fixed-rate payment in connection with a \$13.500 million loan. The swap agreement provides that the Corporation will pay the swap provider interest on a notional amount equal to the aggregate principal amount of the loan at a fixed rate of 3.37%, and the swap provider will pay the Corporation a variable rate of interest on such notional amount in an amount sufficient to pay the variable rate of interest on the loan. The notional amount at June 30, 2007, was \$9.355 million, and the variable rate in effect at that date was 3.77%. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal of the note is scheduled to be paid upon redemption or maturity. The loan and the related swap agreement mature on January 1, 2013. As of June 30, 2007, the swap had a fair value of approximately \$175 thousand. Termination of the agreement would subject the Corporation to the risk of fluctuating interest rates.

In December 2005, the State Ports Authority, a major discretely presented component unit, entered into 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% of the one-month London Interbank Offered Rate on such notional amount. The notional amounts at June 30, 2007 were \$61.443 million and \$26.333 million. The payments begin August 1, 2008 and continue until the contracts expire on July 1, 2026. As of June 30, 2007, the swaps have fair values of approximately \$1.484 million and \$637 thousand.

As of June 30, 2007, debt service requirements of the UMA and the Corporation variable rate debt and net swap payments (expressed in thousands), assuming current interest rates remain the same for their term, were as follows:

| Year Ending June 30 | Variable Rate Notes | | Interest Rate | Totals |
|------------------------|---------------------|------------------|------------------|-------------------|
| | Principal | Interest | Swaps, Net | |
| 2008 | \$ 3,595 | \$ 3,418 | \$ 2,034 | \$ 9,047 |
| 2009 | 4,045 | 3,279 | 1,973 | 9,297 |
| 2010 | 4,195 | 3,125 | 1,906 | 9,226 |
| 2011 | 4,450 | 2,965 | 1,831 | 9,246 |
| 2012 | 4,310 | 2,796 | 1,757 | 8,863 |
| 2013-2017 | 21,960 | 11,289 | 7,451 | 40,700 |
| 2018-2022 | 25,550 | 7,386 | 4,853 | 37,789 |
| 2023-2027 | 22,850 | 2,080 | 1,212 | 26,142 |
| Totals..... | \$ 90,955 | \$ 36,338 | \$ 23,017 | \$ 150,310 |

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, Tobacco Authority, Infrastructure Bank, and other bonds and notes have pledged revenues for payment of debt service as follows:

Primary Government:

Governmental Activities:

Infrastructure Bank bonds: Infrastructure Bank revenues recorded in the Local Government Infrastructure Fund, a major governmental fund

Tobacco Authority bonds: tobacco settlement revenues recorded in the nonmajor governmental funds

Heritage Trust bonds: revenues derived from portion of State Deed Recording Fee dedicated to the Heritage Land Trust Fund

Corrections Department note: farm facility revenues

Budget and Control Board bonds: loan repayments

Business-type Activities:

Higher education bonds and notes: various specific higher education revenues

State Housing Authority bonds: revenues of the Housing Authority Fund, a major enterprise fund

Education Assistance Authority bonds: loan repayments and United States Commissioner of Education funds in the Education Assistance Authority Fund, a major enterprise fund

Major Discretely Presented Component Units:

Public Service Authority bonds: Public Service Authority revenues

State Ports Authority bonds: State Ports Authority revenues

Connector 2000 Association, Inc. bonds: toll revenues

Lottery Commission notes: lottery revenues

For its business-type activities, the State separately identifies amounts of pledged revenues available at June 30, 2007, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2007, future debt service requirements (expressed in thousands) for revenue, Tobacco Authority, Infrastructure Bank, and other bonds and notes of the primary government were as follows:

| Year Ending June 30 | Primary Government | | | |
|---|-------------------------|---------------------|--------------------------|---------------------|
| | Governmental Activities | | Business-type Activities | |
| | Principal | Interest | Principal | Interest |
| 2008 | \$ 51,320 | \$ 150,830 | \$ 68,247 | \$ 118,585 |
| 2009 | 47,070 | 148,435 | 151,537 | 137,831 |
| 2010 | 52,605 | 145,976 | 123,623 | 127,572 |
| 2011 | 54,655 | 143,258 | 68,691 | 122,414 |
| 2012 | 57,997 | 140,325 | 83,557 | 118,992 |
| 2013-2017 | 410,980 | 646,684 | 412,270 | 540,295 |
| 2018-2022 | 584,255 | 517,756 | 490,856 | 442,467 |
| 2023-2027 | 674,710 | 352,839 | 1,012,614 | 271,589 |
| 2028-2032 | 724,330 | 156,981 | 352,825 | 101,272 |
| 2033-2037 | 272,640 | 22,761 | 196,818 | 20,290 |
| 2038 | 17,370 | 391 | 5,640 | 154 |
| Total debt service requirements..... | 2,947,932 | \$ 2,426,236 | 2,966,678 | \$ 2,001,461 |
| Net unamortized premiums..... | 80,344 | | 20,152 | |
| Deferred amount on refunding..... | (38,882) | | (24,329) | |
| Total principal outstanding..... | \$ 2,989,394 | | \$ 2,962,501 | |

The fiscal year for the Public Service Authority ends December 31 while the fiscal year for the State Ports Authority ends June 30. Both entities are major discretely presented component units. At December 31, 2006, the carrying value of the Public Service Authority's debt was \$3.270 billion while the fair value was approximately \$3.600 billion. At June 30, 2007, the carrying value of the State Ports Authority debt was \$135.992 million while the fair value was approximately \$132.446 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.

At June 30, 2007, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

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| Year Ending December 31 | Major Component Units | | | | | |
|---|--------------------------|---------------------|-----------------------|------------------|-----------------------|------------------|
| | Public Service Authority | | Connector 2000 Assoc. | | State Ports Authority | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | \$ 76,475 | \$ 159,642 | \$ — | \$ 3,530 | \$ 3,775 | \$ 6,640 |
| 2008 | 100,420 | 157,447 | 6,200 | 3,508 | 3,860 | 6,426 |
| 2009 | 95,225 | 152,583 | 6,700 | 3,461 | 4,050 | 6,202 |
| 2010 | 110,695 | 147,341 | 7,300 | 3,411 | 4,255 | 5,966 |
| 2011 | 112,985 | 141,220 | 8,100 | 3,358 | 4,470 | 5,719 |
| 2012-2016 | 730,820 | 607,930 | 55,400 | 15,886 | 24,839 | 24,645 |
| 2017-2021 | 903,357 | 394,955 | 87,700 | 14,072 | 31,190 | 17,320 |
| 2022-2026 | 448,546 | 216,486 | 122,000 | 11,740 | 34,495 | 7,184 |
| 2027-2031 | 317,185 | 133,067 | 161,600 | 8,643 | 25,000 | — |
| 2032-2036 | 267,235 | 57,542 | 192,000 | 4,598 | — | — |
| 2037-2040 | 96,987 | 5,380 | 99,100 | 446 | — | — |
| Total debt service requirements..... | 3,259,930 | \$ 2,173,593 | 746,100 | \$ 72,653 | 135,934 | \$ 80,102 |
| Unamortized premiums (discounts)... | 124,502 | | (456,643) | | 693 | |
| Deferred amount on refunding..... | (225,162) | | — | | — | |
| Total principal outstanding..... | \$ 3,159,270 | | \$ 289,457 | | \$ 136,627 | |

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, 2007, in governmental functions for these entities as follows (expressed in thousands):

| | Amount |
|---|-------------------|
| General government..... | \$ 50,386 |
| Transportation..... | 102,698 |
| Total allocated interest expense.. | \$ 153,084 |

The amount shown above in the general government function relates to bonds that a blended component unit issued.

d. Bond Anticipation Notes

At June 30, 2007, \$4.500 million in short-term revenue bond anticipation notes were outstanding in the Higher Education Fund, a major enterprise fund. These notes are due on or before June 30, 2007.

e. Defeased Bonds

During February 2007, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, issued \$102.015 million in revenue refunding bonds to refund \$98.855 million of revenue bonds. The Bank used the net proceeds to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4.017 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2033 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next 25 years by approximately \$12.563 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$8.548 million.

During November 2006, Coastal Carolina University, included in the Higher Education major enterprise fund, issued bonds to refund portions of earlier issues. Proceeds from the sale were placed in an irrevocable trust that is to be used to service the future debt requirements of the earlier bond issues. This refunding resulted in an economic gain and reduced future cash requirements to pay off the debt. The economic gain realized in this refunding was \$603 thousand, and cash flow savings netted to \$954 thousand. In prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2007, \$12.240 million of bonds outstanding are considered defeased, which includes the bonds considered defeased during the current year.

During its fiscal year ended December 31, 2006, the Public Service Authority, a major discretely presented component unit, issued \$114.800 million in refunding revenue bonds with an average interest rate of 4.87% to refund \$115.005 million in revenue bonds with an average interest rate of 5.53%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7.054 million. This difference, reported in the accompanying financial

statements as a deduction from bonds payable, is being charged to operations through the year 2035 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next 30 years by approximately \$11.200 million and to obtain an economic gain of approximately \$8.100 million.

For all defeasances involving advance refundings in the current and prior years, the securities purchased were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the State has not recorded the defeased bonds in the accompanying financial statements. At June 30, 2007, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

| | Governmental Activities | Business- type Activities | Totals— Primary Government |
|------------------------------------|------------------------------------|--|---|
| Capital improvement bonds..... | \$ 40,310 | \$ — | \$ 40,310 |
| State highway bonds..... | 46,175 | — | 46,175 |
| State school facilities bonds..... | 59,515 | — | 59,515 |
| Infrastructure Bank bonds..... | 837,500 | — | 837,500 |
| Higher Education Fund bonds... | — | 224,305 | 224,305 |
| Totals..... | \$ 983,500 | \$ 224,305 | \$ 1,207,805 |

In addition, at December 31, 2006, \$115.005 million of bonds associated with the Public Service Authority, a major discretely presented component unit, were considered defeased.

f. Arbitrage Rebate Payable

The Internal Revenue Code and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. The Local Government Infrastructure Fund (a major governmental fund), and the Education Assistance Authority Fund (a major enterprise fund) have incurred arbitrage rebate liabilities in connection with student loan and revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 2007, are reported as other liabilities of \$503 thousand in the Local Government Infrastructure Fund, and as other liabilities payable from restricted assets of \$5.650 million and other liabilities of \$691 thousand in the Education Assistance Authority Fund.

g. Conduit Debt

State law authorizes issuance of certain bonds for which the State assumes no responsibility for repayment. These bonds, therefore, 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, 2007, the outstanding balance of bonds issued was \$285.767 million.

The Jobs-Economic Development Authority, a nonmajor governmental fund, issues industrial revenue bonds to develop and benefit business enterprises. The bonds are payable solely by revenues of the business enterprise and generally are secured by an irrevocable letter of credit. At June 30, 2007, the outstanding balance of bonds issued after June 30, 1995, was \$3.156 billion. The original amount of bonds issued prior to that date is not available.

The Housing Authority Fund, a major enterprise fund, issues certain mortgage loan notes and housing revenue bonds for developers to construct moderate to low income housing projects. The bonds are payable solely from housing rental payments received by the developer and generally are secured by an irrevocable letter of credit or bond insurance. At June 30, 2007, the outstanding balance of bonds issued was \$268.470 million.

h. Resources Authority Debt

In prior years, the Resources Authority, reported in the General Fund, issued bonds and used the proceeds to purchase obligations of local governmental entities. The local governmental entities used the proceeds received from the Authority to fund water and sewer projects. Periodic principal and interest payments received from the local governmental entities are used by the Authority to retire its own debt. The debt issued by the Authority is not a debt of the State and is not recorded in the accompanying financial statements. The Authority’s outstanding debt at June 30, 2007, was \$2.870 million. Effective October 1994, the General Assembly enacted legislation that prohibits the Authority from issuing bonds except to refund bonds previously issued.

Beginning in fiscal year 1993-1994, one local governmental entity has been unable to meet its financial obligation under the terms of a \$5.025 million revenue bond that the Authority purchased. In June 1990, when the local governmental entity issued its debt, it estimated that the related sewer project would be completed and operational by calendar year 1992. Revenue generated by the sewer system is pledged for debt retirement. The State paid a total of approximately \$5.087 million in the 1993-1994 through 2005-2006 fiscal years, and \$420 thousand in the 2006-2007 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity.

The 2007-2008 Appropriations Act directs the State Treasurer's Office to carry forward \$3.500 million of Excess Debt Service funds from fiscal year 2006-2007 to provide for retirement of the entire outstanding amount of Series 1990 South Carolina Resources Authority Revenue Bonds. This retirement shall not discharge the Town of New Ellenton of its requirement to make court ordered payments to the South Carolina Resources Authority.

i. Commercial Paper Notes and Letters of Credit

Note 13 Changes in Liabilities, displays the activity of commercial paper notes and lines of credit during the fiscal year ended June 30, 2007, including beginning and ending balances (if any) as well as all draws and repayments. The Public Service Authority presents its outstanding amounts as commercial paper notes, but all other amounts outstanding on lines of credit at June 30, 2007 are reported as notes payable. Other relevant information regarding these accounts is provided below.

The State Housing Finance and Development Authority, a major enterprise fund, executed a revolving Mortgage Prepayment Refunding Note with a commercial bank, the purpose of which is to function as a vehicle to preserve the federally limited tax-exempt private activity volume cap pursuant to the federal tax code. The Authority expects to draw down on the note twice each year at or near debt service payment dates. The amount outstanding at any given time is not to exceed \$21.000 million. No amounts had been drawn on the note as of June 30, 2007.

The University Medical Associates of the Medical University of South Carolina, a blended component unit and nonmajor enterprise fund, has a \$10.000 million line of credit from a commercial bank. There were no advances under this line of credit during the year ended June 30, 2007.

The Public Service Authority, a discretely presented component unit, has recorded a \$195.072 million liability for commercial paper notes at its fiscal year ended December 31, 2006. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a \$450.000 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement during 2006.

The Ports Authority, a discretely presented component unit, has a \$10.000 million revolving line of credit from a commercial bank. There are no borrowings under the line of credit as of June 30, 2007.

j. Subsequent Events

Since June 30, 2007, the State's primary government has issued \$360.870 million in revenue bonds, which are reported in the State's business-type activities.

Since June 30, 2007, the Public Service Authority, a major discretely presented component unit, issued \$440.495 in revenue bonds. Of the total revenue bonds issued by the Public Service Authority, \$97.970 million were to refund prior issues.

On July 2, 2007, the State Housing Finance and Development Authority, a major enterprise fund, drew down \$9.850 million from the Mortgage Prepayment Refunding Note entered into on June 28, 2007. The draw was redeemed on September 28, 2007.

NOTE 13: CHANGES IN LIABILITIES**a. Long-Term Liabilities**

Changes in major classes of long-term liabilities (expressed in thousands) for the fiscal year ended June 30, 2007, were:

| | Balances at July 1, 2006 | Increases | Decreases | Balances at June 30, 2007 | Amounts Due Within One Year |
|---|-----------------------------|--------------|----------------|------------------------------|-----------------------------------|
| Primary Government: | | | | | |
| Governmental Activities | | | | | |
| Policy claims..... | \$ 549,456 | \$ 1,444,805 | \$ (1,415,141) | \$ 579,120 | \$ 472,374 |
| Notes payable..... | \$ 21,021 | \$ 1,726 | \$ (7,125) | \$ 15,622 | \$ 4,610 |
| General obligation bonds payable..... | \$ 2,401,124 | \$ — | \$ (191,950) | \$ 2,209,174 | \$ 199,225 |
| Unamortized discounts and premiums..... | 17,327 | — | (1,394) | 15,933 | — |
| Deferred amount on refunding..... | (13,332) | — | 3,090 | (10,242) | — |
| Total general obligation bonds payable.... | \$ 2,405,119 | \$ — | \$ (190,254) | \$ 2,214,865 | \$ 199,225 |
| Tobacco Authority bonds payable..... | \$ 796,900 | \$ — | \$ (27,145) | \$ 769,755 | \$ — |
| Revenue bonds payable..... | \$ 21,115 | \$ 20,295 | \$ (1,320) | \$ 40,090 | \$ 2,355 |
| Unamortized discounts and premiums..... | 1,054 | (8) | (92) | 954 | — |
| Total revenue bonds payable..... | \$ 22,169 | \$ 20,287 | \$ (1,412) | \$ 41,044 | \$ 2,355 |
| Infrastructure Bank bonds payable..... | \$ 1,887,725 | \$ 388,370 | \$ (153,630) | \$ 2,122,465 | \$ 44,355 |
| Unamortized discounts and premiums..... | 72,037 | 9,456 | (2,103) | 79,390 | — |
| Deferred amount on refunding..... | (42,056) | (4,149) | 7,323 | (38,882) | — |
| Total Infrastructure Bank bonds payable. | \$ 1,917,706 | \$ 393,677 | \$ (148,410) | \$ 2,162,973 | \$ 44,355 |
| Limited obligation bonds payable..... | \$ 15,350 | \$ — | \$ (4,320) | \$ 11,030 | \$ 1,640 |
| Unamortized discounts and premiums..... | (59) | — | 14 | (45) | — |
| Total limited obligation bonds payable..... | \$ 15,291 | \$ — | \$ (4,306) | \$ 10,985 | \$ 1,640 |
| Capital leases payable..... | \$ 1,894 | \$ — | \$ (955) | \$ 939 | \$ 544 |
| Compensated absences payable..... | \$ 202,068 | \$ 122,313 | \$ (108,760) | \$ 215,621 | \$ 121,184 |
| National Guard Retirement System net pension obligation payable..... | \$ 7,866 | \$ — | \$ (995) | \$ 6,871 | \$ — |
| Judgments and contingencies payable..... | \$ 42,074 | \$ 6,756 | \$ (17,060) | \$ 31,770 | \$ 8,076 |
| Arbitrage payable..... | \$ 233 | \$ 270 | \$ — | \$ 503 | \$ — |

The National Guard Retirement System net pension obligation payable, judgments and contingencies payable, and arbitrage payable are included in *other liabilities* in the accompanying financial statements.

The governmental fund that pays an employee's salary also is responsible for liquidating the employee's related compensated absence liability. The General Fund is responsible for liquidating the National Guard Retirement System liability. Historically, the State has paid most judgments related to governmental funds from its General Fund unless an identifiable amount was directly attributable to another specific fund.

State of South Carolina

| | Balances at July 1, 2006 | Increases | Decreases | Balances at June 30, 2007 | Amounts Due Within One Year |
|--|-----------------------------|------------|--------------|------------------------------|-----------------------------------|
| Primary Government: | | | | | |
| Business-type Activities | | | | | |
| Policy claims..... | \$ 217,407 | \$ 23,776 | \$ (42,561) | \$ 198,622 | \$ 30,000 |
| Notes payable..... | \$ 248,477 | \$ 33,044 | \$ (27,406) | \$ 254,115 | \$ 15,556 |
| Deferred amount on refunding..... | (896) | — | 50 | (846) | — |
| Unamortized discounts and premiums..... | 93 | — | (5) | 88 | — |
| Total notes payable..... | \$ 247,674 | \$ 33,044 | \$ (27,361) | \$ 253,357 | \$ 15,556 |
| General obligation bonds payable..... | \$ 250,425 | \$ 126,125 | \$ (19,000) | \$ 357,550 | \$ 18,835 |
| Deferred amount on refunding..... | (1,105) | — | 81 | (1,024) | — |
| Unamortized discounts and premiums..... | 194 | 93 | (18) | 269 | — |
| Total general obligation bonds payable.... | \$ 249,514 | \$ 126,218 | \$ (18,937) | \$ 356,795 | \$ 18,835 |
| Revenue bonds payable..... | \$ 2,539,153 | \$ 295,175 | \$ (121,765) | \$ 2,712,563 | \$ 52,691 |
| Deferred amount on refunding..... | (25,213) | — | 1,730 | (23,483) | — |
| Unamortized discounts and premiums..... | 18,412 | 2,443 | (791) | 20,064 | — |
| Total revenue bonds payable..... | \$ 2,532,352 | \$ 297,618 | \$ (120,826) | \$ 2,709,144 | \$ 52,691 |
| Capital leases payable..... | \$ 44,987 | \$ 13,486 | \$ (12,404) | \$ 46,069 | \$ 6,591 |
| Compensated absences payable..... | \$ 116,602 | \$ 84,535 | \$ (73,891) | \$ 127,246 | \$ 68,112 |
| Arbitrage payable..... | \$ 7,984 | \$ — | \$ (1,643) | \$ 6,341 | \$ — |

| | Balances at January 1, 2006 | Increases | Decreases | Balances at December 31, 2006 | Amounts Due Within One Year |
|---|--------------------------------|------------|--------------|----------------------------------|-----------------------------------|
| Major Component Units: | | | | | |
| Public Service Authority | | | | | |
| Policy claims..... | \$ 2,597 | \$ 1,375 | \$ (1,570) | \$ 2,402 | \$ 2,402 |
| Revenue bonds payable..... | \$ 2,714,897 | \$ 802,375 | \$ (257,342) | \$ 3,259,930 | \$ 76,475 |
| Deferred amount on refunding..... | (239,310) | (7,054) | 21,202 | (225,162) | — |
| Unamortized discounts and premiums..... | 101,141 | 34,095 | (10,734) | 124,502 | — |
| Total revenue bonds payable..... | \$ 2,576,728 | \$ 829,416 | \$ (246,874) | \$ 3,159,270 | \$ 76,475 |
| Capital leases payable..... | \$ 11,937 | \$ — | \$ (2,041) | \$ 9,896 | \$ 2,738 |
| Compensated absences payable..... | \$ 14,224 | \$ 2,695 | \$ (1,526) | \$ 15,393 | \$ — |
| Connector 2000 Association, Inc. | | | | | |
| Revenue bonds payable..... | \$ 746,100 | \$ — | \$ — | \$ 746,100 | \$ — |
| Unamortized discounts and premiums..... | (469,513) | 12,870 | — | (456,643) | — |
| Total revenue bonds payable..... | \$ 276,587 | \$ 12,870 | \$ — | \$ 289,457 | \$ — |

| | Balances at July 1, 2006 | Increases | Decreases | Balances at June 30, 2007 | Amounts Due Within One Year |
|---|-----------------------------|-----------|------------|------------------------------|-----------------------------------|
| State Ports Authority | | | | | |
| Notes payable..... | \$ 2,874 | \$ — | \$ (445) | \$ 2,429 | \$ 445 |
| Revenue bonds payable..... | \$ 136,660 | \$ — | \$ (3,155) | \$ 133,505 | \$ 3,330 |
| Unamortized discounts and premiums..... | 739 | — | (46) | 693 | — |
| Total revenue bonds payable..... | \$ 137,399 | \$ — | \$ (3,201) | \$ 134,198 | \$ 3,330 |
| Capital leases payable..... | \$ 98 | \$ — | \$ (40) | \$ 58 | \$ 43 |
| Compensated absences payable..... | \$ 2,356 | \$ 1,969 | \$ (1,794) | \$ 2,531 | \$ 2,531 |
| Lottery Commission | | | | | |
| Notes payable..... | \$ 882 | \$ — | \$ (882) | \$ — | \$ — |
| Compensated absences payable..... | \$ 875 | \$ 466 | \$ (407) | \$ 934 | \$ 425 |

b. Short-Term Debt

The State's Higher Education Fund may issue Bond Anticipation Notes (BANS) to provide interim financing for capital projects while in the process of issuing bonds. The Public Service Authority, a major discretely presented component unit, may issue commercial paper as short-term financing for valid corporate purposes as allowed by the Authority's Board of Directors. Short-term debt for the fiscal year ended June 30, 2007, included: BANS in the Higher Education Fund, a major enterprise fund; commercial paper notes in the Public Service Authority; and letters of credit in the nonmajor enterprise funds. Short-term debt activity during the fiscal year (expressed in thousands) was as follows:

| | Balances at July 1, 2006 | Increases | Decreases | Balances at June 30, 2007 |
|--|-----------------------------|-----------|------------|------------------------------|
| Primary Government: | | | | |
| Business-type Activities | | | | |
| Revenue bond anticipation notes payable..... | \$ 6,855 | \$ 4,500 | \$ (6,855) | \$ 4,500 |
| Letter of credit..... | \$ 2,000 | \$ — | \$ (2,000) | \$ — |

| | Balances at January 1, 2006 | Increases | Decreases | Balances at December 31, 2006 |
|---------------------------------|--------------------------------|-----------|--------------|----------------------------------|
| Major Component Unit: | | | | |
| Public Service Authority | | | | |
| Commercial paper notes..... | \$ 285,449 | \$ 51,159 | \$ (141,536) | \$ 195,072 |

NOTE 14: RESERVATIONS AND DESIGNATIONS OF FUND BALANCES IN GOVERNMENTAL FUNDS

Reserved components of fund balances represent amounts in governmental funds that are legally segregated or that the State cannot appropriate. Designated portions of unreserved fund balances reflect tentative plans for future use of available financial resources.

The unreserved component of fund balance equals the total fund balance less reserved amounts.

At June 30, 2007, the following amounts of fund balance in governmental funds (expressed in thousands) were reserved:

| | General | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------------------------|---------------------------------------|---|-----------------------------------|--------------------------------|
| Fund balances reserved for: | | | | | | |
| General reserve fund..... | \$ 167,732 | \$ — | \$ — | \$ — | \$ — | \$ 167,732 |
| Inventories..... | 15,385 | 22,003 | — | 5,511 | 88 | 42,987 |
| Interfund receivables..... | 1,333 | — | 277,641 | — | 3,212 | 282,186 |
| Appropriations to be carried forward | 225,645 | — | — | — | — | 225,645 |
| Endowments | — | — | — | — | 2,386 | 2,386 |
| Long-term loans and notes receivable | 4 | 531 | 442,483 | 6,709 | 24,147 | 473,874 |
| Debt requirements..... | — | — | 1,180,967 | — | 154,066 | 1,335,033 |
| School building aid | 3,058 | — | — | — | 33,342 | 36,400 |
| Total reserved fund balances..... | \$ 413,157 | \$ 22,534 | \$ 1,901,091 | \$ 12,220 | \$ 217,241 | \$ 2,566,243 |

The following subsections contain further descriptive information regarding the reserved and designated components of fund balance.

a. Reserved

General Reserve Fund

The South Carolina Constitution requires that the State maintain a reserve to prevent deficits in the Budgetary General Fund. The Reserve is fully funded whenever it equals three percent of the Budgetary General Fund’s revenue (budgetary basis) of the previous fiscal year.

If the State withdraws funds from the Reserve to cover a year-end deficit, it must replace the funds within three years. The Constitution requires that at least one percent of the Budgetary General Fund revenue (budgetary basis) of the latest completed fiscal year, if so much is necessary, be restored each year following the deficit until full funding is achieved.

At June 30, 2007, the Reserve’s balance was \$167.732 million, the full funding amount.

Reserved for Inventories

Governmental funds reserve a portion of fund balance equal to year-end inventory balances to indicate that the funds are not available for appropriation.

Reserved for Interfund Receivables and Reserved for Long-Term Loans and Notes Receivable

Long-term loans and notes receivable and long-term interfund receivables are assets that do not represent expendable available resources. Governmental funds, therefore, reserve a corresponding portion of fund balance.

Reserved for Appropriations to be Carried Forward

The General Fund does not use encumbrance accounting. It uses the reserve for appropriations to be carried forward, however, if the General Assembly has authorized the carry-forward of General Fund appropriations to the next fiscal year.

Reserved for Endowments

This reserve recognizes restrictions on donated resources.

Reserved for Debt Requirements

When financing agreements or bond indentures require a reservation, the State records an amount as reserved for debt requirements.

Reserved for School Building Aid

If the State promises to pay a school district to build school buildings or to retire debt on such buildings, it records an amount as reserved for school building aid. The State has recorded such amounts, which are not available for appropriation, in its General Fund and its nonmajor governmental funds.

b. Designated, Reported in the General Fund

Of the total designated amount reported on the governmental funds balance sheet for the General Fund, the General Assembly designated \$111.821 million to be used in fiscal year 2007-2008 for specific capital projects.

The State also intends to use the remaining \$567.959 million of fund balance in the General Fund to pay for selected recurring and nonrecurring items in fiscal year 2007-2008.

c. Designated, Reported in Special Revenue Funds

The total designated amount reported on the governmental funds balance sheet for nonmajor special revenue funds is designated for scholarships. The amount is for the Teacher Loan Program, reported within the nonmajor governmental funds. This program makes loans to students. The State cancels 20.0% to 33.0% of the loan for each year that the borrower teaches in a critical-need area. Borrowers who do not teach in such an area, however, must repay their loans.

d. Designated, Reported in the Capital Projects Fund

The total designated amount reported on the governmental funds balance sheet for the State's Capital Projects Fund, a nonmajor governmental fund, is designated for capital expenditures.

NOTE 15: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2007 (expressed in thousands):

| <u>Funds</u> | <u>Due From</u> | <u>Due To</u> |
|--|-----------------|---------------|
| General | | |
| Departmental General Operating..... | \$ 36,461 | \$ 21,379 |
| Local Government Infrastructure..... | — | 4,806 |
| Department of Transportation Special Revenue.. | — | 12,879 |
| Nonmajor governmental funds..... | 41 | 10,093 |
| Higher Education..... | — | 3,357 |
| Unemployment Compensation..... | 3,685 | — |
| Nonmajor enterprise funds..... | 819 | — |
| Internal service..... | — | 5,260 |
| Fiduciary..... | — | 32,518 |
| | 41,006 | 90,292 |
| Departmental General Operating | | |
| General..... | 21,379 | 36,461 |
| Department of Transportation Special Revenue.. | 203 | — |
| Nonmajor governmental funds..... | 1,092 | 2,048 |
| Higher Education..... | — | 4,235 |
| Education Assistance Authority..... | — | 146 |
| Nonmajor enterprise funds..... | 76 | 127 |
| Internal service..... | 278 | 4,730 |
| Fiduciary..... | — | 14,856 |
| | 23,028 | 62,603 |
| Local Government Infrastructure | | |
| General..... | 4,806 | — |
| Department of Transportation Special Revenue.. | 8,239 | 1,000 |
| Fiduciary..... | — | 36 |
| | 13,045 | 1,036 |

| <u>Funds</u> | <u>Due From</u> | <u>Due To</u> |
|---|-----------------|---------------|
| Department of Transportation Special Revenue Fund | | |
| General..... | 12,879 | — |
| Departmental General Operating..... | — | 203 |
| Local Government Infrastructure..... | 1,000 | 8,239 |
| Nonmajor governmental funds..... | — | 3 |
| Higher Education..... | — | 33 |
| Unemployment Compensation..... | — | 1 |
| Internal service..... | — | 225 |
| Fiduciary..... | — | 5,856 |
| | <u>13,879</u> | <u>14,560</u> |
| State Tobacco Settlement | | |
| Internal service..... | — | 1 |
| Nonmajor Governmental Funds | | |
| General..... | 10,093 | 41 |
| Departmental General Operating..... | 2,048 | 1,092 |
| Department of Transportation Special Revenue..... | 3 | — |
| Nonmajor governmental funds..... | 1,365 | 1,365 |
| Higher Education..... | 50 | 41,466 |
| Nonmajor enterprise funds..... | 14 | — |
| Internal service..... | 28 | 755 |
| Fiduciary..... | — | 998 |
| | <u>13,601</u> | <u>45,717</u> |
| Higher Education | | |
| General..... | 3,357 | — |
| Departmental General Operating..... | 4,235 | — |
| Department of Transportation Special Revenue..... | 33 | — |
| Nonmajor governmental funds..... | 41,466 | 50 |
| Hospital Authority..... | 7,818 | — |
| Nonmajor enterprise funds..... | 1,853 | 9,559 |
| Internal service..... | 4 | 1,068 |
| Fiduciary..... | — | 7,454 |
| | <u>58,766</u> | <u>18,131</u> |
| Unemployment Compensation Benefits | | |
| General..... | — | 3,685 |
| Department of Transportation Special Revenue..... | 1 | — |
| | <u>1</u> | <u>3,685</u> |
| Housing Authority | | |
| Internal service..... | — | 26 |
| Medical University Hospital Authority | | |
| Higher Education..... | — | 7,818 |
| Nonmajor enterprise funds..... | 1,583 | — |
| | <u>1,583</u> | <u>7,818</u> |
| Education Assistance Authority | | |
| Departmental General Operating..... | 146 | — |
| Nonmajor Enterprise Funds | | |
| General..... | — | 819 |
| Departmental General Operating..... | 127 | 76 |
| Nonmajor governmental funds..... | — | 14 |
| Higher Education..... | 9,559 | 1,853 |
| Hospital Authority..... | — | 1,583 |
| Internal service..... | — | 235 |
| Fiduciary..... | — | 105 |
| | <u>9,686</u> | <u>4,685</u> |

| Funds | Due From | Due To |
|--|--------------------------|--------------------------|
| Internal Service | | |
| General..... | 5,260 | — |
| Departmental General Operating..... | 4,730 | 278 |
| Department of Transportation Special Revenue.. | 225 | — |
| State Tobacco Settlement..... | 1 | — |
| Nonmajor governmental funds..... | 755 | 28 |
| Higher Education..... | 1,068 | 4 |
| Housing Authority..... | 26 | — |
| Nonmajor enterprise funds..... | 235 | — |
| Internal service..... | 266 | 266 |
| Fiduciary..... | 34,258 | 1,596 |
| | <u>46,824</u> | <u>2,172</u> |
| Fiduciary | | |
| General..... | 32,518 | — |
| Departmental General Operating..... | 14,856 | — |
| Local Government Infrastructure..... | 36 | — |
| Department of Transportation Special Revenue.. | 5,856 | — |
| Nonmajor governmental funds..... | 998 | — |
| Higher Education..... | 7,454 | — |
| Nonmajor enterprise funds..... | 105 | — |
| Internal service..... | 1,596 | 34,258 |
| Fiduciary..... | 675 | 675 |
| | <u>64,094</u> | <u>34,933</u> |
| Totals..... | <u>\$ 285,659</u> | <u>\$ 285,659</u> |

Amounts due from/to funds resulted 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 | | | |
| Departmental General Operating..... | \$ 5,470 | \$ — | \$ — |
| Nonmajor governmental funds..... | 350 | — | — |
| Higher Education..... | 488 | — | 359 |
| Internal service..... | 2,896 | — | 974 |
| | <u>9,204</u> | <u>—</u> | <u>1,333</u> |
| Departmental General Operating | | | |
| General..... | — | 5,470 | — |
| Nonmajor governmental funds..... | 180 | 389 | — |
| Higher Education..... | 400 | — | — |
| Nonmajor enterprise funds..... | 125 | — | — |
| Internal service..... | — | 3,000 | — |
| | <u>705</u> | <u>8,859</u> | <u>—</u> |
| Local Government Infrastructure | | | |
| Department of Transportation Special Revenue.. | 303,241 | — | 277,641 |
| Department of Transportation Special Revenue Fund | | | |
| Local Government Infrastructure..... | — | 303,241 | — |

| Funds | Interfund Receivables | Interfund Payables | Receivables Long-term Portion |
|-------------------------------------|--------------------------|--------------------------|-------------------------------------|
| Nonmajor Governmental Funds | | | |
| General..... | — | 350 | — |
| Departmental General Operating..... | 389 | 180 | 317 |
| Nonmajor governmental funds..... | 68 | 68 | 50 |
| Higher Education..... | 2,620 | — | 2,196 |
| Internal service..... | 865 | 19,795 | 649 |
| | <u>3,942</u> | <u>20,393</u> | <u>3,212</u> |
| Higher Education | | | |
| General..... | — | 488 | — |
| Departmental General Operating..... | — | 400 | — |
| Nonmajor governmental funds..... | — | 2,620 | — |
| Nonmajor enterprise funds..... | — | 37,641 | — |
| | <u>—</u> | <u>41,149</u> | <u>—</u> |
| Nonmajor Enterprise Funds | | | |
| Departmental General Operating..... | — | 125 | — |
| Higher Education..... | 37,641 | — | — |
| Internal service..... | — | 10,289 | — |
| | <u>37,641</u> | <u>10,414</u> | <u>—</u> |
| Internal Service | | | |
| General..... | — | 2,896 | — |
| Departmental General Operating..... | 3,000 | — | 3,000 |
| Nonmajor governmental funds..... | 19,795 | 865 | 18,410 |
| Nonmajor enterprise funds..... | 10,289 | — | 10,289 |
| Internal service..... | 206 | 206 | 106 |
| | <u>33,290</u> | <u>3,967</u> | <u>31,805</u> |
| Totals..... | <u>\$ 388,023</u> | <u>\$ 388,023</u> | <u>\$ 313,991</u> |

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

- \$303.241 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.
- \$19.795 million owed by the nonmajor governmental funds to the internal service funds. The nonmajor governmental funds borrowed the money to purchase and renovate new headquarters facilities for the State Department of Public Safety.
- \$10.289 million owed by the nonmajor enterprise funds to the internal service funds. The nonmajor enterprise funds lent the money received to a county for infrastructure within a residential development.
- \$37.641 million owed by the Medical University of South Carolina reported within the Higher Education Fund, a major enterprise fund, to the nonmajor enterprise funds, in relation to internal leasing arrangements.

The following table summarizes interfund transfers during the fiscal year ended June 30, 2007 (expressed in thousands):

| Funds | Transfers In | Transfers Out |
|---|--------------|---------------|
| General Fund | | |
| Departmental General Operating..... | \$ 25,420 | \$ 118,047 |
| Local Government Infrastructure..... | — | 1,064 |
| Department of Transportation Special Revenue..... | 1,647 | 9,941 |
| State Tobacco Settlement..... | — | 180 |
| Nonmajor governmental funds..... | 318 | 142,041 |
| Higher Education..... | — | 847,624 |
| Unemployment Compensation Benefits..... | 1,850 | 2,400 |
| Housing Authority..... | — | 1,618 |
| Nonmajor enterprise funds..... | — | 2,958 |
| Internal service..... | — | 73,463 |
| Fiduciary..... | — | 2,234 |
| | 29,235 | 1,201,570 |
| Departmental General Operating | | |
| General..... | 118,047 | 25,420 |
| Local Government Infrastructure..... | 19 | — |
| Department of Transportation Special Revenue..... | 69 | — |
| State Tobacco Settlement..... | 75 | 37 |
| Nonmajor governmental funds..... | 24,655 | 23,122 |
| Higher Education..... | 18,865 | 86 |
| Housing Authority..... | 250 | — |
| Nonmajor enterprise funds..... | 452 | — |
| Internal service..... | 5,751 | 2,298 |
| | 168,183 | 50,963 |
| Local Government Infrastructure | | |
| General..... | 1,064 | — |
| Departmental General Operating..... | — | 19 |
| Department of Transportation Special Revenue..... | — | 1,000 |
| | 1,064 | 1,019 |
| Department of Transportation Special Revenue Fund | | |
| General..... | 9,941 | 1,647 |
| Departmental General Operating..... | — | 69 |
| Local Government Infrastructure..... | 1,000 | — |
| | 10,941 | 1,716 |
| State Tobacco Settlement | | |
| General..... | 180 | — |
| Departmental General Operating..... | 37 | 75 |
| Higher Education..... | 182 | 240 |
| | 399 | 315 |
| Nonmajor Governmental Funds | | |
| General..... | 142,041 | 318 |
| Departmental General Operating..... | 23,122 | 24,655 |
| Nonmajor governmental funds..... | 2,771 | 2,771 |
| Higher Education..... | 6,738 | 124,556 |
| Housing Authority..... | — | 391 |
| Nonmajor enterprise funds..... | — | 2 |
| Internal service..... | 261 | 1,730 |
| | 174,933 | 154,423 |
| Higher Education | | |
| General..... | 847,624 | — |
| Departmental General Operating..... | 86 | 18,865 |
| State Tobacco Settlement..... | 240 | 182 |
| Nonmajor governmental funds..... | 124,556 | 6,738 |
| Medical University Hospital Authority..... | 1,523 | — |
| Nonmajor enterprise funds..... | 30,656 | — |
| | 1,004,685 | 25,785 |
| Unemployment Compensation Benefits | | |
| General..... | 2,400 | 1,850 |

| <u>Funds</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|--|----------------------------|----------------------------|
| Housing Authority | | |
| General..... | 1,618 | — |
| Departmental General Operating..... | — | 250 |
| Nonmajor governmental funds..... | 391 | — |
| | <u>2,009</u> | <u>250</u> |
| Medical University Hospital Authority | | |
| Higher Education..... | — | 1,523 |
| Nonmajor enterprise funds..... | — | 688 |
| | <u>—</u> | <u>2,211</u> |
| Nonmajor Enterprise Funds | | |
| General..... | 2,958 | — |
| Departmental General Operating..... | — | 452 |
| Nonmajor governmental funds..... | 2 | — |
| Higher Education..... | — | 30,656 |
| Medical University Hospital Authority..... | 688 | — |
| | <u>3,648</u> | <u>31,108</u> |
| Internal Service | | |
| General..... | 73,463 | — |
| Departmental General Operating..... | 2,298 | 5,751 |
| Nonmajor governmental funds..... | 1,730 | 261 |
| Internal service..... | 16,790 | 16,790 |
| | <u>94,281</u> | <u>22,802</u> |
| Fiduciary | | |
| General..... | 2,234 | — |
| Fiduciary..... | 1,745 | 1,745 |
| | <u>3,979</u> | <u>1,745</u> |
| Totals..... | <u>\$ 1,495,757</u> | <u>\$ 1,495,757</u> |

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. Significant nonroutine transfers (i.e., \$5.000 million or more) that occurred during the fiscal year ended June 30, 2007, included transfers of fiscal year 2005-2006 unobligated General Fund revenue mandated by Proviso 73.14 of the 2006-2007 Appropriations Act. The most significant of these transfers included \$64.635 million to the Waste Management Fund (a non-major governmental fund), \$50.838 million to the Insurance Reserve Fund (an internal service fund), \$13.355 million to the State Accident Fund (an internal service fund), and \$9.408 million to the Public Telecommunications Fund (a non-major governmental fund).

NOTE 16: PROPRIETARY FUND REVENUES—ALLOWANCES AND DISCOUNTS

In the financial statements, the State presents its revenues net of allowances for uncollectible accounts receivable and contractual adjustments. Note 5 reports these allowances.

Scholarship allowances in the Higher Education Fund represent the sum of differences between stated charges for goods and services provided to students and amounts billed to students and/or third parties making payments on behalf of students. For the fiscal year ended June 30, 2007, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

| | Scholarship Allowances |
|---|-----------------------------------|
| Charges for services..... | \$ 305,239 |
| Operating revenues pledged for revenue bonds..... | 20,817 |
| Other operating revenues..... | 18,608 |
| Total | <u>\$ 344,664</u> |

For the fiscal year ended June 30, 2007, the State’s enterprise funds presented \$950.622 million included in net charges for services after provisions for contractual and other adjustments in the amount of \$1.050 billion and uncollectible accounts in the amount of \$119.375 million.

NOTE 17: DONOR-RESTRICTED ENDOWMENTS AND PLEDGES**a. Donor-Restricted Endowments**

The State's permanent funds (nonmajor governmental funds) and the Higher Education Fund, a major enterprise fund, maintain donor-restricted endowments. Net appreciation consists of realized and unrealized increases in the fair value of an endowment's assets over the historic dollar value of the assets.

At June 30, 2007, \$18.337 million of the amount reported as *restricted net assets, expendable for education*, represented net appreciation on investments of donor-restricted endowments available for authorization for expenditure by governing boards of the higher education institutions. In addition, \$83 thousand of the amount reported as *restricted net assets, expendable for other*, represented net appreciation on investments of donor-restricted endowments of permanent funds.

The South Carolina Uniform Management of Institutional Funds Act (Title 34, Chapter 6, of the South Carolina Code of Laws, which is referred to below as "the Act") permits an agency's/institution's governing board to authorize for expenditure all of an endowment's net appreciation, unless the applicable gift instrument indicates the donor's intention that net appreciation not be expended. The Act requires, however, that the authorized expenditure be limited to the uses and purposes for which the endowment was established and that the institution's governing board exercise ordinary business care and prudence in authorizing the expenditure of net appreciation.

Specific policies for authorizing and spending endowment investment income vary among the agencies and institutions that hold endowments. Generally, the governing boards establish these policies. Among those agencies/institutions that recorded investment income in donor-restricted endowments during the fiscal year ended June 30, 2007, the predominant policy was to authorize the spending of 4.00% to 5.00% of the fair value of total endowment assets annually.

b. Pledges

The State's Higher Education Fund, a major enterprise fund, and related blended component units reported as nonmajor enterprise funds, recognize receivables and revenues for pledges or promises of cash or other assets from nongovernmental entities when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable of collection. The financial statements report these amounts as accounts receivable. However, various benefactors have established split interest agreements with The Citadel Trust, Inc., a nonmajor enterprise fund. Among these agreements are a charitable remainder uni-trust and a charitable remainder trust. The Citadel, a higher education institution reported in the Higher Education Fund, will receive a specified portion of the assets remaining under these agreements at the benefactors' deaths. The parties who manage the assets associated with these agreements are not included within the State of South Carolina's financial reporting entity. The State's financial statements do not report these trust assets because the ultimate amounts that the State will receive were not deemed to be measurable at June 30, 2007, and the eligibility requirements for the gifts have not been met.

NOTE 18: SEGMENT INFORMATION

The Housing Authority provides low-cost housing to the State's citizens by issuing bonds/notes and by administering federal contracts and grants. The State issues various separate revenue bonds to finance activities within the Single Family Finance program of its Housing Authority Fund, a major enterprise fund. Covenants of the following revenue bonds within the Single Family Finance program require separate accounting and financial reporting: (a) Single Family, and (b) Mortgage Revenue. Investors in these bonds rely solely on the revenue generated by the individual activities for repayment. Accordingly, condensed financial statements (expressed in thousands) for these segments for the fiscal year ended June 30, 2007, are presented below:

CONDENSED STATEMENT OF NET ASSETS

| | Single Family | Mortgage Revenue |
|--|--------------------------|-----------------------------|
| Assets | | |
| Current restricted assets..... | \$ 12,613 | \$ 88,091 |
| Other current assets..... | — | 952 |
| Noncurrent restricted assets..... | 202,962 | 593,097 |
| Other assets..... | 780 | 4,988 |
| Total assets..... | <u>216,355</u> | <u>687,128</u> |
| Liabilities | | |
| Current liabilities payable from restricted assets..... | 2,658 | 37,957 |
| Other current liabilities..... | 39 | 177 |
| Noncurrent liabilities..... | <u>102,703</u> | <u>573,960</u> |
| Total liabilities..... | <u>105,400</u> | <u>612,094</u> |
| Net assets | | |
| Restricted and expendable for: | | |
| Debt service..... | 2,658 | 33,637 |
| Bond reserves..... | 3,209 | 8,331 |
| Special programs..... | <u>105,088</u> | <u>33,066</u> |
| Total net assets..... | <u>\$ 110,955</u> | <u>\$ 75,034</u> |

**CONDENSED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS**

| | Single Family | Mortgage Revenue |
|--------------------------------------|--------------------------|-----------------------------|
| Operating revenues: | | |
| Pledged revenues: | | |
| Interest on loans..... | \$ 6,556 | \$ 30,829 |
| Income on deposit..... | 2,055 | 9,362 |
| Other revenues: | | |
| Administrative fees and other..... | 39 | 234 |
| Total operating revenues..... | <u>8,650</u> | <u>40,425</u> |
| Operating expenses: | | |
| Bond issuance cost amortization..... | 65 | 687 |
| Other operating expenses..... | 5,622 | 32,706 |
| Total operating expenses..... | <u>5,687</u> | <u>33,393</u> |
| Operating income..... | <u>2,963</u> | <u>7,032</u> |
| Transfers: | | |
| Transfers in..... | 430 | — |
| Transfers out..... | <u>(2,881)</u> | <u>(4,834)</u> |
| Increase in net assets..... | 512 | 2,198 |
| Beginning net assets (restated)..... | 110,443 | 72,836 |
| Ending net assets..... | <u>\$ 110,955</u> | <u>\$ 75,034</u> |

CONDENSED STATEMENT OF CASH FLOWS

| | Single Family | Mortgage Revenue |
|--|--------------------------|-----------------------------|
| Net cash provided (used) by: | | |
| Operating activities..... | \$ 3,540 | \$ (93,780) |
| Noncapital financing activities..... | (11,107) | (11,081) |
| Investing activities..... | 2,100 | 9,761 |
| Net decrease..... | (5,467) | (95,100) |
| Beginning cash and cash equivalents (restated)..... | 50,322 | 243,329 |
| Ending cash and cash equivalents..... | \$ 44,855 | \$ 148,229 |

Because the above separately identifiable activities provide essentially similar services to the Authority's customers, they are not considered to be different activities for financial reporting purposes. Accordingly, all of the Housing Authority's activities are reported as a single fund and as a single business-type activity in the accompanying financial statements.

NOTE 19: JOINT VENTURE AND JOINT OPERATION**a. Joint Venture**

In May 1997, the Public Service Authority (the Authority), a major discretely presented component unit, along with two unrelated publicly owned electric utilities formed a wholesale power marketing joint venture called The Energy Authority (TEA). Subsequently, three additional unrelated entities joined TEA. The Authority engages in gas hedging activities through TEA to reduce the cost of fuel inventories. The Authority now has a 21% ownership interest, which it records as an equity investment. TEA provides services to its member organizations, as well as to certain non-member organizations, and allocates transaction savings and operating expenses to its member organizations pursuant to a settlement agreement.

During its fiscal year ended December 31, 2006, the Authority received distributions of \$27.420 million from TEA and recognized \$31.021 million in reductions to power costs and increases in electric revenues.

The Authority has provided certain guarantees and has pledged certain collateral to support TEA's transactions. The Authority's Board of Directors has approved the use of up to \$96.000 million to support TEA's activities.

At December 31, 2006, the Authority had a payable to TEA of \$9.700 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately \$4.200 million for power sales and sales of excess gas capacity.

Interested parties may obtain a copy of TEA's financial statements by writing to:

The Energy Authority
301 West Bay Street, Suite 2600
Jacksonville, Florida 32202

b. Joint Operation

The Summer Nuclear Station is a joint operation owned by the Public Service Authority (the Authority), a major discretely presented component unit and regulated electric utility, and the South Carolina Electric and Gas Company (SCE&G), a non-governmental electric utility. The Authority owns an undivided one-third interest in the Station while SCE&G owns an undivided two-thirds interest. SCE&G is solely responsible for the Station's design, construction, management, budgeting, operation, maintenance, and decommissioning; and the Authority is obligated to pay its ownership share of all costs relating thereto. The Authority receives one-third of the net electricity generated.

In accordance with regulatory accounting practices, the Authority reported capital assets of \$497.500 million, accumulated depreciation of \$272.000 million, and expenses of \$53.400 million, which represent its interest in this joint operation. The Summer Nuclear Station is not a separate legal entity and does not prepare separate financial statements.

The Nuclear Regulatory Commission (NRC) requires a licensee of a nuclear reactor to provide minimum financial assurance of its ability to decommission its nuclear facilities. A site-specific decommissioning study completed in 2006 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as \$178.900 million in 2006 dollars. The Authority accrues its share of the estimated decommissioning costs over the remaining life of the facility. These costs are being recovered through the Authority's rates.

To comply with the NRC regulations, the Authority established an external trust fund and has been making deposits into this fund since September 1990. In addition, the Authority established an internal decommissioning account. The Authority

makes deposits into this fund in the amount necessary to fund the difference between the 2006 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled \$128.600 million (adjusted to market) at December 31, 2006, along with future deposits into both the external and internal decommissioning accounts and investment earnings, are expected to provide sufficient funds for the Authority's share of the estimated decommissioning costs.

NOTE 20: RELATED PARTY TRANSACTIONS

These financial statements exclude certain related foundations and other organizations, including those discussed below. (See also Note 1a, Scope of Reporting Entity.)

During the fiscal year ended June 30, 2007, the Educational Television Endowment of South Carolina, Inc., disbursed \$5.509 million on behalf of the Departmental General Operating Fund, a major governmental fund, for programs, development, advertising, and other costs.

The following organizations are related to the Higher Education Fund, a major enterprise fund: the University of South Carolina Development Foundation; the University of South Carolina Business Partnership Foundation; the University of South Carolina Research Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the Lancaster County Educational Foundation, Inc.; the Clemson University Research Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the MUSC Foundation of the Medical University of South Carolina; the Medical University of South Carolina Foundation for Research Development; the Coastal Educational Foundation, Inc.; the Coastal Carolina University Student Housing Foundation; the Horry County Higher Education Commission; the College of Charleston Foundation; the Winthrop University Foundation; the Winthrop University Real Estate Foundation; the Francis Marion University Foundation; the Francis Marion University Student Housing LLC; The Citadel Foundation; The Citadel Alumni Association; The Citadel's Brigadier Foundation; South Carolina State Educational Foundation; the Lander Foundation; Aiken Technical College Foundation, Inc.; Florence-Darlington Technical College Foundation; Horry-Georgetown Technical College Foundation; Greenville Tech Foundation, Inc.; Midlands Technical College Foundation; Orangeburg-Calhoun Technical College Foundation; Piedmont Technical College Foundation; Spartanburg Technical College Foundation; Tri-County Technical College Foundation; Trident Technical College Foundation; and York Technical College Foundation. During the fiscal year ended June 30, 2007, the State entered into various transactions with these organizations. Approximate amounts within the State's Higher Education Fund that represent transactions with these related parties include: receivable from foundations—\$53.944 million; donations of cash and other assets from foundations—\$125.472 million; expenditures paid to foundations—\$3.052 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$5.022 million.

The Education Assistance Authority Fund, a major enterprise fund, has designated the South Carolina Student Loan Corporation (SLC) as the entity to administer the enterprise fund's student loan program. During the fiscal year ended June 30, 2007, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC—\$11.057 million; notes receivable from SLC—\$813.683 million; program revenue from SLC—\$37.182 million; reimbursements to SLC for administrative costs—\$5.280 million; and payable to SLC—\$37.249 million.

NOTE 21: MAJOR DISCRETELY PRESENTED COMPONENT UNITS

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

The Public Service Authority makes payments to the General Fund in lieu of taxes each year based on requirements under bond indentures. These payments totaled \$14.951 million during the Authority's fiscal year ended December 31, 2006.

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, 2007.

The South Carolina Lottery for Education Act requires the Lottery Commission to transfer all proceeds from lottery ticket sales and other revenues net of expenses to the Education Lottery Fund, a nonmajor governmental fund. The Commission transferred \$268.328 million during the fiscal year ended June 30, 2007; the Commission owed an additional \$21.848 million to the Fund at June 30, 2007.

b. Concentrations of Credit Risk

The Public Service Authority and State Ports Authority have chosen to present their statements in accordance with applicable pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. Accordingly, these component units present disclosures regarding concentrations of 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 collectibility of all accounts receivable. The Authority’s sales to its two major customers for its fiscal year ended December 31, 2006, were as follows (expressed in thousands):

| Customer | Revenue | % of Total Sales Revenue |
|--|------------|--------------------------------|
| Central Electric Power Cooperative, Inc..... | \$ 722,000 | 51.5% |
| Alumax of South Carolina, Inc..... | 147,000 | 10.5% |

No other customer accounted for more than 10.0% of the Authority’s sales.

State Ports Authority

During the fiscal year ended June 30, 2007, one customer accounted for approximately 18% of the State Ports Authority’s revenues. The Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Authority maintains reserves for potential credit losses.

c. Inequality of Due from Component Units and Due to Primary Government

Due from Component Units was \$151.448 million and Due to Primary Government was \$155.174 million, a difference of \$3.726 million. This situation occurred because the Connector 2000 Association, Inc. reports using a fiscal year ending December 31. At December 31, 2006, the Connector 2000 Association, Inc. owed the Department of Transportation Special Revenue Fund \$3.726 million for maintenance costs, which is reported as Due to Primary Government.

NOTE 22: CONTINGENCIES AND COMMITMENTS

a. Litigation

Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2007, are several that challenge the legality of certain taxes. The challenged revenues include the sales tax on diabetic supplies, allegedly exempt materials and equipment and installment contracts that subsequently became bad debts and the use of certain income tax credits. In the event of unfavorable outcomes for these cases, the State does not expect the ultimate liability to exceed \$49.3 million. Although State losses in these cases also could reduce future revenues, the preceding estimates do not include any impact on future revenues.

The South Carolina Retirement Systems has been involved in two lawsuits, which the plaintiffs assert are class action suits, involving new legislation requiring that all retirees working for a covered employer continue to pay employee contributions to the Systems. In the first suit, the plaintiffs alleged that requiring such contributions constitutes a breach of contract, an impairment of contractual rights, an unlawful taking of property and is precluded by promissory estoppel. The plaintiffs filed a motion for the case to be heard by the State Supreme Court in its original jurisdiction and the Court accepted jurisdiction. In August 2005, the Court certified a class of retirees affected by the new legislation and ordered the Systems to maintain an escrow account for the employee contributions remitted by members of the class. In May 2006, the Supreme Court ruled that the new legislation violated the contract rights of participants in the Teacher and Employee Retention Incentive Program (TERI) who began their participation in the program prior to July 1, 2005. The Court decertified the class but ordered that all contributions from these TERI participants should be refunded with interest, and that no future contributions should be collected from these participants. The Systems have refunded approximately \$38 million including \$900 thousand in interest during the fiscal years 2005-2006 and 2006-2007. The Supreme Court also remanded the question whether the Systems are liable for the plaintiffs’ attorney fees. The plaintiffs requested \$20 million in attorney’s fees and the trial court awarded approximately \$9 million in favor of the plaintiffs. The Systems and the plaintiffs have appealed. Oral arguments were held before the Supreme Court in September 2007. The Court also remanded the claims of persons who have retired but have returned to covered employment prior to July 1, 2005, for determination by the trial court, although the Court found that the statute governing retirees who have returned to work did not create a contract between the State and these members. If the retirees who have returned to covered employment were to prevail, the Systems estimate its potential loss at approximately \$20 million. Discovery regarding these issues is underway. The second suit is a putative class action case filed in August 2005, alleging the new requirement that working retirees make employee retirement contributions is

unconstitutional and illegal. If the plaintiffs were to prevail, the Systems estimate its potential loss to be approximately \$7 million in addition to the \$20 million described above in the first case. The State believes its defense is meritorious and will vigorously contest the case.

A lawsuit relating to the taxation of retirement benefits challenges the State's law imposing income taxes upon benefits paid to retired government employees by the South Carolina Retirement Systems. The State Circuit Court granted the State's motion to dismiss. The State Supreme Court also dismissed the case and required the plaintiff to pursue the claim administratively. In April 2004, the Administrative Law Court denied the petitioner's refund claim. The Circuit Court has affirmed the Administrative Law Court decision. The matter is now on appeal at the South Carolina Court of Appeals. In the event of an unfavorable outcome, the State's liability for retroactive relief could exceed \$750 million. The estimated unfavorable impact on future year revenues could be approximately \$60 million to \$70 million per year.

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 the above matters, the State's estimated liability would be approximately \$25 million.

While the State is uncertain as to the ultimate outcome of any of the above-described lawsuits, it believes its positions are meritorious and it is vigorously defending its position in each case.

The State is involved in a number of cases in which the amounts of potential losses, if any, are not presently determinable. These cases include one contending that the funding of public education in South Carolina is inequitable and inadequate. The State moved to dismiss the case, and the Circuit Court granted that motion. The plaintiffs appealed, and the State Supreme Court affirmed part of the Circuit Court's order but remanded the case to the Circuit Court for further proceedings as to the issue of alleged inadequate educational opportunity. The Court denied the plaintiffs' request to add a damage claim. The Court issued an order during December 2005 in which the Court found in favor of the State on most issues, but ruled that the State is failing to fund early childhood intervention programs adequately. Motions to alter or amend the Circuit Judge's Order were filed in July 2007, but the Court denied the motions. The plaintiffs, the House and the Senate have appealed to the Supreme Court and a briefing is to be completed in April 2008. In a second unrelated case, the plaintiffs allege that a State board's actions interfered with their businesses. The State has filed a motion for summary judgment. In the event the State loses this case, the loss amount may not be limited by the State Tort Claims Act and it may exceed the allowable reimbursement from the State's self-insurance fund. In a third unrelated case, the plaintiffs contend that a lack of funding has resulted in the unconstitutional treatment of prison inmates with mental illnesses. In the fourth unrelated case, the plaintiffs contend that a beachfront home and lot on Sullivan's Island and a condominium building on the Isle of Palms are threatened by erosion and need large sandbags to protect them temporarily until re-nourishment. The suits also challenge the constitutionality of the Beachfront Management Act and request damages.

Due to the uncertainty involving the ultimate outcome of the several previously discussed unresolved lawsuits, no provision for potential liability has been made for them in the accompanying financial statements.

Generally, liabilities recorded by the State's Insurance Reserve Fund (see Note 10a), an internal service fund, are sufficient to cover claims arising from alleged torts, up to the liability limits established by the South Carolina Tort Claims Act. Currently, except as described above, no tort claims are pending that are expected to result in any significant liability in excess of the provision for policy claims recorded by the Insurance Reserve Fund.

Major Discretely Presented Component Unit—Public Service Authority

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

Landowners located along the Santee River contend that the Authority is liable for damage to their real estate because of flooding that has occurred since the U. S. Army Corps of Engineers completed its Cooper River Rediversion Project in 1985. A 1997 trial returned a jury verdict against the Authority on certain causes of action. The Authority appealed the decision and the case was remanded to District Court. In 2006, the Corps and the Authority moved to intervene and transfer the District Court action to the Court of Federal Claims. The District Court has denied the motion and the issue is on appeal to the US Court of Appeals. No estimate of potential loss to the Authority can be made at this time. The contract between the Corps and the Authority requires that the Corps indemnify the Authority for certain claims arising out of the construction and operation of the project.

b. Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority (the Authority), a blended component unit and nonmajor governmental fund established in 2001, is a public body and an instrumentality of the State. State law transferred to the Authority all of the State's rights and interests under the Master Settlement Agreement (the MSA) and the Consent Decree and Final Judgment between all participating states and the participating tobacco manufacturers. These rights include the State of South Carolina's share of all tobacco settlement revenues (TSRs) actually received after June 30, 2001, or to be received in the future under the MSA.

The Authority issued asset-backed term bonds in 2001. The payment of such bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors, including cigarette consumption and the continued financial capability of the original participating manufacturers. Such bonds are secured by, and payable solely from, TSRs and investment earnings pledged under the bond indenture and amounts established and held in accordance with the bond indenture. The term bonds are payable only from the Authority's assets. If the Authority has no assets, it will not pay any principal or interest on the bonds. The TSRs represent the Authority's only source of funds for payments on the bonds; the Authority has no taxing power.

Various parties have instituted litigation alleging, among other things, that the MSA violates certain provisions of federal and State laws. Certain of these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. In the event of an adverse court ruling, the Authority may not have adequate financial resources to make payment on the bonds.

c. 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 such disallowances relating to the fiscal year ended June 30, 2007, or earlier years will not have a material impact on the State's financial statements.

d. Other Loan Guarantees

The South Carolina Education Assistance Authority, a major enterprise fund, guarantees student loans. At June 30, 2007, these loans totaled \$2.514 billion. The United States Department of Education reinsures 100% of losses under these guarantees for loans made prior to October 1, 1993; 98% of losses for loans made on or after October 1, 1993, but before October 1, 1998; and 95% for loans made on or after October 1, 1998. If the loan default rate exceeds 5% of the loans in repayment status, the United States Department of Education decreases the reinsurance rate. The State's default rate during the fiscal year ended June 30, 2007, was less than 1%.

The nonmajor enterprise funds guarantee a portion of a mortgage debt up to a maximum of \$1.531 million.

e. Purchase Commitments

Major Discretely Presented Component Unit—Public Service Authority

At December 31, 2006, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$1.129 billion for coal. In addition, minimum obligations under purchased power contracts were approximately \$72.975 million at December 31, 2006, with a remaining term of twenty-eight years. Also, the Authority has commitments for nuclear fuel enrichment and fabrication contracts that are contingent upon the operating life of its nuclear unit. As of December 31, 2006, these commitments totaled approximately \$64.400 million over the next eight years.

The Authority has entered into a service agreement in the approximate amount of \$90.000 million. The agreement provides a service director, initial spare parts, parts and services for specified maintenance outages, remote monitoring and diagnostics of the turbine generators, and combustion tuning for the gas turbines. In exchange for reduced pricing and added features, the contract term was extended to 2025, but can be terminated on two of the units in 2008, and on the third unit in 2013.

Major Discretely Presented Component Unit—Lottery Commission

At June 30, 2007, the Lottery Commission had a remaining commitment of \$7.425 million under a service contract with a term that extends through November 2008. The contract provides, among other things, services and equipment to operate the on-line lottery.

f. Commitments to Provide Grants and Other Financial Assistance

The South Carolina Transportation Infrastructure Bank, reported within the Local Government Infrastructure Fund (a major governmental fund), has agreements with various counties to provide financial assistance totaling \$1.734 billion for certain highway and transportation facilities projects. At June 30, 2007, the remaining commitments for these agreements totaled \$670.619 million.

At June 30, 2007, the Department of Commerce had outstanding commitments of \$105.854 million to provide funds to local governmental entities from various State governmental funds. These commitments included grants for water and wastewater infrastructure projects, airport construction projects, and rural infrastructure projects.

At June 30, 2007, the Budget and Control Board had outstanding commitments of \$65.493 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects.

The State Housing Finance and Development Authority had \$5.395 million in outstanding commitments for special initiatives under the Program Fund at June 30, 2007. The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of \$20.221 million at June 30, 2007, for affordable housing projects and developments.

g. Major Discretely Presented Component Unit—Connector 2000 Association, Inc.

During its fiscal year ended December 31, 2001, the Connector 2000 Association, Inc., a major discretely presented component unit, opened the Southern Connector toll road to public traffic and began toll collections. Since commencing operations, the Southern Connector has experienced significantly lower traffic counts than those projected during the planning phase of the project. Because the Association pledged these toll collections for debt service payments on its toll road revenue bonds, the Association's debt service capability also is affected. The Association used a portion of its debt service reserve fund to help fund interest payments during its fiscal year ended December 31, 2006. Debt service on the bonds will increase sharply beginning in January 2008 as principal begins to mature. Unless revenues increase sharply in the future, management of the Association estimates that within five years the reserve funds will be depleted and the Association will be unable to pay the principal and interest on the bonds in full. Management is investigating the possibility of restructuring its long term debt.

**REQUIRED
SUPPLEMENTARY INFORMATION—
Other than Management’s Discussion and Analysis
(Unaudited)**

REQUIRED SUPPLEMENTARY INFORMATION**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)****BUDGETARY GENERAL FUND****For the Fiscal Year Ended June 30, 2007****(Expressed in Thousands)**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance from Final Budget— Positive (Negative) |
|--|-------------------------|------------------|---|--|
| | Original | Final | | |
| Revenues: | | | | |
| Regular sources | | | | |
| Retail sales tax..... | \$ 2,495,765 | \$ 2,572,016 | \$ 2,631,222 | \$ 59,206 |
| Income tax, individual..... | 2,599,913 | 2,931,469 | 2,881,931 | (49,538) |
| Income tax, corporation..... | 222,769 | 296,556 | 261,524 | (35,032) |
| Total income and sales tax..... | 5,318,447 | 5,800,041 | 5,774,677 | (25,364) |
| Admissions tax..... | 26,415 | 25,095 | 27,765 | 2,670 |
| Aircraft tax..... | 5,368 | 4,699 | 5,904 | 1,205 |
| Alcoholic liquor tax..... | 58,014 | 53,485 | 56,066 | 2,581 |
| Bank tax..... | 30,278 | 30,443 | 25,570 | (4,873) |
| Beer and wine tax..... | 98,966 | 100,263 | 99,569 | (694) |
| Business license tax..... | 29,491 | 32,652 | 31,672 | (980) |
| Coin-operated device tax..... | 1,900 | 2,090 | 1,147 | (943) |
| Corporation license tax..... | 80,424 | 75,279 | 65,161 | (10,118) |
| Departmental revenue (primarily fees for services)..... | 44,406 | 46,025 | 44,086 | (1,939) |
| Documentary tax..... | 58,213 | 67,717 | 56,199 | (11,518) |
| Earned on investments..... | 56,600 | 116,500 | 128,756 | 12,256 |
| Electric power tax..... | 13,253 | 11,615 | 14,145 | 2,530 |
| Estate tax..... | — | — | 1,530 | 1,530 |
| Insurance tax..... | 159,208 | 159,896 | 167,499 | 7,603 |
| Motor transport fees..... | 18 | 20 | 4 | (16) |
| Motor vehicle licenses..... | 18,240 | 20,288 | 32,534 | 12,246 |
| Petroleum inspection tax..... | 2,496 | 1,788 | 1,624 | (164) |
| Private car lines tax..... | 2,482 | 3,597 | 2,918 | (679) |
| Public Service Authority..... | 14,170 | 15,402 | 15,114 | (288) |
| Retailers' license tax..... | 947 | 850 | 884 | 34 |
| Savings and loan association tax..... | 2,979 | 3,645 | 2,985 | (660) |
| Workers' compensation insurance tax..... | 15,645 | 13,602 | 14,474 | 872 |
| Total regular sources..... | 6,037,960 | 6,584,992 | 6,570,283 | (14,709) |
| Miscellaneous sources | | | | |
| Circuit and family court fines..... | 9,912 | 9,810 | 9,978 | 168 |
| Debt service reimbursement..... | 1,954 | 1,954 | 2,149 | 195 |
| Indirect cost recoveries..... | 18,053 | 18,053 | 15,736 | (2,317) |
| Mental health fees..... | 3,600 | 3,600 | 3,600 | — |
| Parole and probation supervision fees..... | 3,393 | 3,393 | 3,402 | 9 |
| Unclaimed property fund transfer..... | 10,000 | 15,000 | 15,000 | — |
| Nonrecurring revenue..... | 4,000 | 38,355 | 38,355 | — |
| Total miscellaneous sources..... | 50,912 | 90,165 | 88,220 | (1,945) |
| Total revenues..... | 6,088,872 | 6,675,157 | 6,658,503 | (16,654) |

REQUIRED SUPPLEMENTARY INFORMATION**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)**

BUDGETARY GENERAL FUND (Continued)

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance from Final Budget— Positive (Negative) |
|--|-------------------|-------------------|---|---|
| | Original | Final | | |
| Expenditures: | | | | |
| Legislative..... | \$ 40,703 | \$ 41,406 | \$ 30,931 | \$ 10,475 |
| Judicial..... | 35,865 | 36,879 | 36,631 | 248 |
| Executive and administrative..... | 262,265 | 183,399 | 159,743 | 23,656 |
| Educational..... | 3,131,335 | 3,197,204 | 3,148,094 | 49,110 |
| Health..... | 1,478,947 | 1,454,101 | 1,367,493 | 86,608 |
| Social rehabilitation services..... | 123,319 | 142,688 | 141,839 | 849 |
| Correctional and public safety..... | 517,529 | 530,090 | 518,263 | 11,827 |
| Conservation, natural resources, and development..... | 185,095 | 188,385 | 166,666 | 21,719 |
| Regulatory..... | 56,936 | 58,513 | 55,515 | 2,998 |
| Transportation..... | 9,781 | 9,781 | 1,139 | 8,642 |
| Debt service..... | 242,592 | 242,592 | 226,838 | 15,754 |
| Miscellaneous..... | 264,576 | 265,242 | 264,159 | 1,083 |
| Total expenditures..... | 6,348,943 | 6,350,280 | 6,117,311 | 232,969 |
| Excess of revenues over (under) expenditures—budgetary basis..... | (260,071) | 324,877 | 541,192 | 216,315 |
| Other financing uses— transfers out..... | (276,442) | (447,983) | (447,983) | — |
| Net increase (decrease) in fund balance— budgetary basis..... | (536,513) | (123,106) | 93,209 | 216,315 |
| Fund balance at beginning of year— budgetary basis..... | 987,772 | 987,772 | 987,772 | — |
| Fund balance at end of year—budgetary basis..... | \$ 451,259 | \$ 864,666 | \$ 1,080,981 | \$ 216,315 |

REQUIRED SUPPLEMENTARY INFORMATION
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)

OTHER BUDGETED FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance from Final Budget— Positive (Negative) |
|--|---------------------|---------------------|---|---|
| | Original | Final | | |
| Revenues: | | | | |
| Federal..... | \$ 6,465,888 | \$ 6,871,267 | \$ 5,859,567 | \$ (1,011,700) |
| Earmarked..... | 4,090,791 | 4,791,939 | 3,667,105 | (1,124,834) |
| Restricted..... | 2,557,904 | 3,013,584 | 3,024,427 | 10,843 |
| Total revenues..... | 13,114,583 | 14,676,790 | 12,551,099 | (2,125,691) |
| Expenditures: | | | | |
| Legislative..... | 2,910 | 4,101 | 3,124 | 977 |
| Judicial..... | 30,172 | 33,667 | 20,093 | 13,574 |
| Executive and administrative..... | 461,226 | 574,037 | 436,640 | 137,397 |
| Educational..... | 4,353,928 | 4,759,503 | 3,807,659 | 951,844 |
| Health..... | 5,046,237 | 5,438,179 | 4,698,594 | 739,585 |
| Social rehabilitation services..... | 1,211,505 | 1,220,258 | 1,163,207 | 57,051 |
| Correctional and public safety..... | 208,843 | 272,655 | 210,869 | 61,786 |
| Conservation, natural resources, and development..... | 294,324 | 415,555 | 321,299 | 94,256 |
| Regulatory..... | 231,870 | 364,282 | 317,845 | 46,437 |
| Transportation..... | 1,438,429 | 1,892,617 | 1,225,546 | 667,071 |
| Total expenditures..... | 13,279,444 | 14,974,854 | 12,204,876 | 2,769,978 |
| Net increase (decrease) in fund balance— budgetary basis..... | (164,861) | (298,064) | 346,223 | 644,287 |
| Fund balance at beginning of year— budgetary basis..... | 1,728,095 | 1,728,095 | 1,728,095 | — |
| Fund balance at end of year—budgetary basis..... | \$ 1,563,234 | \$ 1,430,031 | \$ 2,074,318 | \$ 644,287 |

Notes to the Required Supplementary Information--Budgetary

NOTE 1: BUDGETARY FUNDS AND PERSPECTIVE DIFFERENCES

a. Budgetary Funds

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds. These funds are general operating funds. The resources in these funds are primarily taxes. The State expends General Funds to provide traditional State government services. The General Funds column in the Appropriation Act differs somewhat from the GAAP General Fund and is referred to within these notes and in the accompanying schedule as the *Budgetary General Fund*.

Total Funds. The Total Funds column in the Appropriation Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriation Act from the Total Funds column in the Appropriation Act are referred to within these notes and in the accompanying schedules as *Other Budgeted Funds*.

b. Perspective Differences

Perspective differences exist when the structure of financial information for budgetary purposes differs from the fund structure that is defined by GAAP. Although there are some perspective differences between the Budgetary General Fund and the GAAP General Fund, those differences are *not* significant enough to prevent the State from preparing a budgetary comparison schedule for the Budgetary General Fund.

In contrast, however, there are *significant* perspective differences between the Other Budgeted Funds and the State's GAAP funds, including its major special revenue funds. These perspective differences are so significant that the State is unable to present separate budgetary comparison schedules for its major special revenue funds. Accordingly, the State instead has presented a budgetary comparison schedule for its Other Budgeted Funds in accordance with GASB Statement No. 41, *Budgetary Comparison Schedules—Perspective Differences*.

NOTE 2: ORIGINAL AND FINAL BUDGETED AMOUNTS; BASIS OF PRESENTATION

a. Budgetary General Fund

Each year, the General Assembly enacts an Appropriation Act that includes initial estimated revenue and appropriation figures for the Budgetary General Fund. The *original appropriations* presented in the accompanying schedule for the Budgetary General Fund include the amounts displayed in the Appropriation Act as well as any appropriations authorized to carry forward from the preceding fiscal year. *Original estimated revenues* in the accompanying schedule for the Budgetary General Fund include amounts displayed in Section 71 (*Revenue*) of the Appropriation Act and nonrecurring transfers from other funds that were legislatively required by various provisos within the Appropriation Act.

The accompanying schedule for the Budgetary General Fund presents a fund balance section whereas the budget document does not present fund balances; in other respects, however, the format of the accompanying schedule is substantively the same as for the legally enacted budget.

After the beginning of the fiscal year, departments and agencies may request transfers of appropriations among programs. No such transfer request, however, may exceed 20.0% of the program budget. In addition, the Budget and Control Board, composed of five key executive and legislative officials, has the authority to approve transfers of appropriations between personal service and other operating accounts.

The Appropriation Act for the 2006-2007 fiscal year directs the Budget and Control Board to reduce the Budgetary General Fund's appropriations during the year if necessary to prevent a deficit. Likewise, the State Board of Economic Advisors may approve revisions of estimated revenues for the Budgetary General Fund during the year.

b. Other Budgeted Funds

The *original appropriations* presented in the accompanying schedule for Other Budgeted Funds include the amounts displayed in the Appropriation Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classifications, and format of the appropriations section of the accompanying schedule for Other Budgeted Funds is substantively the same as for the legally enacted budget.

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds (or for Total Funds). However, Section 70 (*Recapitulation*) of the Appropriation Act includes net *source of funds* amounts (i.e., estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. The *original estimated revenue* amounts in the accompanying schedule for Other Budgeted Funds were obtained from the State Budget Office's breakdown of the source of funds amounts.

As operating conditions change, departments and agencies may request revisions of budgeted amounts in Other Budgeted Funds. Such changes require the Budget and Control Board's approval. Departments and agencies also may request revisions of estimated revenues and appropriations for permanent improvement projects. The Budget and Control Board and the Joint Bond Review Committee must approve and review those changes.

NOTE 3: LEGAL LEVEL OF BUDGETARY CONTROL

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. The State's Appropriation Act for the 2006-2007 fiscal year has approximately 2,831 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

NOTE 4: BASIS OF BUDGETING

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is required.

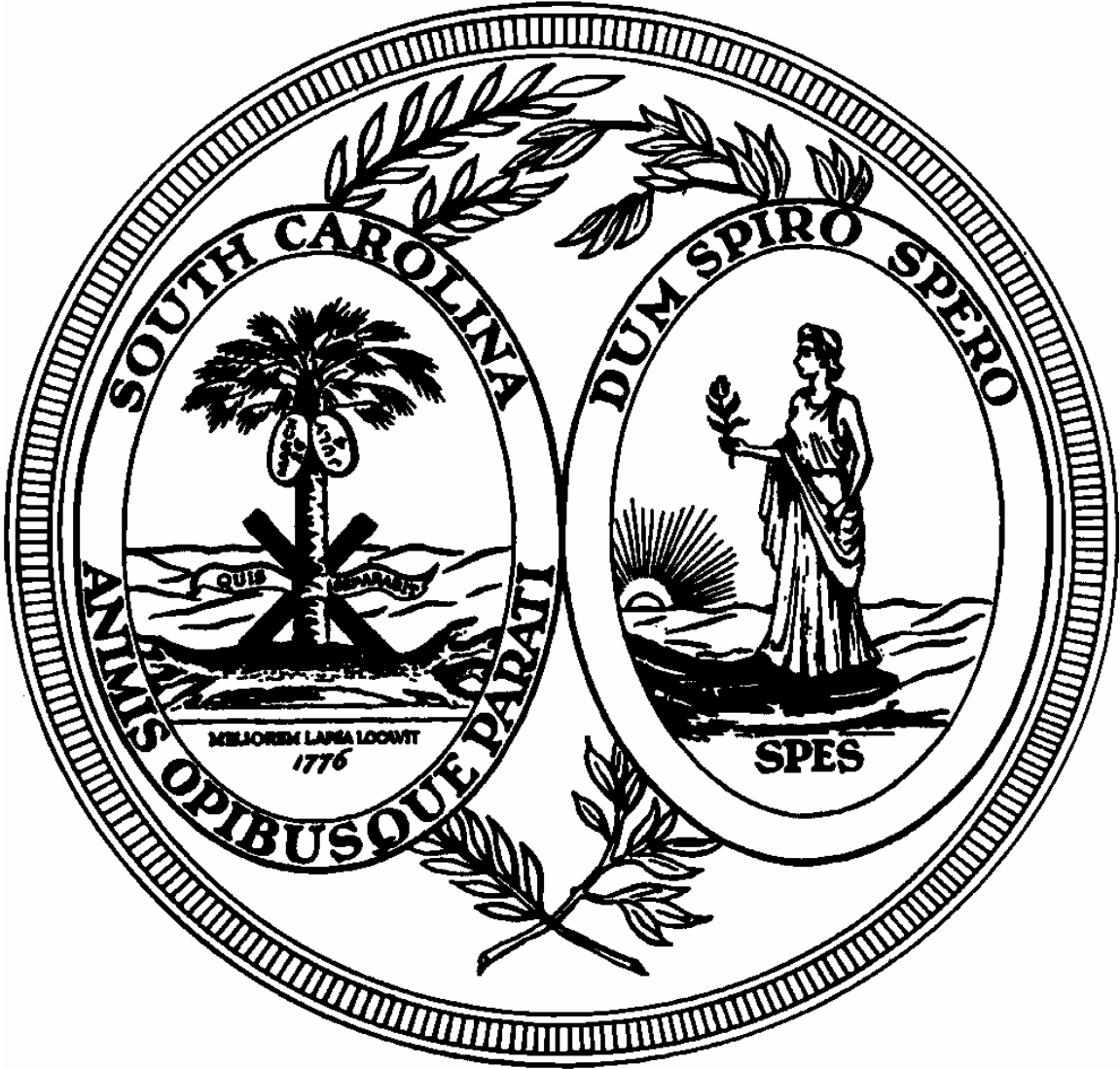
State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- (i) Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 17.
- (ii) Certain revenues collected in advance are recorded as liabilities (deferred revenues) rather than as revenues.
- (iii) The following taxes are recorded on the modified accrual basis in accordance with State law: admissions tax, alcoholic liquors tax, beer and wine tax, business license tax, documentary tax, electric power tax, gasoline and motor fuel taxes, and sales, use, and casual excise taxes.
- (iv) Certain non-cash activity, such as food stamp benefits, is recorded as revenue and expenditure in the fiscal year in which the resources are distributed to the beneficiaries.
- (v) All other revenues are recorded only when the State receives the related cash.

NOTE 5: RECONCILIATION OF BUDGET TO GAAP REPORTING DIFFERENCES

The accompanying budgetary comparison schedules compare the State’s legally adopted budget with actual data in accordance with the State’s basis of budgeting. Budgetary accounting principles, however, differ significantly from GAAP accounting principles. These different accounting principles result in basis, perspective, and entity differences in the net increase in fund balance—budgetary basis. *Basis differences* arise because the basis of budgeting differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balances—governmental funds. *Perspective differences* result because the Appropriation Act’s program-oriented structure differs from the fund structure required for GAAP. *Entity differences* arise because certain activity reported within the State’s financial reporting entity for GAAP purposes is excluded from the Appropriation Act. These differences (expressed in thousands) for the fiscal year ended June 30, 2007, were as follows:

| <i>Budgetary funds</i> | <i>Budgetary</i> | <i>Other</i> | Major Special Revenue Funds | | | |
|---|--------------------|-------------------|------------------------------------|-----------------------|-----------------------|-------------------|
| | <i>General</i> | <i>Budgeted</i> | | | | |
| | <i>Fund</i> | <i>Funds</i> | | | | |
| | | | Departmental | Local | Department of | State |
| | General | Not | General | Government | Transportation | Tobacco |
| GAAP funds | Fund | Applicable | Operating | Infrastructure | Special | Settlement |
| | | | | | Revenue | |
| Net increase in fund balance—budgetary basis | \$ 93,209 | \$ 346,223 | \$ — | \$ — | \$ — | \$ — |
| Perspective differences: | | | | | | |
| Other Budgeted Funds attributable to nonmajor governmental and other GAAP funds | — | (687,969) | — | — | — | — |
| Other Budgeted Funds attributable to major governmental GAAP funds | — | (341,746) | — | — | — | — |
| Other Budgeted Funds reclassified among the State’s major governmental GAAP funds | (44,041) | 341,746 | (23,486) | (6,847) | 72,093 | 6,758 |
| Basis of accounting differences | (76,866) | — | 24,324 | 246,010 | (62,958) | (128) |
| Entity differences | 6,790 | — | 12,532 | 45,715 | — | 8,905 |
| Net increase (decrease) in fund balance—GAAP basis | \$ (20,908) | \$ — | \$ 13,370 | \$ 284,878 | \$ 9,135 | \$ 15,535 |



**SUPPLEMENTARY
INFORMATION**

Governmental Funds

Governmental funds include the General Fund, several special revenue funds, a Capital Projects Fund, and two permanent funds. The State does not use debt service funds because it does not accumulate resources to pay future years' general long-term debt principal and interest; instead, the State finances such payments directly from the current year's resources.

This subsection of the Comprehensive Annual Financial Report provides the following supplementary information for the State's governmental funds:

- Combining Balance Sheet—Nonmajor Governmental Funds
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds
- General Reserve Fund Activity—Budgetary General Fund

Generally accepted accounting principles (GAAP) for governments require that a Comprehensive Annual Financial Report (CAFR) include budgetary comparison schedules for "individual nonmajor special revenue funds and other governmental funds of the primary government (including its blended component units)." Such schedules would be included as supplementary information in this subsection of the CAFR if they were applicable. The State of South Carolina, however, does not prepare separate budgets for its individual special revenue funds or for its other governmental funds. Accordingly, this subsection includes no budgetary comparison schedules. (Also see the budgetary comparison schedules within the Required Supplementary Information section of this report.)

Note 1b in the notes to the financial statements describes the State's major governmental funds. The paragraphs below describe all other individual governmental funds that the State uses.

a. Nonmajor Special Revenue Funds

Special revenue funds account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes. The State uses the nonmajor special revenue funds described below:

Education Improvement Act Fund. This fund accounts for the special additional 1% sales tax levied to be used exclusively for improvements in elementary and secondary education, including academic loans for future teachers.

Children's Education Endowment Fund. This fund accounts for low-level radioactive waste fees collected from the Barnwell waste facility that are not required to be deposited to the General Fund or remitted to Barnwell County. These funds are to be used for public school facilities assistance and higher education scholarship grants.

Waste Management Fund. This fund accounts for fees collected from consumers, generators of solid and hazardous wastes, and owners and operators of solid waste and hazardous waste storage facilities. These fees must be used for the purposes set forth in the State's Solid Waste Policy and Management Act of 1991 and to cover the State's costs in governmental actions involving uncontrolled hazardous waste sites.

Accommodations and Local Option Sales Tax Fund. This fund accounts for: (1) a special additional 2% sales tax on the gross proceeds on the rental of transient accommodations and (2) a special 1% sales tax applicable in some localities within the State. The State allocates these revenues to counties and municipalities in accordance with State law.

Medicaid Expansion Fund. Resources of this fund include county assessments for indigent medical care and a tax on licensed hospitals. The fund was established to provide Medicaid coverage to persons formerly ineligible for such coverage and to provide additional State matching funds for Medicaid.

Tobacco Settlement Revenue Management Authority Fund. The Tobacco Settlement Revenue Management Authority was created to issue bonds that securitized future payments received under the multi-state legal settlement with the tobacco industry. The State transferred to the Authority, from its General Fund, all of its rights to the future tobacco settlement revenues. In return, the Authority transferred part of the bond proceeds to the State Tobacco Settlement Fund.

Education Lottery Fund. State law requires the Lottery Commission, a major discretely presented component unit, to transfer all proceeds from lottery ticket sales and other revenues net of expenses to the Education Lottery Fund. The Fund distributes these monies for education purposes and programs as stipulated in State law. These programs include tuition assistance, needs-based grants, and scholarships for the State's universities and technical colleges.

Jobs–Economic Development Authority Fund. The Jobs–Economic Development Authority acts in conjunction with other organizations in the promotion and advancement of industrial, commercial, agricultural, and recreational development in the State. The Authority's emphasis is on those areas of the State with the greatest economic need and those projects providing the greatest economic benefit.

Public Telecommunications Fund. The Public Telecommunications Fund of the State's Public Service Commission accounts for revenues collected from telephone companies within the State and redistributed to certain telephone companies in an effort to align prices and cost recovery with costs. This program also is intended to ensure basic telephone service at affordable rates is available to all citizens. Other revenues of the Fund include telephone customer surcharges for the 911 emergency system mandated by the FCC. These monies are collected from the telephone companies and distributed to local governments for their 911 emergency telephone systems.

Other Special Revenue Funds. These funds, aggregated for reporting purposes, account for various other revenues that must be used for specific purposes. These include operations of various employment services, water recreation, agricultural boards, forest renewal programs, certain housing programs, medical and dental scholarships, energy-related programs, and certain programs administered by the Department of Probation, Parole, and Pardon Services.

b. Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). Capital outlays financed from general obligation bond proceeds are accounted for through the Capital Projects Fund.

c. Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the State's programs—that is, for the benefit of the State or its citizenry.

Bequests Fund. Sometimes private citizens make bequests of specific assets within their wills to the State. Typically, these gifts provide that the State may expend the earnings, but not the principal, to support certain State agencies or certain programs within a specific State agency. The Bequests Fund accounts for these funds.

Wildlife Endowment Fund. The Wildlife Endowment Fund accounts for funds received from private citizens as gifts and contributions, as well as fees for certain lifetime hunting and fishing licenses. The State may expend the earnings, but not the principal, in furthering the conservation of wildlife resources and the efficient operation of the State's Department of Natural Resources.

Combining Balance Sheet

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2007

(Expressed in Thousands)

| | | | | | | SPECIAL |
|--|--|---|-----------------------------|--|-------------------------------|--|
| | Education Improvement Act | Children's Education Endowment | Waste Management | Accommodations and Local Option Sales Tax | Medicaid Expansion | Tobacco Settlement Revenue Management Authority |
| ASSETS | | | | | | |
| Cash and cash equivalents..... | \$ 81,810 | \$ 22,987 | \$ 211,327 | \$ 101,142 | \$ 52,683 | \$ 533 |
| Invested securities lending collateral..... | 1,374 | 3,949 | 29,275 | 2,790 | 1,116 | — |
| Receivables, net: | | | | | | |
| Accounts..... | 573 | — | 563 | 1 | — | — |
| Accrued interest..... | 1,866 | 239 | 1,725 | 102 | 321 | — |
| Sales and other taxes..... | 68,164 | 17,105 | — | 60,586 | 131 | — |
| Loans and notes..... | 14,895 | — | — | — | — | — |
| Due from Federal government and other grantors..... | — | — | — | — | — | — |
| Due from other funds..... | 5,255 | — | — | 660 | — | — |
| Due from component units..... | — | — | — | — | — | — |
| Interfund receivables..... | — | — | — | — | — | — |
| Inventories..... | — | — | 88 | — | — | — |
| Restricted assets: | | | | | | |
| Cash and cash equivalents..... | — | — | — | — | — | 7 |
| Investments..... | — | — | — | — | — | 111,750 |
| Other..... | — | — | — | — | — | 42,310 |
| Total assets..... | \$ 173,937 | \$ 44,280 | \$ 242,978 | \$ 165,281 | \$ 54,251 | \$ 154,600 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable..... | \$ 29,790 | \$ — | \$ 2,605 | \$ 37 | \$ — | \$ — |
| Accrued salaries and related expenditures..... | 1,116 | — | 251 | — | — | — |
| Retainages payable..... | — | — | — | — | — | — |
| Tax refunds payable..... | 305 | — | — | 209 | — | — |
| Intergovernmental payables..... | 1,142 | — | 748 | 158,932 | — | — |
| Due to other funds..... | 1,664 | — | 148 | 241 | 17 | — |
| Interfund payables..... | 450 | — | — | — | — | — |
| Deferred revenues..... | 3,038 | — | — | 2,970 | 32,304 | — |
| Securities lending collateral..... | 1,374 | 3,949 | 29,275 | 2,790 | 1,116 | — |
| Other liabilities | 39 | — | — | — | — | — |
| Total liabilities..... | 38,918 | 3,949 | 33,027 | 165,179 | 33,437 | — |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Inventories..... | — | — | 88 | — | — | — |
| Interfund receivables..... | — | — | — | — | — | — |
| Endowments..... | — | — | — | — | — | — |
| Long-term loans and notes receivable..... | 12,885 | — | — | — | — | — |
| Debt requirements..... | — | — | — | — | — | 154,066 |
| School building aid..... | 33,342 | — | — | — | — | — |
| Unreserved: | | | | | | |
| Designated for scholarships..... | 15,717 | — | — | — | — | — |
| Designated for capital expenditures..... | — | — | — | — | — | — |
| Undesignated..... | 73,075 | 40,331 | 209,863 | 102 | 20,814 | 534 |
| Total fund balances..... | 135,019 | 40,331 | 209,951 | 102 | 20,814 | 154,600 |
| Total liabilities and fund balances..... | \$ 173,937 | \$ 44,280 | \$ 242,978 | \$ 165,281 | \$ 54,251 | \$ 154,600 |

REVENUE

PERMANENT

| Education Lottery | Jobs- Economic Development Authority | Public Tele- communi- cations | Other Special Revenue | Totals | CAPITAL PROJECTS | Bequests | Wildlife Endowment | Totals | TOTALS |
|-------------------|---|-------------------------------------|-----------------------------|---------------------|---------------------|-----------------|-----------------------|-----------------|---------------------|
| \$ 149,587 | \$ 1,021 | \$ 32,586 | \$ 95,003 | \$ 748,679 | \$ 274,533 | \$ 1,037 | \$ 2,317 | \$ 3,354 | \$ 1,026,566 |
| 21,849 | — | 3,606 | 2,688 | 66,647 | 37,790 | 13 | 77 | 90 | 104,527 |
| 30 | 17 | 1,514 | 107 | 2,805 | 31 | — | — | — | 2,836 |
| 1,680 | 4 | 233 | 223 | 6,393 | 1,469 | 8 | 20 | 28 | 7,890 |
| — | — | — | 40,977 | 186,963 | 678 | — | — | — | 187,641 |
| — | 326 | — | 11,557 | 26,778 | — | — | — | — | 26,778 |
| — | — | — | — | — | 3,569 | — | — | — | 3,569 |
| 220 | — | 1,352 | 2,099 | 9,586 | 3,941 | 73 | 1 | 74 | 13,601 |
| 21,848 | — | — | — | 21,848 | — | — | — | — | 21,848 |
| — | — | — | 3,942 | 3,942 | — | — | — | — | 3,942 |
| — | — | — | — | 88 | — | — | — | — | 88 |
| — | — | — | — | 7 | — | — | — | — | 7 |
| — | — | — | — | 111,750 | — | — | — | — | 111,750 |
| — | — | — | — | 42,310 | — | — | — | — | 42,310 |
| \$ 195,214 | \$ 1,368 | \$ 39,291 | \$ 156,596 | \$ 1,227,796 | \$ 322,011 | \$ 1,131 | \$ 2,415 | \$ 3,546 | \$ 1,553,353 |
| \$ 5,706 | \$ 1 | \$ 3,123 | \$ 1,510 | \$ 42,772 | \$ 2,029 | \$ — | \$ — | \$ — | \$ 44,801 |
| 38 | 2 | — | 617 | 2,024 | 72 | — | — | — | 2,096 |
| — | — | — | — | — | 681 | — | — | — | 681 |
| — | — | — | 2 | 516 | — | — | — | — | 516 |
| 249 | — | 11,840 | 5,975 | 178,886 | — | — | — | — | 178,886 |
| 19,145 | — | 275 | 2,967 | 24,457 | 21,260 | — | — | — | 45,717 |
| — | — | — | 80 | 530 | 19,863 | — | — | — | 20,393 |
| 16 | — | — | — | 38,328 | 182 | — | — | — | 38,510 |
| 21,849 | — | 3,606 | 2,688 | 66,647 | 37,790 | 13 | 77 | 90 | 104,527 |
| — | — | — | 582 | 621 | — | — | — | — | 621 |
| 47,003 | 3 | 18,844 | 14,421 | 354,781 | 81,877 | 13 | 77 | 90 | 436,748 |
| — | — | — | — | 88 | — | — | — | — | 88 |
| — | — | — | 3,212 | 3,212 | — | — | — | — | 3,212 |
| — | — | — | — | — | — | 527 | 1,859 | 2,386 | 2,386 |
| — | 278 | — | 10,984 | 24,147 | — | — | — | — | 24,147 |
| — | — | — | — | 154,066 | — | — | — | — | 154,066 |
| — | — | — | — | 33,342 | — | — | — | — | 33,342 |
| — | — | — | — | 15,717 | — | — | — | — | 15,717 |
| — | — | — | — | — | 240,134 | — | — | — | 240,134 |
| 148,211 | 1,087 | 20,447 | 127,979 | 642,443 | — | 591 | 479 | 1,070 | 643,513 |
| 148,211 | 1,365 | 20,447 | 142,175 | 873,015 | 240,134 | 1,118 | 2,338 | 3,456 | 1,116,605 |
| \$ 195,214 | \$ 1,368 | \$ 39,291 | \$ 156,596 | \$ 1,227,796 | \$ 322,011 | \$ 1,131 | \$ 2,415 | \$ 3,546 | \$ 1,553,353 |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | | | | | | SPECIAL |
|---|--|---|-----------------------------|--|-------------------------------|--|
| | Education Improvement Act | Children's Education Endowment | Waste Management | Accommodations and Local Option Sales Tax | Medicaid Expansion | Tobacco Settlement Revenue Management Authority |
| Revenues: | | | | | | |
| Taxes: | | | | | | |
| Retail sales and use..... | \$ 648,119 | \$ — | \$ 1,674 | \$ 481,314 | \$ — | \$ — |
| Other..... | — | 17,488 | — | — | 213,654 | — |
| Licenses, fees, and permits..... | 369 | — | 30,464 | — | — | — |
| Interest and other investment income..... | 7,335 | 1,506 | 8,969 | 526 | 2,469 | 5,001 |
| Federal..... | 29 | — | — | — | — | — |
| Local and private grants..... | — | — | — | — | — | — |
| Departmental services..... | — | — | 1,078 | — | — | — |
| Contributions..... | — | — | — | — | 260 | — |
| Fines and penalties..... | — | — | 402 | — | — | — |
| Tobacco legal settlement..... | — | — | — | — | — | 79,912 |
| Other..... | 19 | — | 303 | — | 223 | — |
| Total revenues..... | 655,871 | 18,994 | 42,890 | 481,840 | 216,606 | 84,913 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government..... | 9,717 | — | — | — | — | 91 |
| Education..... | 86,454 | 6,798 | — | — | — | — |
| Health and environment..... | 621 | — | 25,906 | — | 217,224 | — |
| Social services..... | 345 | — | — | — | — | — |
| Administration of justice..... | 1,654 | — | — | — | — | — |
| Resources and economic development..... | — | — | — | — | — | — |
| Capital outlay..... | — | — | — | — | — | — |
| Debt service: | | | | | | |
| Principal retirement..... | — | — | — | — | — | 27,145 |
| Interest and fiscal charges..... | — | — | — | — | — | 50,646 |
| Intergovernmental..... | 559,704 | 7,113 | 5,264 | 479,341 | — | — |
| Total expenditures..... | 658,495 | 13,911 | 31,170 | 479,341 | 217,224 | 77,882 |
| Excess (deficiency) of revenues over (under) expenditures..... | (2,624) | 5,083 | 11,720 | 2,499 | (618) | 7,031 |
| Other financing sources (uses): | | | | | | |
| Bonds issued..... | — | — | — | — | — | — |
| Discounts on bonds issued..... | — | — | — | — | — | — |
| Transfers in..... | 2,053 | 4,370 | 69,180 | — | — | — |
| Transfers out..... | (1,636) | — | (1,249) | (2,397) | (7) | (424) |
| Total other financing sources (uses)..... | 417 | 4,370 | 67,931 | (2,397) | (7) | (424) |
| Net change in fund balances..... | (2,207) | 9,453 | 79,651 | 102 | (625) | 6,607 |
| Fund balances at beginning of year..... | 137,226 | 30,878 | 130,300 | — | 21,439 | 147,993 |
| Fund balances at end of year..... | \$ 135,019 | \$ 40,331 | \$ 209,951 | \$ 102 | \$ 20,814 | \$ 154,600 |

REVENUE

PERMANENT

| REVENUE | | | | | PERMANENT | | | | |
|--------------------------|---|-----------------------------------|------------------------------|-------------------|-------------------------|-----------------|---------------------------|-----------------|---------------------|
| Education Lottery | Jobs– Economic Development Authority | Public Tele-communications | Other Special Revenue | Totals | CAPITAL PROJECTS | Bequests | Wildlife Endowment | Totals | TOTALS |
| \$ — | \$ — | \$ — | \$ 39,334 | \$ 1,170,441 | \$ — | \$ — | \$ — | \$ — | \$ 1,170,441 |
| — | — | — | 35,049 | 266,191 | — | — | — | — | 266,191 |
| — | — | 90,491 | 21,673 | 142,997 | — | — | 262 | 262 | 143,259 |
| 9,682 | 109 | 1,223 | 2,931 | 39,751 | 10,125 | 53 | 116 | 169 | 50,045 |
| — | — | — | 68 | 97 | 38,071 | — | — | — | 38,168 |
| 1 | — | — | — | 1 | 100 | — | — | — | 101 |
| — | 584 | 2,113 | 265 | 4,040 | 1,283 | — | — | — | 5,323 |
| 281,327 | — | — | 170 | 281,757 | 533 | — | — | — | 282,290 |
| — | — | — | 23,459 | 23,861 | — | — | — | — | 23,861 |
| — | — | — | — | 79,912 | — | — | — | — | 79,912 |
| 184 | — | — | 1,151 | 1,880 | 340 | — | — | — | 2,220 |
| 291,194 | 693 | 93,827 | 124,100 | 2,010,928 | 50,452 | 53 | 378 | 431 | 2,061,811 |
| — | — | 90,323 | 29,827 | 129,958 | — | — | — | — | 129,958 |
| 213,395 | — | — | — | 306,647 | — | 2 | — | 2 | 306,649 |
| 34 | — | — | 15 | 243,800 | — | 8 | — | 8 | 243,808 |
| — | — | — | 13,657 | 14,002 | — | — | — | — | 14,002 |
| 30 | — | — | 14,685 | 16,369 | — | — | — | — | 16,369 |
| — | 2,586 | — | 3,795 | 6,381 | — | — | — | — | 6,381 |
| — | — | — | — | — | 80,571 | — | — | — | 80,571 |
| — | — | — | — | 27,145 | — | — | — | — | 27,145 |
| — | — | — | — | 50,646 | 1,335 | — | — | — | 51,981 |
| 68,397 | — | 7,139 | 18,979 | 1,145,937 | — | — | — | — | 1,145,937 |
| 281,856 | 2,586 | 97,462 | 80,958 | 1,940,885 | 81,906 | 10 | — | 10 | 2,022,801 |
| 9,338 | (1,893) | (3,635) | 43,142 | 70,043 | (31,454) | 43 | 378 | 421 | 39,010 |
| — | — | — | 241 | 241 | 20,295 | — | — | — | 20,536 |
| — | — | — | — | — | (8) | — | — | — | (8) |
| 30 | 72 | 9,406 | 14,494 | 99,605 | 75,328 | — | — | — | 174,933 |
| (14,795) | — | (392) | (1,717) | (22,617) | (131,660) | (146) | — | (146) | (154,423) |
| (14,765) | 72 | 9,014 | 13,018 | 77,229 | (36,045) | (146) | — | (146) | 41,038 |
| (5,427) | (1,821) | 5,379 | 56,160 | 147,272 | (67,499) | (103) | 378 | 275 | 80,048 |
| 153,638 | 3,186 | 15,068 | 86,015 | 725,743 | 307,633 | 1,221 | 1,960 | 3,181 | 1,036,557 |
| \$ 148,211 | \$ 1,365 | \$ 20,447 | \$ 142,175 | \$ 873,015 | \$ 240,134 | \$ 1,118 | \$ 2,338 | \$ 3,456 | \$ 1,116,605 |

General Reserve Fund Activity

BUDGETARY GENERAL FUND Last Ten Fiscal Years

Article III, Section 36, of the South Carolina Constitution establishes requirements relating to the General Reserve Fund. The reserve primarily is designed to prevent Budgetary General Fund deficits. On November 4, 1988, a Constitutional amendment was passed, which permanently changed the funding requirement for the Reserve to three percent of the Budgetary General Fund revenue of the previous fiscal year.

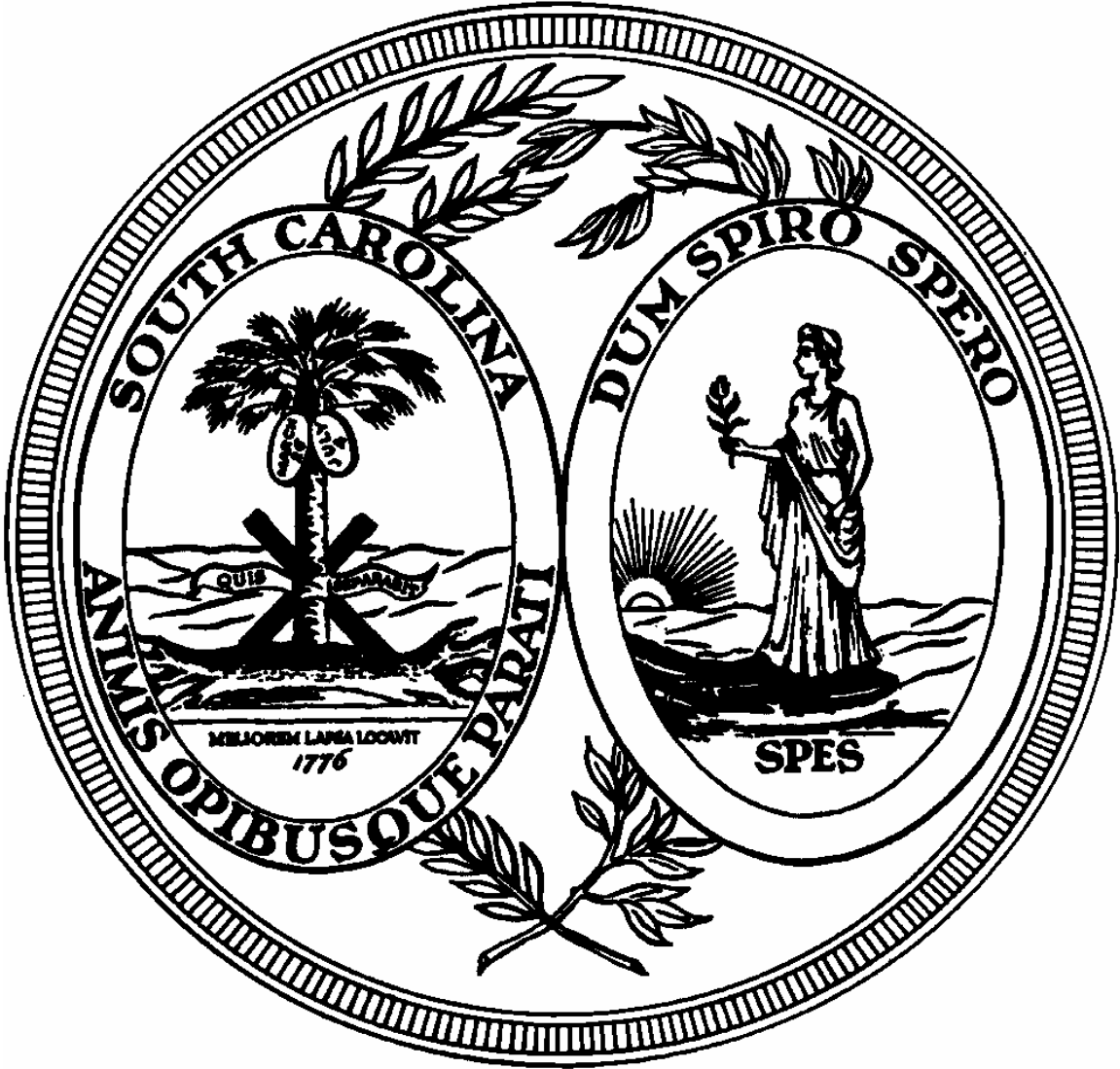
If amounts are withdrawn from the Reserve, the State Constitution requires restoration of the Reserve to full funding within three years.

Key amounts (dollars in thousands) for the General Reserve Fund for the last ten fiscal years are:

| <u>Fiscal Year Ended June 30</u> | <u>Start-of- Year Balance</u> | <u>Deposits</u> | <u>Withdrawals</u> | <u>End-of-Year Balance</u> | <u>Full-Funding Amount^a</u> | <u>Actual End-of- Year % Funded^b</u> |
|--------------------------------------|---------------------------------------|-----------------|--------------------|--------------------------------|--|---|
| 1998 | \$ 130,380 | \$ — | \$ — | \$ 130,380 | \$ 130,380 | 100% |
| 1999 | 130,380 | 7,270 | — | 137,650 | 137,650 | 100% |
| 2000 | 137,650 | 7,721 | — | 145,371 | 145,371 | 100% |
| 2001 | 145,371 | 2,545 | (87,393) | 60,523 | 147,916 | 41% |
| 2002 | 60,523 | 2,286 | (62,809) | — | 150,202 | 0% |
| 2003 | — | 38,797 | (38,797) | — | 152,410 | 0% |
| 2004 | — | 74,455 | (49,300) | 25,155 | 147,708 | 17% |
| 2005 | 25,155 | 50,000 | — | 75,155 | 149,034 | 50% |
| 2006 | 75,155 | 78,333 | — | 153,488 | 153,488 | 100% |
| 2007 | 153,488 | 14,244 | — | 167,732 | 167,732 | 100% |

^aEquals 3% of the Budgetary General Fund revenues for the previous fiscal year.

^bEquals (End-of-Year Balance/Full-Funding Amount) x 100.



Proprietary Funds

Proprietary funds include enterprise and internal service funds. This subsection of the Comprehensive Annual Financial Report provides the following supplementary information for the State's proprietary funds:

- Combining Statement of Net Assets—Nonmajor Enterprise Funds
- Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets—Nonmajor Enterprise Funds
- Combining Statement of Cash Flows—Nonmajor Enterprise Funds
- Combining Statement of Net Assets—Internal Service Funds
- Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets—Internal Service Funds
- Combining Statement of Cash Flows—Internal Service Funds

Note 1b in the notes to the financial statements describes the State's major enterprise funds. The paragraphs below describe all nonmajor enterprise funds and the internal service funds that the State uses.

a. Nonmajor Enterprise Funds

The State uses enterprise funds to report activities for which it charges fees to external users for goods or services if *any* of the following situations applies:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
- Laws or regulations require that the activity's costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues.
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The State uses the nonmajor enterprise funds described below.

Patients' Compensation Fund. This fund provides medical malpractice insurance to any public or private health care provider within the State. This fund is reported as an insurance enterprise.

Patriots Point Development Authority Fund. The Patriots Point Development Authority is responsible for developing and operating the Patriots Point area near Charleston, including a naval museum. The Authority is supported by user fees.

Second Injury Fund. This 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.

Tuition Prepayment Program Fund. This fund, previously known as the PACE program, allows contributors to make payments, under the terms of a tuition prepayment contract, to cover future undergraduate tuition expenses of a designated beneficiary at a South Carolina public higher education institution. Alternatively, the benefits of this contract can be applied toward the cost of tuition, up to the weighted average tuition at South Carolina public institutions, at any accredited college or university to which the designated beneficiary has been admitted.

The Citadel Trust, Inc., Fund. The Citadel Trust was formed for the purpose of investing funds in order to provide scholarship and other financial assistance or support to The Citadel, a higher education institution reported in the Higher Education Fund, a major enterprise fund.

University of South Carolina Trust Fund (the Trust). The Trust operates exclusively for the benefit of the University of South Carolina's School of Medicine to augment and aid education, research, and service in the field of health sciences. The University of South Carolina is a higher education institution reported in the Higher Education Fund, a major enterprise fund. The Trust's fiscal year ends December 31, and the accompanying supplementary information includes the Trust's financial information for the fiscal year ended December 31, 2006.

University Medical Associates Fund (UMA). UMA was established to promote and support educational, medical, scientific, and research purposes of the Medical University of South Carolina (MUSC), a higher education institution reported in the Higher Education Fund, a major enterprise fund. UMA promotes the recruitment and retention of superior faculty at MUSC.

Medical University Facilities Corporation Fund (MUFC). MUFC was established to obtain financing for the Medical University of South Carolina to purchase land, an office building, and a parking garage.

CHS Development Company Fund. The Company was established to provide financing for the Medical University of South Carolina by developing and leasing property.

Pharmaceutical Education and Development Foundation Fund (PEDF). PEDF promotes educational, research, clinical, and other facilities and programs of the Medical University of South Carolina's College of Pharmacy. The Medical University of South Carolina is a higher education institution reported in the Higher Education Fund, a major enterprise fund.

Enterprise Campus Authority. The Authority was established to provide for the management, development, and operation of the Enterprise Campus of Midlands Technical College. Midlands Technical College is a higher education institution reported in the Higher Education Fund, a major enterprise fund.

Other Enterprise Funds. Other enterprise activities of the State include: the Savannah Valley Development and the Public Railways Divisions of the South Carolina Department of Commerce, the Canteens Fund, operation of the Columbia Farmers' Market, and enterprise operations of the Adjutant General's Office.

b. Internal Service Funds

The State uses the internal service funds described below to report activities that provide goods or services to other State funds, departments, agencies, component units, and/or to other governments, on a cost-reimbursement basis if the State is the predominant participant in the activity. If the State is *not* the predominant participant, it reports the activity as an enterprise fund.

Insurance Reserve Fund. This is a risk management/reinsurance fund. It underwrites insurance risks on public buildings and their contents and tort liability, medical malpractice, and automobile liability for public employees. State law limits the Fund's customers to certain governmental persons/entities within the State and certain associated parties.

Employee Insurance Programs Fund. This is a risk management fund that underwrites the group health, dental, life, accidental death and dismemberment, disability, and long-term care benefits provided to State and public school employees and retirees.

State Accident Fund. This is a risk management fund that provides workers' compensation benefits predominantly to State employees. Premiums are collected from State agencies.

General Services Fund. This fund accounts for various services provided to State and local governmental units for which user fees are charged. These services include telecommunication and computer services, rental of office buildings, janitorial services, building maintenance, and procurement services.

Central Supplies and Equipment Fund. This fund sells office supplies and equipment, food, and paper products to other governmental units. It also stores food and paper products for State agencies.

Motor Pool Fund. This fund provides daily and permanent lease assignments of vehicles to State agencies. It also maintains an inventory of automotive parts to provide maintenance of these vehicles.

Pension Administration Fund. This fund administers the public employee retirement systems. Revenues of the fund primarily consist of assessments charged to the pension trust funds.

Prison Industries Fund. This fund accounts for goods produced by inmate labor. These goods are sold primarily to State agencies.

Other Internal Service Funds. These funds, aggregated for reporting purposes, account for other miscellaneous activities that meet the definition of internal service funds. Such activities include provision of training programs for State employees and work activity centers of the Vocational Rehabilitation Department.

Combining Statement of Net Assets

NONMAJOR ENTERPRISE FUNDS

June 30, 2007

(Expressed in Thousands)

| | <u>Patients'</u> <u>Compensation</u> | <u>Patriots Point</u> <u>Development</u> <u>Authority</u> | <u>Second</u> <u>Injury</u> | <u>Tuition</u> <u>Prepayment</u> <u>Program</u> | <u>The Citadel</u> <u>Trust, Inc.</u> |
|---|---|---|--------------------------------|---|--|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents..... | \$ 1,661 | \$ 3,470 | \$ 219 | \$ 138,920 | \$ 1,271 |
| Investments..... | 4,649 | — | — | — | 3,717 |
| Invested securities lending collateral..... | — | 386 | 7,898 | 18,707 | — |
| Receivables, net: | | | | | |
| Accounts..... | 1 | 461 | — | — | — |
| Contributions..... | — | — | — | — | 84 |
| Participants..... | — | — | — | 23,324 | — |
| Accrued interest..... | 63 | 10 | — | 608 | 203 |
| Patient accounts..... | — | — | — | — | — |
| Due from Federal government and other grantors..... | — | — | — | — | — |
| Due from other funds..... | — | 2 | — | — | — |
| Inventories..... | — | 293 | — | — | — |
| Restricted assets: | | | | | |
| Cash and cash equivalents..... | — | — | 51,775 | — | 1,113 |
| Investments..... | — | — | — | — | 10,195 |
| Loans receivable..... | — | — | — | — | 87 |
| Other..... | — | — | 619 | — | 144 |
| Prepaid items..... | 15 | 24 | — | — | — |
| Other current assets..... | — | — | — | — | — |
| Total current assets..... | <u>6,389</u> | <u>4,646</u> | <u>60,511</u> | <u>181,559</u> | <u>16,814</u> |
| Long-term assets: | | | | | |
| Investments..... | — | — | — | — | 3,490 |
| Receivables, net: | | | | | |
| Contributions..... | — | — | — | — | 35 |
| Participants..... | — | — | — | 12,618 | — |
| Interfund receivables..... | — | — | — | — | — |
| Restricted assets: | | | | | |
| Cash and cash equivalents..... | — | — | — | — | 3,914 |
| Investments..... | — | — | — | — | 47,565 |
| Loans receivable..... | — | — | — | — | 62 |
| Other..... | — | — | — | — | 657 |
| Prepaid items..... | — | — | — | — | — |
| Other long-term assets..... | — | — | — | — | 32 |
| Non-depreciable capital assets..... | — | 4,613 | — | — | 2,155 |
| Depreciable capital assets, net..... | — | 9,881 | 11 | — | — |
| Total long-term assets..... | <u>—</u> | <u>14,494</u> | <u>11</u> | <u>12,618</u> | <u>57,910</u> |
| Total assets..... | <u>6,389</u> | <u>19,140</u> | <u>60,522</u> | <u>194,177</u> | <u>74,724</u> |

| University of South Carolina Trust | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Enterprise Campus Authority | Other Enterprise | Totals |
|---|--------------------------------------|--|--------------------------------|------------------------------------|-------------------------|----------------|
| \$ 1,574 | \$ 21,903 | \$ — | \$ — | \$ — | \$ 34,371 | \$ 203,389 |
| 7,473 | 74,011 | — | — | — | — | 89,850 |
| — | — | — | — | — | 4,422 | 31,413 |
| 1,016 | 975 | 7 | — | — | 1,253 | 3,713 |
| — | — | — | — | — | — | 84 |
| — | — | — | — | — | — | 23,324 |
| — | — | — | — | — | 293 | 1,177 |
| 2,512 | 29,753 | — | — | — | — | 32,265 |
| — | — | — | — | — | 170 | 170 |
| — | 6,614 | 1,689 | 887 | 369 | 125 | 9,686 |
| — | — | — | — | — | 3,439 | 3,732 |
| — | — | 114 | 44 | — | 371 | 53,417 |
| — | — | 317 | — | — | — | 10,512 |
| — | — | — | — | — | — | 87 |
| — | — | — | — | — | — | 763 |
| — | 633 | — | 156 | — | 134 | 962 |
| — | 1,639 | 64 | 61 | — | — | 1,764 |
| 12,575 | 135,528 | 2,191 | 1,148 | 369 | 44,578 | 466,308 |
| — | — | — | — | — | — | 3,490 |
| — | — | — | — | — | — | 35 |
| — | — | — | — | — | — | 12,618 |
| — | — | 15,435 | 22,206 | — | — | 37,641 |
| — | 4,838 | 1,350 | 3,860 | — | — | 13,962 |
| — | 17,608 | 213 | 586 | — | — | 65,972 |
| — | — | — | — | — | 10,289 | 10,351 |
| — | — | — | — | — | — | 657 |
| — | 10,101 | — | 2,428 | — | — | 12,529 |
| — | 7,202 | 347 | 1,581 | — | — | 9,162 |
| — | — | — | — | — | 19,587 | 26,355 |
| 13,946 | 46,515 | — | — | — | 7,460 | 77,813 |
| 13,946 | 86,264 | 17,345 | 30,661 | — | 37,336 | 270,585 |
| 26,521 | 221,792 | 19,536 | 31,809 | 369 | 81,914 | 736,893 |

Continued on Next Page

Combining Statement of Net Assets

NONMAJOR ENTERPRISE FUNDS (Continued)

June 30, 2007

(Expressed in Thousands)

| | <u>Patients'</u> <u>Compensation</u> | <u>Patriots Point</u> <u>Development</u> <u>Authority</u> | <u>Second</u> <u>Injury</u> | <u>Tuition</u> <u>Prepayment</u> <u>Program</u> | <u>The Citadel</u> <u>Trust, Inc.</u> |
|--|---|---|--------------------------------|---|--|
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable..... | \$ 229 | \$ 247 | \$ 2 | \$ — | \$ 162 |
| Accrued salaries and related expenses..... | 26 | 273 | 107 | — | 6 |
| Accrued interest payable..... | — | — | — | — | — |
| Tuition benefits payable..... | — | — | — | 15,284 | — |
| Policy claims..... | 30,000 | — | — | — | — |
| Due to other funds..... | 2 | 17 | 232 | 101 | 1,826 |
| Unearned revenues..... | 12,653 | 185 | — | — | 53 |
| Securities lending collateral..... | — | 386 | 7,898 | 18,707 | — |
| Liabilities payable from restricted assets: | | | | | |
| Accrued interest payable..... | — | — | — | — | — |
| Other..... | — | — | 52,172 | — | — |
| Notes payable..... | — | — | — | — | — |
| Revenue bonds payable..... | — | — | — | — | — |
| Capital leases payable..... | — | — | — | — | — |
| Compensated absences payable..... | 3 | 254 | 86 | — | — |
| Other current liabilities | 19 | — | — | — | 8 |
| Total current liabilities..... | <u>42,932</u> | <u>1,362</u> | <u>60,497</u> | <u>34,092</u> | <u>2,055</u> |
| Long-term liabilities: | | | | | |
| Tuition benefits payable..... | — | — | — | 188,267 | — |
| Policy claims..... | 168,622 | — | — | — | — |
| Interfund payables..... | — | — | — | — | — |
| Unearned revenues..... | — | 638 | — | — | — |
| Notes payable..... | 3,000 | — | — | — | — |
| Revenue bonds payable..... | — | — | — | — | — |
| Capital leases payable..... | — | — | — | — | — |
| Compensated absences payable..... | — | — | 14 | — | — |
| Other long-term liabilities..... | — | — | — | — | 17 |
| Total long-term liabilities..... | <u>171,622</u> | <u>638</u> | <u>14</u> | <u>188,267</u> | <u>17</u> |
| Total liabilities..... | <u>214,554</u> | <u>2,000</u> | <u>60,511</u> | <u>222,359</u> | <u>2,072</u> |
| NET ASSETS (DEFICITS) | | | | | |
| Invested in capital assets, net of related debt..... | — | 14,494 | 11 | — | 2,155 |
| Restricted: | | | | | |
| Expendable: | | | | | |
| Education..... | — | — | — | — | 29,965 |
| Capital projects..... | — | — | — | — | 3,543 |
| Debt service..... | — | — | — | — | — |
| Nonexpendable: | | | | | |
| Education..... | — | — | — | — | 30,282 |
| Unrestricted..... | (208,165) | 2,646 | — | (28,182) | 6,707 |
| Total net assets (deficits)..... | <u>\$ (208,165)</u> | <u>\$ 17,140</u> | <u>\$ 11</u> | <u>\$ (28,182)</u> | <u>\$ 72,652</u> |

| <u>University of South Carolina Trust</u> | <u>University Medical Associates</u> | <u>Medical University Facilities Corporation</u> | <u>CHS Development Company</u> | <u>Enterprise Campus Authority</u> | <u>Other Enterprise</u> | <u>Totals</u> |
|---|--|--|--|--|-----------------------------|------------------|
| \$ 5,196 | \$ 2,215 | \$ 191 | \$ 731 | \$ — | \$ 1,050 | \$ 10,023 |
| 12 | 8,949 | — | — | — | 254 | 9,627 |
| — | 149 | — | — | — | — | 149 |
| — | — | — | — | — | — | 15,284 |
| — | — | — | — | — | — | 30,000 |
| — | 1,583 | — | — | — | 924 | 4,685 |
| — | — | — | — | — | 33 | 12,924 |
| — | — | — | — | — | 4,422 | 31,413 |
| — | — | — | — | — | 213 | 213 |
| — | — | — | — | — | 140 | 52,312 |
| — | 2,650 | 1,145 | 1,165 | — | — | 4,960 |
| 425 | — | 640 | — | — | — | 1,065 |
| 119 | 40 | — | — | — | — | 159 |
| 918 | 1,677 | — | — | — | 369 | 3,307 |
| — | 2,573 | — | 200 | — | — | 2,800 |
| <u>6,670</u> | <u>19,836</u> | <u>1,976</u> | <u>2,096</u> | <u>—</u> | <u>7,405</u> | <u>178,921</u> |
| — | — | — | — | — | — | 188,267 |
| — | — | — | — | — | — | 168,622 |
| — | — | — | — | — | 10,414 | 10,414 |
| — | — | — | — | — | — | 638 |
| — | 84,253 | 8,210 | 29,678 | — | — | 125,141 |
| 7,650 | — | 8,039 | — | — | — | 15,689 |
| 208 | 115 | — | — | — | — | 323 |
| — | 1,118 | — | — | — | 147 | 1,279 |
| 299 | 1,221 | — | — | — | — | 1,537 |
| <u>8,157</u> | <u>86,707</u> | <u>16,249</u> | <u>29,678</u> | <u>—</u> | <u>10,561</u> | <u>511,910</u> |
| <u>14,827</u> | <u>106,543</u> | <u>18,225</u> | <u>31,774</u> | <u>—</u> | <u>17,966</u> | <u>690,831</u> |
| 5,545 | 772 | — | — | — | 27,047 | 50,024 |
| — | — | — | — | — | — | 29,965 |
| — | — | — | — | — | — | 3,543 |
| — | 9,080 | 1,311 | 35 | — | 18 | 10,444 |
| — | — | — | — | — | — | 30,282 |
| 6,149 | 105,397 | — | — | 369 | 36,883 | (78,196) |
| <u>\$ 11,694</u> | <u>\$ 115,249</u> | <u>\$ 1,311</u> | <u>\$ 35</u> | <u>\$ 369</u> | <u>\$ 63,948</u> | <u>\$ 46,062</u> |

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

NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Patients' Compensation | Patriots Point Development Authority | Second Injury | Tuition Prepayment Program | The Citadel Trust, Inc. |
|--|---------------------------|--|------------------|----------------------------------|----------------------------|
| Operating revenues: | | | | | |
| Charges for services..... | \$ 39,313 | \$ 7,709 | \$ 1,544 | \$ — | \$ — |
| Contributions..... | — | — | — | 18,878 | — |
| Interest and other investment income..... | — | — | — | 23,157 | — |
| Operating revenues pledged for revenue bonds..... | — | — | — | — | — |
| Other operating revenues..... | — | — | 4 | — | 9,663 |
| Total operating revenues..... | 39,313 | 7,709 | 1,548 | 42,035 | 9,663 |
| Operating expenses: | | | | | |
| General operations and administration..... | 958 | 6,313 | 1,533 | — | 129 |
| Benefits and claims..... | 23,577 | — | — | — | — |
| Tuition plan disbursements..... | — | — | — | 8,100 | — |
| Depreciation and amortization..... | — | 551 | 5 | — | — |
| Other operating expenses..... | — | 197 | 15 | — | — |
| Total operating expenses..... | 24,535 | 7,061 | 1,553 | 8,100 | 129 |
| Operating income (loss)..... | 14,778 | 648 | (5) | 33,935 | 9,534 |
| Nonoperating revenues (expenses): | | | | | |
| Interest income..... | 364 | 170 | — | — | — |
| Contributions..... | — | 1,162 | — | — | 2,473 |
| Local/private grants and contracts..... | — | — | — | — | 85 |
| Interest expense..... | (274) | — | — | — | — |
| Net other nonoperating revenues (expenses)..... | — | — | — | — | 153 |
| Total nonoperating revenues (expenses)..... | 90 | 1,332 | — | — | 2,711 |
| Income (loss) before other revenues, expenses, and transfers..... | 14,868 | 1,980 | (5) | 33,935 | 12,245 |
| Capital contributions..... | — | — | — | — | — |
| Additions to endowments..... | — | — | — | — | 1,436 |
| Transfers in..... | — | — | — | — | — |
| Transfers out..... | — | — | — | (423) | (4,188) |
| Change in net assets..... | 14,868 | 1,980 | (5) | 33,512 | 9,493 |
| Net assets (deficits) at beginning of year..... | (223,033) | 15,160 | 16 | (61,694) | 63,159 |
| Net assets (deficits) at end of year..... | \$ (208,165) | \$ 17,140 | \$ 11 | \$ (28,182) | \$ 72,652 |

| University of South Carolina Trust | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Enterprise Campus Authority | Other Enterprise | Totals |
|---|--------------------------------------|--|--------------------------------|------------------------------------|-------------------------|------------------|
| \$ 25,692 | \$ 225,730 | \$ — | \$ — | \$ — | \$ 25,351 | \$ 325,339 |
| — | — | — | — | — | — | 18,878 |
| — | — | — | — | — | — | 23,157 |
| — | — | 1,116 | 1,165 | — | — | 2,281 |
| 18,645 | 10,280 | 100 | — | — | 379 | 39,071 |
| 44,337 | 236,010 | 1,216 | 1,165 | — | 25,730 | 408,726 |
| 46,236 | 180,864 | 1,002 | 1,413 | 95 | 23,386 | 261,929 |
| — | — | — | — | — | — | 23,577 |
| — | — | — | — | — | — | 8,100 |
| 1,065 | 1,611 | 64 | 217 | — | 635 | 4,148 |
| — | — | — | — | — | 7 | 219 |
| 47,301 | 182,475 | 1,066 | 1,630 | 95 | 24,028 | 297,973 |
| (2,964) | 53,535 | 150 | (465) | (95) | 1,702 | 110,753 |
| 988 | 5,540 | — | — | — | 1,854 | 8,916 |
| — | — | — | — | — | — | 3,635 |
| — | — | — | — | — | 169 | 254 |
| (402) | (5,799) | — | — | — | (606) | (7,081) |
| — | 722 | — | — | — | (2,405) | (1,530) |
| 586 | 463 | — | — | — | (988) | 4,194 |
| (2,378) | 53,998 | 150 | (465) | (95) | 714 | 114,947 |
| — | — | — | — | — | 57 | 57 |
| — | — | — | — | — | — | 1,436 |
| — | — | — | 688 | — | 2,960 | 3,648 |
| — | (26,393) | (74) | — | — | (30) | (31,108) |
| (2,378) | 27,605 | 76 | 223 | (95) | 3,701 | 88,980 |
| 14,072 | 87,644 | 1,235 | (188) | 464 | 60,247 | (42,918) |
| \$ 11,694 | \$ 115,249 | \$ 1,311 | \$ 35 | \$ 369 | \$ 63,948 | \$ 46,062 |

Combining Statement of Cash Flows

NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Patients' Compensation | Patriots Point Development Authority | Second Injury | Tuition Prepayment Program | The Citadel Trust, Inc. |
|--|---------------------------|---|------------------|----------------------------------|----------------------------|
| Cash flows from operating activities: | | | | | |
| Receipts from customers, patients, and third-party payers..... | \$ 38,692 | \$ 4,558 | \$ — | \$ (172) | \$ — |
| Assessments received..... | 1 | — | 94,207 | — | — |
| Tuition plan contributions received..... | — | — | — | 8,822 | — |
| Other operating cash receipts..... | — | 4,052 | — | — | — |
| Claims and benefits paid..... | (42,362) | — | (118,488) | — | — |
| Payments to suppliers for goods and services..... | (50) | (2,336) | — | — | (59) |
| Payments to employees..... | (332) | (3,232) | — | — | (70) |
| Other operating cash payments..... | (503) | (843) | (1,541) | (6,287) | — |
| Net cash provided by (used in) operating activities..... | (4,554) | 2,199 | (25,822) | 2,363 | (129) |
| Cash flows from noncapital financing activities: | | | | | |
| Principal payments made to other funds..... | (700) | — | — | — | — |
| Interest payments made to other funds..... | (255) | — | — | — | — |
| Proceeds from issuance of noncapital debt..... | 1,700 | — | — | — | — |
| Principal paid on noncapital debt..... | — | — | — | — | — |
| Interest payments on noncapital debt..... | — | — | — | — | — |
| Gifts and grants for other than capital purposes..... | — | — | — | — | 4,044 |
| Other cash receipts..... | — | — | — | — | 1,654 |
| Other cash payments..... | — | — | — | — | — |
| Transfers in..... | — | — | — | — | — |
| Transfers out..... | — | — | — | (423) | (4,188) |
| Net cash provided by (used in) noncapital financing activities..... | 745 | — | — | (423) | 1,510 |
| Cash flows from capital and related financing activities: | | | | | |
| Acquisition of capital assets..... | — | (2,566) | — | — | (2,155) |
| Principal paid on capital debt and lease..... | — | — | — | — | — |
| Interest payments on capital debt..... | — | — | — | — | — |
| Payment of agent and broker fees..... | — | — | — | — | — |
| Proceeds from sale of capital assets..... | — | — | — | — | — |
| Net cash used in capital and related financing activities..... | — | (2,566) | — | — | (2,155) |
| Cash flows from investing activities: | | | | | |
| Proceeds from sales and maturities of investments..... | 11,301 | — | — | — | 35,467 |
| Purchase of investments..... | (9,336) | — | — | — | (32,900) |
| Interest and dividends on investments..... | 353 | 167 | 3,985 | 23,003 | 1,366 |
| Collection of escrow payments from borrower..... | — | — | — | — | — |
| Net cash provided by (used in) investing activities..... | 2,318 | 167 | 3,985 | 23,003 | 3,933 |
| Net increase (decrease) in cash and cash equivalents..... | (1,491) | (200) | (21,837) | 24,943 | 3,159 |
| Cash and cash equivalents at beginning of year..... | 3,152 | 3,670 | 73,831 | 113,977 | 3,139 |
| Cash and cash equivalents at end of year..... | \$ 1,661 | \$ 3,470 | \$ 51,994 | \$ 138,920 | \$ 6,298 |

| University of South Carolina Trust | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Pharmaceutical Education and Development Foundation | Enterprise Campus Authority | Other Enterprise | Totals |
|------------------------------------|-------------------------------|---|-------------------------|---|-----------------------------|------------------|-------------------|
| \$ 25,577 | \$ 214,340 | \$ — | \$ — | \$ — | \$ — | \$ 26,880 | \$ 309,875 |
| — | — | — | — | — | — | — | 94,208 |
| — | — | — | — | — | — | — | 8,822 |
| 18,502 | 23,863 | — | — | — | — | 1,163 | 47,580 |
| — | — | — | — | — | — | — | (160,850) |
| (13,802) | (66,382) | — | — | — | (83) | (15,930) | (98,642) |
| (30,649) | (110,547) | — | — | — | — | (5,056) | (149,886) |
| — | (3,206) | — | — | (2) | — | (3,264) | (15,646) |
| (372) | 58,068 | — | — | (2) | (83) | 3,793 | 35,461 |
| — | — | — | — | — | — | (3,276) | (3,976) |
| — | — | — | — | — | — | (674) | (929) |
| — | — | — | — | — | — | — | 1,700 |
| — | (1,231) | (1,690) | (1,130) | — | — | — | (4,051) |
| — | (3,007) | (1,017) | — | — | — | — | (4,024) |
| — | — | — | — | — | — | — | 4,044 |
| — | — | — | — | — | — | — | 1,654 |
| — | (18) | — | — | — | — | — | (18) |
| — | — | — | 688 | — | 83 | 2,980 | 3,751 |
| — | (26,393) | (74) | — | — | — | (30) | (31,108) |
| — | (30,649) | (2,781) | (442) | — | 83 | (1,000) | (32,957) |
| (895) | (3,525) | — | (138) | — | — | (836) | (10,115) |
| (539) | (1,355) | — | — | — | — | — | (1,894) |
| (402) | (3,091) | — | (1,435) | — | — | — | (4,928) |
| — | (28) | — | — | — | — | — | (28) |
| — | 1 | — | — | — | — | — | 1 |
| (1,836) | (7,998) | — | (1,573) | — | — | (836) | (16,964) |
| 5,034 | 32,062 | 2,890 | 4,157 | — | — | — | 90,911 |
| (3,502) | (65,456) | (1,301) | (3,607) | — | — | — | (116,102) |
| 415 | 5,264 | 1,215 | 1,162 | — | — | 1,141 | 38,071 |
| — | — | — | — | — | — | 2,043 | 2,043 |
| 1,947 | (28,130) | 2,804 | 1,712 | — | — | 3,184 | 14,923 |
| (261) | (8,709) | 23 | (303) | (2) | — | 5,141 | 463 |
| 1,835 | 35,450 | 1,441 | 4,207 | 2 | — | 29,601 | 270,305 |
| \$ 1,574 | \$ 26,741 | \$ 1,464 | \$ 3,904 | \$ — | \$ — | \$ 34,742 | \$ 270,768 |

Continued on Next Page

Combining Statement of Cash Flows

NONMAJOR ENTERPRISE FUNDS (Continued)

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Patients' Compensation | Patriots Point Development Authority | Second Injury | Tuition Prepayment Program | The Citadel Trust, Inc. |
|--|---------------------------|---|--------------------|----------------------------------|----------------------------|
| Reconciliation of operating income(loss) to net cash provided by (used in) operating activities: | | | | | |
| Operating income (loss)..... | \$ 14,778 | \$ 648 | \$ (5) | \$ 33,935 | \$ 9,534 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | — | 551 | 5 | — | — |
| Provision for bad debts..... | — | — | — | — | — |
| Realized losses on investments..... | — | — | — | — | (9,663) |
| Interest and dividends on investments and interfund loans..... | — | — | — | (23,157) | — |
| Amounts received for payment of claims..... | — | — | 92,659 | — | — |
| Payment of claims..... | — | — | (118,488) | — | — |
| Other nonoperating revenues..... | — | 1,161 | — | — | — |
| Other..... | 1 | — | — | — | — |
| Effect of change in operating assets and liabilities: | | | | | |
| Accounts receivable, net..... | — | (187) | — | 131 | — |
| Receivable from participants, net..... | — | — | — | (10,187) | — |
| Due from other funds..... | — | — | — | — | — |
| Inventories..... | — | (5) | — | — | — |
| Other assets | 10 | (15) | — | — | — |
| Accounts payable..... | 58 | 92 | (5) | — | — |
| Accrued salaries and related expenses..... | (1) | 25 | 4 | 1,813 | — |
| Tuition benefits payable..... | — | — | — | (172) | — |
| Policy claims..... | (18,784) | — | — | — | — |
| Due to other funds..... | (4) | (8) | — | — | — |
| Unearned revenues | (618) | (72) | — | — | — |
| Compensated absences payable | (13) | 9 | 8 | — | — |
| Other liabilities..... | 19 | — | — | — | — |
| Net cash provided by (used in) operating activities..... | \$ (4,554) | \$ 2,199 | \$ (25,822) | \$ 2,363 | \$ (129) |
| Noncash capital, investing, and financing activities: | | | | | |
| Increase in fair value of investments..... | \$ 13 | \$ — | \$ — | \$ — | \$ 4,151 |

| University of South Carolina Trust | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Pharmaceutical Education and Development Foundation | Enterprise Campus Authority | Other Enterprise | Totals |
|------------------------------------|-------------------------------|---|-------------------------|---|-----------------------------|------------------|------------------|
| \$ (2,964) | \$ 53,535 | \$ 150 | \$ (465) | \$ — | \$ (95) | \$ 1,702 | \$ 110,753 |
| 1,065 | 1,611 | 64 | 217 | — | — | 635 | 4,148 |
| — | 36,786 | — | — | — | — | — | 36,786 |
| — | — | — | — | — | — | — | (9,663) |
| — | — | — | — | — | — | — | (23,157) |
| — | — | — | — | — | — | — | 92,659 |
| — | — | — | — | — | — | — | (118,488) |
| — | — | — | — | — | — | 1,438 | 2,599 |
| — | 1,744 | (214) | 248 | — | — | — | 1,779 |
| (258) | (38,332) | — | — | — | — | (399) | (39,045) |
| — | — | — | — | — | — | — | (10,187) |
| — | — | — | — | — | — | 13 | 13 |
| — | — | — | — | — | — | (97) | (102) |
| — | (408) | — | — | — | — | 494 | 81 |
| 1,668 | 2,750 | — | — | (2) | 12 | 514 | 5,087 |
| (9) | — | — | — | — | — | (69) | 1,763 |
| — | — | — | — | — | — | — | (172) |
| — | — | — | — | — | — | — | (18,784) |
| — | — | — | — | — | — | (483) | (495) |
| — | — | — | — | — | — | — | (690) |
| 103 | 221 | — | — | — | — | 45 | 373 |
| 23 | 161 | — | — | — | — | — | 203 |
| <u>\$ (372)</u> | <u>\$ 58,068</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ (2)</u> | <u>\$ (83)</u> | <u>\$ 3,793</u> | <u>\$ 35,461</u> |
| <u>\$ 573</u> | <u>\$ 292</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 5,029</u> |

Combining Statement of Net Assets

INTERNAL SERVICE FUNDS

June 30, 2007

(Expressed in Thousands)

| | <u>Insurance Reserve</u> | <u>Employee Insurance Programs</u> | <u>State Accident Fund</u> | <u>General Services</u> | <u>Central Supplies and Equipment</u> |
|---|------------------------------|--|------------------------------------|-----------------------------|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents..... | \$ 65,171 | \$ 418,269 | \$ 65,018 | \$ 53,776 | \$ 668 |
| Invested securities lending collateral..... | 36,294 | 61,493 | 9,186 | 258 | — |
| Receivables, net: | | | | | |
| Accounts | 15,100 | 24,318 | 77,969 | 571 | 6 |
| Accrued interest..... | 3,453 | 275 | 511 | 29 | — |
| Due from other funds..... | 24 | 34,653 | 377 | 7,629 | 640 |
| Due from component units..... | — | — | — | 7 | — |
| Inventories..... | — | — | — | 1,049 | 1,813 |
| Prepaid items..... | 16,912 | — | 14 | — | — |
| Total current assets..... | <u>136,954</u> | <u>539,008</u> | <u>153,075</u> | <u>63,319</u> | <u>3,127</u> |
| Long-term assets: | | | | | |
| Investments..... | 311,048 | 10,968 | 660 | — | — |
| Accounts receivable, net..... | — | — | 118 | — | — |
| Interfund receivables..... | 12,495 | — | — | 19,795 | — |
| Deferred charges..... | — | — | — | 125 | — |
| Non-depreciable capital assets..... | — | — | — | 6,297 | — |
| Depreciable capital assets, net..... | 185 | 135 | 120 | 111,519 | 7 |
| Total long-term assets..... | <u>323,728</u> | <u>11,103</u> | <u>898</u> | <u>137,736</u> | <u>7</u> |
| Total assets..... | <u>460,682</u> | <u>550,111</u> | <u>153,973</u> | <u>201,055</u> | <u>3,134</u> |

| <u>Motor Pool</u> | <u>Pension Administration</u> | <u>Prison Industries</u> | <u>Other Internal Service</u> | <u>Totals</u> |
|----------------------|-------------------------------|--------------------------|-------------------------------|-------------------------|
| \$ 10,259 | \$ 1,585 | \$ 3,607 | \$ 555 | \$ 618,908 |
| — | 215 | — | — | 107,446 |
| 551 | — | 3,341 | — | 121,856 |
| — | 30 | — | — | 4,298 |
| 2,527 | — | 937 | 37 | 46,824 |
| 1 | — | — | — | 8 |
| 18 | — | 5,228 | — | 8,108 |
| — | — | — | — | 16,926 |
| <u>13,356</u> | <u>1,830</u> | <u>13,113</u> | <u>592</u> | <u>924,374</u> |
| — | — | — | — | 322,676 |
| — | — | — | — | 118 |
| 1,000 | — | — | — | 33,290 |
| — | — | — | — | 125 |
| — | — | — | — | 6,297 |
| <u>20,853</u> | <u>476</u> | <u>6,127</u> | <u>—</u> | <u>139,422</u> |
| <u>21,853</u> | <u>476</u> | <u>6,127</u> | <u>—</u> | <u>501,928</u> |
| <u>35,209</u> | <u>2,306</u> | <u>19,240</u> | <u>592</u> | <u>1,426,302</u> |

Combining Statement of Net Assets

INTERNAL SERVICE FUNDS (Continued)

June 30, 2007

(Expressed in Thousands)

| | <u>Insurance Reserve</u> | <u>Employee Insurance Programs</u> | <u>State Accident Fund</u> | <u>General Services</u> | <u>Central Supplies and Equipment</u> |
|--|------------------------------|--|------------------------------------|-----------------------------|---|
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable..... | \$ 364 | \$ 430 | \$ 718 | \$ 6,725 | \$ 419 |
| Accrued salaries and related expenses..... | 294 | 418 | 299 | 1,622 | — |
| Accrued interest payable..... | — | — | — | 664 | — |
| Retainages payable..... | — | — | — | 13 | — |
| Policy claims..... | 201,183 | 198,778 | 63,913 | — | — |
| Due to other funds..... | 8 | 296 | 5 | 916 | 9 |
| Unearned revenues..... | 57,790 | 4,359 | 84,758 | — | — |
| Securities lending collateral..... | 36,294 | 61,493 | 9,186 | 258 | — |
| Notes payable..... | — | — | — | 1,709 | — |
| Revenue bonds payable..... | — | — | — | 1,385 | — |
| Limited obligation bonds payable..... | — | — | — | 1,640 | — |
| Capital leases payable..... | — | — | — | 238 | — |
| Compensated absences payable..... | 248 | 385 | 253 | 1,694 | — |
| Other current liabilities..... | — | — | 6,455 | — | — |
| Total current liabilities..... | <u>296,181</u> | <u>266,159</u> | <u>165,587</u> | <u>16,864</u> | <u>428</u> |
| Long-term liabilities: | | | | | |
| Policy claims..... | — | — | 95,279 | — | — |
| Interfund payables..... | — | — | — | 2,962 | 1,005 |
| Notes payable..... | — | — | — | 5,174 | — |
| Revenue bonds payable..... | — | — | — | 19,372 | — |
| Limited obligation bonds payable..... | — | — | — | 9,345 | — |
| Capital leases payable..... | — | — | — | — | — |
| Compensated absences payable..... | 135 | 194 | 117 | 1,392 | — |
| Total long-term liabilities..... | <u>135</u> | <u>194</u> | <u>95,396</u> | <u>38,245</u> | <u>1,005</u> |
| Total liabilities..... | <u>296,316</u> | <u>266,353</u> | <u>260,983</u> | <u>55,109</u> | <u>1,433</u> |
| NET ASSETS (DEFICITS) | | | | | |
| Invested in capital assets, net of related debt..... | 184 | 135 | 120 | 80,565 | 7 |
| Restricted: | | | | | |
| Expendable: | | | | | |
| Loan programs..... | 20,000 | — | — | — | — |
| Insurance programs..... | 144,182 | 283,623 | — | — | — |
| Unrestricted..... | — | — | (107,130) | 65,381 | 1,694 |
| Total net assets (deficits)..... | <u>\$ 164,366</u> | <u>\$ 283,758</u> | <u>\$ (107,010)</u> | <u>\$ 145,946</u> | <u>\$ 1,701</u> |

| <u>Motor Pool</u> | <u>Pension Administration</u> | <u>Prison Industries</u> | <u>Other Internal Service</u> | <u>Totals</u> |
|-------------------------|-------------------------------|--------------------------|-------------------------------|--------------------------|
| \$ 3,517 | \$ 677 | \$ 672 | \$ — | \$ 13,522 |
| 78 | 658 | 956 | 10 | 4,335 |
| 40 | — | — | — | 704 |
| — | — | — | — | 13 |
| — | — | — | — | 463,874 |
| 37 | 406 | 490 | 5 | 2,172 |
| — | — | — | — | 146,907 |
| — | 215 | — | — | 107,446 |
| 1,537 | — | — | — | 3,246 |
| — | — | — | — | 1,385 |
| — | — | — | — | 1,640 |
| — | — | 131 | — | 369 |
| 90 | 677 | 344 | 9 | 3,700 |
| — | — | — | — | 6,455 |
| <u>5,299</u> | <u>2,633</u> | <u>2,593</u> | <u>24</u> | <u>755,768</u> |
| — | — | — | — | 95,279 |
| — | — | — | — | 3,967 |
| 4,985 | — | — | — | 10,159 |
| — | — | — | — | 19,372 |
| — | — | — | — | 9,345 |
| — | — | 191 | — | 191 |
| 74 | 556 | 283 | 8 | 2,759 |
| <u>5,059</u> | <u>556</u> | <u>474</u> | <u>8</u> | <u>141,072</u> |
| <u>10,358</u> | <u>3,189</u> | <u>3,067</u> | <u>32</u> | <u>896,840</u> |
| 15,023 | 476 | 5,805 | — | 102,315 |
| — | — | — | — | 20,000 |
| — | — | — | — | 427,805 |
| 9,828 | (1,359) | 10,368 | 560 | (20,658) |
| <u>\$ 24,851</u> | <u>\$ (883)</u> | <u>\$ 16,173</u> | <u>\$ 560</u> | <u>\$ 529,462</u> |

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

INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

| | Insurance Reserve | Employee Insurance Programs | State Accident Fund | General Services | Central Supplies and Equipment |
|---|----------------------|-----------------------------------|---------------------------|---------------------|---|
| Operating revenues: | | | | | |
| Charges for services..... | \$ 98,611 | \$ 1,490,538 | \$ 87,678 | \$ 81,817 | \$ 10,457 |
| Interest and other investment income..... | — | — | — | 959 | — |
| Licenses, fees, and permits..... | — | — | — | 5 | — |
| Other operating revenues..... | — | 78,463 | — | — | — |
| Total operating revenues..... | 98,611 | 1,569,001 | 87,678 | 82,781 | 10,457 |
| Operating expenses: | | | | | |
| General operations and administration..... | 58,287 | 141,166 | 4,972 | 67,337 | 10,658 |
| Benefits and claims..... | 20,518 | 1,329,600 | 88,981 | — | — |
| Interest..... | — | — | — | 9 | — |
| Depreciation and amortization..... | 52 | 40 | 107 | 8,139 | 5 |
| Other operating expenses..... | — | — | 4,800 | 787 | 14 |
| Total operating expenses..... | 78,857 | 1,470,806 | 98,860 | 76,272 | 10,677 |
| Operating income (loss)..... | 19,754 | 98,195 | (11,182) | 6,509 | (220) |
| Nonoperating revenues (expenses): | | | | | |
| Interest income..... | 17,204 | 22,826 | 2,940 | 349 | — |
| Interest expense..... | — | — | — | (1,856) | — |
| Net other nonoperating revenues (expenses)..... | — | — | 613 | 117 | — |
| Total nonoperating revenues (expenses)..... | 17,204 | 22,826 | 3,553 | (1,390) | — |
| Income (loss) before other revenues and transfers..... | 36,958 | 121,021 | (7,629) | 5,119 | (220) |
| Capital contributions..... | — | — | — | 48 | — |
| Transfers in..... | 50,840 | 4,103 | 13,377 | 14,119 | 400 |
| Transfers out..... | (442) | (370) | — | (11,407) | — |
| Change in net assets..... | 87,356 | 124,754 | 5,748 | 7,879 | 180 |
| Net assets (deficits) at beginning of year (restated)..... | 77,010 | 159,004 | (112,758) | 138,067 | 1,521 |
| Net assets (deficits) at end of year..... | \$ 164,366 | \$ 283,758 | \$ (107,010) | \$ 145,946 | \$ 1,701 |

| Motor Pool | Pension Administration | Prison Industries | Other Internal Service | Totals |
|-------------------|-------------------------------|--------------------------|-------------------------------|-------------------|
| \$ 22,527 | \$ 19,027 | \$ 28,149 | \$ 397 | \$ 1,839,201 |
| — | — | — | — | 959 |
| — | — | — | — | 5 |
| — | — | — | — | 78,463 |
| 22,527 | 19,027 | 28,149 | 397 | 1,918,628 |
| 15,790 | 18,703 | 27,295 | 224 | 344,432 |
| — | — | — | — | 1,439,099 |
| — | — | — | — | 9 |
| 5,015 | 242 | 408 | — | 14,008 |
| — | 113 | 1 | — | 5,715 |
| 20,805 | 19,058 | 27,704 | 224 | 1,803,263 |
| 1,722 | (31) | 445 | 173 | 115,365 |
| — | 189 | — | — | 43,508 |
| (308) | — | — | — | (2,164) |
| 256 | 174 | (950) | — | 210 |
| (52) | 363 | (950) | — | 41,554 |
| 1,670 | 332 | (505) | 173 | 156,919 |
| — | — | 50 | — | 98 |
| 11,439 | 3 | — | — | 94,281 |
| (10,128) | (445) | — | (10) | (22,802) |
| 2,981 | (110) | (455) | 163 | 228,496 |
| 21,870 | (773) | 16,628 | 397 | 300,966 |
| \$ 24,851 | \$ (883) | \$ 16,173 | \$ 560 | \$ 529,462 |

Combining Statement of Cash Flows

INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Insurance Reserve | Employee Insurance Programs | State Accident Fund | General Services |
|--|----------------------|-----------------------------------|---------------------------|---------------------|
| Cash flows from operating activities: | | | | |
| Receipts from customers..... | \$ 65,118 | \$ 1,253,526 | \$ 18,032 | \$ — |
| Internal activity—payments from other funds..... | 41,011 | 249,324 | 71,068 | 81,676 |
| Other operating cash receipts..... | — | 52,165 | 14,575 | — |
| Claims paid..... | (27,367) | (1,327,461) | (64,078) | — |
| Payments to suppliers for goods and services..... | (62,482) | (131,688) | (5,328) | (28,050) |
| Payments to employees..... | (3,314) | (5,555) | (3,870) | (30,645) |
| Internal activity—payments to other funds..... | (459) | (678) | (7,311) | (1,160) |
| Other operating cash payments..... | — | — | — | (327) |
| Net cash provided by (used in) operating activities..... | 12,507 | 89,633 | 23,088 | 21,494 |
| Cash flows from noncapital financing activities: | | | | |
| Principal payments received from other funds..... | 3,371 | — | — | — |
| Principal payments made to other funds..... | — | — | — | (196) |
| Receipt of interest from other funds..... | (755) | — | — | — |
| Loans received from other funds..... | — | — | — | — |
| Transfers in..... | 50,840 | 4,103 | 13,377 | 14,119 |
| Transfers out..... | (442) | (370) | — | (11,407) |
| Net cash provided by (used in) noncapital financing activities..... | 53,014 | 3,733 | 13,377 | 2,516 |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition of capital assets..... | (6) | — | (81) | (4,108) |
| Principal payments on limited obligation bonds..... | — | — | — | (4,320) |
| Proceeds from issuance of capital debt..... | — | — | — | 1,385 |
| Principal paid on capital debt and lease..... | — | — | — | (11,638) |
| Proceeds from sale or disposal of capital assets..... | — | — | — | — |
| Net cash used in capital financing activities..... | (6) | — | (81) | (18,681) |
| Cash flows from investing activities: | | | | |
| Proceeds from sales and maturities of investments..... | 225,751 | 4,261 | — | — |
| Purchase of investments..... | (364,241) | (1,996) | — | — |
| Interest on investments..... | 33,777 | 22,908 | 2,667 | 1,243 |
| Net cash provided by (used in) investing activities..... | (104,713) | 25,173 | 2,667 | 1,243 |
| Net increase (decrease) in cash and cash equivalents..... | (39,198) | 118,539 | 39,051 | 6,572 |
| Cash and cash equivalents at beginning of year (restated)..... | 104,369 | 299,730 | 25,967 | 47,204 |
| Cash and cash equivalents at end of year..... | \$ 65,171 | \$ 418,269 | \$ 65,018 | \$ 53,776 |

| <u>Central Supplies and Equipment</u> | <u>Motor Pool</u> | <u>Pension Adminis- tration</u> | <u>Prison Industries</u> | <u>Other Internal Service</u> | <u>Totals</u> |
|---|-----------------------|---|------------------------------|---------------------------------------|-------------------|
| \$ — | \$ — | \$ — | \$ 29,179 | \$ 397 | \$ 1,366,252 |
| 10,458 | 22,352 | 19,013 | — | — | 494,902 |
| — | 313 | 238 | 74 | — | 67,365 |
| — | — | — | — | — | (1,418,906) |
| (10,840) | (12,728) | (5,155) | (13,418) | (39) | (269,728) |
| — | (1,540) | (11,393) | (17,082) | (209) | (73,608) |
| — | (388) | (1,834) | (14) | — | (11,844) |
| — | — | — | — | — | (327) |
| (382) | 8,009 | 869 | (1,261) | 149 | 154,106 |
| — | — | — | — | — | 3,371 |
| — | — | — | — | — | (196) |
| — | — | — | — | — | (755) |
| 505 | 6,522 | — | — | — | 7,027 |
| 400 | 11,439 | 3 | — | — | 94,281 |
| — | (10,128) | (445) | — | (10) | (22,802) |
| 905 | 7,833 | (442) | — | (10) | 80,926 |
| — | (12,870) | (220) | (190) | — | (17,475) |
| — | — | — | — | — | (4,320) |
| — | — | — | — | — | 1,385 |
| — | — | — | (131) | — | (11,769) |
| — | 819 | — | — | — | 819 |
| — | (12,051) | (220) | (321) | — | (31,360) |
| — | — | — | — | — | 230,012 |
| — | — | — | — | — | (366,237) |
| — | — | 189 | — | — | 60,784 |
| — | — | 189 | — | — | (75,441) |
| 523 | 3,791 | 396 | (1,582) | 139 | 128,231 |
| 145 | 6,468 | 1,189 | 5,189 | 416 | 490,677 |
| \$ 668 | \$ 10,259 | \$ 1,585 | \$ 3,607 | \$ 555 | \$ 618,908 |

Continued on Next Page

Combining Statement of Cash Flows

INTERNAL SERVICE FUNDS (Continued)

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | <u>Insurance Reserve</u> | <u>Employee Insurance Programs</u> | <u>State Accident Fund</u> | <u>General Services</u> |
|--|------------------------------|--|------------------------------------|-----------------------------|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss)..... | \$ 19,754 | \$ 98,195 | \$ (11,182) | \$ 6,509 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization..... | 52 | 40 | 107 | 8,139 |
| Other nonoperating revenues..... | — | — | 529 | 1,191 |
| Other nonoperating expenses..... | — | — | — | (895) |
| Effect of change in operating assets and liabilities: | | | | |
| Accounts receivable, net..... | 9,396 | (4,522) | (6,260) | (184) |
| Accrued interest..... | — | — | — | 28 |
| Due from other funds | — | (4,347) | — | 3,065 |
| Inventories..... | — | — | — | 8 |
| Other assets..... | (1,106) | — | 1 | — |
| Accounts payable..... | (306) | 20 | 1,084 | 3,670 |
| Accrued salaries and related expenses..... | 17 | 10 | — | 63 |
| Accrued interest payable..... | — | — | — | (100) |
| Retainages payable..... | — | — | — | (20) |
| Policy claims..... | (13,468) | 5,018 | 31,683 | — |
| Due to other funds..... | — | 282 | — | (102) |
| Unearned revenues | (1,840) | (5,117) | 7,104 | — |
| Compensated absences payable..... | 8 | 54 | 22 | 122 |
| Net cash provided by (used in) operating activities..... | <u>\$ 12,507</u> | <u>\$ 89,633</u> | <u>\$ 23,088</u> | <u>\$ 21,494</u> |
| Noncash capital, investing, and financing activities: | | | | |
| Increase in fair value of investments..... | \$ 2,960 | \$ 240 | \$ — | \$ — |
| Decrease in investments for amortization and accretion..... | (13,472) | — | — | — |
| Long-term debt forgiven..... | — | — | — | 860 |
| Total noncash capital, investing, and financing activities..... | <u>\$ (10,512)</u> | <u>\$ 240</u> | <u>\$ —</u> | <u>\$ 860</u> |

| <u>Central Supplies and Equipment</u> | <u>Motor Pool</u> | <u>Pension Adminis- tration</u> | <u>Prison Industries</u> | <u>Other Internal Service</u> | <u>Totals</u> |
|---|-----------------------|---|------------------------------|---------------------------------------|-------------------|
| \$ (220) | \$ 1,722 | \$ (31) | \$ 445 | \$ 173 | \$ 115,365 |
| 5 | 5,015 | 242 | 408 | — | 14,008 |
| — | — | — | — | — | 1,720 |
| — | 313 | 238 | (900) | — | (1,244) |
| (6) | 29 | — | (650) | — | (2,197) |
| — | — | (14) | — | — | 14 |
| 56 | (205) | 11 | (320) | (18) | (1,758) |
| (15) | (1) | — | (172) | — | (180) |
| — | — | — | — | — | (1,105) |
| (139) | 1,145 | 320 | 466 | — | 6,260 |
| — | — | 70 | (4) | (3) | 153 |
| — | — | — | — | — | (100) |
| — | — | — | — | — | (20) |
| — | — | — | — | — | 23,233 |
| (63) | (3) | (143) | (527) | (1) | (557) |
| — | — | — | — | — | 147 |
| — | (6) | 176 | (7) | (2) | 367 |
| <u>\$ (382)</u> | <u>\$ 8,009</u> | <u>\$ 869</u> | <u>\$ (1,261)</u> | <u>\$ 149</u> | <u>\$ 154,106</u> |
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ 3,200 |
| — | — | — | — | — | (13,472) |
| — | 430 | — | — | — | 1,290 |
| <u>\$ —</u> | <u>\$ 430</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ (8,982)</u> |

Fiduciary Funds

Fiduciary funds include pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Note 1b in the notes to the financial statements provides definitions of each of these fund types.

This subsection of the Comprehensive Annual Financial Report provides the following supplementary information for the State's fiduciary funds:

- Combining Statement of Plan Net Assets—Pension Trust Funds
- Combining Statement of Changes in Plan Net Assets—Pension Trust Funds
- Combining Statement of Fiduciary Net Assets—Private-Purpose Trust Funds
- Combining Statement of Changes in Fiduciary Net Assets—Private-Purpose Trust Funds
- Combining Statement of Fiduciary Net Assets—Agency Funds
- Combining Statement of Changes in Assets and Liabilities—Agency Funds

The State maintains only one investment trust fund, so no combining statements are necessary for that fund type. The paragraphs below describe all other individual fiduciary funds that the State uses.

a. Pension Trust Funds

South Carolina Retirement System. This is a multiple-employer pension system that benefits employees of the State, public schools, and political subdivisions of the State.

Police Officers' Retirement System. This is a multiple-employer pension system that benefits police officers and fire fighters employed by the State or its political subdivisions.

General Assembly Retirement System. This is a single-employer pension system that benefits members of the South Carolina General Assembly.

Judges' and Solicitors' Retirement System. This is a single-employer pension system that benefits the judges of the State's Supreme Court, Court of Appeals, circuit courts, family courts, and the State's circuit solicitors.

National Guard Retirement System. The State administers this single-employer pension system that provides a supplemental retirement benefit to members of the South Carolina National Guard. The State is a nonemployer contributor to the system.

b. Private-Purpose Trust Funds

College Savings Plan Fund. The Future Scholar 529 College Savings Plan (the Plan), accounted for in this fund, provides participant families a tax-advantaged method of saving for future college costs. A primary objective of both the financial advisor program and the direct program within the Plan is to provide families with flexibility and professional investment management in meeting their college savings objectives.

Other Private-Purpose Trust Funds. This fund accounts for monies the State has received as trustee under various trust arrangements that specify how the principal and interest earnings must be used. In each case, all of the principal and income benefit individuals, private organizations, or governments outside the State reporting entity; none of the monies may be used for State purposes. The purposes to which the resources of these funds are dedicated include scholarships, the operation of the equestrian center and activities at the Springdale Race Course (for the exclusive benefit of the Carolina Cup Racing Association, Inc., a private nonprofit corporation), and the decommissioning of a low-level radioactive waste disposal facility on behalf of Chem-Nuclear Systems, Inc., a for-profit corporation.

c. Agency Funds

Insurance Company Deposits Fund. This fund accounts for deposits which are required to be made by insurance companies in lieu of surety bonds.

Payroll Clearing Fund. This fund accounts for employee deductions and contributions for the short period of time between the issuance of payroll checks and payment to the proper recipient.

Other Agency Funds. Balances in these funds, aggregated for presentation purposes, represent amounts held for prisoners and patients of State institutions, cash bonds, miscellaneous clearing accounts, and other deposits.

Combining Statement of Plan Net Assets

PENSION TRUST FUNDS

June 30, 2007

(Expressed in Thousands)

| | South Carolina Retirement System | Police Officers' Retirement System | General Assembly Retirement System | Judges' and Solicitors' Retirement System | National Guard Retirement System | Totals |
|---|---|---|---|---|---|-----------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents..... | \$ 5,314,145 | \$ 708,521 | \$ 10,481 | \$ 29,160 | \$ 2,614 | \$ 6,064,921 |
| Receivables: | | | | | | |
| Contributions..... | 143,392 | 15,348 | 61 | 569 | — | 159,370 |
| Employer long-term..... | 845 | 22 | — | — | — | 867 |
| Accrued interest..... | 114,178 | 16,592 | 222 | 669 | 80 | 131,741 |
| Unsettled investment sales..... | 418,554 | 50,017 | 787 | 2,160 | 340 | 471,858 |
| Other investment receivables..... | 15,987 | 1,948 | 33 | 83 | 3 | 18,054 |
| Total receivables..... | <u>692,956</u> | <u>83,927</u> | <u>1,103</u> | <u>3,481</u> | <u>423</u> | <u>781,890</u> |
| Due from other funds..... | 7,487 | 526 | 4 | 136 | — | 8,153 |
| Investments, at fair value: | | | | | | |
| United States government securities..... | 489,589 | 69,349 | 960 | 2,822 | 304 | 563,024 |
| United States government agencies and government-insured securities..... | 3,122,153 | 462,357 | 5,993 | 18,482 | 2,362 | 3,611,347 |
| Corporate bonds..... | 3,063,224 | 453,630 | 5,880 | 18,134 | 2,317 | 3,543,185 |
| Financial and other..... | 1,136,519 | 167,886 | 2,183 | 6,719 | 857 | 1,314,164 |
| Equities..... | 11,668,536 | 1,398,188 | 22,514 | 60,219 | 7,271 | 13,156,728 |
| Total investments..... | <u>19,480,021</u> | <u>2,551,410</u> | <u>37,530</u> | <u>106,376</u> | <u>13,111</u> | <u>22,188,448</u> |
| Invested securities lending collateral..... | 4,396,622 | 651,091 | 8,440 | 26,027 | 3,326 | 5,085,506 |
| Capital assets, net..... | 3,223 | 329 | 10 | 15 | — | 3,577 |
| Prepaid items..... | 350 | 46 | 1 | 2 | 96 | 495 |
| Total assets..... | <u>29,894,804</u> | <u>3,995,850</u> | <u>57,569</u> | <u>165,197</u> | <u>19,570</u> | <u>34,132,990</u> |
| LIABILITIES | | | | | | |
| Accounts payable..... | 6,745 | 811 | 14 | 35 | — | 7,605 |
| Accounts payable—unsettled investment purchases..... | 250,188 | 30,448 | 477 | 1,305 | 184 | 282,602 |
| Due to other funds..... | 34,031 | 821 | 81 | — | — | 34,933 |
| Deferred retirement benefits..... | 641,750 | — | — | — | — | 641,750 |
| Securities lending collateral..... | 4,396,622 | 651,091 | 8,440 | 26,027 | 3,326 | 5,085,506 |
| Other liabilities..... | 22,299 | 8,698 | 11 | 639 | 167 | 31,814 |
| Total liabilities..... | <u>5,351,635</u> | <u>691,869</u> | <u>9,023</u> | <u>28,006</u> | <u>3,677</u> | <u>6,084,210</u> |
| NET ASSETS | | | | | | |
| Held in trust for pension benefits.... | <u>\$ 24,543,169</u> | <u>\$ 3,303,981</u> | <u>\$ 48,546</u> | <u>\$ 137,191</u> | <u>\$ 15,893</u> | <u>\$ 28,048,780</u> |

Combining Statement of Changes in Plan Net Assets

PENSION TRUST FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | South Carolina Retirement System | Police Officers' Retirement System | General Assembly Retirement System | Judges' and Solicitors' Retirement System | National Guard Retirement System | Totals |
|---|---|---|---|---|---|-----------------------------|
| Additions: | | | | | | |
| Retirement contributions: | | | | | | |
| Employer..... | \$ 644,350 | \$ 106,753 | \$ 2,358 | \$ 6,706 | \$ 3,948 | \$ 764,115 |
| Employee..... | 505,122 | 70,641 | 551 | 1,705 | — | 578,019 |
| Total retirement contributions..... | <u>1,149,472</u> | <u>177,394</u> | <u>2,909</u> | <u>8,411</u> | <u>3,948</u> | <u>1,342,134</u> |
| Interest income and net appreciation in investments..... | 3,021,030 | 377,112 | 5,995 | 16,124 | 1,997 | 3,422,258 |
| Investment expense..... | 31,988 | 3,921 | 66 | 167 | 5 | 36,147 |
| Net income from investing activities..... | <u>2,989,042</u> | <u>373,191</u> | <u>5,929</u> | <u>15,957</u> | <u>1,992</u> | <u>3,386,111</u> |
| Securities lending income..... | 254,471 | 36,380 | 527 | 1,523 | 224 | 293,125 |
| Securities lending expense..... | 244,304 | 34,948 | 506 | 1,463 | 214 | 281,435 |
| Net income from securities lending activities..... | <u>10,167</u> | <u>1,432</u> | <u>21</u> | <u>60</u> | <u>10</u> | <u>11,690</u> |
| Total net investment income..... | <u>2,999,209</u> | <u>374,623</u> | <u>5,950</u> | <u>16,017</u> | <u>2,002</u> | <u>3,397,801</u> |
| Transfers between pension trust funds..... | — | 1,614 | 52 | 79 | — | 1,745 |
| Transfers in..... | 1,532 | 55 | — | — | 50 | 1,637 |
| Total additions..... | <u>4,150,213</u> | <u>553,686</u> | <u>8,911</u> | <u>24,507</u> | <u>6,000</u> | <u>4,743,317</u> |
| Deductions: | | | | | | |
| Regular retirement benefits..... | 1,505,080 | 180,135 | 5,935 | 10,348 | 2,926 | 1,704,424 |
| Supplemental retirement benefits..... | 1,532 | 55 | — | — | — | 1,587 |
| Deferred retirement benefits..... | 240,580 | — | — | — | — | 240,580 |
| Refunds of retirement contributions to members..... | 77,212 | 12,543 | 70 | — | — | 89,825 |
| Group life insurance claims..... | 15,948 | 1,919 | 5 | 381 | — | 18,253 |
| Accidental death benefits..... | — | 1,198 | — | — | — | 1,198 |
| Depreciation..... | 107 | 11 | — | 1 | — | 119 |
| Administrative expense..... | 16,402 | 2,168 | 34 | 91 | 59 | 18,754 |
| Transfers between pension trust funds..... | 1,745 | — | — | — | — | 1,745 |
| Total deductions..... | <u>1,858,606</u> | <u>198,029</u> | <u>6,044</u> | <u>10,821</u> | <u>2,985</u> | <u>2,076,485</u> |
| Change in net assets | <u>2,291,607</u> | <u>355,657</u> | <u>2,867</u> | <u>13,686</u> | <u>3,015</u> | <u>2,666,832</u> |
| Net assets at beginning of year..... | <u>22,251,562</u> | <u>2,948,324</u> | <u>45,679</u> | <u>123,505</u> | <u>12,878</u> | <u>25,381,948</u> |
| Net assets at end of year..... | <u>\$ 24,543,169</u> | <u>\$ 3,303,981</u> | <u>\$ 48,546</u> | <u>\$ 137,191</u> | <u>\$ 15,893</u> | <u>\$ 28,048,780</u> |

Combining Statement of Fiduciary Net Assets

PRIVATE-PURPOSE TRUST FUNDS

June 30, 2007

(Expressed in Thousands)

| | College Savings Plan | Other Private-Purpose Trust | Totals |
|---|-------------------------|-----------------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents..... | \$ — | \$ 27,490 | \$ 27,490 |
| Receivables, net: | | | |
| Accrued interest..... | 726 | 240 | 966 |
| Unsettled investment sales..... | 414 | — | 414 |
| Investments..... | 975,221 | — | 975,221 |
| Invested securities lending collateral | — | 1,244 | 1,244 |
| Other assets..... | — | 5,027 | 5,027 |
| Total assets..... | 976,361 | 34,001 | 1,010,362 |
| LIABILITIES | | | |
| Accounts payable..... | 780 | 29 | 809 |
| Accounts payable—unsettled investment purchases..... | 239 | — | 239 |
| Securities lending collateral..... | — | 1,244 | 1,244 |
| Total liabilities..... | 1,019 | 1,273 | 2,292 |
| NET ASSETS | | | |
| Held in trust for other purposes..... | \$ 975,342 | \$ 32,728 | \$ 1,008,070 |

Combining Statement of Changes in Fiduciary Net Assets

PRIVATE-PURPOSE TRUST FUNDS

For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

| | College Savings Plan | Other Private-Purpose Trust | Totals |
|---|-------------------------|-----------------------------------|---------------------|
| Additions: | | | |
| Licenses, fees, and permits..... | \$ — | \$ 159 | \$ 159 |
| Tuition plan deposits..... | 169,583 | — | 169,583 |
| Interest income..... | 120,361 | 1,323 | 121,684 |
| Transfers in..... | — | 597 | 597 |
| Total additions..... | 289,944 | 2,079 | 292,023 |
| Deductions: | | | |
| Administrative expense..... | 6,207 | 43 | 6,250 |
| Payments in accordance with trust agreements..... | — | 143 | 143 |
| Other expenses..... | — | 77 | 77 |
| Total deductions..... | 6,207 | 263 | 6,470 |
| Change in net assets..... | 283,737 | 1,816 | 285,553 |
| Net assets at beginning of year | 691,605 | 30,912 | 722,517 |
| Net assets at end of year..... | \$ 975,342 | \$ 32,728 | \$ 1,008,070 |

Combining Statement of Assets and Liabilities

AGENCY FUNDS

June 30, 2007

(Expressed in Thousands)

| | Insurance Company Deposits | Payroll Clearing | Other Agency | Totals |
|--|----------------------------------|---------------------|-------------------|-------------------|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ — | \$ — | \$ 175,425 | \$ 175,425 |
| Receivables, net: | | | | |
| Accounts..... | — | 29 | 5,895 | 5,924 |
| Accrued interest..... | — | — | 1,478 | 1,478 |
| Taxes..... | — | — | 2,866 | 2,866 |
| Due from other funds..... | — | 50,085 | 5,856 | 55,941 |
| Investments..... | — | — | 29,598 | 29,598 |
| Securities held in lieu of surety bonds..... | 293,468 | — | — | 293,468 |
| Invested securities lending collateral | — | — | 18,329 | 18,329 |
| Total assets..... | \$ 293,468 | \$ 50,114 | \$ 239,447 | \$ 583,029 |
| LIABILITIES | | | | |
| Accounts payable..... | \$ — | \$ 270 | \$ 16,736 | \$ 17,006 |
| Tax refunds payable..... | — | — | 629 | 629 |
| Intergovernmental payables..... | — | — | 2,492 | 2,492 |
| Deposits..... | — | — | 2,838 | 2,838 |
| Amounts held in custody for others..... | 293,468 | 49,844 | 198,172 | 541,484 |
| Securities lending collateral..... | — | — | 18,329 | 18,329 |
| Other liabilities..... | — | — | 251 | 251 |
| Total liabilities..... | \$ 293,468 | \$ 50,114 | \$ 239,447 | \$ 583,029 |

Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| INSURANCE COMPANY DEPOSITS | | | | |
| Assets: | | | | |
| Cash and cash equivalents..... | \$ — | \$ 36,143 | \$ 36,143 | \$ — |
| Securities held in lieu of surety bonds..... | 329,611 | — | 36,143 | 293,468 |
| Total assets..... | \$ 329,611 | \$ 36,143 | \$ 72,286 | \$ 293,468 |
| Liabilities: | | | | |
| Amounts held in custody for others..... | \$ 329,611 | \$ — | \$ 36,143 | \$ 293,468 |
| Total liabilities..... | \$ 329,611 | \$ — | \$ 36,143 | \$ 293,468 |
| PAYROLL CLEARING | | | | |
| Assets: | | | | |
| Cash and cash equivalents..... | \$ 11,135 | \$ 1,075,849 | \$ 1,086,984 | \$ — |
| Accounts receivable..... | 33 | 29 | 33 | 29 |
| Due from other funds..... | 47,821 | 50,085 | 47,821 | 50,085 |
| Total assets..... | \$ 58,989 | \$ 1,125,963 | \$ 1,134,838 | \$ 50,114 |
| Liabilities: | | | | |
| Accounts payable..... | \$ 183 | \$ 270 | \$ 183 | \$ 270 |
| Amounts held in custody for others..... | 58,806 | 930,107 | 939,069 | 49,844 |
| Total liabilities..... | \$ 58,989 | \$ 930,377 | \$ 939,252 | \$ 50,114 |

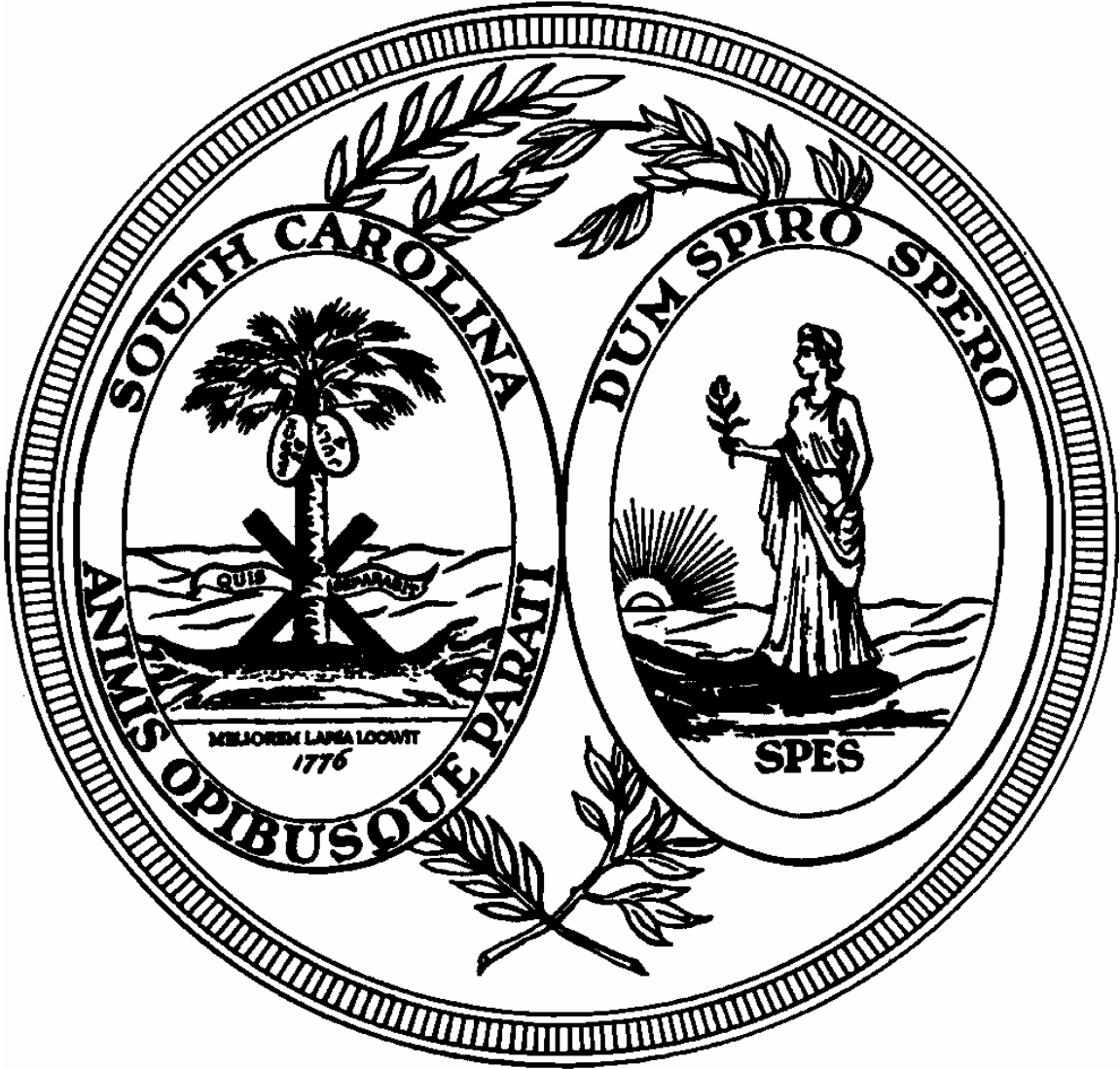
Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| OTHER AGENCY | | | | |
| Assets: | | | | |
| Cash and cash equivalents..... | \$ 154,141 | \$ 2,327,038 | \$ 2,305,754 | \$ 175,425 |
| Accounts receivable..... | 8,717 | 6,622 | 9,444 | 5,895 |
| Accrued interest receivable..... | 808 | 1,478 | 808 | 1,478 |
| Taxes receivable..... | 2,667 | 2,866 | 2,667 | 2,866 |
| Due from other funds..... | 11,950 | 5,856 | 11,950 | 5,856 |
| Investments..... | 32,026 | — | 2,428 | 29,598 |
| Invested securities lending collateral..... | 14,989 | 18,329 | 14,989 | 18,329 |
| Total assets..... | \$ 225,298 | \$ 2,362,189 | \$ 2,348,040 | \$ 239,447 |
| Liabilities: | | | | |
| Accounts payable..... | \$ 18,380 | \$ 17,727 | \$ 19,371 | \$ 16,736 |
| Tax refunds payable..... | 1,082 | 629 | 1,082 | 629 |
| Intergovernmental payables..... | 2,252 | 2,492 | 2,252 | 2,492 |
| Deposits..... | 3,271 | 2,838 | 3,271 | 2,838 |
| Amounts held in custody for others..... | 185,324 | 1,960,960 | 1,948,112 | 198,172 |
| Securities lending collateral..... | 14,989 | 18,329 | 14,989 | 18,329 |
| Other liabilities..... | — | 251 | — | 251 |
| Total liabilities..... | \$ 225,298 | \$ 2,003,226 | \$ 1,989,077 | \$ 239,447 |
| TOTALS--ALL AGENCY FUNDS | | | | |
| Assets: | | | | |
| Cash and cash equivalents..... | \$ 165,276 | \$ 3,439,030 | \$ 3,428,881 | \$ 175,425 |
| Accounts receivable..... | 8,750 | 6,651 | 9,477 | 5,924 |
| Accrued interest receivable..... | 808 | 1,478 | 808 | 1,478 |
| Taxes receivable..... | 2,667 | 2,866 | 2,667 | 2,866 |
| Due from other funds..... | 59,771 | 55,941 | 59,771 | 55,941 |
| Investments..... | 32,026 | — | 2,428 | 29,598 |
| Securities held in lieu of surety bonds..... | 329,611 | — | 36,143 | 293,468 |
| Invested securities lending collateral..... | 14,989 | 18,329 | 14,989 | 18,329 |
| Total assets..... | \$ 613,898 | \$ 3,524,295 | \$ 3,555,164 | \$ 583,029 |
| Liabilities: | | | | |
| Accounts payable..... | \$ 18,563 | \$ 17,997 | \$ 19,554 | \$ 17,006 |
| Tax refunds payable..... | 1,082 | 629 | 1,082 | 629 |
| Intergovernmental payables..... | 2,252 | 2,492 | 2,252 | 2,492 |
| Deposits..... | 3,271 | 2,838 | 3,271 | 2,838 |
| Amounts held in custody for others..... | 573,741 | 2,891,067 | 2,923,324 | 541,484 |
| Securities lending collateral..... | 14,989 | 18,329 | 14,989 | 18,329 |
| Other liabilities..... | — | 251 | — | 251 |
| Total liabilities..... | \$ 613,898 | \$ 2,933,603 | \$ 2,964,472 | \$ 583,029 |



Discretely Presented Component Units

Note 1a in the notes to the financial statements explains the relationship of component units to the primary government and the differences between blended component units and discretely presented component units. Note 1b in the notes to the financial statements explains that the State has designated four of its discretely presented component units as major component units. Government-wide financial statements for each of the four major component units are included in the basic financial statements (immediately preceding the notes to the financial statements).

This subsection of the Comprehensive Annual Financial Report provides the following supplementary information for the State's nonmajor discretely presented component units:

- Combining Statement of Net Assets—Nonmajor Discretely Presented Component Units
- Combining Statement of Activities—Nonmajor Discretely Presented Component Units
- Balance Sheet—South Carolina First Steps to School Readiness Board of Trustees
- Statement of Revenues, Expenditures, and Changes in Fund Balances—South Carolina First Steps to School Readiness Board of Trustees

The paragraphs below describe the State's nonmajor discretely presented component units:

The Clemson University Foundation is a non-profit, tax-exempt public charity that was established to raise and manage private gifts for the advancement and benefit of Clemson University.

The University of South Carolina Educational Foundation (the Foundation) is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. The Foundation establishes and implements long-range fund raising programs to assist in the expansion and improvement of the educational functions of the University.

The South Carolina Medical Malpractice Liability Joint Underwriting Association (the Association) was established to provide medical malpractice insurance on a self supporting basis. The financial information presented in the accompanying supplemental information is for the Association's fiscal year ended December 31, 2006.

The South Carolina First Steps to School Readiness Board of Trustees (First Steps) was established in 1999 as a non-profit, tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The corporation was 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 South Carolina First Steps to School Readiness initiative for improving early childhood development.

The State presents fund financial statements for First Steps, a nonmajor discretely presented component unit, because that organization does not issue separately audited financial statements of its own. First Steps uses accounting principles that apply to special revenue funds. As such, it uses the current financial resources measurement focus and the modified accrual basis of accounting.

The Children's Trust Fund of South Carolina, Inc. (the Fund) is a non-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Fund's purpose is 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 financial information presented in the accompanying supplemental information is for the Fund's fiscal year ended December 31, 2006.

Combining Statement of Net Assets

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2007

(Expressed in Thousands)

| | <u>Clemson University Foundation</u> | <u>University of South Carolina Educational Foundation</u> | <u>South Carolina Medical Malpractice Liability Joint Underwriting Association</u> |
|--|--|--|--|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 13,457 | \$ 8,657 | \$ 3,560 |
| Investments..... | — | 17,409 | 67,581 |
| Invested securities lending collateral..... | — | — | — |
| Receivables, net: | | | |
| Accounts..... | 262 | 102 | 359 |
| Contributions..... | 2,680 | 6 | — |
| Accrued interest..... | — | — | 733 |
| Due from Federal government and other grantors.... | — | — | — |
| Due from primary government..... | — | — | — |
| Restricted assets: | | | |
| Cash and cash equivalents..... | 16,925 | — | — |
| Prepaid items..... | — | — | 146 |
| Other current assets..... | 318 | — | — |
| Deferred charges..... | — | — | 1,704 |
| Total current assets..... | <u>33,642</u> | <u>26,174</u> | <u>74,083</u> |
| Long-term assets: | | | |
| Receivables, net: | | | |
| Accounts..... | 1,939 | — | — |
| Contributions..... | 26,951 | 11,278 | — |
| Investments..... | 394,048 | 289,274 | — |
| Other long-term assets..... | 12 | — | — |
| Non-depreciable capital assets..... | 8,971 | — | — |
| Depreciable capital assets, net..... | 405 | 34 | 295 |
| Total long-term assets..... | <u>432,326</u> | <u>300,586</u> | <u>295</u> |
| Total assets..... | <u>465,968</u> | <u>326,760</u> | <u>74,378</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable..... | 307 | 1,308 | 441 |
| Accrued salaries and related expenses..... | — | — | — |
| Intergovernmental payables..... | — | — | — |
| Policy claims..... | — | — | 45,000 |
| Due to primary government..... | 98,386 | 31,206 | — |
| Deferred revenues and deferred credits..... | 354 | — | 25,019 |
| Securities lending collateral..... | — | — | — |
| Accounts payable from restricted assets..... | 226 | — | — |
| Compensated absences payable..... | — | — | — |
| Other current liabilities..... | — | 447 | — |
| Total current liabilities..... | <u>99,273</u> | <u>32,961</u> | <u>70,460</u> |
| Long-term liabilities: | | | |
| Policy claims..... | — | — | 157,368 |
| Amounts held in custody for others..... | 2,659 | — | 73 |
| Compensated absences payable..... | — | — | — |
| Other long-term liabilities..... | 7,601 | 2,832 | — |
| Total long-term liabilities..... | <u>10,260</u> | <u>2,832</u> | <u>157,441</u> |
| Total liabilities..... | <u>109,533</u> | <u>35,793</u> | <u>227,901</u> |
| NET ASSETS (DEFICIT) | | | |
| Invested in capital assets, net of related debt..... | 9,376 | 34 | 294 |
| Restricted, expendable: | | | |
| Education..... | 135,398 | 78,221 | — |
| Other..... | — | — | 2,082 |
| Restricted, nonexpendable, education..... | 178,625 | 133,152 | — |
| Unrestricted..... | 33,036 | 79,560 | (155,899) |
| Total net assets (deficit)..... | <u>\$ 356,435</u> | <u>\$ 290,967</u> | <u>\$ (153,523)</u> |

| South Carolina First Steps to School Readiness Board of Trustees | Children's Trust Fund of S.C., Inc. | Totals |
|---|--|-------------------|
| \$ 7,386 | \$ 112 | \$ 33,172 |
| — | 874 | 85,864 |
| 901 | — | 901 |
| 766 | — | 1,489 |
| — | 3 | 2,689 |
| 78 | — | 811 |
| — | 19 | 19 |
| 1 | — | 1 |
| — | — | 16,925 |
| — | — | 146 |
| — | — | 318 |
| — | — | 1,704 |
| <u>9,132</u> | <u>1,008</u> | <u>144,039</u> |
| — | — | 1,939 |
| — | — | 38,229 |
| — | — | 683,322 |
| — | — | 12 |
| — | — | 8,971 |
| 2 | — | 736 |
| <u>2</u> | <u>—</u> | <u>733,209</u> |
| <u>9,134</u> | <u>1,008</u> | <u>877,248</u> |
| 159 | — | 2,215 |
| 63 | 1 | 64 |
| 13 | — | 13 |
| — | — | 45,000 |
| 8 | — | 129,600 |
| — | — | 25,373 |
| 901 | — | 901 |
| — | — | 226 |
| 40 | — | 40 |
| — | — | 447 |
| <u>1,184</u> | <u>1</u> | <u>203,879</u> |
| — | — | 157,368 |
| — | — | 2,732 |
| 34 | — | 34 |
| — | — | 10,433 |
| <u>34</u> | <u>—</u> | <u>170,567</u> |
| <u>1,218</u> | <u>1</u> | <u>374,446</u> |
| 2 | — | 9,706 |
| 7,914 | — | 221,533 |
| — | 254 | 2,336 |
| — | — | 311,777 |
| — | 753 | (42,550) |
| <u>\$ 7,916</u> | <u>\$ 1,007</u> | <u>\$ 502,802</u> |

Combining Statement of Activities

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

| | Expenses | Program Revenues | | Net (Expense) Revenue |
|---|-------------------|-------------------------|--|-----------------------------|
| | | Charges for Services | Operating Grants and Contributions | |
| Clemson University Foundation..... | \$ 15,802 | \$ — | \$ 71,024 | \$ 55,222 |
| University of South Carolina Educational Foundation..... | 21,760 | — | 67,192 | 45,432 |
| South Carolina Medical Malpractice Liability Joint Underwriting Association..... | 57,981 | 50,392 | 2,950 | (4,639) |
| South Carolina First Steps to School Readiness Board of Trustees..... | 20,367 | — | 27,303 | 6,936 |
| Children's Trust Fund of S.C., Inc..... | 276 | — | 331 | 55 |
| Totals..... | \$ 116,186 | \$ 50,392 | \$ 168,800 | \$ 103,006 |

| <u>Net Assets (Deficit)</u> <u>Beginning of Year</u> | <u>Net Assets (Deficit)</u> <u>End of Year</u> |
|---|---|
| \$ 301,213 | \$ 356,435 |
| 245,535 | 290,967 |
| (148,884) | (153,523) |
| 980 | 7,916 |
| 952 | 1,007 |
| \$ 399,796 | \$ 502,802 |

Balance Sheet

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
BOARD OF TRUSTEES

June 30, 2007

(Expressed in Thousands)

ASSETS

| | | |
|---|-----------|--------------|
| Cash and cash equivalents..... | \$ | 7,386 |
| Invested securities lending collateral..... | | 901 |
| Accounts receivable..... | | 766 |
| Accrued interest receivable..... | | 78 |
| Due from primary government..... | | 1 |
| Total assets..... | \$ | 9,132 |

LIABILITIES AND FUND BALANCE

Liabilities:

| | | |
|--|----|--------------|
| Accounts payable..... | \$ | 159 |
| Accrued salaries and related expenditures..... | | 63 |
| Intergovernmental payables..... | | 13 |
| Due to primary government..... | | 8 |
| Securities lending collateral..... | | 901 |
| Total liabilities..... | | 1,144 |

Fund Balance:

| | | |
|--|-----------|--------------|
| Unreserved, undesignated..... | | 7,988 |
| Total liabilities and fund balance..... | \$ | 9,132 |

Reconciliation of the Balance Sheet to the Combining Statement of Net Assets Nonmajor Discretely Presented Component Units

Total fund balance \$ **7,988**

Amounts reported for First Steps in the Combining Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the Balance
Sheet. These assets consist of:

| | | |
|----------------------------------|----|----------|
| Capital assets..... | \$ | 46 |
| Accumulated depreciation..... | | (44) |
| Total capital assets..... | | 2 |

Compensated absences payable are not due and payable
in the current period and therefore are not reported in the
Balance Sheet..... (74)

Net assets \$ **7,916**

Statement of Revenues, Expenditures, and Changes in Fund Balance

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
BOARD OF TRUSTEES

For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

Revenues:

| | | |
|---|----|----------------------|
| Interest and other investment income..... | \$ | 540 |
| State operating grants and contracts..... | | 26,072 |
| Contributions..... | | 689 |
| Other..... | | <u>2</u> |
| Total revenues..... | | <u>27,303</u> |

Expenditures:

| | | |
|--------------------------------|--|----------------------|
| Current: Education..... | | 3,078 |
| Intergovernmental | | <u>17,358</u> |
| Total expenditures..... | | <u>20,436</u> |

| | | |
|--|-----------|----------------------------|
| Excess of expenditures over revenues..... | | 6,867 |
| Fund balance at beginning of year..... | | <u>1,121</u> |
| Fund balance at end of year..... | \$ | <u><u>7,988</u></u> |

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Combining Statement of Activities
Nonmajor Discretely Presented Component Units**

| | | |
|---|-----------|--------------|
| Net change in fund balance | \$ | 6,867 |
|---|-----------|--------------|

Amounts reported for First Steps in the Combining Statement of
Activities are different because:

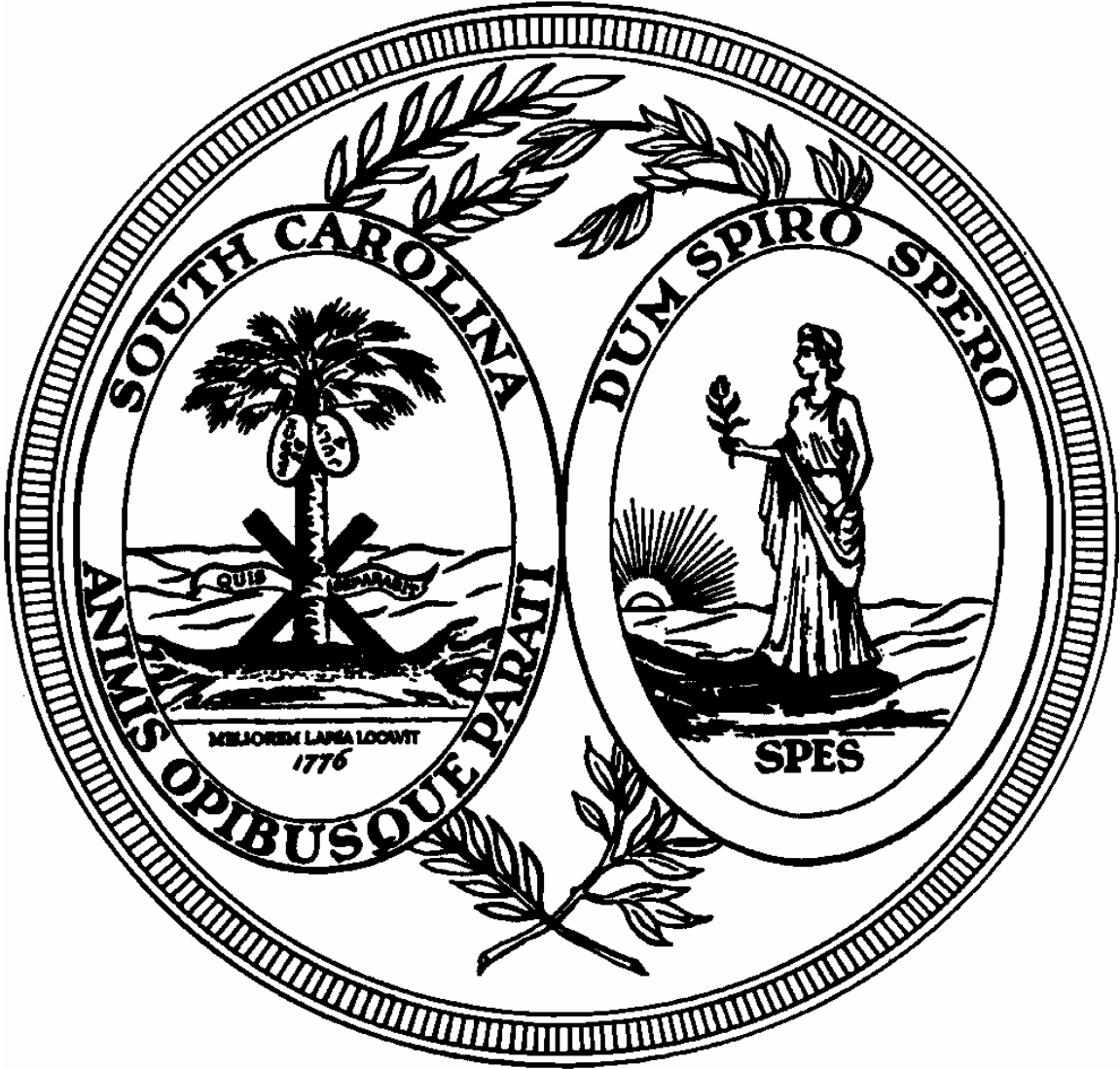
Capital outlays are reported as expenditures in the governmental fund.
However, in the Combining Statement of Activities the cost of
capital assets is allocated over their useful lives as depreciation
expense. In the current period this amount is:

| | |
|---------------------------|-----|
| Depreciation expense..... | (2) |
|---------------------------|-----|

Compensated absences expenses reported in the Combining Statement
of Activities do not require the use of current financial resources and
therefore are not reported as expenditures in the governmental fund.

| | |
|---|-----------|
| Decrease in compensated absences payable..... | <u>71</u> |
|---|-----------|

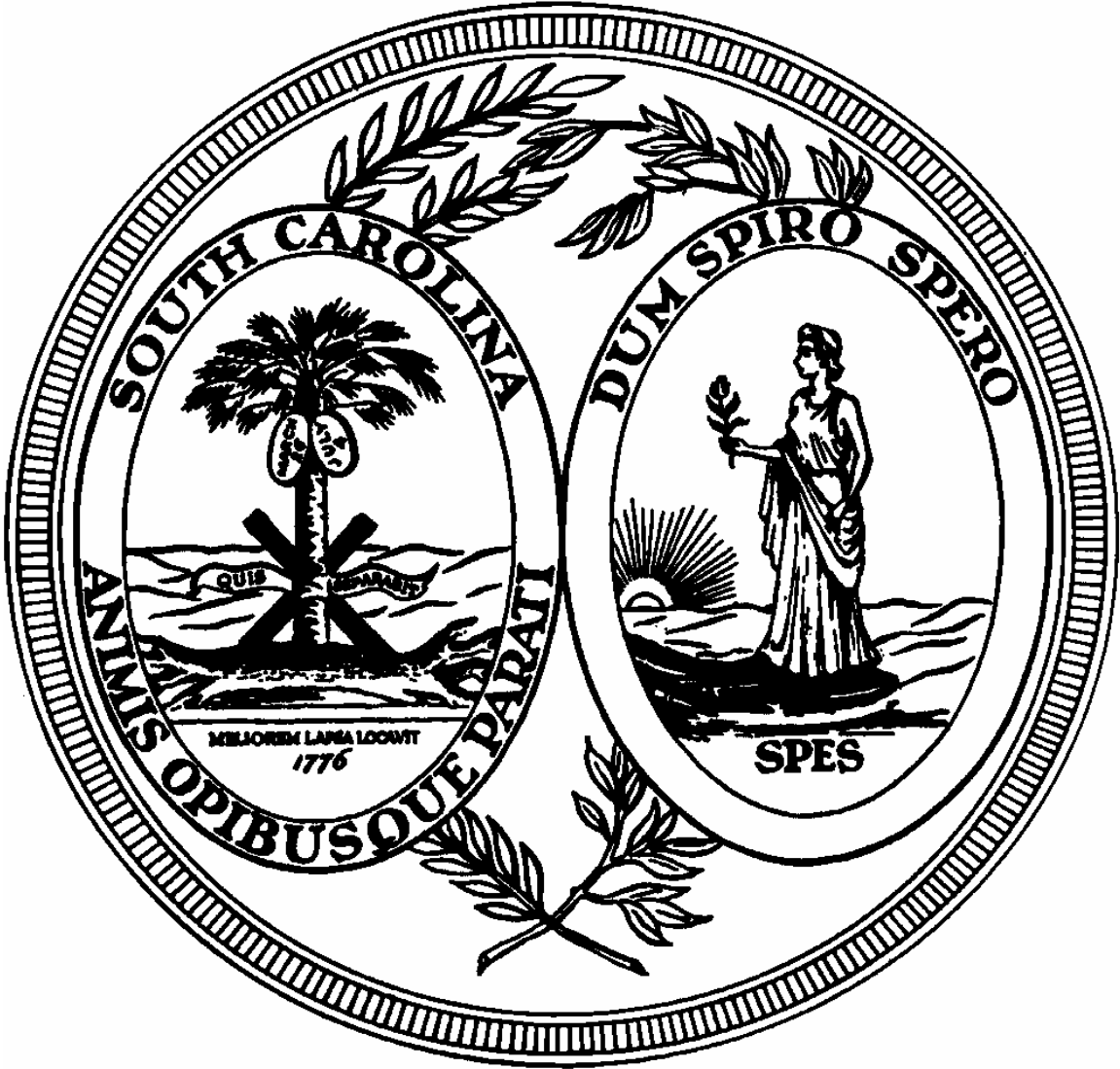
| | | |
|----------------------------------|-----------|----------------------------|
| Change in net assets..... | \$ | <u><u>6,936</u></u> |
|----------------------------------|-----------|----------------------------|



Statistical Section *(Unaudited)*



This section presents certain economic and social data and financial trends over a ten-year period.



Statistical Section

This section of the Comprehensive Annual Financial Report provides additional information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State of South Carolina's overall financial health.

CONTENTS

| | <u>Page</u> |
|--|-------------|
| Financial Trends | 198 |
| <p>These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.</p> | |
| Revenue Capacity | 212 |
| <p>These schedules contain information to help the reader assess the State's most significant revenue sources, the personal income tax and the retail sales tax.</p> | |
| Debt Capacity | 218 |
| <p>These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.</p> | |
| Demographic and Economic Information | 238 |
| <p>These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.</p> | |
| Operating Information | 244 |
| <p>These schedules contain service and capital asset data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.</p> | |

SOURCES

Unless otherwise noted, the information in these schedules is derived from the State's Comprehensive Annual Financial Report for the relevant fiscal year.

Net Assets by Component

Last Six Fiscal Years ^a

(Accrual basis of accounting, expressed in thousands)

| | For the Fiscal Year | | |
|---|------------------------------------|------------------------------------|------------------------------------|
| | 2002 | 2003 | 2004 |
| Governmental activities | | | |
| Invested in capital assets, net of related debt..... | \$ 7,621,846 | \$ 8,077,945 | \$ 8,534,931 |
| Restricted..... | 2,431,538 | 2,385,607 | 2,445,033 |
| Unrestricted..... | (1,002,579) | (1,103,579) | (960,949) |
| Total governmental activities net assets..... | <u><u>\$ 9,050,805</u></u> | <u><u>\$ 9,359,973</u></u> | <u><u>\$ 10,019,015</u></u> |
| Business-type activities | | | |
| Invested in capital assets, net of related debt..... | \$ 1,551,604 | \$ 1,648,504 | \$ 1,695,208 |
| Restricted..... | 1,291,069 | 1,187,558 | 1,186,958 |
| Unrestricted..... | 159,956 | 217,017 | 270,380 |
| Total business-type activities net assets..... | <u><u>\$ 3,002,629</u></u> | <u><u>\$ 3,053,079</u></u> | <u><u>\$ 3,152,546</u></u> |
| Primary government | | | |
| Invested in capital assets, net of related debt..... | \$ 9,173,450 | \$ 9,726,449 | \$ 10,230,139 |
| Restricted..... | 3,722,607 | 3,573,165 | 3,631,991 |
| Unrestricted..... | (842,623) | (886,562) | (690,569) |
| Total primary government net assets..... | <u><u>\$ 12,053,434</u></u> | <u><u>\$ 12,413,052</u></u> | <u><u>\$ 13,171,561</u></u> |

^a Accrual-basis financial information for the State as a whole is available beginning with the fiscal year ended June 30, 2002, the year GASB Statement 34 was implemented.

Note: Certain fiscal year data has been restated for consistency.

Source: South Carolina Comptroller General's Office

Ended June 30

| <u>2005</u> | <u>2006</u> | <u>2007</u> |
|-----------------------------|-----------------------------|-----------------------------|
| \$ 8,877,813 | \$ 9,371,744 | \$ 9,706,055 |
| 2,735,158 | 3,089,099 | 3,498,173 |
| (172,175) | 445,362 | 603,503 |
| <u>\$ 11,440,796</u> | <u>\$ 12,906,205</u> | <u>\$ 13,807,731</u> |

| | | |
|----------------------------|----------------------------|----------------------------|
| \$ 1,778,072 | \$ 1,973,060 | \$ 2,133,862 |
| 1,232,819 | 1,253,359 | 1,406,468 |
| 360,037 | 442,758 | 594,033 |
| <u>\$ 3,370,928</u> | <u>\$ 3,669,177</u> | <u>\$ 4,134,363</u> |

| | | |
|-----------------------------|-----------------------------|-----------------------------|
| \$ 10,655,885 | \$ 11,344,804 | \$ 11,839,917 |
| 3,967,977 | 4,342,458 | 4,904,641 |
| 187,862 | 888,120 | 1,197,536 |
| <u>\$ 14,811,724</u> | <u>\$ 16,575,382</u> | <u>\$ 17,942,094</u> |

Changes in Net Assets

Last Six Fiscal Years ^a

(Accrual basis of accounting, expressed in thousands)

| | For the Fiscal Year | | |
|---|---------------------|-------------------|-------------------|
| | 2002 | 2003 | 2004 |
| Expenses | | | |
| Governmental activities: | | | |
| General government..... | \$ 1,749,351 | \$ 1,485,190 | \$ 1,587,442 |
| Education..... | 920,695 | 1,110,675 | 1,228,354 |
| Health and environment..... | 3,888,356 | 4,240,170 | 4,588,137 |
| Social services..... | 798,409 | 846,818 | 942,591 |
| Administration of justice..... | 693,478 | 676,157 | 628,227 |
| Resources and economic development..... | 221,644 | 202,982 | 192,000 |
| Transportation..... | 340,405 | 473,086 | 531,667 |
| Intergovernmental ^b | 3,807,548 | 3,686,361 | 3,813,383 |
| Unallocated interest expense..... | 71,883 | 76,130 | 67,614 |
| Total governmental activities expenses..... | 12,491,769 | 12,797,569 | 13,579,415 |
| Business-type activities: | | | |
| Higher education..... | 2,270,359 | 2,460,589 | 2,527,649 |
| Higher education institution support..... | 717,480 | 728,103 | 757,252 |
| Unemployment compensation benefits..... | 526,954 | 546,389 | 493,619 |
| Financing of housing facilities..... | 125,422 | 133,632 | 137,671 |
| Medical malpractice insurance..... | 78,949 | 50,113 | 30,733 |
| Financing of student loans..... | 36,748 | 41,409 | 39,641 |
| Tuition prepayment program..... | 33,862 | 27,208 | 30,620 |
| Patriots Point development..... | 6,717 | 6,986 | 6,976 |
| Insurance claims processing..... | 1,467 | 1,603 | 1,586 |
| Other..... | 28,362 | 25,452 | 22,659 |
| Total business-type activities expenses..... | 3,826,320 | 4,021,484 | 4,048,406 |
| Total primary government expenses..... | 16,318,089 | 16,819,053 | 17,627,821 |

Ended June 30

| 2005 | 2006 | 2007^b |
|-------------------|-------------------|-------------------------|
| \$ 1,727,612 | \$ 2,650,722 | \$ 3,434,216 |
| 1,280,791 | 2,452,623 | 4,078,954 |
| 4,767,155 | 6,025,626 | 4,897,060 |
| 992,960 | 1,347,522 | 1,152,324 |
| 629,185 | 873,911 | 742,064 |
| 197,351 | 276,968 | 371,918 |
| 664,125 | 1,166,910 | 1,018,800 |
| 3,848,454 | — | — |
| 67,705 | 100,109 | 108,401 |
| 14,175,338 | 14,894,391 | 15,803,737 |
| 2,679,238 | 2,871,493 | 3,120,278 |
| 800,151 | 881,583 | 965,686 |
| 366,820 | 365,091 | 390,087 |
| 147,021 | 150,626 | 158,031 |
| 47,432 | 52,598 | 24,809 |
| 43,567 | 61,472 | 61,537 |
| 26,653 | 38,849 | 8,100 |
| 6,638 | 6,911 | 7,061 |
| 1,655 | 1,536 | 1,553 |
| 29,055 | 24,172 | 27,458 |
| 4,148,230 | 4,454,331 | 4,764,600 |
| 18,323,568 | 19,348,722 | 20,568,337 |

Continued on Next Page

Changes in Net Assets (Continued)

Last Six Fiscal Years ^a

(Accrual basis of accounting, expressed in thousands)

| | For the Fiscal Year | | |
|--|---------------------|--------------------|--------------------|
| | 2002 | 2003 | 2004 |
| Program Revenues | | | |
| Governmental activities: | | | |
| Charges for services: | | | |
| General government..... | \$ 1,233,641 | \$ 1,020,219 | \$ 1,231,619 |
| Other activities..... | 511,095 | 480,021 | 368,240 |
| Operating grants and contributions..... | 4,472,482 | 5,139,624 | 5,656,373 |
| Capital grants and contributions..... | 514,815 | 516,167 | 584,722 |
| Total governmental activities program revenues..... | 6,732,033 | 7,156,031 | 7,840,954 |
| Business-type activities: | | | |
| Charges for services: | | | |
| Higher education..... | 1,290,521 | 1,543,441 | 1,724,447 |
| Higher education support..... | 708,450 | 742,754 | 769,118 |
| Unemployment compensation benefits..... | 266,678 | 374,112 | 367,632 |
| Other activities..... | 136,854 | 153,085 | 148,827 |
| Operating grants and contributions..... | 523,672 | 429,283 | 422,971 |
| Capital grants and contributions..... | 29,635 | 47,381 | 47,136 |
| Total business-type activities program revenues..... | 2,955,810 | 3,290,056 | 3,480,131 |
| Total primary government activities program revenues..... | 9,687,843 | 10,446,087 | 11,321,085 |
| Net Expenses | | | |
| Governmental activities..... | (5,759,736) | (5,641,538) | (5,738,461) |
| Business-type activities..... | (870,510) | (731,428) | (568,275) |
| Total primary government net expense..... | (6,630,246) | (6,372,966) | (6,306,736) |

Ended June 30

| 2005 | 2006 | 2007 |
|--------------------|--------------------|--------------------|
| \$ 1,390,695 | \$ 1,530,670 | \$ 1,617,400 |
| 425,896 | 472,511 | 453,957 |
| 6,052,454 | 5,773,902 | 5,848,554 |
| 650,384 | 621,512 | 503,633 |
| 8,519,429 | 8,398,595 | 8,423,544 |
| 1,858,869 | 2,000,940 | 2,116,206 |
| 833,452 | 905,000 | 984,723 |
| 309,975 | 333,423 | 339,715 |
| 171,522 | 176,324 | 173,689 |
| 419,672 | 478,462 | 577,625 |
| 55,166 | 74,224 | 86,807 |
| 3,648,656 | 3,968,373 | 4,278,765 |
| 12,168,085 | 12,366,968 | 12,702,309 |
| (5,655,909) | (6,495,796) | (7,380,193) |
| (499,574) | (485,958) | (485,835) |
| (6,155,483) | (6,981,754) | (7,866,028) |

Continued on Next Page

Changes in Net Assets (Continued)

Last Six Fiscal Years ^a

(Accrual basis of accounting, expressed in thousands)

| | For the Fiscal Year | | |
|---|-------------------------|--------------------------|--------------------------|
| | 2002 | 2003 | 2004 |
| General Revenues and Other Changes in Net Assets | | | |
| Governmental activities: | | | |
| Taxes: | | | |
| Individual income tax..... | \$ 2,357,050 | \$ 2,282,464 | \$ 2,416,437 |
| Retail sales and use tax..... | 2,788,909 | 2,820,520 | 3,009,485 |
| Other taxes..... | 1,271,326 | 1,323,521 | 1,390,893 |
| Unrestricted grants and contributions..... | 37,744 | 82,721 | 80,333 |
| Unrestricted investment income..... | 79,119 | 29,535 | 18,723 |
| Tobacco legal settlement..... | 88,290 | 80,042 | 74,180 |
| Other revenues..... | 70,137 | 71,621 | 75,967 |
| Transfers..... | (862,126) | (782,874) | (668,515) |
| Total governmental activities..... | <u>5,830,449</u> | <u>5,907,550</u> | <u>6,397,503</u> |
| Business-type activities: | | | |
| Special and extraordinary items..... | (6,851) | (996) | (773) |
| Transfers..... | 862,126 | 782,874 | 668,515 |
| Total business-type activities..... | <u>855,275</u> | <u>781,878</u> | <u>667,742</u> |
| Total primary government..... | <u>6,685,724</u> | <u>6,689,428</u> | <u>7,065,245</u> |
| Change in Net Assets | | | |
| Governmental activities..... | 70,713 | 266,012 | 659,042 |
| Business-type activities..... | (15,235) | 50,450 | 99,467 |
| Total primary government..... | <u>\$ 55,478</u> | <u>\$ 316,462</u> | <u>\$ 758,509</u> |

^a Accrual-basis financial information for the State as a whole is available beginning with the fiscal year ended June 30, 2002, the year GASB Statement 34 was implemented.

^b Beginning with the fiscal year ended June 30, 2007, intergovernmental expenses are no longer reported as a function in the government-wide statements. The 2006 amounts have been reclassified to reflect this reporting change.

Note: Certain fiscal year data has been restated for consistency.

Source: South Carolina Comptroller General's Office

Ended June 30

| <u>2005</u> | <u>2006</u> | <u>2007</u> |
|----------------------------|----------------------------|----------------------------|
| \$ 2,762,538 | \$ 3,156,028 | \$ 3,349,358 |
| 3,221,466 | 3,613,754 | 3,803,732 |
| 1,469,701 | 1,753,214 | 1,787,974 |
| 26,391 | 18,664 | 15,642 |
| 32,628 | 69,438 | 134,196 |
| 73,231 | 67,841 | 79,912 |
| 71,090 | 67,012 | 61,926 |
| (714,238) | (784,746) | (951,021) |
| <u>6,942,807</u> | <u>7,961,205</u> | <u>8,281,719</u> |
| (556) | (539) | — |
| 714,238 | 784,746 | 951,021 |
| <u>713,682</u> | <u>784,207</u> | <u>951,021</u> |
| <u>7,656,489</u> | <u>8,745,412</u> | <u>9,232,740</u> |
| 1,286,898 | 1,465,409 | 901,526 |
| 214,108 | 298,249 | 465,186 |
| <u>\$ 1,501,006</u> | <u>\$ 1,763,658</u> | <u>\$ 1,366,712</u> |

Fund Balances

GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified accrual basis of accounting, expressed in thousands)

| | For the Fiscal Year | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 1998 | 1999 | 2000 | 2001 |
| General Fund | | | | |
| Reserved..... | \$ 286,945 | \$ 335,038 | \$ 388,139 | \$ 153,079 |
| Unreserved..... | (109,468) | 31,360 | 33,297 | (173,802) |
| Total General Fund..... | 177,477 | 366,398 | 421,436 | (20,723) |
| All other governmental funds | | | | |
| Reserved..... | 204,427 | 350,722 | 556,474 | 875,445 |
| Unreserved, reported in: | | | | |
| Special revenue funds..... | 940,885 | 1,351,951 | 1,260,987 | 2,308,638 |
| Capital projects fund..... | 64,290 | 91,507 | 105,214 | 125,157 |
| Permanent funds ^a | — | — | — | — |
| Total all other governmental funds..... | 1,209,602 | 1,794,180 | 1,922,675 | 3,309,240 |
| Total fund balances, governmental funds..... | \$ 1,387,079 | \$ 2,160,578 | \$ 2,344,111 | \$ 3,288,517 |

^a Prior to fiscal year 2002, activities of the permanent funds were reported in nonexpendable trust funds which are not included in the schedule.

Note: Certain fiscal year data has been restated for consistency.

Source: South Carolina Comptroller General's Office

Ended June 30

| <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| \$ 67,611 | \$ 57,982 | \$ 90,605 | \$ 142,662 | \$ 280,169 | \$ 413,157 |
| <u>(207,562)</u> | <u>(204,352)</u> | <u>(97,632)</u> | <u>345,437</u> | <u>833,676</u> | <u>679,780</u> |
| <u>(139,951)</u> | <u>(146,370)</u> | <u>(7,027)</u> | <u>488,099</u> | <u>1,113,845</u> | <u>1,092,937</u> |
| 1,521,120 | 1,644,870 | 1,902,990 | 1,942,261 | 2,027,383 | 2,153,086 |
| 1,435,046 | 1,083,312 | 961,307 | 1,224,530 | 614,501 | 1,454,483 |
| 112,525 | 104,289 | 178,711 | 183,763 | 307,633 | 240,134 |
| 579 | 839 | 970 | 983 | 496,290 | 1,070 |
| <u>3,069,270</u> | <u>2,833,310</u> | <u>3,043,978</u> | <u>3,351,537</u> | <u>3,445,807</u> | <u>3,848,773</u> |
| <u>\$ 2,929,319</u> | <u>\$ 2,686,940</u> | <u>\$ 3,036,951</u> | <u>\$ 3,839,636</u> | <u>\$ 4,559,652</u> | <u>\$ 4,941,710</u> |

Changes in Fund Balances

GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified accrual basis of accounting, dollars in thousands)

| | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|---|--------------------------|--------------------------|--------------------------|
| Revenues | | | |
| Taxes: | | | |
| Individual income..... | \$ 2,103,799 | \$ 2,282,509 | \$ 2,453,465 |
| Retail sales and use..... | 2,304,004 | 2,521,264 | 2,676,686 |
| Other..... | 1,190,605 | 1,274,366 | 1,227,671 |
| Licenses, fees, and permits..... | 281,242 | 290,530 | 306,067 |
| Interest and other investment income..... | 130,385 | 122,314 | 155,992 |
| Federal..... | 3,226,589 | 3,470,068 | 3,722,415 |
| Local and private grants..... | — | — | — |
| State grants..... | — | — | — |
| Departmental services..... | 540,048 | 539,864 | 539,856 |
| Contributions..... | 155,526 | 200,386 | 251,523 |
| Fines and penalties..... | 61,744 | 76,512 | 69,017 |
| Tobacco legal settlement..... | — | — | 96,274 |
| Other..... | 81,749 | 80,686 | 84,214 |
| Total revenues..... | <u>10,075,691</u> | <u>10,858,499</u> | <u>11,583,180</u> |
| Expenditures | | | |
| Current: | | | |
| General government..... | 352,065 | 355,558 | 422,935 |
| Education..... | 318,558 | 355,927 | 403,453 |
| Health and environment..... | 3,121,887 | 3,443,809 | 3,600,808 |
| Social services..... | 662,912 | 648,689 | 674,353 |
| Administration of justice..... | 592,556 | 632,872 | 694,845 |
| Resources and economic development..... | 160,242 | 159,546 | 180,403 |
| Transportation..... | 281,021 | 303,824 | 518,584 |
| Capital outlay..... | 461,153 | 504,814 | 583,761 |
| Debt service: | | | |
| Principal retirement..... | 110,076 | 90,786 | 107,621 |
| Interest and fiscal charges..... | 51,132 | 55,193 | 81,632 |
| Intergovernmental..... | 3,032,018 | 3,262,640 | 3,874,298 |
| Total expenditures..... | <u>9,143,620</u> | <u>9,813,658</u> | <u>11,142,693</u> |

For the Fiscal Year Ended June 30

| <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| \$ 2,492,877 | \$ 2,340,840 | \$ 2,287,989 | \$ 2,408,756 | \$ 2,765,012 | \$ 3,127,734 | \$ 3,337,312 |
| 2,705,207 | 2,771,191 | 2,817,138 | 2,996,073 | 3,225,931 | 3,631,350 | 3,805,628 |
| 1,244,551 | 1,244,487 | 1,292,376 | 1,373,468 | 1,437,920 | 1,740,273 | 1,762,708 |
| 309,017 | 270,005 | 390,390 | 415,445 | 462,186 | 493,527 | 519,707 |
| 246,987 | 194,743 | 157,858 | 75,349 | 122,958 | 157,015 | 273,949 |
| 4,180,091 | 4,596,726 | 5,014,039 | 5,659,928 | 5,975,208 | 5,949,905 | 5,770,911 |
| — | 9,299 | 9,330 | 9,183 | 9,924 | 11,448 | 9,715 |
| — | — | — | — | 3,469 | 65 | — |
| 564,562 | 638,330 | 703,823 | 668,252 | 640,350 | 727,251 | 638,441 |
| 159,803 | 178,427 | 335,846 | 534,455 | 681,174 | 406,031 | 373,238 |
| 74,959 | 82,893 | 81,532 | 105,601 | 107,197 | 111,480 | 113,340 |
| 73,747 | 88,291 | 86,313 | 74,180 | 73,231 | 67,841 | 79,912 |
| 100,828 | 121,945 | 124,038 | 86,796 | 84,203 | 98,457 | 126,857 |
| <u>12,152,629</u> | <u>12,537,177</u> | <u>13,300,672</u> | <u>14,407,486</u> | <u>15,588,763</u> | <u>16,522,377</u> | <u>16,811,718</u> |
| 488,865 | 491,678 | 475,705 | 533,227 | 613,314 | 633,822 | 857,359 |
| 443,540 | 485,133 | 632,906 | 652,102 | 680,676 | 752,980 | 811,465 |
| 4,200,086 | 4,218,410 | 4,512,620 | 4,931,105 | 5,129,240 | 5,143,590 | 5,243,672 |
| 720,602 | 803,313 | 844,927 | 874,703 | 999,624 | 1,048,720 | 1,143,967 |
| 716,462 | 644,270 | 644,896 | 574,404 | 582,748 | 637,444 | 698,429 |
| 198,351 | 180,203 | 162,798 | 154,066 | 179,635 | 198,445 | 231,468 |
| 324,207 | 435,384 | 559,466 | 614,220 | 629,430 | 779,985 | 742,299 |
| 663,500 | 627,588 | 525,284 | 531,822 | 607,683 | 623,365 | 342,857 |
| 139,977 | 185,031 | 231,533 | 220,265 | 243,050 | 250,785 | 264,967 |
| 102,435 | 226,568 | 236,281 | 239,553 | 252,889 | 257,609 | 254,938 |
| 4,132,596 | 4,530,261 | 4,469,022 | 4,594,739 | 4,678,620 | 4,985,632 | 5,113,092 |
| <u>12,130,621</u> | <u>12,827,839</u> | <u>13,295,438</u> | <u>13,920,206</u> | <u>14,596,909</u> | <u>15,312,377</u> | <u>15,704,513</u> |

Continued on Next Page

Changes in Fund Balances

GOVERNMENTAL FUNDS (Continued)

Last Ten Fiscal Years

(Modified accrual basis of accounting, dollars in thousands)

| | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|---|--------------------------|--------------------------|--------------------------|
| Excess of revenues over (under) expenditures..... | \$ 932,071 | \$ 1,044,841 | \$ 440,487 |
| Other financing sources (uses) | | | |
| Bonds and notes issued..... | 86,525 | 560,827 | 657,748 |
| Refunding bonds issued..... | — | — | — |
| Premiums on bonds issued..... | — | — | — |
| Discounts on bonds issued..... | — | — | — |
| Capital leases..... | 417 | 7,448 | 151 |
| Payments to refunded bond escrow agent..... | — | — | — |
| Transfers in..... | 127,597 | 115,326 | 209,991 |
| Transfers out..... | <u>(870,319)</u> | <u>(949,994)</u> | <u>(1,144,753)</u> |
| Total other financing sources (uses)..... | <u>(655,780)</u> | <u>(266,393)</u> | <u>(276,863)</u> |
| Increase (decrease) in reserve for inventories ^a..... | <u>(437)</u> | <u>(4,949)</u> | <u>779</u> |
| Net change in fund balances..... | <u>\$ 275,854</u> | <u>\$ 773,499</u> | <u>\$ 164,403</u> |
| Debt service as a percentage of noncapital expenditures..... | b | b | b |

^a Effective July 1, 2001, the State began applying the consumption method to its inventories in governmental funds, rather than the purchases method.

^b Debt service as a percentage of noncapital expenditures calculations is available beginning with the fiscal year ended June 30, 2002, the year GASB Statement 34 was implemented.

Note: Certain fiscal year data has been restated for consistency.

Source: South Carolina Comptroller General's Office

For the Fiscal Year Ended June 30

| <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--------------------|---------------------|---------------------|--------------------|-------------------|--------------------|--------------------|
| \$ 22,008 | \$ (290,662) | \$ 5,234 | \$ 487,280 | \$ 991,854 | \$ 1,210,000 | \$ 1,107,205 |
| 1,992,249 | 646,571 | 492,895 | 467,795 | 303,820 | 289,475 | 306,991 |
| — | — | 105,415 | 524,860 | 448,160 | 221,045 | 102,015 |
| — | 14,858 | 11,323 | 11,334 | 41,225 | 22,222 | 9,456 |
| — | (1,461) | — | — | — | — | (8) |
| 315 | 140 | 1,088 | — | 700 | 250 | — |
| — | — | (106,267) | (524,606) | (332,801) | (241,235) | (118,350) |
| 261,620 | 348,088 | 408,663 | 552,574 | 205,963 | 488,833 | 384,755 |
| <u>(1,311,278)</u> | <u>(1,207,429)</u> | <u>(1,160,730)</u> | <u>(1,206,111)</u> | <u>(915,263)</u> | <u>(1,270,574)</u> | <u>(1,410,006)</u> |
| <u>942,906</u> | <u>(199,233)</u> | <u>(247,613)</u> | <u>(174,154)</u> | <u>(248,196)</u> | <u>(489,984)</u> | <u>(725,147)</u> |
| (5,119) | — | — | — | — | — | — |
| <u>\$ 959,795</u> | <u>\$ (489,895)</u> | <u>\$ (242,379)</u> | <u>\$ 313,126</u> | <u>\$ 743,658</u> | <u>\$ 720,016</u> | <u>\$ 382,058</u> |
| b | 3.5% | 3.7% | 3.5% | 3.6% | 3.5% | 3.4% |

Personal Income by Industry

Last Ten Calendar Years
(Dollars in millions)

| Sources | 1997 | 1998 | 1999 | 2000 |
|--|------------------|------------------|------------------|------------------|
| Farm earnings..... | \$ 474 | \$ 341 | \$ 418 | \$ 489 |
| Agricultural services, forestry, fishing, and other..... | 366 | 413 | 452 | 472 |
| Mining..... | 92 | 89 | 96 | 96 |
| Construction..... | 4,017 | 4,495 | 4,839 | 5,083 |
| Manufacturing..... | 14,437 | 14,899 | 14,701 | 15,443 |
| Transportation and public utilities..... | 3,234 | 3,437 | 4,416 | 4,771 |
| Wholesale trade..... | 2,884 | 3,231 | 3,543 | 3,718 |
| Retail trade..... | 6,340 | 6,750 | 7,224 | 7,418 |
| Finance, insurance, and real estate..... | 3,447 | 3,877 | 4,336 | 4,484 |
| Services..... | 12,529 | 13,799 | 14,899 | 15,998 |
| Federal government, civilian..... | 1,613 | 1,678 | 1,739 | 1,874 |
| Military..... | 1,792 | 1,857 | 2,051 | 2,167 |
| State and local government..... | 8,420 | 8,987 | 9,649 | 10,428 |
| Other ^a | 21,359 | 23,001 | 23,353 | 25,829 |
| Total personal income..... | \$ 81,004 | \$ 86,854 | \$ 91,716 | \$ 98,270 |
| Average effective rate ^c | 2.3% | 2.3% | 2.2% | 2.1% |

^a Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.

^b The employment classification coding system changed from the Standard Industrial Code basis to the North American Classification System in calendar year 2001. Prior calendar years were not reclassified.

^c The total direct tax rate for personal income is not available. Average effective rate equals total personal income tax liability divided by total personal income.

^d Information not yet available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

| Calendar Year | | | | | |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 2001 ^b | 2002 | 2003 | 2004 | 2005 | 2006 |
| \$ 587 | \$ 190 | \$ 563 | \$ 580 | \$ 486 | \$ 434 |
| 366 | 332 | 346 | 343 | 352 | 373 |
| 98 | 92 | 98 | 104 | 107 | 111 |
| 5,243 | 5,248 | 5,483 | 5,853 | 6,358 | 7,068 |
| 14,522 | 14,781 | 15,183 | 14,993 | 15,230 | 15,542 |
| 3,104 | 3,158 | 3,294 | 3,611 | 3,777 | 4,014 |
| 3,179 | 3,305 | 3,323 | 3,684 | 4,115 | 4,480 |
| 6,178 | 6,281 | 6,444 | 6,714 | 7,042 | 7,339 |
| 4,788 | 5,114 | 5,431 | 5,645 | 6,082 | 6,586 |
| 21,353 | 22,055 | 23,012 | 24,946 | 26,477 | 28,157 |
| 1,841 | 1,984 | 2,023 | 2,220 | 2,331 | 2,496 |
| 2,210 | 2,483 | 2,798 | 3,087 | 3,314 | 3,445 |
| 10,853 | 11,256 | 11,671 | 12,210 | 12,995 | 13,713 |
| 27,145 | 27,767 | 27,534 | 29,358 | 32,063 | 34,533 |
| \$ 101,467 | \$ 104,046 | \$ 107,203 | \$ 113,348 | \$ 120,729 | \$ 128,291 |
| 2.2% | 2.1% | 2.1% | 2.2% | 2.2% | d |

Taxable Sales by Industry

Last Eight Fiscal Years^a
(Expressed in millions)

| Sources | For the Fiscal Year | | | |
|---|---------------------|------------------|------------------|------------------|
| | 2000 | 2001 | 2002 | 2003 |
| Retail trade..... | \$ 33,814 | \$ 32,845 | \$ 33,980 | \$ 34,692 |
| Services..... | 4,279 | 4,213 | 4,119 | 4,222 |
| Transportation, communication, and utilities..... | 2,945 | 3,420 | 3,533 | 3,587 |
| Wholesale trade..... | 3,231 | 3,105 | 3,002 | 3,041 |
| Other..... | 930 | 902 | 843 | 863 |
| Total taxable sales..... | \$ 45,199 | \$ 44,485 | \$ 45,477 | \$ 46,405 |

Percent Distribution of Taxable Sales by Industry

Last Eight Fiscal Years^a

| Sources | For the Fiscal Year | | | |
|---|---------------------|---------------|---------------|---------------|
| | 2000 | 2001 | 2002 | 2003 |
| Retail trade..... | 74.8% | 73.8% | 74.7% | 74.8% |
| Services..... | 9.5% | 9.5% | 9.1% | 9.1% |
| Transportation, communication, and utilities..... | 6.5% | 7.7% | 7.8% | 7.7% |
| Wholesale trade..... | 7.1% | 7.0% | 6.6% | 6.5% |
| Other..... | 2.1% | 2.0% | 1.8% | 1.9% |
| Total taxable sales..... | 100.0% | 100.0% | 100.0% | 100.0% |
| Sales tax rate^b..... | 5.0% | 5.0% | 5.0% | 5.0% |

^a Information for periods prior to fiscal year 2000 is not available.

^b Excludes the 2% accommodations tax and the local option sales tax; includes the 4% retail sales tax (5% beginning June 1, 2007) and 1% Education Improvement Act sales tax.

Note: Due to confidentiality issues, the names of the ten largest sales tax revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's sales tax revenues.

Source: South Carolina Department of Revenue

Ended June 30

| 2004 | 2005 | 2006 | 2007 |
|------------------|------------------|------------------|------------------|
| \$ 38,118 | \$ 41,133 | \$ 44,258 | \$ 47,331 |
| 4,552 | 4,747 | 5,172 | 5,426 |
| 4,054 | 4,175 | 4,682 | 5,041 |
| 2,950 | 3,173 | 3,466 | 2,851 |
| 1,073 | 1,390 | 1,781 | 1,935 |
| \$ 50,747 | \$ 54,618 | \$ 59,359 | \$ 62,584 |

Ended June 30

| 2004 | 2005 | 2006 | 2007 |
|---------------|---------------|---------------|---------------|
| 75.1% | 75.3% | 74.6% | 75.6% |
| 9.0% | 8.7% | 8.7% | 8.7% |
| 8.0% | 7.6% | 7.9% | 8.1% |
| 5.8% | 5.8% | 5.8% | 4.5% |
| 2.1% | 2.6% | 3.0% | 3.1% |
| 100.0% | 100.0% | 100.0% | 100.0% |
| 5.0% | 5.0% | 5.0% | 6.0% |

Personal Income Tax Rates

Last Ten Calendar Years

| Tax Year | Tax Rates | Number of Brackets | Income Brackets | | Average Effective Rate ^a |
|----------|-------------|--------------------|-----------------|-----------|-------------------------------------|
| | | | Low | High | |
| 1997 | 2.5% – 7.0% | 6 | \$ 2,280 | \$ 11,400 | 2.3% |
| 1998 | 2.5% – 7.0% | 6 | 2,310 | 11,550 | 2.3% |
| 1999 | 2.5% – 7.0% | 6 | 2,340 | 11,700 | 2.2% |
| 2000 | 2.5% – 7.0% | 6 | 2,360 | 11,800 | 2.1% |
| 2001 | 2.5% – 7.0% | 6 | 2,400 | 12,000 | 2.2% |
| 2002 | 2.5% – 7.0% | 6 | 2,440 | 12,200 | 2.1% |
| 2003 | 2.5% – 7.0% | 6 | 2,460 | 12,300 | 2.1% |
| 2004 | 2.5% – 7.0% | 6 | 2,500 | 12,500 | 2.2% |
| 2005 | 2.5% – 7.0% | 6 | 2,530 | 12,650 | 2.2% |
| 2006 | 2.5% – 7.0% | 6 | 2,570 | 12,850 | ^b |

^a The total direct tax rate for personal income is not available. Average effective rate equals total personal income tax liability divided by total personal income.

^b Not yet available.

Note: The legislature can raise the sales or income tax rates by legislation; no vote of the populace is required. The State's personal income tax brackets are adjusted each year for inflation.

Source: South Carolina Department of Revenue

Personal Income Tax Filers and Liability by Income Level

Calendar Years 2005 and 1996

(Dollars, except Income Level, expressed in thousands)

| 2005 ^a | | | | |
|-------------------------------|-------------------------|------------------------|-------------------------------------|------------------------|
| State Taxable Income Level | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total |
| \$100,001 and higher | 68,007 | 3.5% | \$ 1,088,678 | 40.3% |
| \$75,001 - \$100,000 | 51,773 | 2.7% | 269,727 | 10.0% |
| \$50,001 - \$75,000 | 127,435 | 6.7% | 456,564 | 16.9% |
| \$25,001 - \$50,000 | 287,719 | 15.1% | 570,003 | 21.1% |
| \$10,001 - \$25,000 | 356,077 | 18.7% | 270,437 | 10.0% |
| \$10,000 and lower | 1,015,980 | 53.3% | 48,050 | 1.7% |
| Total | <u>1,906,991</u> | <u>100.0%</u> | <u>\$ 2,703,459</u> | <u>100.0%</u> |

| 1996 | | | | |
|-------------------------------|-------------------------|------------------------|-------------------------------------|------------------------|
| State Taxable Income Level | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total |
| \$100,001 and higher | 29,445 | 1.7% | \$ 434,629 | 25.4% |
| \$75,001 - \$100,000 | 23,746 | 1.4% | 122,614 | 7.2% |
| \$50,001 - \$75,000 | 81,965 | 4.8% | 283,171 | 16.5% |
| \$25,001 - \$50,000 | 281,465 | 16.7% | 533,331 | 31.1% |
| \$10,001 - \$25,000 | 388,482 | 23.0% | 281,392 | 16.4% |
| \$10,000 and lower | 886,683 | 52.4% | 57,658 | 3.4% |
| Total | <u>1,691,786</u> | <u>100.0%</u> | <u>\$ 1,712,795</u> | <u>100.0%</u> |

^a Information for 2006 not yet available.

Note: Due to confidentiality issues, the names of the largest personal income tax payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's individual income tax revenues.

Source: South Carolina Department of Revenue

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(Dollars in thousands unless otherwise indicated)

| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| Governmental Activities | | | | |
| General obligation bonds..... | \$ 951,577 | \$ 1,139,782 | \$ 1,392,192 | \$ 2,054,526 |
| Limited obligation bonds..... | 35,569 | 38,206 | 35,175 | 34,003 |
| Tobacco Authority bonds..... | — | — | — | 934,530 |
| Infrastructure Bank bonds..... | — | 275,000 | 574,275 | 832,575 |
| Revenue bonds..... | — | — | — | — |
| Notes payable..... | 2,865 | 2,299 | 5,429 | 7,026 |
| Capital leases..... | <u>17,759</u> | <u>15,593</u> | <u>12,646</u> | <u>10,042</u> |
| Total governmental activities..... | <u>1,007,770</u> | <u>1,470,880</u> | <u>2,019,717</u> | <u>3,872,702</u> |
| Business-Type Activities | | | | |
| General obligation bonds..... | 84,465 | 78,305 | 99,945 | 96,310 |
| General obligation bonds anticipation notes payable.... | — | — | — | — |
| Revenue bonds..... | 1,079,103 | 1,100,686 | 1,266,445 | 1,283,584 |
| Revenue bonds anticipation notes payable..... | — | — | — | — |
| Notes payable..... | 152,673 | 167,012 | 184,651 | 176,703 |
| Certificates of participation payable..... | 21,466 | 20,698 | 19,882 | 19,010 |
| Capital leases..... | <u>22,993</u> | <u>33,201</u> | <u>48,109</u> | <u>47,782</u> |
| Total business-type activities..... | <u>1,360,700</u> | <u>1,399,902</u> | <u>1,619,032</u> | <u>1,623,389</u> |
| Total primary government..... | <u>\$ 2,368,470</u> | <u>\$ 2,870,782</u> | <u>\$ 3,638,749</u> | <u>\$ 5,496,091</u> |
| Debt as a percentage of personal income..... | 2.7% | 3.1% | 3.7% | 5.4% |
| Debt per capita expressed in actual dollars..... | \$604 | \$722 | \$904 | \$1,353 |

^a Not yet available.

Source: South Carolina Comptroller General's Office

For the Fiscal Year Ended June 30

| <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| \$ 2,204,129 | \$ 2,239,207 | \$ 2,266,261 | \$ 2,298,253 | \$ 2,405,119 | \$ 2,214,865 |
| 30,597 | 27,040 | 23,304 | 19,392 | 15,291 | 10,985 |
| 902,920 | 869,870 | 845,630 | 820,905 | 796,900 | 769,755 |
| 1,193,046 | 1,463,582 | 1,725,514 | 1,947,393 | 1,917,706 | 2,162,973 |
| — | 26,034 | 24,802 | 23,521 | 22,169 | 41,044 |
| 4,398 | 7,395 | 8,884 | 10,311 | 21,021 | 15,622 |
| 8,185 | 4,106 | 3,256 | 2,856 | 1,894 | 939 |
| <u>4,343,275</u> | <u>4,637,234</u> | <u>4,897,651</u> | <u>5,122,631</u> | <u>5,180,100</u> | <u>5,216,183</u> |
| 134,235 | 208,968 | 242,740 | 230,423 | 249,514 | 356,795 |
| 8,400 | — | — | — | — | — |
| 1,417,382 | 1,480,054 | 1,542,828 | 2,312,032 | 2,532,352 | 2,709,144 |
| 16,400 | 28,025 | 44,310 | 9,345 | 6,855 | 4,500 |
| 157,216 | 163,134 | 207,276 | 224,080 | 249,674 | 253,357 |
| 18,036 | 13,525 | — | — | — | — |
| 46,633 | 65,445 | 54,585 | 52,555 | 44,987 | 46,069 |
| <u>1,798,302</u> | <u>1,959,151</u> | <u>2,091,739</u> | <u>2,828,435</u> | <u>3,083,382</u> | <u>3,369,865</u> |
| <u>\$ 6,141,577</u> | <u>\$ 6,596,385</u> | <u>\$ 6,989,390</u> | <u>\$ 7,951,066</u> | <u>\$ 8,263,482</u> | <u>\$ 8,586,048</u> |
| 5.9% | 6.2% | 6.2% | 6.6% | 6.4% | a |
| \$1,498 | \$1,592 | \$1,666 | \$1,872 | \$1,912 | a |

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years

(Dollars in thousands unless otherwise indicated)

| | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|---|----------------------------|----------------------------|----------------------------|
| Governmental Activities | | | |
| Capital improvement bonds..... | \$ 813,712 | \$ 806,237 | \$ 815,252 |
| State highway bonds..... | 137,865 | 333,545 | 326,940 |
| State school facilities bonds..... | — | — | 250,000 |
| Infrastructure Bank bonds..... | — | — | — |
| State economic development bonds..... | — | — | — |
| Research university infrastructure bonds..... | — | — | — |
| Total governmental activities..... | <u>951,577</u> | <u>1,139,782</u> | <u>1,392,192</u> |
| Business-Type Activities | | | |
| State institution bonds..... | <u>84,465</u> | <u>78,305</u> | <u>99,945</u> |
| Total primary government..... | <u>\$ 1,036,042</u> | <u>\$ 1,218,087</u> | <u>\$ 1,492,137</u> |
| Debt as a percentage of personal income..... | 1.2% | 1.3% | 1.5% |
| Debt per capita expressed in actual dollars..... | \$264 | \$306 | \$371 |

^a Not yet available.

Source: South Carolina Comptroller General's Office

For the Fiscal Year Ended June 30

| <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| \$ 893,941 | \$ 931,044 | \$ 919,382 | \$ 917,949 | \$ 801,626 | \$ 693,815 | \$ 603,762 |
| 672,135 | 651,135 | 630,730 | 609,939 | 725,434 | 699,669 | 663,582 |
| 488,450 | 621,950 | 689,095 | 650,565 | 611,126 | 567,873 | 523,305 |
| — | — | — | 60,333 | 58,785 | 57,171 | 55,491 |
| — | — | — | 27,475 | 101,282 | 238,109 | 227,992 |
| — | — | — | — | — | 148,482 | 140,733 |
| <u>2,054,526</u> | <u>2,204,129</u> | <u>2,239,207</u> | <u>2,266,261</u> | <u>2,298,253</u> | <u>2,405,119</u> | <u>2,214,865</u> |
| | | | | | | |
| <u>96,310</u> | <u>134,235</u> | <u>208,968</u> | <u>242,740</u> | <u>230,423</u> | <u>249,514</u> | <u>356,795</u> |
| <u>\$ 2,150,836</u> | <u>\$ 2,338,364</u> | <u>\$ 2,448,175</u> | <u>\$ 2,509,001</u> | <u>\$ 2,528,676</u> | <u>\$ 2,654,633</u> | <u>\$ 2,571,660</u> |
| | | | | | | |
| 2.1% | 2.2% | 2.3% | 2.2% | 2.1% | 2.1% | a |
| | | | | | | |
| \$530 | \$570 | \$591 | \$598 | \$595 | \$614 | a |

Computation of Legal Debt Margin

June 30, 2007

(Expressed in Thousands)

Section 59-107-90 of the South Carolina Code of Laws states that the maximum amount of annual debt service on institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year.

Section 57-11-240 of the South Carolina Code of Laws and Article X, Section 13 of the South Carolina Constitution state that highway bonds may be issued if such bonds are additionally secured by a pledge of revenues designated by the General Assembly for State highway purposes from taxes or licenses imposed for using the public highways of the State. The maximum annual debt service on all highway bonds shall not exceed fifteen percent of the proceeds received from the designated revenues for the fiscal year next preceding.

Section 11-51-50 of the South Carolina Code of Laws states that the issuance of general obligation bonds of the State must be limited so that the maximum annual debt service on all general obligation bonds of the State (excluding highway bonds, State institution bonds, tax anticipation notes, and bond anticipation notes) may not exceed six percent of the general revenues of the State for the fiscal year next preceding (excluding revenues which are authorized to be pledged for state highway bonds and state institution bonds).

Section 11-41-60 states that the maximum annual debt service on economic development bonds may not exceed one-half of one percent of the general revenues of the State for the fiscal year next preceding (excluding revenues which are authorized to be pledged for state highway bonds and state institution bonds).

Section 11-51-50 also states that the maximum annual debt service on research university infrastructure bonds may not exceed one-half of one percent of the general revenues of the State for the fiscal year next preceding (excluding revenues which are authorized to be pledged for state highway bonds and state institution bonds).

INSTITUTION BONDS

| <u>Institution</u> | <u>Prior Year Revenues</u> | <u>90% Computation</u> | <u>Maximum Debt Service</u> | <u>Margin</u> |
|--|--------------------------------|----------------------------|---------------------------------|------------------|
| The Citadel..... | \$ 585 | \$ 527 | \$ 258 | \$ 269 |
| Clemson University..... | 8,733 | 7,860 | 6,025 | 1,835 |
| Coastal Carolina University..... | 1,688 | 1,519 | 1,435 | 84 |
| College of Charleston..... | 1,230 | 1,107 | 573 | 534 |
| Francis Marion University..... | 212 | 191 | 156 | 35 |
| Lander University..... | 15,098 | 13,588 | 1,383 | 12,205 |
| Medical University of South Carolina..... | 39,038 | 35,134 | 5,128 | 30,006 |
| South Carolina State University ^a | 2,446 | 2,201 | 2,731 | (530) |
| University of South Carolina..... | 15,707 | 14,136 | 11,287 | 2,849 |
| Winthrop University..... | 5,638 | 5,074 | 3,059 | 2,015 |
| Central Carolina Technical College..... | 765 | 689 | 202 | 487 |
| Midlands Technical College..... | 1,800 | 1,620 | 1,395 | 225 |
| Tri-County Technical College..... | 1,078 | 970 | 735 | 235 |
| Totals..... | \$ 94,018 | \$ 84,616 | \$ 34,367 | \$ 50,249 |

HIGHWAY BONDS

| | |
|--|------------------|
| 2005-2006 Budgetary General Fund revenues pledged for highway bonds..... | \$ 51,111 |
| 2005-2006 other revenues pledged for highway bonds..... | 589,745 |
| 2005-2006 revenues pledged for highway bonds..... | 640,856 |
| 15% of 2005-2006 revenues pledged for highway bonds..... | 96,128 |
| Less: maximum annual debt service for highway bonds ^b | 71,766 |
| Legal debt service margin at June 30, 2007--highway bonds..... | \$ 24,362 |

Computation of Legal Debt Margin (Continued)

June 30, 2007

(Expressed in Thousands)

**GENERAL OBLIGATION BONDS (EXCLUDING INSTITUTION BONDS, HIGHWAY BONDS,
AND ANTICIPATION NOTES)**

| | | |
|--|-----------|------------------------------|
| 2005-2006 Budgetary General Fund revenues | \$ | 6,226,027 |
| Less: 2005-2006 Budgetary General Fund revenues pledged for highway bonds ^c | | 51,111 |
| 2005-2006 net Budgetary General Fund revenues..... | | <u>6,174,916</u> |
| 6% of 2005-2006 net Budgetary General Fund revenues..... | | 370,495 |
| Less: maximum annual debt service for general obligation bonds excluding institution and highway bonds and bond anticipation notes ^d | | <u>225,409</u> |
| Legal debt service margin at June 30, 2007--general obligation bonds excluding institution and highway bonds and bond anticipation notes..... | \$ | <u><u>145,086</u></u> |

ECONOMIC DEVELOPMENT BONDS

| | | |
|--|-----------|----------------------------|
| 2005-2006 Budgetary General Fund revenues | \$ | 6,226,027 |
| Less: 2005-2006 Budgetary General Fund revenues pledged for highway bonds ^c | | 51,111 |
| 2005-2006 net Budgetary General Fund revenues..... | | <u>6,174,916</u> |
| 0.5% of 2005-2006 net Budgetary General Fund revenues..... | | 30,875 |
| Less: maximum annual debt service for economic development bonds ^d | | <u>21,284</u> |
| Legal debt service margin at June 30, 2007--economic development bonds..... | \$ | <u><u>9,591</u></u> |

RESEARCH UNIVERSITY INFRASTRUCTURE BONDS

| | | |
|---|-----------|-----------------------------|
| 2005-2006 Budgetary General Fund revenues | \$ | 6,226,027 |
| Less: 2005-2006 Budgetary General Fund revenues pledged for highway bonds ^c | | 51,111 |
| 2005-2006 net Budgetary General Fund revenues..... | | <u>6,174,916</u> |
| 0.5% of 2005-2006 net Budgetary General Fund revenues..... | | 30,875 |
| Less: maximum annual debt service for research university infrastructure bonds ^d | | <u>13,882</u> |
| Legal debt service margin at June 30, 2007--research university infrastructure bonds..... | \$ | <u><u>16,993</u></u> |

^a South Carolina State University exceeded its legal debt service limit on its State institution bonds by approximately \$530 thousand at June 20, 2007. The University will adjust tuition fees in subsequent years to cover the debt requirement.

^b As of June 30, 2007, the maximum annual debt service will occur in the fiscal year ending June 30, 2009.

^c For the fiscal year ended June 30, 2007, there were no net Budgetary General Fund revenues pledged for State institution bonds and anticipation notes.

^d As of June 30, 2007, the maximum annual debt service will occur in the fiscal year ending June 30, 2008.

Source: South Carolina Comptroller General's Office

Legal Debt Margin Information

Last Ten Fiscal Years
(Dollars in thousands)

| | 1998 | 1999 | 2000 |
|--|-------------|------------------|------------------|
| <u>State Institution Bonds</u>^a | | | |
| The Citadel | | | |
| Debt service limitation..... | \$ — | \$ 439 | \$ 439 |
| Debt service applicable to limit..... | — | 206 | 206 |
| Legal debt margin at June 30..... | \$ — | \$ 233 | \$ 233 |
| Legal debt margin as a percentage of debt service limitation..... | — | 53.1% | 53.1% |
| Clemson University | | | |
| Debt service limitation..... | \$ — | \$ 77,977 | \$ 77,977 |
| Debt service applicable to limit..... | — | 1,542 | 1,542 |
| Legal debt margin at June 30..... | \$ — | \$ 76,435 | \$ 76,435 |
| Legal debt margin as a percentage of debt service limitation..... | — | 98.0% | 98.0% |
| Coastal Carolina University | | | |
| Debt service limitation..... | \$ — | \$ 19,231 | \$ 527 |
| Debt service applicable to limit..... | — | 343 | 343 |
| Legal debt margin at June 30..... | \$ — | \$ 18,888 | \$ 184 |
| Legal debt margin as a percentage of debt service limitation..... | — | 98.2% | 34.9% |
| College of Charleston | | | |
| Debt service limitation..... | \$ — | \$ — | \$ — |
| Debt service applicable to limit..... | — | — | — |
| Legal debt margin at June 30..... | \$ — | \$ — | \$ — |
| Legal debt margin as a percentage of debt service limitation..... | — | — | — |
| Francis Marion University | | | |
| Debt service limitation..... | \$ — | \$ — | \$ — |
| Debt service applicable to limit..... | — | — | — |
| Legal debt margin at June 30..... | \$ — | \$ — | \$ — |
| Legal debt margin as a percentage of debt service limitation..... | — | — | — |
| Lander University | | | |
| Debt service limitation..... | \$ — | \$ — | \$ — |
| Debt service applicable to limit..... | — | — | — |
| Legal debt margin at June 30..... | \$ — | \$ — | \$ — |
| Legal debt margin as a percentage of debt service limitation..... | — | — | — |

| <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| \$ 449 | \$ 475 | \$ 505 | \$ 503 | \$ 506 | \$ 515 | \$ 527 |
| 206 | 461 | 460 | 460 | 457 | 457 | 258 |
| \$ 243 | \$ 14 | \$ 45 | \$ 43 | \$ 49 | \$ 58 | \$ 269 |
| 54.1% | 2.9% | 8.9% | 8.5% | 9.7% | 11.3% | 51.0% |
| \$ 3,211 | \$ 3,893 | \$ 4,359 | \$ 6,188 | \$ 6,193 | \$ 6,408 | \$ 7,860 |
| 1,542 | 1,542 | 4,046 | 4,800 | 4,800 | 4,800 | 6,025 |
| \$ 1,669 | \$ 2,351 | \$ 313 | \$ 1,388 | \$ 1,393 | \$ 1,608 | \$ 1,835 |
| 52.0% | 60.4% | 7.2% | 22.4% | 22.5% | 25.1% | 23.3% |
| \$ 519 | \$ — | \$ 757 | \$ 778 | \$ 871 | \$ 1,210 | \$ 1,519 |
| 340 | — | 696 | 696 | 696 | 696 | 1,435 |
| \$ 179 | \$ — | \$ 61 | \$ 82 | \$ 175 | \$ 514 | \$ 84 |
| 34.5% | — | 8.1% | 10.5% | 20.1% | 42.5% | 5.5% |
| \$ — | \$ — | \$ 2,250 | \$ 3,776 | \$ 3,793 | \$ 1,186 | \$ 1,107 |
| — | — | 573 | 573 | 573 | 573 | 573 |
| \$ — | \$ — | \$ 1,677 | \$ 3,203 | \$ 3,220 | \$ 613 | \$ 534 |
| — | — | 74.5% | 84.8% | 84.9% | 51.7% | 48.2% |
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ 185 | \$ 191 |
| — | — | — | — | — | 156 | 156 |
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ 29 | \$ 35 |
| — | — | — | — | — | 15.7% | 18.3% |
| \$ — | \$ — | \$ — | \$ 10,771 | \$ 11,107 | \$ 12,342 | \$ 13,588 |
| — | — | — | 788 | 775 | 1,388 | 1,383 |
| \$ — | \$ — | \$ — | \$ 9,983 | \$ 10,332 | \$ 10,954 | \$ 12,205 |
| — | — | — | 92.7% | 93.0% | 88.8% | 89.8% |

Continued on Next Page

Legal Debt Margin Information (Continued)

Last Ten Fiscal Years
(Dollars in thousands)

| | 1998 | 1999 | 2000 |
|--|-------------|------------------|------------------|
| State Institution Bonds ^a | | | |
| Medical University of South Carolina | | | |
| Debt service limitation..... | \$ — | \$ 6,843 | \$ 7,578 |
| Debt service applicable to limit..... | — | 1,453 | 3,631 |
| Legal debt margin at June 30..... | \$ — | \$ 5,390 | \$ 3,947 |
| Legal debt margin as a percentage of debt service limitation..... | — | 78.8% | 52.1% |
| South Carolina State University | | | |
| Debt service limitation..... | \$ — | \$ — | \$ — |
| Debt service applicable to limit..... | — | — | — |
| Legal debt margin at June 30..... | \$ — | \$ — | \$ — |
| Legal debt margin as a percentage of debt service limitation..... | — | — | — |
| University of South Carolina | | | |
| Debt service limitation..... | \$ — | \$ 5,937 | \$ 6,448 |
| Debt service applicable to limit..... | — | 4,361 | 4,361 |
| Legal debt margin at June 30..... | \$ — | \$ 1,576 | \$ 2,087 |
| Legal debt margin as a percentage of debt service limitation..... | — | 26.5% | 32.4% |
| Winthrop University | | | |
| Debt service limitation..... | \$ — | \$ 594 | \$ 594 |
| Debt service applicable to limit..... | — | 406 | 406 |
| Legal debt margin at June 30..... | \$ — | \$ 188 | \$ 188 |
| Legal debt margin as a percentage of debt service limitation..... | — | 31.6% | 31.6% |
| Central Carolina Technical College | | | |
| Debt service limitation..... | \$ — | \$ 3,083 | \$ 2,840 |
| Debt service applicable to limit..... | — | 202 | 202 |
| Legal debt margin at June 30..... | \$ — | \$ 2,881 | \$ 2,638 |
| Legal debt margin as a percentage of debt service limitation..... | — | 93.4% | 92.9% |
| Greenville Technical College | | | |
| Debt service limitation..... | \$ — | \$ 12,961 | \$ 14,298 |
| Debt service applicable to limit..... | — | 124 | 118 |
| Legal debt margin at June 30..... | \$ — | \$ 12,837 | \$ 14,180 |
| Legal debt margin as a percentage of debt service limitation..... | — | 99.0% | 99.2% |

| <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| \$ 7,520 | \$ 9,266 | \$ 10,369 | \$ 10,385 | \$ 18,806 | \$ 29,856 | \$ 35,134 |
| <u>3,631</u> | <u>4,300</u> | <u>4,938</u> | <u>5,776</u> | <u>5,747</u> | <u>5,657</u> | <u>5,128</u> |
| \$ 3,889 | \$ 4,966 | \$ 5,431 | \$ 4,609 | \$ 13,059 | \$ 24,199 | \$ 30,006 |
| 51.7% | 53.6% | 52.4% | 44.4% | 69.4% | 81.1% | 85.4% |
| \$ — | \$ — | \$ 611 | \$ 610 | \$ 656 | \$ 963 | \$ 2,201 |
| <u>—</u> | <u>—</u> | <u>318</u> | <u>318</u> | <u>318</u> | <u>318</u> | <u>2,731</u> |
| \$ — | \$ — | \$ 293 | \$ 292 | \$ 338 | \$ 645 | \$ (530) |
| — | — | 48.0% | 47.9% | 51.5% | 67.0% | -24.1% |
| \$ 7,026 | \$ 7,651 | \$ 8,794 | \$ 9,009 | \$ 10,316 | \$ 12,704 | \$ 14,136 |
| <u>4,361</u> | <u>6,987</u> | <u>6,522</u> | <u>7,054</u> | <u>7,054</u> | <u>7,054</u> | <u>11,287</u> |
| \$ 2,665 | \$ 664 | \$ 2,272 | \$ 1,955 | \$ 3,262 | \$ 5,650 | \$ 2,849 |
| 37.9% | 8.7% | 25.8% | 21.7% | 31.6% | 44.5% | 20.2% |
| \$ 878 | \$ 798 | \$ 1,071 | \$ 1,399 | \$ 2,969 | \$ 4,244 | \$ 5,074 |
| <u>568</u> | <u>665</u> | <u>910</u> | <u>1,318</u> | <u>1,318</u> | <u>3,077</u> | <u>3,059</u> |
| \$ 310 | \$ 133 | \$ 161 | \$ 81 | \$ 1,651 | \$ 1,167 | \$ 2,015 |
| 35.3% | 16.7% | 15.0% | 5.8% | 55.6% | 27.5% | 39.7% |
| \$ 203 | \$ 243 | \$ 655 | \$ 763 | \$ 743 | \$ 759 | \$ 689 |
| <u>202</u> | <u>202</u> | <u>202</u> | <u>202</u> | <u>202</u> | <u>202</u> | <u>202</u> |
| \$ 1 | \$ 41 | \$ 453 | \$ 561 | \$ 541 | \$ 557 | \$ 487 |
| 0.5% | 16.9% | 69.2% | 73.5% | 72.8% | 73.4% | 70.7% |
| \$ 148 | \$ 161 | \$ — | \$ — | \$ — | \$ — | \$ — |
| <u>112</u> | <u>106</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| \$ 36 | \$ 55 | \$ — | \$ — | \$ — | \$ — | \$ — |
| 24.3% | 34.2% | — | — | — | — | — |

Continued on Next Page

Legal Debt Margin Information (Continued)

Last Ten Fiscal Years
(Dollars in thousands)

| | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|--|-------------------------|--------------------------|-------------------------|
| <u>State Institution Bonds</u>^a | | | |
| Midlands Technical College | | | |
| Debt service limitation..... | \$ — | \$ 12,018 | \$ 12,903 |
| Debt service applicable to limit..... | — | 832 | 832 |
| Legal debt margin at June 30..... | <u>\$ —</u> | <u>\$ 11,186</u> | <u>\$ 12,071</u> |
| Legal debt margin as a percentage of debt service limitation..... | — | 93.1% | 93.6% |
| Tri-County Technical College | | | |
| Debt service limitation..... | \$ — | \$ 752 | \$ 904 |
| Debt service applicable to limit..... | — | 735 | 735 |
| Legal debt margin at June 30..... | <u>\$ —</u> | <u>\$ 17</u> | <u>\$ 169</u> |
| Legal debt margin as a percentage of debt service limitation..... | — | 2.3% | 18.7% |
| Trident Technical College | | | |
| Debt service limitation..... | \$ — | \$ 9,547 | \$ 10,220 |
| Debt service applicable to limit..... | — | 413 | 413 |
| Legal debt margin at June 30..... | <u>\$ —</u> | <u>\$ 9,134</u> | <u>\$ 9,807</u> |
| Legal debt margin as a percentage of debt service limitation..... | — | 95.7% | 96.0% |
| <u>State Highway Bonds</u> | | | |
| Debt service limitation..... | \$ 61,266 | \$ 70,915 | \$ 77,873 |
| Debt service applicable to limit..... | 12,950 | 32,590 | 32,590 |
| Legal debt margin at June 30..... | <u>\$ 48,316</u> | <u>\$ 38,325</u> | <u>\$ 45,283</u> |
| Legal debt margin as a percentage of debt service limitation..... | 78.9% | 54.0% | 58.1% |
| <u>General Obligation Bonds excluding Institution and Highway Bonds and Bond Anticipation Notes</u> | | | |
| Debt service limitation..... | \$ 223,897 | \$ 237,806 | \$ 241,960 |
| Debt service applicable to limit..... | 130,002 | 137,252 | 170,418 |
| Legal debt margin at June 30..... | <u>\$ 93,895</u> | <u>\$ 100,554</u> | <u>\$ 71,542</u> |
| Legal debt margin as a percentage of debt service limitation..... | 41.9% | 42.3% | 29.6% |

| <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|
| \$ 1,565 | \$ 900 | \$ 1,019 | \$ 1,019 | \$ 1,345 | \$ 1,620 | \$ 1,620 |
| <u>832</u> | <u>832</u> | <u>827</u> | <u>827</u> | <u>827</u> | <u>827</u> | <u>1,395</u> |
| <u>\$ 733</u> | <u>\$ 68</u> | <u>\$ 192</u> | <u>\$ 192</u> | <u>\$ 518</u> | <u>\$ 793</u> | <u>\$ 225</u> |
| 46.8% | 7.6% | 18.8% | 18.8% | 38.5% | 49.0% | 13.9% |
| \$ 888 | \$ 934 | \$ 968 | \$ 1,358 | \$ 968 | \$ 939 | \$ 970 |
| <u>735</u> | <u>735</u> | <u>735</u> | <u>735</u> | <u>735</u> | <u>735</u> | <u>735</u> |
| <u>\$ 153</u> | <u>\$ 199</u> | <u>\$ 233</u> | <u>\$ 623</u> | <u>\$ 233</u> | <u>\$ 204</u> | <u>\$ 235</u> |
| 17.2% | 21.3% | 24.1% | 45.9% | 24.1% | 21.7% | 24.2% |
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| — | — | — | — | — | — | — |
| \$ 81,779 | \$ 80,208 | \$ 82,238 | \$ 83,574 | \$ 87,988 | \$ 90,101 | \$ 96,128 |
| <u>60,283</u> | <u>60,283</u> | <u>60,226</u> | <u>60,412</u> | <u>71,766</u> | <u>71,766</u> | <u>71,766</u> |
| <u>\$ 21,496</u> | <u>\$ 19,925</u> | <u>\$ 22,012</u> | <u>\$ 23,162</u> | <u>\$ 16,222</u> | <u>\$ 18,335</u> | <u>\$ 24,362</u> |
| 26.3% | 24.8% | 26.8% | 27.7% | 18.4% | 20.3% | 25.3% |
| \$ 247,869 | \$ 251,161 | \$ 243,631 | \$ 270,334 | \$ 278,531 | \$ 332,122 | \$ 370,495 |
| <u>195,116</u> | <u>221,644</u> | <u>218,653</u> | <u>233,275</u> | <u>226,157</u> | <u>230,124</u> | <u>225,409</u> |
| <u>\$ 52,753</u> | <u>\$ 29,517</u> | <u>\$ 24,978</u> | <u>\$ 37,059</u> | <u>\$ 52,374</u> | <u>\$ 101,998</u> | <u>\$ 145,086</u> |
| 21.3% | 11.8% | 10.3% | 13.7% | 18.8% | 30.7% | 39.2% |

Continued on Next Page

Legal Debt Margin Information (Continued)

Last Ten Fiscal Years
(Dollars in thousands)

| | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|--|--------------------|--------------------|--------------------|
| <u>Economic Development Bonds</u> | | | |
| Debt service limitation..... | \$ — | \$ — | \$ — |
| Debt service applicable to limit..... | — | — | — |
| Legal debt margin at June 30..... | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| Legal debt margin as a percentage of debt service limitation..... | — | — | — |
| <u>Research University Infrastructure Bonds</u> | | | |
| Debt service limitation..... | \$ — | \$ — | \$ — |
| Debt service applicable to limit..... | — | — | — |
| Legal debt margin at June 30..... | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| Legal debt margin as a percentage of debt service limitation..... | — | — | — |

^a Prior to July 1, 1998, State law required one limitation for total outstanding State Institution Bonds. Fiscal year 1998 has been omitted for comparability.

| <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|-------------|-------------|-------------|------------------|------------------|------------------|------------------|
| \$ — | \$ — | \$ — | \$ 24,576 | \$ 25,321 | \$ 27,677 | \$ 30,875 |
| — | — | — | 2,198 | 9,632 | 21,342 | 21,284 |
| <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 22,378</u> | <u>\$ 15,689</u> | <u>\$ 6,335</u> | <u>\$ 9,591</u> |
| — | — | — | 91.1% | 62.0% | 22.9% | 31.1% |
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ 27,677 | \$ 30,875 |
| — | — | — | — | — | 13,980 | 13,882 |
| <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 13,697</u> | <u>\$ 16,993</u> |
| — | — | — | — | — | 49.5% | 55.0% |

Pledged Revenue Coverage

Last Ten Fiscal Years
(Dollars in Thousands)

| Fiscal Year Ended June 30 | Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|--|--|---------------------------|----------|----------|-------------------|
| | | Principal | Interest | Total | |
| Budget and Control Board—Revenue Bonds | | | | | |
| 2004 | \$ 2,226 | \$ 1,140 | \$ 1,086 | \$ 2,226 | 1.00 |
| 2005 | 2,242 | 1,190 | 1,052 | 2,242 | 1.00 |
| 2006 | 2,276 | 1,260 | 1,016 | 2,276 | 1.00 |
| 2007 | 2,298 | 1,320 | 978 | 2,298 | 1.00 |
| The Citadel—Revenue Bonds | | | | | |
| 1998 | \$ 3,080 | \$ 735 | \$ 609 | \$ 1,344 | 2.29 |
| 1999 | 3,767 | 870 | 1,182 | 2,052 | 1.84 |
| 2000 | 3,734 | 905 | 1,138 | 2,043 | 1.83 |
| 2001 | 3,979 | 955 | 1,094 | 2,049 | 1.94 |
| 2002 | 4,343 | 990 | 1,048 | 2,038 | 2.13 |
| 2003 | 4,901 | 1,040 | 1,000 | 2,040 | 2.40 |
| 2004 | 5,025 | 1,080 | 949 | 2,029 | 2.48 |
| 2005 | 5,228 | 1,145 | 896 | 2,041 | 2.56 |
| 2006 | 5,507 | 1,725 | 1,339 | 3,064 | 1.80 |
| 2007 | 5,346 | 1,610 | 1,268 | 2,878 | 1.86 |
| The Citadel—Athletic Facilities Revenue Refunding Bonds | | | | | |
| 2004 | \$ 2,823 | \$ 154 | \$ 133 | \$ 287 | 9.84 |
| 2005 | 2,897 | 162 | 126 | 288 | 10.06 |
| 2006 | 3,456 | 670 | 357 | 1,027 | 3.37 |
| 2007 | 3,833 | 690 | 708 | 1,398 | 2.74 |
| Clemson University—Plant Improvement Bonds | | | | | |
| 1999 | \$ 1,160 | \$ 390 | \$ 428 | \$ 818 | 1.42 |
| 2000 | 1,114 | 485 | 354 | 839 | 1.33 |
| 2001 | 1,204 | 515 | 324 | 839 | 1.44 |
| 2002 | 1,177 | 570 | 292 | 862 | 1.37 |
| 2003 | 1,002 | 590 | 266 | 856 | 1.17 |
| 2004 | 1,003 | 615 | 242 | 857 | 1.17 |
| 2005 | 1,005 | 635 | 216 | 851 | 1.18 |
| 2006 | 1,003 | 665 | 190 | 855 | 1.17 |
| 2007 | 985 | 690 | 162 | 852 | 1.16 |
| Clemson University—Athletic Facilities Revenue Bonds | | | | | |
| 2002 | \$ 3,360 | \$ 1,025 | \$ 823 | \$ 1,848 | 1.82 |
| 2003 | 4,299 | 985 | 871 | 1,856 | 2.32 |
| 2004 | 3,726 | 1,040 | 1,105 | 2,145 | 1.74 |
| 2005 | 3,761 | 1,095 | 1,059 | 2,154 | 1.75 |
| 2006 | 5,875 | 1,155 | 1,404 | 2,559 | 2.30 |
| 2007 | 10,531 | 1,220 | 1,635 | 2,855 | 3.69 |

| Fiscal Year Ended June 30 | Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|---|--|---------------------------|-----------|------------|-------------------|
| | | Principal | Interest | Total | |
| Clemson University—Revenue Bonds | | | | | |
| 1998 | \$ 7,392 | \$ 1,395 | \$ 467 | \$ 1,862 | 3.97 |
| 1999 | 6,848 | 2,325 | 1,339 | 3,664 | 1.87 |
| 2000 | 8,437 | 2,340 | 1,235 | 3,575 | 2.36 |
| 2001 | 9,116 | 2,340 | 2,398 | 4,738 | 1.92 |
| 2002 | 10,760 | 2,445 | 2,290 | 4,735 | 2.27 |
| 2003 | 12,141 | 2,435 | 2,157 | 4,592 | 2.64 |
| 2004 | 11,865 | 2,555 | 3,048 | 5,603 | 2.12 |
| 2005 | 13,170 | 2,605 | 3,126 | 5,731 | 2.30 |
| 2006 | 13,149 | 3,505 | 3,233 | 6,738 | 1.95 |
| 2007 | 14,761 | 4,000 | 3,204 | 7,204 | 2.05 |
| Coastal Carolina University—Revenue Bonds | | | | | |
| 2000 | \$ 2,875 | \$ 320 | \$ 1,573 | \$ 1,893 | 1.52 |
| 2001 | 3,127 | 635 | 1,554 | 2,189 | 1.43 |
| 2002 | 3,352 | 675 | 1,520 | 2,195 | 1.53 |
| 2003 | 3,159 | 710 | 1,485 | 2,195 | 1.44 |
| 2004 | 2,832 | 640 | 1,445 | 2,085 | 1.36 |
| 2005 | 2,798 | 790 | 1,323 | 2,113 | 1.32 |
| 2006 | 6,184 | 825 | 1,272 | 2,097 | 2.95 |
| 2007 | 10,624 | 1,190 | 907 | 2,097 | 5.07 |
| College of Charleston—Revenue Bonds | | | | | |
| 1998 | \$ 2,249 | \$ 1,330 | \$ 1,275 | \$ 2,605 | 0.86 |
| 1999 | 3,824 | 1,380 | 1,092 | 2,472 | 1.55 |
| 2000 | 3,446 | 1,250 | 1,140 | 2,390 | 1.44 |
| 2001 | 2,916 | 1,330 | 1,074 | 2,404 | 1.21 |
| 2002 | 2,959 | 1,410 | 1,005 | 2,415 | 1.23 |
| 2003 | 4,177 | 1,160 | 2,147 | 3,307 | 1.26 |
| 2004 | 8,913 | 2,050 | 2,748 | 4,798 | 1.86 |
| 2005 | 13,522 | 2,815 | 4,193 | 7,008 | 1.93 |
| 2006 | 14,492 | 3,070 | 4,085 | 7,155 | 2.03 |
| 2007 | 17,683 | 3,180 | 4,008 | 7,188 | 2.46 |
| Infrastructure Bank Bonds | | | | | |
| 2005 | \$ 147,206 | \$ 27,855 | \$ 89,313 | \$ 117,168 | 1.26 |
| 2006 | 166,443 | 37,940 | 93,409 | 131,349 | 1.27 |
| 2007 | 195,754 | 41,070 | 90,284 | 131,354 | 1.49 |
| Lander University—2002 Higher Education Facilities Revenue Bonds | | | | | |
| 2003 | \$ 1,352 | \$ 165 | \$ 94 | \$ 259 | 5.22 |
| 2004 | 1,394 | 170 | 86 | 256 | 5.45 |
| 2005 | 1,507 | 180 | 78 | 258 | 5.84 |
| 2006 | 1,479 | 185 | 70 | 255 | 5.80 |
| 2007 | 1,759 | 195 | 61 | 256 | 6.87 |

Continued on Next Page

Pledged Revenue Coverage (Continued)

Last Ten Fiscal Years
(Dollars in Thousands)

| Fiscal Year Ended June 30 | Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|---|--|---------------------------|-----------|-----------|-------------------|
| | | Principal | Interest | Total | |
| South Carolina State University—Revenue Bonds | | | | | |
| 2001 | \$ 976 | \$ 355 | \$ 347 | \$ 702 | 1.39 |
| 2002 | 556 | 370 | 325 | 695 | 0.80 |
| 2003 | 1,505 | 385 | 306 | 691 | 2.18 |
| 2004 | 1,780 | 415 | 284 | 699 | 2.55 |
| 2005 | 1,888 | 430 | 267 | 697 | 2.71 |
| 2006 | 569 | 334 | 173 | 507 | 1.12 |
| 2007 | 1,785 | 552 | 821 | 1,373 | 1.30 |
| Spartanburg Technical College—1999 Special Student Fee Capital Improvement Bonds | | | | | |
| 2000 | \$ 326 | \$ 213 | \$ 85 | \$ 298 | 1.09 |
| 2001 | 332 | 153 | 145 | 298 | 1.11 |
| 2002 | 389 | 160 | 138 | 298 | 1.31 |
| 2003 | 377 | 168 | 130 | 298 | 1.27 |
| 2004 | 365 | 177 | 121 | 298 | 1.22 |
| 2005 | 339 | 185 | 113 | 298 | 1.14 |
| 2006 | 355 | 195 | 103 | 298 | 1.19 |
| 2007 | 348 | 204 | 94 | 298 | 1.17 |
| Spartanburg Technical College—2001 Special Student Fee Capital Improvement Bonds | | | | | |
| 2002 | \$ 370 | \$ 129 | \$ 115 | \$ 244 | 1.52 |
| 2003 | 312 | 127 | 117 | 244 | 1.28 |
| 2004 | 287 | 133 | 111 | 244 | 1.18 |
| 2005 | 282 | 134 | 104 | 238 | 1.18 |
| 2006 | 297 | 147 | 98 | 245 | 1.21 |
| 2007 | 291 | 154 | 90 | 244 | 1.19 |
| Spartanburg Technical College—2004 Special Student Fee Capital Improvement Bonds | | | | | |
| 2005 | \$ 447 | \$ 200 | \$ 165 | \$ 365 | 1.22 |
| 2006 | 495 | 215 | 177 | 392 | 1.26 |
| 2007 | 454 | 235 | 169 | 404 | 1.12 |
| Spartanburg Technical College—2005 Special Student Fee Capital Improvement Bonds | | | | | |
| 2006 | \$ 455 | \$ 84 | \$ 57 | \$ 141 | 3.23 |
| 2007 | 308 | 165 | 117 | 282 | 1.09 |
| Tobacco Settlement Revenue Management Authority Bonds | | | | | |
| 2002 | \$ 86,079 | \$ — | \$ 61,311 | \$ 61,311 | 1.40 |
| 2003 | 86,313 | — | 58,888 | 58,888 | 1.47 |
| 2004 | 74,180 | — | 56,354 | 56,354 | 1.32 |
| 2005 | 73,232 | — | 54,496 | 54,496 | 1.34 |
| 2006 | 67,841 | — | 52,601 | 52,601 | 1.29 |
| 2007 | 79,912 | — | 50,761 | 50,761 | 1.57 |

| Fiscal Year Ended June 30 | Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|--|--|---------------------------|----------|----------|-------------------|
| | | Principal | Interest | Total | |
| University of South Carolina Aiken Campus—1999 Auxiliary Revenue Bonds | | | | | |
| 2000 | \$ 407 | \$ 160 | \$ 247 | \$ 407 | 1.00 |
| 2001 | 386 | 165 | 221 | 386 | 1.00 |
| 2002 | 389 | 175 | 214 | 389 | 1.00 |
| 2003 | 387 | 180 | 207 | 387 | 1.00 |
| 2004 | 389 | 190 | 199 | 389 | 1.00 |
| 2005 | 392 | 200 | 192 | 392 | 1.00 |
| 2006 | 389 | 205 | 184 | 389 | 1.00 |
| 2007 | 390 | 215 | 175 | 390 | 1.00 |
| University of South Carolina Aiken Campus—2006 Auxiliary Revenue Bonds | | | | | |
| 2006 | \$ 121 | \$ — | \$ 142 | \$ 142 | 0.85 |
| 2007 | 1,045 | 475 | 570 | 1,045 | 1.00 |
| University of South Carolina Columbia Campus—2000 Auxiliary Revenue Bonds | | | | | |
| 2001 | \$ 1,449 | \$ 270 | \$ 1,179 | \$ 1,449 | 1.00 |
| 2002 | 1,470 | 305 | 1,165 | 1,470 | 1.00 |
| 2003 | 1,469 | 320 | 1,149 | 1,469 | 1.00 |
| 2004 | 1,473 | 340 | 1,133 | 1,473 | 1.00 |
| 2005 | 1,470 | 355 | 1,115 | 1,470 | 1.00 |
| 2006 | 485 | 375 | 110 | 485 | 1.00 |
| 2007 | 486 | 395 | 91 | 486 | 1.00 |
| University of South Carolina Columbia Campus—2003 Parking Facilities Revenue Bonds | | | | | |
| 2004 | \$ 399 | \$ 235 | \$ 178 | \$ 413 | 0.97 |
| 2005 | 412 | 210 | 202 | 412 | 1.00 |
| 2006 | 406 | 215 | 191 | 406 | 1.00 |
| 2007 | 401 | 220 | 181 | 401 | 1.00 |
| University of South Carolina Columbia Campus—2004 Auxiliary Revenue Bonds | | | | | |
| 2005 | \$ 1,838 | \$ 725 | \$ 1,202 | \$ 1,927 | 0.95 |
| 2006 | 1,919 | 505 | 1,414 | 1,919 | 1.00 |
| 2007 | 1,919 | 525 | 1,394 | 1,919 | 1.00 |
| University of South Carolina Columbia Campus—2005 Auxiliary Revenue Bonds | | | | | |
| 2006 | \$ 669 | \$ 185 | \$ 484 | \$ 669 | 1.00 |
| 2007 | 744 | 225 | 519 | 744 | 1.00 |
| University of South Carolina Columbia Campus—2005 Auxiliary Refunding Revenue Bonds | | | | | |
| 2006 | \$ 2,606 | \$ 1,330 | \$ 1,566 | \$ 2,896 | 0.90 |
| 2007 | 3,102 | 1,200 | 2,035 | 3,235 | 0.96 |

Continued on Next Page

Pledged Revenue Coverage (Continued)

Last Ten Fiscal Years
(Dollars in Thousands)

| Fiscal Year Ended June 30 | Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|---|--|---------------------------|----------|--------|-------------------|
| | | Principal | Interest | Total | |
| University of South Carolina Spartanburg Campus—1997 Auxiliary Revenue Bonds | | | | | |
| 1998 | \$ 414 | \$ 130 | \$ 284 | \$ 414 | 1.00 |
| 1999 | 372 | 135 | 237 | 372 | 1.00 |
| 2000 | 375 | 145 | 230 | 375 | 1.00 |
| 2001 | 372 | 150 | 222 | 372 | 1.00 |
| 2002 | 374 | 160 | 214 | 374 | 1.00 |
| 2003 | 376 | 170 | 206 | 376 | 1.00 |
| 2004 | 372 | 175 | 197 | 372 | 1.00 |
| 2005 | 373 | 185 | 188 | 373 | 1.00 |
| 2006 | 216 | 195 | 21 | 216 | 1.00 |
| 2007 | 221 | 210 | 11 | 221 | 1.00 |
| Winthrop University—Facilities Revenue Bonds | | | | | |
| 1998 | \$ 182 | \$ 60 | \$ 29 | \$ 89 | 2.04 |
| 1999 | 213 | 48 | 40 | 88 | 2.42 |
| 2000 | 242 | 51 | 38 | 89 | 2.72 |
| 2001 | 267 | 54 | 35 | 89 | 3.00 |
| 2002 | 266 | 58 | 31 | 89 | 2.99 |
| 2003 | 883 | 401 | 237 | 638 | 1.38 |
| 2004 | 944 | 395 | 237 | 632 | 1.49 |
| 2005 | 2,211 | 413 | 219 | 632 | 3.50 |
| 2006 | 2,133 | 637 | 306 | 943 | 2.26 |
| 2007 | 2,882 | 670 | 274 | 944 | 3.05 |
| Winthrop University—2001 Athletic Facilities Revenue Bonds | | | | | |
| 2002 | \$ 458 | \$ 120 | \$ 67 | \$ 187 | 2.45 |
| 2003 | 486 | 120 | 105 | 225 | 2.16 |
| 2004 | 501 | 120 | 99 | 219 | 2.29 |
| 2005 | 498 | 120 | 94 | 214 | 2.33 |
| 2006 | 490 | 120 | 88 | 208 | 2.36 |
| 2007 | 496 | 120 | 83 | 203 | 2.44 |

| Fiscal Year Ended June 30 | Operating Revenues | Loan Payments | Less: Operating Expenses | Net Funds Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|---------------------------------------|-----------------------|------------------|--------------------------------|--|---------------------------|-----------|-----------|-------------------|
| | | | | | Principal | Interest | Total | |
| Education Assistance Authority | | | | | | | | |
| 2005 | \$ 39,372 | \$ 398,326 | \$ (19,165) | \$ 418,533 | \$ 20,995 | \$ 13,443 | \$ 34,438 | 12.15 |
| 2006 | 49,980 | 783,634 | (26,266) | 807,348 | 48,035 | 24,063 | 72,098 | 11.20 |
| 2007 | 56,178 | 634,371 | (15,216) | 675,333 | 51,770 | 35,936 | 87,706 | 7.70 |
| Housing Authority | | | | | | | | |
| 2005 | \$ 39,921 | \$ 118,016 | \$ (1,983) | \$ 155,954 | \$ 64,225 | \$ 29,938 | \$ 94,163 | 1.66 |
| 2006 | 41,202 | 99,633 | (2,775) | 138,060 | 70,715 | 30,892 | 101,607 | 1.36 |
| 2007 | 49,133 | 66,425 | (3,747) | 111,811 | 59,186 | 31,764 | 90,950 | 1.23 |

Note: All prior fiscal year data that is available has been presented.

Source: South Carolina Comptroller General's Office

Demographic Statistics

Last Ten Calendar Years

| <u>Year</u> | <u>Population at July 1 ^a</u> | <u>Per Capita Income ^b</u> | <u>Average Annual Unemployment Rate ^c</u> |
|-------------|--|---|--|
| 1997 | 3,859,696 | \$ 20,987 | 3.1% |
| 1998 | 3,919,235 | 22,161 | 3.4% |
| 1999 | 3,974,682 | 23,075 | 3.5% |
| 2000 | 4,023,565 | 24,424 | 3.5% |
| 2001 | 4,060,728 | 24,987 | 5.7% |
| 2002 | 4,101,122 | 25,370 | 6.2% |
| 2003 | 4,142,356 | 25,880 | 6.4% |
| 2004 | 4,194,694 | 27,022 | 6.8% |
| 2005 | 4,246,933 | 28,427 | 6.5% |
| 2006 | 4,321,249 | 29,688 | 6.4% |

^a Source: U.S. Census Bureau

^b Per capita income is calculated by dividing total personal income by population.

^c Source: U.S. Department of Labor

Employment by Industry

Latest Completed Calendar Year and Nine Years Prior

| Sources | 1997 | | 2006 | |
|--|---------------------|------------------|---------------------|------------------|
| | Number of Employees | Percent of Total | Number of Employees | Percent of Total |
| Contract construction..... | 99,800 | 5.8% | 124,400 | 6.5% |
| Manufacturing: | | | | |
| Durable goods..... | 146,800 | 8.5% | 135,000 | 7.1% |
| Nondurable goods..... | 215,900 | 12.5% | 116,700 | 6.1% |
| Transportation, communication, and public utilities..... | 75,300 | 4.4% | 91,400 | 4.8% |
| Wholesale and retail trade: | | | | |
| Wholesale..... | 71,400 | 4.2% | 69,500 | 3.7% |
| Retail..... | 340,900 | 19.8% | 234,500 | 12.3% |
| Finance, insurance and real estate..... | 74,900 | 4.4% | 102,200 | 5.4% |
| Services and mining..... | 396,500 | 23.0% | 698,400 | 36.7% |
| Government: | | | | |
| Federal..... | 29,100 | 1.7% | 29,400 | 1.6% |
| State and local..... | 269,800 | 15.7% | 301,100 | 15.8% |
| Total wage and salary employment..... | 1,720,400 | 100.0% | 1,902,600 | 100.0% |

Note: Due to confidentiality issues, the number of employees for individual companies within the State is not available. The categories presented are intended to provide alternative information regarding the principal employers within the State.

Source: South Carolina Employment Security Commission

Ten Largest Employers

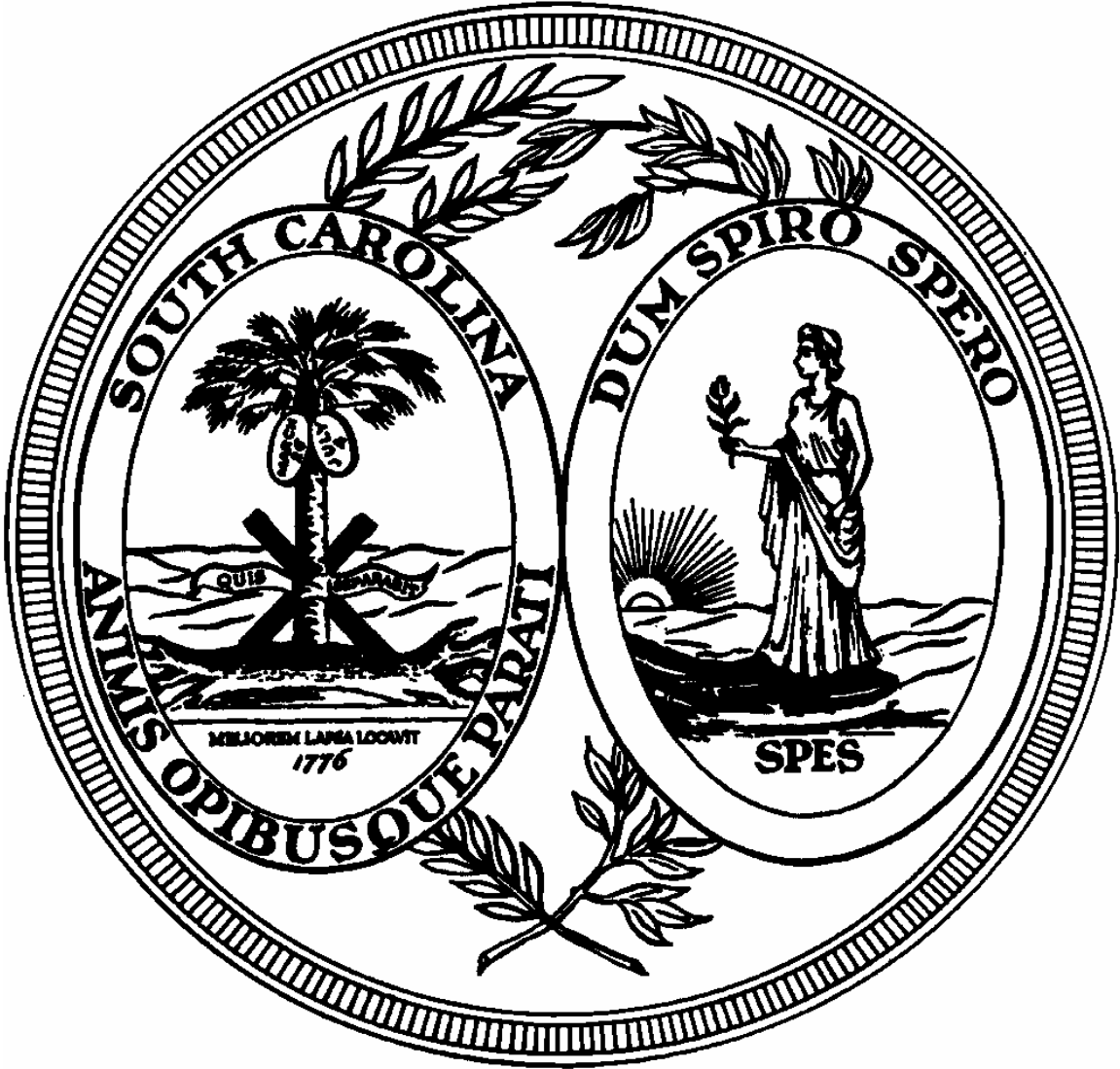
Latest Completed Calendar Year and Five Years Prior^a
(Listed alphabetically)

| <u>2001</u> | <u>2006</u> |
|--|--|
| Bi-Lo, Inc. | Bi-Lo, Inc. |
| Blue Cross/Blue Shield of South Carolina | Blue Cross/Blue Shield of South Carolina |
| Greenville County School District | Greenville County School District |
| Michelin Tire Corporation | Michelin Tire Corporation |
| Springs Industries, Inc. | Palmetto Health Alliance, Inc. |
| University of South Carolina | University of South Carolina |
| U.S. Department of Defense | U.S. Department of Defense |
| U.S. Postal Service | U.S. Postal Service |
| Wal-Mart Associates, Inc. | Wal-Mart Associates, Inc. |
| Westinghouse Savannah River | Washington Savannah River Company |

^a The ten largest employers prior to calendar year 2001 are unavailable.

Note: Due to confidentiality issues, the number of employees for each company is not available and the employers are listed alphabetically rather than in order of size.

Source: South Carolina Employment Security Commission



Government Employees By Function

Last Eight Fiscal Years ^a

| Function | Permanent Employees | | | |
|---|---------------------|---------------|---------------|---------------|
| | 2000 | 2001 | 2002 | 2003 |
| Governmental activities: | | | | |
| General government..... | 5,621 | 5,562 | 5,243 | 5,115 |
| Education..... | 3,241 | 3,321 | 3,255 | 3,116 |
| Health and environment..... | 14,682 | 14,246 | 13,849 | 13,610 |
| Social services..... | 5,125 | 5,147 | 4,489 | 4,196 |
| Administration of justice..... | 12,703 | 12,049 | 11,336 | 10,966 |
| Resources and economic development..... | 2,201 | 2,178 | 2,005 | 1,892 |
| Transportation..... | 4,967 | 4,975 | 4,954 | 4,826 |
| Business-type activities: | | | | |
| Higher education..... | 23,620 | 20,375 | 20,335 | 20,420 |
| Higher education institutional support..... | 4,947 | 5,066 | 5,158 | 5,291 |
| Financing of housing facilities..... | 102 | 110 | 116 | 114 |
| Medical malpractice insurance..... | 3 | 3 | 3 | 3 |
| Financing of student loans..... | 43 | 43 | 53 | 66 |
| Tuition prepayment program..... | 2 | 2 | 2 | 2 |
| Patriots Point development..... | 72 | 70 | 71 | 66 |
| Insurance claims processing..... | 20 | 21 | 21 | 23 |
| Other | 36 | 36 | 37 | 35 |
| Totals..... | 77,385 | 73,204 | 70,927 | 69,741 |

^a Fiscal year data is not available for 1998 and 1999.

Source: South Carolina Comptroller General's Office

as of June 30

| <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|----------------------|----------------------|----------------------|----------------------|
| 6,136 | 6,195 | 6,267 | 6,457 |
| 3,054 | 3,053 | 2,922 | 3,014 |
| 13,341 | 13,010 | 12,461 | 12,237 |
| 3,693 | 3,618 | 3,627 | 3,904 |
| 9,620 | 9,417 | 9,747 | 10,098 |
| 1,727 | 1,746 | 1,776 | 1,818 |
| 4,960 | 5,002 | 4,794 | 4,880 |
| 20,523 | 20,893 | 21,195 | 21,962 |
| 5,555 | 5,676 | 5,990 | 4,133 |
| 117 | 114 | 112 | 116 |
| 4 | 5 | 5 | 5 |
| 63 | 67 | 69 | 66 |
| 2 | 2 | 2 | 2 |
| 69 | 68 | 67 | 67 |
| 23 | 23 | 19 | 22 |
| 32 | 34 | 32 | 36 |
| <u>68,919</u> | <u>68,923</u> | <u>69,085</u> | <u>68,817</u> |

Operating Indicators By Function

Last Three Fiscal Years ^a

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|-------------|-------------|-------------|
| General government | | | |
| Individual income tax returns processed | 2,112,766 | 2,172,409 | 2,273,202 |
| Corporate income tax returns processed | 156,784 | 155,228 | 164,855 |
| Department of Motor Vehicles transactions | 12,670,522 | 13,474,463 | 13,331,078 |
| Workers' compensation cases reviewed | 111,869 | 127,848 | 82,603 |
| Education | | | |
| Public school enrollment | 680,635 | 694,155 | 698,290 |
| Average operating miles per school bus | 15,600 | 15,685 | 16,000 |
| State Museum visitors | 148,752 | 145,845 | 141,202 |
| Health and environment | | | |
| Medicaid eligible participants | 983,981 | 932,708 | 902,308 |
| Women, Infant and Children (WIC) program participants | 108,341 | 107,413 | 112,467 |
| Community mental health center clients | 90,733 | 89,480 | 87,641 |
| Social services | | | |
| Average food stamp households served per month | 216,602 | 225,456 | 231,053 |
| Child Protective Services investigations | 17,186 | 16,898 | 18,168 |
| Administration of justice | | | |
| Adult prison average daily population | 22,970 | 22,964 | 23,437 |
| Juvenile facility average daily population | 1,074 | 1,043 | 985 |
| Resources and economic development | | | |
| Department of Commerce capital investment projects | 105 | 137 | 139 |
| Welcome Center visitors | 2,525,294 | 2,454,311 | 2,378,630 |
| Hunting and fishing licenses processed | 704,882 | 781,882 | 811,025 |
| Watercraft registrations | 396,915 | 415,993 | 433,158 |
| Transportation | | | |
| Miles of surface repair | 173,620 | 163,829 | 167,551 |
| Miles of roadway inspections | 270,024 | 313,530 | 332,559 |
| Higher education and higher education institution support | | | |
| Total headcount enrollment | 172,386 | 174,686 | 176,415 |
| Degrees awarded | 24,826 | 25,622 | 26,063 |
| Unemployment compensation benefits | | | |
| Initial claims | 313,629 | 299,975 | 304,464 |
| Total benefit weeks claimed | 2,129,960 | 1,515,302 | 1,998,836 |
| Financing of housing facilities | | | |
| Mortgage loans managed | 12,314 | 13,504 | 15,815 |
| Families receiving rental assistance | 20,478 | 20,872 | 20,129 |
| Medical malpractice insurance | | | |
| Membership total | 7,166 | 7,050 | 6,320 |
| Financing of student loans | | | |
| Number of student loans outstanding | 332,794 | 323,536 | 314,646 |
| Tuition prepayment program | | | |
| Individual accounts | 6,262 | 6,452 | 6,314 |
| State maritime museum | | | |
| Museum visitors and other area patrons | 240,811 | 260,827 | 259,425 |
| Insurance claims processing | | | |
| Second Injury Fund claims paid | 4,520 | 3,860 | 3,951 |
| Other | | | |
| Public railway carloads (calendar year) | 88,242 | 88,245 | 82,036 |

^a Prior fiscal year data is not readily available.

Source: South Carolina Comptroller General's Office

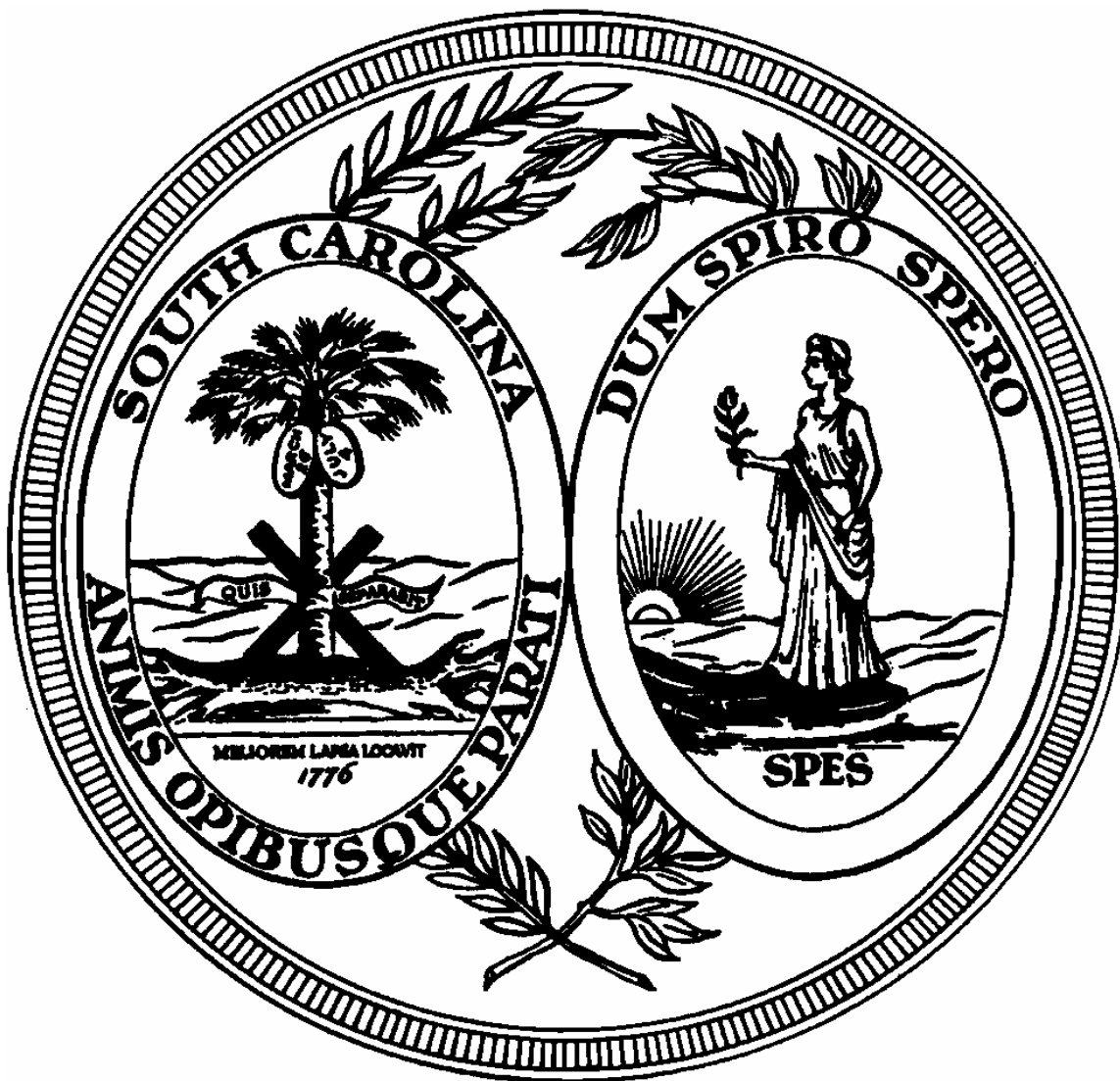
Capital Assets By Function

Last Three Fiscal Years ^a

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-------------|-------------|-------------|
| General government | | | |
| Buildings and facilities | 33 | 33 | 33 |
| State armories | 65 | 65 | 62 |
| Fleet vehicles | 2,357 | 2,687 | 3,515 |
| Motor vehicle district offices | 69 | 69 | 69 |
| Education | | | |
| School buses | 6,453 | 5,788 | 6,274 |
| Television transmitters | 11 | 11 | 11 |
| Vocational training/client centers | 35 | 35 | 35 |
| Health and environment | | | |
| Mental health hospitals | 111 | 111 | 137 |
| Community mental health centers | 60 | 60 | 59 |
| Regional special needs centers | 5 | 5 | 5 |
| Social services | | | |
| Buildings and facilities | 66 | 66 | 66 |
| Administration of justice | | | |
| Adult correctional institutions | 29 | 29 | 28 |
| Juvenile correctional facilities | 7 | 7 | 7 |
| Highway patrol district offices | 7 | 7 | 7 |
| Highway patrol vehicles | 1,222 | 1,055 | 1,004 |
| Resources and economic development | | | |
| Acres of State parks | 81,168 | 81,168 | 81,705 |
| Acres of State forests | 91,600 | 91,600 | 91,466 |
| State parks and historical sites | 53 | 53 | 53 |
| State farmers' markets | 3 | 3 | 3 |
| Vehicles and boats | 1,575 | 1,538 | 1,026 |
| Transportation | | | |
| Miles of State highways | 66,252 | 66,240 | 66,242 |
| Weigh stations | 9 | 9 | 9 |
| Traffic cameras | 179 | 250 | 300 |
| Miles of cable median barriers | 442 | 470 | 470 |
| Higher education | | | |
| Number of campuses | 33 | 33 | 33 |
| Buildings-universities | 815 | 810 | 804 |
| Buildings-technical colleges | 282 | 277 | 286 |
| Buildings-student residences | 335 | 340 | 355 |
| State maritime museum | | | |
| Vintage aircraft | 4 | 4 | 4 |
| Historical period exhibits | 3 | 15 | 15 |
| Other | | | |
| Rail yards | 3 | 3 | 3 |
| State-owned locomotives | 13 | 13 | 13 |

^a Prior fiscal year data is not readily available.

Source: South Carolina Comptroller General's Office



Section 1-11-425 of the South Carolina Code of Laws requires inclusion of the following information:
Total printing cost was \$431.47; 170 copies were printed at a cost of \$2.54 each.