



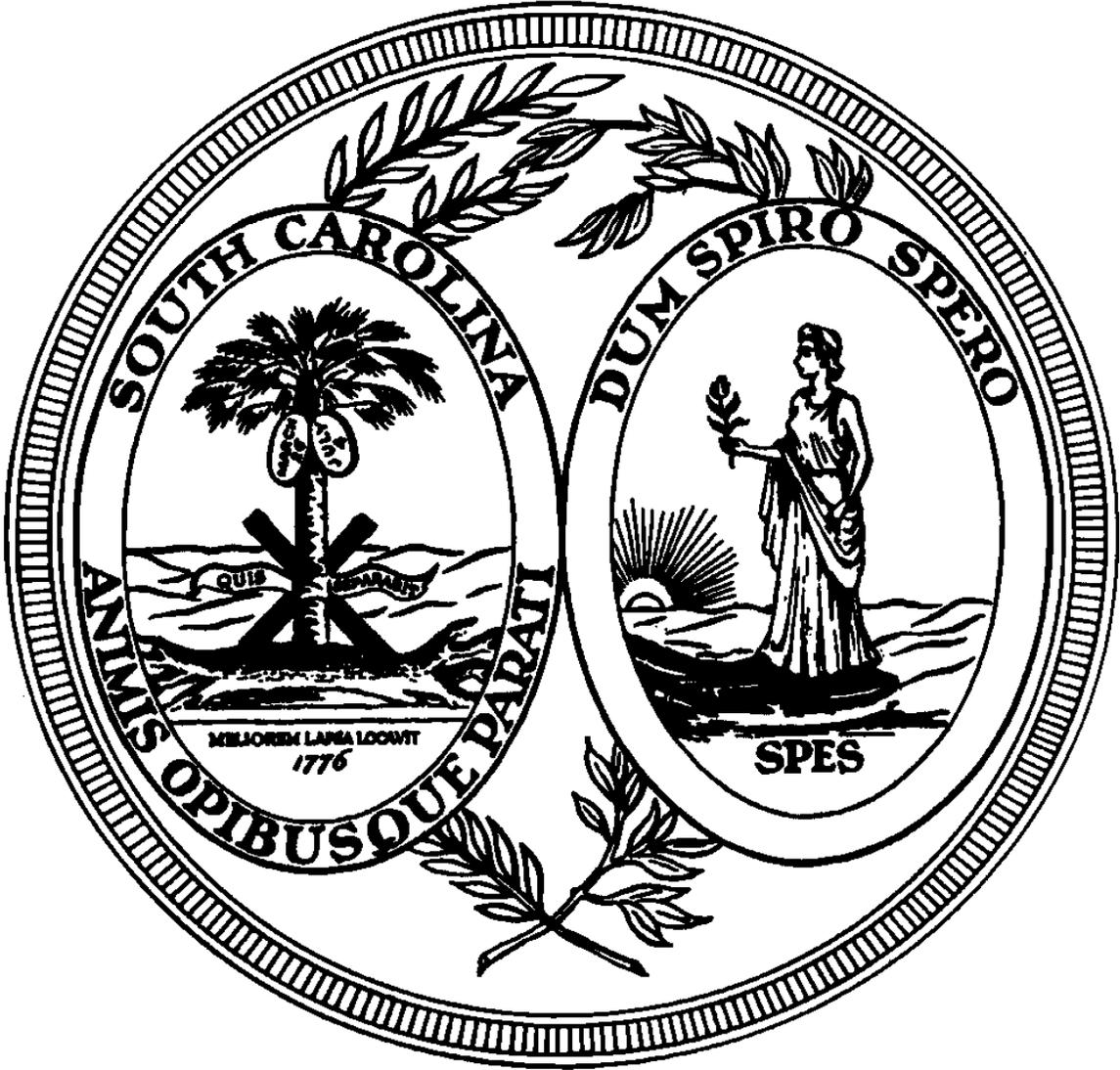
**STATE OF  
SOUTH CAROLINA**

**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

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

**2006**

**Prepared by the Comptroller General's Office**



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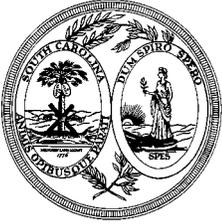
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# *Introductory Section*

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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**  
COMPTROLLER GENERAL

**NATHAN KAMINSKI, JR.**  
CHIEF OF STAFF

November 21, 2006

**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, 2006. 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, 2005; a list of State officials; and an organizational chart of State government.
- The Financial Section, including the independent auditors' report, 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, 2006. 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 stretches from the Atlantic Ocean 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 four and a quarter million citizens.

As shown in the organization chart on page 15, 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 14.

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 Appropriation Act includes legally adopted budgets for the Budgetary General Fund and for Total Funds. The initial budget appears in the annual Appropriation 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

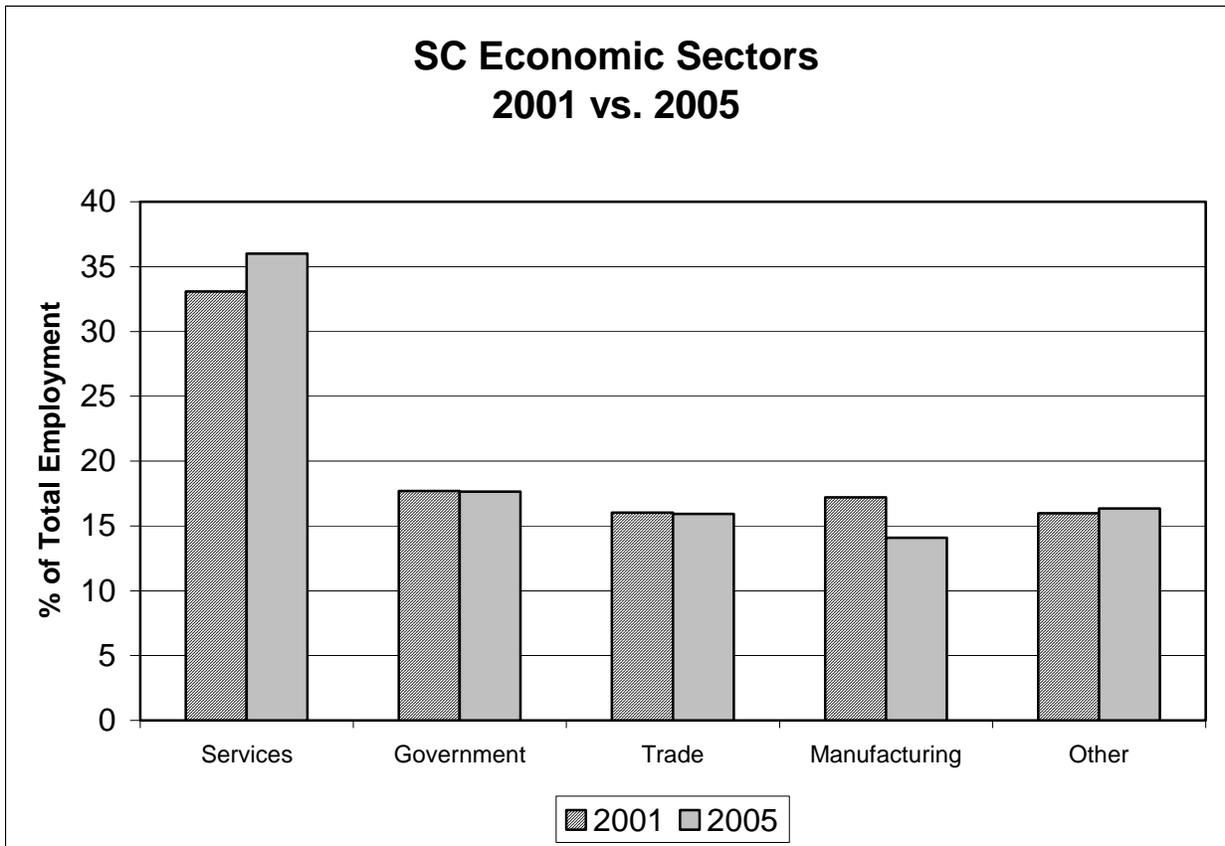
South Carolina historically has been a diverse manufacturing state; however, the State's economic base has undergone a gradual transition to other sectors such as trade, health care, services, and durable goods manufacturing. Businesses have migrated here from all over the world to take advantage of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

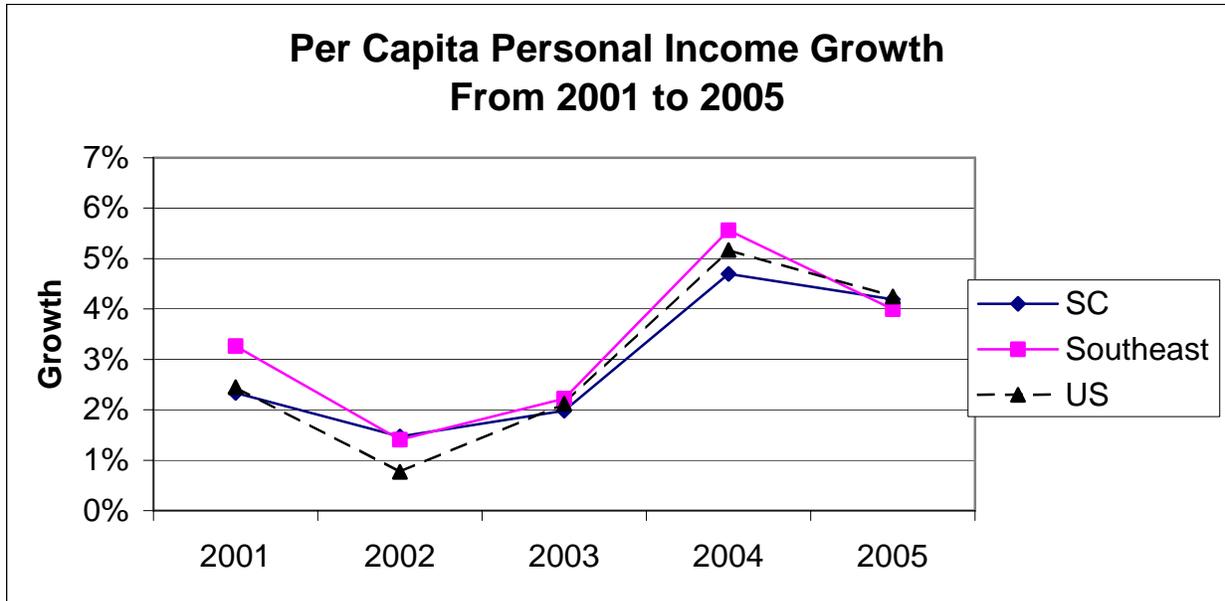
Overall, South Carolina's economy has improved following the recession of 2001, and is now enjoying a healthy expansion. The State's employment grew 1.4% in 2004 following employment declines in 2001 and 2002, with virtually no change in 2003. For the twelve-month period commencing in July 2005, total employment increased by 46,800 jobs, a gain of about 2.5%. South Carolina is currently creating jobs at the fastest pace since the late 1980's.

Although manufacturing still plays a big role in the State's economy, South Carolina's economic base has become more diversified since the 2001 recession. Employment in the State's manufacturing sector has been declining and now represents only about 14% of total employment versus 17% in 2001. Non-durable goods manufacturing, primarily related to the textile and apparel industry, has seen the greatest decline over the past five years. Accompanying these losses was growth in the manufacturing of other goods, such as the production of transportation equipment, fabricated

metals, and chemicals. During the past five years, the strongest employment gains have been in the State's service sector. This sector, fueled by tourism, educational, and healthcare industries has contributed to a more diversified overall employment base and improved income levels. This sector represented 36% of total employment in 2005, up from 33% in 2001. Similarly, the State's metropolitan areas are enjoying rapid job growth while rural areas, traditionally supported by textile industries, are struggling.

The State's unemployment rate was 6.8% for calendar year 2005, compared to the national rate of 5.1%. Part of the explanation underlying this higher State unemployment rate has been the rapid growth in the state's labor force. The size of the labor force had been growing at approximately the same pace as total employment, leading to a generally unchanging unemployment rate. In recent months, the State posted a decline in the size of the labor force coupled with a gain in employment that led to decline in the monthly unemployment rate to 6.2%. As long as the State continues to generate new jobs and the labor force growth rate slows, the State's unemployment rate will continue to decline steadily toward the national average.





South Carolina's per capita income for 2005 increased to \$28,212, or 4.2% over 2004. This increase matched the national growth rate and exceeded the 4.0% growth rate of the southeastern states. However, the State's 2005 level of per capita income was ranked forty-fourth among the states, representing only 82% of the national average and 91% of the southeastern region.

South Carolina's population at July 1, 2005, was 4.255 million. The State's rate of population growth is presently the thirteenth fastest in the nation.

For the calendar year 2005, the South Carolina Department of Commerce reported \$2.660 billion in new capital investments that are expected to create about 12,370 new jobs. The projected average wage for Commerce-assisted job creation was \$39,283, up 13% from 2004, and 139% of the State's per capita income. About 3,700 jobs were created in the State's rural areas. Manufacturing was the leading sector for investment (81%) and job creation (83%).

#### **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 general fund expenditures for the next three fiscal years. This data, in conjunction with the *State's Board of Economic Advisors* (BEA) long-term revenue estimate, is compiled by the State Budget Office. The three-year financial plan will assist the State in strategically assessing its future financial commitments. The plan must be 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 South Carolina, as well as other state governments, include future spending increases for Medicaid, State retirement and health benefits (including post employment benefits), and elementary and secondary education.

Other management practices include a five-year capital improvement plan, which requires that first year funding be in place.

#### **RELEVANT FINANCIAL POLICIES**

The State's legislature is required to adopt a balanced budget annually based on revenue estimates provided by the State's BEA. State law requires the BEA to meet at least quarterly to review

revenue collections and to adjust its forecasts if necessary. If the BEA reduces revenue projections significantly once the budget year begins, the State's *Budget and Control Board* is responsible for mandating spending cuts to keep the budget in balance. If the Board anticipates a year-end operating deficit, the Board must first reduce amounts set-aside in the Annual Appropriations Act for the 2% Capital Reserve. If the anticipated deficit is greater than the Reserve, then the Board must reduce agency appropriations evenly across-the-board. The State also is required to maintain a 3% General Reserve for eliminating a year-end operating deficit. If the State's budgetary General Fund experiences a year-end operating deficit after applying the actions described above, the Board is required to meet and address the deficit within sixty days of August 31.

The State has adopted legislation that beginning July 1, 2006, the Comptroller General shall suspend, to the extent necessary, any general or supplemental budgetary surplus appropriations, or Capital Reserve appropriations, if the State's GAAP-basis General Fund reports a negative unreserved fund balance.

Because of conservative budgeting and better than expected revenue collections, the State's General Fund experienced a budgetary operating surplus and a positive GAAP unreserved fund balance for the fiscal year ended June 30, 2006. Therefore, no appropriation reductions were necessary.

### **MAJOR INITIATIVES**

#### **Finance and Budgeting**

The General Assembly has recently approved property tax relief that eliminates all school operating taxes on owner-occupied homes, funded by a one-cent increase on the sales tax. Other important legislation included in the 2006-2007 Appropriation Act (the Act) includes full funding of both the Education Finance Act and the State's rainy-day funds. The State's LIFE, HOPE and Palmetto Fellows Scholarship programs are also fully funded, providing tuition assistance for many of the State's higher education students.

The Act provides other tax relief by reducing the sales tax on food and creating a two-day sales tax holiday statewide. The Act also included a 3% raise for State employees and funding for the state employee and retiree health insurance program with no increase in premiums to subscribers or changes in benefits.

#### **Business and Economic Development**

The General Assembly has approved several significant economic development incentives. The *South Carolina Economic Development Incentive Act* and the *South Carolina Retail Facilities Revitalization Act* will encourage business expansion in the State.

#### **Education**

Education continued to be a legislative priority this year. The General Assembly included a provision in the Act establishing the South Carolina Child Development Education Pilot Program. This program will provide quality developmental and learning support for at-risk children.

#### **Energy Conservation**

The General Assembly approved several laws intended to encourage consumers to conserve energy, providing tax incentives for the production and use of alternative fuels and alternative fuel vehicles.

### **AWARDS AND ACKNOWLEDGMENTS**

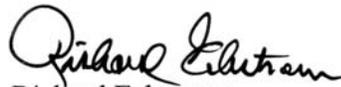
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of South

Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the eighteenth consecutive year that the State of South Carolina has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The report must satisfy 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 this report was made possible only by the support of all State agencies and component units that supplied GAAP closing data 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 report's attractive cover.

Sincerely,



Richard Eckstrom  
Comptroller General

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

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# 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, 2005

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  
Grady L. Patterson, Jr., State Treasurer  
Richard Eckstrom, Comptroller General  
Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee  
Daniel T. Cooper, Chairman, House Ways and Means Committee

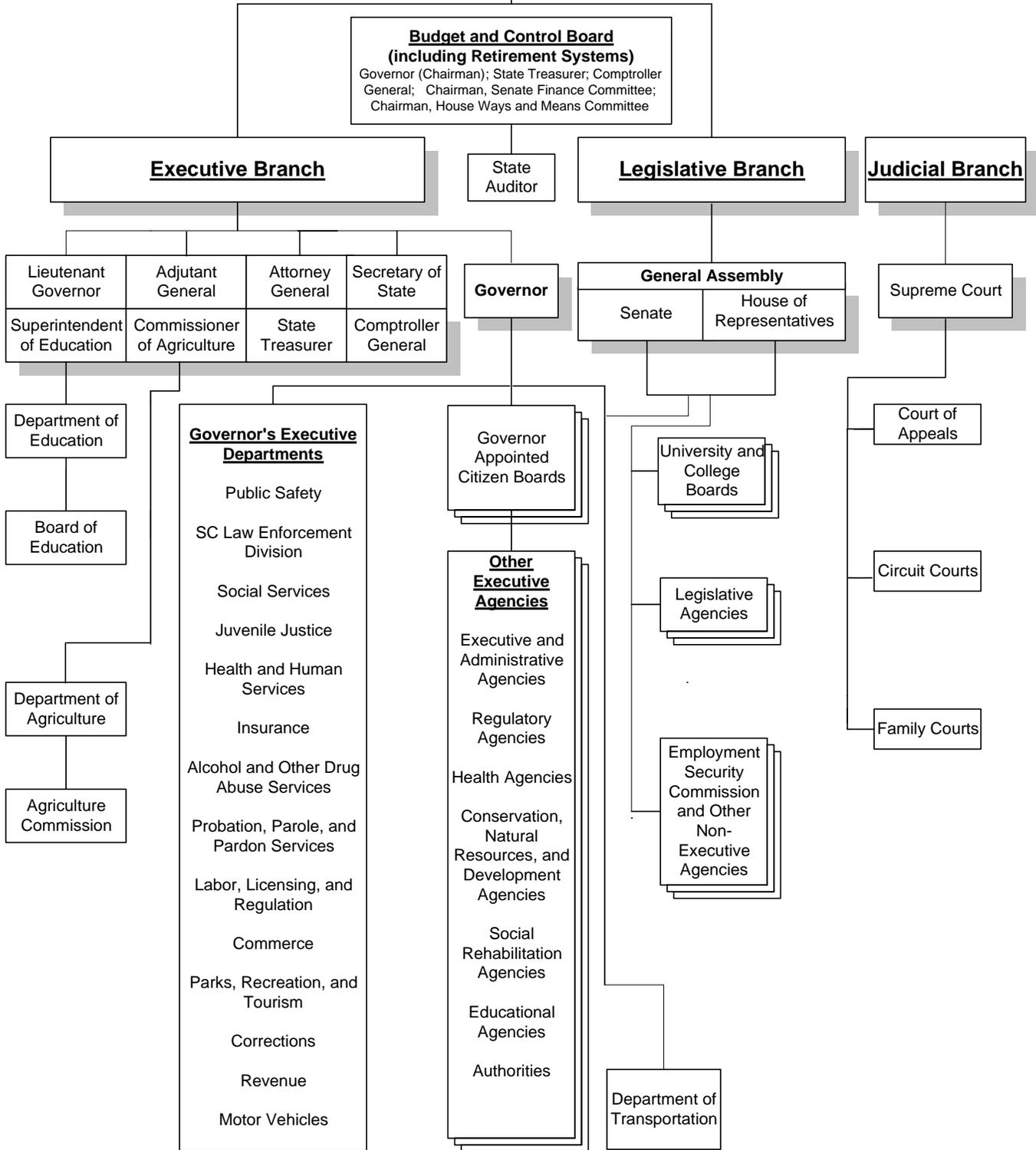
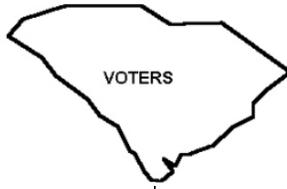
Mark Hammond, Secretary of State  
Henry McMaster, Attorney General  
Inez Tenenbaum, State Superintendent of Education  
Major General Stanhope S. Spears, Adjutant General  
Hugh E. Weathers, Commissioner of Agriculture

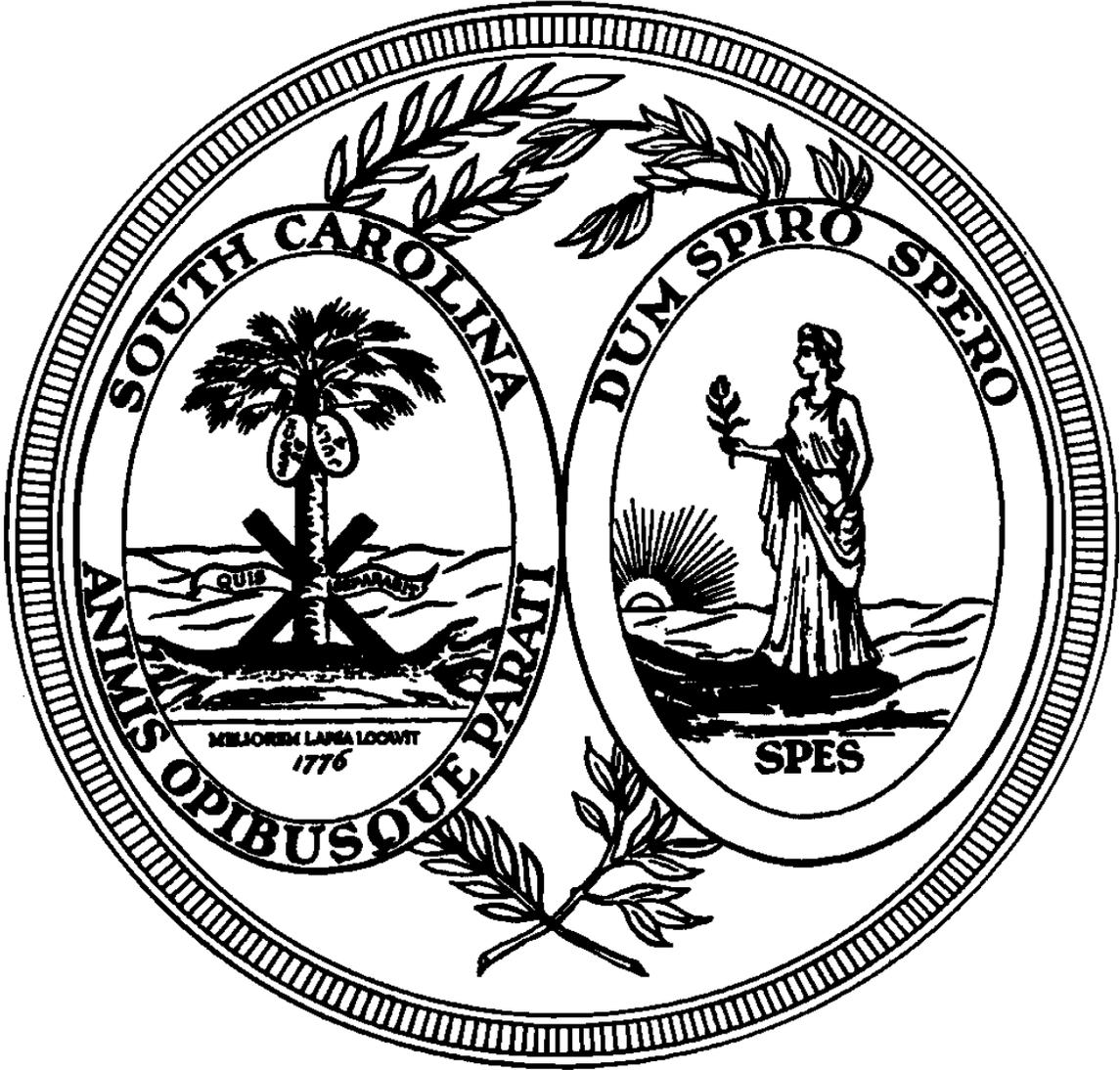
### **JUDICIAL**

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





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# *Financial Section*

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



## 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, 2006, 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 component units and agencies 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 component units and agencies, is based solely on the reports of the other auditors.

	<b>Percentage audited by other auditors</b>	
	<b>Total Assets</b>	<b>Total Revenue</b>
<b><u>Government-wide</u></b>		
Governmental activities	66	19
Business-type activities	97	81
Component units	100	100
<b><u>Fund Statements</u></b>		
Governmental Funds	23	9
Enterprise Funds	97	81
Internal Service Funds	78	91
Fiduciary Funds	98	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.

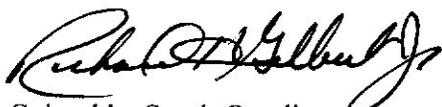
An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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, 2006, 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 21, 2006 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 21, 2006

  
Baltimore, Maryland  
November 21, 2006

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

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## 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, 2006. 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 on pages 34 through 39 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, this statement's format 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 38) shows how much a particular function relies on taxes and other general revenues to finance its programs.

The government-wide statements report 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 intergovernmental (State aid to local governmental entities, including aid to the State's public school system). 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, operating hospitals and clinics, 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 40 through 63 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*:

***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 40 through 47 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 48 through 61 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. 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 62 and 63 of this report.

### **Component Unit Financial Statements**

The *Government-wide Financial Statements* section on the preceding page lists the State's major component units under the *Component units* subheading. More detailed financial statements for these component units are on pages 64 through 67 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 71 through 134 are necessary to fully understand the financial statements.

### **Required Supplementary Information**

This section includes 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 136 through 141 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  
**State of South Carolina's Net Assets**  
**As of June 30, 2006, with Restated Comparative Data as of June 30, 2005**  
*(Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Totals - Primary Government		Total Percentage Change 2005-2006
	2006	2005	2006	2005	2006	2005	
<b>Assets</b>							
Current and other assets.....	\$ 8,876,671	\$ 7,632,230	\$ 4,876,142	\$ 4,565,513	\$ 13,752,813	\$ 12,197,743	12.7%
Capital assets.....	13,047,653	12,360,919	3,174,806	2,823,300	16,222,459	15,184,219	6.8%
<b>Total assets.....</b>	<b>21,924,324</b>	<b>19,993,149</b>	<b>8,050,948</b>	<b>7,388,813</b>	<b>29,975,272</b>	<b>27,381,962</b>	<b>9.5%</b>
<b>Liabilities</b>							
Long-term liabilities.....	5,178,649	5,122,938	3,476,631	3,135,539	8,655,280	8,258,477	4.8%
Other liabilities.....	3,836,837	3,429,415	910,027	882,346	4,746,864	4,311,761	10.1%
<b>Total liabilities.....</b>	<b>9,015,486</b>	<b>8,552,353</b>	<b>4,386,658</b>	<b>4,017,885</b>	<b>13,402,144</b>	<b>12,570,238</b>	<b>6.6%</b>
<b>Net Assets</b>							
Invested in capital assets, net of debt.....	9,371,744	8,877,813	1,973,060	1,778,072	11,344,804	10,655,885	6.5%
Restricted.....	3,089,781	2,735,158	1,248,472	1,232,819	4,338,253	3,967,977	9.3%
Unrestricted.....	447,313	(172,175)	442,758	360,037	890,071	187,862	373.8%
<b>Total net assets.....</b>	<b>\$ 12,908,838</b>	<b>\$ 11,440,796</b>	<b>\$ 3,664,290</b>	<b>\$ 3,370,928</b>	<b>\$ 16,573,128</b>	<b>\$ 14,811,724</b>	<b>11.9%</b>

**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 2005-2006 accounting year, the State's net assets totaled \$16.573 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—reported a *positive* balance of \$890.071 million at June 30, 2006. This represents an improvement of \$702.209 million over the prior year. The majority of this improvement resulted from a \$619.488 million increase in the net assets reported for the State's governmental activities, which reported a \$447.313 million in unrestricted net assets for the current fiscal year versus a *negative* \$172.175 million balance in the prior year. This substantial improvement occurred primarily because of significant increases in fund balances for the State's General Fund and Departmental General Operating Fund, which are considered unrestricted for government-wide reporting.

The State's *business-type activities* also reported a *positive* \$442.758 million unrestricted net asset balance. This resulted from net positive balances of \$665.791 million associated with higher education and certain other business-type activities. However, that positive balance was offset by a \$223.033 million deficit related to the State-run medical malpractice insurance program.

*Exhibit 2*  
**State of South Carolina's Changes in Net Assets**  
 For the Fiscal Year Ended June 30, 2006, with Restated Comparative Data for the Fiscal Year Ended June 30, 2005  
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals - Primary Government		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
<b>Revenues</b>							
Program revenues:							
Charges for services.....	\$ 2,003,181	\$ 1,816,591	\$ 3,410,800	\$ 3,173,818	\$ 5,413,981	\$ 4,990,409	8.5%
Operating grants and contributions.....	5,774,762	6,052,454	478,462	423,946	6,253,224	6,476,400	(3.4%)
Capital grants and contributions.....	621,512	650,384	74,224	55,166	695,736	705,550	(1.4%)
General revenues:							
Individual income tax.....	3,156,028	2,762,538	—	—	3,156,028	2,762,538	14.2%
Retail sales and use tax.....	3,613,754	3,221,466	—	—	3,613,754	3,221,466	12.2%
Other taxes.....	1,753,214	1,469,701	—	—	1,753,214	1,469,701	19.3%
Unrestricted grants and contributions.....	18,664	26,391	—	—	18,664	26,391	(29.3%)
Unrestricted investment income.....	69,438	32,628	—	—	69,438	32,628	112.8%
Tobacco legal settlement.....	67,841	73,231	—	—	67,841	73,231	(7.4%)
Other.....	67,012	71,090	—	—	67,012	71,090	(5.7%)
<b>Total revenues.....</b>	<b>17,145,406</b>	<b>16,176,474</b>	<b>3,963,486</b>	<b>3,652,930</b>	<b>21,108,892</b>	<b>19,829,404</b>	<b>6.5%</b>
<b>Expenses</b>							
Governmental activities:							
General government.....	1,768,034	1,727,612	—	—	1,768,034	1,727,612	2.3%
Education.....	1,402,446	1,280,791	—	—	1,402,446	1,280,791	9.5%
Health and environment.....	4,766,947	4,767,155	—	—	4,766,947	4,767,155	(0.0%)
Social services.....	1,051,343	992,960	—	—	1,051,343	992,960	5.9%
Administration of justice.....	683,180	629,185	—	—	683,180	629,185	8.6%
Resources and economic development.....	181,375	197,351	—	—	181,375	197,351	(8.1%)
Transportation.....	905,050	664,125	—	—	905,050	664,125	36.3%
Intergovernmental.....	4,061,996	3,848,454	—	—	4,061,996	3,848,454	5.5%
Other.....	72,247	67,705	—	—	72,247	67,705	6.7%
Business-type activities:							
Higher education.....	—	—	2,871,493	2,679,238	2,871,493	2,679,238	7.2%
Higher education institution support <sup>a</sup> .....	—	—	881,583	800,151	881,583	800,151	10.2%
Unemployment compensation benefits.....	—	—	365,091	366,820	365,091	366,820	(0.5%)
Financing of housing facilities.....	—	—	150,626	147,021	150,626	147,021	2.5%
Medical malpractice insurance.....	—	—	52,598	47,432	52,598	47,432	10.9%
Financing of student loans.....	—	—	61,472	43,567	61,472	43,567	41.1%
Tuition prepayment program.....	—	—	38,849	26,653	38,849	26,653	45.8%
State maritime museum.....	—	—	6,911	6,638	6,911	6,638	4.1%
Insurance claims processing.....	—	—	1,536	1,655	1,536	1,655	(7.2%)
Other.....	—	—	24,172	29,055	24,172	29,055	(16.8%)
<b>Total expenses.....</b>	<b>14,892,618</b>	<b>14,175,338</b>	<b>4,454,331</b>	<b>4,148,230</b>	<b>19,346,949</b>	<b>18,323,568</b>	<b>5.6%</b>
<b>Excess (deficiency) before transfers and extraordinary items.....</b>	<b>2,252,788</b>	<b>2,001,136</b>	<b>(490,845)</b>	<b>(495,300)</b>	<b>1,761,943</b>	<b>1,505,836</b>	<b>17.0%</b>
Extraordinary items.....	—	—	(539)	(556)	(539)	(556)	3.1%
Net transfers.....	(784,746)	(714,238)	784,746	714,238	—	—	N/A
<b>Increase in net assets.....</b>	<b>1,468,042</b>	<b>1,286,898</b>	<b>293,362</b>	<b>218,382</b>	<b>1,761,404</b>	<b>1,505,280</b>	<b>17.0%</b>
<b>Net assets, beginning of year (restated).....</b>	<b>11,440,796</b>	<b>10,153,898</b>	<b>3,370,928</b>	<b>3,152,546</b>	<b>14,811,724</b>	<b>13,306,444</b>	<b>11.3%</b>
<b>Net assets, end of year.....</b>	<b>\$ 12,908,838</b>	<b>\$ 11,440,796</b>	<b>\$ 3,664,290</b>	<b>\$ 3,370,928</b>	<b>\$ 16,573,128</b>	<b>\$ 14,811,724</b>	<b>11.9%</b>

<sup>a</sup> The higher education institution support activity represents certain associations, foundations, and authorities created for the benefit of the State's higher education institutions.

**Changes in Net Assets**

The State's net assets increased \$1.761 billion (11.9%) over the prior year's net assets.

**Governmental Activities**

Net assets of the State's governmental activities increased by \$1.468 billion (12.8%) primarily due to increased revenues. Governmental activities' revenues are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the sources of revenues that support governmental activities.

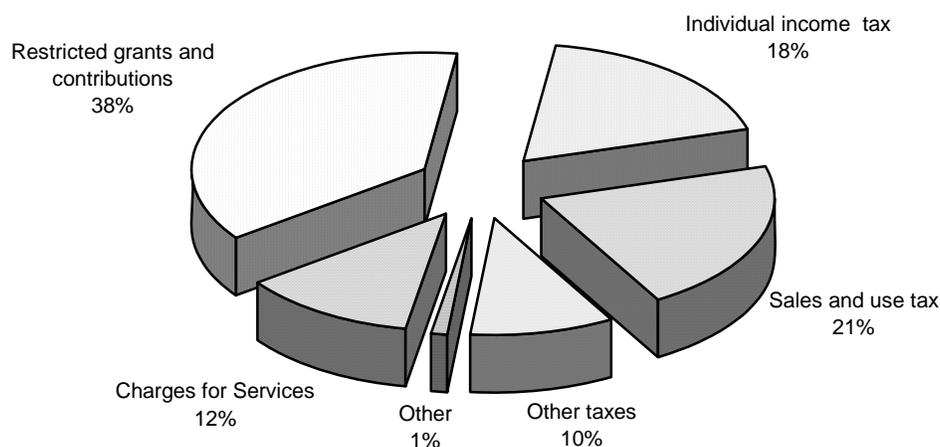
Governmental activities' expenses were mostly associated with services provided for health and environment, intergovernmental, general government, education, and social services. *Exhibit 4* compares the cost of these services with their *program revenues*—revenues derived directly from the program itself 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. Intergovernmental expenses of \$4.062 billion represent aid provided to local governments, including local school districts; taxes and other general revenues entirely supported these expenses. This aid includes formula-based State revenue

sharing, aid to local school districts for public education, and subsidies to reimburse counties for the State’s residential property tax relief program. For the accounting year ended June 30, 2006, the State used \$8.746 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 \$784.746 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, expenses, and net transfers for governmental activities during the 2005-2006 accounting year:

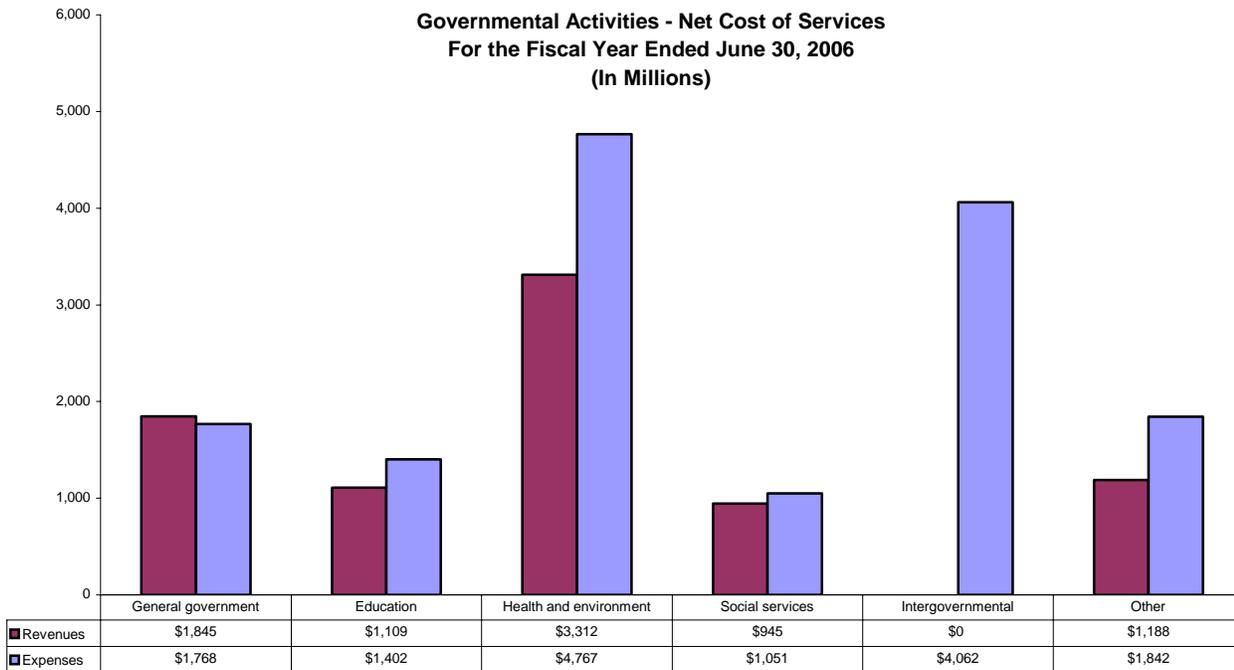
- Charges for services grew by \$186.590 million (10.3%) primarily because two of the State’s internal service funds, the Employee Insurance Programs and the Insurance Reserve Fund, increased premiums to subscribers.
- Operating grants and contributions decreased \$277.692 million (4.6%) because of a change in the mechanism for funding disproportionate share for public hospitals. In prior years, that funding was provided through contributions received from public hospitals. Beginning with fiscal year 2005-2006, the State began assessing a hospital provider tax on all general hospitals in lieu of contributions, due to a change in Federal Medicaid requirements.
- Tax revenues increased \$1.069 billion (14.4%) over last year. Individual income taxes were up 14.2%; sales taxes increased 12.1%; and corporate income and other taxes grew by 19.3%, due to favorable economic conditions. In addition, the hospital provider tax (discussed above) added \$264.000 million in tax revenues during the year.
- Unrestricted investment income was up \$36.810 million (112.8%) due to increased cash balances and higher rates of return on those balances.
- Transportation expenses rose \$240.925 million (36.3%) because of an increase in highway construction and maintenance projects.

*Exhibit 3*  
**Revenues Supporting Governmental Activities - By Source**  
**For the Fiscal Year Ended June 30, 2006**



*Exhibit 4*

**Governmental Activities - Net Cost of Services  
For the Fiscal Year Ended June 30, 2006  
(In Millions)**



**Business-type Activities**

Net assets of the State’s business-type activities increased \$293.362 million (8.7%).

Revenues from business-type activities included charges for services (86.1%) and grants and contributions (including federal aid) (13.9%). Expenses from business-type activities were mostly to provide higher education services and support (84.3%), unemployment compensation benefits (8.2%), and financing of housing facilities (3.4%).

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 represent the cost of educational services that taxes and other general revenues of governmental activities support.

The following paragraphs highlight the most significant changes in revenues, expenses, and net transfers for business-type activities during the 2005-2006 accounting year:

- Charges for services increased \$236.982 million (7.5%), primarily because of increases for higher education activities. Revenues of State-supported colleges and universities increased because of higher tuition and student fees as well as from increased enrollment. Higher education revenues also increased because of lottery-funded scholarships to in-State students who met certain requirements.
- Operating grants and contributions increased \$54.516 million (12.9%). These were attributable to increased federal and state student grants and research grants and contracts,
- Higher education and support expenses increased \$273.687 million (7.9%). This increase resulted primarily from increases in compensation and benefits; services and supplies; and utility costs due to rate increases and the construction of new buildings. Other increases are the result of growth in both research and institutional programs.

**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, 2006.

*Exhibit 5*  
**State of South Carolina’s Governmental Fund Balances**  
*(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.....	\$ 280,169	\$ 16,911	\$ 1,820,493	\$ 13,503	\$ —	\$ 176,476	\$ 2,307,552
Unreserved, designated.....	555,378	—	—	—	—	322,336	877,714
Unreserved, undesignated.....	278,298	514,282	(386,935)	(64,369)	495,365	537,745	1,374,386
<b>Totals.....</b>	<b>\$ 1,113,845</b>	<b>\$ 531,193</b>	<b>\$ 1,433,558</b>	<b>\$ (50,866)</b>	<b>\$ 495,365</b>	<b>\$ 1,036,557</b>	<b>\$ 4,559,652</b>
<b>Change from prior year.....</b>	<b>\$ 625,746</b>	<b>\$ 41,053</b>	<b>\$ (56,982)</b>	<b>\$ (107,662)</b>	<b>\$ 4,724</b>	<b>\$ 213,137</b>	<b>\$ 720,016</b>
<b>Percentage change.....</b>	<b>128.2%</b>	<b>8.4%</b>	<b>(3.8%)</b>	<b>(189.6%)</b>	<b>1.0%</b>	<b>25.9%</b>	<b>18.8%</b>

At June 30, 2006, total ending fund balance for the State’s governmental funds was \$4.560 billion, which represents an increase of \$720.016 million (18.8%) from the prior year. Approximately half of this total (49.4%) makes up the *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 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 2005-2006 accounting year, the total fund balance of the General Fund increased \$625.746 million (128.2%) over last year. The increase was due to a combination of favorable economic conditions and conservative budgeting. Improvement in the national economy favorably affected the State’s economy in the form of job growth, corporate profits, and increased consumer spending. Individual income taxes increased \$361.410 million (13.1%); sales and use taxes increased \$192.296 million (8.2%); and corporate and other taxes increased \$93.141 million (11.9%). In addition, interest earnings increased \$35.170 million (127.4%) due to increased cash balances and higher interest rates. Overall, revenues were \$616.706 million (9.2%) greater than the previous year. Expenditures grew at a lesser pace primarily because conservative budget estimates limited the amount of authorized spending during the year. As a result, total expenditures increased by only \$377.487 million (7.0%) over the prior year. The most significant expenditure increases were attributable to education, up \$31.038 million (12.5%), and administration of justice, up \$52.036 million (11.3%). Operating transfers out of the General Fund increased \$122.374 million (15.5%). This increase was attributable in part to legislation that distributed increased tax revenues to certain State agencies.

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. Fund balance decreased \$107.662 million during 2005-2006 resulting in a negative total fund balance of \$50.866 million at the end of the fiscal year. This occurred primarily because of long-term commitments by DOT to provide funding for highway construction projects administered by the State Infrastructure Bank (included within the Local Government Infrastructure Fund which is presented with the other major governmental funds in the basic financial statements). 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 will be 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, 2006.

Exhibit 6  
 State of South Carolina's Proprietary Fund Net Assets  
 (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).....	\$ 1,867,185	\$ —	\$ 865	\$ 61,407	\$ 223	\$ 43,380	\$ 1,973,060	\$ 113,486
Restricted, expendable.....	278,484	386,932	242,416	67,781	129,105	45,297	1,150,015	236,216
Restricted, nonexpendable.....	72,889	—	—	—	—	25,568	98,457	109
Unrestricted.....	461,673	—	19,062	101,937	1,113	(157,163)	426,622	(46,212)
<b>Totals.....</b>	<b>\$ 2,680,231</b>	<b>\$ 386,932</b>	<b>\$ 262,343</b>	<b>\$ 231,125</b>	<b>\$ 130,441</b>	<b>\$ (42,918)</b>	<b>\$ 3,648,154</b>	<b>\$ 303,599</b>
<b>Change from prior year.....</b>	<b>\$ 237,364</b>	<b>\$ (13,547)</b>	<b>\$ 18,450</b>	<b>\$ 30,625</b>	<b>\$ 505</b>	<b>\$ 7,481</b>	<b>\$ 280,878</b>	<b>\$ 203,442</b>
<b>Percentage change.....</b>	<b>9.7%</b>	<b>(3.4%)</b>	<b>7.6%</b>	<b>15.3%</b>	<b>0.4%</b>	<b>(14.8%)</b>	<b>8.3%</b>	<b>203.1%</b>

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 *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 \$30.625 million (15.3%) primarily due to increases in patient activity and comprehensive rate increases.

South Carolina's *internal service funds* provide certain services (including maintenance, insurance, printing, data processing, 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**

The State's *Board of Economic Advisors (BEA)* is responsible for forecasting revenues for the budget. State law requires that the BEA meet at least quarterly to review revenue collections and to adjust its forecasts if necessary. If the BEA reduces revenue projections significantly once the budget year begins, the State's *Budget and Control Board* is responsible for mandating spending cuts to keep the budget in balance.

Original estimated revenues for the 2005–2006 accounting year were \$5.473 billion. The BEA revised its original revenue estimate three separate times during the course of the year by a total of \$505.667 million. The upward revisions resulted from their review of tax revenue collections and economic conditions as the year progressed. Actual revenues at June 30, 2006, were \$247.268 million more than the BEA's final revised estimate, and \$752.935 million (13.8%) over the original revenue estimate. Actual revenues exceeded prior year revenue collections by \$634.966 million (11.4%). Individual income and sales taxes, the fund's primary revenue sources, were greater than expected because of conservative revenue estimates and favorable economic conditions that lead to increased job growth and consumer spending.

Budgetary General Fund appropriations increased during the year by \$13.454 million. During 2005–2006, the General Assembly approved supplemental appropriations totaling \$13.095 million for the purchase of school bus fuel and parts. Those appropriations were funded from the 2004–2005 excess budgetary surplus funds. The remaining appropriation increase was needed to fund certain State-mandated programs that were underestimated in the Appropriations Act.

Furthermore, actual revenues were \$685.590 million greater than actual expenditures because conservative revenue estimates limited increases in agency spending. Transfers out during the year totaled \$231.183 million, which included \$99.356 million of 2004–2005 Capital Reserve Appropriations and \$131.827 million of increased tax enforcement collections transferred to the State's Other Budgeted Funds for agency spending. The State was able to end the year with an accumulated budgetary general fund balance of \$987.772 million.

See the *Required Supplementary Information* section on pages 136 through 141 of this report for a detailed budgetary comparison schedule.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of the 2005-2006 accounting year, the State had \$16.222 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$1.038 billion, or 6.8%, over the previous accounting year (see *Exhibit 7*).

*Exhibit 7*  
**State of South Carolina's Capital Assets**  
**As of June 30 for the Years Indicated**  
*(Net of Depreciation, Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Totals—Primary Government	
	2006	2005	2006	2005	2006	2005
Land and improvements.....	\$ 1,522,999	\$ 1,459,853	\$ 223,495	\$ 209,351	\$ 1,746,494	\$ 1,669,204
Infrastructure.....	6,423,305	5,883,421	—	—	6,423,305	5,883,421
Buildings and improvements.....	1,009,521	903,596	2,150,777	1,967,494	3,160,298	2,871,090
Vehicles.....	155,527	155,218	12,391	12,358	167,918	167,576
Machinery and equipment.....	123,424	116,606	238,105	205,489	361,529	322,095
Works of art and historical treasures.....	3,596	3,712	23,666	19,746	27,262	23,458
Construction in progress.....	3,800,167	3,833,664	522,507	404,255	4,322,674	4,237,919
Intangible assets.....	9,114	4,849	3,865	4,607	12,979	9,456
<b>Total.....</b>	<b>\$ 13,047,653</b>	<b>\$ 12,360,919</b>	<b>\$ 3,174,806</b>	<b>\$ 2,823,300</b>	<b>\$ 16,222,459</b>	<b>\$ 15,184,219</b>

The State's investment in buildings and improvements increased significantly, primarily because the Department of Commerce completed the Vought Manufacturing Complex, a large economic development construction project, at a cost of approximately \$110.000 million. The South Carolina School for the Deaf and Blind also completed several large construction projects on the campus at a cost of approximately \$17.178 million.

Machinery and equipment assets increased significantly due, in large part, to the public universities. The Medical University of South Carolina made significant investments in medical, scientific, and laboratory equipment this year. Also, the University of South Carolina opened a new facility, which was equipped with laboratory and computer equipment.

The State's investment in works of art and historical treasures increased significantly due to Patriot's Point Development Authority completing an overhaul project on the aircraft carrier Yorktown at a cost of \$4.206 million.

Intangible assets increased from last fiscal year primarily because of the Department of Commerce's Virtual One Stop software system for workforce development at a cost of approximately \$1.355 million.

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 the end of the accounting year, the State had \$8.217 billion in bonds and notes outstanding—an increase of \$320.946 million, or 4.1%, over last year (see *Exhibit 8*). Note 12, in the notes to the financial statements, includes more detailed information about the State's long-term debt.

*Exhibit 8*  
**State of South Carolina's 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	2005	2006	2005	2006	2005	2005-2006
Backed by the State:							
General obligation bonds.....	\$ 2,405,119	\$ 2,298,253	\$ 249,514	\$ 230,423	\$ 2,654,633	\$ 2,528,676	5.0%
Backed by specific revenues:							
Revenue bonds and notes.....	43,190	33,832	2,782,026	2,536,112	2,825,216	2,569,944	9.9%
Infrastructure Bank bonds.....	1,917,706	1,947,393	—	—	1,917,706	1,947,393	(1.5%)
Tobacco Authority bonds.....	796,900	820,905	—	—	796,900	820,905	(2.9%)
Limited obligation bonds.....	15,291	19,392	—	—	15,291	19,392	(21.1%)
Bond anticipation notes.....	—	—	6,855	9,345	6,855	9,345	(26.6%)
<b>Total.....</b>	<b>\$ 5,178,206</b>	<b>\$ 5,119,775</b>	<b>\$ 3,038,395</b>	<b>\$ 2,775,880</b>	<b>\$ 8,216,601</b>	<b>\$ 7,895,655</b>	<b>4.1%</b>

New debt resulted mainly from the issuance of revenue bonds by the *enterprise funds* reported in the business-type activities. The Housing Authority issued \$98.000 million in bonds for housing programs while the Education Assistance Authority issued \$208.300 million in bonds to provide financing for student loans.

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, 2006, 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, 2006, 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: \$46.990 in total for all institution bonds, \$18.335 million for highway bonds, \$101.998 million for general obligation bonds, excluding institution and highway bonds, \$6.335 million for economic development bonds, and \$13.697 million for research university infrastructure bonds. (*Institution bonds* are general obligation bonds that benefit the State’s Higher Education Fund.)

**Economic Factors and Next Year’s Budget**

**The “Rainy Day Account”**

At June 30, 2006, the General Reserve Fund, sometimes called the *rainy day account*, was fully funded at \$153.488 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 2005-2006 Appropriation Act passed by the General Assembly appropriated \$78.333 million to fully restore the rainy day account.

**Budgetary General Fund for the 2006-2007 Accounting Year**

For fiscal year 2006-2007, estimated revenues per the Appropriation Act were \$6.085 billion, or \$141.000 million *less* than 2005–2006 revenue collections. This estimate was subsequently revised. On November 9, 2006, based on most recent revenue collection trends, the State’s Board of Economic Advisors (BEA) revised its original revenue estimate for fiscal year 2006-2007 upward by \$180.000 million (3.0%) to a total of \$6.265 billion.

See the *Budgetary General Fund Highlights* subsection above for additional information about the responsibilities of the BEA and the State Budget and Control Board.

**Economic Conditions**

Budgetary General Fund revenues for the first four months of the 2006-2007 fiscal year were \$200.992 million, 10.2% higher than during the same period for fiscal year 2005-2006. South Carolina’s three major revenue sources continue to experience significant gains, reinforcing the fact that economic conditions are improving in the State. Individual income taxes are up 9.0%, as withholdings increased 4.8% and estimated tax payments increased 19.3%. Corporate income taxes have grown by 16.0%. Sales taxes have increased 12.6% despite higher gasoline prices experienced during this period.

The BEA has adopted a preliminary Budgetary General Fund revenue estimate of \$6.581 billion for the 2007-2008 accounting year. This revenue forecast represents a 5.0% increase over the revised base for 2006-2007. The BEA will review this estimate again in February 2007 and either adjust or finalize it then.

**Other Issues Expected to Impact Future Operations**

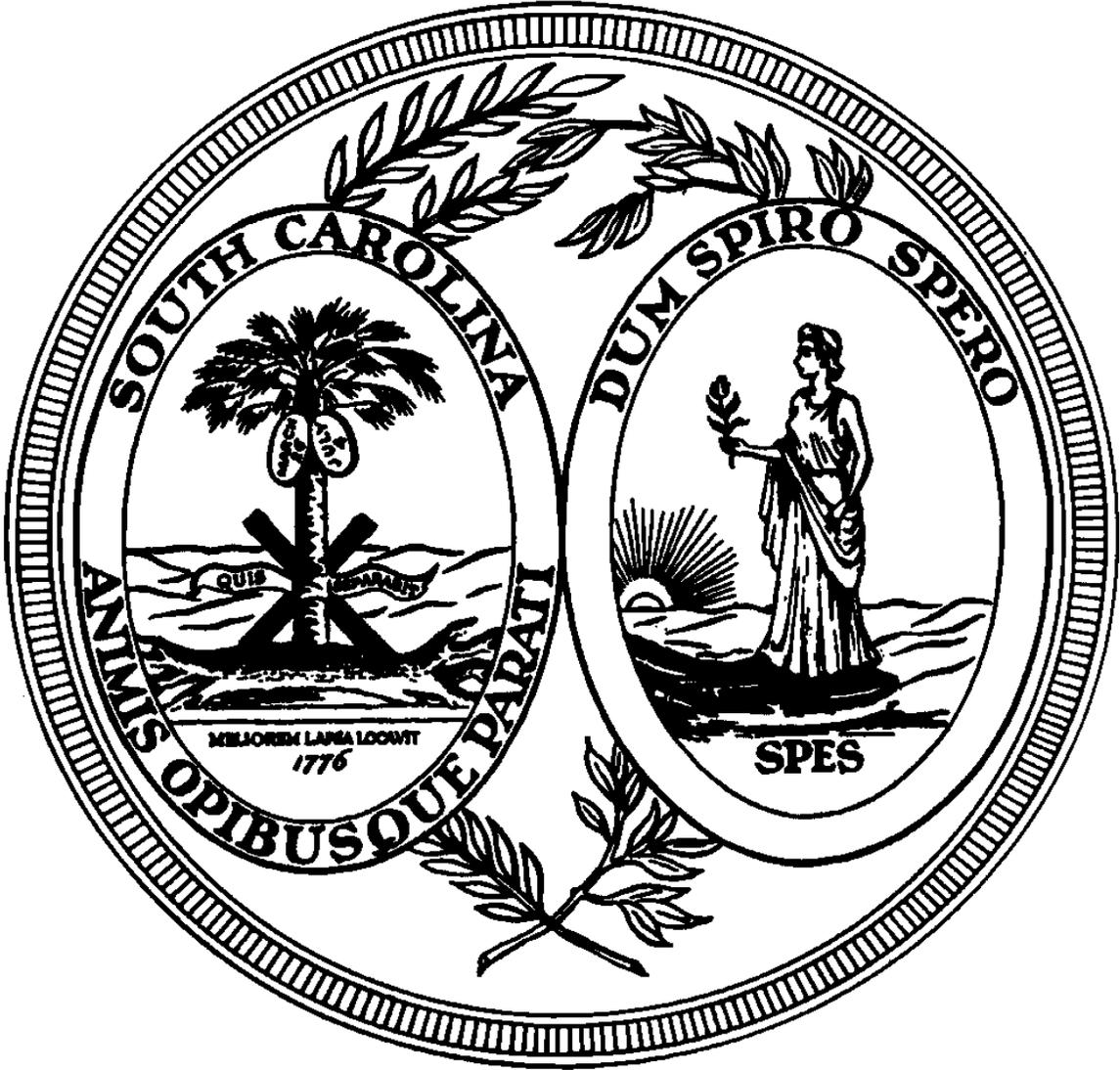
In June 2004, the Governmental Accounting Standards Board (GASB) adopted Statement No. 43 and No. 45 which are new accounting and reporting standards for other post employment benefits (OPEB). OPEB include post employment benefits such as medical, prescription drug, and dental insurance benefits, provided to retired State government and school district employees. Currently, the State funds these benefits on a pay-as-you-go basis. The new standards will require the State to report the actuarially determined unfunded liability (an estimate of accumulated benefits expected to be paid in future years) along with the current costs associated with these benefits. Although these standards do not become effective until fiscal years 2006–2007 (GASB 43) and 2007–2008 (GASB 45), the State hired an independent actuarial firm to provide an estimate of the State’s OPEB liability at June 30, 2006 (as if the new standards had been in effect). The actuary’s report projects that the combined OPEB liability at June 30, 2006 for State and school district employees was estimated to be \$9.227 billion.

The General Assembly enacted legislation in 2005–2006 that provides for the establishment of a special committee to study the State’s OPEB obligation. The study is to address current funding and potential pre-funding of OPEB. The committee’s report is to be provided to the Governor and the General Assembly by January 15, 2007. Because the State has not completed the process of evaluating the impact of these new reporting standards, the financial impact on future years’ financial position and results of operations is not known at this time.

**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 your questions concerning information in this report to:

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



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**BASIC  
FINANCIAL STATEMENTS**

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# Statement of Net Assets

June 30, 2006

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents.....	\$ 4,069,811	\$ 1,326,683	\$ 5,396,494	\$ 260,549
Investments.....	—	110,859	110,859	140,666
Invested securities lending collateral.....	623,382	81,435	704,817	17,709
Receivables, net:				
Accounts.....	257,243	73,688	330,931	209,904
Contributions.....	—	3,020	3,020	10,139
Participants.....	—	8,336	8,336	—
Accrued interest.....	29,457	15,343	44,800	2,445
Income taxes.....	366,016	—	366,016	—
Sales and other taxes.....	595,676	—	595,676	—
Student accounts.....	—	34,850	34,850	—
Patient accounts.....	11,734	150,285	162,019	—
Loans and notes.....	26,746	127,895	154,641	—
Assessments.....	—	53,415	53,415	—
Due from Federal government and other grantors.....	866,408	91,837	958,245	—
Internal balances.....	(17,936)	17,936	—	—
Due from component units.....	18,778	106,991	125,769	—
Due from primary government.....	—	—	—	3
Inventories.....	43,826	28,548	72,374	147,854
Restricted assets:				
Cash and cash equivalents.....	91,608	273,473	365,081	153,740
Investments.....	87,559	9,660	97,219	23,248
Loans receivable.....	—	470	470	—
Other.....	61,342	2,375	63,717	—
Prepaid items.....	22,483	24,778	47,261	8,601
Other current assets.....	—	6,644	6,644	57,831
Deferred charges.....	—	—	—	1,616
Total current assets.....	<u>7,154,133</u>	<u>2,548,521</u>	<u>9,702,654</u>	<u>1,034,305</u>

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

## Statement of Net Assets (Continued)

June 30, 2006

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term assets:				
Receivables, net:				
Accounts.....	\$ 62,670	\$ 479	\$ 63,149	\$ 2,125
Contributions.....	—	524	524	27,438
Participants.....	—	18,068	18,068	—
Income taxes.....	62,207	—	62,207	—
Sales and other taxes.....	20,668	—	20,668	—
Patient accounts.....	14,324	—	14,324	—
Loans and notes.....	450,037	911,864	1,361,901	—
Investments.....	245,730	21,496	267,226	639,279
Restricted assets:				
Cash and cash equivalents.....	410,964	596,646	1,007,610	37,901
Investments.....	—	106,695	106,695	223,304
Accounts receivable.....	429,130	—	429,130	—
Loans receivable.....	—	588,388	588,388	—
Other.....	3,399	26,569	29,968	—
Prepaid items.....	—	14,496	14,496	—
Other long-term assets.....	771	31,926	32,697	19,231
Deferred charges.....	22,638	10,470	33,108	493,432
Investment in joint venture.....	—	—	—	6,567
Non-depreciable capital assets.....	5,307,755	718,979	6,026,734	1,392,950
Depreciable capital assets, net.....	7,739,898	2,455,827	10,195,725	2,769,824
Total long-term assets.....	<u>14,770,191</u>	<u>5,502,427</u>	<u>20,272,618</u>	<u>5,612,051</u>
<b>Total assets.....</b>	<b><u>21,924,324</u></b>	<b><u>8,050,948</u></b>	<b><u>29,975,272</u></b>	<b><u>6,646,356</u></b>

Continued on Next Page

## Statement of Net Assets (Continued)

June 30, 2006

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable .....	\$ 1,071,674	\$ 240,858	\$ 1,312,532	\$ 192,935
Accrued salaries and related expenses.....	117,262	67,906	185,168	9,539
Accrued interest payable.....	38,338	14,982	53,320	66,790
Retainages payable.....	4,236	15,836	20,072	1,167
Tax refunds payable.....	541,839	4,760	546,599	—
Payables-aid to individuals/families.....	764	—	764	—
Prizes payable.....	—	—	—	29,523
Unemployment benefits payable.....	—	6,976	6,976	—
Intergovernmental payables.....	339,984	3,661	343,645	1,073
Tuition benefits payable.....	—	12,528	12,528	—
Policy claims.....	461,251	32,000	493,251	42,597
Due to component units.....	3	—	3	—
Due to primary government.....	—	—	—	119,881
Unearned revenues and deferred credits.....	209,899	138,997	348,896	28,609
Deposits.....	—	4,933	4,933	12
Amounts held in custody for others.....	—	3,401	3,401	—
Securities lending collateral.....	623,382	81,435	704,817	17,709
Liabilities payable from restricted assets:				
Accounts payable.....	—	629	629	328
Accrued interest payable.....	29,729	25,572	55,301	1,766
Bonds payable.....	41,070	34,465	75,535	—
Other.....	—	83,336	83,336	—
Notes payable.....	4,175	13,477	17,652	1,327
Letter of credit.....	—	2,000	2,000	—
Revenue bonds anticipation notes payable.....	—	6,855	6,855	—
General obligation bonds payable.....	191,950	14,785	206,735	—
Revenue bonds payable.....	1,320	21,167	22,487	67,990
Limited obligation bonds payable.....	4,320	—	4,320	—
Capital leases payable.....	954	9,828	10,782	2,713
Commercial paper notes.....	—	—	—	285,449
Compensated absences payable.....	125,861	62,370	188,231	2,486
Other current liabilities .....	28,826	7,270	36,096	90,990
Total current liabilities.....	<u>3,836,837</u>	<u>910,027</u>	<u>4,746,864</u>	<u>962,884</u>

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

## Statement of Net Assets (Continued)

June 30, 2006

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term liabilities:				
Retainages payable.....	\$ —	\$ 297	\$ 297	\$ 48,380
Intergovernmental payables.....	300	—	300	—
Tuition benefits payable.....	—	189,211	189,211	—
Policy claims.....	88,205	185,407	273,612	149,067
Unearned revenues and deferred credits.....	—	—	—	322,358
Amounts held in custody for others.....	—	—	—	2,463
Other liabilities payable from restricted assets.....	—	5,909	5,909	—
Notes payable.....	16,846	234,197	251,043	2,429
General obligation bonds payable.....	2,213,169	234,729	2,447,898	—
Tobacco Authority bonds payable.....	796,900	—	796,900	—
Infrastructure Bank bonds payable.....	1,876,636	—	1,876,636	—
Revenue bonds payable.....	20,849	2,476,720	2,497,569	2,922,724
Limited obligation bonds payable.....	10,971	—	10,971	—
Capital leases payable.....	940	35,159	36,099	9,322
Compensated absences payable.....	76,207	54,232	130,439	15,114
Other long-term liabilities.....	77,626	60,770	138,396	70,790
Total long-term liabilities.....	<u>5,178,649</u>	<u>3,476,631</u>	<u>8,655,280</u>	<u>3,542,647</u>
<b>Total liabilities.....</b>	<b><u>9,015,486</u></b>	<b><u>4,386,658</u></b>	<b><u>13,402,144</u></b>	<b><u>4,505,531</u></b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	9,371,744	1,973,060	11,344,804	1,108,211
Restricted:				
Expendable:				
Unemployment compensation benefits.....	—	386,932	386,932	—
Education.....	325,804	165,548	491,352	168,211
Health.....	21,439	—	21,439	—
Transportation.....	153,371	—	153,371	—
Capital projects.....	283,021	122,887	405,908	3,090
Debt service.....	1,121,187	248,156	1,369,343	77,338
Loan programs.....	779,514	226,492	1,006,006	—
Waste management.....	130,300	—	130,300	—
Insurance programs.....	215,643	—	215,643	—
Other.....	57,137	—	57,137	144,764
Nonexpendable:				
Education.....	109	98,457	98,566	306,234
Other.....	2,256	—	2,256	—
Unrestricted.....	447,313	442,758	890,071	332,977
<b>Total net assets.....</b>	<b><u>\$ 12,908,838</u></b>	<b><u>\$ 3,664,290</u></b>	<b><u>\$ 16,573,128</u></b>	<b><u>\$ 2,140,825</u></b>

# Statement of Activities

For the Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Functions</b>					
<b>Primary government:</b>					
Governmental activities:					
General government.....	\$ 1,768,034	\$ 1,530,670	\$ 310,786	\$ 3,749	\$ 77,171
Education.....	1,402,446	35,427	1,072,811	1,204	(293,004)
Health and environment.....	4,766,947	133,033	3,172,066	7,304	(1,454,544)
Social services.....	1,051,343	2,992	941,596	—	(106,755)
Administration of justice.....	683,180	121,338	36,597	137	(525,108)
Resources and economic development.....	181,375	55,596	111,160	7,415	(7,204)
Transportation.....	905,050	124,125	129,746	601,703	(49,476)
Intergovernmental.....	4,061,996	—	—	—	(4,061,996)
Unallocated interest expense.....	72,247	—	—	—	(72,247)
<b>Total governmental activities.....</b>	<b>14,892,618</b>	<b>2,003,181</b>	<b>5,774,762</b>	<b>621,512</b>	<b>(6,493,163)</b>
Business-type activities:					
Higher education.....	2,871,493	2,000,940	238,868	72,926	(558,759)
Higher education institution support.....	881,583	905,000	65,825	40	89,282
Unemployment compensation benefits.....	365,091	333,423	19,335	—	(12,333)
Financing of housing facilities.....	150,626	41,678	127,662	—	18,714
Medical malpractice insurance.....	52,598	42,177	301	—	(10,120)
Financing of student loans.....	61,472	49,544	12,433	—	505
Tuition prepayment program.....	38,849	—	13,263	—	(25,586)
State maritime museum.....	6,911	7,318	154	—	561
Insurance claims processing.....	1,536	1,540	—	—	4
Other.....	24,172	29,180	621	1,258	6,887
<b>Total business-type activities.....</b>	<b>4,454,331</b>	<b>3,410,800</b>	<b>478,462</b>	<b>74,224</b>	<b>(490,845)</b>
<b>Total primary government.....</b>	<b>\$ 19,346,949</b>	<b>\$ 5,413,981</b>	<b>\$ 6,253,224</b>	<b>\$ 695,736</b>	<b>\$ (6,984,008)</b>
<b>Component units:</b>					
Public Service Authority.....	\$ 1,247,004	\$ 1,365,317	\$ 17,078	\$ —	\$ 135,391
State Ports Authority.....	108,028	157,823	8,288	2,040	60,123
Connector 2000 Association, Inc.....	25,265	4,661	931	—	(19,673)
Lottery Commission.....	1,150,865	1,147,852	1,246	—	(1,767)
Other.....	98,500	47,682	103,119	—	52,301
<b>Total component units.....</b>	<b>\$ 2,629,662</b>	<b>\$ 2,723,335</b>	<b>\$ 130,662</b>	<b>\$ 2,040</b>	<b>\$ 226,375</b>

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

## Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets:</b>				
Net (expense) revenue .....	\$ (6,493,163)	\$ (490,845)	\$ (6,984,008)	\$ 226,375
General revenues:				
Taxes:				
Individual income.....	3,156,028	—	3,156,028	—
Retail sales and use.....	3,613,754	—	3,613,754	—
Other.....	1,753,214	—	1,753,214	—
Total taxes.....	8,522,996	—	8,522,996	—
Unrestricted grants and contributions.....	18,664	—	18,664	—
Unrestricted investment income.....	69,438	—	69,438	—
Tobacco legal settlement.....	67,841	—	67,841	—
Other revenues.....	67,012	—	67,012	—
Extraordinary loss on debt extinguishment.....	—	(539)	(539)	—
Transfers—internal activities.....	(784,746)	784,746	—	—
<b>Total general revenues, extraordinary item,     and transfers.....</b>	<b>7,961,205</b>	<b>784,207</b>	<b>8,745,412</b>	<b>—</b>
<b>Change in net assets.....</b>	<b>1,468,042</b>	<b>293,362</b>	<b>1,761,404</b>	<b>226,375</b>
<b>Net assets at beginning of year (restated).....</b>	<b>11,440,796</b>	<b>3,370,928</b>	<b>14,811,724</b>	<b>1,914,450</b>
<b>Net assets at end of year.....</b>	<b>\$ 12,908,838</b>	<b>\$ 3,664,290</b>	<b>\$ 16,573,128</b>	<b>\$ 2,140,825</b>

# Balance Sheet

## GOVERNMENTAL FUNDS

June 30, 2006

(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 1,183,208	\$ 480,889	\$ 262,445	\$ 206,747
Investments.....	40,005	394	—	—
Invested securities lending collateral.....	332,360	6,609	67,180	26,880
Receivables, net:				
Accounts.....	2,886	109,626	41,039	17,673
Accrued interest.....	9,624	429	7,576	1,597
Income taxes.....	428,223	—	—	—
Sales and other taxes.....	342,326	12,601	—	8,541
Patient accounts.....	15,925	10,133	—	—
Loans and notes.....	14	450	439,784	10,732
Due from Federal government and other grantors.....	3,944	758,927	—	101,371
Due from other funds.....	41,775	26,650	14,740	2,157
Due from component units.....	7,838	—	—	—
Interfund receivables.....	5,711	580	306,055	—
Inventories.....	13,014	16,315	—	6,525
Restricted assets:				
Cash and cash equivalents.....	—	—	388,619	88,469
Investments.....	—	—	—	—
Accounts receivable.....	—	—	429,130	—
Other.....	—	—	30,222	—
Prepaid items.....	—	—	—	6,661
Other assets.....	—	—	—	771
<b>Total assets.....</b>	<b>\$ 2,426,853</b>	<b>\$ 1,423,603</b>	<b>\$ 1,986,790</b>	<b>\$ 478,124</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>Liabilities:</b>				
Accounts payable.....	\$ 134,163	\$ 565,185	\$ 9,908	\$ 133,426
Accrued salaries and related expenditures.....	62,298	31,432	68	17,542
Retainages payable.....	—	159	—	2,207
Tax refunds payable.....	541,307	—	—	—
Payable—aid to individuals/families.....	764	—	—	—
Intergovernmental payables.....	14,641	160,980	8,720	—
Due to other funds.....	81,111	70,085	33	21,537
Due to component units.....	3	—	—	—
Interfund payables.....	—	4,815	—	306,055
Deferred revenues.....	104,777	53,124	467,323	21,343
Securities lending collateral.....	332,360	6,609	67,180	26,880
Other liabilities.....	41,584	21	—	—
<b>Total liabilities.....</b>	<b>1,313,008</b>	<b>892,410</b>	<b>553,232</b>	<b>528,990</b>
<b>Fund balances (deficits):</b>				
Reserved.....	280,169	16,911	1,820,493	13,503
Unreserved, designated reported in:				
General Fund.....	555,378	—	—	—
Special revenue funds.....	—	—	—	—
Capital Projects Fund.....	—	—	—	—
Unreserved, undesignated reported in:				
General Fund.....	278,298	—	—	—
Special revenue funds.....	—	514,282	(386,935)	(64,369)
Permanent funds.....	—	—	—	—
<b>Total fund balances.....</b>	<b>1,113,845</b>	<b>531,193</b>	<b>1,433,558</b>	<b>(50,866)</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 2,426,853</b>	<b>\$ 1,423,603</b>	<b>\$ 1,986,790</b>	<b>\$ 478,124</b>

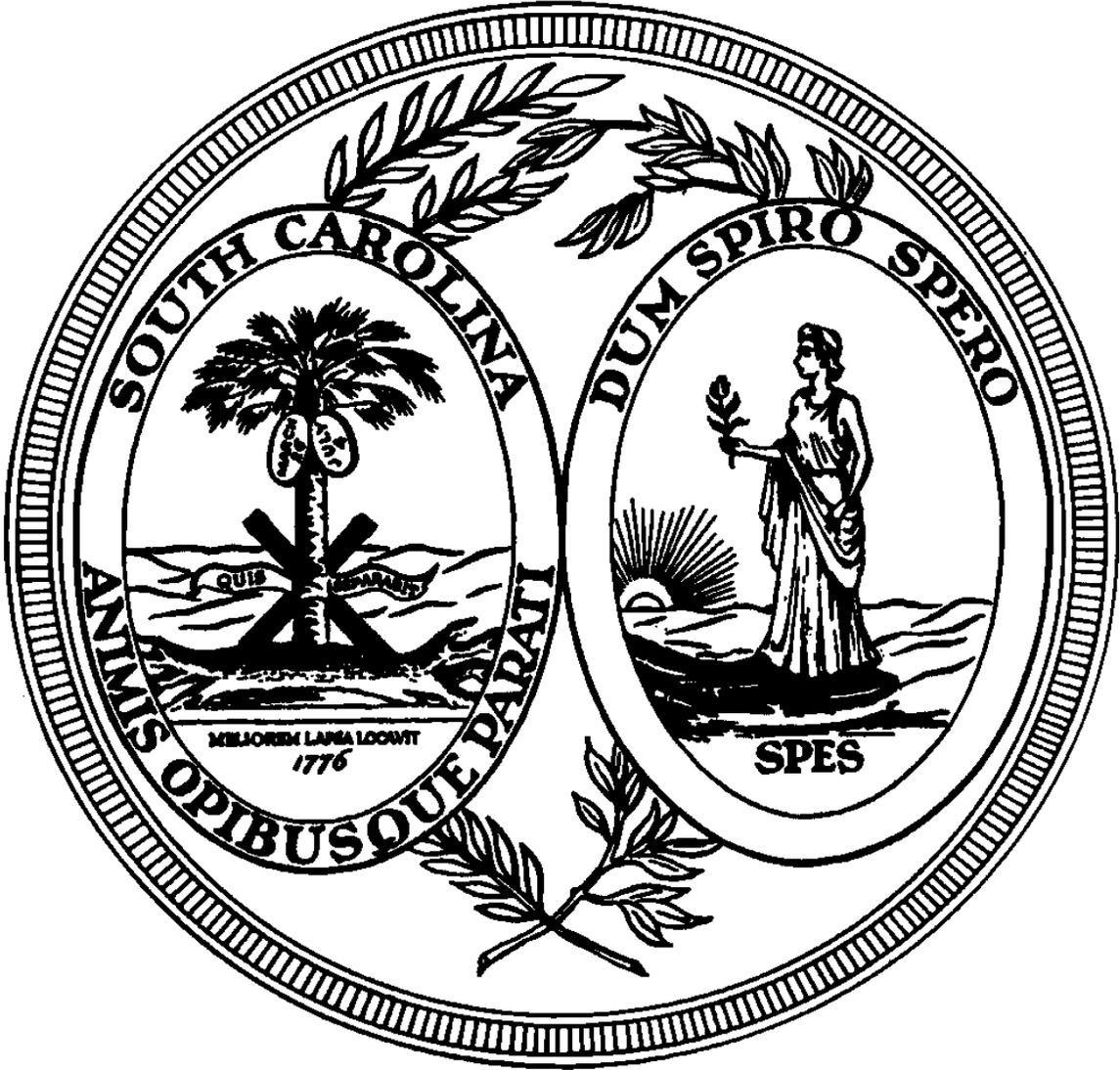
The Notes to the Financial Statements are an integral part of this statement.

<u>State Tobacco Settlement</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
\$ 495,097	\$ 950,506	\$ 3,578,892
—	—	40,399
2,340	89,177	524,546
—	929	172,153
202	6,542	25,970
—	—	428,223
—	252,876	616,344
—	—	26,058
—	25,803	476,783
—	2,166	866,408
99	20,733	106,154
—	10,940	18,778
—	3,961	316,307
—	44	35,898
—	25,484	502,572
—	87,559	87,559
—	—	429,130
—	34,519	64,741
—	—	6,661
—	—	771
<b>\$ 497,738</b>	<b>\$ 1,511,239</b>	<b>\$ 8,324,347</b>
\$ 7	\$ 161,393	\$ 1,004,082
—	1,741	113,081
—	1,837	4,203
—	532	541,839
—	—	764
25	155,618	339,984
1	28,039	200,806
—	—	3
—	21,673	332,543
—	14,042	660,609
2,340	89,177	524,546
—	630	42,235
<b>2,373</b>	<b>474,682</b>	<b>3,764,695</b>
—	176,476	2,307,552
—	—	555,378
—	14,703	14,703
—	307,633	307,633
—	—	278,298
495,365	536,820	1,095,163
—	925	925
<b>495,365</b>	<b>1,036,557</b>	<b>4,559,652</b>
<b>\$ 497,738</b>	<b>\$ 1,511,239</b>	<b>\$ 8,324,347</b>

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

June 30, 2006  
(Expressed in Thousands)

<b>Total fund balances—governmental funds.....</b>		<b>\$ 4,559,652</b>
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.....	\$ 5,301,458	
Depreciable capital assets.....	10,860,644	
Accumulated depreciation.....	<u>(3,258,464)</u>	
Total capital assets.....		12,903,638
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.....		22,501
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.....		597,471
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.....		303,599
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.....		(16,136)
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.....	(5,119,725)	
Notes payable.....	(6,118)	
Accrued interest on bonds.....	(67,255)	
Capital leases.....	(691)	
Compensated absences.....	(195,976)	
Intergovernmental payable.....	(300)	
Policy claims.....	(13,536)	
Other.....	<u>(58,286)</u>	
Total long-term liabilities.....		<u>(5,461,887)</u>
<b>Net assets of governmental activities.....</b>		<b><u><u>\$ 12,908,838</u></u></b>



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

## GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
<b>Revenues:</b>				
Taxes:				
Individual income.....	\$ 3,115,907	\$ —	\$ 11,827	\$ —
Retail sales and use.....	2,533,540	928	—	—
Other.....	873,247	44,256	19,000	490,326
Licenses, fees, and permits.....	125,673	160,128	76,860	—
Interest and other investment income.....	62,766	2,107	42,054	6,395
Federal.....	82,366	5,053,686	28,066	764,645
Local and private grants.....	2,418	9,030	—	—
State grants.....	—	65	—	—
Departmental services.....	425,893	161,965	42,230	86,381
Contributions.....	14,955	26,058	36,556	—
Fines and penalties.....	22,311	65,391	—	—
Tobacco legal settlement.....	—	—	—	—
Other.....	30,134	61,704	—	3,941
<b>Total revenues.....</b>	<b>7,289,210</b>	<b>5,585,318</b>	<b>256,593</b>	<b>1,351,688</b>
<b>Expenditures:</b>				
Current:				
General government.....	306,933	198,677	517	—
Education.....	278,760	164,212	—	—
Health and environment.....	1,600,693	3,243,657	—	—
Social services.....	82,502	955,300	—	—
Administration of justice.....	513,531	110,874	—	—
Resources and economic development.....	85,595	105,987	1,952	—
Transportation.....	—	—	3,526	776,459
Capital outlay.....	35	—	—	576,492
Debt service:				
Principal retirement.....	158,947	465	39,545	27,823
Interest and fiscal charges.....	70,761	56	97,405	35,897
Intergovernmental.....	2,705,648	951,312	177,437	68,445
<b>Total expenditures.....</b>	<b>5,803,405</b>	<b>5,730,540</b>	<b>320,382</b>	<b>1,485,116</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>1,485,805</b>	<b>(145,222)</b>	<b>(63,789)</b>	<b>(133,428)</b>
<b>Other financing sources (uses):</b>				
Bonds and notes issued.....	21,000	—	—	—
Refunding bonds issued.....	—	—	221,045	—
Premiums on bonds issued.....	—	—	21,651	—
Capital leases.....	—	250	—	—
Payment to refunded bond escrow agent.....	—	—	(241,235)	—
Transfers in.....	29,970	258,046	5,390	30,773
Transfers out.....	(911,029)	(72,021)	(44)	(5,007)
<b>Total other financing sources (uses).....</b>	<b>(860,059)</b>	<b>186,275</b>	<b>6,807</b>	<b>25,766</b>
<b>Net change in fund balances.....</b>	<b>625,746</b>	<b>41,053</b>	<b>(56,982)</b>	<b>(107,662)</b>
<b>Fund balances at beginning of year.....</b>	<b>488,099</b>	<b>490,140</b>	<b>1,490,540</b>	<b>56,796</b>
<b>Fund balances (deficit) at end of year.....</b>	<b>\$ 1,113,845</b>	<b>\$ 531,193</b>	<b>\$ 1,433,558</b>	<b>\$ (50,866)</b>

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>
\$ —	\$ —	\$ 3,127,734
—	1,096,882	3,631,350
—	313,444	1,740,273
—	130,866	493,527
17,020	26,673	157,015
—	21,142	5,949,905
—	—	11,448
—	—	65
—	10,782	727,251
—	328,462	406,031
—	23,778	111,480
—	67,841	67,841
—	2,678	98,457
<b>17,020</b>	<b>2,022,548</b>	<b>16,522,377</b>
88	127,607	633,822
—	310,008	752,980
7,383	291,857	5,143,590
—	10,918	1,048,720
—	13,039	637,444
—	4,911	198,445
—	—	779,985
—	46,838	623,365
—	24,005	250,785
—	53,490	257,609
3,510	1,079,280	4,985,632
<b>10,981</b>	<b>1,961,953</b>	<b>15,312,377</b>
<b>6,039</b>	<b>60,595</b>	<b>1,210,000</b>
—	268,475	289,475
—	—	221,045
—	571	22,222
—	—	250
—	—	(241,235)
—	164,654	488,833
(1,315)	(281,158)	(1,270,574)
<b>(1,315)</b>	<b>152,542</b>	<b>(489,984)</b>
<b>4,724</b>	<b>213,137</b>	<b>720,016</b>
<b>490,641</b>	<b>823,420</b>	<b>3,839,636</b>
<b>\$ 495,365</b>	<b>\$ 1,036,557</b>	<b>\$ 4,559,652</b>

# 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, 2006  
(Expressed in Thousands)

<b>Net change in fund balances—total governmental funds.....</b>	<b>\$ 720,016</b>
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.....	\$ 778,429
Depreciation expense.....	<u>(215,018)</u>
Excess of capital outlay over depreciation expense.....	563,411
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.....	133,991
Losses on disposals of capital assets are reported as an expense in the statement of activities.....	(8,377)
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.....	(289,475)
Refunding bonds issued.....	(221,045)
Bond premiums.....	<u>(22,222)</u>
Net bond and note proceeds.....	(532,742)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets.....	2,582
Certain capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.....	(250)
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.....	248,930
Note principal retirement.....	1,253
Capital lease payments.....	602
Payment to bond refunding agent.....	<u>241,235</u>
Total long-term debt repayment.....	492,020
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.....	203,442

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, 2006  
(Expressed in Thousands)**

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.....	\$ (85,707)
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.....	(12,484)
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.....	\$ (492)
Interest accreted on capital appreciation debt.....	(314)
Amortization of bond issuance costs.....	(1,049)
Net amortization of bond premiums and discounts.....	1,746
Amortization of deferred losses on refunding of debt.....	(12,030)
Net increase in compensated absences payable.....	(1,509)
Increase in policy claims payable.....	(5,901)
Net decrease in other payables.....	11,689
Total additional expenses.....	(7,860)
<b>Change in net assets of governmental activities.....</b>	<b>\$ 1,468,042</b>

# Statement of Net Assets

## PROPRIETARY FUNDS

June 30, 2006

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 554,217	\$ 343,467	\$ 18,442
Investments.....	50,933	—	—
Invested securities lending collateral.....	52,510	2,751	2,340
Receivables, net:			
Accounts.....	37,859	7,887	370
Contributions.....	2,841	—	—
Participants.....	—	—	—
Accrued interest.....	13,991	187	23
Student accounts.....	34,850	—	—
Patient accounts.....	—	—	—
Loans and notes.....	47	—	50,348
Assessments.....	—	53,415	—
Due from Federal government and other grantors.....	90,561	227	1,049
Due from other funds.....	35,329	1	—
Due from component units.....	106,991	—	—
Inventories.....	13,632	—	—
Restricted assets:			
Cash and cash equivalents.....	89,411	—	55,087
Investments.....	69	—	—
Loans receivable.....	381	—	—
Other.....	135	—	—
Prepaid items.....	20,535	—	—
Other current assets.....	4,739	—	3
Total current assets.....	<u>1,109,031</u>	<u>407,935</u>	<u>127,662</u>
Long-term assets:			
Investments.....	18,463	—	—
Receivables, net:			
Accounts.....	479	—	—
Contributions.....	424	—	—
Participants.....	649	—	—
Loans and notes.....	—	—	55,510
Interfund receivables.....	—	—	—
Restricted assets:			
Cash and cash equivalents.....	176,176	—	246,582
Investments.....	16	—	2,374
Loans receivable.....	52,706	—	522,042
Other.....	20,550	—	5,461
Prepaid items.....	1,179	—	—
Other long-term assets.....	4,102	—	—
Deferred charges.....	1,301	—	5,662
Non-depreciable capital assets.....	507,739	—	—
Depreciable capital assets, net.....	2,186,739	—	865
Total long-term assets.....	<u>2,970,523</u>	<u>—</u>	<u>838,496</u>
<b>Total assets.....</b>	<b><u>4,079,554</u></b>	<b><u>407,935</u></b>	<b><u>966,158</u></b>

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

<b>FUNDS</b>				
<b>Medical</b>				<b>INTERNAL</b>
<b>University</b>	<b>Education</b>	<b>Nonmajor</b>	<b>Totals</b>	<b>SERVICE</b>
<b>Hospital</b>	<b>Assistance</b>	<b>Enterprise</b>		<b>FUNDS</b>
<b>Authority</b>	<b>Authority</b>			
\$ 42,156	\$ 187,027	\$ 181,374	\$ 1,326,683	\$ 490,919
—	—	59,926	110,859	—
—	32	23,802	81,435	98,836
12,003	13,225	2,344	73,688	117,769
—	—	179	3,020	—
—	—	8,336	8,336	—
—	349	793	15,343	3,487
—	—	—	34,850	—
119,682	—	30,603	150,285	—
—	77,500	—	127,895	—
—	—	—	53,415	—
—	—	—	91,837	—
1,459	—	10,194	46,983	48,549
—	—	—	106,991	1
11,285	—	3,631	28,548	7,928
21,877	29,960	77,138	273,473	—
—	—	9,591	9,660	—
—	—	89	470	—
—	—	2,240	2,375	—
3,282	—	961	24,778	15,822
—	—	1,902	6,644	—
<b>211,744</b>	<b>308,093</b>	<b>413,103</b>	<b>2,577,568</b>	<b>783,311</b>
—	—	3,033	21,496	205,331
—	—	—	479	82
—	—	100	524	—
—	—	17,419	18,068	—
—	856,354	—	911,864	—
—	—	39,434	39,434	38,412
162,095	—	11,793	596,646	—
43,769	—	60,536	106,695	—
—	—	13,640	588,388	—
—	—	558	26,569	—
—	—	13,317	14,496	—
17,929	—	9,895	31,926	—
—	3,507	—	10,470	137
186,959	—	24,281	718,979	6,297
192,894	223	75,106	2,455,827	137,718
<b>603,646</b>	<b>860,084</b>	<b>269,112</b>	<b>5,541,861</b>	<b>387,977</b>
<b>815,390</b>	<b>1,168,177</b>	<b>682,215</b>	<b>8,119,429</b>	<b>1,171,288</b>

Continued on Next Page

**Statement of Net Assets**

PROPRIETARY FUNDS (Continued)

June 30, 2006

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable.....	\$ 73,734	\$ 1,193	\$ —
Accrued salaries and related expenses.....	44,014	—	435
Accrued interest payable.....	8,350	—	—
Retainages payable.....	8,887	—	—
Tax refunds payable.....	—	4,760	—
Unemployment benefits payable.....	—	6,976	—
Intergovernmental payables.....	—	3,647	14
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	18,258	1,676	455
Unearned revenues.....	124,798	—	—
Deposits.....	4,933	—	—
Amounts held in custody for others.....	3,401	—	—
Securities lending collateral.....	52,510	2,751	2,340
Liabilities payable from restricted assets:			
Accounts payable.....	177	—	—
Accrued interest payable.....	—	—	14,687
Bonds payable.....	—	—	30,720
Other.....	—	—	10,174
Notes payable.....	7,480	—	—
Letter of credit.....	—	—	—
Revenue bond anticipation notes payable.....	6,855	—	—
General obligation bonds payable.....	14,785	—	—
Revenue bonds payable.....	20,147	—	—
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	5,674	—	—
Compensated absences payable.....	43,120	—	440
Other current liabilities.....	1,756	—	330
Total current liabilities.....	<u>438,879</u>	<u>21,003</u>	<u>59,595</u>
Long-term liabilities:			
Retainages payable.....	297	—	—
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Interfund payables.....	43,004	—	—
Other liabilities payable from restricted assets.....	—	—	—
Notes payable.....	85,926	—	13,090
General obligation bonds payable.....	234,729	—	—
Revenue bonds payable.....	453,254	—	630,859
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	32,358	—	—
Compensated absences payable.....	52,787	—	271
Other long-term liabilities.....	58,089	—	—
Total long-term liabilities.....	<u>960,444</u>	<u>—</u>	<u>644,220</u>
<b>Total liabilities.....</b>	<b><u>1,399,323</u></b>	<b><u>21,003</u></b>	<b><u>703,815</u></b>

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

<b>FUNDS</b>				<b>Totals</b>	<b>INTERNAL SERVICE FUNDS</b>
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>			
\$ 41,316	\$ 111,559	\$ 6,807	\$ 234,609	\$ 7,781	
14,949	—	8,508	67,906	4,181	
5,288	—	1,344	14,982	812	
6,949	—	—	15,836	33	
—	—	—	4,760	—	
—	—	—	6,976	—	
—	—	—	3,661	—	
—	—	12,528	12,528	—	
—	—	32,000	32,000	454,551	
9,475	—	4,433	34,297	2,732	
—	—	14,199	138,997	146,761	
—	—	—	4,933	—	
—	—	—	3,401	—	
—	32	23,802	81,435	98,836	
—	—	452	629	—	
—	10,885	—	25,572	—	
—	3,745	—	34,465	—	
—	—	73,162	83,336	—	
1,272	—	4,725	13,477	2,879	
—	—	2,000	2,000	—	
—	—	—	6,855	—	
—	—	—	14,785	—	
—	—	1,020	21,167	1,320	
—	—	—	—	4,320	
3,953	—	201	9,828	643	
15,534	237	3,039	62,370	3,255	
221	3,358	1,605	7,270	5,934	
<b>98,957</b>	<b>129,816</b>	<b>189,825</b>	<b>938,075</b>	<b>734,038</b>	
—	—	—	297	—	
—	—	189,211	189,211	—	
—	—	185,407	185,407	81,369	
—	—	13,565	56,569	5,041	
—	5,909	—	5,909	—	
8,124	—	127,057	234,197	12,024	
—	—	—	234,729	—	
474,865	900,988	16,754	2,476,720	20,849	
—	—	—	—	10,971	
2,319	—	482	35,159	560	
—	—	1,174	54,232	2,837	
—	1,023	1,658	60,770	—	
<b>485,308</b>	<b>907,920</b>	<b>535,308</b>	<b>3,533,200</b>	<b>133,651</b>	
<b>584,265</b>	<b>1,037,736</b>	<b>725,133</b>	<b>4,471,275</b>	<b>867,689</b>	

Continued on Next Page

# Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2006

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	\$ 1,867,185	\$ —	\$ 865
Restricted:			
Expendable:			
Unemployment compensation benefits.....	—	386,932	—
Education.....	137,131	—	—
Capital projects.....	119,527	—	—
Debt service.....	21,826	—	49,745
Loan programs.....	—	—	192,671
Insurance programs.....	—	—	—
Nonexpendable:			
Education.....	72,889	—	—
Unrestricted.....	461,673	—	19,062
<b>Total net assets (deficit).....</b>	<b><u>\$ 2,680,231</u></b>	<b><u>\$ 386,932</u></b>	<b><u>\$ 262,343</u></b>
Adjustment in Higher Education Fund related to consolidation of internal service funds .....			
<b>Net assets of business-type activities.....</b>			

<b>FUNDS</b>					<b>INTERNAL SERVICE FUNDS</b>
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>		
\$ 61,407	\$ 223	\$ 43,380	\$ 1,973,060		\$ 113,486
—	—	—	386,932		—
—	—	28,417	165,548		573
—	—	3,360	122,887		—
67,781	95,284	13,520	248,156		—
—	33,821	—	226,492		20,000
—	—	—	—		215,643
—	—	25,568	98,457		109
101,937	1,113	(157,163)	426,622		(46,212)
<b>\$ 231,125</b>	<b>\$ 130,441</b>	<b>\$ (42,918)</b>	<b>3,648,154</b>		<b>\$ 303,599</b>
			16,136		
			<b>\$ 3,664,290</b>		

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

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>Operating revenues:</b>			
Assessments.....	\$ —	\$ 287,011	\$ —
Charges for services.....	939,887	—	9,074
Contributions.....	—	—	—
Interest and other investment income.....	—	—	41,831
Operating revenues pledged for revenue bonds.....	139,196	—	—
Federal operating grants and contracts.....	485,532	31,386	—
State operating grants and contracts.....	212,610	—	—
Local/private operating grants and contracts.....	57,254	—	—
Other operating revenues.....	195,313	20,070	—
<b>Total operating revenues.....</b>	<b><u>2,029,792</u></b>	<b><u>338,467</u></b>	<b><u>50,905</u></b>
<b>Operating expenses:</b>			
General operations and administration.....	2,559,442	262	9,410
Benefits and claims.....	—	364,829	—
Tuition plan disbursements.....	—	—	—
Interest.....	—	—	30,888
Depreciation and amortization.....	126,531	—	395
Scholarships and fellowships.....	158,233	—	—
Other operating expenses.....	—	—	2,480
<b>Total operating expenses.....</b>	<b><u>2,844,206</u></b>	<b><u>365,091</u></b>	<b><u>43,173</u></b>
<b>Operating income (loss).....</b>	<b><u>(814,414)</u></b>	<b><u>(26,624)</u></b>	<b><u>7,732</u></b>
<b>Nonoperating revenues (expenses):</b>			
Federal and local government appropriations.....	61,930	—	—
Interest income.....	30,126	14,291	—
Contributions.....	85,138	—	—
Federal grants and contracts.....	4,305	—	118,435
Local/private grants and contracts.....	6,167	—	—
Interest expense.....	(35,194)	—	—
Net other nonoperating revenues (expenses).....	(1,673)	—	(107,453)
<b>Total nonoperating revenues (expenses).....</b>	<b><u>150,799</u></b>	<b><u>14,291</u></b>	<b><u>10,982</u></b>
<b>Income (loss) before other revenues, expenses, losses, and transfers.....</b>	<b><u>(663,615)</u></b>	<b><u>(12,333)</u></b>	<b><u>18,714</u></b>
Capital contributions.....	—	—	—
Federal capital grants and contracts.....	18,199	—	—
Local/private capital grants and contracts.....	55,040	—	—
Additions to endowments.....	19,133	—	—
Extraordinary loss on early extinguishment of debt.....	—	—	(539)
Transfers in.....	826,161	—	400
Transfers out.....	(17,554)	(1,214)	(125)
<b>Change in net assets.....</b>	<b><u>237,364</u></b>	<b><u>(13,547)</u></b>	<b><u>18,450</u></b>
<b>Net assets at beginning of year (restated).....</b>	<b><u>2,442,867</u></b>	<b><u>400,479</u></b>	<b><u>243,893</u></b>
<b>Net assets (deficit) at end of year.....</b>	<b><u>\$ 2,680,231</u></b>	<b><u>\$ 386,932</u></b>	<b><u>\$ 262,343</u></b>

Adjustment in Higher Education Fund related to consolidation of internal service funds.....  
**Change in net assets of business-type activities.....**

**FUNDS**

<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	<b>INTERNAL SERVICE FUNDS</b>
\$ —	\$ —	\$ —	\$ 287,011	\$ —
681,348	49,544	301,595	1,981,448	1,773,731
—	—	9,481	9,481	743
—	9,835	3,782	55,448	1,114
—	—	2,443	141,639	—
—	—	—	516,918	—
—	—	—	212,610	—
—	—	—	57,254	—
16,743	5	27,228	259,359	38,901
<b>698,091</b>	<b>59,384</b>	<b>344,529</b>	<b>3,521,168</b>	<b>1,814,489</b>
638,067	29,325	231,770	3,468,276	319,669
—	—	51,625	416,454	1,297,671
—	—	38,849	38,849	—
—	27,671	—	58,559	11
21,158	302	4,613	152,999	11,538
—	—	—	158,233	—
—	4,174	202	6,856	5,513
<b>659,225</b>	<b>61,472</b>	<b>327,059</b>	<b>4,300,226</b>	<b>1,634,402</b>
<b>38,866</b>	<b>(2,088)</b>	<b>17,470</b>	<b>(779,058)</b>	<b>180,087</b>
—	—	—	61,930	—
1,810	—	4,056	50,283	22,087
—	—	2,293	87,431	—
—	—	—	122,740	—
—	—	215	6,382	—
(9,499)	—	(7,398)	(52,091)	(2,098)
—	2,593	11,093	(95,440)	7,311
<b>(7,689)</b>	<b>2,593</b>	<b>10,259</b>	<b>181,235</b>	<b>27,300</b>
31,177	505	27,729	(597,823)	207,387
—	—	2,325	2,325	95
—	—	—	18,199	—
—	—	40	55,080	—
—	—	823	19,956	—
—	—	—	(539)	—
—	—	2,816	829,377	20,080
(552)	—	(26,252)	(45,697)	(24,120)
<b>30,625</b>	<b>505</b>	<b>7,481</b>	<b>280,878</b>	<b>203,442</b>
<b>200,500</b>	<b>129,936</b>	<b>(50,399)</b>		<b>100,157</b>
<b>\$ 231,125</b>	<b>\$ 130,441</b>	<b>\$ (42,918)</b>		<b>\$ 303,599</b>
.....			12,484	
.....			<b>\$ 293,362</b>	

# Statement of Cash Flows

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>Cash flows from operating activities:</b>			
Receipts from customers, patients, and third-party payers.....	\$ 1,132,618	\$ —	\$ —
Assessments received.....	—	287,736	—
Grants received.....	742,836	33,816	—
Receipts from collection of loans and notes.....	349,930	—	102,462
Receipts of funds held for others.....	140,655	—	—
Internal activity—payments from other funds.....	70,156	—	—
Tuition plan contributions received.....	—	—	—
Other operating cash receipts.....	33,480	20,043	4,059
Claims and benefits paid.....	—	(365,447)	(690)
Payments to suppliers for goods and services.....	(973,950)	—	(5,307)
Payments to employees.....	(1,626,647)	—	(5,146)
Payments for scholarships and fellowships.....	(131,761)	—	—
Loans issued to students.....	(347,326)	—	—
Payments of funds held for others.....	(111,776)	—	—
Program loans issued.....	—	—	(142,495)
Internal activity—payments to other funds.....	—	—	—
Other operating cash payments.....	(1,229)	(262)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>(723,014)</b>	<b>(24,114)</b>	<b>(47,117)</b>
<b>Cash flows from noncapital financing activities:</b>			
State, county, and local appropriations.....	54,473	—	—
Federal appropriations.....	11,331	—	—
Funds held for others.....	29	—	—
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.....	—	—	3,100
Proceeds from sale of revenue bonds.....	—	—	113,985
Principal payments on revenue bonds.....	—	—	(70,715)
Proceeds from issuance of noncapital debt.....	—	—	—
Principal paid on noncapital debt.....	—	—	—
Interest payments on noncapital debt.....	(61)	—	(30,892)
Payment of bond issuance costs.....	—	—	(706)
Gifts and grants for other than capital purposes.....	147,384	—	—
Federal revenue.....	—	—	118,435
Payments from Federal grants.....	—	—	(107,453)
Other cash receipts.....	2,532	—	—
Other cash payments.....	(919)	(656)	—
Transfers in.....	826,161	—	400
Transfers out.....	(17,554)	(1,214)	(125)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>1,023,376</b>	<b>(1,870)</b>	<b>26,029</b>

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

**FUNDS**

<u>Medical University Hospital Authority</u>	<u>Education Assistance Authority</u>	<u>Nonmajor Enterprise</u>	<u>Totals</u>	<u>INTERNAL SERVICE FUNDS</u>
\$ 655,519	\$ 67,164	\$ 288,862	\$ 2,144,163	\$ 1,307,554
—	—	176,801	464,537	—
—	—	—	776,652	—
—	814,103	—	1,266,495	—
—	—	—	140,655	—
—	—	—	70,156	474,868
—	—	8,799	8,799	—
18,210	—	39,347	115,139	47,023
—	—	(190,356)	(556,493)	(1,248,454)
(287,856)	(57,753)	(77,617)	(1,402,483)	(338,402)
(280,392)	(3,213)	(148,774)	(2,064,172)	(74,270)
—	—	—	(131,761)	—
—	—	—	(347,326)	—
—	—	—	(111,776)	—
—	(945,083)	—	(1,087,578)	—
(70,156)	—	—	(70,156)	(16,842)
—	—	(9,156)	(10,647)	(36)
<u>35,325</u>	<u>(124,782)</u>	<u>87,906</u>	<u>(795,796)</u>	<u>151,441</u>
—	—	—	54,473	—
—	—	—	11,331	—
—	—	—	29	—
—	—	—	—	4,617
—	—	(1,833)	(1,833)	(191)
—	—	—	—	734
—	—	(1,144)	(1,144)	—
—	—	—	3,100	500
—	208,300	—	322,285	—
—	(48,035)	—	(118,750)	—
—	—	3,000	3,000	—
—	—	(3,869)	(3,869)	—
—	(24,063)	(3,814)	(58,830)	—
—	(997)	—	(1,703)	—
—	—	3,821	151,205	—
—	—	—	118,435	—
—	—	—	(107,453)	—
—	—	446	2,978	—
—	(310)	(7,020)	(8,905)	—
—	—	2,816	829,377	20,080
(552)	—	(26,252)	(45,697)	(24,120)
<u>(552)</u>	<u>134,895</u>	<u>(33,849)</u>	<u>1,148,029</u>	<u>1,620</u>

Continued on Next Page

# Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>Cash flows from capital and related financing activities:</b>			
Capital appropriations.....	\$ 4,035	\$ —	\$ —
Acquisition of capital assets .....	(330,559)	—	(152)
Principal payments received from other funds.....	—	—	—
Principal payments on notes payable .....	(3,864)	—	—
Principal payments on limited obligation bonds.....	—	—	—
Proceeds from issuance of capital debt.....	182,147	—	—
Principal paid on capital debt and lease.....	(121,336)	—	—
Interest payments on capital debt.....	(36,571)	—	—
Payment of agent and broker fees.....	(1)	—	—
Proceeds from sale or disposal of capital assets.....	854	—	—
Capital grants and gifts received.....	28,886	—	—
<b>Net cash used in capital and related financing activities.....</b>	<b>(276,409)</b>	<b>—</b>	<b>(152)</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sales and maturities of investments.....	58,086	—	1,998
Purchase of investments .....	(74,658)	—	—
Interest and dividends on investments.....	19,428	14,369	9,343
Transfer of endowment funds.....	(9,848)	—	—
Collection of escrow payments from borrower.....	—	—	—
<b>Net cash provided by (used in) investing activities.....</b>	<b>(6,992)</b>	<b>14,369</b>	<b>11,341</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>16,961</b>	<b>(11,615)</b>	<b>(9,899)</b>
<b>Cash and cash equivalents at beginning of year.....</b>	<b>802,843</b>	<b>355,082</b>	<b>330,010</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 819,804</b>	<b>\$ 343,467</b>	<b>\$ 320,111</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income (loss) .....	\$ (814,414)	\$ (26,624)	\$ 7,732
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	126,531	—	395
Provision for bad debts.....	(3)	—	—
Realized gains and losses on investments.....	—	—	7
Issuance of loans and notes.....	—	—	(142,495)
Collection of loans and notes.....	—	—	67,037
Interest payments reclassified as noncapital financing activities.....	—	—	30,888
Interest and dividends on investments and interfund loans.....	—	—	(9,194)
Amounts received for payment of claims.....	—	—	—
Payment of claims.....	—	—	—
Other nonoperating revenues.....	—	—	—
Other nonoperating expenses.....	—	—	—
Other.....	988	1	(1,483)

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

**FUNDS**

<u>Medical University Hospital Authority</u>	<u>Education Assistance Authority</u>	<u>Nonmajor Enterprise</u>	<u>Totals</u>	<u>INTERNAL SERVICE FUNDS</u>
\$ —	\$ —	\$ —	\$ 4,035	\$ —
(115,014)	(69)	(6,501)	(452,295)	(9,692)
—	—	—	—	1,260
—	—	—	(3,864)	—
—	—	—	—	(4,120)
10,000	—	—	192,147	12,509
(7,680)	—	(2,019)	(131,035)	(610)
(26,337)	—	(4,804)	(67,712)	(1,961)
(2,006)	—	(26)	(2,033)	—
9	—	125	988	2,378
—	—	63	28,949	—
<b><u>(141,028)</u></b>	<b><u>(69)</u></b>	<b><u>(13,162)</u></b>	<b><u>(430,820)</u></b>	<b><u>(236)</u></b>
31,125	395	61,764	153,368	107,229
(16,399)	—	(86,273)	(177,330)	(115,419)
14,141	9,619	14,059	80,959	27,803
—	—	—	(9,848)	—
—	—	1,554	1,554	—
<b><u>28,867</u></b>	<b><u>10,014</u></b>	<b><u>(8,896)</u></b>	<b><u>48,703</u></b>	<b><u>19,613</u></b>
<b><u>(77,388)</u></b>	<b><u>20,058</u></b>	<b><u>31,999</u></b>	<b><u>(29,884)</u></b>	<b><u>172,438</u></b>
<b><u>303,516</u></b>	<b><u>196,929</u></b>	<b><u>238,306</u></b>	<b><u>2,226,686</u></b>	<b><u>318,481</u></b>
<b><u>\$ 226,128</u></b>	<b><u>\$ 216,987</u></b>	<b><u>\$ 270,305</u></b>	<b><u>\$ 2,196,802</u></b>	<b><u>\$ 490,919</u></b>
\$ 38,866	\$ (2,088)	\$ 17,470	\$ (779,058)	\$ 180,087
21,158	302	4,613	152,999	11,538
98,819	(35)	37,111	135,892	—
—	—	(5,182)	(5,175)	—
—	(974,963)	—	(1,117,458)	—
—	817,086	—	884,123	—
—	28,056	—	58,944	—
—	(9,897)	(3,782)	(22,873)	—
—	—	175,254	175,254	—
—	—	(145,771)	(145,771)	—
—	—	1,991	1,991	2,281
—	—	(1,531)	(1,531)	(500)
86	—	5,270	4,862	955

Continued on Next Page

# Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	<b>ENTERPRISE</b>		
	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>Housing Authority</u>
<b>Change in assets—decreases (increases):</b>			
Accounts receivable, net.....	\$ (38,191)	\$ (4)	\$ 4,094
Receivable from participants, net.....	—	—	—
Accrued interest.....	—	—	(10)
Loans receivable.....	226	—	(6,856)
Due from Federal government and other grantors.....	—	(892)	356
Due from other funds.....	—	(23)	—
Inventories.....	—	—	—
Other assets.....	(7,706)	(17)	(3)
<b>Change in liabilities—increases (decreases):</b>			
Accounts payable.....	(1,954)	(656)	—
Accrued salaries and related expenses.....	(7,164)	—	(25)
Accrued interest payable.....	—	—	—
Retainages payable.....	—	—	—
Tax refunds payable.....	—	742	—
Unemployment benefits payable.....	—	422	—
Intergovernmental payables.....	—	(385)	(720)
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	—	3,322	428
Deferred revenues.....	16,589	—	—
Deposits.....	3	—	—
Liabilities payable from restricted assets.....	—	—	2,489
Compensated absences payable.....	4,893	—	97
Other liabilities.....	(2,812)	—	146
<b>Net cash provided by (used in) operating activities.....</b>	<b><u>\$ (723,014)</u></b>	<b><u>\$ (24,114)</u></b>	<b><u>\$ (47,117)</u></b>
<b>Noncash capital, investing, and financing activities:</b>			
Acquisition of capital assets through:			
Assumption of liabilities.....	\$ 3,727	\$ —	\$ —
Donations.....	36,200	—	—
Disposal of capital assets.....	(3,857)	—	—
Increase (decrease) in fair value of investments.....	3,205	—	(276)
Accrual of arbitrage rebate.....	—	—	—
Long-term debt forgiven.....	266	—	—
<b>Total noncash capital, investing, and financing activities.....</b>	<b><u>\$ 39,541</u></b>	<b><u>\$ —</u></b>	<b><u>\$ (276)</u></b>

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

**FUNDS**

<u>Medical University Hospital Authority</u>	<u>Education Assistance Authority</u>	<u>Nonmajor Enterprise</u>	<u>Totals</u>	<u>INTERNAL SERVICE FUNDS</u>
\$ (114,220)	\$ (1,570)	\$ (39,563)	\$ (189,454)	\$ (21,221)
—	—	(551)	(551)	—
—	—	(5)	(15)	(49)
—	—	—	(6,630)	—
—	—	—	(536)	—
—	—	(364)	(387)	(7,023)
—	—	280	280	(1,132)
(15,804)	—	(741)	(24,271)	(5,944)
4,301	18,061	805	20,557	(298)
—	—	(46)	(7,235)	130
—	—	—	—	(29)
—	—	—	—	(3)
—	—	—	742	—
—	—	—	422	—
—	—	—	(1,105)	—
—	—	34,381	34,381	—
—	—	7,041	7,041	(27,235)
—	—	254	4,004	344
—	—	885	17,474	19,587
—	—	—	3	—
—	—	(2)	2,487	—
2,119	26	194	7,329	(47)
—	240	(105)	(2,531)	—
<u>\$ 35,325</u>	<u>\$ (124,782)</u>	<u>\$ 87,906</u>	<u>\$ (795,796)</u>	<u>\$ 151,441</u>
\$ —	\$ —	\$ 114	\$ 3,841	\$ —
—	—	—	36,200	—
—	—	—	(3,857)	—
—	—	(907)	2,022	5,800
—	2,594	—	2,594	—
—	—	—	266	807
<u>\$ —</u>	<u>\$ 2,594</u>	<u>\$ (793)</u>	<u>\$ 41,066</u>	<u>\$ 6,607</u>

# Statement of Fiduciary Net Assets

## FIDUCIARY FUNDS

June 30, 2006

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 1,729,183	\$ 1,295,316	\$ 25,624	\$ 165,276
Receivables, net:				
Accounts.....	—	—	—	8,750
Contributions.....	146,076	—	—	—
Employer long-term.....	1,461	—	—	—
Accrued interest.....	142,437	5,238	730	808
Unsettled investment sales.....	51,857	—	488	—
Taxes.....	—	—	—	2,667
Total receivables.....	<u>341,831</u>	<u>5,238</u>	<u>1,218</u>	<u>12,225</u>
Due from other funds.....	<u>7,167</u>	<u>—</u>	<u>—</u>	<u>59,771</u>
Investments, at fair value:				
United States government securities.....	713,525	60,165	—	—
United States government agencies and government-insured securities.....	3,830,546	286,262	—	—
Corporate bonds.....	4,289,977	312,932	—	—
Financial and other.....	1,751,809	14,987	692,524	32,026
Equities.....	13,529,089	—	—	—
Total investments.....	<u>24,114,946</u>	<u>674,346</u>	<u>692,524</u>	<u>32,026</u>
Securities held in lieu of surety bonds.....	—	—	—	329,611
Invested securities lending collateral.....	4,372,175	191,136	1,170	14,989
Capital assets, net .....	3,696	—	—	—
Prepaid items.....	213	—	—	—
Other assets.....	—	—	5,104	—
<b>Total assets.....</b>	<b><u>30,569,211</u></b>	<b><u>2,166,036</u></b>	<b><u>725,640</u></b>	<b><u>613,898</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	7,274	—	1,551	18,563
Accounts payable—unsettled investment purchases.....	44,162	—	402	—
Due to other funds.....	30,789	—	—	—
Tax refunds payable.....	—	—	—	1,082
Intergovernmental payables.....	—	—	—	2,252
Deposits.....	—	—	—	3,271
Amounts held in custody for others.....	—	—	—	573,741
Deferred retirement benefits.....	670,527	—	—	—
Securities lending collateral.....	4,372,175	191,136	1,170	14,989
Other liabilities.....	62,336	817	—	—
<b>Total liabilities.....</b>	<b><u>5,187,263</u></b>	<b><u>191,953</u></b>	<b><u>3,123</u></b>	<b><u>613,898</u></b>
<b>NET ASSETS</b>				
Held in trust for:				
Pension benefits.....	25,381,948	—	—	—
External investment pool participants.....	—	1,974,083	—	—
Other purposes.....	—	—	722,517	—
<b>Total net assets.....</b>	<b><u>\$ 25,381,948</u></b>	<b><u>\$ 1,974,083</u></b>	<b><u>\$ 722,517</u></b>	<b><u>\$ —</u></b>

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, 2006  
(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private Purpose Trust
<b>Additions:</b>			
Licenses, fees, and permits.....	\$ —	\$ —	\$ 177
Contributions:			
Employer.....	690,373	—	—
Employee.....	567,908	—	—
Deposits from pool participants.....	—	5,222,280	—
Tuition plan deposits.....	—	—	147,753
Total contributions.....	<u>1,258,281</u>	<u>5,222,280</u>	<u>147,753</u>
Investment income:			
Interest income and net appreciation in investments.....	1,301,134	80,647	60,875
Securities lending income.....	194,823	12,769	—
Total investment income.....	<u>1,495,957</u>	<u>93,416</u>	<u>60,875</u>
Less investment expense:			
Investment expense.....	29,837	—	—
Securities lending expense.....	183,825	12,049	—
Net investment income.....	<u>1,282,295</u>	<u>81,367</u>	<u>60,875</u>
Transfers between pension trust funds.....	3,298	—	—
Transfers in.....	2,101	—	—
<b>Total additions.....</b>	<b><u>2,545,975</u></b>	<b><u>5,303,647</u></b>	<b><u>208,805</u></b>
<b>Deductions:</b>			
Regular retirement benefits.....	1,500,061	—	—
Supplemental retirement benefits.....	1,801	—	—
Deferred retirement benefits.....	321,374	—	—
Refunds of retirement contributions to members.....	121,841	—	—
Group life insurance claims.....	16,837	—	—
Accidental death benefits.....	1,183	—	—
Withdrawals, pool participants.....	—	5,116,030	—
Distributions to pool participants.....	—	81,984	—
Depreciation.....	118	—	—
Administrative expense.....	17,482	110	5,526
Payments in accordance with trust agreements.....	—	—	1,297
Transfers between pension trust funds.....	3,298	—	—
<b>Total deductions.....</b>	<b><u>1,983,995</u></b>	<b><u>5,198,124</u></b>	<b><u>6,823</u></b>
<b>Change in net assets.....</b>	<b>561,980</b>	<b>105,523</b>	<b>201,982</b>
<b>Net assets at beginning of year.....</b>	<b>24,819,968</b>	<b>1,868,560</b>	<b>520,535</b>
<b>Net assets at end of year.....</b>	<b><u>\$ 25,381,948</u></b>	<b><u>\$ 1,974,083</u></b>	<b><u>\$ 722,517</u></b>

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

# Statement of Net Assets

## DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2006

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents.....	\$ 79,068	\$ 146,392	\$ 637	\$ 4,997	\$ 29,455	\$ 260,549
Investments.....	78,427	—	313	—	61,926	140,666
Invested securities lending collateral.....	—	17,582	—	32	95	17,709
Receivables, net						
Accounts.....	157,722	22,142	—	29,019	1,021	209,904
Contributions.....	—	—	—	—	10,139	10,139
Accrued interest.....	1,807	—	7	—	631	2,445
Due from primary government.....	—	—	—	—	3	3
Inventories.....	139,959	4,426	87	3,382	—	147,854
Restricted assets:						
Cash and cash equivalents.....	136,101	—	1,690	495	15,454	153,740
Investments.....	22,323	—	925	—	—	23,248
Prepaid items.....	3,963	4,551	87	—	—	8,601
Other current assets.....	56,996	—	—	835	—	57,831
Deferred charges.....	—	—	—	—	1,616	1,616
<b>Total current assets.....</b>	<b>676,366</b>	<b>195,093</b>	<b>3,746</b>	<b>38,760</b>	<b>120,340</b>	<b>1,034,305</b>
Long-term assets:						
Receivables, net:						
Accounts.....	—	—	—	—	2,125	2,125
Contributions.....	—	—	—	—	27,438	27,438
Investments.....	54,062	6,209	—	—	579,008	639,279
Restricted assets:						
Cash and cash equivalents.....	37,901	—	—	—	—	37,901
Investments.....	207,014	—	16,290	—	—	223,304
Other long-term assets.....	10	11,710	—	7,425	86	19,231
Deferred charges.....	472,654	16,650	4,128	—	—	493,432
Investment in joint venture.....	6,567	—	—	—	—	6,567
Non-depreciable capital assets.....	1,156,109	227,870	—	—	8,971	1,392,950
Depreciable capital assets, net.....	2,372,519	223,180	167,865	5,568	692	2,769,824
<b>Total long-term assets.....</b>	<b>4,306,836</b>	<b>485,619</b>	<b>188,283</b>	<b>12,993</b>	<b>618,320</b>	<b>5,612,051</b>
<b>Total assets.....</b>	<b>4,983,202</b>	<b>680,712</b>	<b>192,029</b>	<b>51,753</b>	<b>738,660</b>	<b>6,646,356</b>

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

# Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2006

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable.....	\$ 176,394	\$ 12,290	\$ 51	\$ 2,370	\$ 1,830	\$ 192,935
Accrued salaries and related expenses.....	7,094	1,718	—	659	68	9,539
Accrued interest payable.....	63,718	3,072	—	—	—	66,790
Retainages payable.....	—	1,167	—	—	—	1,167
Prizes payable.....	—	—	—	29,523	—	29,523
Intergovernmental payables.....	—	755	—	—	318	1,073
Policy claims.....	2,597	—	—	—	40,000	42,597
Due to primary government.....	—	—	1,950	10,940	106,991	119,881
Deferred revenues and deferred credits.....	—	—	137	885	27,587	28,609
Deposits.....	—	—	12	—	—	12
Securities lending collateral.....	—	17,582	—	32	95	17,709
Liabilities payable from restricted assets:						
Accounts payable.....	—	—	3	—	325	328
Accrued interest payable.....	—	—	1,766	—	—	1,766
Notes payable.....	—	445	—	882	—	1,327
Revenue bonds payable.....	64,835	3,155	—	—	—	67,990
Capital leases payable.....	2,673	40	—	—	—	2,713
Commercial paper notes.....	285,449	—	—	—	—	285,449
Compensated absences payable.....	—	2,356	—	41	89	2,486
Other current liabilities.....	90,018	98	—	406	468	90,990
<b>Total current liabilities.....</b>	<b>692,778</b>	<b>42,678</b>	<b>3,919</b>	<b>45,738</b>	<b>177,771</b>	<b>962,884</b>
Long-term liabilities:						
Retainages payable.....	48,380	—	—	—	—	48,380
Policy claims.....	—	—	—	—	149,067	149,067
Deferred revenues and deferred credits.....	322,358	—	—	—	—	322,358
Amounts held in custody for others.....	—	—	—	—	2,463	2,463
Notes payable.....	—	2,429	—	—	—	2,429
Revenue bonds payable.....	2,511,893	134,244	276,587	—	—	2,922,724
Capital leases payable.....	9,264	58	—	—	—	9,322
Compensated absences payable.....	14,224	—	—	834	56	15,114
Other long-term liabilities.....	47,735	13,548	—	—	9,507	70,790
<b>Total long-term liabilities.....</b>	<b>2,953,854</b>	<b>150,279</b>	<b>276,587</b>	<b>834</b>	<b>161,093</b>	<b>3,542,647</b>
<b>Total liabilities.....</b>	<b>3,646,632</b>	<b>192,957</b>	<b>280,506</b>	<b>46,572</b>	<b>338,864</b>	<b>4,505,531</b>
<b>NET ASSETS (DEFICITS)</b>						
Invested in capital assets, net of related debt..	814,282	315,232	(35,651)	4,686	9,662	1,108,211
Restricted:						
Expendable:						
Education.....	—	—	—	—	168,211	168,211
Capital projects.....	3,079	—	11	—	—	3,090
Debt service.....	70,263	6,229	846	—	—	77,338
Other.....	141,967	—	—	495	2,302	144,764
Nonexpendable, education.....	—	—	—	—	306,234	306,234
Unrestricted.....	306,979	166,294	(53,683)	—	(86,613)	332,977
<b>Total net assets (deficit).....</b>	<b>\$ 1,336,570</b>	<b>\$ 487,755</b>	<b>\$ (88,477)</b>	<b>\$ 5,181</b>	<b>\$ 399,796</b>	<b>\$ 2,140,825</b>

## Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2006

(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.....	\$ 1,247,004	\$ 1,365,317	\$ 17,078	\$ —
State Ports Authority.....	108,028	157,823	8,288	2,040
Connector 2000 Association, Inc.....	25,265	4,661	931	—
Lottery Commission.....	1,150,865	1,147,852	1,246	—
Nonmajor component units.....	98,500	47,682	103,119	—
<b>Totals.....</b>	<b>\$ 2,629,662</b>	<b>\$ 2,723,335</b>	<b>\$ 130,662</b>	<b>\$ 2,040</b>

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

<u>Net (Expense) Revenue</u>	<u>Net Assets (Deficit) Beginning of Year</u>	<u>Net Assets (Deficit) End of Year</u>
\$ 135,391	\$ 1,201,179	\$ 1,336,570
60,123	427,632	487,755
(19,673)	(68,804)	(88,477)
(1,767)	6,948	5,181
52,301	347,495	399,796
<b>\$ 226,375</b>	<b>\$ 1,914,450</b>	<b>\$ 2,140,825</b>

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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, 2006:

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

#### Fiscal year ended December 31, 2005:

- 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, 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, 2006.

#### *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.

## State of South Carolina

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### *Governor's School for the Arts Foundation, Inc.*

The State's internal service funds include the Governor's School for the Arts Foundation, Inc., a blended component unit. The Foundation exists solely to support the South Carolina Governor's School for the Arts and Humanities.

### *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, 2005.

*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

Governor's School for the Arts  
Foundation, Inc.  
700 East North Street  
Suite 11  
Greenville, South Carolina 29601

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

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## 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, 2006.

### *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, 2005.

### *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, 2005.

### *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, 2005.

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

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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, 2005.

### *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 below 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, 2006, 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, 2006.

#### 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.

On the Statement of Cash Flows – Proprietary Funds, the Higher Education Fund reflects a reclassification of investment amounts as cash and cash equivalents at the beginning of the fiscal year.

### 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, however, 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, however, 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

In addition, certain capitalized works of art and historical treasures are not depreciated because they are considered to be inexhaustible.

The State does not capitalize certain 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, 2006, \$1.048 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. Adoption of New Accounting Standards**

Effective July 1, 2005, the State adopted the following Governmental Accounting Standards Board (GASB) Statements that had no effect on the balances of State accounts.

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46, *Net Assets Restricted by Legislation – an amendment of GASB Statement 34*, clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary, can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration.

Statement No. 47, *Accounting for Termination Benefits*, establishes accounting standards for voluntary and involuntary termination benefits.

**b. Correction of Error: Unemployment Compensation Fund**

During the fiscal year ended June 30, 2006, the Unemployment Compensation Fund determined that \$4.274 million in interest received on its U.S. Treasury deposit account for the quarter ending June 30, 2005 had not been recorded. This

amount 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.

**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, 2006:

<b>Nonmajor Enterprise Funds:</b>	
Patients' Compensation.....	\$ 223,033
Tuition Prepayment Program.....	61,694
CHS Development Company.....	188
<b>Internal Service Funds:</b>	
State Accident Fund.....	112,758
Pension Administration.....	773

**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 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, 2006 was \$386.050 million and the bank balance was \$664.929 million. As of June 30, 2006, the reported amount of the primary government’s deposits outside of the State Treasurer was \$244.142 million and the bank balance was \$272.501 million. Of the \$194.834 million bank balance exposed to custodial credit risk, \$85.343 million was uninsured and uncollateralized, \$32.317 million was uninsured and collateralized with securities held by the counterparty’s trust department or agent in the State’s name, and \$77.174 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, 2006, the reported amount of the major discretely presented component units’ deposits was \$40.862 million and the bank balance was \$43.468 million. Of the \$9.107 million bank balance exposed to custodial credit risk, \$1.268 million was uninsured and uncollateralized; \$3.997 million was uninsured and collateralized with securities held by the counterparty’s trust department or agent in a State entity’s name; and \$3.842 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, 2006, as follows:

Primary Government Investment Type	Category		Reported Amount
	A	B	
U.S. Treasuries.....	\$ 279,210	\$ 8,881	\$ 288,091
U.S. agencies.....	7,539	21,268	28,807
Corporate bonds.....	16,984	3,698	20,682
Municipal bonds.....	37,606	—	37,606
Equity securities.....	4,791	4,234	9,025
Repurchase agreements.....	432	68,508	68,940
Asset backed securities.....	3,000	—	3,000
Commercial paper.....	13,044	—	13,044
<b>Totals.....</b>	<b>\$ 362,606</b>	<b>\$ 106,589</b>	<b>\$ 469,195</b>

The reported amount of the State’s major discretely presented component unit investments that are exposed to custodial credit risk in Category B is \$6.209 million of U.S. Treasuries.

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. The majority of the debt investments for the primary government were rated as of June 30, 2006, and are

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listed below using the Standard and Poor's rating scale (expressed in thousands):

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	A-1	A-2	Not Rated
Corporate bonds.....	\$ 170,733	\$ 164,244	\$ 548,746	\$ 125,242	\$ 2,773	\$ 695	\$ —	\$ —	\$ 18,907
Municipal bonds.....	402,471	57,039	20,564	4,754	55	—	—	—	51,195
Repurchase agreements.....	—	—	—	—	—	—	2,789,075	—	148,370
Asset backed securities.....	378,660	—	1,609	—	—	—	30,045	—	—
Commercial paper.....	—	—	—	—	—	—	114,580	8,081	—
Mutual funds.....	10,635	—	—	—	—	—	—	—	784,516
Yankee bonds.....	9,837	—	34,829	—	—	—	—	—	—
Non U.S. fixed income - developed corporate markets.....	—	—	540	—	—	—	—	—	—
Corporate private placements.....	4,561	25,584	32,017	2,639	—	—	—	—	—
Guaranteed investment contracts.....	295,681	—	—	—	—	—	—	—	—
<b>Totals.....</b>	<b>\$ 1,272,578</b>	<b>\$ 246,867</b>	<b>\$ 638,305</b>	<b>\$ 132,635</b>	<b>\$ 2,828</b>	<b>\$ 695</b>	<b>\$ 2,933,700</b>	<b>\$ 8,081</b>	<b>\$ 1,002,988</b>

At June 30, 2006, the Public Service Authority, the State Ports Authority, and the Connector 2000 Association, Inc., 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 in money market funds rated "AAAm", "AAM", "AAAmG", or better by a nationally recognized rating agency.

## 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, 2006, 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.....	\$ 119,880	0.50
U.S. agencies.....	706,825	0.79
<u>Mortgage Backed</u>		
Government pass-through.....	1,340,694	5.09
<u>Corporate</u>		
Corporate bonds.....	852,025	1.50
Corporate asset backed.....	228,419	0.83
Private placements.....	60,693	3.37
Municipals.....	4,754	6.77
Yankee bonds.....	44,332	0.96
<u>Short Term Investments</u>		
Commercial paper.....	49,950	0.04
Repurchase agreements .....	1,475,238	0.00
U.S. Treasuries.....	49,613	0.17
U.S. agencies.....	206,403	0.44
<b>Total Invested Assets.....</b>	<b>\$ 5,138,826</b>	

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, 2006, 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.....	\$ 391,828	\$ 57,118	\$ 334,034	\$ 495	\$ 181	\$ —
U.S. agencies.....	460,479	449,586	10,204	652	37	—
Mortgage backed securities.....	21,151	—	—	—	21,151	—
Collateralized mortgage obligations.....	1,242	—	—	—	1,242	—
Corporate bonds.....	179,315	139,031	22,049	3,428	14,807	—
Municipal bonds.....	531,324	25,541	185,290	20,539	299,954	—
Equity securities.....	126,895	—	—	—	104	126,791
Repurchase agreements.....	1,462,207	1,462,207	—	—	—	—
Asset backed securities.....	181,895	—	177,904	—	3,991	—
Commercial paper.....	72,711	72,711	—	—	—	—
Mutual funds.....	795,151	52,061	5,147	—	—	737,943
Yankee bonds.....	334	—	—	—	334	—
Non U.S. fixed income - developed corporate markets.....	540	—	—	—	540	—
Corporate private placements.....	4,108	758	278	—	3,072	—
Guaranteed investment contracts.....	295,681	155,819	—	—	—	139,862
<b>Totals.....</b>	<b>\$ 4,524,861</b>	<b>\$ 2,414,832</b>	<b>\$ 734,906</b>	<b>\$ 25,114</b>	<b>\$ 345,413</b>	<b>\$ 1,004,596</b>

The State's major discretely presented component units also had interest rate risk policies that varied from the State Treasurer. At June 30, 2006, 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.....	\$ 116,045	\$ 115,326	\$ 719	\$ —	\$ —
U.S. agencies.....	309,955	—	—	309,955	—
Repurchase agreements.....	181,516	165,021	—	—	16,495
Mutual funds.....	5,485	5,485	—	—	—
<b>Totals.....</b>	<b>\$ 613,001</b>	<b>\$ 285,832</b>	<b>\$ 719</b>	<b>\$ 309,955</b>	<b>\$ 16,495</b>

#### 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 5.0%, except for United States Treasury and agency obligations. As of June 30, 2006, the State Treasurer had approximately 25.97% of its investments in an overnight repurchase agreement with a South Carolina bank that were fully collateralized by U.S. Treasuries and U.S. 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, 2006, the State Treasurer had approximately 65.19% 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.

## State of South Carolina

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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, 2006. At June 30, 2006, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. Either the State or the borrower can terminate all securities loans on demand. There are no restrictions on the amount of the loans that can be made. For the fiscal year ended June 30, 2006, 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 102.0% 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, 2006, the State met the 102.0% requirement. The State cannot pledge or sell collateral securities unless the borrower defaults. The lending agent, on behalf of the State, invests cash collateral received. Accordingly, at June 30, 2006, 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, 2006:

	<u>Amount</u>
Securities lent for cash collateral:	
U.S. Treasuries.....	\$ 849,924
U.S. agencies.....	35,403
Corporate bonds.....	19,380
<b>Total for cash collateral.....</b>	<b><u>\$ 904,707</u></b>
Cash collateral invested:	
Repurchase agreements.....	\$ 162,457
Corporate bonds.....	484,357
Asset backed securities.....	245,451
Bank obligations.....	37,556
<b>Total collateral invested.....</b>	<b><u>\$ 929,821</u></b>

### 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, 2006, the reported amount of the Systems' deposits was a negative \$27.221 million and the bank balance was a positive \$24.184 million. The reported amount of the Systems' deposits was negative due to timing differences for refund checks issued to participants in the Teacher and Employee Retention Incentive (TERI) Program at fiscal year end. Additional details related to these refund checks can be found in Note 22.

##### *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, 2006, 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, 2006 (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.....	\$ 720,034	4.51
U.S. agencies.....	739,502	0.75
Other U. S. Government.....	4,120	8.05
<u>Mortgage Backed</u>		
Government pass-through.....	3,109,500	4.81
<u>Collateralized Mortgage Obligations</u>		
Government CMO's.....	290,726	4.30
<u>Corporate</u>		
Corporate bonds.....	4,262,336	8.07
Corporate asset backed.....	165,481	6.58
Private placements.....	1,224,002	9.86
Dollar denominated bonds.....	160,008	8.42
<u>Short Term Investments</u>		
Commercial paper.....	29,685	0.02
Repurchase agreements .....	1,722,131	0.00
<u>Equity</u>		
Domestic.....	5,964,178	Not Required
American depository receipts.....	252,519	Not Required
<u>Commingled Funds</u>		
Common trust funds.....	7,317,384	Not Required
Money market funds.....	2,241	Not Required
<b>Total Invested Assets.....</b>	<b>\$ 25,963,847</b>	

## 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

# State of South Carolina

June 30, 2006, the Systems' applicable debt investments (expressed in thousands) were rated by Standard & Poor's and are presented below:

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	CCC and Below	A-1	Not Rated
<b>Fixed Income</b>									
Corporate:									
Corporate bonds.....	\$ 73,929	\$ 184,394	\$ 1,796,287	\$ 1,867,704	\$ 318,793	\$ 3,717	\$ 162	\$ —	\$ 17,350
Corporate asset backed.....	120,286	—	—	39,804	—	—	—	5,391	—
Private placements.....	100,032	252,833	487,624	302,362	—	—	—	—	81,151
Dollar denominated bonds.....	—	—	160,008	—	—	—	—	—	—
<b>Short Term Investments</b>									
Commercial paper.....	—	29,685	—	—	—	—	—	—	—
Repurchase agreements .....	—	—	—	—	—	—	—	1,722,131	—
<b>Totals.....</b>	<b>\$ 294,247</b>	<b>\$ 466,912</b>	<b>\$ 2,443,919</b>	<b>\$ 2,209,870</b>	<b>\$ 318,793</b>	<b>\$ 3,717</b>	<b>\$ 162</b>	<b>\$ 1,727,522</b>	<b>\$ 98,501</b>

## 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 5.0% exposure to any single issuer, except for United States Treasury and agency obligations. At June 30, 2006, the Systems had approximately 5.63% of its investments in an overnight repurchase agreement with a South Carolina bank that was fully collateralized by United States Treasury and Agency obligations.

## 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 (NGPS) 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 102.0% 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 100.0%.

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, 2006, 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, 2006. At June 30, 2006, 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, 2006:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
Securities lent for cash collateral:						
U.S. Treasuries.....	\$ 337,040	\$ 25,974	\$ 1,097	\$ 10,653	\$ —	\$ 374,764
U.S. agencies.....	2,323,444	198,740	606	5,581	—	2,528,371
Corporate bonds.....	40,768	7,827	—	—	84	48,679
Common stock.....	1,154,743	140,455	2,542	6,005	—	1,303,745
<b>Total securities lent.....</b>	<b>\$ 3,855,995</b>	<b>\$ 372,996</b>	<b>\$ 4,245</b>	<b>\$ 22,239</b>	<b>\$ 84</b>	<b>\$ 4,255,559</b>
Cash collateral invested:						
Repurchase agreements.....	\$ 444,341	\$ 66,529	\$ 2,186	\$ 8,971	\$ 87	\$ 522,114
Corporate bonds.....	1,630,151	182,746	992	7,381	—	1,821,270
Asset backed securities.....	1,366,349	103,391	803	4,717	—	1,475,260
Bank notes.....	520,598	30,674	373	1,886	—	553,531
<b>Total collateral invested.....</b>	<b>\$ 3,961,439</b>	<b>\$ 383,340</b>	<b>\$ 4,354</b>	<b>\$ 22,955</b>	<b>\$ 87</b>	<b>\$ 4,372,175</b>

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, 2006, twenty 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, 2006, 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, 2006, 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, 2006, for the primary government were as follows:

Allowances for Uncollectibles	Governmental Activities					Total Governmental Activities
	Governmental Funds					
	General	Departmental General Operating	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	
Income taxes receivable.....	\$ 26,922	\$ —	\$ —	\$ —	\$ —	\$ 26,922
Sales and other taxes receivable.....	5,638	3	—	2,299	—	7,940
Patient accounts receivable.....	13,972	32,277	2,638	—	—	48,887
Loans and notes receivable.....	16	13	—	837	—	866
Other receivables.....	—	13,424	—	—	87	13,511
<b>Total allowances for uncollectibles.....</b>	<b>\$ 46,548</b>	<b>\$ 45,717</b>	<b>\$ 2,638</b>	<b>\$ 3,136</b>	<b>\$ 87</b>	<b>\$ 98,126</b>

<b>Business-type Activities (Enterprise Funds)</b>					
<b>Allowances for Uncollectibles</b>	<b>Higher Education</b>	<b>Unemployment Compensation Benefits</b>	<b>Medical University Hospital Authority</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total Business-type Activities</b>
Contributions receivable.....	\$ 324	\$ —	\$ —	\$ —	\$ 324
Student accounts receivable.....	7,279	—	—	—	7,279
Patient accounts receivable.....	—	—	83,200	67,301	150,501
Loans and notes receivable—restricted.....	567	—	—	327	894
Assessments receivable.....	—	5,245	—	—	5,245
Other receivables.....	627	2,074	—	—	2,701
<b>Total allowances for uncollectibles.....</b>	<b>\$ 8,797</b>	<b>\$ 7,319</b>	<b>\$ 83,200</b>	<b>\$ 67,628</b>	<b>\$ 166,944</b>

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, 2006, were as follows:

<b>Governmental Activities</b>							
<b>Governmental Funds</b>							
<b>Net Long-term Receivables</b>	<b>General</b>	<b>Departmental General Operating</b>	<b>Local Government Infrastructure</b>	<b>Department of Transportation Special Revenue</b>	<b>Nonmajor Governmental Funds</b>	<b>Internal Service Funds</b>	<b>Total Governmental Activities</b>
Accounts receivable.....	\$ 210	\$ 22,489	\$ 39,889	\$ —	\$ —	\$ 82	\$ 62,670
Income taxes receivable.....	62,207	—	—	—	—	—	62,207
Sales and other taxes receivable.....	14,569	—	—	—	6,099	—	20,668
Patient accounts receivable.....	9,302	5,022	—	—	—	—	14,324
Loans and notes receivable.....	12	450	418,851	6,978	23,746	—	450,037
Accounts receivable—restricted.....	—	—	429,130	—	—	—	429,130
<b>Total long-term receivables, net.....</b>	<b>\$ 86,300</b>	<b>\$ 27,961</b>	<b>\$ 887,870</b>	<b>\$ 6,978</b>	<b>\$ 29,845</b>	<b>\$ 82</b>	<b>\$ 1,039,036</b>

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, 2006, were as follows:

	<b>Unavailable</b>	<b>Unearned</b>	<b>Total Governmental Funds</b>
Taxes .....	\$ 82,875	\$ 5,526	\$ 88,401
Federal grants.....	—	30,614	30,614
Contributions.....	464,235	24,431	488,666
Departmental services.....	50,361	2,567	52,928
<b>Total deferred revenues.....</b>	<b>\$ 597,471</b>	<b>\$ 63,138</b>	<b>\$ 660,609</b>

**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, 2006 (expressed in thousands) were as follows:

Asset/Restricted For	Govern- mental Activities	Business- type Activities	Major Component Units
<b>Current:</b>			
<b>Cash and cash equivalents</b>			
Debt service.....	\$ 91,608	\$ 56,079	\$ 126,234
Capital projects.....	—	75,459	11
Student loan programs.....	—	551	—
Donor/sponsor specified.....	—	23,740	—
Second Injury Fund claims.....	—	73,629	—
Other.....	—	44,015	12,041
<b>Total cash and cash equivalents.....</b>	<b><u>\$ 91,608</u></b>	<b><u>\$ 273,473</u></b>	<b><u>\$ 138,286</u></b>
<b>Investments</b>			
Debt service.....	\$ 87,559	\$ 316	\$ 3,935
Donor/sponsor specified.....	—	9,275	—
Endowments.....	—	69	—
Other.....	—	—	19,313
<b>Total investments.....</b>	<b><u>\$ 87,559</u></b>	<b><u>\$ 9,660</u></b>	<b><u>\$ 23,248</u></b>
<b>Loans receivable</b>			
Student loan programs.....	<u>\$ —</u>	<u>\$ 470</u>	<u>\$ —</u>
<b>Other</b>			
Debt service.....	\$ 61,342	\$ 1,005	\$ —
Donor/sponsor specified.....	—	259	—
Second Injury Fund claims.....	—	659	—
Other.....	—	452	—
<b>Total other.....</b>	<b><u>\$ 61,342</u></b>	<b><u>\$ 2,375</u></b>	<b><u>\$ —</u></b>
<b>Noncurrent:</b>			
<b>Cash and cash equivalents</b>			
Debt service.....	\$ 300,432	\$ 164,307	\$ 10,313
Capital projects.....	100,532	293,057	27,268
Student loan programs.....	—	8,817	—
Endowments.....	—	29,578	—
Other.....	10,000	100,887	320
<b>Total cash and cash equivalents.....</b>	<b><u>\$ 410,964</u></b>	<b><u>\$ 596,646</u></b>	<b><u>\$ 37,901</u></b>
<b>Investments</b>			
Debt service.....	\$ —	\$ 62,481	\$ 70,055
Capital projects.....	—	2,781	31,037
Student loan programs.....	—	622	—
Endowments.....	—	40,795	—
Other.....	—	16	122,212
<b>Total investments.....</b>	<b><u>\$ —</u></b>	<b><u>\$ 106,695</u></b>	<b><u>\$ 223,304</u></b>
<b>Accounts receivable</b>			
Debt service.....	<u>\$ 429,130</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Loans receivable</b>			
Debt service.....	\$ —	\$ 548,343	\$ —
Student loan programs.....	—	40,045	—
<b>Total loans receivable.....</b>	<b><u>\$ —</u></b>	<b><u>\$ 588,388</u></b>	<b><u>\$ —</u></b>
<b>Other</b>			
Debt service.....	\$ 3,399	\$ 5,830	\$ —
Capital projects.....	—	117	—
Donor/sponsor specified.....	—	545	—
Endowments.....	—	20,077	—
<b>Total other.....</b>	<b><u>\$ 3,399</u></b>	<b><u>\$ 26,569</u></b>	<b><u>\$ —</u></b>

**NOTE 7: CAPITAL ASSETS**

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2006, for the primary government was as follows:

	Beginning Balances July 1, 2005	Increases	Decreases	Ending Balances June 30, 2006
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 1,441,905	\$ 66,905	\$ (4,812)	\$ 1,503,998
Construction in progress.....	3,833,664	779,388	(812,885)	3,800,167
Works of art and historical treasures.....	3,705	19	(134)	3,590
Intangibles.....	46	—	(46)	—
<i>Total capital assets not being depreciated.....</i>	<u>5,279,320</u>	<u>846,312</u>	<u>(817,877)</u>	<u>5,307,755</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	54,661	2,680	(264)	57,077
Infrastructure (road and bridge network).....	7,844,098	661,414	(13,315)	8,492,197
Buildings and improvements.....	1,444,138	149,566	(10,291)	1,583,413
Vehicles.....	544,568	35,456	(24,833)	555,191
Machinery and equipment.....	411,828	39,612	(21,732)	429,708
Works of art and historical treasures.....	8	—	—	8
Intangibles.....	44,592	7,900	(102)	52,390
Total capital assets being depreciated, at historical cost.....	<u>10,343,893</u>	<u>896,628</u>	<u>(70,537)</u>	<u>11,169,984</u>
Less accumulated depreciation for:				
Land improvements.....	(36,713)	(1,592)	229	(38,076)
Infrastructure (road and bridge network).....	(1,960,677)	(119,945)	11,730	(2,068,892)
Buildings and improvements.....	(540,542)	(39,387)	6,037	(573,892)
Vehicles.....	(389,350)	(30,897)	20,583	(399,664)
Machinery and equipment.....	(295,222)	(31,073)	20,011	(306,284)
Works of art and historical treasures.....	(1)	(1)	—	(2)
Intangibles.....	(39,789)	(3,589)	102	(43,276)
Total accumulated depreciation.....	<u>(3,262,294)</u>	<u>(226,484)</u>	<u>58,692</u>	<u>(3,430,086)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>7,081,599</u>	<u>670,144</u>	<u>(11,845)</u>	<u>7,739,898</u>
<b>Capital assets for governmental activities, net.....</b>	<u><b>\$ 12,360,919</b></u>	<u><b>\$ 1,516,456</b></u>	<u><b>\$ (829,722)</b></u>	<u><b>\$ 13,047,653</b></u>

	Beginning Balances July 1, 2005	Increases	Decreases	Ending Balances June 30, 2006
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 172,525	\$ 7,277	\$ (112)	\$ 179,690
Construction in progress.....	404,255	333,020	(214,768)	522,507
Works of art and historical treasures.....	16,809	12	(39)	16,782
<i>Total capital assets not being depreciated.....</i>	<u>593,589</u>	<u>340,309</u>	<u>(214,919)</u>	<u>718,979</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	71,541	10,354	—	81,895
Buildings and improvements.....	3,139,984	281,209	(3,636)	3,417,557
Vehicles.....	41,102	3,601	(2,462)	42,241
Machinery and equipment.....	602,839	87,971	(27,238)	663,572
Works of art and historical treasures.....	7,956	4,206	—	12,162
Intangibles.....	16,660	561	(361)	16,860
Total capital assets being depreciated, at historical cost.....	<u>3,880,082</u>	<u>387,902</u>	<u>(33,697)</u>	<u>4,234,287</u>
Less accumulated depreciation for:				
Land improvements.....	(34,714)	(3,376)	—	(38,090)
Buildings and improvements.....	(1,172,492)	(96,277)	1,989	(1,266,780)
Vehicles.....	(28,744)	(2,673)	1,567	(29,850)
Machinery and equipment.....	(397,349)	(49,840)	21,722	(425,467)
Works of art and historical treasures.....	(5,019)	(259)	—	(5,278)
Intangibles.....	(12,053)	(1,114)	172	(12,995)
Total accumulated depreciation.....	<u>(1,650,371)</u>	<u>(153,539)</u>	<u>25,450</u>	<u>(1,778,460)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,229,711</u>	<u>234,363</u>	<u>(8,247)</u>	<u>2,455,827</u>
<b>Capital assets for business-type activities, net.....</b>	<u><b>\$ 2,823,300</b></u>	<u><b>\$ 574,672</b></u>	<u><b>\$ (223,166)</b></u>	<u><b>\$ 3,174,806</b></u>

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

	Beginning Balances January 1, 2005	Increases	Decreases	Ending Balances December 31, 2005
<b>Public Service Authority:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 96,412	\$ 4,190	\$ (1,686)	\$ 98,916
Construction in progress.....	636,962	517,717	(97,486)	1,057,193
<i>Total capital assets not being depreciated.....</i>	<u>733,374</u>	<u>521,907</u>	<u>(99,172)</u>	<u>1,156,109</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements (utility plant).....	4,159,726	174,157	(104,067)	4,229,816
Vehicles.....	35,943	4,633	(1,458)	39,118
Machinery and equipment.....	20,305	1,843	(1,200)	20,948
Intangibles.....	44,559	327	(1,447)	43,439
Total capital assets being depreciated, at historical cost.....	<u>4,260,533</u>	<u>180,960</u>	<u>(108,172)</u>	<u>4,333,321</u>
Less accumulated depreciation for:				
Buildings and improvements (utility plant).....	(1,764,024)	(145,022)	14,421	(1,894,625)
Vehicles.....	(19,216)	(1,854)	1,439	(19,631)
Machinery and equipment.....	(8,963)	(1,093)	1,191	(8,865)
Intangibles.....	(36,445)	(2,683)	1,447	(37,681)
Total accumulated depreciation.....	<u>(1,828,648)</u>	<u>(150,652)</u>	<u>18,498</u>	<u>(1,960,802)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,431,885</u>	<u>30,308</u>	<u>(89,674)</u>	<u>2,372,519</u>
<b>Public Service Authority, net.....</b>	<b><u>\$ 3,165,259</u></b>	<b><u>\$ 552,215</u></b>	<b><u>\$ (188,846)</u></b>	<b><u>\$ 3,528,628</u></b>

	Beginning Balances January 1, 2005	Increases	Decreases	Ending Balances December 31, 2005
<b>Connector 2000 Association:</b>				
<i>Capital assets being depreciated:</i>				
Infrastructure (toll road).....	\$ 192,472	\$ —	\$ —	\$ 192,472
Machinery and equipment.....	590	—	(4)	586
Total capital assets being depreciated, at historical cost.....	<u>193,062</u>	<u>—</u>	<u>(4)</u>	<u>193,058</u>
Less accumulated depreciation for:				
Infrastructure (toll road).....	(19,453)	(5,243)	—	(24,696)
Machinery and equipment.....	(388)	(113)	4	(497)
Total accumulated depreciation.....	<u>(19,841)</u>	<u>(5,356)</u>	<u>4</u>	<u>(25,193)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>173,221</u>	<u>(5,356)</u>	<u>—</u>	<u>167,865</u>
<b>Connector 2000 Association, net.....</b>	<b><u>\$ 173,221</u></b>	<b><u>\$ (5,356)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 167,865</u></b>

	Beginning Balances July 1, 2005	Increases	Decreases	Ending Balances June 30, 2006
<b>State Ports Authority:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 145,248	\$ 21,483	\$ —	\$ 166,731
Construction in progress.....	53,456	39,244	(33,751)	58,949
Intangibles.....	2,190	—	—	2,190
<i>Total capital assets not being depreciated.....</i>	<u>200,894</u>	<u>60,727</u>	<u>(33,751)</u>	<u>227,870</u>
<i>Capital assets being depreciated:</i>				
Land improvements.....	155,950	5,643	—	161,593
Buildings and improvements.....	267,235	2,529	—	269,764
Machinery and equipment.....	101,147	3,623	(978)	103,792
Intangibles.....	692	—	—	692
Total capital assets being depreciated, at historical cost.....	<u>525,024</u>	<u>11,795</u>	<u>(978)</u>	<u>535,841</u>
Less accumulated depreciation for:				
Land improvements.....	(98,760)	(6,522)	—	(105,282)
Buildings and improvements.....	(140,031)	(9,626)	19	(149,638)
Machinery and equipment.....	(50,087)	(8,317)	944	(57,460)
Intangibles.....	(210)	(71)	—	(281)
Total accumulated depreciation.....	<u>(289,088)</u>	<u>(24,536)</u>	<u>963</u>	<u>(312,661)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>235,936</u>	<u>(12,741)</u>	<u>(15)</u>	<u>223,180</u>
<b>State Ports Authority, net.....</b>	<u><b>\$ 436,830</b></u>	<u><b>\$ 47,986</b></u>	<u><b>\$ (33,766)</b></u>	<u><b>\$ 451,050</b></u>

	Beginning Balances July 1, 2005	Increases	Decreases	Ending Balances June 30, 2006
<b>Lottery Commission:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and improvements.....	\$ 642	\$ 58	\$ —	\$ 700
Vehicles.....	69	—	—	69
Machinery and equipment.....	19,888	481	(47)	20,322
Total capital assets being depreciated, at historical cost.....	<u>20,599</u>	<u>539</u>	<u>(47)</u>	<u>21,091</u>
Less accumulated depreciation for:				
Buildings and improvements.....	(398)	(130)	—	(528)
Vehicles.....	(65)	(4)	—	(69)
Machinery and equipment.....	(11,426)	(3,514)	14	(14,926)
Total accumulated depreciation.....	<u>(11,889)</u>	<u>(3,648)</u>	<u>14</u>	<u>(15,523)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>8,710</u>	<u>(3,109)</u>	<u>(33)</u>	<u>5,568</u>
<b>Lottery Commission, net.....</b>	<u><b>\$ 8,710</b></u>	<u><b>\$ (3,109)</b></u>	<u><b>\$ (33)</b></u>	<u><b>\$ 5,568</b></u>

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During the fiscal year ended June 30, 2006, depreciation expense was charged to functions of the primary government and its major discretely presented component units as follows (expressed in thousands):

	<b>Governmental Funds</b>	<b>Internal Service Funds</b>	<b>Total Governmental Activities</b>
General government.....	\$ 13,134	\$ 7,043	\$ 20,177
Education.....	17,929	1,260	19,189
Health and environment.....	16,996	950	17,946
Social services.....	500	1,087	1,587
Administration of justice.....	18,661	927	19,588
Resources and economic development.....	12,460	199	12,659
Transportation.....	135,338	—	135,338
<b>Total depreciation expense, governmental activities.....</b>	<b>\$ 215,018</b>	<b>\$ 11,466</b>	<b>\$ 226,484</b>

	<b>Business-type Activities</b>
Higher Education.....	\$ 126,482
Housing Authority.....	139
Medical University Hospital Authority.....	21,158
Education Assistance Authority.....	85
Other.....	4,331
<b>Total depreciation expense, business-type activities.....</b>	<b>\$ 152,195</b>

	<b>Major Component Units</b>
Public Service Authority.....	\$ 150,652
State Ports Authority.....	24,536
Connector 2000 Association, Inc.....	5,356
Lottery Commission.....	3,648

Total accumulated depreciation increases for business-type activities include \$1.344 million in capital asset accumulated depreciation balances transferred in from governmental activities.

At June 30, 2006, the primary government had outstanding construction commitments totaling \$680.251 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled \$60.104 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 \$1.883 million at June 30, 2006, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: \$506.531 million for the Public Service Authority at December 31, 2005, and \$43.186 million for the State Ports Authority at June 30, 2006.

The total interest expense incurred by the State's enterprise and internal service funds during the current fiscal year was \$155.383 million and \$2.109 million, respectively. Of the amount incurred by the State's enterprise funds, \$9.906 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 \$166.596 million during its fiscal year ended December 31, 2005, 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 \$6.793 million during its fiscal year ended June 30, 2006, of which \$1.100 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 System), 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 National Guard members who served in South Carolina prior to July 1, 1993, and is closed to new entrants. 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 honorable discharge, are entitled to monthly pension benefits.

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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, 2006, is as follows:

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>NGPS</u>
<b>State and school</b>					
Number of employers.....	101	5	1	1	1
Annual covered payroll.....	\$ 4,799,085	\$ 325,272	\$ 3,090	\$ 15,369	N/A <sup>a</sup>
Average number of contributing members.....	140,813	10,137	170	128	2,891
<b>Other participating employers</b>					
Number of employers.....	577	268	—	—	—
Annual covered payroll.....	\$ 1,577,417	\$ 548,528	\$ —	\$ —	\$ —
Average number of contributing members.....	52,813	15,680	—	—	—

<sup>a</sup> Annual covered payroll is not applicable for NGPS because it is based on years of service rather than payroll.

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, 2006, were as follows:

<u>Plan</u>	<u>Rate</u>
SCRS	6.25% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10.0% of earnable compensation
JSRS	9.0% of earnable compensation
NGPS	Non-contributory

Actuarially determined employer contribution rates, expressed as percentages of compensation, for the fiscal year ended June 30, 2006, were as follows:

<u>Plan</u>	<u>Rate</u>
SCRS	7.70%
PORS	10.70%
GARS	70.25%
JSRS	42.10%

The State appropriated \$3.942 million to fund the NGPS actuarially determined employer contribution for the fiscal year ended June 30, 2006.

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, 2006, were \$1.435 million for SCRS and \$26 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.....	\$2,171	\$6,511	\$2,969
Employer contributions made.....	\$2,171	\$6,511	\$3,942
Actuarial valuation date.....	July 1, 2005	July 1, 2005	June 30, 2005
Actuarial cost method.....	Entry age	Entry age	Entry age
Amortization method.....	Level percent, closed	Level percent, open	Level dollar open
Remaining amortization period.....	20 years	36 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%	Not applicable
Assumed inflation rate.....	3.00%	3.00%	4.25%
Assumed cost-of-living adjustments.....	None	3.25%	Not applicable

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2006 (expressed in thousands):

	<u>NGPS</u>
Actuarially required contribution (ARC).....	\$ 2,969
Interest on the NPO.....	651
Adjustment to the ARC.....	(790)
Annual pension cost.....	2,830
Contributions made.....	(3,942)
Decrease in NPO.....	(1,112)
NPO beginning of year.....	8,978
<b>NPO end of year.....</b>	<b>\$ 7,866</b>

**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, 2006</u>		<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Required</u>	<u>%</u> <u>Contributed</u>	<u>Required</u>	<u>%</u> <u>Contributed</u>	<u>Required</u>	<u>%</u> <u>Contributed</u>
SCRS—State:						
Primary government.....	\$ 184,109	100.0%	\$ 177,112	100.0%	\$ 172,258	100.0%
Component units.....	10,517	100.0%	10,253	100.0%	9,852	100.0%
PORS—State:						
Primary government.....	37,256	100.0%	32,813	100.0%	33,220	100.0%
Component units.....	54	100.0%	51	100.0%	40	100.0%

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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:

<u>Plan</u>	<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
GARS	2004	\$ 2,731	100.0%	\$ —
	2005	2,890	100.0%	—
	2006	2,171	100.0%	—
JSRS	2004	6,078	100.0%	—
	2005	6,260	100.0%	—
	2006	6,511	100.0%	—
NGPS	2004	2,796	71.4%	8,132
	2005	2,842	70.2%	8,978
	2006	2,969	132.8%	7,866

### 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:

<u>Plan</u>	<u>Actuarial Valuation Date July 1</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
SCRS	2003	\$ 20,197,936	\$ 24,398,931	\$ 4,200,995	82.8%	\$ 6,240,768	67.3%
	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%
PORS	2003	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%
	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%

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:

<u>Plan</u>	<u>Actuarial Valuation Date July 1</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
GARS	2003	\$ 44,682	\$ 66,619	\$ 21,937	67.1%	\$ 3,844	570.7%
	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%
JSRS	2003	106,114	166,655	60,541	63.7%	14,437	419.3%
	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%

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	2002	\$ 12,608	\$ 44,678	\$ 32,070	28.2%	\$ N/A	N/A
	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

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, 2006, for the plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	NGPS	Totals
<b>Receivables:</b>						
Contributions.....	\$ 128,067	\$ 17,222	\$ 123	\$ 664	\$ —	\$ 146,076
Employer long-term.....	1,435	26	—	—	—	1,461
Accrued interest.....	126,442	14,834	277	787	97	142,437
Unsettled investment sales.....	46,008	5,514	99	236	—	51,857
<b>Total receivables.....</b>	<b>\$ 301,952</b>	<b>\$ 37,596</b>	<b>\$ 499</b>	<b>\$ 1,687</b>	<b>\$ 97</b>	<b>\$ 341,831</b>
<b>Due from other funds.....</b>	<b>\$ 6,192</b>	<b>\$ 957</b>	<b>\$ 7</b>	<b>\$ 11</b>	<b>\$ —</b>	<b>\$ 7,167</b>
<b>Investments and invested securities lending collateral:</b>						
United States government securities.....	\$ 626,753	\$ 75,022	\$ 1,096	\$ 10,654	\$ —	\$ 713,525
United States government agencies and government-insured securities.....	3,444,199	361,927	6,583	15,021	2,816	3,830,546
Corporate bonds.....	3,759,322	499,010	8,317	21,121	2,207	4,289,977
Financial and other.....	1,545,494	193,419	3,037	7,340	2,519	1,751,809
Equities.....	12,004,816	1,437,296	25,106	61,871	—	13,529,089
Invested securities lending collateral.....	3,961,439	383,340	4,354	22,955	87	4,372,175
<b>Total investments.....</b>	<b>\$ 25,342,023</b>	<b>\$ 2,950,014</b>	<b>\$ 48,493</b>	<b>\$ 138,962</b>	<b>\$ 7,629</b>	<b>\$ 28,487,121</b>

#### 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 10,025 members were participating in the TERI program at June 30, 2006. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2006, was as follows:

Beginning balance of TERI trust accounts.....	\$	884,776
Additions .....		321,374
TERI distributions at termination.....		(535,623)
<b>Ending balance of TERI trust accounts.....</b>	<b>\$</b>	<b><u>670,527</u></b>

**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, 2006:

Covered payroll.....	\$	593,231
Employee contributions.....		37,077
Employer contributions.....		29,662

**NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

In accordance with the South Carolina Code of Laws and the annual Appropriation 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, 28,259 State retirees meet these eligibility requirements.

Effective January 1, 2006, 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, 2006, the State recognized expenses (net of participant contributions) of \$113.593 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 \$214.651 million at June 30, 2006, 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):

Fiscal Year Ended June 30	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2005	\$ 235,253	\$ 42,065	\$ (25,362)	\$ 251,956
2006	251,956	11,205	(48,510)	214,651

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 \$193.760 million at June 30, 2006, 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 2006, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2006, \$25.594 million relates to group life and long-term disability insurance coverage and \$7.728 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):

<u>Fiscal Year Ended June 30</u>	<u>Beginning-of-Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2005	\$ 179,872	\$ 1,161,986	\$ (1,156,930)	\$ 184,928
2006	184,928	1,222,827	(1,213,995)	193,760

### 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, 2006, the Fund's policy claims liability was \$127.509 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):

<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>
2005	\$ 110,885	\$ 64,656	\$ (48,175)	\$ 127,366
2006	127,366	50,780	(50,637)	127,509

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. The Fund also purchased reinsurance covering losses from an Act of Terrorism up to \$2.000 million per claimant for calendar year 2006. 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. At June 30, 2006, the policy claims liabilities were \$217.407 million for the PCF and \$189.067 million for the JUA, 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 2005.

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.

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At December 31, 2005, the policy claims liabilities were \$2.597 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

Fiscal Year Ended December 31	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2004	\$ 2,228	\$ 2,282	\$ (2,135)	\$ 2,375
2005	2,375	1,724	(1,502)	2,597

## 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, 2006 (expressed in thousands) for the primary government and the State's discretely presented component units were as follows:

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities	Totals
2007	\$ 1,272	\$ 11,590	\$ 12,862
2008	663	8,675	9,338
2009	286	6,268	6,554
2010	144	5,231	5,375
2011	5	3,158	3,163
2012-2016	—	12,678	12,678
2017-2021	—	7,616	7,616
<b>Total minimum payments.....</b>	<b>2,370</b>	<b>55,216</b>	<b>57,586</b>
Less: interest and executory costs.....	(476)	(10,229)	(10,705)
<b>Present value of net minimum payments.....</b>	<b>\$ 1,894</b>	<b>\$ 44,987</b>	<b>\$ 46,881</b>

Fiscal Year Ending December 31	Public Service Authority
2006	\$ 3,388
2007	3,335
2008	3,038
2009	2,737
2010	1,934
2011-2015	4,228
<b>Total minimum payments.....</b>	<b>18,660</b>
Less: interest and executory costs.....	(6,723)
<b>Present value of net minimum payments.....</b>	<b>\$ 11,937</b>

<u>Fiscal Year Ending June 30</u>	<u>State Ports Authority</u>
2007	\$ 47
2008	47
2009	15
<b>Total minimum payments.....</b>	<b>109</b>
Less: interest and executory costs.....	(11)
<b>Present value of net minimum payments.....</b>	<b>\$ 98</b>

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2006, were as follows (expressed in thousands):

<u>Assets Acquired Under Capital Leases</u>	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	<u>Public Service Authority</u>	<u>State Ports Authority</u>
Land and non-depreciable improvements.....	\$ —	\$ 5,479	\$ 5,479	\$ —	\$ —
Buildings and improvements.....	6,540	54,373	60,913	89,600	—
Machinery and equipment.....	2,648	49,636	52,284	—	185
Works of art and historical treasures.....	—	330	330	—	—
<b>Assets acquired under capital leases before accumulated amortization.....</b>	<b>9,188</b>	<b>109,818</b>	<b>119,006</b>	<b>89,600</b>	<b>185</b>
Less: accumulated amortization.....	(4,189)	(38,653)	(42,842)	(79,500)	(97)
<b>Assets acquired under capital leases, net.....</b>	<b>\$ 4,999</b>	<b>\$ 71,165</b>	<b>\$ 76,164</b>	<b>\$ 10,100</b>	<b>\$ 88</b>

For the primary government's fiscal year ended June 30, 2006, minimum rental payments under operating leases were \$71.956 million and contingent rental payments were \$9.231 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 \$6.500 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$881 thousand. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$648 thousand.

At June 30, 2006, 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>
2007	\$ 45,545	\$ 287
2008	42,454	28
2009	28,323	24
2010	21,152	24
2011	13,738	14
2012-2016	35,187	—
2017-2021	14,219	—
2022-2026	5,665	—
2027-2031	624	—
2032-2036	500	—
2037-2041	200	—
<b>Total minimum payments.....</b>	<b>\$ 207,607</b>	<b>\$ 377</b>

**b. Facilities Leased to Others**

At June 30, 2006, 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 \$451.759 million and related accumulated depreciation of \$201.307 million. Future minimum rental payments to be received at June 30, 2006, under these operating leases (expressed in thousands) were as follows:

<u>Fiscal Year Ending June 30</u>	<u>State Ports Authority</u>
2007	\$ 7,735
2008	6,480
2009	5,905
2010	5,377
2011	2,062
2012-2016	2,150
2017-2021	1,071
2022-2026	500
2027-2031	500
2032-2036	316
<b>Total.....</b>	<b><u>\$ 32,096</u></b>

**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, 2006, were:

<b>Governmental Activities</b>	
Capital improvement bonds, 1.75% to 5.90%, maturing serially through 2019.....	\$ 693,815
State highway bonds, 2.00% to 6.50%, maturing serially through 2023.....	699,669
State school facilities bonds, 3.00% to 5.75%, maturing serially through 2018.....	567,873
Infrastructure Bank bonds, 3.00% to 5.00%, maturing through 2028.....	57,171
State economic development bonds, 1.00% to 6.75%, maturing serially through 2031.....	238,109
Research university infrastructure bonds, 3.00% to 6.25%, maturing serially through 2021.....	148,482
<b>Subtotal—governmental activities.....</b>	<b><u>2,405,119</u></b>
<b>Business-type Activities, Higher Education Fund</b>	
State institution bonds, 2.50% to 6.25%, maturing serially through 2016.....	249,514
<b>Total—general obligation bonds payable.....</b>	<b><u>\$ 2,654,633</u></b>

At June 30, 2006, \$6.344 million of capital improvement bonds, \$42.185 million of State economic development bonds, and \$22.000 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2006, future debt service requirements (expressed in thousands) for general obligation bonds were:

Year Ending June 30	Governmental Activities		Business-type Activities (Higher Education Fund)	
	Principal	Interest	Principal	Interest
2007	\$ 191,950	\$ 105,910	\$ 14,785	\$ 10,602
2008	199,225	97,591	14,700	9,990
2009	204,699	88,593	15,080	9,372
2010	187,500	79,197	14,985	8,742
2011	184,485	70,408	15,415	8,121
2012-2016	884,290	228,054	85,930	30,287
2017-2021	462,245	65,415	64,625	12,622
2022-2026	61,520	9,684	24,905	1,974
2027-2031	25,210	2,009	—	—
<b>Total debt service requirements.....</b>	<b>2,401,124</b>	<b>\$ 746,861</b>	<b>250,425</b>	<b>\$ 91,710</b>
Unamortized premiums.....	17,327		194	
Deferred amount on refunding...	(13,332)		(1,105)	
<b>Total principal outstanding.....</b>	<b>\$ 2,405,119</b>		<b>\$ 249,514</b>	

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, 2006, was \$46.990 million in total for all institution bonds, \$18.335 million for highway bonds, \$101.998 million for general obligation bonds excluding institution and highway bonds, \$6.335 million for economic development bonds, and \$13.697 million for research university infrastructure bonds.

**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, 2006, which are reported in the internal service funds, totaled \$15.291 million and mature serially through 2016. Interest rates on these bonds ranged from 4.0% to 6.1%.

At June 30, 2006, 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, 2006, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Governmental Activities (Internal Service Funds)	
	Principal	Interest
2007	\$ 4,320	\$ 725
2008	1,640	542
2009	1,730	465
2010	1,200	384
2011	1,280	322
2012-2016	5,180	593
<b>Total debt service requirements.....</b>	<b>15,350</b>	<b>\$ 3,031</b>
Unamortized discounts.....	(59)	
<b>Total principal outstanding.....</b>	<b>\$ 15,291</b>	

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, 2006, were:

	<u>Bonds</u>	<u>Notes</u>
<b>Primary Government:</b>		
<b>Governmental Activities:</b>		
Infrastructure Bank bonds, 3.00% to 6.00%, maturing serially through 2033.....	\$ 1,917,706	\$ —
Tobacco Authority bonds, 6.00% to 7.67%, maturing serially through 2030.....	796,900	—
Educational Television Network note, 3.29%, maturing in 2008.....	—	1,495
Judicial Department note, 3.98%, maturing in 2007.....	—	72
Education Department note, 3.29%, maturing in 2011.....	—	667
Corrections Department note, 3.34%, maturing in 2008.....	—	937
Budget and Control Board bond and notes, 3.00% to 5.00%, maturing through 2018.....	22,169	17,850
<b>Totals—governmental activities.....</b>	<b><u>2,736,775</u></b>	<b><u>21,021</u></b>
<b>Business-type Activities:</b>		
Higher Education Fund bonds and notes, 2.00% to 8.50%, maturing serially through 2035.....	473,401	93,406
Housing Authority Fund bonds, 1.60% to 8.30%, maturing serially through 2037.....	661,579	13,090
Medical University Hospital Authority bonds and note, 2.18% to 5.38%, maturing through 2027.....	474,865	9,396
Education Assistance Authority Fund bonds, 3.50% to 6.30%, maturing serially through 2033.....	904,733	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 2.34% to 7.50%, maturing through 2025.....	17,774	42,429
Direct note obligations, 5.82% to 6.82%, maturing serially through 2027.....	—	89,353
<b>Totals—business-type activities.....</b>	<b><u>2,532,352</u></b>	<b><u>247,674</u></b>
<b>Totals—primary government.....</b>	<b><u>\$ 5,269,127</u></b>	<b><u>\$ 268,695</u></b>
<b>Major Discretely Presented Component Units:</b>		
Public Service Authority bonds, 2.50% to 7.42%, maturing serially through 2039.....	<u>\$ 2,576,728</u>	<u>\$ —</u>
State Ports Authority bonds and notes, 3.80% to 5.50%, maturing serially through 2028.....	<u>\$ 137,399</u>	<u>\$ 2,874</u>
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%, maturing serially through 2038.....	<u>\$ 276,587</u>	<u>\$ —</u>
Lottery Commission notes, 8.00%, maturing in 2007.....	<u>\$ —</u>	<u>\$ 882</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. Through June 30, 2006, the Bank had interest income of \$6.080 million and interest expense of \$3.100 million attributable to the agreement. During the fiscal year ended June 30, 2006, the Bank paid \$1.470 million in variable rate monthly payments and received \$1.777 million in fixed rate payments. The June 30, 2006, mark to market value of this swap was a negative \$844 thousand. The Bank is exposed to credit risk and market risk.

During the 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, 2006, the Bank made variable bond interest payments of \$10.569 million and fixed rate payments on the exchange agreement of \$14.033 million. The Bank received variable swap payments on the exchange agreement of \$9.423 million. The June 30, 2006, mark to market value of this swap was \$1.939 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 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, 2006, are as follows: Series 1994 obligations—\$8.900 million; Series 1999A obligations—\$34.650 million; and Series 1999B obligations—\$40.400 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$10.250 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, 2006, were 3.30% for the 1994 obligations, 3.30% for the 1999A obligations, and 3.45% 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, 2006, 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 \$1.885 million on the 1994 obligations, \$6.987 million on the 1999A obligations, and \$5.392 million for the 1999B obligations as of June 30, 2006. 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, 2006, was \$10.450 million, and the variable rate in effect at that date was 2.45%. 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, 2006, the swap had a fair value of approximately \$292 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, 2006 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, 2006, the swaps have fair values of approximately \$1.551 million and \$666 thousand.

As of June 30, 2006, 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:

<b>Variable Rate Notes</b>				
<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Swaps, Net</b>	<b>Totals</b>
2007	\$ 3,445	\$ 3,219	\$ 2,421	\$ 9,085
2008	3,595	3,095	2,357	9,047
2009	4,045	2,965	2,288	9,298
2010	4,195	2,820	2,211	9,226
2011	4,450	2,669	2,126	9,245
2012-2016	23,270	10,842	9,234	43,346
2017-2021	22,250	7,337	6,347	35,934
2022-2026	29,150	2,822	2,241	34,213
<b>Totals.....</b>	<b>\$ 94,400</b>	<b>\$ 35,769</b>	<b>\$ 29,225</b>	<b>\$ 159,394</b>

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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

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, 2006, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2006, 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
2007	\$ 46,565	\$ 142,426	\$ 69,109	\$ 122,979
2008	55,443	140,009	97,715	126,021
2009	47,989	137,426	161,873	120,498
2010	48,951	135,018	120,135	115,132
2011	50,838	132,466	65,107	111,120
2012-2016	371,855	610,448	417,562	500,322
2017-2021	496,185	495,981	387,891	406,795
2022-2026	607,170	347,015	908,014	258,490
2027-2031	706,360	166,705	320,970	105,754
2032-2036	295,405	22,079	227,379	26,393
2037	—	—	11,875	569
<b>Total debt service requirements.....</b>	<b>2,726,761</b>	<b>\$ 2,329,573</b>	<b>2,787,630</b>	<b>\$ 1,894,073</b>
Net unamortized premiums.....	73,091		18,505	
Deferred amount on refunding.....	(42,056)		(26,109)	
<b>Total principal outstanding.....</b>	<b>\$ 2,757,796</b>		<b>\$ 2,780,026</b>	

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, 2005, the carrying value of the Public Service Authority's debt was \$2.727 billion while the fair value was approximately \$3.100 billion. At June 30, 2006, the carrying value of the State Ports Authority debt was \$139.632 million while the fair value was approximately \$139.797 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, 2006, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

Year Ending December 31	Major Component Units			
	Public Service Authority		Connector 2000 Assoc.	
	Principal	Interest	Principal	Interest
2006	\$ 64,835	\$ 131,304	\$ —	\$ 3,532
2007	71,260	133,141	—	3,532
2008	84,860	129,175	6,200	3,508
2009	79,500	124,982	6,700	3,461
2010	93,270	120,492	7,300	3,411
2011 - 2015	549,882	519,089	51,200	16,198
2016 - 2020	760,799	362,076	78,900	14,470
2021 - 2025	505,731	178,731	115,200	12,258
2026 - 2030	187,750	104,536	154,000	9,333
2031 - 2035	216,070	52,206	187,100	5,493
2036 - 2039	100,940	6,527	139,500	989
<b>Total debt service requirements.....</b>	<b>2,714,897</b>	<b>\$ 1,862,259</b>	<b>746,100</b>	<b>\$ 76,185</b>
Unamortized premiums (discounts)...	101,141		(469,513)	
Deferred amount on refunding.....	(239,310)		—	
<b>Total principal outstanding.....</b>	<b>\$ 2,576,728</b>		<b>\$ 276,587</b>	

Year Ending June 30	Major Component Units			
	State Ports Authority		Lottery Commission	
	Principal	Interest	Principal	Interest
2007	\$ 3,600	\$ 7,080	\$ 882	\$ 25
2008	3,775	6,885	—	—
2009	3,860	6,682	—	—
2010	4,050	6,468	—	—
2011	4,255	6,244	—	—
2012 - 2016	23,944	27,525	—	—
2017 - 2021	29,665	20,773	—	—
2022 - 2026	38,295	11,917	—	—
2027 - 2028	28,090	555	—	—
<b>Total debt service requirements.....</b>	<b>139,534</b>	<b>\$ 94,129</b>	<b>882</b>	<b>\$ 25</b>
Unamortized premium.....	739		—	
<b>Total principal outstanding.....</b>	<b>\$ 140,273</b>		<b>\$ 882</b>	

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, 2006, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government.....	\$ 52,254
Transportation.....	139,489
<b>Total allocated interest expense..</b>	<b>\$ 191,743</b>

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, 2006, \$6.855 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 October 2005, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, issued \$221.045 million in revenue refunding bonds to refund \$228.600 million of revenue bonds. The Bank used the \$221.045 million plus \$20.190 million of the premium received on the issue to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying

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amount of the old debt of \$12.636 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2025 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next nineteen years by approximately \$21.200 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$13.200 million.

During December 2005, Clemson University, included in the Higher Education major enterprise fund, issued \$22.130 million in improvement and refunding revenue bonds to refund \$15.170 million in revenue bonds and provide funding for building renovations. The net proceeds of \$16.331 million plus \$76 thousand in available debt service funds were used 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 \$1.237 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2015. The University completed the advance refunding to reduce its total debt service payments over the next ten years by approximately \$1.054 million and to obtain an economic gain of \$873 thousand.

During September 2005, the University of South Carolina, included in the Higher Education major enterprise fund, issued \$48.075 million in refunding revenue bonds to refund \$46.415 million in revenue bonds. The net proceeds were used 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 \$2.904 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2010. The University completed the advance refunding to reduce its total debt service payments by approximately \$6.992 million and to obtain an economic gain of \$4.767 million.

During its fiscal year ended December 31, 2005, the Public Service Authority, a major discretely presented component unit, issued \$125.295 million in refunding revenue bonds with an average interest rate of 5.31% to refund \$132.790 million in revenue bonds with an average interest rate of 6.09%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$23.864 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next sixteen years by approximately \$20.100 million and to obtain an economic gain of approximately \$11.600 million.

During its fiscal year ended December 31, 2005, the Public Service Authority, a major discretely presented component unit, issued \$278.005 million in refunding revenue bonds with an average interest rate of 5.00% to refund \$316.720 million in revenue bonds with an average interest rate of 5.77%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$73.749 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next eighteen years by approximately \$58.300 million and to obtain an economic gain of approximately \$29.600 million.

During its fiscal year ended December 31, 2005, the Public Service Authority, a major discretely presented component unit, issued \$78.150 million in refunding revenue bonds with an average interest rate of 4.73% to refund \$86.335 million in revenue bonds with an average interest rate of 5.00%. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$12.125 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next twenty years by approximately \$14.600 million and to obtain an economic gain of approximately \$6.000 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, 2006, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Totals- Primary Government</b>
Capital improvement bonds.....	\$ 40,310	\$ —	\$ 40,310
State highway bonds.....	59,515	—	59,515
State school facilities bonds.....	39,675	—	39,675
Infrastructure Bank bonds.....	724,940	—	724,940
Higher Education Fund bonds..	—	219,005	219,005
<b>Totals.....</b>	<b>\$ 864,440</b>	<b>\$ 219,005</b>	<b>\$ 1,083,445</b>

In addition, at December 31, 2005, \$461.855 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, 2006, are reported as other liabilities of \$233 thousand in the Local Government Infrastructure Fund, and as other liabilities payable from restricted assets of \$5.909 million and other liabilities of \$2.075 million 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, 2006, the outstanding balance of bonds issued was \$283.086 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, 2006, the outstanding balance of bonds issued after June 30, 1995, was \$2.770 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, 2006, the outstanding balance of bonds issued was \$270.316 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, 2006, was \$3.160 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 \$4.667 million in the 1993-1994 through 2004-2005 fiscal years, and \$420 thousand in the 2005-2006 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated \$420 thousand in the 2006-2007 fiscal year for use, if needed, to offset the loss of revenues from the delinquent local entity.

**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, 2006, 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, 2006, are reported as notes payable. Other relevant information regarding these accounts is provided below.

The University Medical Associates of the Medical University of South Carolina, a blended component unit and nonmajor enterprise fund, has a \$6.000 million line of credit from a commercial bank.

The Public Service Authority, a discretely presented component unit, has recorded a \$285.449 million liability for commercial paper notes at its fiscal year ended December 31, 2005. 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.

The Ports Authority, a discretely presented component unit, has a \$10.000 million revolving line of credit from a commercial bank.

**j. Subsequent Events**

Since June 30, 2006, the State has issued bonds and notes as indicated in the table below (expressed in thousands).

<b><u>Primary Government</u></b>		
<b><u>Description</u></b>	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>
General obligation bonds.....	\$ —	\$ 102,125
Revenue bonds.....	20,295	51,175
Revenue notes.....	110	—
Totals.....	<u>\$ 20,405</u>	<u>\$ 153,300</u>

<b><u>Component Unit</u></b>	
<b><u>Description</u></b>	<b><u>Revenue Bonds</u></b>
Public Service Authority.....	<u>\$ 724,534</u>

Of the total revenue bonds that the primary government issued, \$13.175 million of the business-type activities bonds were to refund prior issues. Of the total revenue bonds issued by the Public Service Authority, a major discretely presented component unit, \$114.755 million were to refund prior issues.

**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, 2006, were:

	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities</b>					
Policy claims.....	\$ 571,885	\$ 1,297,002	\$ (1,319,431)	\$ 549,456	\$ 461,251
Notes payable.....	\$ 10,311	\$ 12,509	\$ (1,799)	\$ 21,021	\$ 4,175
General obligation bonds payable.....	\$ 2,298,393	\$ 289,475	\$ (186,744)	\$ 2,401,124	\$ 191,950
Unamortized discounts and premiums.....	18,133	571	(1,377)	17,327	—
Deferred amount on refunding.....	(18,273)	—	4,941	(13,332)	—
Total general obligation bonds payable....	\$ 2,298,253	\$ 290,046	\$ (183,180)	\$ 2,405,119	\$ 191,950
Tobacco Authority bonds payable.....	\$ 820,905	\$ —	\$ (24,005)	\$ 796,900	\$ —
Revenue bonds payable.....	\$ 22,375	\$ —	\$ (1,260)	\$ 21,115	\$ 1,320
Unamortized discounts and premiums.....	1,146	—	(92)	1,054	—
Total revenue bonds payable.....	\$ 23,521	\$ —	\$ (1,352)	\$ 22,169	\$ 1,320
Infrastructure Bank bonds payable.....	\$ 1,933,220	\$ 221,045	\$ (266,540)	\$ 1,887,725	\$ 41,070
Unamortized discounts and premiums.....	50,682	21,651	(296)	72,037	—
Deferred amount on refunding.....	(36,509)	(12,636)	7,089	(42,056)	—
Total Infrastructure Bank bonds payable..	\$ 1,947,393	\$ 230,060	\$ (259,747)	\$ 1,917,706	\$ 41,070
Limited obligation bonds payable.....	\$ 19,470	\$ —	\$ (4,120)	\$ 15,350	\$ 4,320
Unamortized discounts and premiums.....	(78)	—	19	(59)	—
Total limited obligation bonds payable....	\$ 19,392	\$ —	\$ (4,101)	\$ 15,291	\$ 4,320
Capital leases payable.....	\$ 2,856	\$ 250	\$ (1,212)	\$ 1,894	\$ 954
Compensated absences payable.....	\$ 200,604	\$ 115,644	\$ (114,180)	\$ 202,068	\$ 125,861
National Guard Retirement System net pension obligation payable.....	\$ 8,978	\$ —	\$ (1,112)	\$ 7,866	\$ —
Judgments and contingencies payable.....	\$ 52,466	\$ 10,122	\$ (20,514)	\$ 42,074	\$ 7,074
Arbitrage payable.....	\$ 187	\$ 46	\$ —	\$ 233	\$ —

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.

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	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Business-type Activities</b>					
Policy claims.....	\$ 210,367	\$ 52,601	\$ (45,561)	\$ 217,407	\$ 32,000
Notes payable.....	\$ 224,928	\$ 42,100	\$ (18,551)	\$ 248,477	\$ 13,477
Deferred amount on refunding.....	(946)	—	50	(896)	—
Unamortized discounts and premiums.....	98	—	(5)	93	—
Total notes payable.....	\$ 224,080	\$ 42,100	\$ (18,506)	\$ 247,674	\$ 13,477
General obligation bonds payable.....	\$ 231,535	\$ 32,775	\$ (13,885)	\$ 250,425	\$ 14,785
Deferred amount on refunding.....	(1,185)	—	80	(1,105)	—
Unamortized discounts and premiums.....	73	137	(16)	194	—
Total general obligation bonds payable....	\$ 230,423	\$ 32,912	\$ (13,821)	\$ 249,514	\$ 14,785
Revenue bonds payable.....	\$ 2,321,817	\$ 424,810	\$ (207,474)	\$ 2,539,153	\$ 55,632
Deferred amount on refunding.....	(23,278)	(2,589)	654	(25,213)	—
Unamortized discounts and premiums.....	13,493	5,382	(463)	18,412	—
Total revenue bonds payable.....	\$ 2,312,032	\$ 427,603	\$ (207,283)	\$ 2,532,352	\$ 55,632
Capital leases payable.....	\$ 52,555	\$ 5,236	\$ (12,804)	\$ 44,987	\$ 9,828
Compensated absences payable.....	\$ 110,178	\$ 77,507	\$ (71,083)	\$ 116,602	\$ 62,370
Arbitrage payable.....	\$ 10,888	\$ —	\$ (2,904)	\$ 7,984	\$ 1,899

	Balances at January 1, 2005	Increases	Decreases	Balances at December 31, 2005	Amounts Due Within One Year
<b>Major Component Units:</b>					
<b>Public Service Authority</b>					
Policy claims.....	\$ 2,375	\$ 1,724	\$ (1,502)	\$ 2,597	\$ 2,597
Revenue bonds payable.....	\$ 2,830,515	\$ 497,235	\$ (612,853)	\$ 2,714,897	\$ 64,835
Deferred amount on refunding.....	(232,596)	(109,737)	103,023	(239,310)	—
Unamortized discounts and premiums.....	68,890	30,137	2,114	101,141	—
Total revenue bonds payable.....	\$ 2,666,809	\$ 417,635	\$ (507,716)	\$ 2,576,728	\$ 64,835
Capital leases payable.....	\$ 14,929	\$ —	\$ (2,992)	\$ 11,937	\$ 2,673
Compensated absences payable.....	\$ 13,867	\$ 1,308	\$ (951)	\$ 14,224	\$ —
<b>Connector 2000 Association, Inc.</b>					
Revenue bonds payable.....	\$ 746,100	\$ —	\$ —	\$ 746,100	\$ —
Unamortized discounts and premiums.....	(481,656)	12,143	—	(469,513)	—
Total revenue bonds payable.....	\$ 264,444	\$ 12,143	\$ —	\$ 276,587	\$ —

	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Amounts Due Within One Year
<b>State Ports Authority</b>					
Notes payable.....	\$ 3,319	\$ —	\$ (445)	\$ 2,874	\$ 445
Revenue bonds payable.....	\$ 139,685	\$ —	\$ (3,025)	\$ 136,660	\$ 3,155
Unamortized discounts and premiums.....	785	—	(46)	739	—
Total revenue bonds payable.....	\$ 140,470	\$ —	\$ (3,071)	\$ 137,399	\$ 3,155
Capital leases payable.....	\$ 135	\$ —	\$ (37)	\$ 98	\$ 40
Compensated absences payable.....	\$ 2,003	\$ 1,982	\$ (1,629)	\$ 2,356	\$ 2,356
<b>Lottery Commission</b>					
Notes payable.....	\$ 2,217	\$ —	\$ (1,335)	\$ 882	\$ 882
Compensated absences payable.....	\$ 854	\$ 427	\$ (406)	\$ 875	\$ 41

**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, 2006, 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, 2005	Increases	Decreases	Balances at June 30, 2006
<b>Primary Government:</b>				
<b>Business-type Activities</b>				
Revenue bond anticipation notes payable.....	\$ 9,345	\$ 6,855	\$ (9,345)	\$ 6,855
Letter of credit.....	\$ —	\$ 2,000	\$ —	\$ 2,000
<b>Major Component Unit:</b>				
<b>Public Service Authority</b>				
Commercial paper notes.....	\$ 193,317	\$ 127,515	\$ (35,383)	\$ 285,449

**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.

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At June 30, 2006, 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
<b>Fund balances reserved for:</b>						
General reserve fund.....	\$ 153,488	\$ —	\$ —	\$ —	\$ —	\$ 153,488
Inventories.....	13,014	16,315	—	6,525	44	35,898
Interfund receivables.....	2,470	—	280,455	—	3,335	286,260
Appropriations to be carried forward .....	107,365	—	—	—	—	107,365
Endowments .....	—	—	—	—	2,256	2,256
Long-term loans and notes receivable .....	12	596	418,851	6,978	22,909	449,346
Debt requirements.....	—	—	1,121,187	—	147,563	1,268,750
School building aid .....	3,820	—	—	—	369	4,189
<b>Total reserved fund balances.....</b>	<b>\$ 280,169</b>	<b>\$ 16,911</b>	<b>\$ 1,820,493</b>	<b>\$ 13,503</b>	<b>\$ 176,476</b>	<b>\$ 2,307,552</b>

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, 2006, the Reserve's balance was \$153.488 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 \$102.326 million to be used in fiscal year 2006-2007 for specific capital projects.

The State also intends to use \$453.052 million of the fund balance in the Budgetary General Fund to pay for selected recurring and nonrecurring items in fiscal year 2006-2007.

**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, 2006 (expressed in thousands):

<u>Funds</u>	<u>Due From</u>	<u>Due To</u>
General		
Departmental General Operating.....	\$ 37,843	\$ 24,997
Local Government Infrastructure.....	—	5,580
Department of Transportation Special Revenue.....	—	2,146
Nonmajor governmental funds.....	397	8,651
Higher Education.....	46	3,547
Unemployment Compensation.....	1,676	1
Nonmajor enterprise funds.....	1,290	—
Internal service.....	523	6,163
Fiduciary.....	—	30,026
	<u>41,775</u>	<u>81,111</u>
Departmental General Operating		
General.....	24,997	37,843
Local Government Infrastructure.....	—	8
Department of Transportation Special Revenue.....	363	—
Nonmajor governmental funds.....	806	10,457
Higher Education.....	—	1,479
Nonmajor enterprise funds.....	173	308
Internal service.....	311	4,606
Fiduciary.....	—	15,384
	<u>26,650</u>	<u>70,085</u>
Local Government Infrastructure		
General.....	5,580	—
Departmental General Operating.....	8	—
Department of Transportation Special Revenue.....	8,722	—
Housing Authority.....	430	—
Internal service.....	—	1
Fiduciary.....	—	32
	<u>14,740</u>	<u>33</u>

Funds	Due From	Due To
Department of Transportation Special Revenue Fund		
General.....	\$ 2,146	\$ —
Departmental General Operating.....	—	363
Local Government Infrastructure.....	—	8,722
Nonmajor governmental funds.....	—	7
Higher Education.....	—	26
Nonmajor enterprise funds.....	11	—
Internal service.....	—	469
Fiduciary.....	—	11,950
	<u>2,157</u>	<u>21,537</u>
State Tobacco Settlement		
Nonmajor enterprise funds.....	99	—
Internal service.....	—	1
	<u>99</u>	<u>1</u>
Nonmajor Governmental Funds		
General.....	8,651	397
Departmental General Operating.....	10,457	806
Department of Transportation Special Revenue.....	7	—
Nonmajor governmental funds.....	1,537	1,537
Higher Education.....	63	20,783
Nonmajor enterprise funds.....	14	—
Internal service.....	4	3,674
Fiduciary.....	—	842
	<u>20,733</u>	<u>28,039</u>
Higher Education		
General.....	3,547	46
Departmental General Operating.....	1,479	—
Department of Transportation Special Revenue.....	26	—
Nonmajor governmental funds.....	20,783	63
Hospital Authority.....	9,475	—
Nonmajor enterprise funds.....	19	9,886
Internal service.....	—	2,117
Fiduciary.....	—	6,146
	<u>35,329</u>	<u>18,258</u>
Unemployment Compensation Benefits		
General.....	1	1,676
Housing Authority		
Local Government Infrastructure.....	—	430
Internal service.....	—	25
	<u>—</u>	<u>455</u>
Medical University Hospital Authority		
Higher Education.....	—	9,475
Nonmajor enterprise funds.....	1,459	—
	<u>1,459</u>	<u>9,475</u>
Nonmajor Enterprise Funds		
General.....	—	1,290
Departmental General Operating.....	308	173
Department of Transportation Special Revenue.....	—	11
State Tobacco Settlement.....	—	99
Nonmajor governmental funds.....	—	14
Higher Education.....	9,886	19
Medical University Hospital Authority.....	—	1,459
Internal service.....	—	1,263
Fiduciary.....	—	105
	<u>10,194</u>	<u>4,433</u>

Funds	Due From	Due To
Internal Service		
General.....	\$ 6,163	\$ 523
Departmental General Operating.....	4,606	311
Local Government Infrastructure.....	1	—
Department of Transportation Special Revenue.....	469	—
State Tobacco Settlement.....	1	—
Nonmajor governmental funds.....	3,674	4
Higher Education.....	2,117	—
Housing Authority.....	25	—
Nonmajor enterprise funds.....	1,263	—
Internal service.....	319	319
Fiduciary.....	29,911	1,575
	<u>48,549</u>	<u>2,732</u>
Fiduciary		
General.....	30,026	—
Departmental General Operating.....	15,384	—
Local Government Infrastructure.....	32	—
Department of Transportation Special Revenue.....	11,950	—
Nonmajor governmental funds.....	842	—
Higher Education.....	6,146	—
Nonmajor enterprise funds.....	105	—
Internal service.....	1,575	29,911
Fiduciary.....	878	878
	<u>66,938</u>	<u>30,789</u>
<b>Totals.....</b>	<b><u>\$ 268,624</u></b>	<b><u>\$ 268,624</u></b>

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.....	\$ 1,550	\$ —	\$ —
Nonmajor governmental funds.....	300	—	—
Higher Education.....	609	—	579
Internal service.....	3,252	—	1,891
	<u>5,711</u>	<u>—</u>	<u>2,470</u>
Departmental General Operating			
General.....	—	1,550	—
Nonmajor governmental funds.....	180	265	—
Higher Education.....	400	—	—
Internal service.....	—	3,000	—
	<u>580</u>	<u>4,815</u>	<u>—</u>
Local Government Infrastructure			
Department of Transportation Special Revenue.....	306,055	—	280,455
Department of Transportation Special Revenue Fund			
Local Government Infrastructure.....	—	306,055	—

Funds	Interfund Receivables	Interfund Payables	Long-term Portion
Nonmajor Governmental Funds			
General.....	\$ —	\$ 300	\$ —
Departmental General Operating.....	265	180	211
Nonmajor governmental funds.....	78	78	59
Higher Education.....	2,561	—	2,220
Internal service.....	1,057	21,115	845
	<u>3,961</u>	<u>21,673</u>	<u>3,335</u>
Higher Education			
General.....	—	609	—
Departmental General Operating.....	—	400	—
Nonmajor governmental funds.....	—	2,561	—
Nonmajor enterprise funds.....	—	39,434	—
	<u>—</u>	<u>43,004</u>	<u>—</u>
Nonmajor Enterprise Funds			
Higher Education.....	39,434	—	39,434
Internal service.....	—	13,565	—
	<u>39,434</u>	<u>13,565</u>	<u>39,434</u>
Internal Service			
General.....	—	3,252	—
Departmental General Operating.....	3,000	400	3,000
Nonmajor governmental funds.....	21,115	1,057	19,795
Nonmajor enterprise funds.....	13,565	—	13,565
Internal service.....	732	732	636
	<u>38,412</u>	<u>5,441</u>	<u>36,996</u>
<b>Totals.....</b>	<b><u>\$ 394,153</u></b>	<b><u>\$ 394,553</u></b>	<b><u>\$ 362,690</u></b>

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:

- \$306.055 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.
- \$21.115 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.
- \$13.565 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.
- \$39.434 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, 2006 (expressed in thousands):

Funds	Transfers In	Transfers Out
General Fund		
Departmental General Operating.....	\$ 13,224	\$ 79,058
Local Government Infrastructure.....	23	5,389
Department of Transportation Special Revenue.....	4,940	1,523
Nonmajor governmental funds.....	10,563	87,133
Higher Education.....	—	732,441
Unemployment Compensation Benefits.....	1,214	—
Nonmajor enterprise funds.....	—	1,600
Internal service.....	6	1,784
Fiduciary.....	—	2,101
	<u>29,970</u>	<u>911,029</u>
Departmental General Operating		
General.....	79,058	13,224
Local Government Infrastructure.....	21	1
Department of Transportation Special Revenue.....	67	338
State Tobacco Settlement.....	1,315	—
Nonmajor governmental funds.....	154,634	56,485
Higher Education.....	15,654	190
Housing Authority.....	125	—
Nonmajor enterprise funds.....	1,064	—
Internal service.....	6,108	1,783
	<u>258,046</u>	<u>72,021</u>
Local Government Infrastructure		
General.....	5,389	23
Departmental General Operating.....	1	21
	<u>5,390</u>	<u>44</u>
Department of Transportation Special Revenue Fund		
General.....	1,523	4,940
Departmental General Operating.....	338	67
Nonmajor governmental funds.....	28,912	—
	<u>30,773</u>	<u>5,007</u>
State Tobacco Settlement		
Departmental General Operating.....	—	1,315
Nonmajor Governmental Funds		
General.....	87,133	10,563
Departmental General Operating.....	56,485	154,634
Department of Transportation Special Revenue.....	—	28,912
Nonmajor governmental funds.....	9,443	9,443
Higher Education.....	1,374	69,210
Housing Authority.....	—	400
Nonmajor enterprise funds.....	730	—
Internal service.....	9,489	7,996
	<u>164,654</u>	<u>281,158</u>
Higher Education		
General.....	732,441	—
Departmental General Operating.....	190	15,654
Nonmajor governmental funds.....	69,210	1,374
Nonmajor enterprise funds.....	24,320	526
	<u>826,161</u>	<u>17,554</u>
Unemployment Compensation Benefits		
General.....	—	1,214

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Housing Authority		
Departmental General Operating.....	—	125
Nonmajor governmental funds.....	400	—
	<u>400</u>	<u>125</u>
Medical University Hospital Authority		
Nonmajor enterprise funds.....	—	552
Nonmajor Enterprise Funds		
General.....	1,600	—
Departmental General Operating.....	—	1,064
Nonmajor governmental funds.....	—	730
Higher Education.....	526	24,320
Medical University Hospital Authority.....	552	—
Nonmajor enterprise funds.....	138	138
	<u>2,816</u>	<u>26,252</u>
Internal Service		
General.....	1,784	6
Departmental General Operating.....	—	6,108
Nonmajor governmental funds.....	7,996	9,489
Higher Education.....	1,783	—
Internal service.....	8,517	8,517
	<u>20,080</u>	<u>24,120</u>
Fiduciary		
General.....	2,101	—
Fiduciary.....	3,298	3,298
	<u>5,399</u>	<u>3,298</u>
<b>Totals.....</b>	<b><u>\$ 1,343,689</u></b>	<b><u>\$ 1,343,689</u></b>

The State uses transfers to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move State grant monies from grantor funds to grantee funds, and (3) transfer bond proceeds from the original fund to other funds authorized to receive portions of the proceeds. The following is a listing of significant transfers (i.e., \$5.000 million or more) that occurred during the fiscal year ended June 30, 2006, that either were non-routine or inconsistent with the normal activities of the fund making the transfer.

- Proviso 8.20 of the 2005-2006 Appropriations Act required a change in the calculation and remittance of taxes on licensed hospitals. The Department of Health and Human Services transferred \$10.000 million from the Departmental General Operating Fund, a major governmental fund, to the Medicaid Expansion Fund, a nonmajor governmental fund, as interim assistance during the transition period.
- Proviso 73.14 of the 2005-2006 Appropriations Act redirected \$6.000 million from the Departmental General Operating Fund, a major governmental fund, to the General Fund for operating expenditures of that fund.
- Proviso 73.17 of the 2005-2006 Appropriations Act distributed \$60.926 million in increased collections by the Department of Revenue to certain other State agencies. Of this amount, \$37.549 million was transferred out of the General Fund to other funds within these financial statements. The Waste Management Fund, a nonmajor governmental fund, received a significant transfer of \$20.472 million.

**NOTE 16: REVENUES AND EXPENDITURES OR EXPENSES**

**a. 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, 2006, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	<u>Scholarship Allowances</u>
Charges for services.....	\$ 284,807
Operating revenues pledged for revenue bonds.....	19,973
Other operating revenues.....	17,879
<b>Total .....</b>	<b><u>\$ 322,659</u></b>

For the fiscal year ended June 30, 2006, the State’s enterprise funds presented \$875.736 million included in net charges for services after provisions for contractual and other adjustments in the amount of \$852.323 million and uncollectible accounts in the amount of \$135.931 million.

**b. Extraordinary Item**

*Extraordinary items* generally are transactions or other events that are both unusual in nature and infrequent in occurrence. However, generally accepted accounting principles require that the State report any gains or losses on the early extinguishment of debt, other than refundings, in its proprietary funds as extraordinary even if they do not meet the preceding description.

The State recorded the following extraordinary item in both its government-wide and fund financial statements for the fiscal year ended June 30, 2006.

The \$539 thousand extraordinary loss on early extinguishment of debt in the Housing Authority Fund, a major enterprise fund, resulted from the early redemption of bonds (\$88 thousand from writing off unamortized discounts and \$451 thousand from writing off unamortized bond issuance costs).

**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, 2006, \$10.148 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, \$81 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, 2006, the predominant policy was to authorize the spending of 4.50% 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, 2006, 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, 2006, are presented below:

**CONDENSED STATEMENT OF NET ASSETS**

	<u>Single Family</u>	<u>Mortgage Revenue</u>
Assets		
Current restricted assets.....	\$ 15,620	\$ 39,467
Other current assets.....	11,564	37,772
Noncurrent restricted assets.....	199,178	577,282
Other assets.....	844	4,818
Total assets.....	<u>227,206</u>	<u>659,339</u>
Liabilities		
Current liabilities payable from restricted assets.....	15,620	39,467
Other current liabilities.....	64	5,829
Noncurrent liabilities.....	<u>102,742</u>	<u>541,207</u>
Total liabilities.....	<u>118,426</u>	<u>586,503</u>
Net assets		
Restricted and expendable for:		
Debt service.....	5,940	35,651
Bond reserves.....	3,209	4,945
Special programs.....	<u>99,631</u>	<u>32,240</u>
<b>Total net assets.....</b>	<b><u>\$ 108,780</u></b>	<b><u>\$ 72,836</u></b>

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

	<u>Single Family</u>	<u>Mortgage Revenue</u>
Operating revenues:		
Pledged revenues:		
Interest on loans.....	\$ 6,352	\$ 25,660
Income on deposit.....	2,366	6,333
Other revenues:		
Bond premium amortization.....	39	92
Total operating revenues	<u>8,757</u>	<u>32,085</u>
Operating expenses:		
Bond issuance cost amortization.....	20	236
Other operating expenses.....	5,880	27,507
Total operating revenues.....	<u>5,900</u>	<u>27,743</u>
Operating expenses.....	<u>2,857</u>	<u>4,342</u>
Loss on early extinguishment of debt (extraordinary item).....	<u>(17)</u>	<u>(497)</u>
Transfers:		
Transfers in.....	60	2,855
Transfers out.....	<u>(6,765)</u>	<u>(1,548)</u>
Increase in net assets.....	<u>(3,865)</u>	<u>5,152</u>
Beginning net assets.....	112,645	67,684
<b>Ending net assets.....</b>	<b><u>\$ 108,780</u></b>	<b><u>\$ 72,836</u></b>

**CONDENSED STATEMENT OF CASH FLOWS**

	<u>Single Family</u>	<u>Mortgage Revenue</u>
Net cash provided (used) by:		
Operating activities.....	\$ (1,194)	\$ (17,487)
Noncapital financing activities.....	(13,812)	24,684
Investing activities.....	2,143	7,903
Net increase (decrease).....	<u>(12,863)</u>	<u>15,100</u>
Beginning cash and cash equivalents.....	71,202	228,229
<b>Ending cash and cash equivalents.....</b>	<b><u>\$ 58,339</u></b>	<b><u>\$ 243,329</u></b>

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, 2005, the Authority received distributions of \$44.164 million from TEA and recognized \$44.952 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, 2005, the Authority had a payable to TEA of \$30.200 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately \$6.000 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  
76 South Laura Street, Suite 1500  
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 \$488.100 million, accumulated depreciation of \$258.600 million, and expenses of \$52.600 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 2000 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as \$143.400 million in 1999 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 2000 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled \$123.100 million (adjusted to market) at December 31, 2005, 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, 2006, the Educational Television Endowment of South Carolina, Inc., disbursed \$4.603 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 Aiken Student Housing Foundation; the Clemson University Research Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the Clemson University Real Estate Foundation; the Health Sciences 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 Coastal Carolina Booster Club, Inc.; 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, 2006, 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—\$43.409 million; donations of cash and other assets from foundations—\$118.519 million; expenditures paid to foundations—\$3.916 million; reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$4.380 million; and purchase of capital assets from foundations—\$14.300 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, 2006, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC—\$10.890 million; notes receivable from SLC—\$933.854 million; program revenue from SLC—\$41.517 million; reimbursements to SLC for administrative costs—\$4.571 million; and payable to SLC—\$111.253 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 \$12.422 million during the Authority's fiscal year ended December 31, 2005.

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, 2006.

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 \$330.934 million during the fiscal year ended June 30, 2006; the Commission owed an additional \$10.940 million to the Fund at June 30, 2006.

**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, 2005, were as follows (expressed in thousands):

<u>Customer</u>	<u>Revenue</u>	<u>% of Total Sales Revenue</u>
Central Electric Power Cooperative, Inc.....	\$ 676,000	50.5%
Alumax of South Carolina, Inc.....	143,000	10.7%

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

**State Ports Authority**

During the fiscal year ended June 30, 2006, one customer accounted for approximately 17% 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 \$125.769 million and Due to Primary Government was \$119.881 million, a difference of \$5.888 million. This situation occurred because the Public Service Authority and the Connector 2000 Association, Inc. report using a fiscal year ending December 31. At June 30, 2006, the Public Service Authority owed the General Fund its semi-annual payment of \$7.838 in lieu of taxes, which is reported as Due from Component Units. At December 31, 2005, the

Connector 2000 Association, Inc. owed the Department of Transportation Special Revenue Fund \$1.950 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, 2006, are several that challenge the legality of certain taxes and the calculation of interest on tax refunds. The challenged revenues include the sales tax on diabetic supplies 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 \$28 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 recorded refunds of approximately \$38 million including \$900 thousand in interest during the fiscal year 2005-2006, with approximately \$7 million of that amount payable at June 30, 2006. The Supreme Court also remanded the question whether the Systems are liable for the plaintiffs' attorney fees. The plaintiffs are requesting \$20 million to \$30 million in attorney's fees and that issue is pending in the trial court at this time. 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 \$13 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 \$2 million in addition to the \$13 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 \$29 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 are pending. 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.

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 paragraphs discuss the most significant of these cases.

The Central Electric Power Cooperative, Inc. is the Authority's major customer. Certain plaintiffs who are customers of members of Central filed suit against the Authority and members of Central seeking monetary damages arising out of a change in the "Good Cents" rate. The plaintiffs sought to represent a class of all "Good Cents" customers of Central's members. The Authority answered the complaint by denying the material allegations and opposing the request for class certification. The parties reached a settlement which has been approved by the court that had no material adverse impact on the Authority.

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 District Court has not set a separate trial on the case's damages phase. 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, however, the State believes that any such disallowance reimbursements relating to the fiscal year ended June 30, 2006, 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, 2006, these loans totaled \$2.303 billion. The United States Department of Education reinsures 100.0% of losses under these guarantees for loans made prior to October 1, 1993; 98.0% of losses for loans made on or after October 1, 1993,

but before October 1, 1998; and 95.0% for loans made on or after October 1, 1998. If the loan default rate exceeds 5.0% of the loans in repayment status, however, the United States Department of Education decreases the reinsurance rate. The State's default rate during the fiscal year ended June 30, 2006, was less than 1.0%.

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, 2005, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$936.231 million for coal. In addition, minimum obligations under purchased power contracts were approximately \$80.700 million at December 31, 2005, with a remaining term of twenty-nine 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, 2005, these commitments totaled approximately \$39.300 million over the next six 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 in 2008.

#### **Major Discretely Presented Component Unit—Lottery Commission**

At June 30, 2006, the Lottery Commission had a remaining commitment of \$12.825 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 \$1.266 billion for certain highway and transportation facilities projects. At June 30, 2006, the remaining commitments for these agreements totaled \$329.082 million.

At June 30, 2006, the Department of Commerce had outstanding commitments of \$127.894 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, 2006, the Budget and Control Board had outstanding commitments of \$51.309 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects.

The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of \$11.359 million at June 30, 2006, 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, 2005. Unless revenues increase sharply in the future, the Association will continue to draw monies from its debt service reserve funds to meet scheduled debt service payments.

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

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**REQUIRED SUPPLEMENTARY INFORMATION****Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)****BUDGETARY GENERAL FUND****For the Fiscal Year Ended June 30, 2006****(Expressed in Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance from Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
<b>Regular sources</b>				
Retail sales tax.....	\$ 2,396,065	\$ 2,493,974	\$ 2,544,980	\$ 51,006
Income tax, individual.....	2,158,417	2,457,504	2,608,227	150,723
Income tax, corporation.....	143,278	222,600	257,854	35,254
Total income and sales tax.....	4,697,760	5,174,078	5,411,061	236,983
Admissions tax.....	25,043	25,504	25,973	469
Aircraft tax.....	4,820	5,263	4,580	(683)
Alcoholic liquor tax.....	54,579	56,325	51,937	(4,388)
Bank tax.....	19,046	29,547	28,214	(1,333)
Beer and wine tax.....	98,493	96,835	98,009	1,174
Business license tax.....	29,921	29,551	32,056	2,505
Coin-operated device tax.....	2,067	2,067	1,180	(887)
Corporation license tax.....	78,048	82,405	72,467	(9,938)
Departmental revenue (primarily fees for services).....	55,468	45,468	49,056	3,588
Documentary tax.....	45,442	63,906	64,015	109
Earned on investments.....	25,000	60,000	69,853	9,853
Electric power tax.....	26,892	19,357	17,773	(1,584)
Estate tax.....	2,857	1,364	3,227	1,863
Insurance tax.....	141,866	139,076	139,036	(40)
Motor transport fees.....	7	10	11	1
Motor vehicle licenses.....	56,758	42,606	51,111	8,505
Petroleum inspection tax.....	8,498	5,344	5,075	(269)
Private car lines tax.....	2,790	2,435	3,375	940
Public Service Authority.....	12,578	13,268	14,954	1,686
Retailers' license tax.....	961	937	833	(104)
Savings and loan association tax.....	3,879	2,878	3,420	542
Workers' compensation insurance tax.....	14,156	14,914	13,142	(1,772)
Total regular sources.....	5,406,929	5,913,138	6,160,358	247,220
<b>Miscellaneous sources</b>				
Circuit and family court fines.....	9,911	9,718	9,655	(63)
Debt service reimbursement.....	2,671	2,161	2,161	—
Indirect cost recoveries.....	22,893	18,053	18,009	(44)
Mental health fees.....	3,800	3,800	3,800	—
Parole and probation supervision fees.....	3,392	3,393	3,382	(11)
Unclaimed property fund transfer.....	10,000	15,000	15,000	—
Nonrecurring revenue.....	13,496	13,496	13,590	94
Total miscellaneous sources.....	66,163	65,621	65,597	(24)
<b>Other unbudgeted revenues.....</b>	—	—	72	72
<b>Total revenues.....</b>	<b>5,473,092</b>	<b>5,978,759</b>	<b>6,226,027</b>	<b>247,268</b>

## REQUIRED SUPPLEMENTARY INFORMATION

### Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)

BUDGETARY GENERAL FUND (Continued)

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget— Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Legislative.....	\$ 34,321	\$ 36,554	\$ 27,549	\$ 9,005
Judicial.....	32,868	34,129	33,958	171
Executive and administrative.....	245,015	139,147	125,022	14,125
Educational.....	2,843,111	2,907,992	2,873,026	34,966
Health.....	1,233,909	1,250,094	1,239,763	10,331
Social rehabilitation services.....	107,830	110,366	109,510	856
Correctional and public safety.....	456,392	481,886	470,683	11,203
Conservation, natural resources, and development.....	139,454	143,648	133,848	9,800
Regulatory.....	66,561	69,004	66,572	2,432
Transportation.....	101	101	101	—
Debt service.....	233,889	233,889	216,183	17,706
Miscellaneous.....	244,502	244,597	244,187	410
Enterprise.....	35	35	35	—
<b>Total expenditures.....</b>	<b>5,637,988</b>	<b>5,651,442</b>	<b>5,540,437</b>	<b>111,005</b>
<b>Excess of revenues over (under) expenditures—budgetary basis.....</b>	<b>(164,896)</b>	<b>327,317</b>	<b>685,590</b>	<b>358,273</b>
<b>Other financing uses— transfers out.....</b>	<b>(99,356)</b>	<b>(99,356)</b>	<b>(231,183)</b>	<b>(131,827)</b>
<b>Net increase (decrease) in fund balance— budgetary basis.....</b>	<b>(264,252)</b>	<b>227,961</b>	<b>454,407</b>	<b>226,446</b>
<b>Fund balance at beginning of year— budgetary basis.....</b>	<b>533,365</b>	<b>533,365</b>	<b>533,365</b>	<b>—</b>
<b>Fund balance at end of year—budgetary basis.....</b>	<b>\$ 269,113</b>	<b>\$ 761,326</b>	<b>\$ 987,772</b>	<b>\$ 226,446</b>

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

**OTHER BUDGETED FUNDS**

**For the Fiscal Year Ended June 30, 2006**

**(Expressed in Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance from Final Budget— Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Federal.....	\$ 6,163,831	\$ 6,609,110	\$ 5,435,416	\$ (1,173,694)
Earmarked.....	3,719,187	4,557,086	3,759,452	(797,634)
Restricted.....	2,565,402	2,857,339	2,872,202	14,863
<b>Total revenues.....</b>	<b>12,448,420</b>	<b>14,023,535</b>	<b>12,067,070</b>	<b>(1,956,465)</b>
<b>Expenditures:</b>				
Legislative.....	1,784	4,723	3,722	1,001
Judicial.....	24,974	29,602	20,114	9,488
Executive and administrative.....	337,114	497,391	401,092	96,299
Educational.....	4,041,878	4,465,932	3,667,703	798,229
Health.....	4,921,184	5,035,610	4,171,852	863,758
Social rehabilitation services.....	1,061,577	1,185,519	1,131,682	53,837
Correctional and public safety.....	198,533	257,953	199,653	58,300
Conservation, natural resources, and development.....	233,666	459,826	346,155	113,671
Regulatory.....	263,843	336,241	291,002	45,239
Transportation.....	1,394,109	1,881,998	1,599,760	282,238
Debt Service.....	12,000	12,000	12,000	—
Miscellaneous.....	—	200	200	—
<b>Total expenditures.....</b>	<b>12,490,662</b>	<b>14,166,995</b>	<b>11,844,935</b>	<b>2,322,060</b>
<b>Net increase (decrease) in fund balance— budgetary basis.....</b>	<b>(42,242)</b>	<b>(143,460)</b>	<b>222,135</b>	<b>365,595</b>
<b>Fund balance at beginning of year— budgetary basis.....</b>	<b>1,505,960</b>	<b>1,505,960</b>	<b>1,505,960</b>	<b>—</b>
<b>Fund balance at end of year—budgetary basis.....</b>	<b>\$ 1,463,718</b>	<b>\$ 1,362,500</b>	<b>\$ 1,728,095</b>	<b>\$ 365,595</b>

## 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 2005-2006 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.

Section 12-36-2620 of the South Carolina Code of Laws imposes a five-cent retail sales tax, of which four cents is allocated to the Budgetary General Fund and one cent is allocated to the State's Department of Education under the Education Improvement Act (EIA). During the fiscal year ended June 30, 2006, \$17.686 million in sales tax revenues was inadvertently transferred to the EIA fund. The Department of Education allocated the additional funds to the State's school

districts without knowledge of the error. When the legislative session convenes in January 2007, the General Assembly must decide whether to approve the extra transfer to the EIA fund or require repayment from the Department of Education to the Budgetary General Fund.

### 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 2005-2006 fiscal year has approximately 2,700 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.

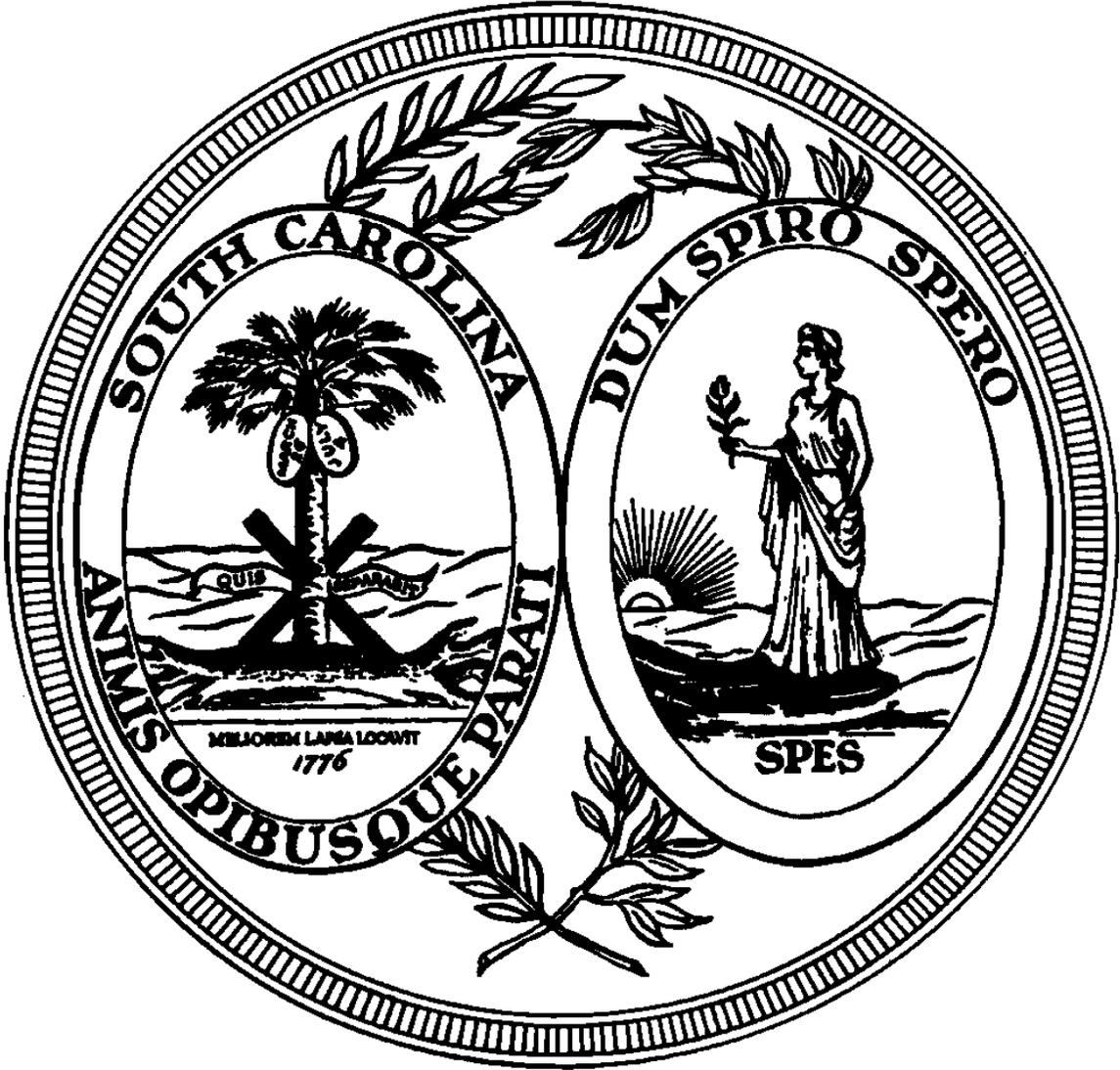
State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- (i) Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 18.
- (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, 2006, were as follows:

Budgetary funds .....	Budgetary	Other	Major Special Revenue Funds				
	General Fund	Budgeted Funds	General Fund	Not Applicable	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
GAAP funds .....	General Fund	Not Applicable	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	State Tobacco Settlement	
Net increase in fund balance—budgetary basis .....	\$ 454,407	\$ 222,135	\$ —	\$ —	\$ —	\$ —	\$ —
Perspective differences:							
Other Budgeted Funds attributable to nonmajor governmental and other GAAP funds .....	—	(389,969)	—	—	—	—	—
Other Budgeted Funds attributable to major governmental GAAP funds .....	—	(167,834)	—	—	—	—	—
Other Budgeted Funds reclassified among the State’s major governmental GAAP funds .....	103,539	167,834	(14,959)	3,823	(35,725)	(2,376)	
Basis of accounting differences .....	43,074	—	48,224	(110,429)	(71,937)	(53)	
Entity differences .....	24,726	—	7,788	49,624	—	7,153	
Net increase (decrease) in fund balance—GAAP basis .....	<u>\$ 625,746</u>	<u>\$ —</u>	<u>\$ 41,053</u>	<u>\$ (56,982)</u>	<u>\$ (107,662)</u>	<u>\$ 4,724</u>	



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**SUPPLEMENTARY  
INFORMATION**

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## 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, 2006

(Expressed in Thousands)

	Education Improvement Act	Children's Education Endowment	Waste Management	Accommodations and Local Option Sales Tax	Medicaid Expansion	SPECIAL Tobacco Settlement Revenue Management Authority
<b>ASSETS</b>						
Cash and cash equivalents.....	\$ 83,516	\$ 20,766	\$ 131,360	\$ 90,656	\$ 16,838	\$ 721
Invested securities lending collateral.....	1,202	2,498	15,938	2,087	1,265	—
Receivables, net:						
Accounts.....	313	—	605	1	—	—
Accrued interest.....	1,598	207	840	93	69	—
Sales and other taxes.....	67,940	9,907	—	47,399	124,503	—
Loans and notes.....	14,112	—	—	—	—	—
Due from Federal government and other grantors.....	2	—	—	—	—	—
Due from other funds.....	5,413	—	—	181	9,933	—
Due from component units.....	—	—	—	—	—	—
Interfund receivables.....	—	—	—	—	—	—
Inventories.....	—	—	44	—	—	—
Restricted assets:						
Cash and cash equivalents.....	—	—	—	—	—	25,484
Investments.....	—	—	—	—	—	87,559
Other.....	—	—	—	—	—	34,519
<b>Total assets.....</b>	<b>\$ 174,096</b>	<b>\$ 33,378</b>	<b>\$ 148,787</b>	<b>\$ 140,417</b>	<b>\$ 152,608</b>	<b>\$ 148,283</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable.....	\$ 28,685	\$ —	\$ 1,510	\$ —	\$ 124,503	\$ —
Accrued salaries and related expenditures.....	935	—	214	—	—	—
Retainages payable.....	—	—	—	—	—	—
Tax refunds payable.....	352	—	—	177	—	—
Intergovernmental payables.....	728	—	636	135,331	—	—
Due to other funds.....	996	2	189	212	—	290
Interfund payables.....	450	—	—	—	—	—
Deferred revenues.....	3,489	—	—	2,610	5,401	—
Securities lending collateral.....	1,202	2,498	15,938	2,087	1,265	—
Other liabilities.....	33	—	—	—	—	—
<b>Total liabilities.....</b>	<b>36,870</b>	<b>2,500</b>	<b>18,487</b>	<b>140,417</b>	<b>131,169</b>	<b>290</b>
<b>Fund balances:</b>						
Reserved for:						
Inventories.....	—	—	44	—	—	—
Interfund receivables.....	—	—	—	—	—	—
Endowments.....	—	—	—	—	—	—
Long-term loans and notes receivable.....	11,993	—	—	—	—	—
Debt requirements.....	—	—	—	—	—	147,563
School building aid.....	369	—	—	—	—	—
Unreserved:						
Designated for scholarships.....	14,703	—	—	—	—	—
Designated for capital expenditures.....	—	—	—	—	—	—
Undesignated.....	110,161	30,878	130,256	—	21,439	430
<b>Total fund balances.....</b>	<b>137,226</b>	<b>30,878</b>	<b>130,300</b>	<b>—</b>	<b>21,439</b>	<b>147,993</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 174,096</b>	<b>\$ 33,378</b>	<b>\$ 148,787</b>	<b>\$ 140,417</b>	<b>\$ 152,608</b>	<b>\$ 148,283</b>

**REVENUE**

**PERMANENT**

Education Lottery	Jobs-Economic Development Authority	Public Telecommunications	Other Special Revenue	Totals	CAPITAL PROJECTS	Bequests	Wildlife Endowment	Totals	TOTALS
\$ 153,107	\$ 2,347	\$ 23,846	\$ 82,646	\$ 605,803	\$ 341,548	\$ 1,212	\$ 1,943	\$ 3,155	\$ 950,506
19,290	—	2,119	2,505	46,904	42,176	22	75	97	89,177
6	4	—	—	929	—	—	—	—	929
1,439	8	157	205	4,616	1,901	9	16	25	6,542
—	—	—	2,300	252,049	827	—	—	—	252,876
—	829	—	10,862	25,803	—	—	—	—	25,803
—	—	—	—	2	2,164	—	—	—	2,166
123	—	1,557	2,724	19,931	801	—	1	1	20,733
10,940	—	—	—	10,940	—	—	—	—	10,940
—	—	—	3,961	3,961	—	—	—	—	3,961
—	—	—	—	44	—	—	—	—	44
—	—	—	—	25,484	—	—	—	—	25,484
—	—	—	—	87,559	—	—	—	—	87,559
—	—	—	—	34,519	—	—	—	—	34,519
<b>\$ 184,905</b>	<b>\$ 3,188</b>	<b>\$ 27,679</b>	<b>\$ 105,203</b>	<b>\$ 1,118,544</b>	<b>\$ 389,417</b>	<b>\$ 1,243</b>	<b>\$ 2,035</b>	<b>\$ 3,278</b>	<b>\$ 1,511,239</b>
\$ 981	\$ —	\$ 988	\$ 564	\$ 157,231	\$ 4,162	\$ —	\$ —	\$ —	\$ 161,393
43	2	—	482	1,676	65	—	—	—	1,741
—	—	—	—	—	1,837	—	—	—	1,837
—	—	—	3	532	—	—	—	—	532
390	—	9,412	9,121	155,618	—	—	—	—	155,618
10,545	—	92	5,886	18,212	9,827	—	—	—	28,039
—	—	—	30	480	21,193	—	—	—	21,673
18	—	—	—	11,518	2,524	—	—	—	14,042
19,290	—	2,119	2,505	46,904	42,176	22	75	97	89,177
—	—	—	597	630	—	—	—	—	630
<b>31,267</b>	<b>2</b>	<b>12,611</b>	<b>19,188</b>	<b>392,801</b>	<b>81,784</b>	<b>22</b>	<b>75</b>	<b>97</b>	<b>474,682</b>
—	—	—	—	44	—	—	—	—	44
—	—	—	3,335	3,335	—	—	—	—	3,335
—	—	—	—	—	—	663	1,593	2,256	2,256
—	722	—	10,194	22,909	—	—	—	—	22,909
—	—	—	—	147,563	—	—	—	—	147,563
—	—	—	—	369	—	—	—	—	369
—	—	—	—	14,703	—	—	—	—	14,703
—	—	—	—	—	307,633	—	—	—	307,633
153,638	2,464	15,068	72,486	536,820	—	558	367	925	537,745
<b>153,638</b>	<b>3,186</b>	<b>15,068</b>	<b>86,015</b>	<b>725,743</b>	<b>307,633</b>	<b>1,221</b>	<b>1,960</b>	<b>3,181</b>	<b>1,036,557</b>
<b>\$ 184,905</b>	<b>\$ 3,188</b>	<b>\$ 27,679</b>	<b>\$ 105,203</b>	<b>\$ 1,118,544</b>	<b>\$ 389,417</b>	<b>\$ 1,243</b>	<b>\$ 2,035</b>	<b>\$ 3,278</b>	<b>\$ 1,511,239</b>

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

NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

						<b>SPECIAL</b>
	<b>Education Improvement Act</b>	<b>Children's Education Endowment</b>	<b>Waste Management</b>	<b>Accommodations and Local Option Sales Tax</b>	<b>Medicaid Expansion</b>	<b>Tobacco Settlement Revenue Management Authority</b>
<b>Revenues:</b>						
Taxes:						
Retail sales and use.....	\$ 660,573	\$ —	\$ 1,731	\$ 434,578	\$ —	\$ —
Other.....	—	9,907	—	—	264,000	—
Licenses, fees, and permits.....	—	—	27,034	—	—	—
Interest and other investment income.....	4,983	1,053	2,335	153	191	5,956
Federal.....	5	—	—	—	—	—
Departmental services.....	—	—	433	—	—	—
Contributions.....	—	—	—	—	7,500	—
Fines and penalties.....	—	—	384	—	—	—
Tobacco legal settlement.....	—	—	—	—	—	67,841
Other.....	16	—	8	—	3	—
<b>Total revenues.....</b>	<b>665,577</b>	<b>10,960</b>	<b>31,925</b>	<b>434,731</b>	<b>271,694</b>	<b>73,797</b>
<b>Expenditures:</b>						
Current:						
General government.....	10,055	—	—	55	—	110
Education.....	93,947	7,409	—	—	—	—
Health and environment.....	661	—	20,410	—	270,423	—
Social services.....	351	—	—	—	—	—
Administration of justice.....	1,388	—	—	—	—	—
Resources and economic development.....	—	—	—	—	—	—
Capital outlay.....	—	—	—	—	—	—
Debt service:						
Principal retirement.....	—	—	—	—	—	24,005
Interest and fiscal charges.....	—	—	—	—	—	52,484
Intergovernmental.....	549,969	16,048	4,383	427,758	—	—
<b>Total expenditures.....</b>	<b>656,371</b>	<b>23,457</b>	<b>24,793</b>	<b>427,813</b>	<b>270,423</b>	<b>76,599</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>9,206</b>	<b>(12,497)</b>	<b>7,132</b>	<b>6,918</b>	<b>1,271</b>	<b>(2,802)</b>
<b>Other financing sources (uses):</b>						
Bonds issued.....	—	—	—	—	—	—
Premiums on bonds issued.....	—	—	—	—	—	—
Transfers in.....	5,154	4,251	27,143	—	10,048	—
Transfers out.....	(6,692)	(4)	(1,068)	(6,918)	(48)	(450)
<b>Total other financing sources (uses).....</b>	<b>(1,538)</b>	<b>4,247</b>	<b>26,075</b>	<b>(6,918)</b>	<b>10,000</b>	<b>(450)</b>
<b>Net change in fund balances.....</b>	<b>7,668</b>	<b>(8,250)</b>	<b>33,207</b>	<b>—</b>	<b>11,271</b>	<b>(3,252)</b>
<b>Fund balances at beginning of year.....</b>	<b>129,558</b>	<b>39,128</b>	<b>97,093</b>	<b>—</b>	<b>10,168</b>	<b>151,245</b>
<b>Fund balances at end of year.....</b>	<b>\$ 137,226</b>	<b>\$ 30,878</b>	<b>\$ 130,300</b>	<b>\$ —</b>	<b>\$ 21,439</b>	<b>\$ 147,993</b>

**REVENUE**

**PERMANENT**

Education Lottery	Jobs-Economic Development Authority	Public Telecommunications	Other Special Revenue	Totals	CAPITAL PROJECTS	Bequests	Wildlife Endowment	Totals	TOTALS
\$ —	\$ —	\$ —	\$ —	\$ 1,096,882	\$ —	\$ —	\$ —	\$ —	\$ 1,096,882
—	—	—	39,463	313,370	74	—	—	—	313,444
—	—	91,124	12,534	130,692	—	—	174	174	130,866
4,399	145	531	1,730	21,476	5,191	6	—	6	26,673
—	—	—	58	63	21,079	—	—	—	21,142
—	349	5,960	255	6,997	3,781	—	4	4	10,782
319,862	—	—	360	327,722	740	—	—	—	328,462
—	—	—	23,376	23,760	18	—	—	—	23,778
—	—	—	—	67,841	—	—	—	—	67,841
190	—	—	225	442	2,236	—	—	—	2,678
<b>324,451</b>	<b>494</b>	<b>97,615</b>	<b>78,001</b>	<b>1,989,245</b>	<b>33,119</b>	<b>6</b>	<b>178</b>	<b>184</b>	<b>2,022,548</b>
2,518	—	90,897	23,971	127,606	—	1	—	1	127,607
208,652	—	—	—	310,008	—	—	—	—	310,008
283	—	—	14	291,791	—	66	—	66	291,857
—	—	—	10,567	10,918	—	—	—	—	10,918
17	—	—	11,634	13,039	—	—	—	—	13,039
—	554	—	4,357	4,911	—	—	—	—	4,911
—	—	—	—	—	46,838	—	—	—	46,838
—	—	—	—	24,005	—	—	—	—	24,005
—	—	—	8	52,492	998	—	—	—	53,490
53,399	—	6,376	21,347	1,079,280	—	—	—	—	1,079,280
<b>264,869</b>	<b>554</b>	<b>97,273</b>	<b>71,898</b>	<b>1,914,050</b>	<b>47,836</b>	<b>67</b>	<b>—</b>	<b>67</b>	<b>1,961,953</b>
<b>59,582</b>	<b>(60)</b>	<b>342</b>	<b>6,103</b>	<b>75,195</b>	<b>(14,717)</b>	<b>(61)</b>	<b>178</b>	<b>117</b>	<b>60,595</b>
—	—	—	—	—	268,475	—	—	—	268,475
—	—	—	—	—	571	—	—	—	571
17	72	—	17,728	64,413	100,241	—	—	—	164,654
(21,312)	—	(373)	(13,593)	(50,458)	(230,700)	—	—	—	(281,158)
<b>(21,295)</b>	<b>72</b>	<b>(373)</b>	<b>4,135</b>	<b>13,955</b>	<b>138,587</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>152,542</b>
<b>38,287</b>	<b>12</b>	<b>(31)</b>	<b>10,238</b>	<b>89,150</b>	<b>123,870</b>	<b>(61)</b>	<b>178</b>	<b>117</b>	<b>213,137</b>
<b>115,351</b>	<b>3,174</b>	<b>15,099</b>	<b>75,777</b>	<b>636,593</b>	<b>183,763</b>	<b>1,282</b>	<b>1,782</b>	<b>3,064</b>	<b>823,420</b>
<b>\$ 153,638</b>	<b>\$ 3,186</b>	<b>\$ 15,068</b>	<b>\$ 86,015</b>	<b>\$ 725,743</b>	<b>\$ 307,633</b>	<b>\$ 1,221</b>	<b>\$ 1,960</b>	<b>\$ 3,181</b>	<b>\$ 1,036,557</b>

## 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.

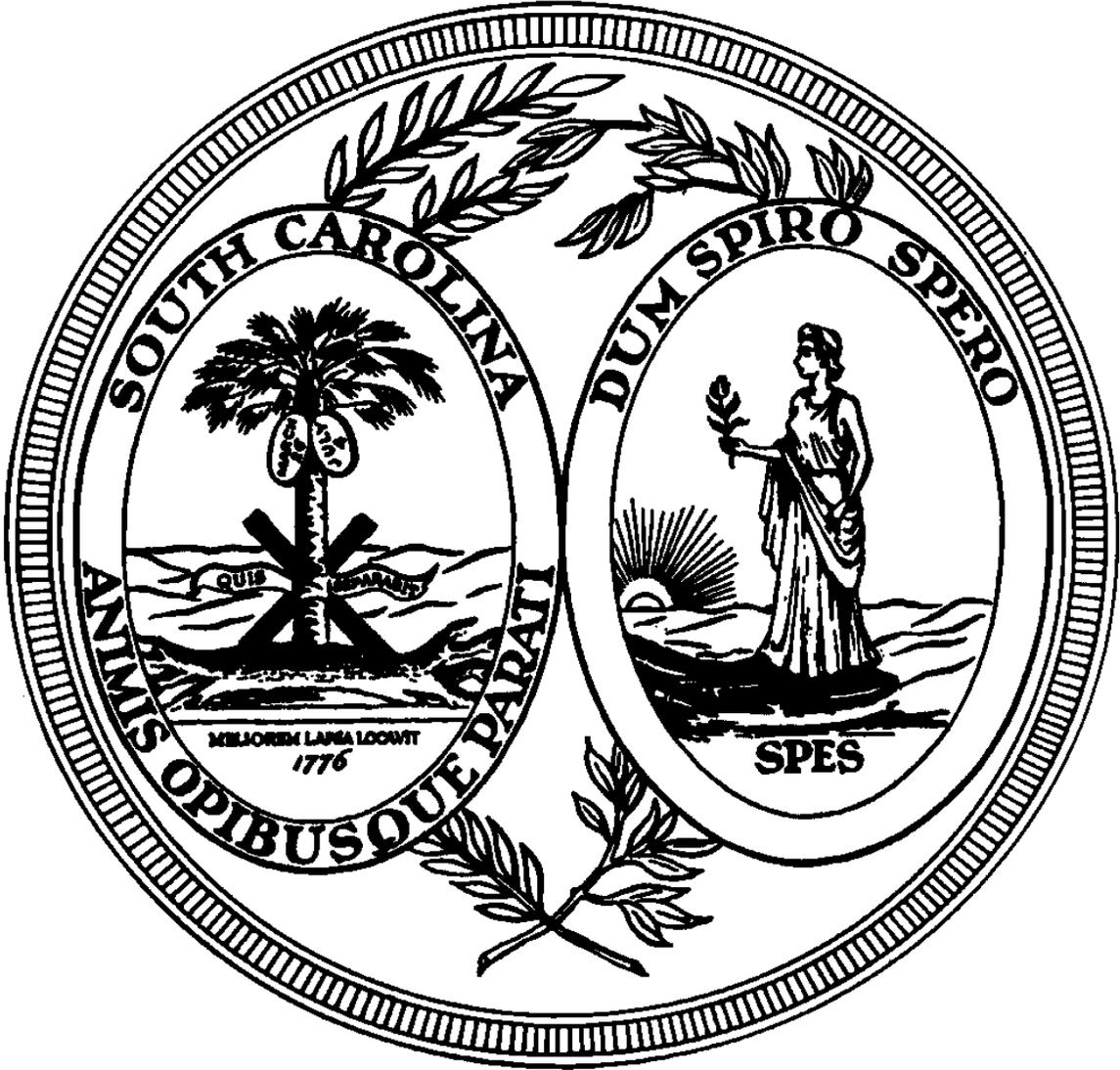
If amounts are withdrawn from the Reserve, the State Constitution requires restoration of the Reserve to full funding within three years.

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<sup>a</sup></u>	<u>Actual End-of- Year % Funded<sup>b</sup></u>
1997	\$ 127,006	\$ 3,374	\$ —	\$ 130,380	\$ 130,380	100%
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%

<sup>a</sup>Equals 3% of the Budgetary General Fund revenues for the previous fiscal year.

<sup>b</sup>Equals (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.

*The 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, 2005.

*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.

*Governor's School for the Arts Foundation, Inc., Fund.* This fund collects and disburses funds for the support of programs, services, scholarships, operations, and capital needs of the South Carolina Governor's School for the Arts and Humanities. The Foundation is a blended component unit of that entity.

*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, 2006

(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>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 3,152	\$ 3,670	\$ 202	\$ 113,977	\$ 219
Investments.....	6,604	—	—	—	2,797
Invested securities lending collateral.....	95	443	9,993	10,046	—
Receivables, net:					
Accounts.....	1	274	—	131	1
Contributions.....	—	—	—	—	179
Participants.....	—	—	—	8,336	—
Accrued interest.....	83	7	—	454	146
Patient accounts.....	—	—	—	—	—
Due from other funds.....	—	2	—	—	—
Inventories.....	—	288	—	—	—
Restricted assets:					
Cash and cash equivalents.....	—	—	73,629	—	1,036
Investments.....	—	—	—	—	9,274
Loans receivable.....	—	—	—	—	89
Other.....	—	—	659	—	124
Prepaid items.....	25	9	—	—	9
Other current assets.....	—	—	—	—	—
Total current assets.....	<u>9,960</u>	<u>4,693</u>	<u>84,483</u>	<u>132,944</u>	<u>13,874</u>
Long-term assets:					
Investments.....	—	—	—	—	3,033
Receivables, net:					
Contributions.....	—	—	—	—	100
Participants.....	—	—	—	17,419	—
Interfund receivables.....	—	—	—	—	—
Restricted assets:					
Cash and cash equivalents.....	—	—	—	—	1,884
Investments.....	—	—	—	—	44,198
Loans receivable.....	—	—	—	—	75
Other.....	—	—	—	—	558
Prepaid items.....	—	—	—	—	—
Other long-term assets.....	—	—	—	—	30
Non-depreciable capital assets.....	—	4,624	—	—	—
Depreciable capital assets, net.....	—	7,854	16	—	—
Total long-term assets.....	<u>—</u>	<u>12,478</u>	<u>16</u>	<u>17,419</u>	<u>49,878</u>
<b>Total assets.....</b>	<b><u>9,960</u></b>	<b><u>17,171</u></b>	<b><u>84,499</u></b>	<b><u>150,363</u></b>	<b><u>63,752</u></b>

<u>University of South Carolina Trust</u>	<u>University Medical Associates</u>	<u>Medical University Facilities Corporation</u>	<u>CHS Development Company</u>	<u>Pharmaceutical Education and Development Foundation</u>	<u>Enterprise Campus Authority</u>	<u>Other Enterprise</u>	<u>Totals</u>
\$ 1,835	\$ 30,915	\$ —	\$ —	\$ —	2	\$ —	\$ 181,374
8,432	42,093	—	—	—	—	—	59,926
—	—	—	—	—	—	3,225	23,802
873	183	7	—	—	—	874	2,344
—	—	—	—	—	—	—	179
—	—	—	—	—	—	—	8,336
—	—	—	—	—	—	103	793
2,397	28,206	—	—	—	—	—	30,603
—	6,174	2,373	850	—	488	307	10,194
—	—	—	—	—	—	3,343	3,631
—	—	91	183	—	—	2,199	77,138
—	—	317	—	—	—	—	9,591
—	—	—	—	—	—	—	89
—	—	—	—	—	—	1,457	2,240
—	631	—	156	—	—	131	961
—	1,777	64	61	—	—	—	1,902
<u>13,537</u>	<u>109,979</u>	<u>2,852</u>	<u>1,250</u>	<u>2</u>	<u>488</u>	<u>39,041</u>	<u>413,103</u>
—	—	—	—	—	—	—	3,033
—	—	—	—	—	—	—	100
—	—	—	—	—	—	—	17,419
—	—	16,340	23,094	—	—	—	39,434
—	4,535	1,350	4,024	—	—	—	11,793
—	15,842	213	283	—	—	—	60,536
—	—	—	—	—	—	13,565	13,640
—	—	—	—	—	—	—	558
—	10,733	—	2,584	—	—	—	13,317
—	7,524	410	1,635	—	—	296	9,895
—	62	—	—	—	—	19,595	24,281
<u>14,182</u>	<u>45,136</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,918</u>	<u>75,106</u>
<u>14,182</u>	<u>83,832</u>	<u>18,313</u>	<u>31,620</u>	<u>—</u>	<u>—</u>	<u>41,374</u>	<u>269,112</u>
<b><u>27,719</u></b>	<b><u>193,811</u></b>	<b><u>21,165</u></b>	<b><u>32,870</u></b>	<b><u>2</u></b>	<b><u>488</u></b>	<b><u>80,415</u></b>	<b><u>682,215</u></b>

Continued on Next Page

# Combining Statement of Net Assets

NONMAJOR ENTERPRISE FUNDS (Continued)

June 30, 2006

(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>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable.....	\$ 171	\$ 155	\$ 7	\$ —	\$ 562
Accrued salaries and related expenses.....	26	248	102	—	5
Accrued interest payable.....	—	—	—	—	—
Tuition benefits payable.....	—	—	—	12,528	—
Policy claims.....	32,000	—	—	—	—
Due to other funds.....	6	25	1,126	272	—
Unearned revenues.....	13,271	895	—	—	—
Securities lending collateral.....	95	443	9,993	10,046	—
Liabilities payable from restricted assets:					
Accounts payable.....	—	—	—	—	—
Other.....	—	—	73,162	—	—
Notes payable.....	—	—	—	—	—
Letter of credit.....	2,000	—	—	—	—
Revenue bonds payable.....	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences payable.....	15	245	70	—	—
Other current liabilities.....	—	—	—	—	8
Total current liabilities.....	<u>47,584</u>	<u>2,011</u>	<u>84,460</u>	<u>22,846</u>	<u>575</u>
Long-term liabilities:					
Tuition benefits payable.....	—	—	—	189,211	—
Policy claims.....	185,407	—	—	—	—
Interfund payables.....	—	—	—	—	—
Notes payable.....	—	—	—	—	—
Revenue bonds payable.....	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences payable.....	2	—	23	—	—
Other long-term liabilities.....	—	—	—	—	18
Total long-term liabilities.....	<u>185,409</u>	<u>—</u>	<u>23</u>	<u>189,211</u>	<u>18</u>
<b>Total liabilities.....</b>	<b><u>232,993</u></b>	<b><u>2,011</u></b>	<b><u>84,483</u></b>	<b><u>212,057</u></b>	<b><u>593</u></b>
<b>NET ASSETS (DEFICITS)</b>					
Invested in capital assets, net of related debt.....	—	12,478	16	—	—
Restricted:					
Expendable:					
Education.....	—	—	—	—	28,417
Capital projects.....	—	—	—	—	3,360
Debt service.....	—	—	—	—	—
Nonexpendable:					
Education.....	—	—	—	—	25,568
Unrestricted.....	(223,033)	2,682	—	(61,694)	5,814
<b>Total net assets (deficits).....</b>	<b><u>\$ (223,033)</u></b>	<b><u>\$ 15,160</u></b>	<b><u>\$ 16</u></b>	<b><u>\$ (61,694)</u></b>	<b><u>\$ 63,159</u></b>

<u>University of South Carolina Trust</u>	<u>University Medical Associates</u>	<u>Medical University Facilities Corporation</u>	<u>CHS Development Company</u>	<u>Pharmaceutical Education and Development Foundation</u>	<u>Enterprise Campus Authority</u>	<u>Other Enterprise</u>	<u>Totals</u>
\$ 3,528	\$ 1,632	\$ —	\$ 160	\$ 1	\$ 24	\$ 567	\$ 6,807
23	7,781	—	—	—	—	323	8,508
—	420	206	718	—	—	—	1,344
—	—	—	—	—	—	—	12,528
—	—	—	—	—	—	—	32,000
—	1,459	—	13	—	—	1,532	4,433
—	—	—	—	—	—	33	14,199
—	—	—	—	—	—	3,225	23,802
—	—	—	—	—	—	452	452
—	—	—	—	—	—	—	73,162
—	2,500	1,095	1,130	—	—	—	4,725
—	—	—	—	—	—	—	2,000
425	—	595	—	—	—	—	1,020
114	87	—	—	—	—	—	201
814	1,544	—	—	—	—	351	3,039
—	1,408	—	188	1	—	—	1,605
<u>4,904</u>	<u>16,831</u>	<u>1,896</u>	<u>2,209</u>	<u>2</u>	<u>24</u>	<u>6,483</u>	<u>189,825</u>
—	—	—	—	—	—	—	189,211
—	—	—	—	—	—	—	185,407
—	—	—	—	—	—	13,565	13,565
—	86,853	9,355	30,849	—	—	—	127,057
8,075	—	8,679	—	—	—	—	16,754
326	156	—	—	—	—	—	482
—	1,029	—	—	—	—	120	1,174
342	1,298	—	—	—	—	—	1,658
<u>8,743</u>	<u>89,336</u>	<u>18,034</u>	<u>30,849</u>	<u>—</u>	<u>—</u>	<u>13,685</u>	<u>535,308</u>
<u>13,647</u>	<u>106,167</u>	<u>19,930</u>	<u>33,058</u>	<u>2</u>	<u>24</u>	<u>20,168</u>	<u>725,133</u>
5,242	(1,869)	—	—	—	—	27,513	43,380
—	—	—	—	—	—	—	28,417
—	—	—	—	—	—	—	3,360
—	9,081	1,235	—	—	—	3,204	13,520
—	—	—	—	—	—	—	25,568
8,830	80,432	—	(188)	—	464	29,530	(157,163)
<u>\$ 14,072</u>	<u>\$ 87,644</u>	<u>\$ 1,235</u>	<u>\$ (188)</u>	<u>\$ —</u>	<u>\$ 464</u>	<u>\$ 60,247</u>	<u>\$ (42,918)</u>

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

## NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Patients' Compensation	Patriots Point Development Authority	Second Injury	Tuition Prepayment Program	The Citadel Trust, Inc.
<b>Operating revenues:</b>					
Charges for services.....	\$ 42,177	\$ 7,318	\$ 1,540	\$ —	\$ —
Contributions.....	—	—	—	9,481	—
Interest and other investment income.....	—	—	—	3,782	—
Operating revenues pledged for revenue bonds.....	—	—	—	—	—
Other operating revenues.....	—	—	—	—	5,182
<b>Total operating revenues.....</b>	<b>42,177</b>	<b>7,318</b>	<b>1,540</b>	<b>13,263</b>	<b>5,182</b>
<b>Operating expenses:</b>					
General operations and administration.....	973	6,274	1,517	—	129
Benefits and claims.....	51,625	—	—	—	—
Tuition plan disbursements.....	—	—	—	38,849	—
Depreciation and amortization.....	—	461	4	—	—
Other operating expenses.....	—	176	15	—	—
<b>Total operating expenses.....</b>	<b>52,598</b>	<b>6,911</b>	<b>1,536</b>	<b>38,849</b>	<b>129</b>
<b>Operating income (loss).....</b>	<b>(10,421)</b>	<b>407</b>	<b>4</b>	<b>(25,586)</b>	<b>5,053</b>
<b>Nonoperating revenues (expenses):</b>					
Interest income.....	301	114	—	—	—
Contributions.....	—	40	—	—	2,253
Local/private grants and contracts.....	—	—	—	—	215
Interest expense.....	—	—	—	—	—
Net other nonoperating revenues (expenses).....	—	—	—	—	45
<b>Total nonoperating revenues (expenses).....</b>	<b>301</b>	<b>154</b>	<b>—</b>	<b>—</b>	<b>2,513</b>
<b>Income (loss) before other revenues, expenses, and transfers.....</b>	<b>(10,120)</b>	<b>561</b>	<b>4</b>	<b>(25,586)</b>	<b>7,566</b>
Capital contributions.....	—	—	—	—	—
Local/private capital grants and contracts.....	—	—	—	—	40
Additions to endowments.....	—	—	—	—	823
Transfers in.....	1,500	74	—	—	—
Transfers out.....	—	—	—	(499)	(3,186)
<b>Change in net assets.....</b>	<b>(8,620)</b>	<b>635</b>	<b>4</b>	<b>(26,085)</b>	<b>5,243</b>
<b>Net assets (deficits) at beginning of year.....</b>	<b>(214,413)</b>	<b>14,525</b>	<b>12</b>	<b>(35,609)</b>	<b>57,916</b>
<b>Net assets (deficits) at end of year.....</b>	<b>\$ (223,033)</b>	<b>\$ 15,160</b>	<b>\$ 16</b>	<b>\$ (61,694)</b>	<b>\$ 63,159</b>

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
\$ 22,014	\$ 201,637	\$ —	\$ —	\$ —	\$ —	\$ 26,909	\$ 301,595
—	—	—	—	—	—	—	9,481
—	—	—	—	—	—	—	3,782
—	—	1,198	1,245	—	—	—	2,443
14,602	7,094	80	—	—	—	270	27,228
<b>36,616</b>	<b>208,731</b>	<b>1,278</b>	<b>1,245</b>	<b>—</b>	<b>—</b>	<b>27,179</b>	<b>344,529</b>
36,721	162,460	1,088	1,646	21	61	20,880	231,770
—	—	—	—	—	—	—	51,625
—	—	—	—	—	—	—	38,849
1,105	2,127	64	217	—	—	635	4,613
—	—	—	—	—	—	11	202
<b>37,826</b>	<b>164,587</b>	<b>1,152</b>	<b>1,863</b>	<b>21</b>	<b>61</b>	<b>21,526</b>	<b>327,059</b>
<b>(1,210)</b>	<b>44,144</b>	<b>126</b>	<b>(618)</b>	<b>(21)</b>	<b>(61)</b>	<b>5,653</b>	<b>17,470</b>
—	1,904	—	—	—	—	1,737	4,056
—	—	—	—	—	—	—	2,293
—	—	—	—	—	—	—	215
(421)	(5,861)	—	—	—	—	(1,116)	(7,398)
425	3,230	—	—	8,038	—	(645)	11,093
<b>4</b>	<b>(727)</b>	<b>—</b>	<b>—</b>	<b>8,038</b>	<b>—</b>	<b>(24)</b>	<b>10,259</b>
<b>(1,206)</b>	<b>43,417</b>	<b>126</b>	<b>(618)</b>	<b>8,017</b>	<b>(61)</b>	<b>5,629</b>	<b>27,729</b>
—	—	—	—	—	—	2,325	2,325
—	—	—	—	—	—	—	40
—	—	—	—	—	—	—	823
—	—	—	690	—	525	27	2,816
—	(21,216)	(56)	—	—	—	(1,295)	(26,252)
<b>(1,206)</b>	<b>22,201</b>	<b>70</b>	<b>72</b>	<b>8,017</b>	<b>464</b>	<b>6,686</b>	<b>7,481</b>
<b>15,278</b>	<b>65,443</b>	<b>1,165</b>	<b>(260)</b>	<b>(8,017)</b>	<b>—</b>	<b>53,561</b>	<b>(50,399)</b>
<b>\$ 14,072</b>	<b>\$ 87,644</b>	<b>\$ 1,235</b>	<b>\$ (188)</b>	<b>\$ —</b>	<b>\$ 464</b>	<b>\$ 60,247</b>	<b>\$ (42,918)</b>

## Combining Statement of Cash Flows

### NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Patients' Compensation	Patriots Point Development Authority	Second Injury	Tuition Prepayment Program	The Citadel Trust, Inc.
<b>Cash flows from operating activities:</b>					
Receipts from customers, patients, and third-party payers.....	\$ 43,142	\$ 4,359	\$ —	\$ 241	\$ —
Assessments received.....	—	—	176,801	—	—
Tuition plan contributions received.....	—	—	—	8,799	—
Other operating cash receipts.....	—	2,916	—	—	—
Claims and benefits paid.....	(44,585)	—	(145,771)	—	—
Payments to suppliers for goods and services.....	—	(2,526)	—	—	(61)
Payments to employees.....	—	(3,176)	—	—	(68)
Other operating cash payments.....	(721)	(903)	(1,580)	(4,468)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>(2,164)</b>	<b>670</b>	<b>29,450</b>	<b>4,572</b>	<b>(129)</b>
<b>Cash flows from noncapital financing activities:</b>					
Principal payments made to other funds.....	(1,000)	—	—	—	—
Interest payments made to other funds.....	—	—	—	—	—
Proceeds from issuance of noncapital debt.....	3,000	—	—	—	—
Principal paid on noncapital debt.....	—	—	—	—	—
Interest payments on noncapital debt.....	—	—	—	—	—
Gifts and grants for other than capital purposes.....	—	—	—	—	3,821
Other cash receipts.....	—	—	—	—	425
Other cash payments.....	—	—	—	—	—
Transfers in.....	1,500	74	—	—	—
Transfers out.....	—	—	—	(499)	(3,186)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>3,500</b>	<b>74</b>	<b>—</b>	<b>(499)</b>	<b>1,060</b>
<b>Cash flows from capital and related financing activities:</b>					
Acquisition of capital assets.....	—	(335)	(7)	—	—
Principal paid on capital debt and lease.....	—	—	—	—	—
Interest payments on capital debt.....	—	—	—	—	—
Payment of agent and broker fees.....	—	—	—	—	—
Proceeds from sale or disposal of capital assets.....	—	—	—	—	—
Capital grants and gifts received.....	—	—	—	—	63
<b>Net cash provided by (used in) capital and related financing activities.....</b>	<b>—</b>	<b>(335)</b>	<b>(7)</b>	<b>—</b>	<b>63</b>
<b>Cash flows from investing activities:</b>					
Proceeds from sales and maturities of investments.....	7,211	—	—	—	24,352
Purchase of investments.....	(13,864)	—	—	—	(26,165)
Interest and dividends on investments.....	249	112	2,349	3,632	1,255
Collection of escrow payments from borrower.....	—	—	—	—	—
<b>Net cash provided by (used in) investing activities.....</b>	<b>(6,404)</b>	<b>112</b>	<b>2,349</b>	<b>3,632</b>	<b>(558)</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>(5,068)</b>	<b>521</b>	<b>31,792</b>	<b>7,705</b>	<b>436</b>
<b>Cash and cash equivalents at beginning of year.....</b>	<b>8,220</b>	<b>3,149</b>	<b>42,039</b>	<b>106,272</b>	<b>2,703</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 3,152</b>	<b>\$ 3,670</b>	<b>\$ 73,831</b>	<b>\$ 113,977</b>	<b>\$ 3,139</b>

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
\$ 22,092	\$ 191,420	\$ —	\$ —	\$ —	\$ —	\$ 27,608	\$ 288,862
—	—	—	—	—	—	—	176,801
—	—	—	—	—	—	—	8,799
14,768	20,790	—	—	—	—	873	39,347
—	—	—	—	—	—	—	(190,356)
(11,791)	(45,474)	—	(201)	(20)	(37)	(17,507)	(77,617)
(24,006)	(116,631)	—	—	—	—	(4,893)	(148,774)
—	(986)	—	—	—	(488)	(10)	(9,156)
<b>1,063</b>	<b>49,119</b>	<b>—</b>	<b>(201)</b>	<b>(20)</b>	<b>(525)</b>	<b>6,071</b>	<b>87,906</b>
—	—	—	—	—	—	(833)	(1,833)
—	—	—	—	—	—	(1,144)	(1,144)
—	—	—	—	—	—	—	3,000
—	(1,165)	(1,604)	(1,100)	—	—	—	(3,869)
—	(2,742)	(1,072)	—	—	—	—	(3,814)
—	—	—	—	—	—	—	3,821
—	—	—	—	21	—	—	446
—	(7,020)	—	—	—	—	—	(7,020)
—	—	—	690	—	525	27	2,816
—	(21,216)	(56)	—	—	—	(1,295)	(26,252)
<b>—</b>	<b>(32,143)</b>	<b>(2,732)</b>	<b>(410)</b>	<b>21</b>	<b>525</b>	<b>(3,245)</b>	<b>(33,849)</b>
(832)	(1,886)	—	(2,232)	—	—	(1,209)	(6,501)
(575)	(1,444)	—	—	—	—	—	(2,019)
(421)	(2,915)	—	(1,468)	—	—	—	(4,804)
—	(26)	—	—	—	—	—	(26)
—	4	—	—	—	—	121	125
—	—	—	—	—	—	—	63
<b>(1,828)</b>	<b>(6,267)</b>	<b>—</b>	<b>(3,700)</b>	<b>—</b>	<b>—</b>	<b>(1,088)</b>	<b>(13,162)</b>
9,084	16,847	2,776	1,494	—	—	—	61,764
(10,034)	(34,105)	(1,278)	(827)	—	—	—	(86,273)
246	2,839	1,277	1,246	—	—	854	14,059
—	—	—	—	—	—	1,554	1,554
<b>(704)</b>	<b>(14,419)</b>	<b>2,775</b>	<b>1,913</b>	<b>—</b>	<b>—</b>	<b>2,408</b>	<b>(8,896)</b>
<b>(1,469)</b>	<b>(3,710)</b>	<b>43</b>	<b>(2,398)</b>	<b>1</b>	<b>—</b>	<b>4,146</b>	<b>31,999</b>
<b>3,304</b>	<b>39,160</b>	<b>1,398</b>	<b>6,605</b>	<b>1</b>	<b>—</b>	<b>25,455</b>	<b>238,306</b>
<b>\$ 1,835</b>	<b>\$ 35,450</b>	<b>\$ 1,441</b>	<b>\$ 4,207</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 29,601</b>	<b>\$ 270,305</b>

Continued on Next Page

# Combining Statement of Cash Flows

NONMAJOR ENTERPRISE FUNDS (Continued)

For the Fiscal Year Ended June 30, 2006

(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>
<b>Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss).....	\$ (10,421)	\$ 407	\$ 4	\$ (25,586)	\$ 5,053
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization .....	—	461	4	—	—
Provision for bad debt.....	—	—	—	—	—
Realized gains and losses on investments.....	—	—	—	—	(5,182)
Interest and dividends on investments and interfund loans....	—	—	—	(3,782)	—
Amounts received for payment of claims.....	—	—	175,254	—	—
Payment of claims.....	—	—	(145,771)	—	—
Other nonoperating revenues.....	—	40	—	—	—
Other nonoperating expenses.....	—	—	—	—	—
Other.....	23	22	—	—	—
<b>Change in assets—decreases (increases):</b>					
Accounts receivable, net.....	—	(95)	—	(131)	—
Receivable from participants, net.....	—	—	—	(551)	—
Accrued interest.....	—	—	—	—	—
Due from other funds.....	—	(2)	—	—	—
Inventories.....	—	6	—	—	—
Other assets .....	55	—	—	—	—
<b>Change in liabilities—increases (decreases):</b>					
Accounts payable.....	159	(48)	2	—	—
Accrued salaries and related expenses.....	3	(21)	3	—	—
Tuition benefits payable.....	—	—	—	34,381	—
Policy claims.....	7,041	—	—	—	—
Due to other funds.....	5	8	—	241	—
Deferred revenues .....	968	(83)	—	—	—
Liabilities payable from restricted assets.....	—	—	—	—	—
Compensated absences payable .....	3	(25)	(46)	—	—
Other liabilities.....	—	—	—	—	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>\$ (2,164)</b>	<b>\$ 670</b>	<b>\$ 29,450</b>	<b>\$ 4,572</b>	<b>\$ (129)</b>
<b>Noncash capital, investing, and financing activities:</b>					
Acquisition of capital assets through assumption of liabilities.	\$ —	\$ —	\$ —	\$ —	\$ —
Increase (decrease) in fair value of investments.....	(48)	—	—	—	5
<b>Total noncash capital, investing, and financing activities.....</b>	<b>\$ (48)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5</b>

<u>University of South Carolina Trust</u>	<u>University Medical Associates</u>	<u>Medical University Facilities Corporation</u>	<u>CHS Development Company</u>	<u>Pharmaceutical Education and Development Foundation</u>	<u>Enterprise Campus Authority</u>	<u>Other Enterprise</u>	<u>Totals</u>
\$ (1,210)	\$ 44,144	\$ 126	\$ (618)	\$ (21)	\$ (61)	\$ 5,653	\$ 17,470
1,105	2,127	64	217	—	—	635	4,613
—	37,111	—	—	—	—	—	37,111
—	—	—	—	—	—	—	(5,182)
—	—	—	—	—	—	—	(3,782)
—	—	—	—	—	—	—	175,254
—	—	—	—	—	—	—	(145,771)
—	—	—	—	—	—	1,951	1,991
—	—	—	—	—	—	(1,531)	(1,531)
—	5,242	(190)	200	—	—	(27)	5,270
244	(39,822)	—	—	—	—	241	(39,563)
—	—	—	—	—	—	—	(551)
—	—	—	—	—	—	(5)	(5)
—	—	—	—	—	(488)	126	(364)
—	—	—	—	—	—	274	280
—	(786)	—	—	—	—	(10)	(741)
1,126	807	—	—	1	24	(1,266)	805
(56)	—	—	—	—	—	25	(46)
—	—	—	—	—	—	—	34,381
—	—	—	—	—	—	—	7,041
—	—	—	—	—	—	—	254
—	—	—	—	—	—	—	885
—	—	—	—	—	—	(2)	(2)
105	150	—	—	—	—	7	194
(251)	146	—	—	—	—	—	(105)
<u>\$ 1,063</u>	<u>\$ 49,119</u>	<u>\$ —</u>	<u>\$ (201)</u>	<u>\$ (20)</u>	<u>\$ (525)</u>	<u>\$ 6,071</u>	<u>\$ 87,906</u>
\$ —	\$ 114	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 114
165	(1,029)	—	—	—	—	—	(907)
<u>\$ 165</u>	<u>\$ (915)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (793)</u>

# Combining Statement of Net Assets

## INTERNAL SERVICE FUNDS

June 30, 2006

(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>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 104,369	\$ 299,730	\$ 25,967	\$ 47,204	\$ 145
Invested securities lending collateral.....	57,027	37,667	2,751	1,233	—
Receivables, net:					
Accounts .....	24,443	19,665	69,542	387	—
Accrued interest.....	2,820	357	237	57	—
Due from other funds.....	77	30,038	2,496	12,273	696
Due from component units.....	—	—	—	1	—
Inventories.....	—	—	—	1,057	1,798
Prepaid items.....	15,807	—	15	—	—
Total current assets.....	<u>204,543</u>	<u>387,457</u>	<u>101,008</u>	<u>62,212</u>	<u>2,639</u>
Long-term assets:					
Investments.....	188,990	13,683	736	—	—
Accounts receivable, net.....	—	—	82	—	—
Interfund receivables.....	15,867	—	—	21,115	—
Deferred charges.....	—	—	—	137	—
Non-depreciable capital assets.....	—	—	—	6,297	—
Depreciable capital assets, net.....	248	123	70	116,586	12
Total long-term assets.....	<u>205,105</u>	<u>13,806</u>	<u>888</u>	<u>144,135</u>	<u>12</u>
<b>Total assets.....</b>	<b><u>409,648</u></b>	<b><u>401,263</u></b>	<b><u>101,896</u></b>	<b><u>206,347</u></b>	<b><u>2,651</u></b>

<u>Motor Pool</u>	<u>Pension Administration</u>	<u>Prison Industries</u>	<u>Governor's School for the Arts Foundation, Inc.</u>	<u>Other Internal Service</u>	<u>Totals</u>
\$ 6,468	\$ 1,189	\$ 5,189	\$ 242	\$ 416	\$ 490,919
—	158	—	—	—	98,836
580	—	2,691	461	—	117,769
—	16	—	—	—	3,487
2,322	11	617	—	19	48,549
—	—	—	—	—	1
17	—	5,056	—	—	7,928
—	—	—	—	—	15,822
<u>9,387</u>	<u>1,374</u>	<u>13,553</u>	<u>703</u>	<u>435</u>	<u>783,311</u>
—	—	—	1,922	—	205,331
—	—	—	—	—	82
1,430	—	—	—	—	38,412
—	—	—	—	—	137
—	—	—	—	—	6,297
<u>13,764</u>	<u>562</u>	<u>6,345</u>	<u>8</u>	<u>—</u>	<u>137,718</u>
<u>15,194</u>	<u>562</u>	<u>6,345</u>	<u>1,930</u>	<u>—</u>	<u>387,977</u>
<b><u>24,581</u></b>	<b><u>1,936</u></b>	<b><u>19,898</u></b>	<b><u>2,633</u></b>	<b><u>435</u></b>	<b><u>1,171,288</u></b>

Continued on Next Page

# Combining Statement of Net Assets

INTERNAL SERVICE FUNDS (Continued)

June 30, 2006

(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>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable.....	\$ 671	\$ 411	\$ 151	\$ 3,055	\$ 558
Accrued salaries and related expenses.....	276	408	296	1,559	—
Accrued interest payable.....	—	—	—	764	—
Retainages payable.....	—	—	—	33	—
Policy claims.....	214,651	193,760	46,140	—	—
Due to other funds.....	6	14	10	1,018	72
Unearned revenues.....	59,631	9,476	77,654	—	—
Securities lending collateral.....	57,027	37,667	2,751	1,233	—
Notes payable.....	—	—	—	2,879	—
Revenue bonds payable.....	—	—	—	1,320	—
Limited obligation bonds payable.....	—	—	—	4,320	—
Capital leases payable.....	—	—	—	512	—
Compensated absences payable.....	26	20	254	1,808	—
Other current liabilities.....	—	—	5,934	—	—
Total current liabilities.....	<u>332,288</u>	<u>241,756</u>	<u>133,190</u>	<u>18,501</u>	<u>630</u>
Long-term liabilities:					
Policy claims.....	—	—	81,369	—	—
Interfund payables.....	—	—	—	4,541	500
Notes payable.....	—	—	—	12,024	—
Revenue bonds payable.....	—	—	—	20,849	—
Limited obligation bonds payable.....	—	—	—	10,971	—
Capital leases payable.....	—	—	—	238	—
Compensated absences payable.....	350	503	95	1,156	—
Total long-term liabilities.....	<u>350</u>	<u>503</u>	<u>81,464</u>	<u>49,779</u>	<u>500</u>
<b>Total liabilities.....</b>	<b><u>332,638</u></b>	<b><u>242,259</u></b>	<b><u>214,654</u></b>	<b><u>68,280</u></b>	<b><u>1,130</u></b>
<b>NET ASSETS (DEFICITS)</b>					
Invested in capital assets, net of related debt.....	248	123	70	99,964	12
Restricted:					
Expendable:					
Education.....	—	—	—	—	—
Loan programs.....	20,000	—	—	—	—
Insurance programs.....	56,762	158,881	—	—	—
Nonexpendable:					
Education.....	—	—	—	—	—
Unrestricted.....	—	—	(112,828)	38,103	1,509
<b>Total net assets (deficits).....</b>	<b><u>\$ 77,010</u></b>	<b><u>\$ 159,004</u></b>	<b><u>\$ (112,758)</u></b>	<b><u>\$ 138,067</u></b>	<b><u>\$ 1,521</u></b>

<u>Motor Pool</u>	<u>Pension Administration</u>	<u>Prison Industries</u>	<u>Governor's School for the Arts Foundation, Inc.</u>	<u>Other Internal Service</u>	<u>Totals</u>
\$ 2,372	\$ 357	\$ 206	\$ —	\$ —	\$ 7,781
81	588	960	—	13	4,181
48	—	—	—	—	812
—	—	—	—	—	33
—	—	—	—	—	454,551
40	549	1,017	—	6	2,732
—	—	—	—	—	146,761
—	158	—	—	—	98,836
—	—	—	—	—	2,879
—	—	—	—	—	1,320
—	—	—	—	—	4,320
—	—	131	—	—	643
104	645	387	—	11	3,255
—	—	—	—	—	5,934
<u>2,645</u>	<u>2,297</u>	<u>2,701</u>	<u>—</u>	<u>30</u>	<u>734,038</u>
—	—	—	—	—	81,369
—	—	—	—	—	5,041
—	—	—	—	—	12,024
—	—	—	—	—	20,849
—	—	—	—	—	10,971
—	—	322	—	—	560
66	412	247	—	8	2,837
<u>66</u>	<u>412</u>	<u>569</u>	<u>—</u>	<u>8</u>	<u>133,651</u>
<u>2,711</u>	<u>2,709</u>	<u>3,270</u>	<u>—</u>	<u>38</u>	<u>867,689</u>
6,615	562	5,892	—	—	113,486
—	—	—	573	—	573
—	—	—	—	—	20,000
—	—	—	—	—	215,643
—	—	—	109	—	109
15,255	(1,335)	10,736	1,951	397	(46,212)
<u>\$ 21,870</u>	<u>\$ (773)</u>	<u>\$ 16,628</u>	<u>\$ 2,633</u>	<u>\$ 397</u>	<u>\$ 303,599</u>

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

## INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Insurance Reserve	Employee Insurance Programs	State Accident Fund	General Services	Central Supplies and Equipment
<b>Operating revenues:</b>					
Charges for services.....	\$ 94,442	\$ 1,446,748	\$ 72,707	\$ 83,193	\$ 9,395
Contributions.....	—	—	—	—	—
Interest and other investment income.....	—	—	—	997	—
Other operating revenues.....	—	38,901	—	—	—
<b>Total operating revenues.....</b>	<b>94,442</b>	<b>1,485,649</b>	<b>72,707</b>	<b>84,190</b>	<b>9,395</b>
<b>Operating expenses:</b>					
General operations and administration.....	44,602	133,127	4,896	67,347	9,673
Benefits and claims.....	11,206	1,222,827	63,638	—	—
Interest.....	—	—	—	11	—
Depreciation and amortization.....	28	39	193	7,154	5
Other operating expenses.....	—	—	4,863	568	—
<b>Total operating expenses.....</b>	<b>55,836</b>	<b>1,355,993</b>	<b>73,590</b>	<b>75,080</b>	<b>9,678</b>
<b>Operating income (loss).....</b>	<b>38,606</b>	<b>129,656</b>	<b>(883)</b>	<b>9,110</b>	<b>(283)</b>
<b>Nonoperating revenues (expenses):</b>					
Interest income.....	8,797	12,153	1,010	38	—
Interest expense.....	—	—	—	(2,049)	—
Net other nonoperating revenues (expenses).....	4	—	70	6,376	(1)
<b>Total nonoperating revenues (expenses).....</b>	<b>8,801</b>	<b>12,153</b>	<b>1,080</b>	<b>4,365</b>	<b>(1)</b>
<b>Income (loss) before other revenues and transfers.....</b>	<b>47,407</b>	<b>141,809</b>	<b>197</b>	<b>13,475</b>	<b>(284)</b>
Capital contributions.....	—	—	—	35	—
Transfers in.....	13	17	—	19,350	100
Transfers out.....	(402)	(398)	—	(19,806)	(100)
<b>Change in net assets.....</b>	<b>47,018</b>	<b>141,428</b>	<b>197</b>	<b>13,054</b>	<b>(284)</b>
<b>Net assets (deficits) at beginning of year.....</b>	<b>29,992</b>	<b>17,576</b>	<b>(112,955)</b>	<b>125,013</b>	<b>1,805</b>
<b>Net assets (deficits) at end of year.....</b>	<b>\$ 77,010</b>	<b>\$ 159,004</b>	<b>\$ (112,758)</b>	<b>\$ 138,067</b>	<b>\$ 1,521</b>

<b>Motor Pool</b>	<b>Pension Administration</b>	<b>Prison Industries</b>	<b>Governor's School for the Arts Foundation, Inc.</b>	<b>Other Internal Service</b>	<b>Totals</b>
\$ 19,725	\$ 17,248	\$ 29,816	\$ —	\$ 457	\$ 1,773,731
—	—	—	743	—	743
—	—	—	117	—	1,114
—	—	—	—	—	38,901
<b>19,725</b>	<b>17,248</b>	<b>29,816</b>	<b>860</b>	<b>457</b>	<b>1,814,489</b>
14,970	16,557	27,711	532	254	319,669
—	—	—	—	—	1,297,671
—	—	—	—	—	11
3,439	262	418	—	—	11,538
4	74	2	—	2	5,513
<b>18,413</b>	<b>16,893</b>	<b>28,131</b>	<b>532</b>	<b>256</b>	<b>1,634,402</b>
<b>1,312</b>	<b>355</b>	<b>1,685</b>	<b>328</b>	<b>201</b>	<b>180,087</b>
—	89	—	—	—	22,087
(49)	—	—	—	—	(2,098)
939	108	(185)	—	—	7,311
<b>890</b>	<b>197</b>	<b>(185)</b>	<b>—</b>	<b>—</b>	<b>27,300</b>
<b>2,202</b>	<b>552</b>	<b>1,500</b>	<b>328</b>	<b>201</b>	<b>207,387</b>
58	2	—	—	—	95
562	37	—	—	1	20,080
(2,859)	(542)	—	—	(13)	(24,120)
<b>(37)</b>	<b>49</b>	<b>1,500</b>	<b>328</b>	<b>189</b>	<b>203,442</b>
<b>21,907</b>	<b>(822)</b>	<b>15,128</b>	<b>2,305</b>	<b>208</b>	<b>100,157</b>
<b>\$ 21,870</b>	<b>\$ (773)</b>	<b>\$ 16,628</b>	<b>\$ 2,633</b>	<b>\$ 397</b>	<b>\$ 303,599</b>

# Combining Statement of Cash Flows

## INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Insurance Reserve	Employee Insurance Programs	State Accident Fund	General Services
<b>Cash flows from operating activities:</b>				
Receipts from customers.....	\$ 48,814	\$ 1,209,488	\$ 18,154	\$ —
Internal activity—payments from other funds.....	46,340	240,831	57,595	84,449
Other operating cash receipts.....	—	27,922	16,820	1,124
Claims paid.....	(49,203)	(1,131,449)	(67,802)	—
Payments to suppliers for goods and services.....	(45,328)	(210,155)	(5,682)	(38,853)
Payments to employees.....	(3,426)	(5,430)	(3,874)	(31,204)
Internal activity—payments to other funds.....	(153)	—	(13,256)	(1,014)
Other operating cash payments.....	—	—	(1)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>(2,956)</b>	<b>131,207</b>	<b>1,954</b>	<b>14,502</b>
<b>Cash flows from noncapital financing activities:</b>				
Principal payments received from other funds.....	4,617	—	—	—
Principal payments made to other funds.....	—	—	—	(191)
Receipt of interest from other funds.....	734	—	—	—
Loans received from other funds.....	—	—	—	—
Transfers in.....	13	17	—	19,350
Transfers out.....	(402)	(398)	—	(19,806)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>4,962</b>	<b>(381)</b>	<b>—</b>	<b>(647)</b>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets.....	(194)	—	(41)	(1,575)
Principal payments received from other funds.....	—	—	—	1,260
Principal payments on limited obligation bonds.....	—	—	—	(4,120)
Proceeds from issuance of capital debt.....	—	—	—	12,509
Principal paid on capital debt and lease.....	—	—	—	(479)
Interest payments on capital debt.....	—	—	—	(1,961)
Proceeds from sale or disposal of capital assets.....	—	16	—	—
<b>Net cash provided by (used in) capital financing activities.....</b>	<b>(194)</b>	<b>16</b>	<b>(41)</b>	<b>5,634</b>
<b>Cash flows from investing activities:</b>				
Proceeds from sales and maturities of investments.....	104,203	3,014	—	—
Purchase of investments.....	(112,770)	(1,050)	—	—
Interest on investments.....	14,760	11,994	922	38
<b>Net cash provided by (used in) investing activities.....</b>	<b>6,193</b>	<b>13,958</b>	<b>922</b>	<b>38</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>8,005</b>	<b>144,800</b>	<b>2,835</b>	<b>19,527</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>96,364</b>	<b>154,930</b>	<b>23,132</b>	<b>27,677</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 104,369</b>	<b>\$ 299,730</b>	<b>\$ 25,967</b>	<b>\$ 47,204</b>

Central Supplies and Equipment	Motor Pool	Pension Adminis- tration	Prison Industries	Governor's School for the Arts Foundation, Inc.	Other Internal Service	Totals
\$ —	\$ —	\$ —	\$ 29,816	\$ 824	\$ 458	\$ 1,307,554
9,394	19,014	17,245	—	—	—	474,868
—	232	108	817	—	—	47,023
—	—	—	—	—	—	(1,248,454)
(9,822)	(12,783)	(4,498)	(11,262)	—	(19)	(338,402)
—	(1,478)	(10,292)	(17,866)	(469)	(231)	(74,270)
—	(611)	(1,792)	(16)	—	—	(16,842)
—	(35)	—	—	—	—	(36)
<b>(428)</b>	<b>4,339</b>	<b>771</b>	<b>1,489</b>	<b>355</b>	<b>208</b>	<b>151,441</b>
—	—	—	—	—	—	4,617
—	—	—	—	—	—	(191)
—	—	—	—	—	—	734
500	—	—	—	—	—	500
100	562	37	—	—	1	20,080
(100)	(2,859)	(542)	—	—	(13)	(24,120)
<b>500</b>	<b>(2,297)</b>	<b>(505)</b>	<b>—</b>	<b>—</b>	<b>(12)</b>	<b>1,620</b>
—	(7,165)	(35)	(682)	—	—	(9,692)
—	—	—	—	—	—	1,260
—	—	—	—	—	—	(4,120)
—	—	—	—	—	—	12,509
—	—	—	(131)	—	—	(610)
—	—	—	—	—	—	(1,961)
—	2,362	—	—	—	—	2,378
<b>—</b>	<b>(4,803)</b>	<b>(35)</b>	<b>(813)</b>	<b>—</b>	<b>—</b>	<b>(236)</b>
—	—	—	—	12	—	107,229
—	—	—	—	(1,599)	—	(115,419)
—	—	89	—	—	—	27,803
<b>—</b>	<b>—</b>	<b>89</b>	<b>—</b>	<b>(1,587)</b>	<b>—</b>	<b>19,613</b>
<b>72</b>	<b>(2,761)</b>	<b>320</b>	<b>676</b>	<b>(1,232)</b>	<b>196</b>	<b>172,438</b>
<b>73</b>	<b>9,229</b>	<b>869</b>	<b>4,513</b>	<b>1,474</b>	<b>220</b>	<b>318,481</b>
<b>\$ 145</b>	<b>\$ 6,468</b>	<b>\$ 1,189</b>	<b>\$ 5,189</b>	<b>\$ 242</b>	<b>\$ 416</b>	<b>\$ 490,919</b>

Continued on Next Page

## Combining Statement of Cash Flows

INTERNAL SERVICE FUNDS (Continued)

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Insurance Reserve	Employee Insurance Programs	State Accident Fund	General Services
<b>Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss).....	\$ 38,606	\$ 129,656	\$ (883)	\$ 9,110
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization.....	28	39	193	7,154
Other nonoperating revenues.....	—	—	—	1,124
Other nonoperating expenses.....	—	—	—	—
Other.....	(1)	—	(1)	929
<b>Change in assets—decreases (increases):</b>				
Accounts receivable, net.....	(5,634)	(11,404)	(4,552)	265
Accrued interest.....	—	—	—	(46)
Due from other funds .....	—	(2,292)	—	(3,881)
Inventories.....	—	—	—	43
Other assets.....	(5,983)	—	39	—
<b>Change in liabilities—increases (decreases):</b>				
Accounts payable.....	(137)	(172)	252	(6)
Accrued salaries and related expenses.....	—	—	—	27
Accrued interest payable.....	—	—	—	(29)
Retainages payable.....	—	—	—	(3)
Policy claims.....	(37,304)	9,871	198	—
Due to other funds.....	—	—	—	117
Deferred revenues .....	7,425	5,463	6,699	—
Compensated absences payable.....	44	46	9	(302)
<b>Net cash provided by (used in) operating activities.....</b>	<b>\$ (2,956)</b>	<b>\$ 131,207</b>	<b>\$ 1,954</b>	<b>\$ 14,502</b>
<b>Noncash capital, investing, and financing activities:</b>				
Increase (decrease) in fair value of investments.....	\$ 6,654	\$ (854)	\$ —	\$ —
Long-term debt forgiven.....	—	—	—	807
<b>Total noncash capital, investing, and financing activities.....</b>	<b>\$ 6,654</b>	<b>\$ (854)</b>	<b>\$ —</b>	<b>\$ 807</b>

<u>Central Supplies and Equipment</u>	<u>Motor Pool</u>	<u>Pension Adminis- tration</u>	<u>Prison Industries</u>	<u>Governor's School for the Arts Foundation, Inc.</u>	<u>Other Internal Service</u>	<u>Totals</u>
\$ (283)	\$ 1,312	\$ 355	\$ 1,685	\$ 328	\$ 201	\$ 180,087
5	3,439	262	418	—	—	11,538
—	232	108	817	—	—	2,281
—	—	—	(500)	—	—	(500)
(1)	(36)	1	—	63	1	955
—	(22)	—	162	(36)	—	(21,221)
—	—	(3)	—	—	—	(49)
(19)	(689)	93	(239)	—	4	(7,023)
(238)	(1)	—	(936)	—	—	(1,132)
—	—	—	—	—	—	(5,944)
133	109	(302)	(175)	—	—	(298)
—	—	28	74	—	1	130
—	—	—	—	—	—	(29)
—	—	—	—	—	—	(3)
—	—	—	—	—	—	(27,235)
(25)	(14)	145	125	—	(4)	344
—	—	—	—	—	—	19,587
—	9	84	58	—	5	(47)
<b>\$ (428)</b>	<b>\$ 4,339</b>	<b>\$ 771</b>	<b>\$ 1,489</b>	<b>\$ 355</b>	<b>\$ 208</b>	<b>\$ 151,441</b>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,800
—	—	—	—	—	—	807
<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 6,607</b>

## 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, 2006

(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
<b>ASSETS</b>						
Cash and cash equivalents.....	\$ 1,365,730	\$ 351,035	\$ 1,145	\$ 6,123	\$ 5,150	\$ 1,729,183
Receivables:						
Contributions.....	128,067	17,222	123	664	—	146,076
Employer long-term.....	1,435	26	—	—	—	1,461
Accrued interest.....	126,442	14,834	277	787	97	142,437
Unsettled investment sales.....	46,008	5,514	99	236	—	51,857
Total receivables.....	<u>301,952</u>	<u>37,596</u>	<u>499</u>	<u>1,687</u>	<u>97</u>	<u>341,831</u>
Due from other funds.....	6,192	957	7	11	—	7,167
Investments, at fair value:						
United States government securities.....	626,753	75,022	1,096	10,654	—	713,525
United States government agencies and government-insured securities.....	3,444,199	361,927	6,583	15,021	2,816	3,830,546
Corporate bonds.....	3,759,322	499,010	8,317	21,121	2,207	4,289,977
Financial and other.....	1,545,494	193,419	3,037	7,340	2,519	1,751,809
Equities.....	12,004,816	1,437,296	25,106	61,871	—	13,529,089
Total investments.....	<u>21,380,584</u>	<u>2,566,674</u>	<u>44,139</u>	<u>116,007</u>	<u>7,542</u>	<u>24,114,946</u>
Invested securities lending collateral.....	3,961,439	383,340	4,354	22,955	87	4,372,175
Capital assets, net.....	3,330	340	10	16	—	3,696
Prepaid items.....	103	13	—	1	96	213
<b>Total assets.....</b>	<b><u>27,019,330</u></b>	<b><u>3,339,955</u></b>	<b><u>50,154</u></b>	<b><u>146,800</u></b>	<b><u>12,972</u></b>	<b><u>30,569,211</u></b>
<b>LIABILITIES</b>						
Accounts payable.....	6,453	775	13	33	—	7,274
Accounts payable—unsettled investment purchases.....	39,198	4,679	84	201	—	44,162
Due to other funds.....	30,056	723	5	5	—	30,789
Deferred retirement benefits.....	670,527	—	—	—	—	670,527
Securities lending collateral.....	3,961,439	383,340	4,354	22,955	87	4,372,175
Other liabilities.....	60,095	2,114	19	101	7	62,336
<b>Total liabilities.....</b>	<b><u>4,767,768</u></b>	<b><u>391,631</u></b>	<b><u>4,475</u></b>	<b><u>23,295</u></b>	<b><u>94</u></b>	<b><u>5,187,263</u></b>
<b>NET ASSETS</b>						
Held in trust for pension benefits....	<b><u>\$ 22,251,562</u></b>	<b><u>\$ 2,948,324</u></b>	<b><u>\$ 45,679</u></b>	<b><u>\$ 123,505</u></b>	<b><u>\$ 12,878</u></b>	<b><u>\$ 25,381,948</u></b>

# Combining Statement of Changes in Plan Net Assets

## PENSION TRUST FUNDS

For the Fiscal Year Ended June 30, 2006

(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
<b>Additions:</b>						
Retirement contributions:						
Employer.....	\$ 577,468	\$ 100,281	\$ 2,171	\$ 6,511	\$ 3,942	\$ 690,373
Employee.....	498,445	67,394	543	1,526	—	567,908
Total retirement contributions.....	1,075,913	167,675	2,714	8,037	3,942	1,258,281
Interest income and net appreciation in investments.....	1,151,454	141,677	2,129	5,850	24	1,301,134
Investment expense.....	26,458	3,190	54	135	—	29,837
Net income from investing activities.....	1,124,996	138,487	2,075	5,715	24	1,271,297
Securities lending income.....	171,278	22,411	217	910	7	194,823
Securities lending expense.....	161,635	21,113	206	864	7	183,825
Net income from securities lending activities.....	9,643	1,298	11	46	—	10,998
Total net investment income.....	1,134,639	139,785	2,086	5,761	24	1,282,295
Transfers between pension trust funds.....	13	3,026	41	218	—	3,298
Transfers in.....	1,741	60	—	—	300	2,101
<b>Total additions.....</b>	<b>2,212,306</b>	<b>310,546</b>	<b>4,841</b>	<b>14,016</b>	<b>4,266</b>	<b>2,545,975</b>
<b>Deductions:</b>						
Regular retirement benefits.....	1,316,123	165,830	5,726	9,677	2,705	1,500,061
Supplemental retirement benefits.....	1,741	60	—	—	—	1,801
Deferred retirement benefits.....	321,374	—	—	—	—	321,374
Refunds of retirement contributions to members.....	108,569	13,252	—	20	—	121,841
Group life insurance claims.....	14,875	1,821	17	124	—	16,837
Accidental death benefits.....	—	1,183	—	—	—	1,183
Depreciation.....	107	11	—	—	—	118
Administrative expense.....	15,205	1,957	33	83	204	17,482
Transfers between pension trust funds.....	3,233	—	65	—	—	3,298
<b>Total deductions.....</b>	<b>1,781,227</b>	<b>184,114</b>	<b>5,841</b>	<b>9,904</b>	<b>2,909</b>	<b>1,983,995</b>
<b>Change in net assets .....</b>	<b>431,079</b>	<b>126,432</b>	<b>(1,000)</b>	<b>4,112</b>	<b>1,357</b>	<b>561,980</b>
<b>Net assets at beginning of year.....</b>	<b>21,820,483</b>	<b>2,821,892</b>	<b>46,679</b>	<b>119,393</b>	<b>11,521</b>	<b>24,819,968</b>
<b>Net assets at end of year.....</b>	<b>\$ 22,251,562</b>	<b>\$ 2,948,324</b>	<b>\$ 45,679</b>	<b>\$ 123,505</b>	<b>\$ 12,878</b>	<b>\$ 25,381,948</b>

## Combining Statement of Fiduciary Net Assets

### PRIVATE-PURPOSE TRUST FUNDS

June 30, 2006

(Expressed in Thousands)

	<u>College Savings Plan</u>	<u>Other Private- Purpose Trust</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ —	\$ 25,624	\$ 25,624
Receivables, net:			
Accrued interest.....	523	207	730
Unsettled investment sales.....	488	—	488
Investments.....	692,524	—	692,524
Invested securities lending collateral .....	—	1,170	1,170
Other assets.....	—	5,104	5,104
<b>Total assets.....</b>	<b><u>693,535</u></b>	<b><u>32,105</u></b>	<b><u>725,640</u></b>
<b>LIABILITIES</b>			
Accounts payable.....	1,528	23	1,551
Accounts payable—unsettled investment purchases.....	402	—	402
Securities lending collateral.....	—	1,170	1,170
<b>Total liabilities.....</b>	<b><u>1,930</u></b>	<b><u>1,193</u></b>	<b><u>3,123</u></b>
<b>NET ASSETS</b>			
Held in trust for other purposes.....	<b><u>\$ 691,605</u></b>	<b><u>\$ 30,912</u></b>	<b><u>\$ 722,517</u></b>

## Combining Statement of Changes in Fiduciary Net Assets

PRIVATE-PURPOSE TRUST FUNDS

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	College Savings Plan	Other Private- Purpose Trust	Totals
<b>Additions:</b>			
Licenses, fees, and permits.....	\$ —	\$ 177	\$ 177
Tuition plan deposits.....	147,753	—	147,753
Interest income.....	60,443	432	60,875
<b>Total additions.....</b>	<b>208,196</b>	<b>609</b>	<b>208,805</b>
<b>Deductions:</b>			
Administrative expense.....	5,403	123	5,526
Payments in accordance with trust agreements.....	—	1,297	1,297
<b>Total deductions.....</b>	<b>5,403</b>	<b>1,420</b>	<b>6,823</b>
<b>Change in net assets.....</b>	<b>202,793</b>	<b>(811)</b>	<b>201,982</b>
<b>Net assets at beginning of year .....</b>	<b>488,812</b>	<b>31,723</b>	<b>520,535</b>
<b>Net assets at end of year.....</b>	<b>\$ 691,605</b>	<b>\$ 30,912</b>	<b>\$ 722,517</b>

# Combining Statement of Assets and Liabilities

## AGENCY FUNDS

June 30, 2006

(Expressed in Thousands)

	Insurance Company Deposits	Payroll Clearing	Other Agency	Totals
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ —	\$ 11,135	\$ 154,141	\$ 165,276
Receivables, net:				
Accounts.....	—	33	8,717	8,750
Accrued interest.....	—	—	808	808
Taxes.....	—	—	2,667	2,667
Due from other funds.....	—	47,821	11,950	59,771
Investments.....	—	—	32,026	32,026
Securities held in lieu of surety bonds.....	329,611	—	—	329,611
Invested securities lending collateral .....	—	—	14,989	14,989
<b>Total assets.....</b>	<b>\$ 329,611</b>	<b>\$ 58,989</b>	<b>\$ 225,298</b>	<b>\$ 613,898</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ —	\$ 183	\$ 18,380	\$ 18,563
Tax refunds payable.....	—	—	1,082	1,082
Intergovernmental payables.....	—	—	2,252	2,252
Deposits.....	—	—	3,271	3,271
Amounts held in custody for others.....	329,611	58,806	185,324	573,741
Securities lending collateral.....	—	—	14,989	14,989
<b>Total liabilities.....</b>	<b>\$ 329,611</b>	<b>\$ 58,989</b>	<b>\$ 225,298</b>	<b>\$ 613,898</b>

# Combining Statement of Changes in Assets and Liabilities

## AGENCY FUNDS

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	July 1, 2005 Balance	Additions	Deductions	June 30, 2006 Balance
<b>INSURANCE COMPANY DEPOSITS</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ —	\$ 15,215	\$ 15,215	\$ —
Securities held in lieu of surety bonds.....	314,396	15,215	—	329,611
<b>Total assets.....</b>	<b>\$ 314,396</b>	<b>\$ 30,430</b>	<b>\$ 15,215</b>	<b>\$ 329,611</b>
<b>Liabilities:</b>				
Amounts held in custody for others.....	\$ 314,396	\$ 15,215	\$ —	\$ 329,611
<b>Total liabilities.....</b>	<b>\$ 314,396</b>	<b>\$ 15,215</b>	<b>\$ —</b>	<b>\$ 329,611</b>
 <b>PAYROLL CLEARING</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 10,653	\$ 1,047,927	\$ 1,047,445	\$ 11,135
Accounts receivable.....	30	33	30	33
Due from other funds.....	47,996	47,821	47,996	47,821
<b>Total assets.....</b>	<b>\$ 58,679</b>	<b>\$ 1,095,781</b>	<b>\$ 1,095,471</b>	<b>\$ 58,989</b>
<b>Liabilities:</b>				
Accounts payable.....	\$ 246	\$ 183	\$ 246	\$ 183
Amounts held in custody for others.....	58,433	904,018	903,645	58,806
<b>Total liabilities.....</b>	<b>\$ 58,679</b>	<b>\$ 904,201</b>	<b>\$ 903,891</b>	<b>\$ 58,989</b>

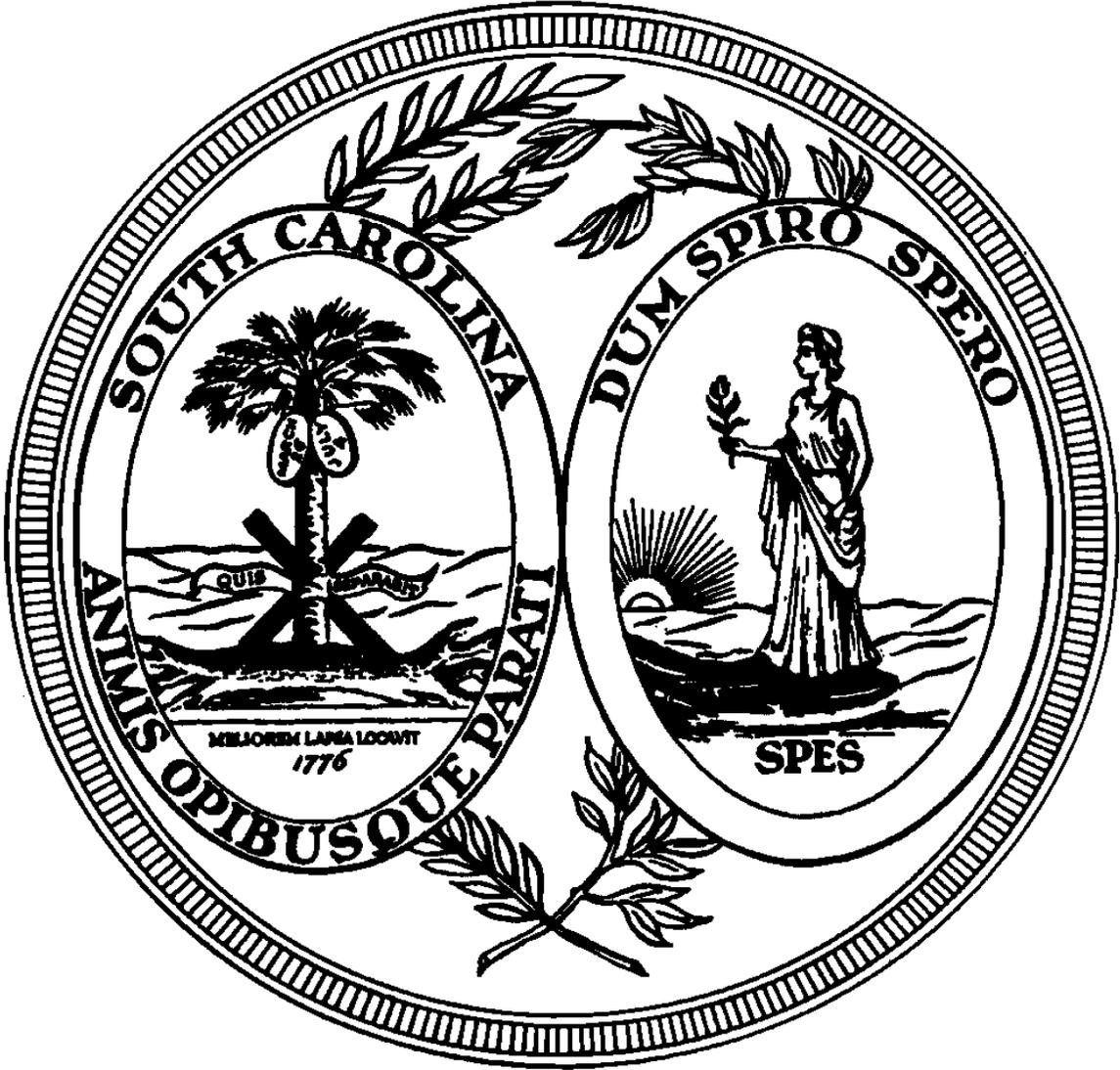
# Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	July 1, 2005 Balance	Additions	Deductions	June 30, 2006 Balance
<b>OTHER AGENCY</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 152,850	\$ 2,286,677	\$ 2,285,386	\$ 154,141
Accounts receivable.....	5,156	10,836	7,275	8,717
Accrued interest receivable.....	675	808	675	808
Taxes receivable.....	2,486	2,667	2,486	2,667
Due from other funds.....	12,388	11,950	12,388	11,950
Investments.....	37,242	—	5,216	32,026
Securities held in lieu of surety bonds.....	165	—	165	—
Invested securities lending collateral.....	15,749	14,989	15,749	14,989
<b>Total assets.....</b>	<b>\$ 226,711</b>	<b>\$ 2,327,927</b>	<b>\$ 2,329,340</b>	<b>\$ 225,298</b>
<b>Liabilities:</b>				
Accounts payable.....	\$ 18,255	\$ 18,997	\$ 18,872	\$ 18,380
Tax refunds payable.....	664	1,082	664	1,082
Intergovernmental payables.....	2,366	2,252	2,366	2,252
Deposits.....	1,115	3,271	1,115	3,271
Amounts held in custody for others.....	188,562	1,933,925	1,937,163	185,324
Securities lending collateral.....	15,749	14,989	15,749	14,989
<b>Total liabilities.....</b>	<b>\$ 226,711</b>	<b>\$ 1,974,516</b>	<b>\$ 1,975,929</b>	<b>\$ 225,298</b>
<b>TOTALS--ALL AGENCY FUNDS</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 163,503	\$ 3,349,819	\$ 3,348,046	\$ 165,276
Accounts receivable.....	5,186	10,869	7,305	8,750
Accrued interest receivable.....	675	808	675	808
Taxes receivable.....	2,486	2,667	2,486	2,667
Due from other funds.....	60,384	59,771	60,384	59,771
Investments.....	37,242	—	5,216	32,026
Securities held in lieu of surety bonds.....	314,561	15,215	165	329,611
Invested securities lending collateral.....	15,749	14,989	15,749	14,989
<b>Total assets.....</b>	<b>\$ 599,786</b>	<b>\$ 3,454,138</b>	<b>\$ 3,440,026</b>	<b>\$ 613,898</b>
<b>Liabilities:</b>				
Accounts payable.....	\$ 18,501	\$ 19,180	\$ 19,118	\$ 18,563
Tax refunds payable.....	664	1,082	664	1,082
Intergovernmental payables.....	2,366	2,252	2,366	2,252
Deposits.....	1,115	3,271	1,115	3,271
Amounts held in custody for others.....	561,391	2,853,158	2,840,808	573,741
Securities lending collateral.....	15,749	14,989	15,749	14,989
<b>Total liabilities.....</b>	<b>\$ 599,786</b>	<b>\$ 2,893,932</b>	<b>\$ 2,879,820</b>	<b>\$ 613,898</b>



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## 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, 2005.

*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, 2005.

# Combining Statement of Net Assets

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2006

(Expressed in Thousands)

	Clemson University Foundation	University of South Carolina Educational Foundation	South Carolina Medical Malpractice Liability Joint Underwriting Association
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 8,482	\$ 11,464	\$ 7,740
Investments.....	—	3,804	57,337
Invested securities lending collateral.....	—	—	—
Receivables, net:			
Accounts.....	188	210	623
Contributions.....	6,141	3,997	—
Accrued interest.....	—	—	609
Due from primary government.....	—	—	—
Restricted assets:			
Cash and cash equivalents.....	15,454	—	—
Deferred charges.....	—	—	1,616
Total current assets.....	<u>30,265</u>	<u>19,475</u>	<u>67,925</u>
Long-term assets:			
Receivables, net:			
Accounts.....	2,066	59	—
Contributions.....	22,645	4,793	—
Investments.....	324,742	254,266	—
Other long-term assets.....	86	—	—
Non-depreciable capital assets.....	8,971	—	—
Depreciable capital assets, net.....	387	60	241
Total long-term assets.....	<u>358,897</u>	<u>259,178</u>	<u>241</u>
<b>Total assets.....</b>	<b><u>389,162</u></b>	<b><u>278,653</u></b>	<b><u>68,166</u></b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable.....	491	887	332
Accrued salaries and related expenses.....	—	—	—
Intergovernmental payables.....	—	—	—
Policy claims.....	—	—	40,000
Due to primary government.....	77,371	29,619	—
Deferred revenues and deferred credits.....	10	—	27,577
Securities lending collateral.....	—	—	—
Accounts payable from restricted assets.....	325	—	—
Compensated absences payable.....	—	—	—
Other current liabilities.....	—	468	—
Total current liabilities.....	<u>78,197</u>	<u>30,974</u>	<u>67,909</u>
Long-term liabilities:			
Policy claims.....	—	—	149,067
Amounts held in custody for others.....	2,389	—	74
Compensated absences payable.....	—	—	—
Other long-term liabilities.....	7,363	2,144	—
Total long-term liabilities.....	<u>9,752</u>	<u>2,144</u>	<u>149,141</u>
<b>Total liabilities.....</b>	<b><u>87,949</u></b>	<b><u>33,118</u></b>	<b><u>217,050</u></b>
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt.....	9,358	60	240
Restricted, expendable:			
Education.....	100,584	66,651	—
Other.....	—	—	2,048
Restricted, nonexpendable, education.....	166,562	139,672	—
Unrestricted.....	24,709	39,152	(151,172)
<b>Total net assets (deficit).....</b>	<b><u>\$ 301,213</u></b>	<b><u>\$ 245,535</u></b>	<b><u>\$ (148,884)</u></b>

South Carolina First Steps to School Readiness Board of Trustees	Children's Trust Fund of S.C., Inc.	<u>Totals</u>
\$ 1,601	\$ 168	\$ 29,455
—	785	61,926
95	—	95
—	—	1,021
—	1	10,139
22	—	631
3	—	3
—	—	15,454
—	—	1,616
<u>1,721</u>	<u>954</u>	<u>120,340</u>
—	—	2,125
—	—	27,438
—	—	579,008
—	—	86
—	—	8,971
4	—	692
<u>4</u>	<u>—</u>	<u>618,320</u>
<u>1,725</u>	<u>954</u>	<u>738,660</u>
120	—	1,830
66	2	68
318	—	318
—	—	40,000
1	—	106,991
—	—	27,587
95	—	95
—	—	325
89	—	89
—	—	468
<u>689</u>	<u>2</u>	<u>177,771</u>
—	—	149,067
—	—	2,463
56	—	56
—	—	9,507
<u>56</u>	<u>—</u>	<u>161,093</u>
<u>745</u>	<u>2</u>	<u>338,864</u>
4	—	9,662
976	—	168,211
—	254	2,302
—	—	306,234
—	698	(86,613)
<u>\$ 980</u>	<u>\$ 952</u>	<u>\$ 399,796</u>

## Combining Statement of Activities

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Clemson University Foundation.....	\$ 13,963	\$ —	\$ 51,370	\$ 37,407
University of South Carolina Educational Foundation.....	18,402	—	31,444	13,042
South Carolina Medical Malpractice Liability Joint Underwriting Association.....	44,806	47,682	1,109	3,985
South Carolina First Steps to School Readiness Board of Trustees.....	21,108	—	18,953	(2,155)
Children's Trust Fund of S.C., Inc.....	221	—	243	22
<b>Totals.....</b>	<b>\$ 98,500</b>	<b>\$ 47,682</b>	<b>\$ 103,119</b>	<b>\$ 52,301</b>

<u>Net Assets (Deficit)</u> <u>Beginning of Year</u>	<u>Net Assets (Deficit)</u> <u>End of Year</u>
\$ 263,806	\$ 301,213
232,493	245,535
(152,869)	(148,884)
3,135	980
930	952
<b>\$ 347,495</b>	<b>\$ 399,796</b>

## Balance Sheet

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS  
BOARD OF TRUSTEES

June 30, 2006

(Expressed in Thousands)

### ASSETS

Cash and cash equivalents.....	\$	1,601
Invested securities lending collateral.....		95
Accrued interest receivable.....		22
Due from primary government.....		3
<b>Total assets.....</b>	<b>\$</b>	<b>1,721</b>

### LIABILITIES AND FUND BALANCE

#### Liabilities:

Accounts payable.....	\$	120
Accrued salaries and related expenditures.....		66
Intergovernmental payables.....		318
Due to primary government.....		1
Securities lending collateral.....		95
<b>Total liabilities.....</b>		<b>600</b>

#### Fund Balance:

Unreserved, undesignated.....		1,121
<b>Total liabilities and fund balance.....</b>	<b>\$</b>	<b>1,721</b>

### Reconciliation of the Balance Sheet to the Combining Statement of Net Assets Nonmajor Discretely Presented Component Units

**Total fund balance .....** \$ 1,121

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.....		(42)
<b>Total capital assets.....</b>		<b>4</b>

Compensated absences payable are not due and payable  
in the current period and therefore are not reported in the  
Balance Sheet..... (145)

**Net assets .....** \$ **980**

# 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, 2006  
(Expressed in Thousands)

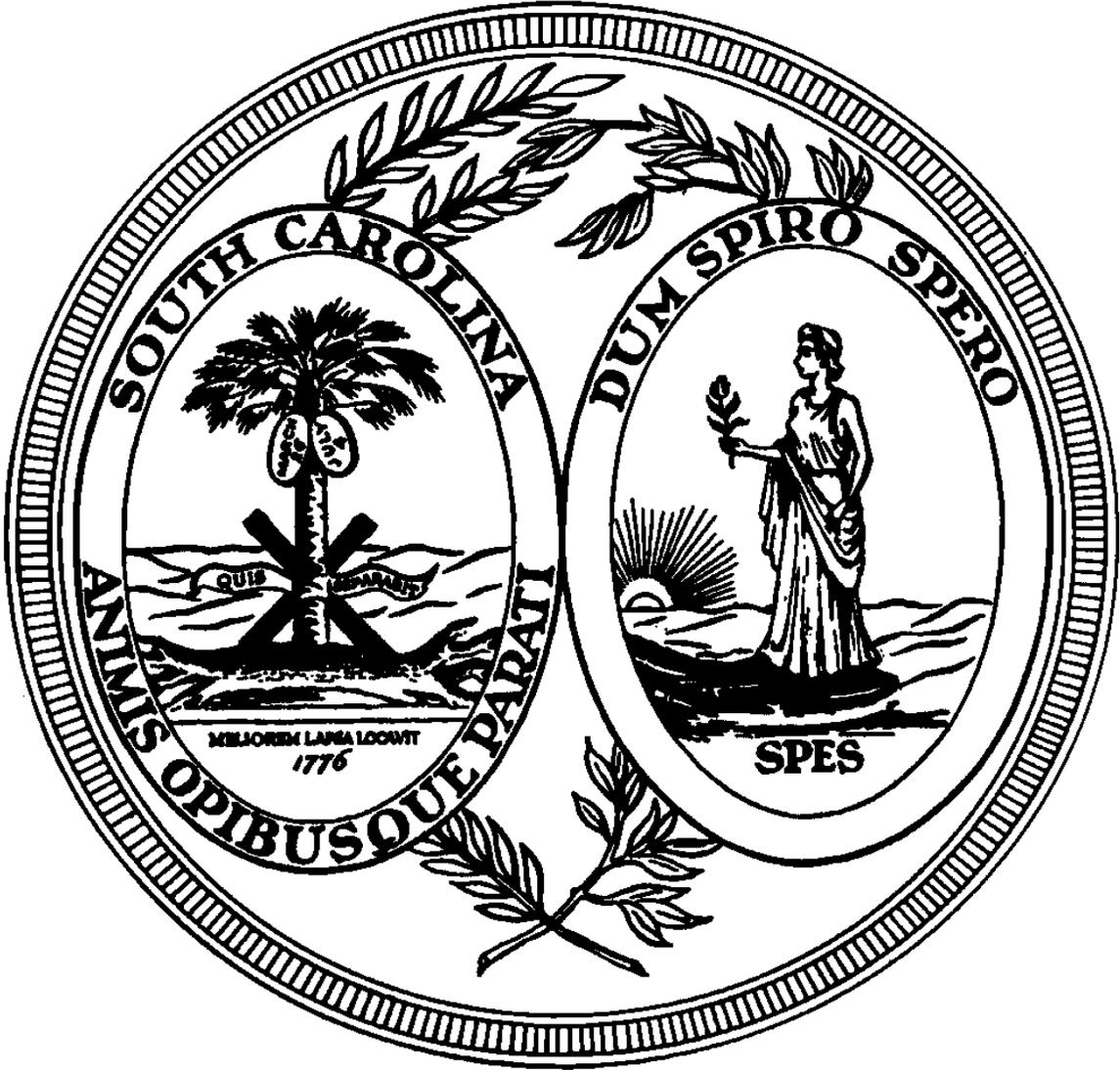
<b>Revenues:</b>	
Interest and other investment income.....	\$ 269
State operating grants and contracts.....	18,188
Contributions.....	<u>496</u>
<b>Total revenues.....</b>	<b><u>18,953</u></b>
<b>Expenditures:</b>	
Current: Education.....	2,806
Intergovernmental .....	<u>18,286</u>
<b>Total expenditures.....</b>	<b><u>21,092</u></b>
<b>Excess of expenditures over revenues.....</b>	<b>(2,139)</b>
<b>Fund balance at beginning of year.....</b>	<b><u>3,260</u></b>
<b>Fund balance at end of year.....</b>	<b><u><u>\$ 1,121</u></u></b>

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Combining Statement of Activities Nonmajor Discretely Presented Component Units

<b>Net change in fund balance .....</b>	<b>\$ (2,139)</b>
-----------------------------------------	-------------------

Amounts reported for First Steps in the Combining Statement of  
Activities are different because:

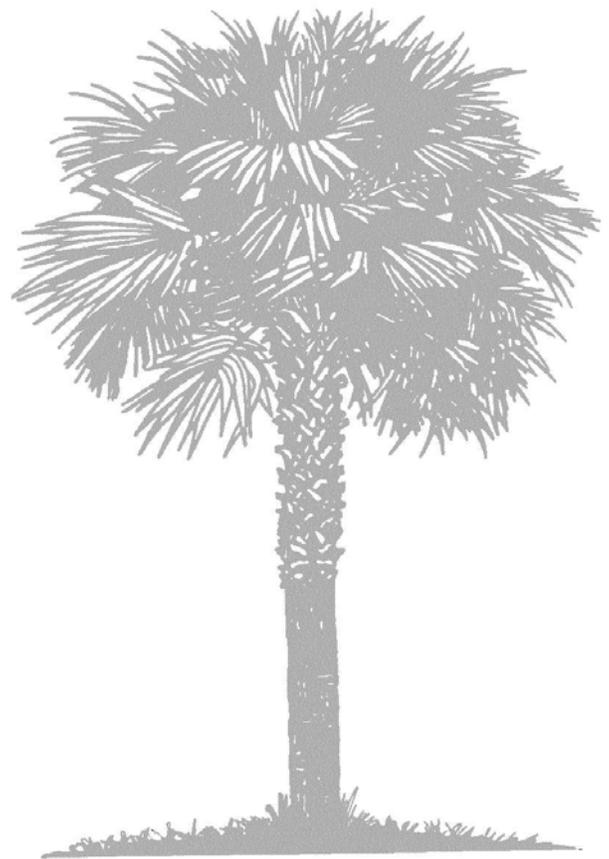
Capital outlays are reported as expenditures in the governmental fund. However, in the Combining Statement of Activities the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period this amount is:	
Depreciation expense.....	(2)
Compensated absences expenses 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. Increase in compensated absences payable.....	<u>(14)</u>
<b>Change in net assets.....</b>	<b><u><u>\$ (2,155)</u></u></b>



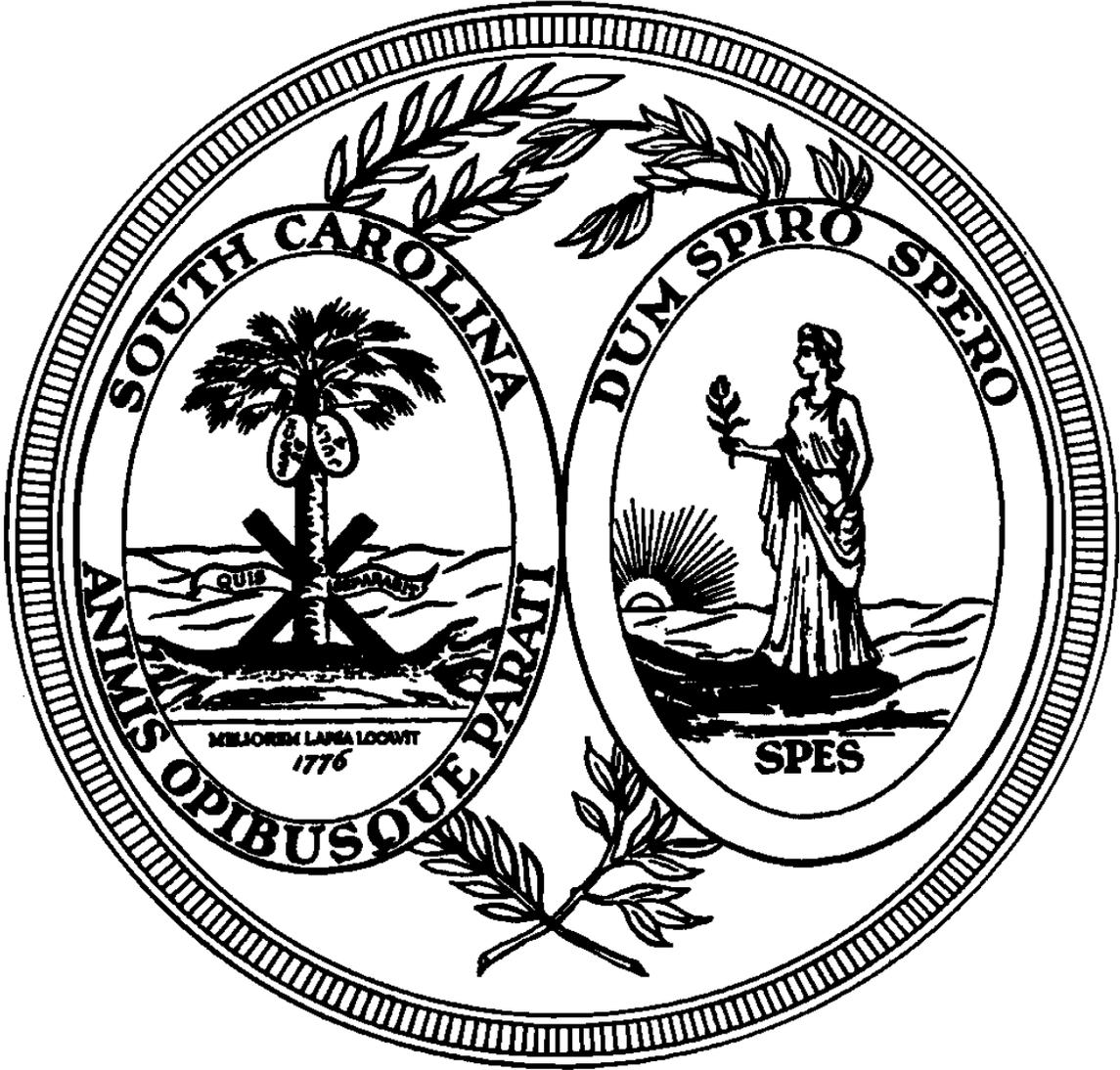
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# *Statistical Section* *(Unaudited)*

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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	194
<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	208
<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	214
<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	234
<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	240
<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 Five Fiscal Years <sup>a</sup>

(Accrual basis of accounting, expressed in thousands)

	For the Fiscal Year		
	2002	2003	2004
<b>Governmental activities</b>			
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)
<b>Total governmental activities net assets.....</b>	<b><u><u>\$ 9,050,805</u></u></b>	<b><u><u>\$ 9,359,973</u></u></b>	<b><u><u>\$ 10,019,015</u></u></b>
<b>Business-type activities</b>			
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
<b>Total business-type activities net assets.....</b>	<b><u><u>\$ 3,002,629</u></u></b>	<b><u><u>\$ 3,053,079</u></u></b>	<b><u><u>\$ 3,152,546</u></u></b>
<b>Primary government</b>			
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)
<b>Total primary government net assets.....</b>	<b><u><u>\$ 12,053,434</u></u></b>	<b><u><u>\$ 12,413,052</u></u></b>	<b><u><u>\$ 13,171,561</u></u></b>

<sup>a</sup> 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>
\$ 8,877,813	\$ 9,371,744
2,735,158	3,089,781
(172,175)	447,313
<b><u>\$ 11,440,796</u></b>	<b><u>\$ 12,908,838</u></b>

\$ 1,778,072	\$ 1,973,060
1,232,819	1,248,472
360,037	442,758
<b><u>\$ 3,370,928</u></b>	<b><u>\$ 3,664,290</u></b>

\$ 10,655,885	\$ 11,344,804
3,967,977	4,338,253
187,862	890,071
<b><u>\$ 14,811,724</u></b>	<b><u>\$ 16,573,128</u></b>

## Changes in Net Assets

Last Five Fiscal Years <sup>a</sup>

(Accrual basis of accounting, expressed in thousands)

	For the Fiscal Year		
	2002	2003	2004
<b>Expenses</b>			
<b>Governmental activities:</b>			
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.....	3,807,548	3,686,361	3,813,383
Unallocated interest expense.....	71,883	76,130	67,614
<b>Total governmental activities expenses.....</b>	<b>12,491,769</b>	<b>12,797,569</b>	<b>13,579,415</b>
<b>Business-type activities:</b>			
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
<b>Total business-type activities expenses.....</b>	<b>3,826,320</b>	<b>4,021,484</b>	<b>4,048,406</b>
<b>Total primary government expenses.....</b>	<b>16,318,089</b>	<b>16,819,053</b>	<b>17,627,821</b>

**Ended June 30**

<b>2005</b>	<b>2006</b>
\$ 1,727,612	\$ 1,768,034
1,280,791	1,402,446
4,767,155	4,766,947
992,960	1,051,343
629,185	683,180
197,351	181,375
664,125	905,050
3,848,454	4,061,996
67,705	72,247
<b>14,175,338</b>	<b>14,892,618</b>
2,679,238	2,871,493
800,151	881,583
366,820	365,091
147,021	150,626
47,432	52,598
43,567	61,472
26,653	38,849
6,638	6,911
1,655	1,536
29,055	24,172
<b>4,148,230</b>	<b>4,454,331</b>
<b>18,323,568</b>	<b>19,346,949</b>

Continued on Next Page

## Changes in Net Assets (Continued)

Last Five Fiscal Years <sup>a</sup>

(Accrual basis of accounting, expressed in thousands)

	For the Fiscal Year		
	2002	2003	2004
<b>Program Revenues</b>			
<b>Governmental activities:</b>			
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
<b>Total governmental activities program revenues.....</b>	<b>6,732,033</b>	<b>7,156,031</b>	<b>7,840,954</b>
<b>Business-type activities:</b>			
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
<b>Total business-type activities program revenues.....</b>	<b>2,955,810</b>	<b>3,290,056</b>	<b>3,480,131</b>
<b>Total primary government activities program revenues.....</b>	<b>9,687,843</b>	<b>10,446,087</b>	<b>11,321,085</b>
<b>Net Expenses</b>			
Governmental activities.....	(5,759,736)	(5,641,538)	(5,738,461)
Business-type activities.....	(870,510)	(731,428)	(568,275)
<b>Total primary government net expense.....</b>	<b>(6,630,246)</b>	<b>(6,372,966)</b>	<b>(6,306,736)</b>

**Ended June 30**

<u>2005</u>	<u>2006</u>
\$ 1,390,695	\$ 1,530,670
425,896	472,511
6,052,454	5,774,762
<u>650,384</u>	<u>621,512</u>
<b><u>8,519,429</u></b>	<b><u>8,399,455</u></b>
1,858,869	2,000,940
833,452	905,000
309,975	333,423
171,522	171,437
419,672	478,462
<u>55,166</u>	<u>74,224</u>
<b><u>3,648,656</u></b>	<b><u>3,963,486</u></b>
<b><u>12,168,085</u></b>	<b><u>12,362,941</u></b>
(5,655,909)	(6,493,163)
<u>(499,574)</u>	<u>(490,845)</u>
<b><u>(6,155,483)</u></b>	<b><u>(6,984,008)</u></b>

Continued on Next Page

## Changes in Net Assets (Continued)

Last Five Fiscal Years <sup>a</sup>

(Accrual basis of accounting, expressed in thousands)

	For the Fiscal Year		
	2002	2003	2004
<b>General Revenues and Other Changes in Net Assets</b>			
<b>Governmental activities:</b>			
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)
<b>Total governmental activities.....</b>	<b>5,830,449</b>	<b>5,907,550</b>	<b>6,397,503</b>
<b>Business-type activities:</b>			
Special and extraordinary items.....	(6,851)	(996)	(773)
Transfers.....	862,126	782,874	668,515
<b>Total business-type activities.....</b>	<b>855,275</b>	<b>781,878</b>	<b>667,742</b>
<b>Total primary government.....</b>	<b>6,685,724</b>	<b>6,689,428</b>	<b>7,065,245</b>
<b>Change in Net Assets</b>			
Governmental activities.....	70,713	266,012	659,042
Business-type activities.....	(15,235)	50,450	99,467
<b>Total primary government.....</b>	<b>\$ 55,478</b>	<b>\$ 316,462</b>	<b>\$ 758,509</b>

<sup>a</sup> 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>
\$ 2,762,538	\$ 3,156,028
3,221,466	3,613,754
1,469,701	1,753,214
26,391	18,664
32,628	69,438
73,231	67,841
71,090	67,012
<u>(714,238)</u>	<u>(784,746)</u>
<b><u>6,942,807</u></b>	<b><u>7,961,205</u></b>
(556)	(539)
<u>714,238</u>	<u>784,746</u>
<b><u>713,682</u></b>	<b><u>784,207</u></b>
<b><u>7,656,489</u></b>	<b><u>8,745,412</u></b>
1,286,898	1,468,042
<u>214,108</u>	<u>293,362</u>
<b><u>\$ 1,501,006</u></b>	<b><u>\$ 1,761,404</u></b>

## Fund Balances

### GOVERNMENTAL FUNDS

#### Last Ten Fiscal Years

(Modified accrual basis of accounting, expressed in thousands)

	For the Fiscal Year			
	1997	1998	1999	2000
<b>General Fund</b>				
Reserved.....	\$ 450,686	\$ 286,945	\$ 335,038	\$ 388,139
Unreserved.....	(294,233)	(109,468)	31,360	33,297
<b>Total General Fund.....</b>	<b>156,453</b>	<b>177,477</b>	<b>366,398</b>	<b>421,436</b>
<b>All other governmental funds</b>				
Reserved.....	205,377	204,427	350,722	556,474
Unreserved, reported in:				
Special revenue funds.....	670,409	940,885	1,351,951	1,260,987
Capital projects fund.....	78,479	64,290	91,507	105,214
Permanent funds <sup>a</sup> .....	—	—	—	—
<b>Total all other governmental funds.....</b>	<b>954,265</b>	<b>1,209,602</b>	<b>1,794,180</b>	<b>1,922,675</b>
<b>Total fund balances, governmental funds.....</b>	<b>\$ 1,110,718</b>	<b>\$ 1,387,079</b>	<b>\$ 2,160,578</b>	<b>\$ 2,344,111</b>

<sup>a</sup> Prior to fiscal year 2002, activities of the permanent funds were reported in nonexpendable trust funds 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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 153,079	\$ 67,611	\$ 57,982	\$ 90,605	\$ 142,662	\$ 280,169
(173,802)	(207,562)	(204,352)	(97,632)	345,437	833,676
<b><u>(20,723)</u></b>	<b><u>(139,951)</u></b>	<b><u>(146,370)</u></b>	<b><u>(7,027)</u></b>	<b><u>488,099</u></b>	<b><u>1,113,845</u></b>
875,445	1,521,120	1,644,870	1,902,990	1,942,261	2,027,383
2,308,638	1,435,046	1,083,312	961,307	1,224,530	614,501
125,157	112,525	104,289	178,711	183,763	307,633
—	579	839	970	983	496,290
<b><u>3,309,240</u></b>	<b><u>3,069,270</u></b>	<b><u>2,833,310</u></b>	<b><u>3,043,978</u></b>	<b><u>3,351,537</u></b>	<b><u>3,445,807</u></b>
<b><u>\$ 3,288,517</u></b>	<b><u>\$ 2,929,319</u></b>	<b><u>\$ 2,686,940</u></b>	<b><u>\$ 3,036,951</u></b>	<b><u>\$ 3,839,636</u></b>	<b><u>\$ 4,559,652</u></b>

## Changes in Fund Balances

### GOVERNMENTAL FUNDS

#### Last Ten Fiscal Years

(Modified accrual basis of accounting, dollars in thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Revenues</b>			
Taxes:			
Individual income.....	\$ 1,927,600	\$ 2,103,799	\$ 2,282,509
Retail sales and use.....	2,141,864	2,304,004	2,521,264
Other.....	1,164,546	1,190,605	1,274,366
Licenses, fees, and permits.....	258,960	281,242	290,530
Interest and other investment income.....	113,959	130,385	122,314
Federal.....	3,097,518	3,226,589	3,470,068
Local and private grants.....	—	—	—
State grants.....	—	—	—
Departmental services.....	533,396	540,048	539,864
Contributions.....	116,353	155,526	200,386
Fines and penalties.....	58,239	61,744	76,512
Tobacco legal settlement.....	—	—	—
Other.....	70,447	81,749	80,686
<b>Total revenues.....</b>	<b><u>9,482,882</u></b>	<b><u>10,075,691</u></b>	<b><u>10,858,499</u></b>
<b>Expenditures</b>			
Current:			
General government.....	351,156	352,065	355,558
Education.....	326,103	318,558	355,927
Health and environment.....	3,032,995	3,121,887	3,443,809
Social services.....	700,442	662,912	648,689
Administration of justice.....	543,456	592,556	632,872
Resources and economic development.....	150,131	160,242	159,546
Transportation.....	230,384	281,021	303,824
Capital outlay.....	506,500	461,153	504,814
Debt service:			
Principal retirement.....	97,728	110,076	90,786
Interest and fiscal charges.....	53,493	51,132	55,193
Intergovernmental.....	2,805,584	3,032,018	3,262,640
<b>Total expenditures.....</b>	<b><u>8,797,972</u></b>	<b><u>9,143,620</u></b>	<b><u>9,813,658</u></b>

## For the Fiscal Year Ended June 30

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 2,453,465	\$ 2,492,877	\$ 2,340,840	\$ 2,287,989	\$ 2,408,756	\$ 2,765,012	\$ 3,127,734
2,676,686	2,705,207	2,771,191	2,817,138	2,996,073	3,225,931	3,631,350
1,227,671	1,244,551	1,244,487	1,292,376	1,373,468	1,437,920	1,740,273
306,067	309,017	270,005	390,390	415,445	462,186	493,527
155,992	246,987	194,743	157,858	75,349	122,958	157,015
3,722,415	4,180,091	4,596,726	5,014,039	5,659,928	5,975,208	5,949,905
—	—	9,299	9,330	9,183	9,924	11,448
—	—	—	—	—	3,469	65
539,856	564,562	638,330	703,823	668,252	640,350	727,251
251,523	159,803	178,427	335,846	534,455	681,174	406,031
69,017	74,959	82,893	81,532	105,601	107,197	111,480
96,274	73,747	88,291	86,313	74,180	73,231	67,841
84,214	100,828	121,945	124,038	86,796	84,203	98,457
<b><u>11,583,180</u></b>	<b><u>12,152,629</u></b>	<b><u>12,537,177</u></b>	<b><u>13,300,672</u></b>	<b><u>14,407,486</u></b>	<b><u>15,588,763</u></b>	<b><u>16,522,377</u></b>
422,935	488,865	491,678	475,705	533,227	613,314	633,822
403,453	443,540	485,133	632,906	652,102	680,676	752,980
3,600,808	4,200,086	4,218,410	4,512,620	4,931,105	5,129,240	5,143,590
674,353	720,602	803,313	844,927	874,703	999,624	1,048,720
694,845	716,462	644,270	644,896	574,404	582,748	637,444
180,403	198,351	180,203	162,798	154,066	179,635	198,445
518,584	324,207	435,384	559,466	614,220	629,430	779,985
583,761	663,500	627,588	525,284	531,822	607,683	623,365
107,621	139,977	185,031	231,533	220,265	243,050	250,785
81,632	102,435	226,568	236,281	239,553	252,889	257,609
3,874,298	4,132,596	4,530,261	4,469,022	4,594,739	4,678,620	4,985,632
<b><u>11,142,693</u></b>	<b><u>12,130,621</u></b>	<b><u>12,827,839</u></b>	<b><u>13,295,438</u></b>	<b><u>13,920,206</u></b>	<b><u>14,596,909</u></b>	<b><u>15,312,377</u></b>

Continued on Next Page

## Changes in Fund Balances

GOVERNMENTAL FUNDS (Continued)

Last Ten Fiscal Years

(Modified accrual basis of accounting, dollars in thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Excess of revenues over (under) expenditures.....</b>	<b>\$ 684,910</b>	<b>\$ 932,071</b>	<b>\$ 1,044,841</b>
<b>Other financing sources (uses)</b>			
Bonds and notes issued.....	94,550	86,525	560,827
Refunding bonds issued.....	—	—	—
Premiums on bonds issued.....	—	—	—
Discounts on bonds issued.....	—	—	—
Capital leases.....	2,372	417	7,448
Payments to refunded bond escrow agent.....	—	—	—
Transfers in.....	231,617	127,597	115,326
Transfers out.....	<u>(926,488)</u>	<u>(870,319)</u>	<u>(949,994)</u>
<b>Total other financing sources (uses).....</b>	<b><u>(597,949)</u></b>	<b><u>(655,780)</u></b>	<b><u>(266,393)</u></b>
<b>Increase (decrease) in reserve for inventories <sup>a</sup>.....</b>	<b><u>(1,283)</u></b>	<b><u>(437)</u></b>	<b><u>(4,949)</u></b>
<b>Net change in fund balances.....</b>	<b><u>\$ 85,678</u></b>	<b><u>\$ 275,854</u></b>	<b><u>\$ 773,499</u></b>
<b>Debt service as a percentage of noncapital expenditures.....</b>	<b>b</b>	<b>b</b>	<b>b</b>

<sup>a</sup> Effective July 1, 2001, the State began applying the consumption method to its inventories in governmental funds, rather than the purchases method.

<sup>b</sup> 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>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 440,487	\$ 22,008	\$ (290,662)	\$ 5,234	\$ 487,280	\$ 991,854	\$ 1,210,000
657,748	1,992,249	646,571	492,895	467,795	303,820	289,475
—	—	—	105,415	524,860	448,160	221,045
—	—	14,858	11,323	11,334	41,225	22,222
—	—	(1,461)	—	—	—	—
151	315	140	1,088	—	700	250
—	—	—	(106,267)	(524,606)	(332,801)	(241,235)
209,991	261,620	348,088	408,663	552,574	205,963	488,833
<u>(1,144,753)</u>	<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>
<b><u>(276,863)</u></b>	<b><u>942,906</u></b>	<b><u>(199,233)</u></b>	<b><u>(247,613)</u></b>	<b><u>(174,154)</u></b>	<b><u>(248,196)</u></b>	<b><u>(489,984)</u></b>
779	(5,119)	—	—	—	—	—
<b><u>\$ 164,403</u></b>	<b><u>\$ 959,795</u></b>	<b><u>\$ (489,895)</u></b>	<b><u>\$ (242,379)</u></b>	<b><u>\$ 313,126</u></b>	<b><u>\$ 743,658</u></b>	<b><u>\$ 720,016</u></b>
b	b	3.5%	3.7%	3.5%	3.6%	3.5%

## Personal Income by Industry

Last Ten Calendar Years  
(Dollars in millions)

Sources	1996	1997	1998	1999
Farm earnings.....	\$ 463	\$ 474	\$ 341	\$ 418
Agricultural services, forestry, fishing, and other...	330	366	413	452
Mining.....	87	92	89	96
Construction.....	3,812	4,017	4,495	4,839
Manufacturing.....	13,887	14,437	14,899	14,701
Transportation and public utilities.....	3,100	3,234	3,437	4,416
Wholesale trade.....	2,635	2,884	3,231	3,543
Retail trade.....	5,926	6,340	6,750	7,224
Finance, insurance, and real estate.....	3,134	3,447	3,877	4,336
Services.....	11,652	12,529	13,799	14,899
Federal government, civilian.....	1,527	1,613	1,678	1,739
Military.....	1,798	1,792	1,857	2,051
State and local government.....	7,967	8,420	8,987	9,649
Other a .....	19,826	21,359	23,001	23,353
<b>Total personal income.....</b>	<b>\$ 76,144</b>	<b>\$ 81,004</b>	<b>\$ 86,854</b>	<b>\$ 91,716</b>
<b>Average effective rate <sup>c</sup> .....</b>	2.2%	2.3%	2.3%	2.2%

<sup>a</sup> Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.

<sup>b</sup> 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.

<sup>c</sup> 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.

<sup>d</sup> Information not yet available.

Source: U.S. Department of Commerce, Bureau of Economics Analysis

<b>Calendar Year</b>					
<b>2000</b>	<b>2001<sup>b</sup></b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
\$ 489	\$ 587	\$ 190	\$ 565	\$ 576	\$ 517
472	366	332	346	346	358
96	98	92	98	104	109
5,083	5,243	5,248	5,482	5,911	6,387
15,443	14,522	14,781	15,185	15,391	15,769
4,771	3,104	3,158	3,294	3,470	3,612
3,718	3,179	3,305	3,324	3,665	4,074
7,418	6,178	6,281	6,444	6,769	7,093
4,484	4,788	5,114	5,414	5,752	6,261
15,998	21,353	22,055	23,030	24,667	26,198
1,874	1,841	1,984	2,023	2,224	2,315
2,167	2,210	2,483	2,798	3,086	3,301
10,428	10,853	11,256	11,671	12,243	12,945
<u>25,829</u>	<u>27,145</u>	<u>27,767</u>	<u>27,573</u>	<u>29,463</u>	<u>31,104</u>
<b><u>\$ 98,270</u></b>	<b><u>\$ 101,467</u></b>	<b><u>\$ 104,046</u></b>	<b><u>\$ 107,247</u></b>	<b><u>\$ 113,667</u></b>	<b><u>\$ 120,043</u></b>
2.1%	2.2%	2.1%	2.1%	2.2%	d

## Taxable Sales by Industry

Last Seven Fiscal Years<sup>a</sup>  
(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
<b>Total taxable sales.....</b>	<b>\$ 45,199</b>	<b>\$ 44,485</b>	<b>\$ 45,477</b>	<b>\$ 46,405</b>

## Percent Distribution of Taxable Sales by Industry

Last Seven Fiscal Years<sup>a</sup>

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%
<b>Total taxable sales.....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Retail sales tax rate<sup>b</sup>.....</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>

<sup>a</sup> Information for periods prior to fiscal year 2000 is not available.

<sup>b</sup> Excludes the 2% accommodations tax and the local option sales tax; includes the 4% retail sales tax 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**

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<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 38,118	\$ 41,133	\$ 44,258
4,552	4,747	5,172
4,054	4,175	4,682
2,950	3,173	3,466
<u>1,073</u>	<u>1,390</u>	<u>1,781</u>
<b><u><u>\$ 50,747</u></u></b>	<b><u><u>\$ 54,618</u></u></b>	<b><u><u>\$ 59,359</u></u></b>

**Ended June 30**

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<u>2004</u>	<u>2005</u>	<u>2006</u>
75.1%	75.3%	74.6%
9.0%	8.7%	8.7%
8.0%	7.6%	7.9%
5.8%	5.8%	5.8%
<u>2.1%</u>	<u>2.6%</u>	<u>3.0%</u>
<b><u><u>100.0%</u></u></b>	<b><u><u>100.0%</u></u></b>	<b><u><u>100.0%</u></u></b>
<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>

## Personal Income Tax Rates

Last Ten Calendar Years

<u>Tax Year</u>	<u>Tax Rates</u>	<u>Number of Brackets</u>	<u>Income Brackets Low</u>	<u>Income Brackets High</u>	<u>Average Effective Rate<sup>a</sup></u>
1996	2.5% – 7.0%	6	\$ 2,250	\$ 11,250	2.2%
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	b

<sup>a</sup> 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.

<sup>b</sup> 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 2004 and 1995

(Dollars, except Income Level, expressed in thousands)

2004 <sup>a</sup>				
State Taxable Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher	60,043	3.2%	\$ 903,977	36.4%
\$75,001 - \$100,000	48,464	2.6%	252,849	10.2%
\$50,001 - \$75,000	123,244	6.6%	441,942	17.8%
\$25,001 - \$50,000	285,198	15.3%	566,724	22.8%
\$10,001 - \$25,000	355,188	19.1%	271,689	10.9%
\$10,000 and lower	992,302	53.2%	49,348	1.9%
<b>Total</b>	<b><u>1,864,439</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 2,486,529</u></b>	<b><u>100.0%</u></b>
1995				
State Taxable Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher	25,020	1.5%	\$ 366,410	23.0%
\$75,001 - \$100,000	20,596	1.2%	106,555	6.7%
\$50,001 - \$75,000	74,559	4.5%	259,642	16.3%
\$25,001 - \$50,000	272,695	16.5%	519,326	32.6%
\$10,001 - \$25,000	384,266	23.1%	281,112	17.6%
\$10,000 and lower	885,159	53.2%	59,853	3.8%
<b>Total</b>	<b><u>1,662,295</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 1,592,898</u></b>	<b><u>100.0%</u></b>

<sup>a</sup> Information for 2005 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>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
<b>Governmental Activities</b>				
General obligation bonds.....	\$ 966,808	\$ 951,577	\$ 1,139,782	\$ 1,392,192
Limited obligation bonds.....	28,977	35,569	38,206	35,175
Tobacco Authority bonds.....	—	—	—	—
Infrastructure Bank bonds.....	—	—	275,000	574,275
Revenue bonds.....	—	—	—	—
Notes payable.....	—	2,865	2,299	5,429
Capital leases.....	26,066	17,759	15,593	12,646
Total governmental activities.....	<u>1,021,851</u>	<u>1,007,770</u>	<u>1,470,880</u>	<u>2,019,717</u>
<b>Business-Type Activities</b>				
General obligation bonds.....	85,365	84,465	78,305	99,945
General obligation bonds anticipation notes payable....	—	—	—	—
Revenue bonds.....	1,127,701	1,079,103	1,100,686	1,266,445
Revenue bonds anticipation notes payable.....	—	—	—	—
Notes payable.....	110,789	152,673	167,012	184,651
Certificates of participation payable.....	22,191	21,466	20,698	19,882
Capital leases.....	25,390	22,993	33,201	48,109
Total business-type activities.....	<u>1,371,436</u>	<u>1,360,700</u>	<u>1,399,902</u>	<u>1,619,032</u>
<b>Total primary government.....</b>	<b><u>\$ 2,393,287</u></b>	<b><u>\$ 2,368,470</u></b>	<b><u>\$ 2,870,782</u></b>	<b><u>\$ 3,638,749</u></b>
<b>Debt as a percentage of personal income.....</b>	3.0%	2.7%	3.1%	3.7%
<b>Debt per capita expressed in actual dollars.....</b>	\$620	\$604	\$722	\$904

<sup>a</sup> 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>
\$ 2,054,526	\$ 2,204,129	\$ 2,239,207	\$ 2,266,261	\$ 2,298,253	\$ 2,405,119
34,003	30,597	27,040	23,304	19,392	15,291
934,530	902,920	869,870	845,630	820,905	796,900
832,575	1,193,046	1,463,582	1,725,514	1,947,393	1,917,706
—	—	26,034	24,802	23,521	22,169
7,026	4,398	7,395	8,884	10,311	21,021
10,042	8,185	4,106	3,256	2,856	1,894
<u>3,872,702</u>	<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>
96,310	134,235	208,968	242,740	230,423	249,514
—	8,400	—	—	—	—
1,283,584	1,417,382	1,480,054	1,542,828	2,312,032	2,532,352
—	16,400	28,025	44,310	9,345	6,855
176,703	157,216	163,134	207,276	224,080	249,674
19,010	18,036	13,525	—	—	—
47,782	46,633	65,445	54,585	52,555	44,987
<u>1,623,389</u>	<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><b>\$ 5,496,091</b></u>	<u><b>\$ 6,141,577</b></u>	<u><b>\$ 6,596,385</b></u>	<u><b>\$ 6,989,390</b></u>	<u><b>\$ 7,951,066</b></u>	<u><b>\$ 8,263,482</b></u>
5.4%	5.9%	6.2%	6.1%	6.6%	a
\$1,354	\$1,497	\$1,591	\$1,665	\$1,869	a

## Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years

(Dollars in thousands unless otherwise indicated)

	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Governmental Activities</b>			
Capital improvement bonds.....	\$ 874,038	\$ 813,712	\$ 806,237
State highway bonds.....	92,770	137,865	333,545
State school facilities bonds.....	—	—	—
Infrastructure Bank bonds.....	—	—	—
State economic development bonds.....	—	—	—
Research university infrastructure bonds.....	—	—	—
Total governmental activities.....	<u>966,808</u>	<u>951,577</u>	<u>1,139,782</u>
<b>Business-Type Activities</b>			
State institution bonds.....	<u>85,365</u>	<u>84,465</u>	<u>78,305</u>
<b>Total primary government.....</b>	<b><u>\$ 1,052,173</u></b>	<b><u>\$ 1,036,042</u></b>	<b><u>\$ 1,218,087</u></b>
<b>Debt as a percentage of personal income.....</b>	1.3%	1.2%	1.3%
<b>Debt per capita expressed in actual dollars.....</b>	\$273	\$264	\$306

a Not yet available.

Source: South Carolina Comptroller General's Office

For the Fiscal Year Ended June 30

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 815,252	\$ 893,941	\$ 931,044	\$ 919,382	\$ 917,949	\$ 801,626	\$ 693,815
326,940	672,135	651,135	630,730	609,939	725,434	699,669
250,000	488,450	621,950	689,095	650,565	611,126	567,873
—	—	—	—	60,333	58,785	57,171
—	—	—	—	27,475	101,282	238,109
—	—	—	—	—	—	148,482
<u>1,392,192</u>	<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>99,945</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>
<b><u>\$ 1,492,137</u></b>	<b><u>\$ 2,150,836</u></b>	<b><u>\$ 2,338,364</u></b>	<b><u>\$ 2,448,175</u></b>	<b><u>\$ 2,509,001</u></b>	<b><u>\$ 2,528,676</u></b>	<b><u>\$ 2,654,633</u></b>
1.5%	2.1%	2.2%	2.3%	2.2%	2.1%	a
\$371	\$530	\$570	\$590	\$598	\$594	a

# Computation of Legal Debt Margin

June 30, 2006

(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.....	\$ 572	\$ 515	\$ 457	\$ 58
Clemson University.....	7,120	6,408	4,800	1,608
Coastal Carolina University.....	1,344	1,210	696	514
College of Charleston.....	1,318	1,186	573	613
Francis Marion University.....	206	185	156	29
Lander University.....	13,713	12,342	1,388	10,954
Medical University of South Carolina.....	33,173	29,856	5,657	24,199
South Carolina State University.....	1,070	963	318	645
University of South Carolina.....	14,116	12,704	7,054	5,650
Winthrop University.....	4,716	4,244	3,077	1,167
Central Carolina Technical College.....	843	759	202	557
Midlands Technical College.....	1,800	1,620	827	793
Tri-County Technical College.....	1,042	938	735	203
<b>Totals.....</b>	<b>\$ 81,033</b>	<b>\$ 72,930</b>	<b>\$ 25,940</b>	<b>\$ 46,990</b>

## HIGHWAY BONDS

2004-2005 Budgetary General Fund revenues pledged for highway bonds.....	\$ 55,700
2004-2005 other revenues pledged for highway bonds.....	544,972
2004-2005 revenues pledged for highway bonds.....	600,672
15% of 2004-2005 revenues pledged for highway bonds.....	90,101
Less: maximum annual debt service for highway bonds <sup>a</sup> .....	71,766
<b>Legal debt service margin at June 30, 2006--highway bonds.....</b>	<b>\$ 18,335</b>

**Computation of Legal Debt Margin (Continued)**

June 30, 2006

(Expressed in Thousands)

**GENERAL OBLIGATION BONDS (EXCLUDING INSTITUTION BONDS, HIGHWAY BONDS,  
AND ANTICIPATION NOTES)**

2004-2005 Budgetary General Fund revenues .....	\$ 5,591,061
Less: 2004-2005 Budgetary General Fund revenues pledged for highway bonds <sup>b</sup> .....	<u>55,700</u>
2004-2005 net Budgetary General Fund revenues.....	<u>5,535,361</u>
6% of 2004-2005 net Budgetary General Fund revenues.....	332,122
Less: maximum annual debt service for general obligation bonds excluding institution and highway bonds and bond anticipation notes <sup>c</sup> .....	<u>230,124</u>
<b>Legal debt service margin at June 30, 2006--general obligation bonds excluding institution and highway bonds and bond anticipation notes.....</b>	<b><u><u>\$ 101,998</u></u></b>

**ECONOMIC DEVELOPMENT BONDS**

2004-2005 Budgetary General Fund revenues .....	\$ 5,591,061
Less: 2004-2005 Budgetary General Fund revenues pledged for highway bonds <sup>b</sup> .....	<u>55,700</u>
2004-2005 net Budgetary General Fund revenues.....	<u>5,535,361</u>
0.5% of 2004-2005 net Budgetary General Fund revenues.....	27,677
Less: maximum annual debt service for economic development bonds <sup>c</sup> .....	<u>21,342</u>
<b>Legal debt service margin at June 30, 2006--economic development bonds.....</b>	<b><u><u>\$ 6,335</u></u></b>

**RESEARCH UNIVERSITY INFRASTRUCTURE BONDS**

2004-2005 Budgetary General Fund revenues .....	\$ 5,591,061
Less: 2004-2005 Budgetary General Fund revenues pledged for highway bonds <sup>b</sup> .....	<u>55,700</u>
2004-2005 net Budgetary General Fund revenues.....	<u>5,535,361</u>
0.5% of 2004-2005 net Budgetary General Fund revenues.....	27,677
Less: maximum annual debt service for research university infrastructure bonds <sup>c</sup> .....	<u>13,980</u>
<b>Legal debt service margin at June 30, 2006--research university infrastructure bonds.....</b>	<b><u><u>\$ 13,697</u></u></b>

<sup>a</sup> As of June 30, 2006, the maximum annual debt service will occur in the fiscal year ending June 30, 2009.

<sup>b</sup> For the fiscal year ended June 30, 2006, there were no net Budgetary General Fund revenues pledged for State institution bonds and anticipation notes.

<sup>c</sup> As of June 30, 2006, the maximum annual debt service will occur in the fiscal year ending June 30, 2007.

Source: South Carolina Comptroller General's Office

## Legal Debt Margin Information

Last Ten Fiscal Years  
(Dollars in thousands)

	1997	1998	1999
<b><u>State Institution Bonds</u><sup>a</sup></b>			
<b>The Citadel</b>			
Debt service limitation.....	\$ —	\$ —	\$ 439
Debt service applicable to limit.....	—	—	206
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 233</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	—	—	<b>53.1%</b>
<b>Clemson University</b>			
Debt service limitation.....	\$ —	\$ —	\$ 77,977
Debt service applicable to limit.....	—	—	1,542
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 76,435</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	—	—	<b>98.0%</b>
<b>Coastal Carolina University</b>			
Debt service limitation.....	\$ —	\$ —	\$ 19,231
Debt service applicable to limit.....	—	—	343
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 18,888</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	—	—	<b>98.2%</b>
<b>College of Charleston</b>			
Debt service limitation.....	\$ —	\$ —	\$ —
Debt service applicable to limit.....	—	—	—
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	—	—	—
<b>Francis Marion University</b>			
Debt service limitation.....	\$ —	\$ —	\$ —
Debt service applicable to limit.....	—	—	—
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	—	—	—
<b>Lander University</b>			
Debt service limitation.....	\$ —	\$ —	\$ —
Debt service applicable to limit.....	—	—	—
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	—	—	—

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 439	\$ 449	\$ 475	\$ 505	\$ 503	\$ 506	\$ 515
206	206	461	460	460	457	457
<u>\$ 233</u>	<u>\$ 243</u>	<u>\$ 14</u>	<u>\$ 45</u>	<u>\$ 43</u>	<u>\$ 49</u>	<u>\$ 58</u>
53.1%	54.1%	2.9%	8.9%	8.5%	9.7%	11.3%
\$ 77,977	\$ 3,211	\$ 3,893	\$ 4,359	\$ 6,188	\$ 6,193	\$ 6,408
1,542	1,542	1,542	4,046	4,800	4,800	4,800
<u>\$ 76,435</u>	<u>\$ 1,669</u>	<u>\$ 2,351</u>	<u>\$ 313</u>	<u>\$ 1,388</u>	<u>\$ 1,393</u>	<u>\$ 1,608</u>
98.0%	52.0%	60.4%	7.2%	22.4%	22.5%	25.1%
\$ 527	\$ 519	\$ —	\$ 757	\$ 778	\$ 871	\$ 1,210
343	340	—	696	696	696	696
<u>\$ 184</u>	<u>\$ 179</u>	<u>\$ —</u>	<u>\$ 61</u>	<u>\$ 82</u>	<u>\$ 175</u>	<u>\$ 514</u>
34.9%	34.5%	—	8.1%	10.5%	20.1%	42.5%
\$ —	\$ —	\$ —	\$ 2,250	\$ 3,776	\$ 3,793	\$ 1,186
—	—	—	573	573	573	573
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,677</u>	<u>\$ 3,203</u>	<u>\$ 3,220</u>	<u>\$ 613</u>
—	—	—	74.5%	84.8%	84.9%	51.7%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 185
—	—	—	—	—	—	156
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29</u>
—	—	—	—	—	—	15.7%
\$ —	\$ —	\$ —	\$ —	\$ 10,771	\$ 11,107	\$ 12,342
—	—	—	—	788	775	1,388
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,983</u>	<u>\$ 10,332</u>	<u>\$ 10,954</u>
—	—	—	—	92.7%	93.0%	88.8%

Continued on Next Page

## Legal Debt Margin Information (Continued)

Last Ten Fiscal Years  
(Dollars in thousands)

	1997	1998	1999
<b>State Institution Bonds <sup>a</sup></b>			
<b>Medical University of South Carolina</b>			
Debt service limitation.....	\$ —	\$ —	\$ 6,843
Debt service applicable to limit.....	—	—	1,453
<b>Legal debt margin at June 30.....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5,390</b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>78.8%</b>
<b>South Carolina State University</b>			
Debt service limitation.....	\$ —	\$ —	\$ —
Debt service applicable to limit.....	—	—	—
<b>Legal debt margin at June 30.....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>University of South Carolina</b>			
Debt service limitation.....	\$ —	\$ —	\$ 5,937
Debt service applicable to limit.....	—	—	4,361
<b>Legal debt margin at June 30.....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,576</b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>26.5%</b>
<b>Winthrop University</b>			
Debt service limitation.....	\$ —	\$ —	\$ 594
Debt service applicable to limit.....	—	—	406
<b>Legal debt margin at June 30.....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 188</b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>31.6%</b>
<b>Central Carolina Technical College</b>			
Debt service limitation.....	\$ —	\$ —	\$ 3,083
Debt service applicable to limit.....	—	—	202
<b>Legal debt margin at June 30.....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,881</b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>93.4%</b>
<b>Greenville Technical College</b>			
Debt service limitation.....	\$ —	\$ —	\$ 12,961
Debt service applicable to limit.....	—	—	124
<b>Legal debt margin at June 30.....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 12,837</b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>99.0%</b>

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 7,578	\$ 7,520	\$ 9,266	\$ 10,369	\$ 10,385	\$ 18,806	\$ 29,856
<u>3,631</u>	<u>3,631</u>	<u>4,300</u>	<u>4,938</u>	<u>5,776</u>	<u>5,747</u>	<u>5,657</u>
<b><u>\$ 3,947</u></b>	<b><u>\$ 3,889</u></b>	<b><u>\$ 4,966</u></b>	<b><u>\$ 5,431</u></b>	<b><u>\$ 4,609</u></b>	<b><u>\$ 13,059</u></b>	<b><u>\$ 24,199</u></b>
<b>52.1%</b>	<b>51.7%</b>	<b>53.6%</b>	<b>52.4%</b>	<b>44.4%</b>	<b>69.4%</b>	<b>81.1%</b>
\$ —	\$ —	\$ —	\$ 611	\$ 610	\$ 656	\$ 963
<u>—</u>	<u>—</u>	<u>—</u>	<u>318</u>	<u>318</u>	<u>318</u>	<u>318</u>
<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 293</u></b>	<b><u>\$ 292</u></b>	<b><u>\$ 338</u></b>	<b><u>\$ 645</u></b>
<b>—</b>	<b>—</b>	<b>—</b>	<b>48.0%</b>	<b>47.9%</b>	<b>51.5%</b>	<b>67.0%</b>
\$ 6,448	\$ 7,026	\$ 7,651	\$ 8,794	\$ 9,009	\$ 10,316	\$ 12,704
<u>4,361</u>	<u>4,361</u>	<u>6,987</u>	<u>6,522</u>	<u>7,054</u>	<u>7,054</u>	<u>7,054</u>
<b><u>\$ 2,087</u></b>	<b><u>\$ 2,665</u></b>	<b><u>\$ 664</u></b>	<b><u>\$ 2,272</u></b>	<b><u>\$ 1,955</u></b>	<b><u>\$ 3,262</u></b>	<b><u>\$ 5,650</u></b>
<b>32.4%</b>	<b>37.9%</b>	<b>8.7%</b>	<b>25.8%</b>	<b>21.7%</b>	<b>31.6%</b>	<b>44.5%</b>
\$ 594	\$ 878	\$ 798	\$ 1,071	\$ 1,399	\$ 2,969	\$ 4,244
<u>406</u>	<u>568</u>	<u>665</u>	<u>910</u>	<u>1,318</u>	<u>1,318</u>	<u>3,077</u>
<b><u>\$ 188</u></b>	<b><u>\$ 310</u></b>	<b><u>\$ 133</u></b>	<b><u>\$ 161</u></b>	<b><u>\$ 81</u></b>	<b><u>\$ 1,651</u></b>	<b><u>\$ 1,167</u></b>
<b>31.6%</b>	<b>35.3%</b>	<b>16.7%</b>	<b>15.0%</b>	<b>5.8%</b>	<b>55.6%</b>	<b>27.5%</b>
\$ 2,840	\$ 203	\$ 243	\$ 655	\$ 763	\$ 743	\$ 759
<u>202</u>	<u>202</u>	<u>202</u>	<u>202</u>	<u>202</u>	<u>202</u>	<u>202</u>
<b><u>\$ 2,638</u></b>	<b><u>\$ 1</u></b>	<b><u>\$ 41</u></b>	<b><u>\$ 453</u></b>	<b><u>\$ 561</u></b>	<b><u>\$ 541</u></b>	<b><u>\$ 557</u></b>
<b>92.9%</b>	<b>0.5%</b>	<b>16.9%</b>	<b>69.2%</b>	<b>73.5%</b>	<b>72.8%</b>	<b>73.4%</b>
\$ 14,298	\$ 148	\$ 161	\$ —	\$ —	\$ —	\$ —
<u>118</u>	<u>112</u>	<u>106</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b><u>\$ 14,180</u></b>	<b><u>\$ 36</u></b>	<b><u>\$ 55</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>99.2%</b>	<b>24.3%</b>	<b>34.2%</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

Continued on Next Page

## Legal Debt Margin Information (Continued)

Last Ten Fiscal Years  
(Dollars in thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b><u>State Institution Bonds</u><sup>a</sup></b>			
<b>Midlands Technical College</b>			
Debt service limitation.....	\$ —	\$ —	\$ 12,018
Debt service applicable to limit.....	—	—	832
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 11,186</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>93.1%</b>
<b>Tri-County Technical College</b>			
Debt service limitation.....	\$ —	\$ —	\$ 752
Debt service applicable to limit.....	—	—	735
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 17</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>2.3%</b>
<b>Trident Technical College</b>			
Debt service limitation.....	\$ —	\$ —	\$ 9,547
Debt service applicable to limit.....	—	—	413
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 9,134</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>—</b>	<b>—</b>	<b>95.7%</b>
<b><u>State Highway Bonds</u></b>			
Debt service limitation.....	\$ 60,305	\$ 61,266	\$ 70,915
Debt service applicable to limit.....	8,850	12,950	32,590
<b>Legal debt margin at June 30.....</b>	<b><u>\$ 51,455</u></b>	<b><u>\$ 48,316</u></b>	<b><u>\$ 38,325</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>85.3%</b>	<b>78.9%</b>	<b>54.0%</b>
<b><u>General Obligation Bonds excluding Institution and Highway Bonds and Bond Anticipation Notes</u></b>			
Debt service limitation.....	\$ 211,820	\$ 223,897	\$ 237,806
Debt service applicable to limit.....	143,544	130,002	137,252
<b>Legal debt margin at June 30.....</b>	<b><u>\$ 68,276</u></b>	<b><u>\$ 93,895</u></b>	<b><u>\$ 100,554</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	<b>32.2%</b>	<b>41.9%</b>	<b>42.3%</b>

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 12,903	\$ 1,565	\$ 900	\$ 1,019	\$ 1,019	\$ 1,345	\$ 1,620
832	832	832	827	827	827	827
<b>\$ 12,071</b>	<b>\$ 733</b>	<b>\$ 68</b>	<b>\$ 192</b>	<b>\$ 192</b>	<b>\$ 518</b>	<b>\$ 793</b>
<b>93.6%</b>	<b>46.8%</b>	<b>7.6%</b>	<b>18.8%</b>	<b>18.8%</b>	<b>38.5%</b>	<b>49.0%</b>
\$ 904	\$ 888	\$ 934	\$ 968	\$ 1,358	\$ 968	\$ 939
735	735	735	735	735	735	735
<b>\$ 169</b>	<b>\$ 153</b>	<b>\$ 199</b>	<b>\$ 233</b>	<b>\$ 623</b>	<b>\$ 233</b>	<b>\$ 204</b>
<b>18.7%</b>	<b>17.2%</b>	<b>21.3%</b>	<b>24.1%</b>	<b>45.9%</b>	<b>24.1%</b>	<b>21.7%</b>
\$ 10,220	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
413	—	—	—	—	—	—
<b>\$ 9,807</b>	<b>\$ —</b>					
<b>96.0%</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
\$ 77,873	\$ 81,779	\$ 80,208	\$ 82,238	\$ 83,574	\$ 87,988	\$ 90,101
32,590	60,283	60,283	60,226	60,412	71,766	71,766
<b>\$ 45,283</b>	<b>\$ 21,496</b>	<b>\$ 19,925</b>	<b>\$ 22,012</b>	<b>\$ 23,162</b>	<b>\$ 16,222</b>	<b>\$ 18,335</b>
<b>58.1%</b>	<b>26.3%</b>	<b>24.8%</b>	<b>26.8%</b>	<b>27.7%</b>	<b>18.4%</b>	<b>20.3%</b>
\$ 241,960	\$ 247,869	\$ 251,161	\$ 243,631	\$ 270,334	\$ 278,531	\$ 332,122
170,418	195,116	221,644	218,653	233,275	226,157	230,124
<b>\$ 71,542</b>	<b>\$ 52,753</b>	<b>\$ 29,517</b>	<b>\$ 24,978</b>	<b>\$ 37,059</b>	<b>\$ 52,374</b>	<b>\$ 101,998</b>
<b>29.6%</b>	<b>21.3%</b>	<b>11.8%</b>	<b>10.3%</b>	<b>13.7%</b>	<b>18.8%</b>	<b>30.7%</b>

Continued on Next Page

## Legal Debt Margin Information (Continued)

Last Ten Fiscal Years  
(Dollars in thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b><u>Economic Development Bonds</u></b>			
Debt service limitation.....	\$ —	\$ —	\$ —
Debt service applicable to limit.....	—	—	—
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	—	—	—
<b><u>Research University Infrastructure Bonds</u></b>			
Debt service limitation.....	\$ —	\$ —	\$ —
Debt service applicable to limit.....	—	—	—
<b>Legal debt margin at June 30.....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>Legal debt margin as a percentage of debt service limitation.....</b>	—	—	—

<sup>a</sup> Prior to July 1, 1998, State law required one limitation for total outstanding State Institution Bonds. Fiscal years 1997 and 1998 have been omitted for comparability.

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ —	\$ —	\$ —	\$ —	\$ 24,576	\$ 25,321	\$ 27,677
—	—	—	—	2,198	9,632	21,342
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22,378</u>	<u>\$ 15,689</u>	<u>\$ 6,335</u>
—	—	—	—	91.1%	62.0%	22.9%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 27,677
—	—	—	—	—	—	13,980
<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,697</u>				
—	—	—	—	—	—	49.5%

## 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	
<b>Budget and Control Board—Revenue Bonds</b>					
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
<b>The Citadel—Revenue Bonds</b>					
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	1,838	3,563	1.55
<b>The Citadel—Athletic Facilities Revenue Refunding Bonds</b>					
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
<b>Clemson University—Plant Improvement Bonds</b>					
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
<b>Clemson University—Athletic Facilities Revenue Bonds</b>					
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

Fiscal Year Ended June 30	Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
		Principal	Interest	Total	
<b>Clemson University—Revenue Bonds</b>					
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
<b>Coastal Carolina University—Revenue Bonds</b>					
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
<b>College of Charleston—Revenue Bonds</b>					
1997	\$ 2,414	\$ 685	\$ 1,015	\$ 1,700	1.42
1998	2,211	715	982	1,697	1.30
1999	2,814	750	954	1,704	1.65
2000	2,363	785	907	1,692	1.40
2001	2,425	825	865	1,690	1.43
2002	1,830	865	822	1,687	1.08
2003	2,996	580	1,976	2,556	1.17
2004	5,798	2,050	2,692	4,742	1.22
2005	7,105	2,410	2,683	5,093	1.40
2006	6,537	3,070	4,113	7,183	0.91
<b>Infrastructure Bank Bonds</b>					
2005 <sup>a</sup>	\$ 147,206	\$ 27,855	\$ 89,313	\$ 117,168	1.26
2006	166,443	37,940	93,409	131,349	1.27
<b>Lander University—2002 Higher Education Facilities Revenue Bonds</b>					
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

<sup>a</sup> Prior fiscal year data is not readily available.

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	
<b>South Carolina State University—Revenue Bonds</b>					
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
<b>Spartanburg Technical College—1999 Special Student Fee Capital Improvement Bonds</b>					
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
<b>Spartanburg Technical College—2001 Special Student Fee Capital Improvement Bonds</b>					
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
<b>Spartanburg Technical College—2004 Special Student Fee Capital Improvement Bonds</b>					
2005	\$ 447	\$ 200	\$ 165	\$ 365	1.22
2006	495	215	177	392	1.26
<b>Spartanburg Technical College—2006 Special Student Fee Capital Improvement Bonds</b>					
2006	\$ 455	\$ 84	\$ 57	\$ 141	3.23
<b>Tobacco Settlement Revenue Management Authority Bonds</b>					
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
<b>University of South Carolina Aiken Campus—1999 Auxiliary Revenue Bonds</b>					
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

Fiscal Year Ended June 30	Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
		Principal	Interest	Total	
<b>University of South Carolina Aiken Campus—2006 Auxiliary Revenue Bonds</b>					
2006	\$ 121	\$ —	\$ 142	\$ 142	0.85
<b>University of South Carolina Columbia Campus—2000 Auxiliary Revenue Bonds</b>					
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
<b>University of South Carolina Columbia Campus—2003 Parking Facilities Revenue Bonds</b>					
2004	\$ 399	\$ 235	\$ 178	\$ 413	0.97
2005	412	210	202	412	1.00
2006	406	215	191	406	1.00
<b>University of South Carolina Columbia Campus—2004 Auxiliary Revenue Bonds</b>					
2005	\$ 1,838	\$ 725	\$ 1,202	\$ 1,927	0.95
2006	1,919	505	1,414	1,919	1.00
<b>University of South Carolina Columbia Campus—2005 Auxiliary Revenue Bonds</b>					
2006	\$ 669	\$ 185	\$ 484	\$ 669	1.00
<b>University of South Carolina Columbia Campus—2005 Auxiliary Refunding Revenue Bonds</b>					
2006	\$ 2,606	\$ 1,330	\$ 1,566	\$ 2,896	0.90
<b>University of South Carolina Spartanburg Campus—1997 Auxiliary Revenue Bonds</b>					
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	178	373	0.58
<b>Winthrop University—Facilities Revenue Bonds</b>					
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	603	298	901	2.37

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	
<b>Winthrop University—2001 Athletic Facilities Revenue Bonds</b>					
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

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	
<b>Education Assistance Authority</b>								
2005 <sup>a</sup>	\$ 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
<b>Housing Authority</b>								
2005 <sup>a</sup>	\$ 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

<sup>a</sup> Prior fiscal year data is not readily available.

Source: South Carolina Comptroller General's Office

## Demographic Statistics

Last Ten Calendar Years

<u>Year</u>	<u>Population at July 1 <sup>a</sup></u>	<u>Per Capita Income <sup>b</sup></u>	<u>Average Annual Unemployment Rate <sup>c</sup></u>
1996	3,796,200	\$ 20,058	5.6%
1997	3,859,696	20,987	4.4%
1998	3,919,235	22,161	3.6%
1999	3,974,682	23,075	4.1%
2000	4,023,560	24,424	3.6%
2001	4,059,615	24,994	5.2%
2002	4,102,568	25,361	5.9%
2003	4,146,753	25,863	6.7%
2004	4,197,892	27,077	6.8%
2005	4,255,083	28,212	6.8%

<sup>a</sup> Source: U.S. Census Bureau

<sup>b</sup> Per capita income is calculated by dividing total personal income by population.

<sup>c</sup> Source: U.S. Department of Labor

## Employment by Industry

Latest Completed Calendar Year and Nine Years Prior

Sources	1996		2005	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Contract construction.....	94,300	5.6%	117,100	6.3%
Manufacturing:				
Durable goods.....	144,500	8.6%	135,300	7.3%
Nondurable goods.....	221,500	13.2%	126,600	6.8%
Transportation, communication, and public utilities.....	73,700	4.4%	89,100	4.8%
Wholesale and retail trade:				
Wholesale.....	67,400	4.0%	67,100	3.6%
Retail.....	330,100	19.7%	229,300	12.3%
Finance, insurance and real estate.....	72,800	4.3%	97,900	5.3%
Services and mining.....	376,600	22.6%	669,700	36.0%
Government:				
Federal.....	28,400	1.7%	28,500	1.5%
State and local.....	266,200	15.9%	299,800	16.1%
<b>Total wage and salary employment.....</b>	<b>1,675,500</b>	<b>100.0%</b>	<b>1,860,400</b>	<b>100.0%</b>

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

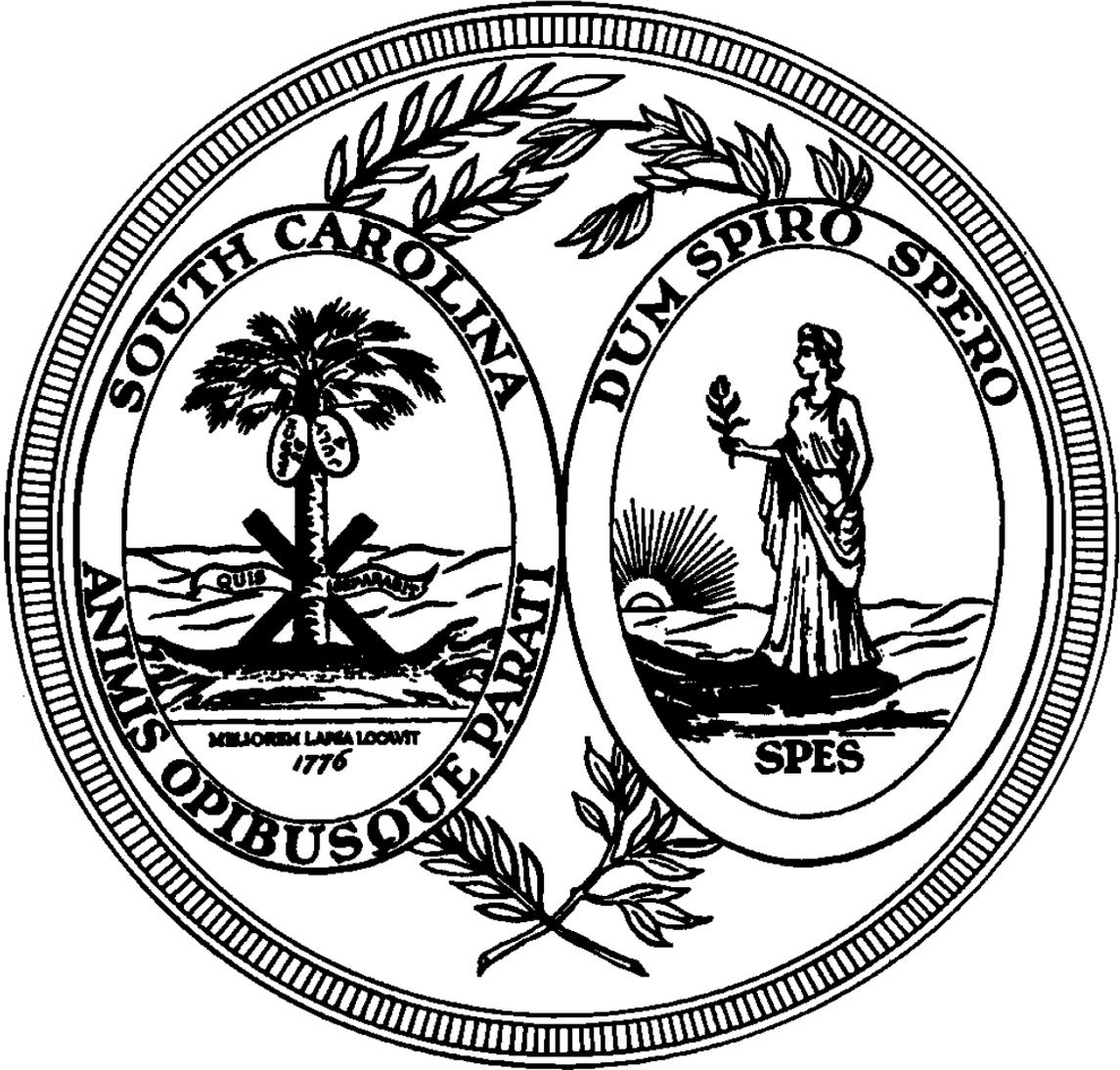
Latest Completed Calendar Year and Four Years Prior<sup>a</sup>  
(Listed alphabetically)

<u>2001</u>	<u>2005</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	Charleston County School District
Michelin Tire Corporation	Greenville County School District
Springs Industries, Inc.	Greenville Hospital System
University of South Carolina	Michelin North America, Inc.
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

<sup>a</sup> 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 Seven Fiscal Years <sup>a</sup>

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
<b>Totals.....</b>	<b>77,385</b>	<b>73,204</b>	<b>70,927</b>	<b>69,741</b>

<sup>a</sup> Prior fiscal year data is not readily available.

Source: South Carolina Comptroller General's Office

as of June 30

<u>2004</u>	<u>2005</u>	<u>2006</u>
6,136	6,195	6,267
3,054	3,053	2,922
13,341	13,010	12,461
3,693	3,618	3,627
9,620	9,417	9,747
1,727	1,746	1,776
4,960	5,002	4,794
20,523	20,893	21,195
5,555	5,676	5,990
117	114	112
4	5	5
63	67	69
2	2	2
69	68	67
23	23	19
32	34	32
<u><b>68,919</b></u>	<u><b>68,923</b></u>	<u><b>69,085</b></u>

## Operating Indicators By Function

Last Two Fiscal Years <sup>a</sup>

	<u>2005</u>	<u>2006</u>
<b>General government</b>		
Individual income tax returns processed (calendar year)	1,864,439	b
Corporate income returns processed (calendar year)	109,416	b
Department of Motor Vehicles transactions	12,670,522	13,474,463
Workers' compensation cases reviewed	111,869	127,848
<b>Education</b>		
Public school enrollment	680,635	694,155
Average operating miles per school bus	15,600	15,685
State Museum visitors	148,752	145,845
<b>Health and environment</b>		
Medicaid eligible participants	983,981	932,708
Women, Infant and Children (WIC) program participants	108,341	107,413
Community mental health center clients	91,403	91,965
<b>Social services</b>		
Average food stamp households served per month	216,602	225,456
Child Protective Services investigations	17,186	16,898
<b>Administration of justice</b>		
Adult prison average daily population	22,970	22,964
Juvenile facility average daily population	1,074	1,043
<b>Resources and economic development</b>		
Department of Commerce capital investment projects	105	137
Welcome Center visitors	2,525,294	2,454,311
Hunting and fishing licenses processed	704,882	781,882
Watercraft registrations	396,915	415,993
<b>Transportation</b>		
Miles of surface repair	173,620	163,829
Miles of roadway inspections	270,024	313,530
<b>Higher education and higher education institution support</b>		
Total headcount enrollment	172,386	174,686
Degrees awarded	24,826	25,622
<b>Unemployment compensation benefits</b>		
Initial claims	313,629	299,975
Total benefit weeks claimed	2,129,960	1,515,302
<b>Financing of housing facilities</b>		
Mortgage loans managed	12,314	13,504
Families receiving rental assistance	20,478	20,872
<b>Medical malpractice insurance</b>		
Membership total	7,166	7,050
<b>Financing of student loans</b>		
Number of student loans outstanding	332,794	323,536
<b>Tuition prepayment program</b>		
Individual accounts	6,262	6,452
<b>State maritime museum</b>		
Museum visitors and other area patrons	240,811	260,827
<b>Insurance claims processing</b>		
Second Injury Fund claims paid	4,520	3,860
<b>Other</b>		
Public railway carloads	88,242	88,245

<sup>a</sup> Prior fiscal year data is not readily available.

<sup>b</sup> Not yet available.

Source: South Carolina Comptroller General's Office

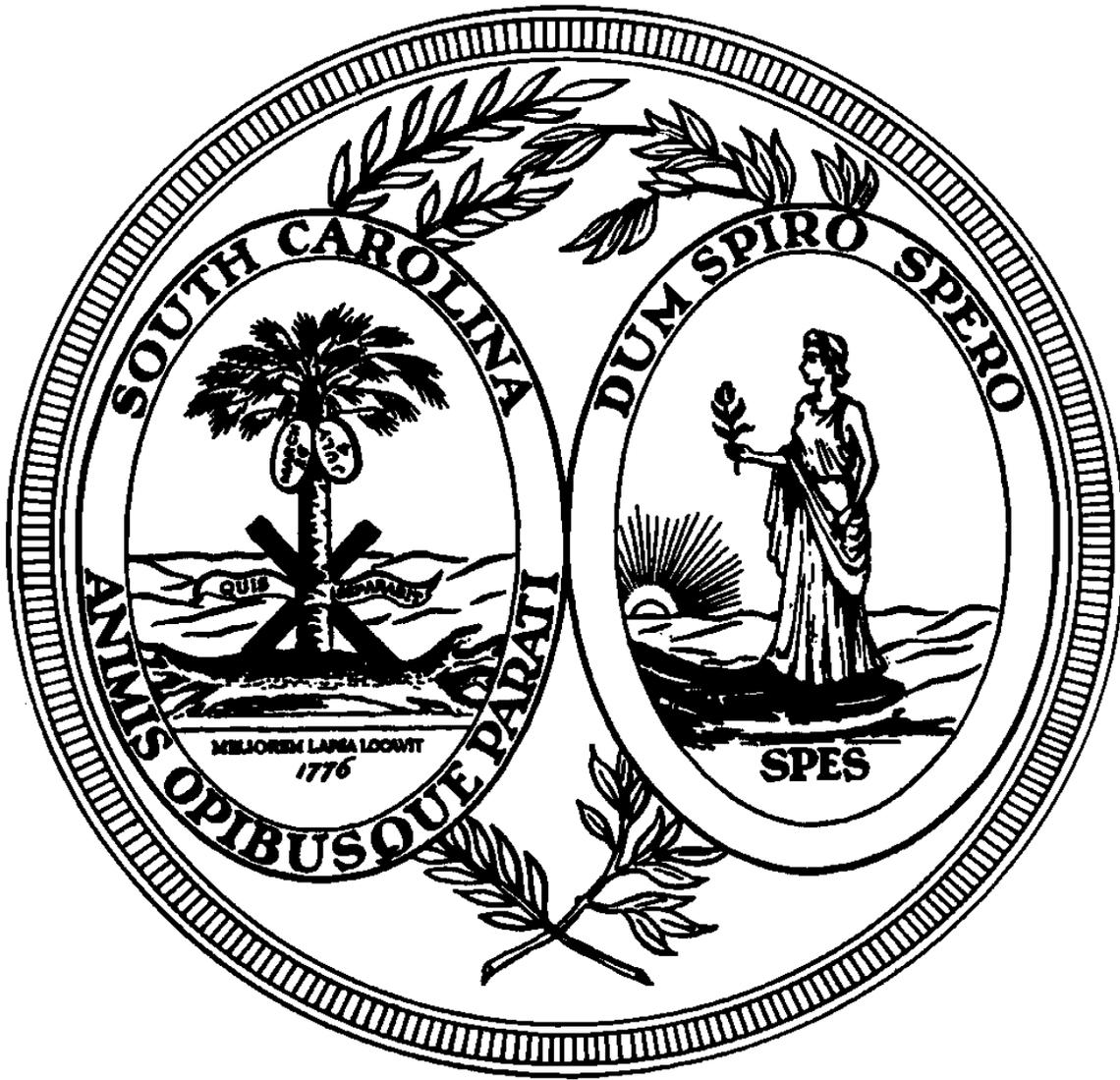
# Capital Assets By Function

Last Two Fiscal Years <sup>a</sup>

	<u>2005</u>	<u>2006</u>
<b>General government</b>		
Buildings and facilities	33	33
State armories	65	65
Fleet vehicles	2,357	2,687
Motor vehicle district offices	69	69
<b>Education</b>		
School buses	6,453	5,788
Television transmitters	11	11
Vocational training/client centers	35	35
<b>Health and environment</b>		
Mental health hospitals	111	111
Community mental health centers	60	60
Regional special needs centers	5	5
<b>Social services</b>		
Buildings and facilities	13	13
<b>Administration of justice</b>		
Adult correctional institutions	29	29
Juvenile correctional facilities	7	7
Highway patrol district offices	7	7
Highway patrol vehicles	1,222	1,055
<b>Resources and economic development</b>		
Acres of State parks	81,168	81,168
Acres of State forests	91,600	91,600
State parks and historical sites	53	53
State farmers' markets	3	3
Vehicles and boats	1,575	1,538
<b>Transportation</b>		
Miles of State highways	66,252	66,240
Weigh stations	9	9
Traffic cameras	179	250
Miles of cable median barriers	442	470
<b>Higher education</b>		
Number of campuses	33	33
Buildings-universities	815	810
Buildings-technical colleges	282	277
Buildings-student residences	335	340
<b>State maritime museum</b>		
Vintage aircraft	4	4
Historical period exhibits	3	15
<b>Other</b>		
Rail yards	3	3
State-owned locomotives	13	13

<sup>a</sup> 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 \$729.27; 150 copies were printed at a cost of \$4.86 each.