

# STATE OF SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2005





FRONT COVER

*Sea oats and sand frame much of South Carolina's coastal border with the Atlantic Ocean, a 187-mile span that sustains tourism and industry and is itself embedded in the rich cultural history of the Palmetto State.*

*Photography and layout for covers provided by the University of South Carolina Office of University Publications.*



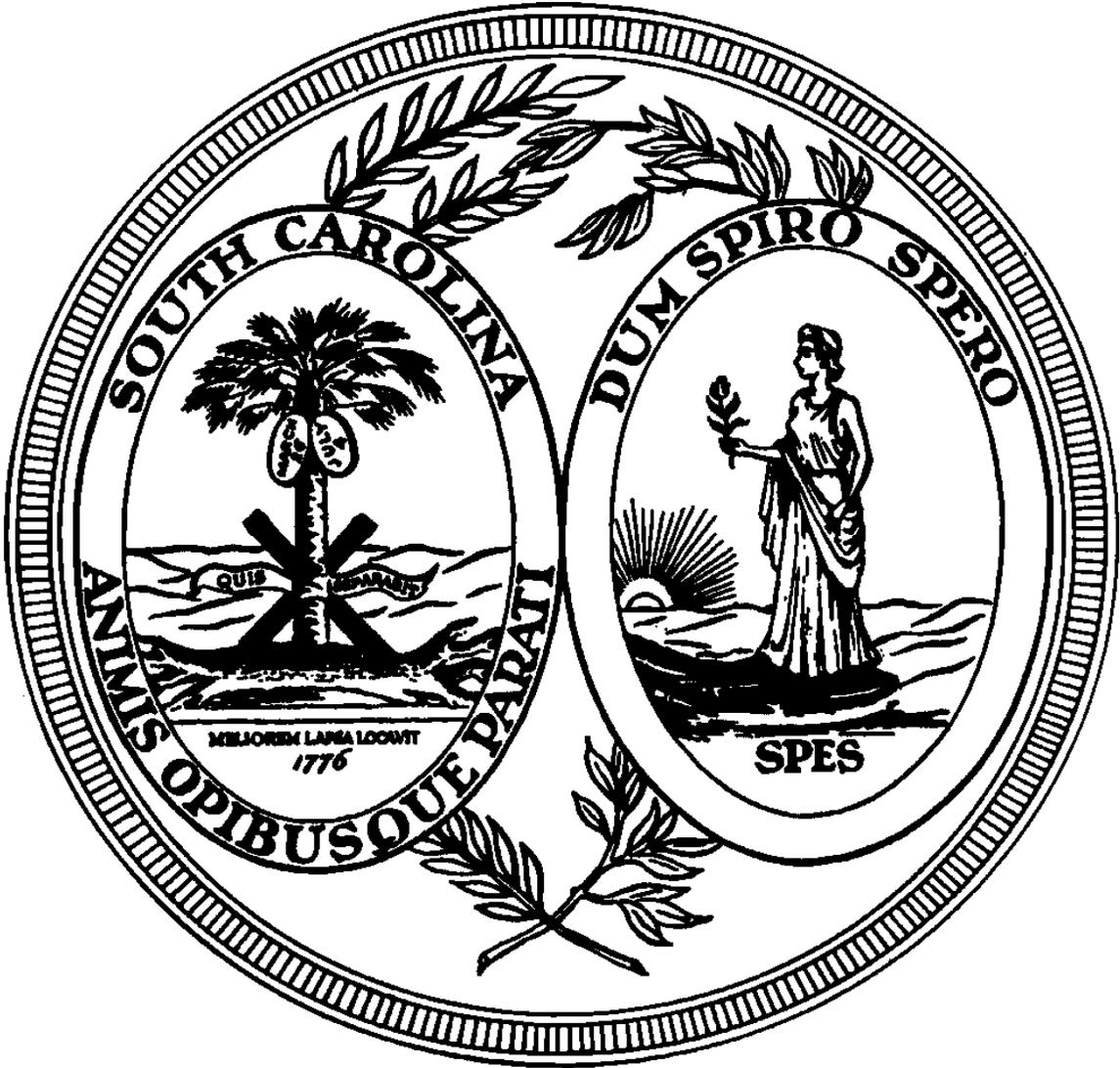
**STATE OF  
SOUTH CAROLINA**

**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

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

**2005**

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



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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 30, 2005

**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, 2005. 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, 2004; 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, 2005. 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.

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## 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 million citizens.

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

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

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

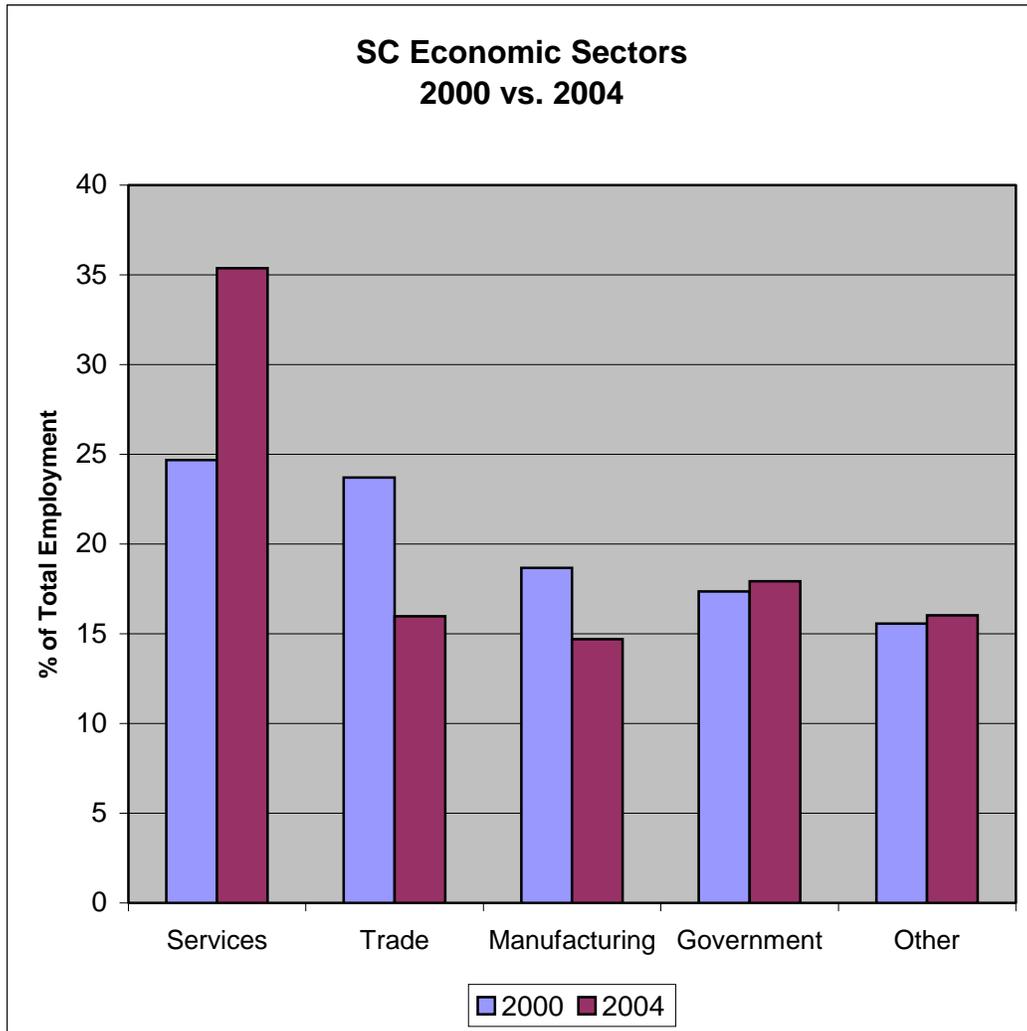
South Carolina's annual Appropriation Act includes legally adopted budgets for the Budgetary General Fund and for Total Funds. The initial budget appears in the annual Appropriation Act. After the budget year begins, the State Budget and Control Board, comprised of five key executive and legislative 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.

## LOCAL ECONOMY

South Carolina historically has been a manufacturing state; however, the State's economic base has been transitioning toward 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.

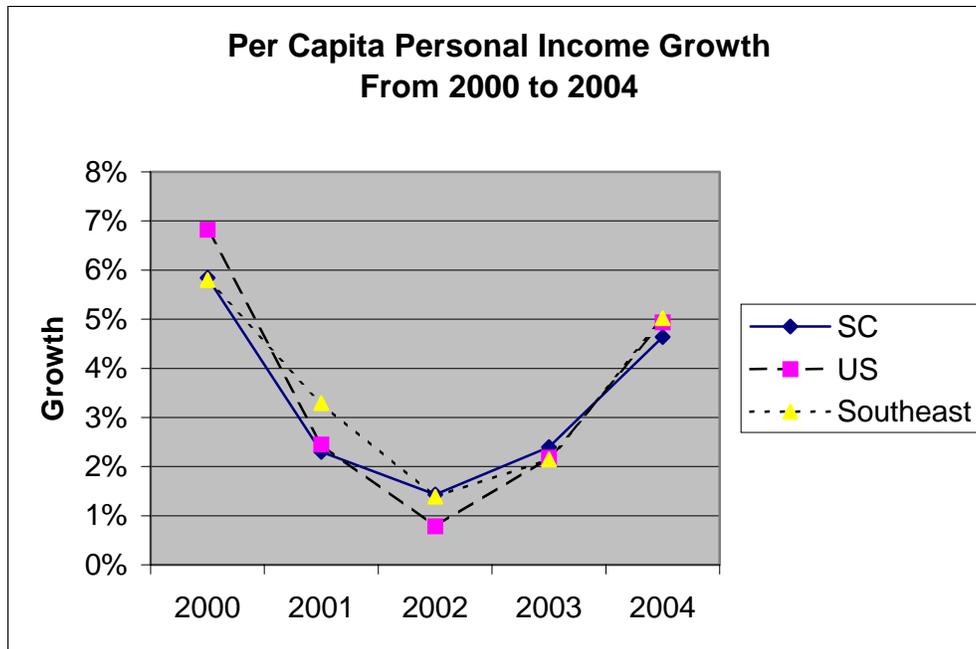
Employment in the State rose during 2004 by 1.1% over the prior year, matching the national pace. However, South Carolina's overall economy generally remained stable during the past five years (January 2000 through December 2004). While total employment levels remained largely unchanged during this period, the State's economy has become more diversified and is starting to move closer to the national base. Employment in the manufacturing sector has been declining such that manufacturing employment now represents less than 15% of total employment, down from about 19% in 2000. The State's service sector, fueled by tourism and retirement industries, has contributed to a more diversified overall employment base and improved income levels. This sector represented 35% of total employment in 2004, up from 25% in 2000. Similarly, the State's metropolitan areas are

enjoying rapid job growth while rural areas, traditionally supported by textile manufacturing jobs, are struggling.



The State's average unemployment rate has remained above that of the national level since 2001. South Carolina's unemployment rate was 6.8% for 2004, compared to the national average of 5.5%. While recent federal employment statistics indicate that the State's employment growth is slow, the State is reporting strong growth in personal and corporate income withholding taxes and in retail sales tax collections. This growth suggests that a more robust economy actually is occurring.

Average personal income growth for 2000 through 2004 was 4.5%; equal to the national average, but less than the 4.8% growth for the southeastern region. Despite this, the State's \$27,153 per capita personal income in 2004 represented only 82% of the national average and 91% of the southeastern average. In 2004, South Carolina ranked 43rd among states in personal income per capita, down from 39th in 2000.



Despite the State's fluctuating economic performance over the past few years, South Carolina's economic prospects are bright. The State is committed to improving its economic base and has been successful at attracting foreign investments, most notably in the automotive industry. Chemicals and metals, as well as specialty textiles, also have been consistent major components of capital investment in recent years. The State has undertaken several new economic development programs in the past few years with the goal of fostering growth, increasing economic diversity, and raising income levels. The State has authorized the issuance of economic and university research bonds to help attract new industries in fields such as biomedicine, transportation, and alternate fuels. Continued growth is expected in health care, leisure and hospitality, retail trade, certain manufacturing segments, and military defense.

Vought Aircraft Industries has announced plans to build a \$560 million aircraft components manufacturing center in North Charleston. The company is expected to hire 645 highly paid employees initially and is expected to spawn thousands of jobs during both the construction and the production phases from related distribution, storage, supply and real estate. BMW is currently undergoing a \$600 million expansion in South Carolina, and has started production on its new sports utility vehicle. In addition, BMW has announced plans to develop a new model similar to a minivan at its Upstate plant.

The State's budgetary results have improved dramatically during the last two years, leading to an increase in hiring and salaries within State government. This comes after substantial reductions in State government employment with only limited pay increases since the economic downturns in 2000 and 2001.

There are several large military installations in South Carolina. These installations overall were spared the brunt of the Federal government's recent military downsizing. The State actually will have a net gain in military jobs because of base realignments. Charleston is expected to see a relatively small loss of military-related jobs, while the Columbia region could see a net gain of nearly 2,000 military jobs that could lead to other job growth.

## **LONG-TERM FINANCIAL PLANNING**

During the 2005 legislative session, the General Assembly enacted a bill establishing a formal process for long-term financial planning. State entities receiving 1% or more of the total annual General Fund appropriations will be required to provide an estimate of general fund expenditures for the next three fiscal years. This data, in conjunction with the Board of Economic Advisors' (BEA) long-term revenue estimate, is to be compiled and updated annually by the State Budget Office. The three-year financial plan will assist the State to more strategically assess its future financial commitments. The plan must be 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, retirement and health benefits, and both elementary and secondary education.

Medicaid spending for fiscal year 2004-2005 made up about 19% of the State General Fund budget as compared to 10% ten years ago. Medicaid is expected to consume more of the State's budget in the future due to a growing population accompanied by spiraling long-term health care and prescription drug costs. In an effort to contain these costs, the State's Department of Health and Human Services (HHS) has proposed an innovative plan to overhaul the Medicaid program. The HHS proposed plan seeks waivers for certain optional Medicaid funded activities and places most of the program's participants into managed care health insurance programs similar to those used by citizens with private insurance. In October 2005, HHS submitted its revised Medicaid plan to the federal government for approval. HHS estimates that the revised plan would save approximately \$300.000 million over the next five fiscal years.

As of July 1, 2004, the South Carolina's Retirement Systems had a combined actuarial value of assets of \$23.637 billion and a combined unfunded actuarial accrued liability of approximately \$5.579 billion. The State's actuarially determined pension liability was funded at 81% as of July 1, 2004, the date of the last actuarial valuation. This percentage is down from 98% as of July 1, 1999. As a result, the State's General Assembly passed pension legislation during the 2005 legislative session that increased the maximum amount allowed for equity investments from 40% to 70%; increased employee and employer retirement contributions over a two-year period by 0.5% and 1% respectively, and reduced certain retirement benefits.

Aid to school districts is expected to continue climbing in the coming years. The State is committed to improving the public education system by increasing teacher salaries and per pupil spending, enhancing teacher qualifications, raising standards for improved accountability, and purchasing school buses.

## **RELEVANT FINANCIAL POLICIES**

For South Carolina's government, fiscal year 2004-2005 was a time of financial recovery and restoration. During the 2005 session, the legislature enacted a bill that formalized a three-year financial planning process (described in the *Long-Term Financial Planning* section above) and provided for the full restoration of amounts transferred in prior years from certain trust and other budgeted funds. The bill also implemented procedures for maintaining positive fund balances for the State's General Fund when reported in accordance with generally accepted accounting principles (GAAP).

The State transferred monies from certain trust funds and other budgeted funds during 2002 and 2003 to finance recurring General Fund operations. The State is committed to paying back these

funds in several phases. A provision within the 2005-2006 Appropriation Act provides supplemental appropriations from the fiscal year 2004-2005 budgetary surplus funds to partially restore these accounts. Newly enacted legislation also requires that the first 10% of future surplus funds be applied to those accounts until fully restored.

Although the State historically budgets on a conservative basis, the economic downturn during 2000 and 2001, coupled with overly optimistic revenue projections, resulted in an accumulated budgetary deficit through the end of fiscal year 2002-2003. In addition, the State's GAAP-basis General Fund reported a fund balance deficit for four consecutive fiscal years (2000-2001 through 2003-2004). The accumulated budgetary deficit was resolved in the 2004 legislative session through the Fiscal Discipline Act. During the 2005 session, new legislation effective July 1, 2006, provides policies for maintaining a positive GAAP fund balance. This legislation calls for the suspension of both the Capital Reserve and any supplemental appropriations from budgetary surplus funds, if necessary, to offset a negative fund balance in the State's GAAP-basis General Fund.

## **MAJOR INITIATIVES**

### **Finance and Budgeting**

As noted in the above *Long-Term Financial Planning* and the *Relevant Financial Policies* sections above, several important actions have been taken to improve the State's financial condition. Other important legislation in the 2005-2006 Appropriation Act includes full funding of the Education Finance Act, which provides new monies to keep the State's teacher salaries above the southeastern average and additional funds for the State's elementary and secondary school programs. The 2005-2006 Appropriation Act also provides full funding for the State's Medicaid program; a 10% raise for the State's law enforcement personnel and a 4% raise for other State employees; and hiring additional law enforcement officers.

### **Business and Economic Development**

The General Assembly also approved the 2005 Jobs Creation Act that promotes and encourages small businesses to create new jobs. This legislation encourages investment in high-tech and start-up companies and creates the Capital Access Program to assist small businesses in obtaining financing.

A small business income tax reduction bill was passed that provides that the State income tax rate of 7% for small businesses be lowered by 0.5% per year for qualifying businesses until the rate reaches 5% in 2008.

Amendments to the Motion Picture Incentive Act also were passed that extend exemptions from sales and use tax for motion picture production companies to include exemptions from local sales and use tax as well. The amendments also included a rebate program for these companies to cover South Carolina payroll dollars.

### **Courts System**

The General Assembly passed two separate pieces of tort reform legislation. This legislation establishes new sanctions to control frivolous lawsuits, prohibits venue shopping whereby courts had been selected because of a reputation for making large rewards, and revises the liability provisions for a party that is only slightly at fault. The General Assembly also passed comprehensive Medical Malpractice Reform that places a \$350 thousand cap on non-economic damages such as pain and suffering, and provides legal protection for doctors who render care in emergency situations.

## 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, 2004. This was the seventeenth 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.

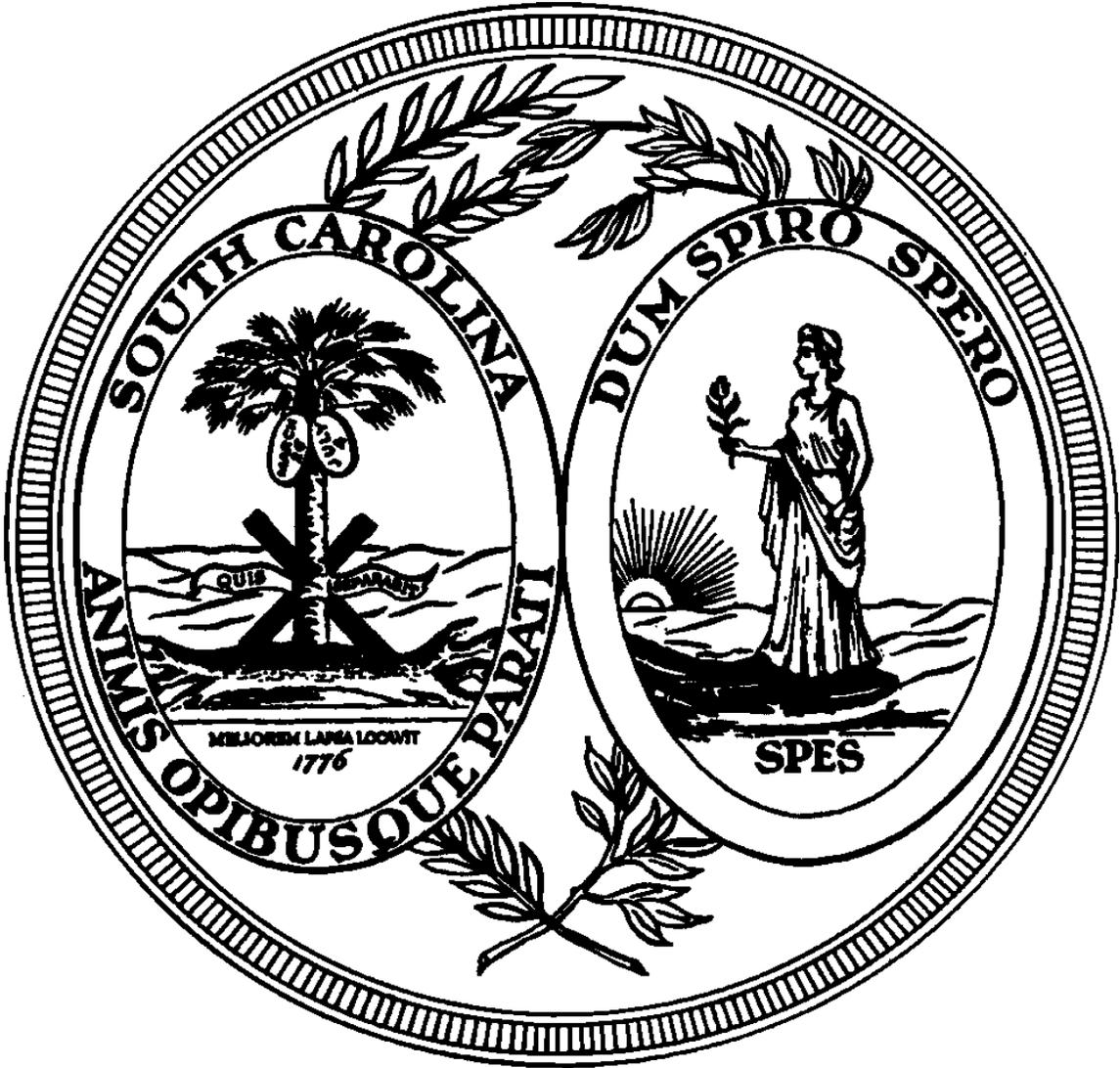
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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, 2004

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.



*Nancy L. Zjella*

President

*Jeffrey R. Emery*

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

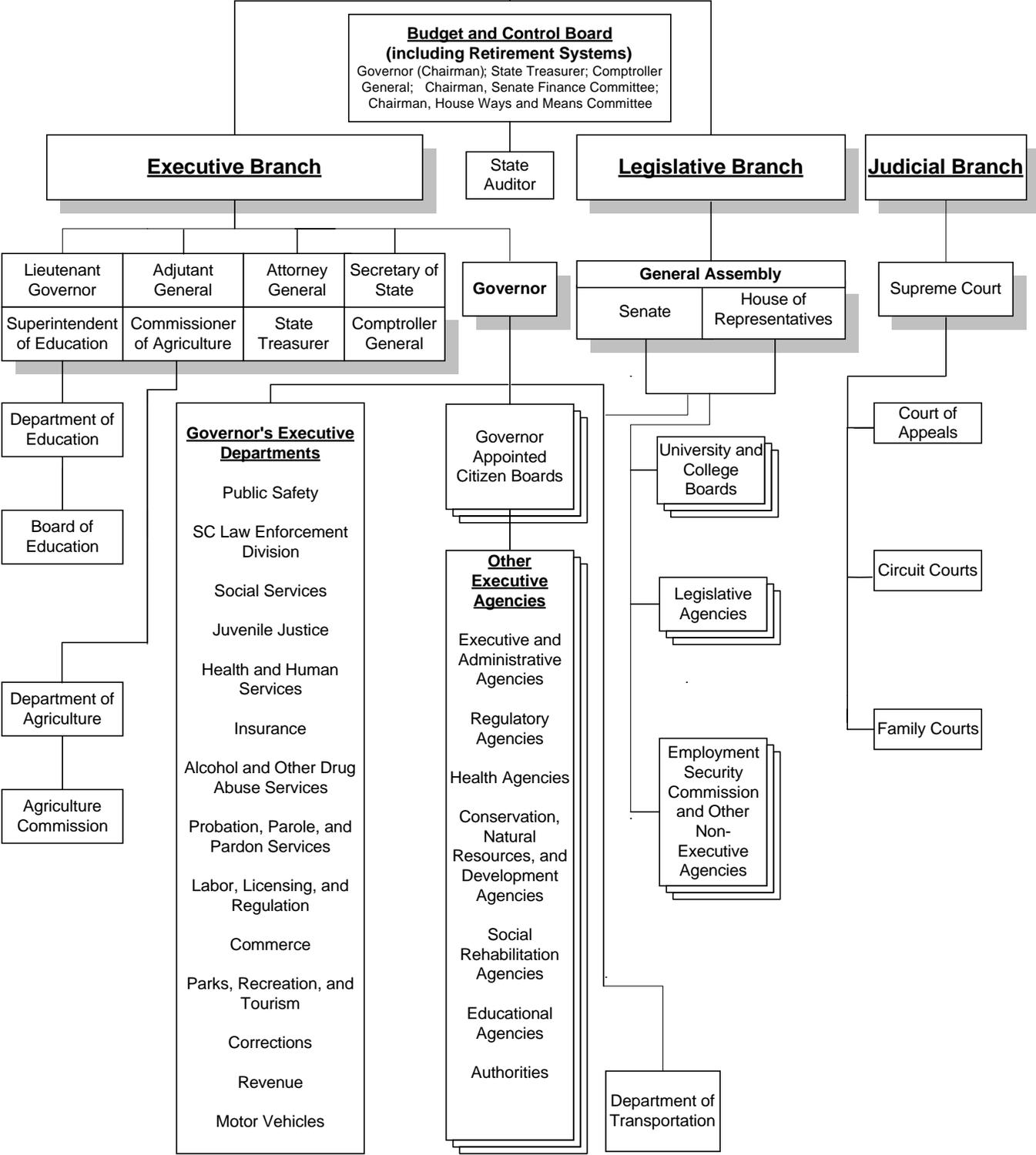
Mark Hammond, Secretary of State  
Henry McMaster, Attorney General  
Inez Tenenbaum, State Superintendent of Education  
Major General Stanhope S. Spears, Adjutant General  
Hugh E. Weathers, Commissioner of Agriculture

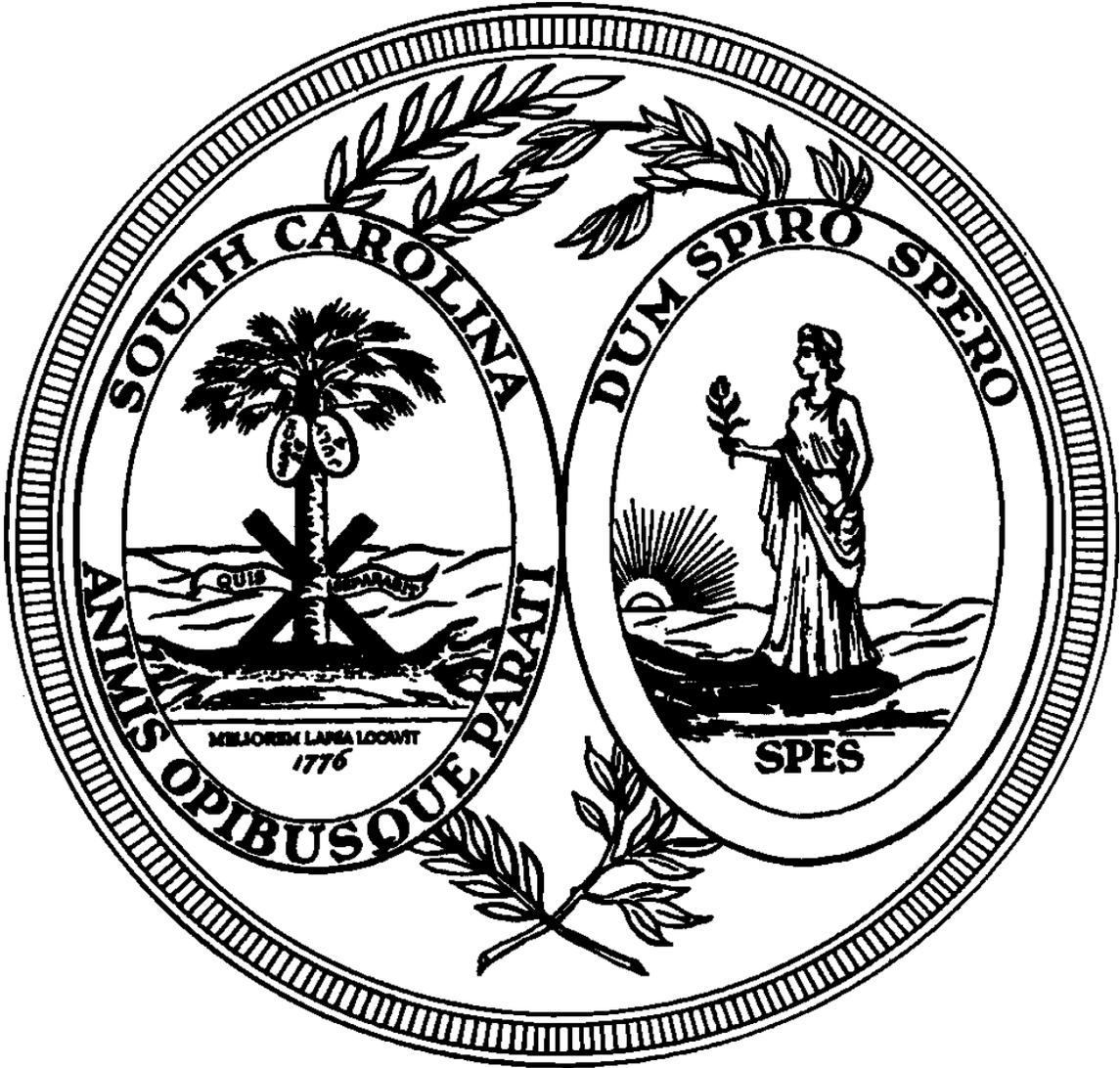
### **JUDICIAL**

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 Auditors' 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, 2005, 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 thereon 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>Government-wide</b>		
Governmental activities	70	20
Business-type activities	100	91
Component units	100	100
<b>Fund Statements</b>		
Governmental Funds	30	13
Enterprise Funds	100	91
Internal Service Funds	73	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 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.

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

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.

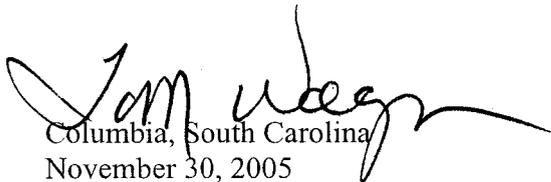
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina as of June 30, 2005, 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.

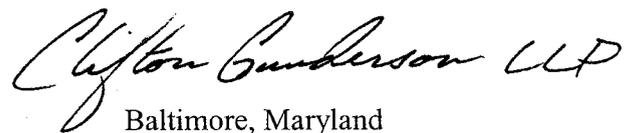
As discussed in Note 2, the State implemented Governmental Accounting Standards Board's (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2005 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 considered 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 and the other auditors 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 30, 2005

  
Baltimore, Maryland  
November 30, 2005

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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, 2005. 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 36 through 41 of this report.

There are two government-wide financial statements:

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

***Statement of activities:*** This statement presents information showing how the State's overall net assets changed during the year. The State reports a change in its net assets as soon as an underlying event occurs that would cause a change. The statement of activities accounts for all current-year revenues and expenses, regardless of when the State received or paid cash. Although governments compile the statement of activities using accounting methods similar to businesses, 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 40) 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 42 through 65 of this report provide detailed information about the State's most significant funds—not the State as a whole. Funds are accounting designations that the State uses to track specific funding sources and spending for particular purposes. South Carolina, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State reports three types of *funds*:

## State of South Carolina

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

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

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

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

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

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

### Component Unit Financial Statements

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

### Notes to the Financial Statements

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

### Required Supplementary Information

This section 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 section also includes schedules related to the State's National Guard Pension System, a single-employer defined benefit pension plan. This required supplementary information is on pages 140 through 147 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, 2005, with Restated Comparative Data as of June 30, 2004  
 (Expressed in Thousands)

	Governmental		Business-type		Totals—		Total Percentage Change 2004-2005
	Activities		Activities		Primary Government		
	2005	2004	2005	2004	2005	2004	
<b>Assets</b>							
Current and other assets.....	\$ 7,632,230	\$ 6,491,260	\$ 4,561,239	\$ 3,768,061	\$ 12,193,469	\$ 10,259,321	18.9%
Capital assets.....	12,360,919	11,670,170	2,823,300	2,589,266	15,184,219	14,259,436	6.5%
<b>Total assets.....</b>	<b>19,993,149</b>	<b>18,161,430</b>	<b>7,384,539</b>	<b>6,357,327</b>	<b>27,377,688</b>	<b>24,518,757</b>	<b>11.7%</b>
<b>Liabilities</b>							
Long-term liabilities.....	5,122,938	4,893,936	3,135,539	2,375,252	8,258,477	7,269,188	13.6%
Other liabilities.....	3,429,415	3,113,596	882,346	829,529	4,311,761	3,943,125	9.3%
<b>Total liabilities.....</b>	<b>8,552,353</b>	<b>8,007,532</b>	<b>4,017,885</b>	<b>3,204,781</b>	<b>12,570,238</b>	<b>11,212,313</b>	<b>12.1%</b>
<b>Net Assets</b>							
Invested in capital assets, net of debt.....	8,877,813	8,534,931	1,778,072	1,695,208	10,655,885	10,230,139	4.2%
Restricted.....	2,735,158	2,568,996	1,228,545	1,186,958	3,963,703	3,755,954	5.5%
Unrestricted.....	(172,175)	(950,029)	360,037	270,380	187,862	(679,649)	127.6%
<b>Total net assets.....</b>	<b>\$ 11,440,796</b>	<b>\$ 10,153,898</b>	<b>\$ 3,366,654</b>	<b>\$ 3,152,546</b>	<b>\$ 14,807,450</b>	<b>\$ 13,306,444</b>	<b>11.3%</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 2004-2005 accounting year, the State's net assets totaled \$14.807 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 pay off the related debt because it needs the assets for its operations; so it must find other resources to pay off 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 balance of \$187.862 million at June 30, 2005. This represents an improvement of \$867.511 million over the prior year. The majority of this improvement resulted from a \$777.854 million increase in the net assets reported for the State's governmental activities, which reported a *negative* \$172.175 million in unrestricted net assets for the current fiscal year versus a *negative* \$950.029 million balance in the prior year. This substantial improvement occurred primarily because of significant increases in fund balances for the State's General and Departmental General Operating funds, which are considered unrestricted for government-wide reporting. The State's governmental activities have recently reported negative unrestricted net asset balances due in large part from the State issuing long-term debt (a liability) to finance capital assets for local governments (such as for school facilities). In such instances, the State records significant liabilities, which reduce unrestricted net assets, but does not record the related capital assets because they belong to the local governments. Please see Note 3 in the notes to the financial statements for a more detailed explanation of the deficit reported for the State's governmental activities.

The State's *business-type activities*, on the other hand, reported a *positive* \$360.037 million unrestricted net asset balance. This resulted from net positive balances of \$574.450 million associated with higher education and certain other business-type activities. However, that positive balance was offset by a \$214.413 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, 2005, with Restated Comparative Data for the Fiscal Year Ended June 30, 2004**  
*(Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2004-2005
	2005	2004	2005	2004	2005	2004	
<b>Revenues</b>							
Program revenues:							
Charges for services.....	\$ 1,816,591	\$ 1,610,779	\$ 3,173,818	\$ 3,010,024	\$ 4,990,409	\$ 4,620,803	8.0%
Operating grants and contributions.....	6,052,454	5,656,373	419,672	422,971	6,472,126	6,079,344	6.5%
Capital grants and contributions.....	650,384	708,685	55,166	47,136	705,550	755,821	(6.7%)
General revenues:							
Individual income tax.....	2,762,538	2,416,437	—	—	2,762,538	2,416,437	14.3%
Retail sales and use tax.....	3,221,466	3,009,485	—	—	3,221,466	3,009,485	7.0%
Other taxes.....	1,469,701	1,390,893	—	—	1,469,701	1,390,893	5.7%
Unrestricted grants and contributions.....	26,391	80,333	—	—	26,391	80,333	(67.1%)
Unrestricted investment income.....	32,628	18,723	—	—	32,628	18,723	74.3%
Tobacco legal settlement.....	73,231	74,180	—	—	73,231	74,180	(1.3%)
Other.....	71,090	75,967	—	—	71,090	75,967	(6.4%)
<b>Total revenues.....</b>	<b>16,176,474</b>	<b>15,041,855</b>	<b>3,648,656</b>	<b>3,480,131</b>	<b>19,825,130</b>	<b>18,521,986</b>	<b>7.0%</b>
<b>Expenses</b>							
Governmental activities:							
General government.....	1,727,612	1,587,442	—	—	1,727,612	1,587,442	8.8%
Education.....	1,280,791	1,228,354	—	—	1,280,791	1,228,354	4.3%
Health and environment.....	4,767,155	4,588,137	—	—	4,767,155	4,588,137	3.9%
Social services.....	992,960	942,591	—	—	992,960	942,591	5.3%
Administration of justice.....	629,185	628,227	—	—	629,185	628,227	0.2%
Resources and economic development.....	197,351	192,000	—	—	197,351	192,000	2.8%
Transportation.....	664,125	531,667	—	—	664,125	531,667	24.9%
Intergovernmental.....	3,848,454	3,813,383	—	—	3,848,454	3,813,383	0.9%
Other.....	67,705	67,614	—	—	67,705	67,614	0.1%
Business-type activities:							
Higher education.....	—	—	2,679,238	2,527,649	2,679,238	2,527,649	6.0%
Higher education institution support <sup>a</sup> .....	—	—	800,151	757,252	800,151	757,252	5.7%
Unemployment compensation benefits.....	—	—	366,820	493,619	366,820	493,619	(25.7%)
Financing of housing facilities.....	—	—	147,021	137,671	147,021	137,671	6.8%
Medical malpractice insurance.....	—	—	47,432	30,733	47,432	30,733	54.3%
Financing of student loans.....	—	—	43,567	39,641	43,567	39,641	9.9%
Tuition prepayment program.....	—	—	26,653	30,620	26,653	30,620	(13.0%)
Patriots Point development.....	—	—	6,638	6,976	6,638	6,976	(4.8%)
Insurance claims processing.....	—	—	1,655	1,586	1,655	1,586	4.4%
Other.....	—	—	29,055	22,659	29,055	22,659	28.2%
<b>Total expenses.....</b>	<b>14,175,338</b>	<b>13,579,415</b>	<b>4,148,230</b>	<b>4,048,406</b>	<b>18,323,568</b>	<b>17,627,821</b>	<b>3.9%</b>
<b>Excess (deficiency) before transfers and extraordinary items.....</b>	<b>2,001,136</b>	<b>1,462,440</b>	<b>(499,574)</b>	<b>(568,275)</b>	<b>1,501,562</b>	<b>894,165</b>	<b>67.9%</b>
Extraordinary items.....	—	—	(556)	(773)	(556)	(773)	28.1%
Net transfers.....	(714,238)	(668,515)	714,238	668,515	—	—	N/A
<b>Increase in net assets.....</b>	<b>1,286,898</b>	<b>793,925</b>	<b>214,108</b>	<b>99,467</b>	<b>1,501,006</b>	<b>893,392</b>	<b>68.0%</b>
<b>Net assets, beginning of year (restated).....</b>	<b>10,153,898</b>	<b>9,359,973</b>	<b>3,152,546</b>	<b>3,053,079</b>	<b>13,306,444</b>	<b>12,413,052</b>	<b>7.2%</b>
<b>Net assets, end of year.....</b>	<b>\$ 11,440,796</b>	<b>\$ 10,153,898</b>	<b>\$ 3,366,654</b>	<b>\$ 3,152,546</b>	<b>\$ 14,807,450</b>	<b>\$ 13,306,444</b>	<b>11.3%</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 \$1.501 billion, or 11.3%, over the prior year's net assets.

### Governmental Activities

Net assets of the State's governmental activities increased by \$1.287 billion, or 12.7%, 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 \$3.848 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, 2005, the State used \$7.657 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 \$714.238 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 2004-2005 accounting year:

- Charges for services grew by \$205.812 million, or 12.8%, 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 contracts increased \$396.081 million, or 7.0%, over last year. Most of this increase is attributable to federal funding for Medicaid and food stamp benefits. Additional federal funding was received for election administration improvements and for homeland security.
- Capital grants and contributions decreased \$58.301 million, or 8.2%, because of less federal funding for State highway construction projects.
- State tax revenues rebounded due to increased tax enforcement collections and improving economic conditions. Tax revenues increased \$636.890 million, or 9.3%, over last year. Individual income and sales taxes increased 14.3% and 7.0%, respectively, as the State’s employment picture improved. Also, tax enforcement collections increased significantly due to the hiring of additional tax auditors.
- Unrestricted grants and contributions were \$53.942 million, or 67.2%, less than the prior year. Last year included the second and final payment of \$62.295 million from the Federal government under the Jobs and Growth Tax Relief Reconciliation Act of 2003.
- Transportation expenses rose \$132.458 million, or 24.9%, 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, 2005**

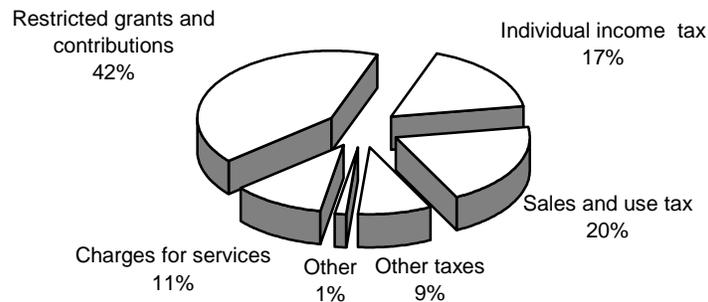
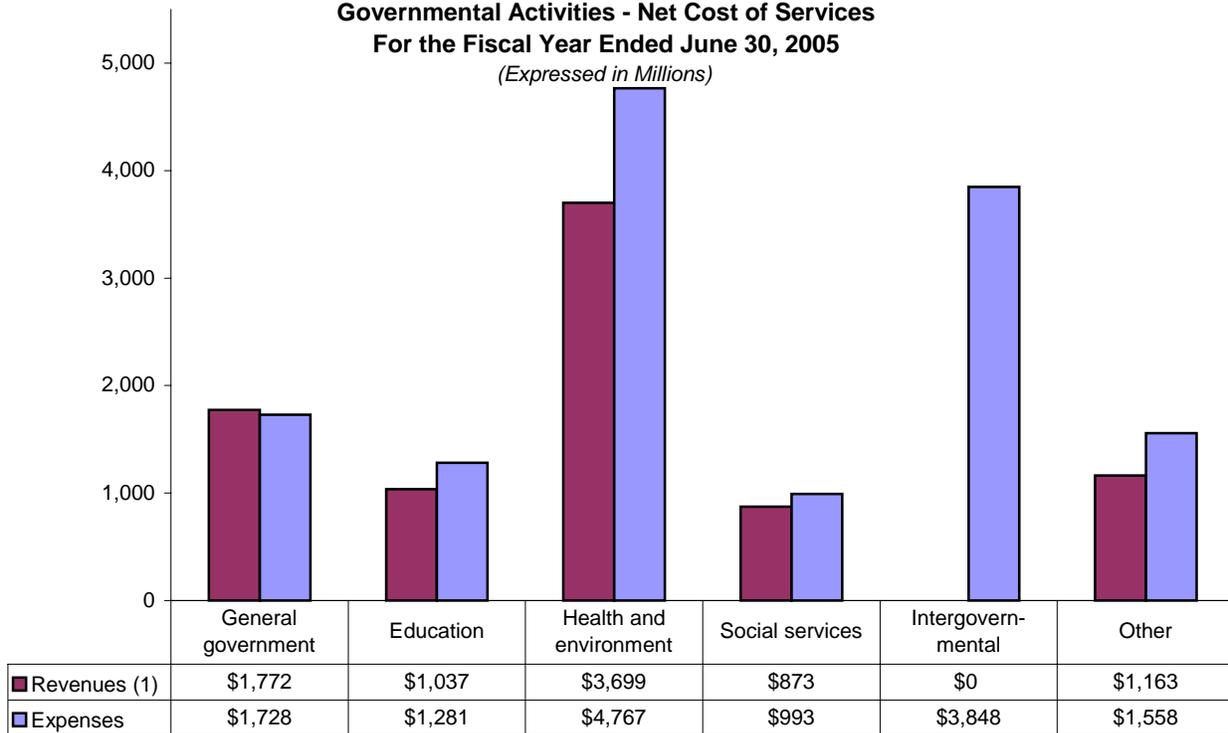


Exhibit 4

**Governmental Activities - Net Cost of Services  
For the Fiscal Year Ended June 30, 2005**

(Expressed in Millions)



(1) Derived directly from program itself or from parties outside the State's taxpayers or citizenry.

**Business-type Activities**

Net assets of the State's business-type activities increased \$214.108 million, or 6.8%.

Revenues from business-type activities included charges for services (87.0%) and grants and contributions (including federal aid) (13.0%). Expenses from business-type activities were mostly to provide higher education services and support (83.9%), unemployment compensation benefits (8.8%), and financing of housing facilities (3.5%).

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 2004-2005 accounting year:

- Charges for services increased \$163.794 million, or 5.4%. This was 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.
- Higher education and support expenses increased \$194.488 million, or 7.7%. This increase resulted primarily from increases in compensation and benefits, services and supplies, and utilities. Higher utility expenses resulted from a combination of rate increases and the addition of major capital buildings. Other increases are the result of growth in both research and institutional programs.
- Unemployment compensation benefit expenses declined \$126.799 million, or 25.7%, primarily due to ending the Emergency Unemployment Compensation program in the prior year and improved economic conditions.

**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, 2005.

*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.....	\$ 142,662	\$ 578	\$ 1,759,771	\$ 7,579	\$ —	\$ 174,333	\$ 2,084,923
Unreserved, designated.....	345,437	—	—	—	—	199,010	544,447
Unreserved, undesignated.....	—	489,562	(269,231)	49,217	490,641	450,077	1,210,266
<b>Totals.....</b>	<b>\$ 488,099</b>	<b>\$ 490,140</b>	<b>\$ 1,490,540</b>	<b>\$ 56,796</b>	<b>\$ 490,641</b>	<b>\$ 823,420</b>	<b>\$ 3,839,636</b>
<b>Change from prior year.....</b>	<b>\$ 479,140</b>	<b>\$ 151,488</b>	<b>\$ 77,820</b>	<b>\$ 103,895</b>	<b>\$ (8,230)</b>	<b>\$ (60,455)</b>	<b>\$ 743,658</b>
<b>Percentage change.....</b>	<b>5,348.1%</b>	<b>44.7%</b>	<b>5.5%</b>	<b>220.6%</b>	<b>(1.6%)</b>	<b>(6.8%)</b>	<b>24.0%</b>

At June 30, 2005, total ending fund balance for the State's governmental funds was \$3.840 billion, which represents an increase of \$743.658 million, or 24.0%, from the prior year. About half of this total (45.7%) 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 2004-2005 accounting year, the total fund balance of the General Fund increased \$479.140 million over last year. This is consistent with a \$517.866 million operating surplus reported for the State's budgetary-basis General Fund. The increase was due to a combination of improved economic conditions and conservative budgeting. Total revenues grew \$525.836 million, or 8.6%, while expenditures increased by only \$78.491 million, or 1.5%. The fund's two major revenue sources saw significant growth compared to the prior year. Individual income taxes increased \$356.022 million, or 14.8%, while sales and use taxes increased \$144.338 million, or 6.6%. In addition to an improved economy, the State stepped up its efforts to collect taxes by hiring additional tax auditors. As a result, enforced tax collections increased significantly over the prior year. Federal revenues, although not a major source for this fund, declined by \$58.349 million, or 32.3%, from prior year levels. This relates to unrestricted grants funds received last year under the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 that are no longer applicable. General Fund expenditures grew at a much slower rate than revenues because of a budget policy that limited growth during the fiscal year. Expenditure growth was nominal for most of the State's functional categories. The greatest increase was in health and environment expenditures, which were up \$120.576 million or 8.6%. This increase was attributable to growth in the State's share of matching funds associated with the Federal Medicaid assistance program. Medicaid expenditures continue to rise each year due to the spiraling cost of healthcare and prescription drugs. Educational expenditures actually decreased during the year by \$76.511 million or 23.6% because the South Carolina Education Lottery Commission began funding certain higher educational scholarships that had been appropriated previously from the General 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. Fund balance increased \$151.488 million, or 44.7%, over last year. Total revenues increased 7.8% over last year. Contributions revenue increased \$124.291 million, or 70.5%, as a result of approximately \$109.000 million more in Medicaid matching funds received from public hospitals this year. Total expenditures increased by 7.1%. Expenditures for general government and social services increased significantly. Social service expenditures increased \$119.456 million, or 15.1%, primarily because of an increase in food stamp benefits. General government expenditures increased by \$63.337 million, or 41.4%, for several reasons. The State's Office on Aging was moved from the State's Department of Health and Human Services to the Lieutenant Governor's Office under government restructuring legislation, and there were additional expenditures for projects at the Department of Motor Vehicles. Net transfers into the fund created the greatest increase in fund balance. Net transfers

# State of South Carolina

in were \$74.193 million, or 143.5% greater than last year, partly because of the receipt this year of economic development bond proceeds for authorized projects at the Department of Commerce and because of a large one-time transfer out in the prior year of unrestricted grant proceeds.

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 increased \$103.895 million during 2004-2005 resulting in a positive total fund balance of \$56.796 million at the end of the fiscal year. This increase resulted from increased Federal highway funding and approximately \$146.495 million in bond proceeds to fund new road and bridge infrastructure projects.

## Proprietary Funds

*Exhibit 6* shows the components of net assets for the State's various proprietary funds at June 30, 2005.

*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).....	\$ 1,701,387	\$ —	\$ 853	\$ 35,746	\$ 240	\$ 39,846	\$ 1,778,072	\$ 122,160
Restricted, expendable.....	273,007	396,205	240,166	71,189	128,619	42,741	1,151,927	20,000
Restricted, nonexpendable.....	53,189	—	—	—	—	23,429	76,618	406
Unrestricted.....	415,284	—	2,874	93,565	1,077	(156,415)	356,385	(42,409)
<b>Totals.....</b>	<b>\$ 2,442,867</b>	<b>\$ 396,205</b>	<b>\$ 243,893</b>	<b>\$ 200,500</b>	<b>\$ 129,936</b>	<b>\$ (50,399)</b>	<b>\$ 3,363,002</b>	<b>\$ 100,157</b>
<b>Change from prior year.....</b>	<b>\$ 171,333</b>	<b>\$ (34,867)</b>	<b>\$ 8,864</b>	<b>\$ 20,336</b>	<b>\$ 5,477</b>	<b>\$ 23,683</b>	<b>\$ 194,826</b>	<b>\$ 83,028</b>
<b>Percentage change.....</b>	<b>7.5%</b>	<b>(8.1%)</b>	<b>3.8%</b>	<b>11.3%</b>	<b>4.4%</b>	<b>(32.0%)</b>	<b>6.1%</b>	<b>484.7%</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 *Higher Education Fund*, an enterprise fund, accounts for the general operations of ten four-year higher education institutions and sixteen area technical colleges. Fund net assets increased \$171.333 million, or 7.5%. The increase is attributed primarily to increases in tuition and student fees, and an increase in grants and contracts from both Federal and State governments.

The *Unemployment Compensation Fund*, an enterprise fund, experienced a decline in fund balance during the accounting year ended June 30, 2005. This fund collects assessments from employers and uses these resources to pay benefits to unemployed persons who are legally eligible to receive such benefits. The fund's net assets decreased \$34.867 million, or 8.1%. Total revenue declined by \$49.412 million primarily due to the end of the Federal Emergency Unemployment Compensation Program in the prior fiscal year. Unemployment compensation benefits paid during the fiscal year were \$126.972 million less than last year due to ending the Emergency Unemployment Compensation program in the prior year and improving economic conditions. Net assets declined, however, because unemployment benefit payments exceeded the insurance premiums and program revenues received.

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 \$20.336 million, or 11.3%, primarily due to increases in patient activity and increases in charges for services provided. The Authority became a major enterprise fund this year because of this increased activity and its issuance of revenue bonds to build new facilities.

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.

During the fiscal year, the BEA increased its revenue estimate by a total of \$286.877 million for the Budgetary General Fund. The increases occurred over a period of six months as the BEA examined current-year and prior-year revenue collection trends. Tax revenue collections were greater than expected as economic conditions improved and enforcement efforts were stepped up.

The 2004-2005 appropriations had to be increased by \$4.975 million during the year to fund certain State-mandated programs that were underestimated in the Appropriation Act. The State Treasurer’s Office received \$4.905 million of these additional appropriations for aid to fire districts in accordance with formula funding.

Actual revenues at June 30, 2005, were \$122.302 million more than even the revised expected revenues. Furthermore, actual revenues were \$517.866 million greater than actual expenditures. Because of reasons previously stated and limited increases in agency spending, the State was able to end the year with an accumulated budgetary general fund surplus of \$533.365 million after giving effect to a one-time adjustment in the amount of \$104.934 million to correct errors in recording revenues in prior fiscal years. Also, an additional \$50.000 million was restored to the State’s “rainy day account” bringing the balance in the reserve to \$75.155 million at June 30, 2005.

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

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of the 2004-2005 accounting year, the State had \$15.184 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$924.783 million, or 6.5%, 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		Total Percentage Change 2004-2005
	2005	2004	2005	2004	2005	2004	
Land and improvements.....	\$ 1,459,853	\$ 1,366,894	\$ 209,351	\$ 204,828	\$ 1,669,204	\$ 1,571,722	6.2%
Infrastructure.....	5,883,421	5,775,804	—	—	5,883,421	5,775,804	1.9%
Buildings and improvements.....	903,596	910,181	1,967,494	1,774,445	2,871,090	2,684,626	6.9%
Vehicles.....	155,218	163,472	12,358	10,575	167,576	174,047	(3.7%)
Machinery and equipment.....	116,606	110,642	205,489	202,328	322,095	312,970	2.9%
Works of art and historical treasures.....	3,712	3,667	19,746	18,913	23,458	22,580	3.9%
Construction in progress.....	3,833,664	3,326,648	404,255	373,483	4,237,919	3,700,131	14.5%
Intangible assets.....	4,849	12,862	4,607	4,694	9,456	17,556	(46.1%)
<b>Total.....</b>	<b>\$ 12,360,919</b>	<b>\$ 11,670,170</b>	<b>\$ 2,823,300</b>	<b>\$ 2,589,266</b>	<b>\$ 15,184,219</b>	<b>\$ 14,259,436</b>	<b>6.5%</b>

Construction in progress at the Department of Transportation increased \$695.281 million over the prior accounting year because of increased Federal funding for highway projects.

As in the previous accounting year, intangible assets decreased primarily because of depreciation expense on the Department of Motor Vehicle’s Project Phoenix software system.

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 \$6.932 billion in bonds and notes outstanding—an increase of \$964.106 million, or 13.9%, 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 2004-2005
	2005	2004	2005	2004	2005	2004	
Backed by the State:							
General obligation bonds.....	\$ 2,298,253	\$ 2,266,261	\$ 230,423	\$ 242,740	\$ 2,528,676	\$ 2,509,001	0.8%
Backed by specific revenues:							
Revenue bonds and notes.....	33,832	33,686	2,536,112	1,750,104	2,569,944	1,783,790	44.1%
Infrastructure Bank bonds.....	1,947,393	1,725,514	—	—	1,947,393	1,725,514	12.9%
Tobacco Authority bonds.....	820,905	845,630	—	—	820,905	845,630	(2.9%)
Limited obligation bonds.....	19,392	23,304	—	—	19,392	23,304	(16.8%)
Bond anticipation notes.....	—	—	9,345	44,310	9,345	44,310	(78.9%)
<b>Total.....</b>	<b>\$ 5,119,775</b>	<b>\$ 4,894,395</b>	<b>\$ 2,775,880</b>	<b>\$ 2,037,154</b>	<b>\$ 7,895,655</b>	<b>\$ 6,931,549</b>	<b>13.9%</b>

New debt resulted mainly from the issuance of revenue bonds by the *enterprise funds* reported in the business-type activities. The Medical University Hospital Authority issued \$483.060 million in revenue bonds primarily to fund new construction while the Housing Authority issued \$181.720 million in bonds for housing programs. The Education Assistance Authority issued \$174.700 million in bonds primarily 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*). Standard & Poor’s and Fitch Ratings rated these bonds as “AAA,” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2005. These are the highest ratings that these services assign. In July 2005, Standard & Poor’s downgraded the State’s rating to “AA+”, citing the State’s high unemployment rate and sluggish economic growth following the recession.

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, 2005, 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: \$34.771 million in total for all institution bonds, \$16.222 million for highway bonds, \$52.374 million for general obligation bonds, excluding institution and highway bonds, and \$15.689 million for economic development 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, 2005, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$75.155 million rather than the \$153.488 million needed to be fully funded at that date. 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. These funds were transferred in September 2005 to fully fund the General Reserve Fund.

### Budgetary General Fund for the 2005-2006 Accounting Year

For fiscal year 2005-2006, estimated revenues per the Appropriation Act were \$5.966 billion, or 0.7% *less* than current year actual revenues. This estimate was subsequently revised. On November 10, 2005, based on most recent revenue collection trends, the State’s Board of Economic Advisors (BEA) revised its original revenue estimate for fiscal year 2005-2006 upward by \$275.667 million, or 4.6%, to a total of \$6.242 billion. This represents a 3.9% increase over actual revenues for fiscal year 2004-2005.

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**

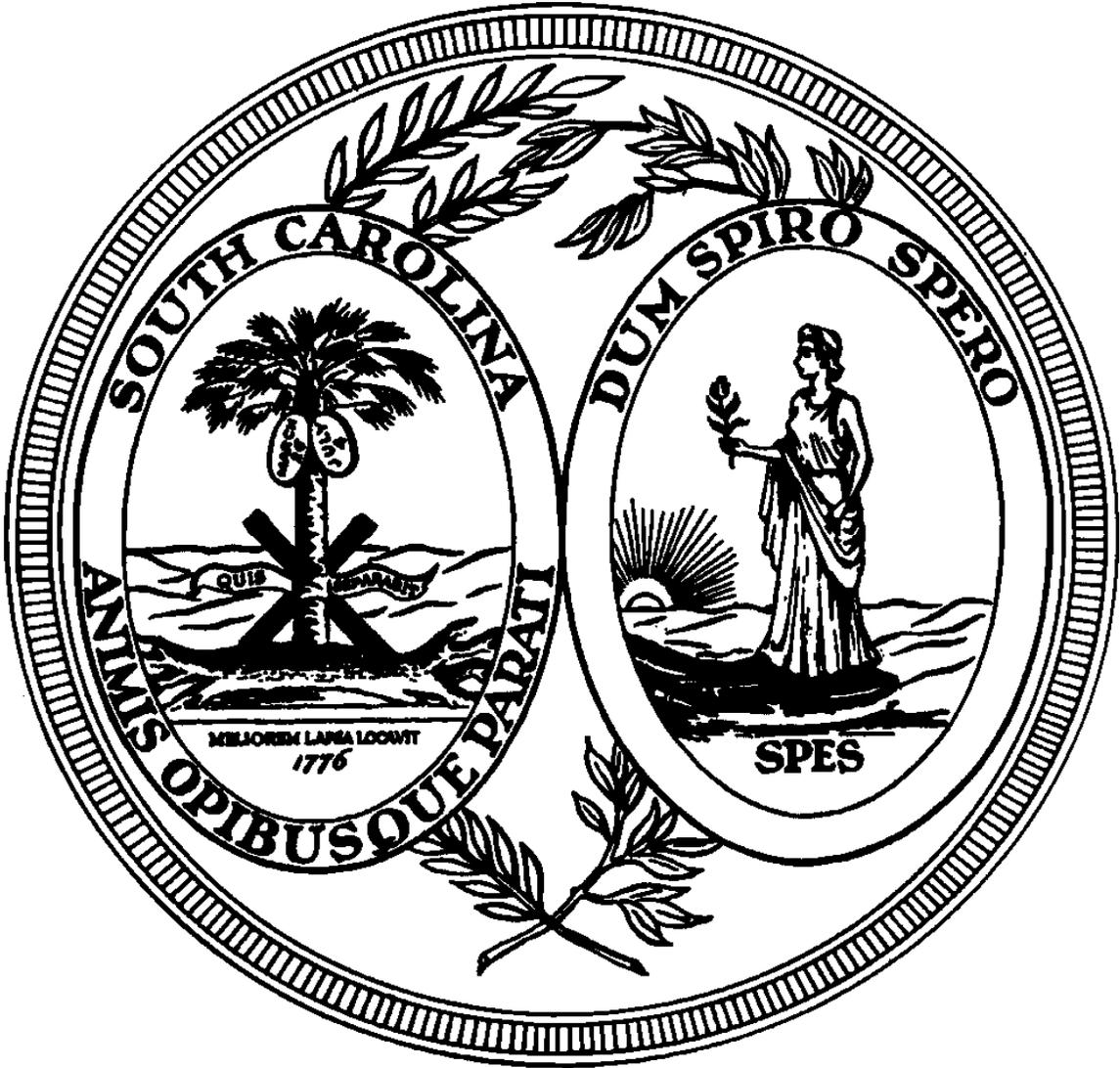
Despite the State’s high unemployment rate, Budgetary General Fund revenues for the first four months of the 2005-2006 fiscal year were \$143.481 million, or 7.9%, higher than fiscal year 2004-2005. South Carolina’s three major revenue sources are experiencing significant gains, reinforcing the fact that economic conditions are improving in the State. Individual income taxes are up 9.5%, as withholdings increased 9.4% and estimated tax payments increased 19.8%. Corporate income taxes have grown by 9.9%. Sales taxes have increased 7.4% despite higher gasoline prices.

The BEA has adopted a preliminary Budgetary General Fund revenue estimate of \$6.433 billion for the 2006-2007 accounting year. This revenue forecast represents a 3.1% increase over the revised base for 2005-2006. The BEA will review this estimate again in February 2006 and either adjust or finalize it then.

**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, 2005

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents.....	\$ 3,111,293	\$ 1,277,531	\$ 4,388,824	\$ 205,945
Investments.....	—	77,697	77,697	148,802
Invested securities lending collateral.....	611,582	100,069	711,651	16,114
Receivables, net:				
Accounts.....	257,745	67,333	325,078	191,004
Contributions.....	—	4,328	4,328	10,851
Participants.....	—	6,255	6,255	—
Accrued interest.....	20,344	4,385	24,729	2,675
Income taxes.....	294,166	—	294,166	—
Sales and other taxes.....	440,562	—	440,562	—
Student accounts.....	—	36,140	36,140	—
Patient accounts.....	12,599	132,252	144,851	—
Loans and notes.....	28,718	119,973	148,691	—
Assessments.....	—	53,433	53,433	—
Due from Federal government and other grantors.....	682,468	92,399	774,867	—
Internal balances.....	10,383	(10,383)	—	—
Due from component units.....	21,269	88,813	110,082	—
Due from primary government.....	—	—	—	2
Inventories.....	40,383	29,184	69,567	114,272
Restricted assets:				
Cash and cash equivalents.....	63,623	202,756	266,379	124,483
Investments.....	113,729	8,139	121,868	52,645
Loans receivable.....	—	305	305	—
Other.....	63,182	2,477	65,659	—
Prepaid items.....	16,026	22,224	38,250	7,231
Other current assets.....	—	3,286	3,286	15,129
Deferred charges.....	—	—	—	1,532
Total current assets.....	5,788,072	2,318,596	8,106,668	890,685

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

## Statement of Net Assets (Continued)

June 30, 2005

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term assets:				
Receivables, net:				
Accounts.....	61,542	583	62,125	2,211
Contributions.....	—	1,712	1,712	34,553
Participants.....	—	18,948	18,948	—
Income taxes.....	35,250	—	35,250	—
Sales and other taxes.....	48,776	—	48,776	—
Patient accounts.....	10,507	—	10,507	—
Loans and notes.....	392,168	721,544	1,113,712	—
Investments.....	226,541	17,740	244,281	575,151
Restricted assets:				
Cash and cash equivalents.....	611,149	738,421	1,349,570	98,053
Investments.....	—	122,917	122,917	419,187
Accounts receivable.....	432,464	—	432,464	—
Loans receivable.....	—	551,095	551,095	—
Other.....	3,873	15,291	19,164	473
Prepaid items.....	—	15,556	15,556	—
Other long-term assets.....	771	29,503	30,274	8,534
Deferred charges.....	21,117	9,333	30,450	404,873
Investment in joint venture.....	—	—	—	6,816
Non-depreciable capital assets.....	5,279,320	593,589	5,872,909	943,239
Depreciable capital assets, net.....	7,081,599	2,229,711	9,311,310	2,850,306
Total long-term assets.....	<u>14,205,077</u>	<u>5,065,943</u>	<u>19,271,020</u>	<u>5,343,396</u>
<b>Total assets.....</b>	<b><u>19,993,149</u></b>	<b><u>7,384,539</u></b>	<b><u>27,377,688</u></b>	<b><u>6,234,081</u></b>

Continued on Next Page

## Statement of Net Assets (Continued)

June 30, 2005

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable .....	\$ 720,130	\$ 208,101	\$ 928,231	\$ 140,762
Accrued salaries and related expenses.....	113,084	69,772	182,856	10,895
Accrued interest payable.....	37,203	15,821	53,024	81,556
Retainages payable.....	3,986	13,125	17,111	846
Tax refunds payable.....	502,478	4,018	506,496	—
Payables-aid to individuals/families.....	535	—	535	—
Prizes payable.....	—	—	—	27,632
Unemployment benefits payable.....	—	6,554	6,554	—
Intergovernmental payables.....	338,243	4,766	343,009	119
Tuition benefits payable.....	—	9,077	9,077	—
Policy claims.....	486,502	38,500	525,002	37,375
Due to component units.....	2	—	2	—
Due to primary government.....	—	—	—	110,082
Unearned revenues and deferred credits.....	189,823	115,870	305,693	29,926
Deposits.....	—	5,648	5,648	11
Amounts held in custody for others.....	—	5,371	5,371	—
Securities lending collateral.....	611,582	100,069	711,651	16,114
Liabilities payable from restricted assets:				
Accounts payable.....	—	7	7	259
Accrued interest payable.....	30,652	22,660	53,312	1,766
Bonds payable.....	37,940	76,623	114,563	—
Other.....	—	49,240	49,240	—
Notes payable.....	1,799	17,744	19,543	1,549
Revenue bonds anticipation notes payable.....	—	9,345	9,345	—
General obligation bonds payable.....	186,744	13,075	199,819	—
Revenue bonds payable.....	1,260	18,793	20,053	79,850
Limited obligation bonds payable.....	4,120	—	4,120	—
Capital leases payable.....	1,123	10,455	11,578	2,808
Commercial paper notes.....	—	—	—	193,317
Compensated absences payable.....	128,490	60,378	188,868	2,144
Other current liabilities .....	33,719	7,334	41,053	53,968
Total current liabilities.....	<u>3,429,415</u>	<u>882,346</u>	<u>4,311,761</u>	<u>790,979</u>

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

# Statement of Net Assets (Continued)

June 30, 2005

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term liabilities:				
Retainages payable.....	17	759	776	26,824
Intergovernmental payables.....	300	—	300	—
Tuition benefits payable.....	—	158,279	158,279	—
Policy claims.....	85,383	171,867	257,250	149,816
Unearned revenues and deferred credits.....	—	—	—	260,613
Amounts held in custody for others.....	—	—	—	2,325
Other liabilities payable from restricted assets.....	—	10,464	10,464	—
Notes payable.....	8,512	206,336	214,848	4,137
General obligation bonds payable.....	2,111,509	217,348	2,328,857	—
Tobacco Authority bonds payable.....	820,905	—	820,905	—
Infrastructure Bank bonds payable.....	1,909,453	—	1,909,453	—
Revenue bonds payable.....	22,261	2,216,616	2,238,877	2,991,873
Limited obligation bonds payable.....	15,272	—	15,272	—
Capital leases payable.....	1,733	42,100	43,833	12,256
Compensated absences payable.....	72,114	49,800	121,914	14,711
Other long-term liabilities.....	75,479	61,970	137,449	66,097
Total long-term liabilities.....	5,122,938	3,135,539	8,258,477	3,528,652
<b>Total liabilities.....</b>	<b>8,552,353</b>	<b>4,017,885</b>	<b>12,570,238</b>	<b>4,319,631</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	\$ 8,877,813	\$ 1,778,072	\$ 10,655,885	\$ 915,008
Restricted:				
Expendable:				
Unemployment compensation benefits.....	—	396,205	396,205	—
Education.....	290,736	157,369	448,105	156,743
Health.....	10,168	—	10,168	—
Transportation.....	241,751	—	241,751	—
Capital projects.....	327,341	120,387	447,728	18,305
Debt service.....	1,132,921	257,679	1,390,600	118,204
Loan programs.....	543,747	220,287	764,034	—
Waste management.....	97,093	—	97,093	—
Insurance programs.....	27,307	—	27,307	—
Other.....	61,607	—	61,607	125,325
Nonexpendable:				
Education.....	406	76,618	77,024	284,074
Other.....	2,081	—	2,081	—
Unrestricted.....	(172,175)	360,037	187,862	296,791
<b>Total net assets.....</b>	<b>\$ 11,440,796</b>	<b>\$ 3,366,654</b>	<b>\$ 14,807,450</b>	<b>\$ 1,914,450</b>

# Statement of Activities

For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Functions</b>					
<b>Primary government:</b>					
Governmental activities:					
General government.....	\$ 1,727,612	\$ 1,390,695	\$ 356,103	\$ 957	\$ 20,143
Education.....	1,280,791	33,017	1,003,205	1,143	(243,426)
Health and environment.....	4,767,155	131,475	3,562,992	4,643	(1,068,045)
Social services.....	992,960	2,459	870,131	—	(120,370)
Administration of justice.....	629,185	115,590	39,075	46	(474,474)
Resources and economic development.....	197,351	50,605	72,959	31,215	(42,572)
Transportation.....	664,125	92,750	147,989	612,380	188,994
Intergovernmental.....	3,848,454	—	—	—	(3,848,454)
Unallocated interest expense.....	67,705	—	—	—	(67,705)
<b>Total governmental activities.....</b>	<b>14,175,338</b>	<b>1,816,591</b>	<b>6,052,454</b>	<b>650,384</b>	<b>(5,655,909)</b>
Business-type activities:					
Higher education.....	2,679,238	1,858,869	210,907	54,811	(554,651)
Higher education institution support.....	800,151	833,452	44,636	355	78,292
Unemployment compensation benefits.....	366,820	314,249	18,776	—	(33,795)
Financing of housing facilities.....	147,021	40,624	115,817	—	9,420
Medical malpractice insurance.....	47,432	41,638	286	—	(5,508)
Financing of student loans.....	43,567	42,660	6,384	—	5,477
Tuition prepayment program.....	26,653	—	22,151	—	(4,502)
Patriots Point development.....	6,638	7,107	165	—	634
Insurance claims processing.....	1,655	1,657	—	—	2
Other.....	29,055	33,562	550	—	5,057
<b>Total business-type activities.....</b>	<b>4,148,230</b>	<b>3,173,818</b>	<b>419,672</b>	<b>55,166</b>	<b>(499,574)</b>
<b>Total primary government.....</b>	<b>\$ 18,323,568</b>	<b>\$ 4,990,409</b>	<b>\$ 6,472,126</b>	<b>\$ 705,550</b>	<b>\$ (6,155,483)</b>
<b>Component units:</b>					
Public Service Authority.....	\$ 1,087,331	\$ 1,154,870	\$ 11,160	\$ —	\$ 78,699
State Ports Authority.....	107,503	138,392	3,542	10,570	45,001
Connector 2000 Association, Inc.....	22,870	3,769	1,018	—	(18,083)
Lottery Commission.....	962,980	960,149	590	—	(2,241)
Other.....	112,053	41,878	105,077	—	34,902
<b>Total component units.....</b>	<b>\$ 2,292,737</b>	<b>\$ 2,299,058</b>	<b>\$ 121,387</b>	<b>\$ 10,570</b>	<b>\$ 138,278</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, 2005  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets:</b>				
Net (expense) revenue .....	\$ (5,655,909)	\$ (499,574)	\$ (6,155,483)	\$ 138,278
General revenues:				
Taxes:				
Individual income.....	2,762,538	—	2,762,538	—
Retail sales and use.....	3,221,466	—	3,221,466	—
Other.....	1,469,701	—	1,469,701	—
Total taxes.....	7,453,705	—	7,453,705	—
Unrestricted grants and contributions.....	26,391	—	26,391	—
Unrestricted investment income.....	32,628	—	32,628	—
Tobacco legal settlement.....	73,231	—	73,231	—
Other revenues.....	71,090	—	71,090	—
Extraordinary loss on debt extinguishment.....	—	(556)	(556)	—
Transfers—internal activities.....	(714,238)	714,238	—	—
<b>Total general revenues and transfers.....</b>	<b>6,942,807</b>	<b>713,682</b>	<b>7,656,489</b>	<b>—</b>
<b>Change in net assets.....</b>	<b>1,286,898</b>	<b>214,108</b>	<b>1,501,006</b>	<b>138,278</b>
Net assets at beginning of year (restated).....	10,153,898	3,152,546	13,306,444	1,776,172
Net assets at end of year.....	\$ 11,440,796	\$ 3,366,654	\$ 14,807,450	\$ 1,914,450

**Balance Sheet**

## GOVERNMENTAL FUNDS

June 30, 2005

(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 632,819	\$ 493,375	\$ 266,982	\$ 229,251
Investments.....	21,996	391	—	—
Invested securities lending collateral.....	333,690	6,313	91,645	41,798
Receivables, net:				
Accounts.....	1,116	128,291	51,769	12,667
Accrued interest.....	4,741	299	6,729	1,471
Income taxes.....	329,416	—	—	—
Sales and other taxes.....	341,477	12,483	—	8,407
Patient accounts.....	11,383	11,723	—	—
Loans and notes.....	16	578	384,426	9,296
Due from Federal government and other grantors.....	8,778	504,373	—	163,668
Due from other funds.....	51,438	7,759	10,793	878
Due from component units.....	—	21	—	—
Interfund receivables.....	5,662	580	286,084	—
Inventories.....	12,783	15,592	—	5,189
Restricted assets:				
Cash and cash equivalents.....	—	—	523,870	150,902
Investments.....	—	—	—	—
Accounts receivable.....	—	—	432,464	—
Other.....	—	—	29,890	—
Prepaid items.....	—	162	—	5,985
Other assets.....	—	—	—	771
<b>Total assets.....</b>	<b>\$ 1,755,315</b>	<b>\$ 1,181,940</b>	<b>\$ 2,084,652</b>	<b>\$ 630,283</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>Liabilities:</b>				
Accounts payable.....	\$ 163,625	\$ 337,284	\$ 11,793	\$ 123,117
Accrued salaries and related expenditures.....	61,165	29,475	71	16,869
Accrued interest payable.....	—	—	—	299
Retainages payable.....	—	146	—	2,170
Tax refunds payable.....	501,916	—	—	—
Payable—aid to individuals/families.....	535	—	—	—
Intergovernmental payables.....	21,595	183,567	3,176	—
Due to other funds.....	55,008	69,272	38	16,274
Due to component units.....	2	—	—	—
Interfund payables.....	—	4,621	3,500	286,084
Deferred revenues.....	96,529	61,104	483,889	86,876
Securities lending collateral.....	333,690	6,313	91,645	41,798
Other liabilities.....	33,151	18	—	—
<b>Total liabilities.....</b>	<b>1,267,216</b>	<b>691,800</b>	<b>594,112</b>	<b>573,487</b>
<b>Fund balances (deficits):</b>				
Reserved.....	142,662	578	1,759,771	7,579
Unreserved, designated reported in:				
General Fund.....	345,437	—	—	—
Special revenue funds.....	—	—	—	—
Capital Projects Fund.....	—	—	—	—
Unreserved, undesignated reported in:				
Special revenue funds.....	—	489,562	(269,231)	49,217
Permanent funds.....	—	—	—	—
<b>Total fund balances.....</b>	<b>488,099</b>	<b>490,140</b>	<b>1,490,540</b>	<b>56,796</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 1,755,315</b>	<b>\$ 1,181,940</b>	<b>\$ 2,084,652</b>	<b>\$ 630,283</b>

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

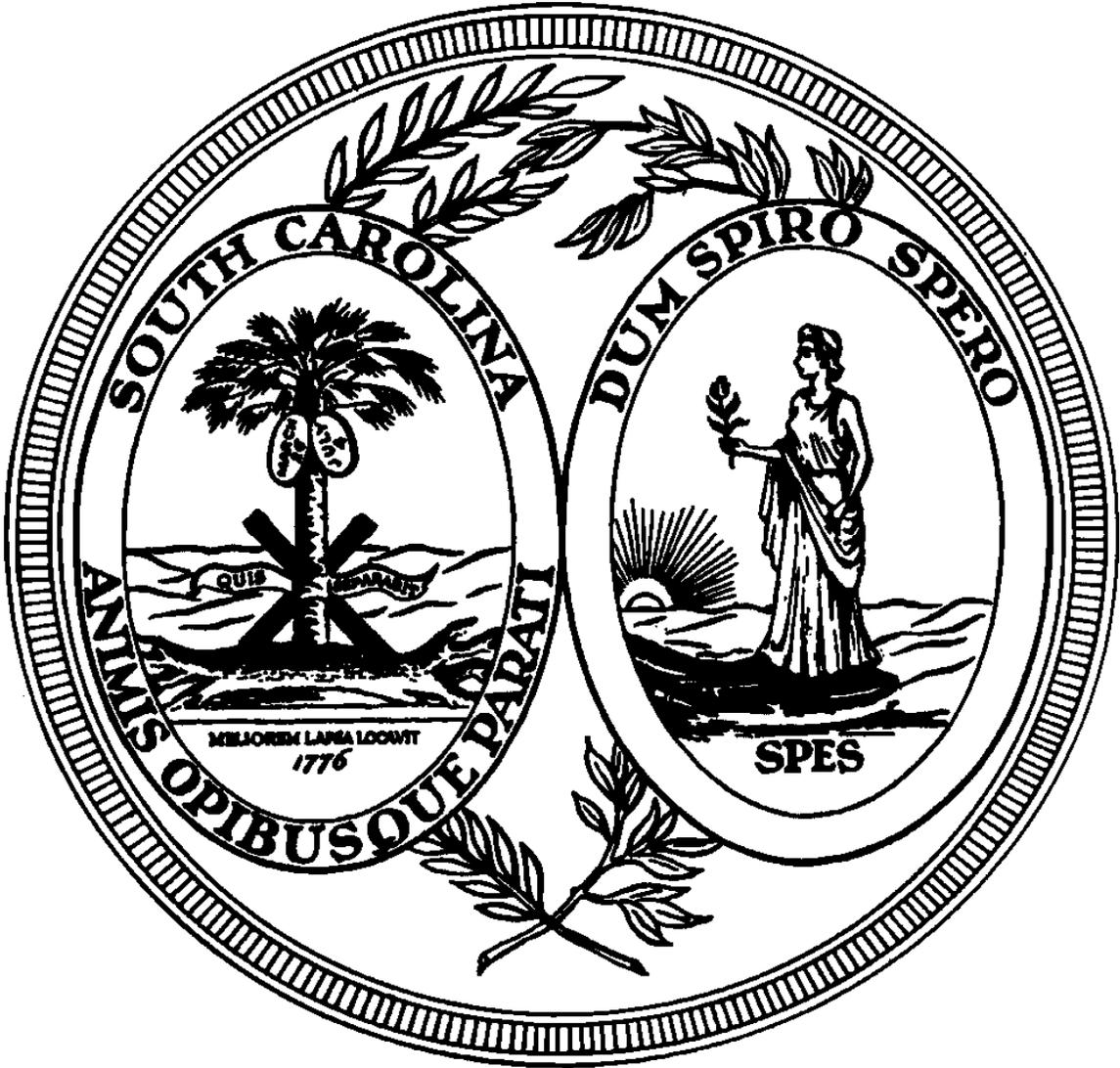
State Tobacco Settlement	Nonmajor Governmental Funds	Totals
\$ 490,840	\$ 679,545	\$ 2,792,812
—	—	22,387
3,854	109,933	587,233
—	710	194,553
220	3,868	17,328
—	—	329,416
—	126,971	489,338
—	—	23,106
—	26,520	420,836
—	5,649	682,468
—	8,731	79,599
—	21,244	21,265
—	4,397	296,723
—	23	33,587
—	—	674,772
—	113,729	113,729
—	—	432,464
—	37,165	67,055
—	—	6,147
—	—	771
<b>\$ 494,914</b>	<b>\$ 1,138,485</b>	<b>\$ 7,285,589</b>
\$ —	\$ 15,372	\$ 651,191
—	1,506	109,086
—	—	299
—	1,651	3,967
—	562	502,478
—	—	535
419	129,386	338,143
—	15,603	156,195
—	—	2
—	22,835	317,040
—	17,429	745,827
3,854	109,933	587,233
—	788	33,957
<b>4,273</b>	<b>315,065</b>	<b>3,445,953</b>
—	174,333	2,084,923
—	—	345,437
—	15,247	15,247
—	183,763	183,763
490,641	449,094	1,209,283
—	983	983
<b>490,641</b>	<b>823,420</b>	<b>3,839,636</b>
<b>\$ 494,914</b>	<b>\$ 1,138,485</b>	<b>\$ 7,285,589</b>

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

June 30, 2005

(Expressed in Thousands)

<b>Total fund balances—governmental funds.....</b>		<b>\$ 3,839,636</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.....	\$ 5,271,813	
Depreciable capital assets.....	10,039,860	
Accumulated depreciation.....	<u>(3,097,060)</u>	
Total capital assets.....		12,214,613
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.....		20,968
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.....		683,178
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.....		100,157
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.....		(3,652)
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.....	(5,066,551)	
Notes payable.....	(7,371)	
Accrued interest on bonds.....	(66,763)	
Capital leases.....	(1,043)	
Compensated absences.....	(194,467)	
Intergovernmental payable.....	(400)	
Policy claims.....	(7,635)	
Other.....	<u>(69,874)</u>	
Total long-term liabilities.....		<u>(5,414,104)</u>
<b>Net assets of governmental activities.....</b>		<b><u>\$ 11,440,796</u></b>



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

## GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
<b>Revenues:</b>				
Taxes:				
Individual income.....	\$ 2,754,497	\$ —	\$ 10,515	\$ —
Retail sales and use.....	2,341,244	693	—	—
Other.....	780,106	40,880	18,000	499,533
Licenses, fees, and permits.....	146,531	143,012	58,523	—
Interest and other investment income.....	27,596	2,244	53,263	8,385
Federal.....	122,567	5,075,921	17,894	718,989
Local and private grants.....	—	9,869	—	—
State grants.....	—	3,469	—	—
Departmental services.....	423,125	148,557	31,501	24,020
Contributions.....	25,424	300,537	68,473	—
Fines and penalties.....	24,943	60,662	—	—
Tobacco legal settlement.....	—	—	—	—
Other.....	26,471	51,579	—	5,017
<b>Total revenues.....</b>	<b>6,672,504</b>	<b>5,837,423</b>	<b>258,169</b>	<b>1,255,944</b>
<b>Expenditures:</b>				
Current:				
General government.....	289,505	216,509	464	—
Education.....	247,722	164,822	—	—
Health and environment.....	1,518,624	3,517,603	—	—
Social services.....	81,205	908,568	—	—
Administration of justice.....	461,495	106,750	—	—
Resources and economic development.....	78,290	93,392	140	—
Transportation.....	—	—	5,508	623,922
Capital outlay.....	2,163	—	—	537,924
Debt service:				
Principal retirement.....	161,735	596	29,395	26,599
Interest and fiscal charges.....	68,930	75	95,953	32,383
Intergovernmental.....	2,516,249	803,511	295,944	73,390
<b>Total expenditures.....</b>	<b>5,425,918</b>	<b>5,811,826</b>	<b>427,404</b>	<b>1,294,218</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>1,246,586</b>	<b>25,597</b>	<b>(169,235)</b>	<b>(38,274)</b>
<b>Other financing sources (uses):</b>				
Bonds issued.....	—	—	228,940	—
Refunding bonds issued.....	148,215	—	153,450	146,495
Premiums on bonds issued.....	5,877	—	35,005	294
Capital leases.....	700	—	—	—
Payment to refunded bond escrow agent.....	(152,264)	—	(173,790)	(6,747)
Transfers in.....	18,681	147,393	3,471	7,767
Transfers out.....	(788,655)	(21,502)	(21)	(5,640)
<b>Total other financing sources (uses).....</b>	<b>(767,446)</b>	<b>125,891</b>	<b>247,055</b>	<b>142,169</b>
<b>Net change in fund balances.....</b>	<b>479,140</b>	<b>151,488</b>	<b>77,820</b>	<b>103,895</b>
<b>Fund balances (deficits) at beginning of year (restated).....</b>	<b>8,959</b>	<b>338,652</b>	<b>1,412,720</b>	<b>(47,099)</b>
<b>Fund balances at end of year.....</b>	<b>\$ 488,099</b>	<b>\$ 490,140</b>	<b>\$ 1,490,540</b>	<b>\$ 56,796</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>
\$ —	\$ —	\$ 2,765,012
—	883,994	3,225,931
—	99,401	1,437,920
—	114,120	462,186
10,504	20,966	122,958
—	39,837	5,975,208
—	55	9,924
—	—	3,469
—	13,147	640,350
—	286,740	681,174
—	21,592	107,197
—	73,231	73,231
3	1,133	84,203
<b>10,507</b>	<b>1,554,216</b>	<b>15,588,763</b>
75	106,761	613,314
—	268,132	680,676
11,669	81,344	5,129,240
—	9,851	999,624
—	14,503	582,748
—	7,813	179,635
—	—	629,430
—	67,596	607,683
—	24,725	243,050
—	55,548	252,889
4,585	984,941	4,678,620
<b>16,329</b>	<b>1,621,214</b>	<b>14,596,909</b>
<b>(5,822)</b>	<b>(66,998)</b>	<b>991,854</b>
—	74,880	303,820
—	—	448,160
—	49	41,225
—	—	700
—	—	(332,801)
—	28,651	205,963
(2,408)	(97,037)	(915,263)
<b>(2,408)</b>	<b>6,543</b>	<b>(248,196)</b>
<b>(8,230)</b>	<b>(60,455)</b>	<b>743,658</b>
<b>498,871</b>	<b>883,875</b>	<b>3,095,978</b>
<b>\$ 490,641</b>	<b>\$ 823,420</b>	<b>\$ 3,839,636</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, 2005  
(Expressed in Thousands)

<b>Net change in fund balances—total governmental funds.....</b>		<b>\$ 743,658</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.....	\$ 679,366	
Depreciation expense.....	(193,426)	
Excess of capital outlay over depreciation expense.....		485,940
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.....		214,327
Losses on disposals of capital assets are reported as an expense in the statement of activities.....		(5,398)
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.....	(303,820)	
Refunding bonds issued.....	(448,160)	
Bond premiums.....	(41,225)	
Net bond and note proceeds.....		(793,205)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets.....		5,157
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.....		(700)
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.....	241,130	
Note principal retirement.....	1,400	
Capital lease payments.....	520	
Payment to bond refunding agent.....	332,801	
Total long-term debt repayment.....		575,851
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.....		83,028
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.....		(1,202)

# 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, 2005  
(Expressed in Thousands)

Eliminations relating to the consolidation of internal service funds resulted in a net decrease in expenses for the business-type activities in the statement of activities.....		\$	(19,282)
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.....	\$	(733)	
Interest accreted on capital appreciation debt.....		(1,208)	
Amortization of bond issuance costs.....		(890)	
Net amortization of bond premiums and discounts.....		1,897	
Amortization of deferred losses on refunding of debt.....		(10,324)	
Net increase in compensated absences payable.....		(6,138)	
Decrease in intergovernmental payable.....		99	
Increase in policy claims payable.....		(2,000)	
Net decrease in other payables.....		18,021	
Total additional expenses.....			<u>(1,276)</u>
<b>Change in net assets of governmental activities.....</b>			<b><u>\$ 1,286,898</u></b>

# Statement of Net Assets

## PROPRIETARY FUNDS

June 30, 2005

(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.....	\$ 537,023	\$ 355,082	\$ 23,226
Investments.....	42,583	—	—
Invested securities lending collateral.....	58,663	2,326	9,876
Receivables, net:			
Accounts.....	38,515	7,891	108
Contributions.....	4,149	—	—
Participants.....	—	—	—
Accrued interest.....	3,572	109	13
Student accounts.....	36,140	—	—
Patient accounts.....	—	—	—
Loans and notes.....	81	—	43,492
Assessments.....	—	53,433	—
Due from Federal government and other grantors.....	89,875	1,118	1,406
Due from other funds.....	25,490	24	—
Due from component units.....	88,813	—	—
Inventories.....	14,689	—	—
Restricted assets:			
Cash and cash equivalents.....	42,487	—	51,176
Investments.....	67	—	—
Loans receivable.....	215	—	—
Other.....	199	—	—
Prepaid items.....	18,693	—	—
Other current assets.....	2,110	—	—
Total current assets.....	<u>1,003,364</u>	<u>419,983</u>	<u>129,297</u>
Long-term assets:			
Investments.....	17,196	—	544
Receivables, net:			
Accounts.....	583	—	—
Contributions.....	1,517	—	—
Participants.....	—	—	—
Loans and notes.....	742	—	24,797
Interfund receivables.....	—	—	—
Restricted assets:			
Cash and cash equivalents.....	215,355	—	255,608
Investments.....	16	—	3,924
Loans receivable.....	52,985	—	483,545
Other.....	8,850	—	5,796
Prepaid items.....	1,446	—	—
Other long-term assets.....	4,900	—	—
Deferred charges.....	1,366	—	5,240
Capital assets:			
Land and improvements.....	212,742	—	—
Buildings and improvements.....	2,827,181	—	—
Construction in progress.....	315,081	—	—
Vehicles.....	38,441	—	—
Machinery and equipment.....	435,373	—	1,098
Works of art and historical treasures.....	16,810	—	—
Intangible assets.....	10,959	—	—
Less: accumulated depreciation.....	<u>(1,400,824)</u>	<u>—</u>	<u>(245)</u>
Total capital assets, net.....	<u>2,455,763</u>	<u>—</u>	<u>853</u>
Total long-term assets.....	<u>2,760,719</u>	<u>—</u>	<u>780,307</u>
<b>Total assets.....</b>	<b><u>3,764,083</u></b>	<b><u>419,983</u></b>	<b><u>909,604</u></b>

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

<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>	
\$ 36,156	\$ 145,448	\$ 180,596	\$ 1,277,531	\$ 318,481
—	—	35,114	77,697	—
—	—	29,204	100,069	24,349
3,042	15,166	2,611	67,333	97,075
—	—	179	4,328	—
—	—	6,255	6,255	—
—	133	558	4,385	3,016
—	—	—	36,140	—
104,281	—	27,971	132,252	—
—	76,400	—	119,973	—
—	—	—	53,433	—
—	—	—	92,399	—
—	—	9,486	35,000	42,030
—	—	—	88,813	4
10,585	—	3,910	29,184	6,796
10,077	51,481	47,535	202,756	—
—	—	8,072	8,139	—
—	—	90	305	—
—	—	2,278	2,477	—
2,532	—	999	22,224	9,879
—	—	1,176	3,286	—
<b>166,673</b>	<b>288,628</b>	<b>356,034</b>	<b>2,363,979</b>	<b>501,630</b>
—	—	—	17,740	204,154
—	—	—	583	90
—	—	195	1,712	—
—	—	18,948	18,948	—
—	696,005	—	721,544	—
—	—	41,877	41,877	44,288
257,283	—	10,175	738,421	—
58,495	395	60,087	122,917	—
—	—	14,565	551,095	—
—	—	645	15,291	—
—	—	14,110	15,556	—
15,017	—	9,586	29,503	—
—	2,727	—	9,333	149
6,093	—	25,231	244,066	8,604
227,350	—	85,453	3,139,984	186,501
85,051	—	4,123	404,255	42
1,940	17	704	41,102	46,323
147,498	375	18,495	602,839	57,832
—	—	7,955	24,765	—
—	—	5,701	16,660	12,238
(199,195)	(152)	(49,955)	(1,650,371)	(165,234)
<b>268,737</b>	<b>240</b>	<b>97,707</b>	<b>2,823,300</b>	<b>146,306</b>
<b>599,532</b>	<b>699,367</b>	<b>267,895</b>	<b>5,107,820</b>	<b>394,987</b>
<b>766,205</b>	<b>987,995</b>	<b>623,929</b>	<b>7,471,799</b>	<b>896,617</b>

Continued on Next Page

**Statement of Net Assets**

PROPRIETARY FUNDS (Continued)

June 30, 2005

(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.....	\$ 64,575	\$ 1,850	\$ —
Accrued salaries and related expenses.....	48,394	—	460
Accrued interest payable.....	7,870	—	—
Retainages payable.....	9,545	—	—
Tax refunds payable.....	—	4,018	—
Unemployment benefits payable.....	—	6,554	—
Intergovernmental payables.....	—	4,032	734
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	16,142	4,998	27
Unearned revenues.....	102,556	—	—
Deposits.....	5,648	—	—
Amounts held in custody for others.....	5,371	—	—
Securities lending collateral.....	58,663	2,326	9,876
Liabilities payable from restricted assets:			
Accounts payable.....	5	—	—
Accrued interest payable.....	—	—	14,904
Bonds payable.....	—	—	28,588
Other.....	—	—	7,685
Notes payable.....	6,194	—	—
Revenue bond anticipation notes payable.....	9,345	—	—
General obligation bonds payable.....	13,075	—	—
Revenue bonds payable.....	17,819	—	—
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	4,390	—	—
Compensated absences payable.....	42,884	—	352
Other current liabilities.....	3,567	—	184
Total current liabilities.....	<u>416,043</u>	<u>23,778</u>	<u>62,810</u>
Long-term liabilities:			
Retainages payable.....	759	—	—
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Interfund payables.....	45,855	—	—
Liabilities payable from restricted assets:			
Other.....	—	—	—
Notes payable.....	74,599	—	—
General obligation bonds payable.....	217,348	—	—
Revenue bonds payable.....	425,845	—	602,640
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	34,033	—	—
Compensated absences payable.....	48,385	—	261
Other long-term liabilities.....	58,349	—	—
Total long-term liabilities.....	<u>905,173</u>	<u>—</u>	<u>602,901</u>
<b>Total liabilities.....</b>	<b><u>1,321,216</u></b>	<b><u>23,778</u></b>	<b><u>665,711</u></b>

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

<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>	
\$ 27,107	\$ 93,498	\$ 15,847	\$ 202,877	\$ 8,602
13,378	—	7,540	69,772	3,998
6,836	—	1,115	15,821	793
3,179	—	401	13,125	36
—	—	—	4,018	—
—	—	—	6,554	—
—	—	—	4,766	—
—	—	9,077	9,077	—
—	—	38,500	38,500	482,502
13,409	—	1,306	35,882	2,494
—	—	13,314	115,870	127,174
—	—	—	5,648	—
—	—	—	5,371	—
—	—	29,204	100,069	24,349
—	—	2	7	—
—	7,276	480	22,660	—
—	48,035	—	76,623	—
—	—	41,555	49,240	—
—	—	11,550	17,744	546
—	—	—	9,345	—
—	—	—	13,075	—
—	—	974	18,793	1,260
—	—	—	—	4,120
5,725	—	340	10,455	610
14,066	211	2,865	60,378	3,486
73	990	2,520	7,334	5,367
<b>83,773</b>	<b>150,010</b>	<b>176,590</b>	<b>913,004</b>	<b>665,337</b>
—	—	—	759	—
—	—	158,279	158,279	—
—	—	171,867	171,867	81,748
—	—	14,399	60,254	5,594
—	10,464	—	10,464	—
—	—	131,737	206,336	2,394
—	—	—	217,348	—
474,309	696,048	17,774	2,216,616	22,261
—	—	—	—	15,272
7,623	—	444	42,100	1,203
—	—	1,154	49,800	2,651
—	1,537	2,084	61,970	—
<b>481,932</b>	<b>708,049</b>	<b>497,738</b>	<b>3,195,793</b>	<b>131,123</b>
<b>565,705</b>	<b>858,059</b>	<b>674,328</b>	<b>4,108,797</b>	<b>796,460</b>

Continued on Next Page

## Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2005

(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.....	\$ 1,701,387	\$ —	\$ 853
Restricted:			
Expendable:			
Unemployment compensation benefits.....	—	396,205	—
Education.....	131,806	—	—
Capital projects.....	116,577	—	—
Debt service.....	24,624	—	51,850
Loan programs.....	—	—	188,316
Insurance programs.....	—	—	—
Nonexpendable:			
Education.....	53,189	—	—
Unrestricted.....	415,284	—	2,874
<b>Total net assets (deficit).....</b>	<b><u>\$ 2,442,867</u></b>	<b><u>\$ 396,205</u></b>	<b><u>\$ 243,893</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>		
\$ 35,746	\$ 240	\$ 39,846	\$ 1,778,072		\$ 122,160
—	—	—	396,205		—
—	—	25,563	157,369		—
—	—	3,810	120,387		—
71,189	96,648	13,368	257,679		—
—	31,971	—	220,287		20,000
—	—	—	—		27,307
—	—	23,429	76,618		406
93,565	1,077	(156,415)	356,385		(69,716)
<b>\$ 200,500</b>	<b>\$ 129,936</b>	<b>\$ (50,399)</b>	<b>3,363,002</b>		<b>\$ 100,157</b>
			3,652		
			<b>\$ 3,366,654</b>		

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

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
<b>Operating revenues:</b>			
Assessments.....	\$ —	\$ 276,077	\$ —
Charges for services.....	832,516	—	7,956
Contributions.....	—	—	—
Interest and other investment income.....	—	539	40,551
Operating revenues pledged for revenue bonds.....	136,597	—	—
Federal operating grants and contracts.....	485,071	23,435	—
State operating grants and contracts.....	194,110	—	—
Local/private operating grants and contracts.....	52,696	—	—
Other operating revenues.....	173,445	19,525	98
<b>Total operating revenues.....</b>	<b>1,874,435</b>	<b>319,576</b>	<b>48,605</b>
<b>Operating expenses:</b>			
General operations and administration.....	2,398,904	243	9,673
Benefits and claims.....	—	366,577	—
Tuition plan disbursements.....	—	—	—
Interest.....	—	—	31,294
Depreciation and amortization.....	115,424	—	392
Scholarships and fellowships.....	148,562	—	—
Other operating expenses.....	—	—	3,157
<b>Total operating expenses.....</b>	<b>2,662,890</b>	<b>366,820</b>	<b>44,516</b>
<b>Operating income (loss).....</b>	<b>(788,455)</b>	<b>(47,244)</b>	<b>4,089</b>
<b>Nonoperating revenues (expenses):</b>			
Federal and local government appropriations.....	57,136	—	—
Interest income.....	25,769	13,449	—
Contributions.....	78,401	—	—
Federal grants and contracts.....	5,049	—	107,836
Local/private grants and contracts.....	6,150	—	—
Interest expense.....	(33,091)	—	—
Net other nonoperating revenues (expenses).....	5,055	—	(102,505)
<b>Total nonoperating revenues (expenses).....</b>	<b>144,469</b>	<b>13,449</b>	<b>5,331</b>
<b>Income (loss) before other revenues, expenses, losses, and transfers.....</b>	<b>(643,986)</b>	<b>(33,795)</b>	<b>9,420</b>
Capital contributions.....	—	—	—
Federal capital grants and contracts.....	38,009	—	—
Local/private capital grants and contracts.....	16,802	—	—
Additions to endowments.....	15,242	—	—
Extraordinary loss on early extinguishment of debt.....	—	—	(556)
Transfers in.....	768,075	30	300
Transfers out.....	(22,809)	(1,102)	(300)
<b>Change in net assets.....</b>	<b>171,333</b>	<b>(34,867)</b>	<b>8,864</b>
<b>Net assets at beginning of year.....</b>	<b>2,271,534</b>	<b>431,072</b>	<b>235,029</b>
<b>Net assets (deficit) at end of year.....</b>	<b>\$ 2,442,867</b>	<b>\$ 396,205</b>	<b>\$ 243,893</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>
\$ —	\$ —	\$ —	\$ 276,077	\$ —
624,942	42,660	279,146	1,787,220	1,654,375
—	—	16,852	16,852	571
—	4,452	4,986	50,528	1,098
—	—	2,038	138,635	—
—	—	—	508,506	—
—	—	—	194,110	—
—	—	—	52,696	—
13,084	16	29,047	235,215	21,593
<b>638,026</b>	<b>47,128</b>	<b>332,069</b>	<b>3,259,839</b>	<b>1,677,637</b>
579,030	22,147	215,526	3,225,523	312,327
—	—	46,577	413,154	1,278,901
—	—	26,653	26,653	—
—	17,586	—	48,880	13
20,260	256	5,193	141,525	12,391
—	—	—	148,562	—
—	3,578	228	6,963	5,392
<b>599,290</b>	<b>43,567</b>	<b>294,177</b>	<b>4,011,260</b>	<b>1,609,024</b>
<b>38,736</b>	<b>3,561</b>	<b>37,892</b>	<b>(751,421)</b>	<b>68,613</b>
—	—	—	57,136	—
2,826	—	4,630	46,674	19,316
—	—	1,426	79,827	—
—	—	—	112,885	—
—	—	137	6,287	—
(10,037)	—	(7,411)	(50,539)	(2,172)
—	1,916	4,657	(90,877)	4,248
<b>(7,211)</b>	<b>1,916</b>	<b>3,439</b>	<b>161,393</b>	<b>21,392</b>
<b>31,525</b>	<b>5,477</b>	<b>41,331</b>	<b>(590,028)</b>	<b>90,005</b>
—	—	—	—	8
—	—	—	38,009	—
—	—	355	17,157	—
—	—	763	16,005	—
—	—	—	(556)	—
—	—	507	768,912	3,417
(11,189)	—	(19,273)	(54,673)	(10,402)
<b>20,336</b>	<b>5,477</b>	<b>23,683</b>	<b>194,826</b>	<b>83,028</b>
<b>180,164</b>	<b>124,459</b>	<b>(74,082)</b>		<b>17,129</b>
<b>\$ 200,500</b>	<b>\$ 129,936</b>	<b>\$ (50,399)</b>		<b>\$ 100,157</b>

..... 19,282  
 ..... **\$ 214,108**

# Statement of Cash Flows

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2005

(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.....	\$ 1,013,848	\$ —	\$ —
Assessments received.....	—	276,886	—
Grants received.....	726,873	19,529	—
Receipts from collection of loans and notes.....	317,463	—	119,640
Receipts of funds held for others.....	133,620	—	—
Internal activity—payments from other funds.....	66,278	—	—
Tuition plan contributions received.....	—	—	—
Other operating cash receipts.....	32,041	18,675	12,547
Claims and benefits paid.....	—	(363,404)	(2,625)
Payments to suppliers for goods and services.....	(912,730)	—	(6,375)
Payments to employees.....	(1,516,593)	—	(5,190)
Payments for scholarships and fellowships.....	(120,879)	—	—
Loans issued to students.....	(316,357)	—	—
Payments of funds held for others.....	(100,593)	—	—
Program loans issued.....	—	—	(114,441)
Internal activity—payments to other funds.....	—	—	—
Other operating cash payments.....	(999)	(439)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>(678,028)</b>	<b>(48,753)</b>	<b>3,556</b>
<b>Cash flows from noncapital financing activities:</b>			
State, county, and local appropriations.....	48,837	—	—
Federal appropriations.....	10,986	—	—
Funds held for others.....	(44)	—	—
Principal payments received from other funds.....	20	—	—
Principal payments made to other funds.....	—	—	—
Receipt of interest from other funds.....	—	—	—
Interest payments made to other funds.....	—	—	—
Loans received from other funds.....	—	—	—
Proceeds from sale of revenue bonds.....	—	—	184,468
Principal payments on revenue bonds.....	—	—	(64,225)
Proceeds from issuance of noncapital debt.....	3,000	—	—
Principal paid on noncapital debt.....	(245)	—	—
Interest payments on noncapital debt.....	(143)	—	(29,938)
Payment of bond issuance costs.....	—	—	(1,538)
Gifts and grants for other than capital purposes.....	130,367	—	—
Federal revenue.....	—	—	106,446
Payments from Federal grants.....	—	—	(103,228)
Other cash receipts.....	1,737	—	—
Other cash payments.....	(355)	(500)	—
Transfers in.....	768,075	30	300
Transfers out.....	(22,809)	(1,102)	(300)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>939,426</b>	<b>(1,572)</b>	<b>91,985</b>

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

<b>FUNDS</b>				
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	<b>INTERNAL SERVICE FUNDS</b>
\$ 562,498	\$ 34,631	\$ 279,461	\$ 1,890,438	\$ 1,199,823
—	—	127,424	404,310	—
—	—	—	746,402	—
—	485,678	—	922,781	—
—	—	—	133,620	—
—	—	—	66,278	465,345
—	—	15,362	15,362	—
10,372	—	26,270	99,905	37,697
—	—	(206,735)	(572,764)	(1,240,941)
(186,247)	(42,094)	(88,230)	(1,235,676)	(244,911)
(255,389)	(3,084)	(115,685)	(1,895,941)	(69,013)
—	—	—	(120,879)	—
—	—	—	(316,357)	—
—	—	—	(100,593)	—
—	(647,181)	—	(761,622)	—
(66,278)	—	—	(66,278)	(17,508)
—	—	(5,910)	(7,348)	(12)
<b>64,956</b>	<b>(172,050)</b>	<b>31,957</b>	<b>(798,362)</b>	<b>130,480</b>
—	—	—	48,837	—
—	—	—	10,986	—
—	—	—	(44)	—
—	—	—	20	1,246
—	—	(585)	(585)	(344)
—	—	—	—	1,290
—	—	(1,199)	(1,199)	—
—	—	—	—	2,827
—	174,700	—	359,168	—
—	(20,995)	—	(85,220)	—
—	—	7,000	10,000	—
—	—	(23,850)	(24,095)	—
—	(13,443)	(4,276)	(47,800)	—
—	(886)	—	(2,424)	—
—	—	3,044	133,411	—
—	—	—	106,446	—
—	—	—	(103,228)	—
—	—	69	1,806	—
—	(264)	(552)	(1,671)	—
—	—	507	768,912	3,417
(11,189)	—	(19,273)	(54,673)	(10,402)
<b>(11,189)</b>	<b>139,112</b>	<b>(39,115)</b>	<b>1,118,647</b>	<b>(1,966)</b>

Continued on Next Page

**Statement of Cash Flows**

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2005

(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.....	\$ 5,396	\$ —	\$ —
Acquisition of capital assets .....	(293,895)	—	(907)
Principal payments received from other funds.....	—	—	—
Principal payments on notes payable .....	(6,065)	—	—
Principal payments on limited obligation bonds.....	—	—	—
Proceeds from issuance of capital debt.....	268,693	—	—
Bond proceeds transferred to county.....	(11,565)	—	—
Principal paid on capital debt and lease.....	(140,319)	—	—
Interest payments on capital debt.....	(32,669)	—	—
Payment of agent and broker fees.....	(392)	—	—
Proceeds from sale or disposal of capital assets.....	2,875	—	—
Capital grants and gifts received.....	46,594	—	—
<b>Net cash provided by (used in) capital and related financing activities.....</b>	<b>(161,347)</b>	<b>—</b>	<b>(907)</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sales and maturities of investments.....	111,240	—	—
Purchase of investments .....	(115,354)	—	—
Interest and dividends on investments.....	20,439	13,974	6,950
Collection of escrow payments from borrower.....	—	—	—
<b>Net cash provided by (used in) investing activities.....</b>	<b>16,325</b>	<b>13,974</b>	<b>6,950</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>116,376</b>	<b>(36,351)</b>	<b>101,584</b>
<b>Cash and cash equivalents at beginning of year (restated).....</b>	<b>678,489</b>	<b>391,433</b>	<b>228,426</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 794,865</b>	<b>\$ 355,082</b>	<b>\$ 330,010</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income (loss) .....	\$ (788,455)	\$ (47,244)	\$ 4,089
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	115,424	—	392
Provision for bad debts.....	315	—	—
Realized gains and losses on investments.....	—	—	—
Issuance of loans and notes.....	—	—	(114,441)
Collection of loans and notes.....	—	—	84,815
Interest payments reclassified as noncapital financing activities.....	—	—	31,294
Interest and dividends on investments and interfund loans.....	—	(539)	(7,865)
Amounts received for payment of claims.....	—	—	—
Payment of claims.....	—	—	—
Other nonoperating revenues.....	—	—	—
Other nonoperating expenses.....	—	—	—
Other.....	812	(196)	(814)

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

<b>FUNDS</b>				
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	<b>INTERNAL SERVICE FUNDS</b>
\$ —	\$ —	\$ —	\$ 5,396	\$ —
(63,811)	(91)	(21,808)	(380,512)	(9,020)
—	—	—	—	1,190
—	—	—	(6,065)	—
—	—	—	—	(3,930)
494,200	—	—	762,893	—
—	—	—	(11,565)	—
(137,452)	—	(1,743)	(279,514)	(448)
(3,551)	—	(3,592)	(39,812)	(2,380)
(15,360)	—	(121)	(15,873)	—
2,261	—	208	5,344	184
—	—	355	46,949	—
<b>276,287</b>	<b>(91)</b>	<b>(26,701)</b>	<b>87,241</b>	<b>(14,404)</b>
13,784	156	92,335	217,515	117,052
(68,947)	—	(101,243)	(285,544)	(62,164)
375	4,461	12,701	58,900	19,904
—	—	786	786	—
<b>(54,788)</b>	<b>4,617</b>	<b>4,579</b>	<b>(8,343)</b>	<b>74,792</b>
<b>275,266</b>	<b>(28,412)</b>	<b>(29,280)</b>	<b>399,183</b>	<b>188,902</b>
<b>28,250</b>	<b>225,341</b>	<b>267,586</b>	<b>1,819,525</b>	<b>129,579</b>
<b>\$ 303,516</b>	<b>\$ 196,929</b>	<b>\$ 238,306</b>	<b>\$ 2,218,708</b>	<b>\$ 318,481</b>
\$ 38,736	\$ 3,561	\$ 37,892	\$ (751,421)	\$ 68,613
20,260	256	5,193	141,525	12,391
—	308	—	623	—
—	—	(3,982)	(3,982)	—
—	(673,090)	—	(787,531)	—
—	419,736	—	504,551	—
—	18,080	—	49,374	—
—	(4,405)	(4,986)	(17,795)	—
—	—	125,744	125,744	—
—	—	(166,925)	(166,925)	—
—	—	744	744	3,626
—	—	(1,006)	(1,006)	—
1,346	—	4,769	5,917	(322)

Continued on Next Page

**Statement of Cash Flows**

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2005

(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.....	\$ (24,550)	\$ (826)	\$ 4,766
Receivable from participants, net.....	—	—	—
Patient accounts receivable, net.....	—	401	—
Accrued interest.....	—	—	—
Loans receivable.....	(440)	788	(1,759)
Due from Federal government and other grantors.....	—	—	2,489
Due from other funds.....	—	(24)	—
Inventories.....	—	—	—
Other assets.....	(8,772)	—	—
<b>Change in liabilities—increases (decreases):</b>			
Accounts payable.....	10,948	1,660	—
Accrued salaries and related expenses.....	4,787	—	(51)
Accrued interest payable.....	221	—	—
Retainages payable.....	—	—	—
Tax refunds payable.....	—	408	—
Unemployment benefits payable.....	—	1,470	—
Intergovernmental payables.....	—	43	557
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	—	(4,694)	(30)
Deferred revenues.....	7,879	—	—
Deposits.....	493	—	—
Liabilities payable from restricted assets.....	—	—	41
Compensated absences payable.....	5,115	—	(20)
Other liabilities.....	(1,805)	—	93
<b>Net cash provided by (used in) operating activities.....</b>	<b>\$ (678,028)</b>	<b>\$ (48,753)</b>	<b>\$ 3,556</b>
<b>Noncash capital, investing, and financing activities:</b>			
Acquisition of capital assets through:			
Assumption of liabilities.....	\$ 26,124	\$ —	\$ —
Donations.....	4,054	—	—
Disposal of capital assets.....	(1,435)	—	—
Assignment of Perkins Loans.....	440	—	—
Increase (decrease) in fair value of investments.....	3,632	—	(139)
Accrual of arbitrage income.....	—	—	—
Principal amount of bonds refunded.....	—	—	—
Long-term debt forgiven.....	—	—	—
<b>Total noncash capital, investing, and financing activities.....</b>	<b>\$ 32,815</b>	<b>\$ —</b>	<b>\$ (139)</b>

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

<b>FUNDS</b>				
<b>Medical University Hospital Authority</b>	<b>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>	<b>INTERNAL SERVICE FUNDS</b>
\$ (2,708)	\$ (1,204)	\$ (1,681)	\$ (26,203)	\$ 131
—	—	(1,490)	(1,490)	—
—	—	—	401	—
—	—	79	79	24
—	—	—	(1,411)	—
—	—	—	2,489	—
—	—	(283)	(307)	(5,459)
—	—	(8)	(8)	353
—	—	4,517	(4,255)	1,277
10,350	64,590	1,111	88,659	3,084
—	—	52	4,788	112
—	—	—	221	(61)
—	—	—	—	9
—	—	—	408	—
—	—	—	1,470	—
—	—	—	600	—
—	—	24,078	24,078	—
—	—	6,767	6,767	38,173
—	—	(145)	(4,869)	167
—	—	355	8,234	8,000
—	—	—	493	—
—	—	(90)	(49)	—
—	38	140	5,273	362
(3,028)	80	1,112	(3,548)	—
<b>\$ 64,956</b>	<b>\$ (172,050)</b>	<b>\$ 31,957</b>	<b>\$ (798,362)</b>	<b>\$ 130,480</b>
\$ —	\$ —	\$ —	\$ 26,124	\$ —
—	—	—	4,054	—
—	—	—	(1,435)	—
—	—	—	440	—
—	—	2,788	6,281	1,384
—	1,917	—	1,917	—
—	3,000	—	3,000	—
—	—	—	—	757
<b>\$ —</b>	<b>\$ 4,917</b>	<b>\$ 2,788</b>	<b>\$ 40,381</b>	<b>\$ 2,141</b>

# Statement of Fiduciary Net Assets

## FIDUCIARY FUNDS

June 30, 2005

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 2,845,639	\$ 915,613	\$ 26,880	\$ 163,503
Receivables, net:				
Accounts.....	—	—	—	5,186
Contributions.....	130,867	—	—	—
Employer long-term.....	1,785	—	—	—
Accrued interest.....	114,614	4,375	447	675
Unsettled investment sales.....	49,450	—	455	—
Taxes.....	—	—	—	2,486
Total receivables.....	<u>296,716</u>	<u>4,375</u>	<u>902</u>	<u>8,347</u>
Due from other funds.....	<u>6,914</u>	<u>—</u>	<u>—</u>	<u>60,384</u>
Investments, at fair value:				
United States government securities.....	3,122,504	214,407	—	—
United States government agencies and government-insured securities.....	1,990,199	308,299	—	—
Corporate bonds.....	4,443,116	418,317	—	—
Financial and other.....	2,067,961	9,101	489,411	37,242
Equities.....	11,028,468	—	—	—
Total investments.....	<u>22,652,248</u>	<u>950,124</u>	<u>489,411</u>	<u>37,242</u>
Securities held in lieu of surety bonds.....	—	—	—	314,561
Invested securities lending collateral.....	4,110,949	566,374	1,166	15,749
Capital assets, net .....	3,814	—	—	—
Other assets.....	165	—	4,665	—
<b>Total assets.....</b>	<b><u>29,916,445</u></b>	<b><u>2,436,486</u></b>	<b><u>523,024</u></b>	<b><u>599,786</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	5,661	—	984	18,501
Accounts payable—unsettled investment purchases.....	62,196	—	339	—
Due to other funds.....	29,356	—	—	—
Tax refunds payable.....	—	—	—	664
Intergovernmental payables.....	—	—	—	2,366
Deposits.....	—	—	—	1,115
Amounts held in custody for others.....	—	—	—	561,391
Deferred retirement benefits.....	884,776	—	—	—
Securities lending collateral.....	4,110,949	566,374	1,166	15,749
Other liabilities.....	3,539	1,552	—	—
<b>Total liabilities.....</b>	<b><u>5,096,477</u></b>	<b><u>567,926</u></b>	<b><u>2,489</u></b>	<b><u>599,786</u></b>
<b>NET ASSETS</b>				
Held in trust for:				
Pension benefits.....	24,819,968	—	—	—
External investment pool participants.....	—	1,868,560	—	—
Other purposes.....	—	—	520,535	—
<b>Total net assets.....</b>	<b><u>\$ 24,819,968</u></b>	<b><u>\$ 1,868,560</u></b>	<b><u>\$ 520,535</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, 2005

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
<b>Additions:</b>			
Licenses, fees, and permits.....	\$ —	\$ —	\$ 177
Contributions:			
Employer.....	640,483	—	—
Employee.....	495,012	—	—
Deposits from pool participants.....	—	4,990,396	—
Tuition plan deposits.....	—	—	136,856
<b>Total contributions.....</b>	<b>1,135,495</b>	<b>4,990,396</b>	<b>136,856</b>
Investment income:			
Interest income and net appreciation in investments.....	1,697,096	48,569	33,818
Securities lending income.....	86,006	19,890	—
<b>Total investment income.....</b>	<b>1,783,102</b>	<b>68,459</b>	<b>33,818</b>
Less investment expense:			
Investment expense.....	22,406	—	—
Securities lending expense.....	76,017	18,397	—
<b>Net investment income.....</b>	<b>1,684,679</b>	<b>50,062</b>	<b>33,818</b>
Transfers between pension trust funds.....	2,142	—	—
Transfers in.....	2,046	—	—
<b>Total additions.....</b>	<b>2,824,362</b>	<b>5,040,458</b>	<b>170,851</b>
<b>Deductions:</b>			
Regular retirement benefits.....	1,342,230	—	—
Supplemental retirement benefits.....	2,046	—	—
Deferred retirement benefits.....	338,778	—	—
Refunds of retirement contributions to members.....	80,906	—	—
Group life insurance claims.....	15,195	—	—
Accidental death benefits.....	1,047	—	—
Withdrawals, pool participants.....	—	5,155,312	—
Distributions to pool participants.....	—	41,881	—
Depreciation.....	119	—	—
Administrative expense.....	16,182	78	4,036
Payments in accordance with trust agreements.....	—	—	202
Transfers between pension trust funds.....	2,142	—	—
Other expenses.....	—	—	8
<b>Total deductions.....</b>	<b>1,798,645</b>	<b>5,197,271</b>	<b>4,246</b>
<b>Change in net assets.....</b>	<b>1,025,717</b>	<b>(156,813)</b>	<b>166,605</b>
<b>Net assets at beginning of year (restated).....</b>	<b>23,794,251</b>	<b>2,025,373</b>	<b>353,930</b>
<b>Net assets at end of year.....</b>	<b>\$ 24,819,968</b>	<b>\$ 1,868,560</b>	<b>\$ 520,535</b>

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

# Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2005

(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.....	\$ 38,328	\$ 118,836	\$ 682	\$ 17,680	\$ 30,419	\$ 205,945
Investments.....	101,041	—	203	—	47,558	148,802
Invested securities lending collateral.....	—	15,749	—	—	365	16,114
Receivables, net						
Accounts.....	141,114	20,460	—	28,920	510	191,004
Contributions.....	—	—	—	—	10,851	10,851
Accrued interest.....	2,044	—	25	—	606	2,675
Due from primary government.....	—	—	—	—	2	2
Inventories.....	107,966	3,811	90	2,405	—	114,272
Restricted assets:						
Cash and cash equivalents.....	116,555	—	791	455	6,682	124,483
Investments.....	51,405	—	1,240	—	—	52,645
Prepaid items.....	3,857	3,297	51	—	26	7,231
Other current assets.....	14,724	142	—	263	—	15,129
Deferred charges.....	—	—	—	—	1,532	1,532
Total current assets.....	<u>577,034</u>	<u>162,295</u>	<u>3,082</u>	<u>49,723</u>	<u>98,551</u>	<u>890,685</u>
Long-term assets:						
Receivables, net:						
Accounts.....	—	—	—	—	2,211	2,211
Contributions.....	—	—	—	—	34,553	34,553
Investments.....	52,173	6,091	—	—	516,887	575,151
Restricted assets:						
Cash and cash equivalents.....	98,053	—	—	—	—	98,053
Investments.....	402,414	—	16,773	—	—	419,187
Other.....	—	—	473	—	—	473
Other long-term assets.....	695	—	—	7,753	86	8,534
Deferred charges.....	383,688	16,918	4,267	—	—	404,873
Investment in joint venture.....	6,816	—	—	—	—	6,816
Non-depreciable capital assets.....	733,374	200,894	—	—	8,971	943,239
Depreciable capital assets, net.....	<u>2,431,885</u>	<u>235,936</u>	<u>173,221</u>	<u>8,710</u>	<u>554</u>	<u>2,850,306</u>
Total long-term assets.....	<u>4,109,098</u>	<u>459,839</u>	<u>194,734</u>	<u>16,463</u>	<u>563,262</u>	<u>5,343,396</u>
<b>Total assets.....</b>	<b><u>4,686,132</u></b>	<b><u>622,134</u></b>	<b><u>197,816</u></b>	<b><u>66,186</u></b>	<b><u>661,813</u></b>	<b><u>6,234,081</u></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, 2005

(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.....	\$ 128,495	\$ 5,197	\$ 38	\$ 5,415	\$ 1,617	\$ 140,762
Accrued salaries and related expenses.....	6,660	3,349	—	822	64	10,895
Accrued interest payable.....	78,456	3,100	—	—	—	81,556
Retainages payable.....	—	846	—	—	—	846
Prizes payable.....	—	—	—	27,632	—	27,632
Intergovernmental payables.....	—	16	—	—	103	119
Policy claims.....	2,375	—	—	—	35,000	37,375
Due to primary government.....	—	—	—	21,244	88,838	110,082
Deferred revenues and deferred credits.....	—	3,722	124	998	25,082	29,926
Deposits.....	—	—	11	—	—	11
Securities lending collateral.....	—	15,749	—	—	365	16,114
Liabilities payable from restricted assets:						
Accounts payable.....	—	—	12	—	247	259
Accrued interest payable.....	—	—	1,766	—	—	1,766
Notes payable.....	—	445	—	1,104	—	1,549
Revenue bonds payable.....	76,825	3,025	—	—	—	79,850
Capital leases payable.....	2,771	37	—	—	—	2,808
Commercial paper notes.....	193,317	—	—	—	—	193,317
Compensated absences payable.....	—	2,003	—	58	83	2,144
Other current liabilities.....	50,279	3,048	225	56	360	53,968
<b>Total current liabilities.....</b>	<b>539,178</b>	<b>40,537</b>	<b>2,176</b>	<b>57,329</b>	<b>151,759</b>	<b>790,979</b>
Long-term liabilities:						
Retainages payable.....	26,824	—	—	—	—	26,824
Policy claims.....	—	—	—	—	149,816	149,816
Deferred revenues and deferred credits.....	260,613	—	—	—	—	260,613
Amounts held in custody for others.....	—	—	—	—	2,325	2,325
Notes payable.....	—	2,874	—	1,113	150	4,137
Revenue bonds payable.....	2,589,984	137,445	264,444	—	—	2,991,873
Capital leases payable.....	12,158	98	—	—	—	12,256
Compensated absences payable.....	13,867	—	—	796	48	14,711
Other long-term liabilities.....	42,329	13,548	—	—	10,220	66,097
<b>Total long-term liabilities.....</b>	<b>2,945,775</b>	<b>153,965</b>	<b>264,444</b>	<b>1,909</b>	<b>162,559</b>	<b>3,528,652</b>
<b>Total liabilities.....</b>	<b>3,484,953</b>	<b>194,502</b>	<b>266,620</b>	<b>59,238</b>	<b>314,318</b>	<b>4,319,631</b>
<b>NET ASSETS (DEFICITS)</b>						
Invested in capital assets, net of related debt..	637,714	290,949	(29,674)	6,493	9,526	915,008
Restricted:						
Expendable:						
Education.....	—	—	—	—	156,743	156,743
Capital projects.....	18,294	—	11	—	—	18,305
Debt service.....	111,859	6,091	254	—	—	118,204
Other.....	122,608	—	—	455	2,262	125,325
Nonexpendable, education.....	—	—	—	—	284,074	284,074
Unrestricted.....	310,704	130,592	(39,395)	—	(105,110)	296,791
<b>Total net assets (deficit).....</b>	<b>\$ 1,201,179</b>	<b>\$ 427,632</b>	<b>\$ (68,804)</b>	<b>\$ 6,948</b>	<b>\$ 347,495</b>	<b>\$ 1,914,450</b>

## Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2005

(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.....	\$ 1,087,331	\$ 1,154,870	\$ 11,160	\$ —
State Ports Authority.....	107,503	138,392	3,542	10,570
Connector 2000 Association, Inc.....	22,870	3,769	1,018	—
Lottery Commission.....	962,980	960,149	590	—
Nonmajor component units.....	112,053	41,878	105,077	—
<b>Totals.....</b>	<b>\$ 2,292,737</b>	<b>\$ 2,299,058</b>	<b>\$ 121,387</b>	<b>\$ 10,570</b>

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

<b>Net (Expense) Revenue</b>	<b>Net Assets (Deficit) Beginning of Year</b>	<b>Net Assets (Deficit) End of Year</b>
\$ 78,699	\$ 1,122,480	\$ 1,201,179
45,001	382,631	427,632
(18,083)	(50,721)	(68,804)
(2,241)	9,189	6,948
34,902	312,593	347,495
<b>\$ 138,278</b>	<b>\$ 1,776,172</b>	<b>\$ 1,914,450</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, 2005:

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

Fiscal year ended December 31, 2004:

- 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, 2005.

#### *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.

## *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 for the purpose of investing funds in order 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, 2004.

*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.

## *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

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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, 2005.

### *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, 2004.

### *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 seven 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, 2004.

### *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, 2004.

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, 2004.

## *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 Marsh USA  
Post Office Box 128  
Greenville, South Carolina 29161

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

Fund financial statements for The 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, 2005, 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 Pension 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.

The principal ongoing operation of *The Citadel Trust, Inc.*, a nonmajor enterprise fund, is investing. Accordingly, the State reports its investment-related transactions as operating rather than nonoperating.

#### 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.

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. 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, 2005.

### Modified Accrual Basis

The State uses the modified accrual basis of accounting to report its governmental funds. Under the modified accrual basis, revenues, net of estimated uncollectible amounts, are recognized in the fiscal year when they become susceptible to accrual—that is, as soon as they become both measurable and available to finance current operations or to liquidate liabilities existing at fiscal year-end. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available at year-end. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Principal revenue sources considered susceptible to accrual include taxes, grants, charges for goods and services, and interest earnings. The State uses different availability periods for recognizing these revenues. Grant revenues are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Significant tax revenues susceptible to accrual include income and sales taxes, and are recognized in the period in which the underlying taxable exchange transaction occurs, net of estimated refunds. Income and sales tax receivables are recognized as revenues to the extent they are available to liquidate related liabilities that exist at June 30. Revenues generated from the sales of goods and services are recognized if received within one month after fiscal year-end. Interest on investments is recorded as earned because it is deemed available when earned. All other revenues are considered to be available only when the State receives the related cash.

Under the modified accrual basis, expenditures generally are recorded when a liability is incurred, as under accrual accounting. An exception, however, is that principal and interest on general long-term debt, claims and judgments, and compensated absences, are recognized as expenditures only to the extent they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures (rather than as assets) in governmental funds.

### 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 First Steps to School Readiness Board of Trustees participate in the pool. For activities excluded from the pool, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

### **e. Cash Management Pool—Allocation of Interest**

The State's cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. All earnings on that account, 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.

Under State law, the State Retirement Systems Investment Panel (the Panel) may invest up to 40.0% of the Systems' investment portfolio in equity securities. Each member of the State Budget and Control Board appoints one member of the five-member Panel. The Panel's objective is to optimize the long-term performance of equity investments consistent with a prudent level of portfolio risk, considering the liabilities and liquidity needs of the pension trust funds.

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. 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:

<u>Asset Category</u>	<u>Years</u>
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.

**I. 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 financial statements as restricted. In this context, *restricted* means that, as of June 30, 2005, this portion of net assets was restricted for a particular purpose either by external parties, by provisions of the State Constitution, or by enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the General Assembly. If the General Assembly subsequently removes restrictions from amounts reported as restricted net assets at June 30, 2005, the State reclassifies such amounts as *unrestricted* net assets when the change becomes effective.

**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. Change in Reporting Entity: Major Enterprise Funds**

The State previously reported the Medical University Hospital Authority as a non-major enterprise fund in accordance with the criteria established in the Governmental Accounting Standards Board’s Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. During the fiscal year ended June 30, 2005, the Authority issued \$483.060 million in revenue bonds. Because of this significant increase in liabilities and a related increase in restricted assets, the Authority meets the criteria of Statement 34 for reporting as a major enterprise fund at June 30, 2005. As a result, \$180.164 million has been reclassified from non-major enterprise funds to a major enterprise fund.

**b. Changes in Revenue Recognition**

The State changed its availability period for recognizing certain revenues in its governmental funds. Effective July 1, 2004, the availability period for revenues derived from the sale of goods or services was changed from one year to one month after June 30. Also effective July 1, 2004, the basis of accounting for recognizing revenues from licenses, fees, fines, and penalties was changed from the modified accrual to the cash basis of accounting. These revenues are now reported in the fiscal year of cash collection. The State’s financial managers believe that these changes provide a more appropriate approach for recognizing revenues available to pay for expenditures incurred during the current fiscal year in its governmental funds.

**c. Correction of Error: Revenue Recognition for Food Commodities**

In prior years, the State did not recognize revenues for the receipt of food commodities or expenditures for the distribution of those commodities in the governmental fund statements. These transactions were reported only in the government-wide Statement of Activities. Effective July 1, 2004, the State now recognizes the revenues and expenditures relating to food commodities programs in both the governmental fund statements and the government-wide statements in accordance with Governmental Accounting Standards Board’s Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

**d. Correction of Error: Department of Transportation Special Revenue Fund**

During the fiscal year ended June 30, 2005, the Department of Transportation made corrections regarding the recognition of revenue due from the Federal highway administration. The Department paid \$123.963 million in the prior years that will be reimbursed by the Federal highway administration. While this entire amount is reported as an increase to beginning net assets for governmental activities in the government-wide statements, a portion of this adjustment is classified as deferred revenue in the Department of Transportation Special Revenue Fund, a major fund in the governmental fund statements, as it was not available to meet the current needs of the Department at either June 30, 2004 or June 30, 2005.

**e. Effects of Accounting and Reporting Changes on Beginning Fund Equity and Beginning Net Assets**

The schedules below, expressed in thousands, detail changes made to beginning net assets and beginning fund equity to give effect to the accounting and reporting changes discussed in this note.

Fund Equity or Net Assets Category	Net Assets at June 30, 2004			
	As Previously Reported	Changes In Revenue Recognition	Correction of Error for Department of Transportation	As Restated
<b>Primary Government</b>				
Governmental Activities.....	\$ 10,019,015	\$ 10,920	\$ 123,963	\$ 10,153,898

Fund Equity at June 30, 2004

Fund Equity Category	As Previously Reported	Change in Reporting Entity	Changes In Revenue Recognition	Correction of Error for Department of Transportation	Correction of Error for Food Commodities	As Restated
<i>Governmental Funds</i>						
General Fund.....	\$ (7,027)	\$ —	\$ 15,986	\$ —	\$ —	\$ 8,959
Departmental General Operating Fund.....	354,725	—	(16,338)	—	265	338,652
Department of Transportation Special Revenue Fund.....	(109,599)	—	—	62,500	—	(47,099)
Nonmajor Governmental Funds.....	887,261	—	(3,386)	—	—	883,875
<i>Proprietary Funds</i>						
Medical University Hospital Authority.....	—	180,164	—	—	—	180,164
Nonmajor Enterprise Funds.....	106,082	(180,164)	—	—	—	(74,082)
<i>Fiduciary Funds</i>						
Private-Purpose Trust Funds.....	353,960	—	(30)	—	—	353,930
Totals.....	<u>\$ 1,585,402</u>	<u>\$ —</u>	<u>\$ (3,768)</u>	<u>\$ 62,500</u>	<u>\$ 265</u>	<u>\$ 1,644,399</u>

**NOTE 3: DEFICITS OF INDIVIDUAL FUNDS AND NEGATIVE UNRESTRICTED NET ASSETS**

**a. Deficits of Individual Funds**

The accompanying fund financial statements display deficit fund balances and deficit net asset balances for individual major funds, if applicable. Other funds had the following deficit net asset balances (expressed in thousands) at June 30, 2005:

<b>Nonmajor Enterprise Funds:</b>	
Patients' Compensation.....	\$ 214,413
Tuition Prepayment Program.....	35,609
CHS Development Company.....	260
Pharmaceutical Education and Development Foundation (PEDF) of the Medical University of South Carolina.....	8,017
<b>Internal Service Funds:</b>	
State Accident Fund.....	112,955
Pension Administration.....	822

**b. Negative Unrestricted Net Assets**

The government-wide statement of net assets displays a \$172.175 million deficit unrestricted net assets balance for governmental activities. This deficit is due, in large part, to bonds that the State has issued to finance projects of other governments or to finance its own non-capital repairs and maintenance projects.

The State disburses the proceeds of its general obligation school facilities bonds to local school districts. These districts capitalize and report in their own financial statements the school facilities that they construct with these proceeds. Therefore, the State reports these bonds but not the capital assets in unrestricted net assets.

The State disburses some of the proceeds of its general obligation capital improvement bonds and its general obligation State economic development bonds to local governments and private entities for construction and redevelopment projects. In addition, the State uses some capital improvement bond proceeds for State repairs and maintenance projects. Accordingly, the State reports in unrestricted net assets the portions of capital improvement bonds payable and State economic improvement bonds payable that are associated with these local government, private entity, and non-capital projects.

The amount of the unrestricted net assets deficit attributable to debt issued for non-capitalized purposes is as follows (expressed in thousands):

State school facilities bonds.....	\$ 611,126
Capital improvement bonds, non-capital purposes.....	128,686
State economic development bonds, non-capital purposes.....	4,096
Total	<u>\$ 743,908</u>

A portion of the deficit unrestricted net assets balance is due to bonds issued by the Tobacco Settlement Revenue Management Authority Fund, a blended component unit accounted for as a non-major governmental fund. The Authority transferred a portion of the bond proceeds to the State Tobacco Settlement Fund, a major governmental fund. The bonds will be retired using future tobacco settlement revenues. The net assets balances of the State Tobacco Settlement Fund and the Tobacco Settlement Revenue Management Authority Fund produce a net deficit of \$185.595 million in governmental activities.

### **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.

#### **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 below.

##### 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. 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. As of June 30, 2005, the reported amount of the primary government's deposits was \$256.093 million and the bank balance was \$602.924 million. Of the \$246.974 million bank balance exposed to custodial credit risk, \$120.499 million was uninsured and uncollateralized, \$122.076 million was uninsured and collateralized with securities held by the counterparty's trust department or agent in the State's name, and \$4.399 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, 2005, the reported amount of the major discrete component units' deposits was \$11.278 million and the bank balance was \$28.816 million. Of the \$9.758 million bank balance exposed to custodial credit risk, \$6.430 million was uninsured and uncollateralized; and \$3.328 million was uninsured and collateralized with securities held by the counterparty's trust department or agent in a State entity's name.

#### **b. Investments**

The following investments disclosure excludes the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection d below.

##### 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. The primary government'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 State's investments with custodial credit risk is classified by risk category (expressed in thousands) at June 30, 2005, as follows:

Primary Government Investment Type	Category		Reported Amount
	A	B	
U.S. Treasuries.....	\$ 25,354	\$ 19,620	\$ 44,974
U.S. agencies.....	24,000	1,791	25,791
Corporate bonds.....	—	3,648	3,648
Municipal bonds.....	—	36,774	36,774
Equity securities.....	4,881	46,375	51,256
Repurchase agreements.....	38,109	6,818	44,927
Asset backed securities.....	1,500	—	1,500
<b>Totals.....</b>	<b>\$ 93,844</b>	<b>\$ 115,026</b>	<b>\$ 208,870</b>

Major Discrete Component Units Investment Type	Category		Reported Amount
	A	B	
U.S. government treasuries.....	\$ 719	\$ —	\$ 208,142
U.S. government agencies.....	—	6,091	544,918
Repurchase agreements.....	17,293	—	124,722
<b>Totals.....</b>	<b>\$ 18,012</b>	<b>\$ 6,091</b>	<b>\$ 877,782</b>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the State. The State's credit risk policy to mitigate the potential for loss of principal is to purchase only high investment grade fixed-income securities. In the event that the rating of a security falls below investment grade, that security may be held contingent upon an evaluation of the longer term investment merits of the security. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least two nationally recognized rating services. The majority of the debt investments for the primary government were rated as of June 30, 2005, and are listed below using the Standard and Poor's rating scale (dollars expressed in thousands):

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	CCC and Below	A-1	Not Rated
Corporate bonds.....	\$ 77,368	\$ 109,580	\$ 438,220	\$ 82,838	\$ 33,804	\$ 713	\$ 391	\$ —	\$ 141,975
Municipal bonds.....	—	—	—	7,079	—	—	—	—	67,219
Repurchase agreements.....	—	—	—	—	—	—	—	1,802,444	156,656
Asset backed securities.....	947,823	—	30,540	—	—	—	—	—	15,392
Commercial paper.....	—	—	—	—	—	—	—	702,819	—
Mutual funds.....	2,747	78	14	—	—	—	15	—	524,908
Non U.S. fixed income - developed corporate markets.....	—	—	35,070	—	—	—	—	—	—
Corporate private placements.....	4,932	6,032	14,258	19,398	—	—	—	—	1,784
Guaranteed investment contracts.....	—	—	—	—	—	—	—	—	271,425
<b>Totals.....</b>	<b>\$ 1,032,870</b>	<b>\$ 115,690</b>	<b>\$ 518,102</b>	<b>\$ 109,315</b>	<b>\$ 33,804</b>	<b>\$ 713</b>	<b>\$ 406</b>	<b>\$ 2,505,263</b>	<b>\$ 1,179,359</b>

The investments of the State Tobacco Settlement fund, a major governmental fund, are composed of \$457.045 million in municipal bonds with Standard & Poors ratings of AAA to A.

At June 30, 2005, 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 held investments in mutual funds rated "AAAm", "AAm", "AamG", or better, by a nationally recognized rating agency.

# State of South Carolina

## Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The State Treasurer and certain State agencies manage this risk by investing in securities with a range of maturities. At June 30, 2005, the State's primary government had the following investments and maturities (dollars expressed in thousands) disclosed by investment category and stated with fair value:

Investment Type	Fair Value	Investment Maturities (in years)				No Maturity
		Less than 1	1 - 5	6 - 10	More than 10	
U.S. Treasuries.....	\$ 1,203,405	\$ 764,280	\$ 318,976	\$ 37,214	\$ 82,935	\$ —
U.S. agencies.....	681,580	543,039	132,526	448	5,567	—
Mortgage backed securities.....	166,960	—	48,391	—	118,569	—
Collateralized mortgage obligations.....	302,007	—	—	10,077	291,930	—
Corporate bonds.....	884,889	444,799	370,146	37,167	32,777	—
Municipal bonds.....	531,343	—	—	—	464,125	67,218
Equity securities.....	46,383	—	—	—	—	46,383
Repurchase agreements.....	1,959,100	1,880,137	40,854	—	—	38,109
Asset backed securities.....	993,755	105,251	870,208	16,796	1,500	—
Commercial paper.....	702,819	702,819	—	—	—	—
Mutual funds.....	527,762	705	—	—	—	527,057
Non U.S. fixed income - developed corporate markets.....	35,070	—	35,070	—	—	—
Corporate private placements.....	46,404	—	15,290	22,614	8,500	—
Guaranteed investment contracts.....	271,425	40,257	13,679	—	—	217,489
<b>Totals.....</b>	<b>\$ 8,352,902</b>	<b>\$ 4,481,287</b>	<b>\$ 1,845,140</b>	<b>\$ 124,316</b>	<b>\$ 1,005,903</b>	<b>\$ 896,256</b>

At June 30, 2005, the State's major discretely presented component units had the following investments and maturities (dollars expressed in thousands) disclosed by investment category and stated with fair value:

Investment Type	Fair Value	Investment Maturities (in years)		
		Less than 1	1 - 5	No Maturity
U.S. Treasuries.....	\$ 208,142	\$ 207,423	\$ 719	—
U.S. agencies.....	544,918	276,861	268,057	—
Repurchase agreement.....	124,722	107,429	17,293	—
Mutual funds.....	791	—	—	791
<b>Totals.....</b>	<b>\$ 878,573</b>	<b>\$ 591,713</b>	<b>\$ 286,069</b>	<b>\$ 791</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%, except for United States Treasury and agency obligations. As of June 30, 2005, the State had no investment in any single organization that represented 5% or more of the State's investments.

### 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 below.

By law, the State's primary government may lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions, with a simultaneous agreement to return the collateral for the same securities in the future. The State may lend United States government securities, corporate bonds, other securities and equities for collateral in the form of cash or other securities. The contracts with the State's custodians require them to indemnify the State if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the State for income distributions by the securities' issuers while the securities are on loan.

The weighted average maturity of the State’s collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2005. At June 30, 2005, 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, 2005, 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. A small portion of the collateral received by the State at June 30, 2005, was in the form of 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, 2005, 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, 2005, 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, 2005.

<u>Primary Government</u>	<u>Amount</u>
Securities lent for cash collateral:	
U.S. Treasuries.....	\$ 1,208,978
U.S. agencies.....	4,353
Corporate bonds.....	63,010
<b>Total for cash collateral.....</b>	<b><u>\$ 1,276,341</u></b>
Cash collateral invested:	
Repurchase agreements.....	\$ 201,896
Corporate bonds.....	928,804
Asset backed securities.....	129,427
Bank obligations.....	51,501
Total for cash collateral invested.....	<u>1,311,628</u>
Securities received as collateral:	
U.S. Government securities.....	15,759
<b>Total collateral invested.....</b>	<b><u>\$ 1,327,387</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, 2005, the reported amount of the Systems’ deposits was \$7.055 million and the bank balance was \$23.654 million. At June 30, 2005, approximately \$685 thousand was exposed to custodial credit risk as uninsured and uncollateralized deposits except for amounts covered by FDIC. These deposits with one bank were not fully insured or collateralized due to the late posting of certain investment transactions by third party equity portfolio managers. The State Treasurer has arranged for the Systems’ third-party safekeeping agent to utilize an open-end diversified collective trust fund to insure that the Systems’ deposits maintain sufficient collateral in the future.

# State of South Carolina

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## 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, 2005, all of the Systems' investments were insured and registered.

## 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 method of disclosing interest rate risk that measures the expected change in value of a fixed income security or portfolio for a given change in interest rates. The effective duration and the fair value of the Systems' investments by investment type at June 30, 2005 (amounts presented 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.....	\$ 3,138,994	0.88
U.S. agencies.....	905,059	0.74
Other U. S. Government.....	4,517	6.29
<u>Mortgage Backed</u>		
Government pass-through.....	918,084	2.73
<u>Collateralized Mortgage Obligations</u>		
Government CMO's.....	308,181	3.12
<u>Corporate</u>		
Corporate bonds.....	4,497,556	6.49
Corporate asset backed.....	551,098	0.37
Private placements.....	1,153,580	9.58
Municipal bonds.....	44,364	3.50
Non U. S. fixed income - developed corporate markets.....	85,298	3.24
<u>Short Term Investments</u>		
Commercial paper.....	138,625	0.05
Repurchase agreements .....	2,608,547	0.00
U.S. agencies.....	209,590	0.27
<u>Equity</u>		
Domestic.....	10,839,767	Not Required
American depository receipts.....	193,037	Not Required
<b>Total Invested Assets.....</b>	<b>\$ 25,596,297</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 June 30, 2005, 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.....	\$ 185,309	\$ 185,128	\$ 2,122,821	\$ 1,634,259	\$ 292,556	\$ 49,310	\$ 120	\$ —	\$ 28,053
Corporate asset backed.....	551,098	—	—	—	—	—	—	—	—
Private placements.....	145,918	249,153	427,623	282,800	—	—	—	—	48,086
Municipal bonds.....	—	—	—	44,364	—	—	—	—	—
Non U. S. fixed income - developed corporate markets.....	—	—	85,298	—	—	—	—	—	—
<b>Short Term Investments</b>									
Commercial paper.....	—	—	—	—	—	—	—	138,625	—
Repurchase agreements.....	—	—	—	—	—	—	—	2,608,547	—
<b>Totals.....</b>	<b>\$ 882,325</b>	<b>\$ 434,281</b>	<b>\$ 2,635,742</b>	<b>\$ 1,961,423</b>	<b>\$ 292,556</b>	<b>\$ 49,310</b>	<b>\$ 120</b>	<b>\$ 2,747,172</b>	<b>\$ 76,139</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% exposure to any single issuer, except for United States Treasury and agency obligations. At June 30, 2005, the Systems had no investment, fixed income or equity, in any single organization that represented 5% or more of the Systems' assets.

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), and the Judges' and Solicitors' Retirement System (JSRS) 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, 2005, 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 securities lent or fails to pay the Systems income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities 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, 2005. At June 30, 2005, 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.

## State of South Carolina

The following table presents the fair value (amounts expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2005.

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
Securities lent for cash collateral:					
U.S. Treasuries.....	\$ 1,927,395	\$ 292,047	\$ 1,706	\$ 16,196	\$ 2,237,344
U.S. agencies.....	508,165	127,743	1,749	5,130	642,787
Corporate bonds.....	105,078	12,858	282	564	118,782
Common stock.....	<u>897,921</u>	<u>109,217</u>	<u>1,977</u>	<u>4,669</u>	<u>1,013,784</u>
Total for cash collateral.....	3,438,559	541,865	5,714	26,559	4,012,697
Securities lent for noncash collateral:					
Equities.....	456	56	1	2	515
U.S. Government securities.....	18,462	11,282	—	76	29,820
<b>Total securities lent.....</b>	<b><u>\$ 3,457,477</u></b>	<b><u>\$ 553,203</u></b>	<b><u>\$ 5,715</u></b>	<b><u>\$ 26,637</u></b>	<b><u>\$ 4,043,032</u></b>
Cash collateral invested:					
Repurchase agreements.....	\$ 692,214	\$ 195,719	\$ 3,251	\$ 13,449	\$ 904,633
Corporate bonds.....	2,137,522	283,627	1,968	11,397	2,434,514
Asset backed securities.....	444,314	43,398	292	1,763	489,767
Bank notes.....	<u>255,976</u>	<u>24,403</u>	<u>389</u>	<u>695</u>	<u>281,463</u>
Total for cash collateral invested.....	3,530,026	\$ 547,147	5,900	27,304	4,110,377
Securities received as collateral:					
U.S. Government securities.....	20,177	11,911	—	83	32,171
<b>Total collateral invested.....</b>	<b><u>\$ 3,550,203</u></b>	<b><u>\$ 559,058</u></b>	<b><u>\$ 5,900</u></b>	<b><u>\$ 27,387</u></b>	<b><u>\$ 4,142,548</u></b>

The Systems retains a consultant to provide investment-consulting services necessary to fulfill the duties for investing in equity securities. As of June 30, 2005, eighteen individual agreements were in place between the Systems and equity investment managers.

On June 30, 2005, 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, 2005, 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. During fiscal year 2004-2005, additional holdings were added to this category as an alternative to cash investments with an average life of one year. 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, 2005, for the primary government were as follows:

<b>Allowances for Uncollectibles</b>	<b>Governmental Activities</b>				
	<b>Governmental Funds</b>				
	<b>General</b>	<b>Departmental</b>	<b>Nonmajor</b>	<b>Internal</b>	<b>Total</b>
		<b>General</b>	<b>Governmental</b>	<b>Service</b>	
	<b>Operating</b>	<b>Funds</b>	<b>Funds</b>	<b>Activities</b>	
Income taxes receivable.....	\$ 22,092	\$ —	\$ —	\$ —	\$ 22,092
Sales and other taxes receivable.....	11,423	5	4,445	—	15,873
Patient accounts receivable.....	12,986	29,969	—	—	42,955
Loans and notes receivable.....	16	11	837	—	864
Other receivables.....	1	15,075	—	288	15,364
<b>Total allowances for uncollectibles.....</b>	<b>\$ 46,518</b>	<b>\$ 45,060</b>	<b>\$ 5,282</b>	<b>\$ 288</b>	<b>\$ 97,148</b>

<b>Allowances for Uncollectibles</b>	<b>Business-type Activities (Enterprise Funds)</b>				
	<b>Higher</b>	<b>Unemployment</b>	<b>Medical</b>	<b>Nonmajor</b>	<b>Total</b>
			<b>University</b>		
	<b>Education</b>	<b>Compensation</b>	<b>Hospital</b>	<b>Funds</b>	<b>Business-type</b>
	<b>Benefits</b>	<b>Authority</b>		<b>Activities</b>	
Contributions receivable.....	\$ 639	\$ —	\$ —	\$ —	\$ 639
Student accounts receivable.....	6,925	—	—	—	6,925
Patient accounts receivable.....	—	—	43,700	59,330	103,030
Loans and notes receivable.....	104	—	—	—	104
Loans and notes receivable—restricted.....	592	—	—	355	947
Assessments receivable.....	—	5,635	—	—	5,635
Other receivables.....	694	2,575	—	—	3,269
<b>Total allowances for uncollectibles.....</b>	<b>\$ 8,954</b>	<b>\$ 8,210</b>	<b>\$ 43,700</b>	<b>\$ 59,685</b>	<b>\$ 120,549</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, 2005, were as follows:

<b>Net Long-term Receivables</b>	<b>Governmental Activities</b>						
	<b>Governmental Funds</b>						
	<b>General</b>	<b>Departmental</b>	<b>Local</b>	<b>Department of</b>	<b>Nonmajor</b>	<b>Internal</b>	<b>Total</b>
		<b>General</b>	<b>Government</b>	<b>Transportation</b>			
	<b>Operating</b>	<b>Infrastructure</b>	<b>Special</b>	<b>Funds</b>	<b>Service</b>	<b>Governmental</b>	
			<b>Revenue</b>		<b>Funds</b>	<b>Activities</b>	
Accounts receivable.....	\$ 253	\$ 20,866	\$ 40,333	\$ —	\$ —	\$ 90	\$ 61,542
Income taxes receivable.....	35,250	—	—	—	—	—	35,250
Sales and other taxes receivable.....	37,875	34	—	—	10,867	—	48,776
Patient accounts receivable.....	4,327	6,180	—	—	—	—	10,507
Loans and notes receivable.....	14	578	366,366	7,579	17,631	—	392,168
Accounts receivable—restricted.....	—	—	432,464	—	—	—	432,464
<b>Total long-term receivables, net.....</b>	<b>\$ 77,719</b>	<b>\$ 27,658</b>	<b>\$ 839,163</b>	<b>\$ 7,579</b>	<b>\$ 28,498</b>	<b>\$ 90</b>	<b>\$ 980,707</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, 2005 (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.....	\$ 63,623	\$ 109,384	\$ 117,335
Capital projects.....	—	34,139	11
Student loan programs.....	—	388	—
Donor/sponsor specified.....	—	16,359	—
Endowments.....	—	67	—
Second Injury Fund claims.....	—	41,797	—
Other.....	—	622	455
<b>Total Cash and Cash Equivalents.....</b>	<b>\$ 63,623</b>	<b>\$ 202,756</b>	<b>\$ 117,801</b>
<b>Investments</b>			
Debt service.....	\$ 113,729	\$ 316	\$ 40,405
Donor/sponsor specified.....	—	7,756	—
Endowments.....	—	67	—
Other.....	—	—	12,240
<b>Total Investments.....</b>	<b>\$ 113,729</b>	<b>\$ 8,139</b>	<b>\$ 52,645</b>
<b>Loans Receivable</b>			
Student loan programs.....	\$ —	\$ 305	\$ —
<b>Other</b>			
Debt service.....	\$ 63,182	\$ 1,262	\$ —
Donor/sponsor specified.....	—	684	—
Second Injury Fund claims.....	—	503	—
Other.....	—	28	—
<b>Total Other.....</b>	<b>\$ 63,182</b>	<b>\$ 2,477</b>	<b>\$ —</b>
<b>Noncurrent:</b>			
<b>Cash and Cash Equivalents</b>			
Debt service.....	\$ 289,240	\$ 277,475	\$ 20,447
Capital projects.....	321,909	413,875	60,812
Student loan programs.....	—	8,146	—
Endowments.....	—	37,433	—
Other.....	—	1,492	16,794
<b>Total Cash and Cash Equivalents.....</b>	<b>\$ 611,149</b>	<b>\$ 738,421</b>	<b>\$ 98,053</b>
<b>Investments</b>			
Debt service.....	\$ —	\$ 79,616	\$ 90,439
Capital projects.....	—	2,558	230,368
Student loan programs.....	—	587	—
Endowments.....	—	40,156	—
Other.....	—	—	98,380
<b>Total Investments.....</b>	<b>\$ —</b>	<b>\$ 122,917</b>	<b>\$ 419,187</b>
<b>Accounts Receivable</b>			
Debt service.....	\$ 432,464	\$ —	\$ —
<b>Loans Receivable</b>			
Debt service.....	\$ —	\$ 497,944	\$ —
Student loan programs.....	—	53,151	—
<b>Total Loans Receivable.....</b>	<b>\$ —</b>	<b>\$ 551,095</b>	<b>\$ —</b>
<b>Other</b>			
Debt service.....	\$ 3,873	\$ 6,180	\$ 473
Capital projects.....	—	272	—
Donor/sponsor specified.....	—	716	—
Endowments.....	—	8,123	—
<b>Total Other.....</b>	<b>\$ 3,873</b>	<b>\$ 15,291</b>	<b>\$ 473</b>

**NOTE 7: CAPITAL ASSETS**

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2005, for the primary government was as follows:

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 1,348,989	\$ 92,971	\$ (55)	\$ 1,441,905
Construction in progress.....	3,326,648	744,792	(237,776)	3,833,664
Works of art and historical treasures.....	3,660	45	—	3,705
Intangibles.....	—	46	—	46
<i>Total capital assets not being depreciated.....</i>	<u>4,679,297</u>	<u>837,854</u>	<u>(237,831)</u>	<u>5,279,320</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	53,120	1,567	(26)	54,661
Infrastructure (road and bridge network).....	7,636,034	211,988	(3,924)	7,844,098
Buildings and improvements.....	1,421,223	27,121	(4,206)	1,444,138
Vehicles.....	537,224	24,141	(16,797)	544,568
Machinery and equipment.....	400,766	33,137	(22,075)	411,828
Depreciable works of art and historical treasures.....	8	—	—	8
Intangibles.....	41,625	2,967	—	44,592
Total capital assets being depreciated, at historical cost.....	<u>10,090,000</u>	<u>300,921</u>	<u>(47,028)</u>	<u>10,343,893</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(35,215)	(1,498)	—	(36,713)
Infrastructure (road and bridge network).....	(1,860,230)	(103,991)	3,544	(1,960,677)
Buildings and improvements.....	(511,042)	(32,965)	3,465	(540,542)
Vehicles.....	(373,752)	(30,504)	14,906	(389,350)
Machinery and equipment.....	(290,124)	(24,964)	19,866	(295,222)
Depreciable works of art and historical treasures.....	(1)	—	—	(1)
Intangibles.....	(28,763)	(11,026)	—	(39,789)
Total accumulated depreciation.....	<u>(3,099,127)</u>	<u>(204,948)</u>	<u>41,781</u>	<u>(3,262,294)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>6,990,873</u>	<u>95,973</u>	<u>(5,247)</u>	<u>7,081,599</u>
<b>Capital assets for governmental activities, net.....</b>	<u><b>\$ 11,670,170</b></u>	<u><b>\$ 933,827</b></u>	<u><b>\$ (243,078)</b></u>	<u><b>\$ 12,360,919</b></u>

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 166,469	\$ 9,871	\$ (3,815)	\$ 172,525
Construction in progress.....	373,483	275,294	(244,522)	404,255
Works of art and historical treasures.....	16,809	—	—	16,809
<i>Total capital assets not being depreciated.....</i>	<u>556,761</u>	<u>285,165</u>	<u>(248,337)</u>	<u>593,589</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	70,076	4,395	(2,930)	71,541
Buildings and improvements.....	2,868,324	276,037	(4,377)	3,139,984
Vehicles.....	38,744	4,530	(2,172)	41,102
Machinery and equipment.....	572,993	61,648	(31,802)	602,839
Depreciable works of art and historical treasures.....	6,988	968	—	7,956
Intangibles.....	14,924	1,736	—	16,660
Total capital assets being depreciated, at historical cost.....	<u>3,572,049</u>	<u>349,314</u>	<u>(41,281)</u>	<u>3,880,082</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(31,717)	(3,010)	13	(34,714)
Buildings and improvements.....	(1,093,879)	(84,888)	6,275	(1,172,492)
Vehicles.....	(28,169)	(2,657)	2,082	(28,744)
Machinery and equipment.....	(370,665)	(52,795)	26,111	(397,349)
Depreciable works of art and historical treasures.....	(4,884)	(135)	—	(5,019)
Intangibles.....	(10,230)	(1,823)	—	(12,053)
Total accumulated depreciation.....	<u>(1,539,544)</u>	<u>(145,308)</u>	<u>34,481</u>	<u>(1,650,371)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,032,505</u>	<u>204,006</u>	<u>(6,800)</u>	<u>2,229,711</u>
<b>Capital assets for business-type activities, net.....</b>	<u><b>\$ 2,589,266</b></u>	<u><b>\$ 489,171</b></u>	<u><b>\$ (255,137)</b></u>	<u><b>\$ 2,823,300</b></u>

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

	Beginning Balances January 1, 2004	Increases	Decreases	Ending Balances December 31, 2004
<b>Public Service Authority:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 95,886	\$ 1,144	\$ (618)	\$ 96,412
Construction in progress.....	513,169	386,189	(262,396)	636,962
<i>Total capital assets not being depreciated.....</i>	<u>609,055</u>	<u>387,333</u>	<u>(263,014)</u>	<u>733,374</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements (utility plant).....	3,888,957	325,008	(54,239)	4,159,726
Vehicles.....	32,812	4,287	(1,156)	35,943
Machinery and equipment.....	19,737	1,743	(1,175)	20,305
Intangibles.....	40,806	4,156	(403)	44,559
Total capital assets being depreciated, at historical cost.....	<u>3,982,312</u>	<u>335,194</u>	<u>(56,973)</u>	<u>4,260,533</u>
Less accumulated depreciation for:				
Buildings and improvements (utility plant).....	(1,606,816)	(178,807)	21,599	(1,764,024)
Vehicles.....	(17,610)	(1,843)	237	(19,216)
Machinery and equipment.....	(8,356)	(719)	112	(8,963)
Intangibles.....	(34,170)	(2,678)	403	(36,445)
Total accumulated depreciation.....	<u>(1,666,952)</u>	<u>(184,047)</u>	<u>22,351</u>	<u>(1,828,648)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,315,360</u>	<u>151,147</u>	<u>(34,622)</u>	<u>2,431,885</u>
<b>Public Service Authority, net.....</b>	<b><u>\$ 2,924,415</u></b>	<b><u>\$ 538,480</u></b>	<b><u>\$ (297,636)</u></b>	<b><u>\$ 3,165,259</u></b>

	Beginning Balances January 1, 2004	Increases	Decreases	Ending Balances December 31, 2004
<b>Connector 2000 Association:</b>				
<i>Capital assets being depreciated:</i>				
Infrastructure (toll road).....	\$ 192,472	\$ —	\$ —	\$ 192,472
Machinery and equipment.....	547	46	(3)	590
Total capital assets being depreciated, at historical cost.....	<u>193,019</u>	<u>46</u>	<u>(3)</u>	<u>193,062</u>
Less accumulated depreciation for:				
Infrastructure (toll road).....	(14,210)	(5,243)	—	(19,453)
Machinery and equipment.....	(278)	(112)	2	(388)
Total accumulated depreciation.....	<u>(14,488)</u>	<u>(5,355)</u>	<u>2</u>	<u>(19,841)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>178,531</u>	<u>(5,309)</u>	<u>(1)</u>	<u>173,221</u>
<b>Connector 2000 Association, net.....</b>	<b><u>\$ 178,531</u></b>	<b><u>\$ (5,309)</u></b>	<b><u>\$ (1)</u></b>	<b><u>\$ 173,221</u></b>

State of South Carolina

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
<b>State Ports Authority:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 141,760	\$ 3,488	\$ —	\$ 145,248
Construction in progress.....	65,080	33,136	(44,760)	53,456
Intangibles.....	3,230	—	(1,040)	2,190
<i>Total capital assets not being depreciated.....</i>	<u>210,070</u>	<u>36,624</u>	<u>(45,800)</u>	<u>200,894</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	153,150	2,800	—	155,950
Buildings and improvements.....	249,545	20,246	(2,556)	267,235
Machinery and equipment.....	80,040	22,124	(1,017)	101,147
Intangibles.....	692	—	—	692
Total capital assets being depreciated, at historical cost.....	<u>483,427</u>	<u>45,170</u>	<u>(3,573)</u>	<u>525,024</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(92,380)	(6,380)	—	(98,760)
Buildings and improvements.....	(132,208)	(10,160)	2,337	(140,031)
Machinery and equipment.....	(44,052)	(7,039)	1,004	(50,087)
Intangibles.....	(75)	(135)	—	(210)
Total accumulated depreciation.....	<u>(268,715)</u>	<u>(23,714)</u>	<u>3,341</u>	<u>(289,088)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>214,712</u>	<u>21,456</u>	<u>(232)</u>	<u>235,936</u>
<b>State Ports Authority, net.....</b>	<b><u>\$ 424,782</u></b>	<b><u>\$ 58,080</u></b>	<b><u>\$ (46,032)</u></b>	<b><u>\$ 436,830</u></b>

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
<b>Lottery Commission:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and improvements.....	\$ 642	\$ —	\$ —	\$ 642
Vehicles.....	69	—	—	69
Machinery and equipment.....	19,836	88	(36)	19,888
Total capital assets being depreciated, at historical cost.....	<u>20,547</u>	<u>88</u>	<u>(36)</u>	<u>20,599</u>
Less accumulated depreciation for:				
Buildings and improvements.....	(270)	(128)	—	(398)
Vehicles.....	(49)	(16)	—	(65)
Machinery and equipment.....	(7,992)	(3,448)	14	(11,426)
Total accumulated depreciation.....	<u>(8,311)</u>	<u>(3,592)</u>	<u>14</u>	<u>(11,889)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>12,236</u>	<u>(3,504)</u>	<u>(22)</u>	<u>8,710</u>
<b>Lottery Commission, net.....</b>	<b><u>\$ 12,236</u></b>	<b><u>\$ (3,504)</u></b>	<b><u>\$ (22)</u></b>	<b><u>\$ 8,710</u></b>

During the fiscal year ended June 30, 2005, 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.....	\$ 18,244	\$ 6,811	\$ 25,055
Education.....	18,109	1,294	19,403
Health and environment.....	12,546	1,013	13,559
Social services.....	503	1,223	1,726
Administration of justice.....	17,609	986	18,595
Resources and economic development.....	6,980	195	7,175
Transportation.....	119,435	—	119,435
<b>Total depreciation expense, governmental activities.....</b>	<b>\$ 193,426</b>	<b>\$ 11,522</b>	<b>\$ 204,948</b>

	<b>Business- type Activities</b>
Higher Education.....	\$ 116,369
Housing Authority.....	119
Medical University Hospital Authority.....	20,260
Education Assistance Authority.....	76
Other.....	8,484
<b>Total depreciation expense, business-type activities.....</b>	<b>\$ 145,308</b>

	<b>Major Component Units</b>
Public Service Authority.....	\$ 184,047
State Ports Authority.....	23,714
Connector 2000 Association, Inc.....	5,355
Lottery Commission.....	3,592

At June 30, 2005, the primary government had outstanding construction commitments totaling \$807.904 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled \$58.129 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 \$2.817 million at June 30, 2005, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: \$648.524 million for the Public Service Authority at December 31, 2004, and \$18.820 million for the State Ports Authority at June 30, 2005.

The total interest expense incurred by the State's enterprise and internal service funds during the current fiscal year was \$152.583 million and \$2.184 million, respectively. Of the amount incurred by the State's enterprise funds, \$9.156 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 \$163.864 million during its fiscal year ended December 31, 2004, 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 \$6.641 million during its fiscal year ended June 30, 2005, of which \$807 thousand 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 four 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), and the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS). The System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for all four 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.

Information regarding the number of participating employers (dollars expressed in thousands) at June 30, 2005, is as follows:

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>
<b>State and school</b>				
Number of employers.....	100	5	1	1
Annual covered payroll.....	\$ 4,718,799	\$ 295,049	\$ 3,084	\$ 14,643
Average number of contributing members....	140,348	9,818	170	128
<b>Other participating employers</b>				
Number of employers.....	560	263	—	—
Annual covered payroll.....	\$ 1,497,701	\$ 508,021	\$ —	\$ —
Average number of contributing members....	50,515	14,619	—	—

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. 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, 2005, were as follows:

<u>Plan</u>	<u>Rate</u>
SCRS	6.0% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10.0% of earnable compensation
JSRS	8.0% of earnable compensation

Actuarially determined employer contribution rates for the four plans, expressed as percentages of compensation, for the fiscal year ended June 30, 2005, were as follows:

<u>Plan</u>	<u>Rate</u>
SCRS	7.70%
PORS	10.70%
GARS	93.71%
JSRS	41.65%

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, 2005, were \$1.755 million for SCRS and \$30 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>
Annual pension cost.....	\$2,890	\$6,260
Employer contributions made.....	\$2,890	\$6,260
Actuarial valuation date.....	July 1, 2004	July 1, 2004
Actuarial cost method.....	Entry age	Entry age
Amortization method.....	Level percent, closed	Level percent, open
Remaining amortization period.....	23 years	28 years
Asset valuation method.....	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Investment rate of return.....	7.25%	7.25%
Projected salary increases.....	None	3.25%
Assumed inflation rate.....	3.00%	3.00%
Assumed cost-of-living adjustments.....	None	3.25%

**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, 2005</u>		<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Required</u>	<u>% Contributed</u>	<u>Required</u>	<u>% Contributed</u>	<u>Required</u>	<u>% Contributed</u>
SCRS–State:						
Primary government.....	\$ 177,112	100%	\$ 172,258	100%	\$ 176,152	100%
Component units.....	10,253	100%	9,852	100%	9,595	100%
PORS–State:						
Primary government.....	\$ 32,813	100%	\$ 33,220	100%	\$ 34,566	100%
Component units.....	51	100%	40	100%	30	100%

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	2003	\$ 2,577	100%	\$ —
	2004	2,731	100%	—
	2005	2,890	100%	—
JSRS	2003	\$ 6,014	100%	\$ —
	2004	6,078	100%	—
	2005	6,260	100%	—

**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:

<b>Plan</b>	<b>Actuarial Valuation Date July 1</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
SCRS	2002	\$ 19,298,174	\$ 22,446,574	\$ 3,148,400	86.0%	\$ 6,147,712	51.2%
	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%
PORS	2002	\$ 2,351,100	\$ 2,527,876	\$ 176,776	93.0%	\$ 757,393	23.3%
	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%

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:

<b>Plan</b>	<b>Actuarial Valuation Date July 1</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
GARS	2002	\$ 43,841	\$ 73,046	\$ 29,205	60.0%	\$ 4,515	646.8%
	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%
JSRS	2002	\$ 100,074	\$ 166,440	\$ 66,366	60.1%	\$ 14,211	467.0%
	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%

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, 2005, for the four plans administered by the South Carolina Retirement Systems were as follows:

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
<b>Receivables:</b>					
Contributions.....	\$ 115,365	\$ 14,697	\$ 123	\$ 682	\$ 130,867
Employer long-term.....	1,755	30	—	—	1,785
Accrued interest.....	102,115	11,670	216	543	114,544
Unsettled investment sales.....	43,894	5,234	97	225	49,450
<b>Total receivables.....</b>	<b><u>\$ 263,129</u></b>	<b><u>\$ 31,631</u></b>	<b><u>\$ 436</u></b>	<b><u>\$ 1,450</u></b>	<b><u>\$ 296,646</u></b>
<b>Due from other funds.....</b>	<b><u>\$ 5,381</u></b>	<b><u>\$ 1,417</u></b>	<b><u>\$ 74</u></b>	<b><u>\$ 42</u></b>	<b><u>\$ 6,914</u></b>
<b>Investments and invested securities lending collateral:</b>					
United States government securities.....	\$ 2,718,706	\$ 385,895	\$ 1,707	\$ 16,196	\$ 3,122,504
United States government agencies and government-insured securities.....	1,684,747	290,734	4,247	10,471	1,990,199
Corporate bonds.....	3,979,140	432,351	9,305	22,320	4,443,116
Financial and other.....	1,821,367	238,895	2,559	5,140	2,067,961
Equities.....	9,788,784	1,168,825	20,453	50,406	11,028,468
Invested securities lending collateral.....	3,530,026	547,147	5,900	27,304	4,110,377
<b>Total investments.....</b>	<b><u>\$ 23,522,770</u></b>	<b><u>\$ 3,063,847</u></b>	<b><u>\$ 44,171</u></b>	<b><u>\$ 131,837</u></b>	<b><u>\$ 26,762,625</u></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 14,016 members were participating in the TERI program at June 30, 2005. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2005, was as follows:

Beginning balance of TERI trust accounts.....	\$ 649,385
Additions .....	338,778
TERI distributions at termination.....	<u>(103,387)</u>
<b>Ending balance of TERI trust accounts.....</b>	<b><u>\$ 884,776</u></b>

**i. National Guard Pension System**

Plan Description

The National Guard Pension System (NGPS) is a single-employer defined benefit pension plan administered by the State Adjutant General's Office.

The NGPS, established by Section 25-1-3210 of the South Carolina Code of Laws, provides benefits to National Guard members who served in South Carolina prior to July 1, 1993. 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. 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.

The following table shows the number of employees by type of membership as of June 30, 2004, the date of the latest biennial actuarial valuation:

	<u>NGPS</u>
Retirees and beneficiaries receiving benefits.....	2,535
Terminated employees entitled to benefits but not yet receiving them.....	2,974
Active employees.....	<u>3,425</u>
<b>Total participants.....</b>	<b><u>8,934</u></b>

National Guard members who served in South Carolina prior to July 1, 1993, are covered by the plan. NGPS is closed to new entrants.

Basis of Accounting

The financial statements of the NGPS are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due. Retirement benefits are recognized when due and payable in accordance with the terms of the plan.

Receivables and Investments

The assets of the NGPS consist of cash and cash equivalents, accrued interest receivable, and invested securities lending collateral. Note 1f specifies the method used to value pension trust fund investments.

Contributions and Reserves

The South Carolina Code of Laws prescribes requirements relating to NGPS membership, plan benefits, and employer contributions. The plan, which is administered by the Office of the State Adjutant General, requires no contributions from its members.

Article X, Section 16 of the State Constitution requires that all State-operated retirement plans (NGPS is a State-operated retirement plan) be funded on a sound actuarial basis. For plan years following 1996, NGPS has been annually funded in amounts that have been inadequate to comply with its minimum actuarial contribution requirements. Because of these uncorrected funding deficiencies, plan actuaries report that NGPS is not being operated in an actuarially sound manner.

At June 30, 2005, under the accrual basis of accounting the plan has \$11.521 million of net assets for paying supplemental retirement benefits to its members. By comparison, plan actuaries have determined that the plan has \$47.281 million in actuarial accrued liabilities at June 30, 2004.

# State of South Carolina

## Funding Policy and Annual Pension Cost

The following table provides information concerning funding policies and annual pension cost (dollars expressed in thousands):

	<u>NGPS</u>
Annual pension cost.....	\$2,842
Employer contributions made.....	\$1,996
Actuarial valuation date.....	June 30, 2004
Actuarial cost method.....	Entry age
Amortization method.....	Level dollar, open
Remaining amortization period.....	30 years
Asset valuation method.....	5-year smoothed market
Actuarial assumptions:	
Investment rate of return.....	7.25%
Projected salary increases.....	Not applicable
Assumed inflation rate .....	4.25%
Assumed cost-of-living adjustments.....	Not applicable

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2005 (expressed in thousands):

	<u>NGPS</u>
Actuarially required contribution (ARC).....	\$ 2,969
Interest on the NPO.....	590
Adjustment to the ARC.....	(717)
Annual pension cost.....	2,842
Contributions made.....	1,996
Increase in NPO.....	846
NPO beginning of year.....	8,132
<b>NPO end of year.....</b>	<b>\$ 8,978</b>

The State recognized \$1.996 million of expenditures in the General Fund to pay a portion of the current fiscal years' actuarially determined contribution.

The following schedule (dollars expressed in thousands) describes the funding progress for the NGPS for each of the three most recent actuarial valuations:

Biennial 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)
2000	\$ 11,089	\$ 43,427	\$ 32,338	25.5%	\$ 40,789	79.3%
2002	12,608	44,678	32,070	28.2%	45,711	70.2%
2004	13,567	47,281	33,714	28.7%	42,391	79.5%

Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. The following table presents the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the latest three fiscal years for the plan (dollars expressed in thousands):

<b>Fiscal Year Ended June 30</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2003	\$ 2,759	77.3%	\$ 7,151
2004	2,796	71.4%	8,132
2005	2,842	70.2%	8,978

Financial Statements

The NGPS does not issue separate financial statements. Accordingly, the financial statements for the NGPS are presented below:

**Statement of Plan Net Assets  
National Guard Pension System  
June 30, 2005  
(Expressed in Thousands)**

<b>ASSETS</b>	
Cash and cash equivalents.....	\$ 11,451
Accrued interest receivable.....	70
Invested securities lending collateral.....	572
<b>Total assets.....</b>	<b>12,093</b>
<b>LIABILITIES</b>	
Securities lending collateral.....	572
<b>Total liabilities.....</b>	<b>572</b>
<b>NET ASSETS</b>	
Held in trust for pension benefits....	<b>\$ 11,521</b>

**Statement of Changes in Plan Net Assets  
National Guard Pension System  
For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)**

<b>Additions:</b>	
Employer retirement contributions.....	\$ 1,996
Investment income.....	557
<b>Total additions.....</b>	<b>2,553</b>
<b>Deductions:</b>	
Regular retirement benefits.....	2,519
Administrative expense.....	25
<b>Total deductions.....</b>	<b>2,544</b>
<b>Net increase in plan net assets.....</b>	<b>9</b>
<b>Net assets held in trust for pension benefits:</b>	
Beginning of year.....	11,512
End of year.....	<b>\$ 11,521</b>

Subsequent Event

While the State Adjutant General currently administers the NGPS, the State General Assembly passed legislation during 2005 transferring NGPS administration to the Director of the South Carolina Retirement Systems. This transfer will be effective January 1, 2006.

**j. 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, 2005:

Covered payroll.....	\$ 477,166
Employee contributions.....	28,630
Employer contributions.....	23,858

**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 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, 27,086 retirees meet these eligibility requirements.

Eligible retirees choose among two health insurance plans and two Health Maintenance Organization (HMO) options, all of which are underwritten by the State. The two health insurance plans are the Savings Plan and the Standard 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 Companion HMO pays 90.0% of allowable claims and the CIGNA HMO pays 80.0% of allowable claims, both 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, 2005, the State recognized expenses (net of participant contributions) of \$101.860 million to provide health and dental benefits to State participants in post-employment status.

Effective January 1, 2006, an additional HMO, BlueChoice HealthPlan of South Carolina, will be available. The BlueChoice HMO will pay 90% of allowable claims after co-payments. Additionally, the State Health Plan will be offering Free & Clear, a free tobacco treatment program, to all subscribers and dependents.

**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 \$251.956 million at June 30, 2005, includes a provision for claims in the process of review and for claims incurred but not reported. The liability for claims incurred but not reported is an actuarial estimate based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. This process does not necessarily result in an exact amount. The IRF continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

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

<u>Fiscal Year Ended June 30</u>	<u>Beginning-of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2004	\$ 206,884	\$ 65,143	\$ (36,774)	\$ 235,253
2005	235,253	42,065	(25,362)	251,956

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 \$184.928 million at June 30, 2005, 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.

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 2005, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2005, \$25.954 million relates to group life and long-term disability insurance coverage and \$4.242 million relates to the HMO self-insured managed care plan liability. The State does not discount its claims liabilities for health and dental insurance coverage to present value.

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

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2004	\$ 188,153	\$ 1,143,209	\$ (1,151,490)	\$ 179,872
2005	179,872	1,161,986	(1,156,930)	184,928

**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, 2005, the Fund’s policy claims liability was \$127.366 million. Policy claims in the financial statements include the liabilities for claims reported but not yet paid and for claims incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in legal doctrines, and damage awards, computation of the claims liability does not necessarily result in an exact amount.

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

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2004	\$ 76,849	\$ 78,818	\$ (44,782)	\$ 110,885
2005	110,885	64,656	(48,175)	127,366

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of \$600 thousand are covered up to limits of statutory liability; the Fund retains the risk for the first \$600 thousand 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 2005. 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 (although the PCF’s Board of Governors may authorize payments in excess of \$200 thousand per year 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, 2005, the policy claims liabilities were \$210.367 million for the PCF and \$184.816 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 \$15.000 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 2004.

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

At December 31, 2004, the policy claims liabilities were \$2.375 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
2003	\$ 1,566	\$ 2,167	\$ (1,505)	\$ 2,228
2004	2,228	2,282	(2,135)	2,375

**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, 2005 (expressed in thousands), follow for the primary government and for the State’s major discretely presented component units, respectively:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Totals</u>
2006	\$ 1,512	\$ 12,734	\$ 14,246
2007	1,259	11,449	12,708
2008	606	7,804	8,410
2009	226	5,102	5,328
2010	83	4,072	4,155
2011 - 2015	—	13,217	13,217
2016 - 2020	—	10,153	10,153
<b>Total minimum payments.....</b>	<b>3,686</b>	<b>64,531</b>	<b>68,217</b>
Less: interest and executory costs.....	(830)	(11,976)	(12,806)
<b>Present value of net minimum payments.....</b>	<b>\$ 2,856</b>	<b>\$ 52,555</b>	<b>\$ 55,411</b>

<u>Fiscal Year Ending December 31</u>	<u>Public Service Authority</u>
2005	\$ 3,603
2006	3,388
2007	3,335
2008	3,038
2009	2,737
2010 - 2014	6,201
<b>Total minimum payments.....</b>	<b>22,302</b>
Less: interest and executory costs.....	(7,373)
<b>Present value of net minimum payments.....</b>	<b>\$ 14,929</b>

<u>Fiscal Year Ending June 30</u>	<u>State Ports Authority</u>
2006	\$ 47
2007	47
2008	46
2009	15
<b>Total minimum payments.....</b>	<b>155</b>
Less: interest and executory costs.....	(20)
<b>Present value of net minimum payments.....</b>	<b>\$ 135</b>

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2005, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Totals	Public Service Authority	State Ports Authority
Land and non-depreciable improvements.....	\$ —	\$ 5,479	\$ 5,479	\$ —	\$ —
Buildings and improvements.....	6,540	54,219	60,759	90,100	—
Machinery and equipment.....	3,101	47,422	50,523	—	185
Works of art and historical treasures.....	—	330	330	—	—
<b>Assets acquired under capital leases before accumulated amortization.....</b>	<b>9,641</b>	<b>107,450</b>	<b>117,091</b>	<b>90,100</b>	<b>185</b>
Less: accumulated amortization.....	(4,062)	(33,443)	(37,505)	(77,300)	(58)
<b>Assets acquired under capital leases, net.....</b>	<b>\$ 5,579</b>	<b>\$ 74,007</b>	<b>\$ 79,586</b>	<b>\$ 12,800</b>	<b>\$ 127</b>

For the primary government’s fiscal year ended June 30, 2005, minimum rental payments under operating leases were \$72.120 million and contingent rental payments were \$8.584 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 \$5.800 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$1.033 million. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$749 thousand.

At June 30, 2005, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) were as follows:

Fiscal Year Ending June 30	Primary Government	Component Unit Lottery Commission
2006	\$ 37,934	\$ 347
2007	33,673	71
2008	27,814	4
2009	21,360	—
2010	14,763	—
2011 - 2015	24,227	—
2016 - 2020	6,914	—
2021 - 2025	2,974	—
2026 - 2030	182	—
<b>Total minimum payments.....</b>	<b>\$ 169,841</b>	<b>\$ 422</b>

**b. Facilities Leased to Others**

At June 30, 2005, 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 \$472.127 million and related accumulated depreciation of \$205.203 million. Future minimum rental payments to be received at June 30, 2005, under these operating leases (expressed in thousands) were as follows:

<u>Fiscal Year Ending June 30</u>	<u>State Ports Authority</u>
2006	\$ 4,563
2007	1,787
2008	980
2009	864
2010	569
2011 - 2015	2,435
2016 - 2020	1,611
2021 - 2025	608
2026 - 2030	500
2031 - 2035	417
<b>Total.....</b>	<b><u>\$ 14,334</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, 2005, were:

<b>Governmental Activities</b>	
Capital improvement bonds, 1.375% to 5.90%.....	\$ 801,626
State highway bonds, 2.00% to 6.50%.....	725,434
State school facilities bonds, 3.00% to 5.75%.....	611,126
Infrastructure Bank bonds, 3.00% to 5.00%.....	58,785
State economic development bonds, 2.75% to 6.40%...	101,282
<b>Subtotal—governmental activities.....</b>	<b><u>2,298,253</u></b>
<b>Business-type Activities, Higher Education Fund</b>	
State institution bonds, 2.50% to 6.25%.....	230,423
<b>Total—general obligation bonds payable.....</b>	<b><u>\$ 2,528,676</u></b>

At June 30, 2005, \$6.344 million of capital improvement bonds, \$162.660 million of State economic development bonds, and \$98.000 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2005, 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
2006	\$ 186,744	\$ 99,097	\$ 13,075	\$ 9,827
2007	178,830	93,103	13,550	9,308
2008	185,650	85,394	13,455	8,726
2009	190,574	77,109	13,790	8,159
2010	172,780	68,417	13,650	7,581
2011-2015	821,760	227,110	75,360	28,846
2016-2020	456,860	70,434	64,775	12,373
2021-2025	90,115	8,990	23,880	1,826
2026-2030	15,080	1,152	—	—
<b>Total debt service requirements.....</b>	<b>2,298,393</b>	<b>\$ 730,806</b>	<b>231,535</b>	<b>\$ 86,646</b>
Unamortized premiums.....	18,133		73	
Deferred amount on refunding...	(18,273)		(1,185)	
<b>Total principal outstanding.....</b>	<b>\$ 2,298,253</b>		<b>\$ 230,423</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, 2005, was \$34.771 million in total for all institution bonds, \$16.222 million for highway bonds, \$52.374 million for general obligation bonds excluding institution and highway bonds, and \$15.689 million for economic development 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, 2005, which are reported in the internal service funds, totaled \$19.392 million. Interest rates on these bonds ranged from 4.00% to 6.10%.

At June 30, 2005, 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, 2005, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Governmental Activities (Internal Service Funds)	
	Principal	Interest
2006	\$ 4,120	\$ 924
2007	4,320	725
2008	1,640	542
2009	1,730	465
2010	1,200	383
2011-2015	6,275	906
2016-2020	185	9
<b>Total debt service requirements.....</b>	<b>19,470</b>	<b>\$ 3,954</b>
Unamortized discounts.....	(78)	
<b>Total principal outstanding.....</b>	<b>\$ 19,392</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, 2005, were:

	<u>Bonds</u>	<u>Notes</u>
<b>Primary Government:</b>		
<b>Governmental Activities:</b>		
Infrastructure Bank bonds, 3.00% to 6.00%.....	\$ 1,947,393	\$ —
Tobacco Authority bonds, 6.00% to 7.67%.....	820,905	—
Educational Television Network note, 3.29%.....	—	2,208
Judicial Department note, 3.98%.....	—	140
Education Department note, 3.29%.....	—	786
Corrections Department note, 3.34%.....	—	1,290
Budget and Control Board internal service fund bond and notes, 3.00% to 5.00%.....	23,521	5,887
<b>Totals—governmental activities.....</b>	<b><u>2,791,819</u></b>	<b><u>10,311</u></b>
<b>Business-type Activities:</b>		
Higher Education Fund bonds and notes, 3.00% to 7.375%.....	443,664	80,793
Housing Authority Fund bonds, 1.60% to 8.30%.....	631,228	—
Medical University Hospital Authority bonds, 2.18% to 6.50%.....	474,309	—
Education Assistance Authority Fund bonds, 3.50% to 6.30%.....	744,083	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 1.54% to 7.50%.....	18,748	51,584
Direct note obligations, 5.82% to 6.82%.....	—	91,703
<b>Totals—business-type activities.....</b>	<b><u>2,312,032</u></b>	<b><u>224,080</u></b>
<b>Totals—primary government.....</b>	<b><u>\$ 5,103,851</u></b>	<b><u>\$ 234,391</u></b>
<b>Major Discretely Presented Component Units:</b>		
Public Service Authority bonds, 3.00% to 7.42%.....	<u>\$ 2,666,809</u>	<u>\$ —</u>
State Ports Authority bonds and notes, 2.45% to 5.50%.....	<u>\$ 140,470</u>	<u>\$ 3,319</u>
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%.....	<u>\$ 264,444</u>	<u>\$ —</u>
Lottery Commission notes, 8.00%.....	<u>\$ —</u>	<u>\$ 2,217</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, 2005, the Bank had interest income of \$4.300 million and interest expense of \$1.625 million attributable to the agreement. During the fiscal year ended June 30, 2005, the Bank paid \$909 thousand in variable rate monthly payments and received \$1.777 million in fixed rate payments. The June 30, 2005, mark to market value of this swap was \$1.233 million. 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 reduce net interest costs 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, 2005, the Bank made variable bond interest payments of \$4.291 million and fixed rate payments on the exchange agreement of \$14.087 million. The Bank received variable swap payments on the exchange agreement of \$3.037 million. The June 30, 2005, mark to market value of this swap was a negative \$38.460 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, 2005, are as follows: Series 1994 obligations—\$9.050 million; Series 1999A obligations—\$35.700 million; and Series 1999B obligations—\$41.500 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$10.400 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, 2005, were 3.10% for the 1994 obligations, 2.97% for the 1999A obligations, and 3.08% 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, 2005, 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 \$2.807 million on the 1994 obligations, \$10.485 million on the 1999A obligations, and \$9.224 million for the 1999B obligations as of June 30, 2005. 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, 2005, was \$11.500 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, 2005, the swap had a negative fair value of approximately \$3 thousand. Termination of the agreement would subject the Corporation to the risk of fluctuating interest rates.

As of June 30, 2005, debt service requirements of the UMA and the Corporation variable rate debt and net swap payments (expressed in thousands), assuming current interest rates remain the same for their term, were as follows:

Year Ending June 30	Variable Rate Notes		Interest Rate Swaps, Net	Totals
	Principal	Interest		
2006	\$ 3,350	\$ 2,881	\$ 2,941	\$ 9,172
2007	3,445	2,785	2,854	9,084
2008	3,595	2,686	2,766	9,047
2009	4,045	2,582	2,670	9,297
2010	4,195	2,466	2,565	9,226
2011-2015	23,220	10,360	11,020	44,600
2016-2020	21,150	7,250	7,788	36,188
2021-2025	28,650	3,307	3,400	35,357
2026-2030	6,100	262	233	6,595
<b>Totals.....</b>	<b>\$ 97,750</b>	<b>\$ 34,579</b>	<b>\$ 36,237</b>	<b>\$ 168,566</b>

# State of South Carolina

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, 2005, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2005, 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
2006	\$ 40,999	\$ 146,657	\$ 113,160	\$ 102,348
2007	43,552	144,597	46,929	105,001
2008	52,390	142,297	82,311	102,227
2009	44,841	139,836	146,200	98,098
2010	46,935	137,524	116,018	94,064
2011-2015	358,999	636,490	372,900	420,735
2016-2020	475,005	525,176	366,177	335,557
2021-2025	586,860	381,084	700,770	225,410
2026-2030	741,560	206,701	293,891	115,583
2031 - 2035	395,670	38,404	293,244	51,699
2036 - 2040	—	—	15,145	545
<b>Total debt service requirements.....</b>	<b>2,786,811</b>	<b>\$ 2,498,766</b>	<b>2,546,745</b>	<b>\$ 1,651,267</b>
Unamortized premiums.....	51,828		13,591	
Deferred amount on refunding.....	(36,509)		(24,224)	
<b>Total principal outstanding.....</b>	<b>\$ 2,802,130</b>		<b>\$ 2,536,112</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, 2004, the carrying value of the Public Service Authority's debt was \$2.845 billion while the fair value was approximately \$3.200 billion. At June 30, 2005, the carrying value of the State Ports Authority debt was \$143.139 million while the fair value was approximately \$145.328 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, 2005, 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
2005	\$ 76,825	\$ 150,600	\$ —	\$ 3,532
2006	75,185	142,460	—	3,532
2007	71,260	138,505	—	3,532
2008	85,060	134,491	6,200	3,507
2009	80,535	130,219	42,500	16,775
2010 - 2014	517,765	572,138	67,200	15,213
2015 - 2019	711,999	415,041	99,600	13,211
2020 - 2024	672,651	209,127	135,800	10,605
2025 - 2029	181,010	113,631	177,500	7,149
2030 - 2034	216,515	63,127	217,300	2,661
2035 - 2039	141,710	12,746	—	—
<b>Total debt service requirements.....</b>	<b>2,830,515</b>	<b>\$ 2,082,085</b>	<b>746,100</b>	<b>\$ 79,717</b>
Unamortized premiums (discounts)...	68,890		(481,656)	
Deferred amount on refunding.....	(232,596)		—	
<b>Total principal outstanding.....</b>	<b>\$ 2,666,809</b>		<b>\$ 264,444</b>	

Year Ending June 30	Major Component Units			
	State Ports Authority		Lottery Commission	
	Principal	Interest	Principal	Interest
2006	\$ 3,470	\$ 6,808	\$ 1,104	\$ 129
2007	3,601	6,665	1,113	25
2008	3,778	6,478	—	—
2009	3,854	6,284	—	—
2010	4,050	6,083	—	—
2011 - 2015	23,106	26,981	—	—
2016 - 2020	28,220	20,497	—	—
2021 - 2025	36,365	12,357	—	—
2026 - 2030	36,560	1,539	—	—
<b>Total debt service requirements.....</b>	<b>143,004</b>	<b>\$ 93,692</b>	<b>2,217</b>	<b>\$ 154</b>
Unamortized premium.....	785		—	
<b>Total principal outstanding.....</b>	<b>\$ 143,789</b>		<b>\$ 2,217</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, 2005, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government.....	\$ 54,259
Transportation.....	136,782
<b>Total allocated interest expense.....</b>	<b>\$ 191,041</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, 2005, \$9.345 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, 2006.

### e. Defeased Bonds

During April 2005, the State issued \$85.215 million in general obligation State capital improvement refunding bonds with an average interest rate of 4.04% to refund \$81.310 million of general obligation State capital improvement bonds with an average interest rate of 5.30%. The net proceeds of \$86.313 million, including \$2.017 million in premiums (after payment of \$919 thousand in issuance costs and other allocations), 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 \$5.003 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next eleven years by approximately \$2.396 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$2.136 million.

Also during April 2005, the State issued \$63.000 million in general obligation State school facilities refunding bonds with an average interest rate of 4.58% to refund \$59.515 million of general obligation State school facilities bonds with an average interest rate of 5.75%. The net proceeds of \$65.951 million, including \$3.861 million in premiums (after payment of \$910 thousand in issuance costs and other allocations), 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 \$6.436 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2013 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next eight years by approximately \$1.657 million and to obtain an economic gain of approximately \$2.281 million.

During September 2004, the Infrastructure Bank, included in the Local Government Infrastructure major governmental fund, issued \$153.450 million in Infrastructure Bank revenue refunding bonds with a premium of \$20.427 million to refund \$158.225 million of Infrastructure Bank revenue bonds. The Bank used net proceeds of \$172.092 million (after payment of \$1.785 million in issuance costs), plus an additional \$1.698 million in excess debt service reserve fund monies 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 \$15.565 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2011 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next twenty-six years by approximately \$12.000 million and to obtain an economic gain of approximately \$8.000 million.

During April 2005, the Department of Transportation Special Revenue Fund, a major governmental fund, issued \$146.495 million in State highway refunding bonds of which \$6.495 million was used to refund \$6.500 million of State highway revenue bonds. The Bank used the \$6.495 million plus \$252 thousand 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 amount of the old debt of \$247 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2010 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next five years by approximately \$272 thousand and to obtain an economic gain of approximately \$255 thousand.

During April 2005, the Medical University of South Carolina, included in the Higher Education major enterprise fund, issued \$19.045 million in general obligation State institution refunding bonds to refund \$17.845 million in general obligation State institution bonds. The net proceeds (after payment of \$163 thousand in issuance costs) were deposited in an irrevocable trust with an escrow agent. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.205 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020. The University completed the advance refunding to reduce its total debt service payments over the next fifteen years by approximately \$828 thousand and to obtain an economic gain of \$636 thousand.

During January 2005, The Citadel, a military college included in the Higher Education major enterprise fund, issued \$26.525 million in athletic facilities revenue bonds to refund \$9.745 million of revenue bonds and to partially fund the construction of a new barracks. The Citadel used net proceeds of \$10.351 million (after payment of \$356 thousand in issuance costs) 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 \$606 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2013 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next twelve years by approximately \$755 thousand and to obtain an economic gain of approximately \$601 thousand.

During December 2004, the Medical University Hospital Authority, a major enterprise fund, issued a total of \$422.060 million of FHA Insured Mortgage Hospital Facilities and Refunding Revenue Bonds at a premium of \$11.445 million. The net bond proceeds as well as monies from a trustee account were used to defease all amounts outstanding under the prior Series 2002A bonds, pay off a promissory note, and fund construction of new replacement hospital facilities. The advance refunding resulted in a difference between the reacquisition price and the net carrying

amount of the old debt of \$15.475 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2032 using the interest method. The Authority reduced its total debt service payments by approximately \$53.069 million and obtained an economic gain of \$107 thousand.

During August 2004, the Education Assistance Authority, a major enterprise fund, issued \$174.700 million in Guaranteed Student Loan Revenue and Refunding Bonds with an auction interest rate varying up to 12.00% to advance refund \$3.000 million in Revenue Bonds with an average interest rate of 5.20% and to provide financing for student loans. The Authority used net proceeds of \$3.000 million (after payment of \$896 thousand for issuance costs, \$1.747 million for special deposits, and \$169.057 million for the purchase of new student loans) to purchase United States government securities. The advance refunding resulted in no difference between the reacquisition price and the net carrying amount of the old debt. The Authority completed the refunding to gain flexibilities that the 2002 bond resolution provided. The refunding increases the Authority's total debt payments by approximately \$450 thousand over the next seven years and results in an economic loss of approximately \$17 thousand.

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, 2005, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	Governmental Activities	Business- type Activities	Totals— Primary Government
Capital improvement bonds.....	\$ 62,610	\$ —	\$ 62,610
State highway bonds.....	46,175	—	46,175
State school facilities bonds.....	59,515	—	59,515
Infrastructure Bank bonds.....	496,340	—	496,340
Higher Education Fund bonds..	—	207,159	207,159
<b>Totals.....</b>	<b>\$ 664,640</b>	<b>\$ 207,159</b>	<b>\$ 871,799</b>

In addition, at December 31, 2004, \$12.345 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, 2005, are reported as other liabilities of \$187 thousand in the Local Government Infrastructure Fund, and as other liabilities payable from restricted assets of \$10.464 million and other liabilities of \$424 thousand in the Education Assistance Authority Fund.

**g. Conduit Debt**

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

The Educational Facilities Authority, reported in the General Fund, issues bonds to assist nonprofit educational institutions that do not receive State appropriations in the acquisition, construction, and financing of facilities for educational programs. The bonds are payable solely from, and secured by, a lease agreement on the facilities between the Authority and the institution. When the bonds have been fully paid, the Authority conveys the title for the facility to the institution. At June 30, 2005, the outstanding balance of bonds issued was \$225.147 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, 2005, the outstanding balance of bonds issued after June 30, 1995, was \$2.434 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, 2005, the outstanding balance of bonds issued was \$235.250 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, 2005, was \$3.440 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 \$4.247 million in the 1993-1994 through 2003-2004 fiscal years, and \$420 thousand in the 2004-2005 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated \$400 thousand in the 2005-2006 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, 2005, 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, 2005, 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 two lines of credit with financial institutions with maximum borrowing limits of \$11.500 million and \$6.000 million.

The Public Service Authority, a discretely presented component unit, has recorded a \$193.317 million liability for commercial paper notes at its fiscal year ended December 31, 2004. 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, 2005, the State has issued bonds and notes as indicated in the table below (expressed in thousands).

<u><b>Primary Government</b></u>		
<b>Description</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
General obligation bonds.....	\$ 208,125	\$ 18,275
Revenue bonds.....	231,000	50,000
Revenue notes.....	—	41,450
Totals.....	\$ 439,125	\$ 109,725
 <u><b>Component Unit</b></u>		
<b>Description</b>	<b>Revenue Bonds</b>	
Public Service Authority.....	\$ 496,817	

Of the total revenue bonds that the primary government issued, \$231.000 million of the governmental activities bonds and \$50.000 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, \$481.450 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, 2005, were:

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities</b>					
Policy claims.....	\$ 531,645	\$ 1,274,698	\$ (1,234,458)	\$ 571,885	\$ 486,502
Notes payable.....	\$ 8,884	\$ 2,940	\$ (1,513)	\$ 10,311	\$ 1,799
General obligation bonds payable.....	\$ 2,264,441	\$ 369,590	\$ (335,638)	\$ 2,298,393	\$ 186,744
Unamortized discounts and premiums.....	12,569	6,220	(656)	18,133	—
Deferred amount on refunding.....	(10,749)	(11,685)	4,161	(18,273)	—
Total general obligation bonds payable....	\$ 2,266,261	\$ 364,125	\$ (332,133)	\$ 2,298,253	\$ 186,744
Tobacco Authority bonds payable.....	\$ 845,630	\$ —	\$ (24,725)	\$ 820,905	\$ —
Revenue bonds payable.....	\$ 23,565	\$ —	\$ (1,190)	\$ 22,375	\$ 1,260
Unamortized discounts and premiums.....	1,237	—	(91)	1,146	—
Total revenue bonds payable.....	\$ 24,802	\$ —	\$ (1,281)	\$ 23,521	\$ 1,260
Infrastructure Bank bonds payable.....	\$ 1,736,910	\$ 382,390	\$ (186,080)	\$ 1,933,220	\$ 37,940
Unamortized discounts and premiums.....	15,711	35,005	(34)	50,682	—
Deferred amount on refunding.....	(27,107)	(15,565)	6,163	(36,509)	—
Total Infrastructure Bank bonds payable..	\$ 1,725,514	\$ 401,830	\$ (179,951)	\$ 1,947,393	\$ 37,940
Limited obligation bonds payable.....	\$ 23,400	\$ —	\$ (3,930)	\$ 19,470	\$ 4,120
Unamortized discounts and premiums.....	(96)	—	18	(78)	—
Total limited obligation bonds payable....	\$ 23,304	\$ —	\$ (3,912)	\$ 19,392	\$ 4,120
Capital leases payable.....	\$ 3,256	\$ 700	\$ (1,100)	\$ 2,856	\$ 1,123
Compensated absences payable.....	\$ 194,191	\$ 118,974	\$ (112,561)	\$ 200,604	\$ 128,490
National Guard Pension System net pension obligation payable.....	\$ 8,132	\$ 846	\$ —	\$ 8,978	\$ —
Judgments and contingencies payable.....	\$ 71,260	\$ —	\$ (18,794)	\$ 52,466	\$ 15,266
Arbitrage payable.....	\$ 123	\$ 66	\$ (2)	\$ 187	\$ —

The National Guard Pension 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 Pension System liability. Historically, the State has paid most judgments related to governmental funds from its General Fund unless an identifiable amount was directly attributable to another specific fund.

State of South Carolina

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Business-type Activities</b>					
Policy claims.....	\$ 203,600	\$ 46,552	\$ (39,785)	\$ 210,367	\$ 38,500
Notes payable.....	\$ 194,669	\$ 53,675	\$ (23,416)	\$ 224,928	\$ 17,744
Deferred amount on refunding.....	(996)	—	50	(946)	—
Unamortized discounts and premiums.....	103	—	(5)	98	—
Total notes payable.....	\$ 193,776	\$ 53,675	\$ (23,371)	\$ 224,080	\$ 17,744
General obligation bonds payable.....	\$ 242,650	\$ 19,045	\$ (30,160)	\$ 231,535	\$ 13,075
Deferred amount on refunding.....	—	(1,205)	20	(1,185)	—
Unamortized discounts and premiums.....	90	(13)	(4)	73	—
Total general obligation bonds payable....	\$ 242,740	\$ 17,827	\$ (30,144)	\$ 230,423	\$ 13,075
Revenue bonds payable.....	\$ 1,551,800	\$ 986,195	\$ (216,178)	\$ 2,321,817	\$ 95,416
Deferred amount on refunding.....	(7,136)	(23,697)	7,555	(23,278)	—
Unamortized discounts and premiums.....	(1,836)	14,249	1,080	13,493	—
Total revenue bonds payable.....	\$ 1,542,828	\$ 976,747	\$ (207,543)	\$ 2,312,032	\$ 95,416
Capital leases payable.....	\$ 54,585	\$ 20,194	\$ (22,224)	\$ 52,555	\$ 10,455
Compensated absences payable.....	\$ 102,205	\$ 74,324	\$ (66,351)	\$ 110,178	\$ 60,378
Arbitrage payable.....	\$ 13,068	\$ —	\$ (2,180)	\$ 10,888	\$ 344

	Balances at January 1, 2004	Increases	Decreases	Balances at December 31, 2004	Amounts Due Within One Year
<b>Major Component Units:</b>					
<b>Public Service Authority</b>					
Policy claims.....	\$ 2,228	\$ 2,282	\$ (2,135)	\$ 2,375	\$ 2,375
Revenue bonds payable.....	\$ 2,421,170	\$ 480,615	\$ (71,270)	\$ 2,830,515	\$ 76,825
Deferred amount on refunding.....	(252,850)	—	20,254	(232,596)	—
Unamortized discounts and premiums.....	44,740	30,107	(5,957)	68,890	—
Total revenue bonds payable.....	\$ 2,213,060	\$ 510,722	\$ (56,973)	\$ 2,666,809	\$ 76,825
Capital leases payable.....	\$ 21,515	\$ —	\$ (6,586)	\$ 14,929	\$ 2,771
Compensated absences payable.....	\$ 13,370	\$ 1,842	\$ (1,345)	\$ 13,867	\$ —

**Connector 2000 Association, Inc.**

Revenue bonds payable.....	\$ 746,100	\$ —	\$ —	\$ 746,100	\$ —
Unamortized discounts and premiums.....	(493,059)	—	11,403	(481,656)	—
Total revenue bonds payable.....	\$ 253,041	\$ —	\$ 11,403	\$ 264,444	\$ —

	<u>Balances at July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances at June 30, 2005</u>	<u>Amounts Due Within One Year</u>
<b>State Ports Authority</b>					
Notes payable.....	\$ 7,494	\$ —	\$ (4,175)	\$ 3,319	\$ 445
Revenue bonds payable.....	\$ 142,590	\$ —	\$ (2,905)	\$ 139,685	\$ 3,025
Unamortized discounts and premiums.....	830	—	(45)	785	—
Total revenue bonds payable.....	\$ 143,420	\$ —	\$ (2,950)	\$ 140,470	\$ 3,025
Capital leases payable.....	\$ 132	\$ 44	\$ (41)	\$ 135	\$ 37
Compensated absences payable.....	\$ 2,032	\$ 2,188	\$ (2,217)	\$ 2,003	\$ 2,003
<b>Lottery Commission</b>					
Notes payable.....	\$ 3,450	\$ —	\$ (1,233)	\$ 2,217	\$ 1,104
Compensated absences payable.....	\$ 850	\$ 500	\$ (496)	\$ 854	\$ 58

**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, 2005, 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:

	<u>Balances at July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances at June 30, 2005</u>
<b>Primary Government:</b>				
<b>Business-type Activities</b>				
Revenue bond anticipation notes payable.....	\$ 44,310	\$ 9,345	\$ (44,310)	\$ 9,345
Notes payable (letters of credit).....	\$ 13,500	\$ —	\$ (13,500)	\$ —
	<u>Balances at January 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances at December 31, 2004</u>
<b>Major Component Unit:</b>				
<b>Public Service Authority</b>				
Commercial paper notes.....	\$ 345,050	\$ 31,869	\$ (183,602)	\$ 193,317

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

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

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

At June 30, 2005, 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	Governmental Funds
<b>Fund balances reserved for:</b>						
General reserve fund.....	\$ 75,155	\$ —	\$ —	\$ —	\$ —	\$ 75,155
Interfund receivables.....	3,361	—	260,484	—	3,805	267,650
Appropriations to be carried forward .....	58,983	—	—	—	—	58,983
Endowments .....	—	—	—	—	2,081	2,081
Long-term loans and notes receivable .....	14	578	366,366	7,579	16,794	391,331
Debt requirements.....	—	—	1,132,921	—	150,895	1,283,816
School building aid .....	5,149	—	—	—	758	5,907
<b>Total reserved fund balances.....</b>	<b>\$ 142,662</b>	<b>\$ 578</b>	<b>\$ 1,759,771</b>	<b>\$ 7,579</b>	<b>\$ 174,333</b>	<b>\$ 2,084,923</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, 2005, the Reserve’s balance was \$75.155 million. In accordance with the 2005-2006 Appropriation Act, the State added \$78.333 million to the Reserve in September 2005 to fully fund the Reserve’s balance to \$153.488 million.

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, \$99.356 million was designated by the General Assembly to be used in fiscal year 2005-2006 for specific capital projects.

At June 30, 2005, the State had tentative plans to use \$286.777 million of the fund balance in its Budgetary General Fund to allow the State to pay for selected recurring and nonrecurring items. Of that amount, only \$246.081 million in net financial resources were available in the General Fund and were designated at June 30, 2005, to finance these tentative plans.

**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, 2005 (expressed in thousands):

<u>Description</u>	<u>Due To/From</u>
Receivable fund: General	
Payable funds:	
Departmental General Operating.....	\$ 45,329
Unemployment Compensation.....	4,998
Internal service.....	449
Other.....	662
Receivable fund: Departmental General Operating	
Payable funds:	
General.....	377
Department of Transportation Special Revenue.....	102
Internal service.....	209
Other.....	7,071
Receivable fund: Local Government Infrastructure	
Payable funds:	
General.....	7,340
Department of Transportation Special Revenue.....	3,453
Receivable fund: Department of Transportation Special Revenue Fund	
Payable funds:	
General.....	771
Internal service.....	107

Description	Due To/From
Receivable fund: Higher Education	
Payable funds:	
General.....	\$ 2,761
Departmental General Operating.....	4,558
Department of Transportation Special Revenue.....	158
Hospital Authority.....	12,727
Internal service.....	11
Other.....	5,275
Receivable fund: Unemployment Compensation	
Payable funds:	
General .....	8
Departmental General Operating.....	4
Department of Transportation Special Revenue.....	9
Higher Education.....	3
Receivable funds: Internal Service	
Payable funds:	
General.....	7,562
Departmental General Operating.....	2,727
Local Government Infrastructure.....	2
Department of Transportation Special Revenue.....	154
Higher Education.....	2,596
Housing Authority.....	27
Internal service.....	172
Fiduciary.....	27,620
Other.....	1,170
Receivable funds: Fiduciary	
Payable funds:	
General.....	30,755
Departmental General Operating.....	14,874
Local Government Infrastructure.....	36
Department of Transportation Special Revenue.....	12,387
Higher Education.....	5,124
Internal service.....	1,534
Fiduciary.....	1,736
Other.....	852
Receivable funds: Other	
Payable Funds:	
General.....	5,434
Departmental General Operating.....	1,780
Department of Transportation Special Revenue.....	11
Higher Education.....	8,419
Hospital Authority.....	682
Internal service.....	12
Other.....	1,879
<b>Totals.....</b>	<b>\$ 223,927</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.

Description	Interfund Receivables Payables	Long-term Portion
Receivable fund: General		
Payable funds:		
Departmental General Operating.....	\$ 1,380	\$ —
Higher Education.....	723	609
Internal service.....	3,559	2,752
Receivable fund: Departmental General Operating		
Payable funds:		
Higher Education.....	400	—
Other.....	180	—
Receivable fund: Local Government Infrastructure		
Payable fund: Department of Transportation Special Revenue	286,084	260,484
Receivable funds: Internal Service		
Payable funds:		
Departmental General Operating.....	3,000	3,000
Local Government Infrastructure.....	3,500	—
Internal service.....	822	732
Other.....	36,966	35,415
Receivable funds: Other		
Payable Funds:		
Departmental General Operating.....	241	217
Higher Education.....	44,732	2,815
Internal service.....	1,213	1,001
Other.....	88	69
<b>Totals.....</b>	<b>\$ 382,888</b>	<b>\$ 307,094</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:

- \$286.084 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.
- \$14.399 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.
- \$22.375 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.
- \$41.877 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.

# State of South Carolina

The following table summarizes interfund transfers during the fiscal year ended June 30, 2005 (expressed in thousands):

Description/Fund(s)	Transfers From/To
Transfers from the General Fund:	
Transfers to:	
Departmental General Operating.....	\$ 83,701
Local Government Infrastructure.....	1,064
DOT Special Revenue.....	109
Higher Education.....	692,988
Unemployment Compensation.....	30
Internal service.....	1,010
Fiduciary.....	2,046
Other.....	7,707
Transfers from Departmental General Operating	
Transfers to:	
General.....	10,612
Higher Education.....	594
Internal service.....	1,520
Other.....	8,776
Transfers from Local Government Infrastructure	
Transfers to:	
Departmental General Operating.....	21
Transfers from Department of Transportation Special Revenue	
Transfers to:	
General.....	4,940
Departmental General Operating.....	651
Other.....	49
Transfers from State Tobacco Settlement	
Transfers to:	
Departmental General Operating.....	1
Local Government Infrastructure.....	2,407
Transfers from Higher Education	
Transfers to:	
Departmental General Operating.....	19,935
Internal service.....	32
Other.....	2,842
Transfer from Unemployment Compensation	
Transfer to General.....	1,102
Transfer from Housing Authority	
Transfer to Other.....	300
Transfer from MUSC Hospital Authority	
Transfers to:	
Higher Education.....	11,189
Transfer from Internal Service	
Transfers to:	
General.....	6
Departmental General Operating.....	8,653
Higher Education.....	32
Internal service.....	210
Other.....	1,501
Transfers from Other	
Transfers to:	
General.....	2,021
Departmental General Operating.....	34,431
Department of Transportation Special Revenue.....	7,658
Higher Education.....	63,272
Housing Authority.....	300
Internal service.....	645
Other.....	7,983
<b>Totals.....</b>	<b>\$ 980,338</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 capital projects fund to other funds authorized to execute the projects. During the fiscal year ended June 30, 2005, the significant transfers (i.e., \$5.000 million or more) that occurred were all routine or consistent with the normal activities of the fund making the transfer.

**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, 2005, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	<b>Scholarship Allowances</b>
Charges for services.....	\$ 267,899
Operating revenues pledged for revenue bonds.....	20,421
Other operating revenues.....	16,676
<b>Total .....</b>	<b>\$ 304,996</b>

For the fiscal year ended June 30, 2005, the State’s enterprise funds presented \$797.922 million included in net charges for services after provisions for contractual and other adjustments in the amount of \$706.650 million and uncollectible accounts in the amount of \$90.291 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, 2005.

The \$556 thousand extraordinary loss on early extinguishment of debt in the Housing Authority Fund, a major enterprise fund, resulted from the early redemption of bonds (\$163 thousand from writing off unamortized discounts and \$393 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, 2005, \$8.991 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, \$183 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, 2005, the predominant policy was to authorize the spending of 4.75% to 6.00% 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, 2005, 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, (b) Home Ownership, and (c) 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, 2005, are presented below:

**CONDENSED STATEMENT OF NET ASSETS**

	<u>Single Family</u>	<u>Mortgage Revenue</u>
Assets		
Current restricted assets.....	\$ 9,616	\$ 39,236
Other current assets.....	10,887	31,814
Noncurrent restricted assets.....	209,006	526,041
Other assets.....	<u>882</u>	<u>4,340</u>
Total assets.....	<u>230,391</u>	<u>601,431</u>
Liabilities		
Current liabilities payable from restricted assets.....	9,616	39,236
Noncurrent liabilities.....	<u>108,130</u>	<u>494,510</u>
Total liabilities.....	<u>117,746</u>	<u>533,746</u>
Net assets		
Restricted and expendable for:		
Debt service.....	2,795	35,477
Bond reserves.....	3,209	8,536
Special programs.....	<u>106,641</u>	<u>23,671</u>
<b>Total net assets.....</b>	<b><u>\$ 112,645</u></b>	<b><u>\$ 67,684</u></b>

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

	<u>Single Family</u>	<u>Home Ownership</u>	<u>Mortgage Revenue</u>
Operating revenues:			
Pledged revenues:			
Interest on loans.....	\$ 7,435	\$ 502	\$ 23,417
Income on deposit.....	1,194	140	6,215
Other revenues:			
Bond premium amortization.....	38	—	59
Total operating revenues.....	<u>8,667</u>	<u>642</u>	<u>29,691</u>
Operating expenses:			
Bond issuance cost amortization.....	41	1	230
Other operating expenses.....	5,782	351	26,294
Total operating expenses.....	<u>5,823</u>	<u>352</u>	<u>26,524</u>
Operating income.....	<u>2,844</u>	<u>290</u>	<u>3,167</u>
Loss on early extinguishment of debt (extraordinary item).....	—	(17)	(354)
Transfers:			
Transfers in.....	—	—	14,550
Transfers out.....	(4,365)	(15,075)	—
Increase in net assets.....	(1,521)	(14,802)	17,363
Beginning net assets.....	114,166	14,802	50,321
<b>Ending net assets.....</b>	<b><u>\$ 112,645</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 67,684</u></b>

**CONDENSED STATEMENT OF CASH FLOWS**

	<u>Single Family</u>	<u>Home Ownership</u>	<u>Mortgage Revenue</u>
Net cash provided (used) by:			
Operating activities.....	\$ (5,208)	\$ 9,942	\$ (15,583)
Noncapital financing activities.....	(9,955)	(13,987)	117,354
Investing activities.....	1,100	932	4,543
Net increase (decrease).....	(14,063)	(3,113)	106,314
Beginning cash and cash equivalents.....	85,265	3,113	121,915
<b>Ending cash and cash equivalents.....</b>	<b><u>\$ 71,202</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 228,229</u></b>

During June 2005, the Housing Authority defeased the outstanding balance of Home Ownership Mortgage Finance Purchase Bonds and transferred all remaining assets and liabilities to the Mortgage Revenue Program.

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 21.0% 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, 2004, the Authority received distributions of \$14.463 million from TEA and recognized \$16.860 million in reductions to power costs and increases in electric revenues. The Authority had a collateral refund of \$3.362 million from TEA.

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 \$72.400 million to support TEA's activities.

At December 31, 2004, the Authority had a payable to TEA of \$17.500 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately \$2.000 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 \$487.000 million, accumulated depreciation of \$245.700 million, and expenses of \$54.900 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 \$116.400 million (adjusted to market) at December 31, 2004, 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, 2005, the Educational Television Endowment of South Carolina, Inc., disbursed \$4.861 million on behalf of the Departmental General Operating Fund, a major governmental fund, for programs, development, advertising, and other costs.

The following organizations are related to the Higher Education Fund, a major enterprise fund: the University of South Carolina Development Foundation; the University of South Carolina Business Partnership Foundation; the University of South Carolina Research Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the Lancaster County Educational Foundation, Inc.; the Clemson University Research Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the 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 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.; Greenville Tech Foundation Student Housing, LLC; Midlands Technical College Foundation; Orangeburg-Calhoun Technical College Foundation; Piedmont Technical College Foundation; Tri-County Technical College Foundation; Trident Technical College Foundation; and York Technical College Foundation. During the fiscal year ended June 30, 2005, 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—\$30.114 million; donations of cash and other assets from foundations—\$102.630 million; expenditures paid to foundations—\$3.507 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$7.377 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, 2005, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC—\$9.678 million; notes receivable from SLC—\$772.405 million; program revenue from SLC—\$35.512 million; reimbursements to SLC for administrative costs—\$4.199 million; and payable to SLC—\$93.171 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 \$11.175 million during the Authority’s fiscal year ended December 31, 2004. The Authority also made two non-recurring payments to the General Fund totaling \$13.000 million during the fiscal year ended December 31, 2004, to provide financial support to the State.

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, 2005.

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 \$276.577 million during the fiscal year ended June 30, 2005; the Commission owed an additional \$21.244 million to the Fund at June 30, 2005.

**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, 2004, were as follows (expressed in thousands):

<u>Customer</u>	<u>Revenue</u>	<u>% of Total Sales Revenue</u>
Central Electric Power Cooperative, Inc.....	\$ 583,000	51.1%
Alumax of South Carolina, Inc.....	118,000	10.4%

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

State Ports Authority

During the fiscal year ended June 30, 2005, one customer accounted for approximately 16% 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.

## NOTE 22: CONTINGENCIES AND COMMITMENTS

### a. Litigation

#### Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2005, are several that challenge the legality of certain taxes. 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 \$37 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 are involved in two alleged class action lawsuits 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 allege 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. The parties have submitted briefs and the case is scheduled for oral argument in December 2005. The second suit is a putative class action case alleging the new requirement that working retirees make employee retirement contributions is unconstitutional and illegal. The two cases are based on similar causes of action and facts. If the plaintiffs in the cases prevail, the State could be required to refund the employee contributions currently held in escrow.

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 matter is now on appeal at the Circuit Court. In the event of an unfavorable outcome, the State's liability for retroactive relief could exceed \$650 million. The estimated unfavorable impact on future year revenues could be approximately \$50 million to \$60 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 \$8 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 trial has been completed and the Court will issue an Order on the merits probably before the end of 2005. 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. This is a new case in the early stages of litigation.

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. A group of customers of Central members filed suit against the Authority and members of Central seeking monetary damages arising out of a change in the Authority's "Good Cents" rate. The plaintiffs seek to represent a class of all "Good Cents" customers of Central's members. The Authority denied the material allegations and opposed the request for class certification. No accurate prediction of the outcome or estimate of range of loss is possible at this time.

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. The Authority filed a claim seeking that the Corps indemnify the Authority for all costs relating to this matter. Although the contracting officer of the Corps denied the Authority's claim, the U.S. Army Contract Board of Appeals has determined that the Corps must indemnify the Authority for rediversion project related claims.

#### **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, 2005, 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, 2005, these loans totaled \$2.118 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, 2005, 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, 2004, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$672.581 million for coal. In addition, minimum obligations under purchased power contracts were approximately \$88.400 million at December 31, 2004,

with a remaining term of thirty 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, 2004, these commitments totaled approximately \$41.700 million over the next seven 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, 2005, the Lottery Commission had a remaining commitment of \$2.217 million under a service contract with a term that extends through September 2007. 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 \$1.679 billion for certain highway and transportation facilities projects. At June 30, 2005, the remaining commitments for these agreements totaled \$398.108 million.

At June 30, 2005, the Department of Commerce had outstanding commitments of \$105.021 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, 2005, the Budget and Control Board had outstanding commitments of \$99.391 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 \$7.753 million at June 30, 2005, for affordable housing projects and developments.

### **g. Major Discretely Presented Component Unit—Regulatory Matters**

The Public Service Authority (the Authority), a major discretely presented component unit and electric utility company, endeavors to ensure that its facilities comply with applicable environmental regulations and standards. Congress has promulgated comprehensive amendments to the Clean Air Act, including provisions that relate to acid precipitation as well as to sulfur dioxide and nitrogen oxide emissions.

The Environmental Protection Agency has finalized regulations relating to ozone transport for twenty-two eastern states including South Carolina. These regulations require significant nitrogen oxide emission reductions from the power industry. As a result, the Authority believes the cost of compliance will approach approximately \$263.000 million for the Authority's fiscal year ending December 31, 2005. Annual operating costs associated with such compliance could approach \$10.000 million.

### **h. Major Discretely Presented Component Unit—Deregulation of Electric Utilities**

The Public Service Authority, a major discretely presented component unit, currently is a regulated electric utility. The electric industry is increasingly competitive due to regulatory changes and market developments. As utilities move to a deregulated environment where rates are based on market forces, there may be costs that cannot be recovered by charging the market rate. Some proposed deregulation measures allow for recovery of some portion of these costs, but the ultimate regulatory treatment of such costs cannot be predicted.

The Authority has developed and is implementing a long-term strategic plan designed to position it to compete effectively in the changing competitive environment. Although the Authority is preparing for a deregulated market, it cannot predict the effects of increased competition on its operations and financial condition.

### **i. 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, 2004. 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, 2005****(Expressed in Thousands)**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance from Final Budget— Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
<b>Regular sources</b>				
Retail sales tax.....	\$ 2,249,618	\$ 2,307,737	\$ 2,318,475	\$ 10,738
Income tax, individual.....	1,979,364	2,146,164	2,215,376	69,212
Income tax, corporation.....	120,215	151,989	186,269	34,280
Total income and sales tax.....	4,349,197	4,605,890	4,720,120	114,230
Admissions tax.....	32,320	28,327	27,286	(1,041)
Aircraft tax.....	3,247	4,725	5,159	434
Alcoholic liquor tax.....	52,853	53,268	54,684	1,416
Bank tax.....	19,000	18,600	28,822	10,222
Beer and wine tax.....	93,839	96,373	94,751	(1,622)
Business license tax.....	28,611	29,831	29,610	(221)
Coin-operated device tax.....	2,400	2,400	1,866	(534)
Corporation license tax.....	62,600	75,119	74,500	(619)
Departmental revenue (primarily fees for services).....	55,971	55,544	50,458	(5,086)
Documentary tax.....	30,191	41,273	50,494	9,221
Earned on investments.....	16,000	19,000	26,074	7,074
Electric power tax.....	25,366	26,007	25,490	(517)
Estate tax.....	19,290	20,600	19,135	(1,465)
Insurance tax.....	147,000	146,512	147,599	1,087
Motor transport fees.....	8	8	20	12
Motor vehicle licenses.....	60,612	60,860	57,626	(3,234)
Petroleum inspection tax.....	8,301	8,381	8,832	451
Private car lines tax.....	3,302	2,738	2,390	(348)
Public Service Authority.....	10,865	11,855	12,423	568
Retailers' license tax.....	936	942	928	(14)
Savings and loan association tax.....	3,400	3,748	2,781	(967)
Workers' compensation insurance tax.....	12,729	13,495	14,217	722
Total regular sources.....	5,038,038	5,325,496	5,455,265	129,769
<b>Miscellaneous sources</b>				
Circuit and family court fines.....	10,196	9,716	9,527	(189)
Debt service reimbursement.....	3,300	3,199	2,569	(630)
Indirect cost recoveries.....	22,894	22,894	18,053	(4,841)
Mental health fees.....	3,800	3,800	3,800	—
Parole and probation supervision fees.....	3,392	3,392	3,393	1
Unclaimed property fund transfer.....	8,000	8,000	8,000	—
Nonrecurring revenue.....	92,262	92,262	90,275	(1,987)
Total miscellaneous sources.....	143,844	143,263	135,617	(7,646)
Other unbudgeted revenues.....	—	—	179	179
<b>Total revenues.....</b>	<b>5,181,882</b>	<b>5,468,759</b>	<b>5,591,061</b>	<b>122,302</b>

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

BUDGETARY GENERAL FUND (Continued)

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget— Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Legislative.....	\$ 28,064	\$ 31,189	\$ 26,084	\$ 5,105
Judicial.....	31,787	32,686	32,650	36
Executive and administrative.....	179,660	128,004	117,360	10,644
Educational.....	2,608,490	2,628,757	2,605,000	23,757
Health.....	1,121,269	1,127,110	1,126,671	439
Social rehabilitation services.....	89,001	90,872	87,846	3,026
Correctional and public safety.....	413,728	423,413	420,785	2,628
Conservation, natural resources, and development.....	116,265	124,275	120,690	3,585
Regulatory.....	70,807	72,775	67,996	4,779
Transportation.....	101	101	101	—
Debt service.....	234,777	234,775	229,280	5,495
Miscellaneous.....	231,400	236,367	236,367	—
Enterprise.....	2,400	2,400	2,365	35
<b>Total expenditures.....</b>	<b>5,127,749</b>	<b>5,132,724</b>	<b>5,073,195</b>	<b>59,529</b>
<b>Net increase in fund balance— budgetary basis.....</b>	<b>54,133</b>	<b>336,035</b>	<b>517,866</b>	<b>181,831</b>
<b>Fund balance at beginning of year— budgetary basis (restated).....</b>	<b>15,499</b>	<b>15,499</b>	<b>15,499</b>	<b>—</b>
<b>Fund balance at end of year— budgetary basis.....</b>	<b>\$ 69,632</b>	<b>\$ 351,534</b>	<b>\$ 533,365</b>	<b>\$ 181,831</b>

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

## OTHER BUDGETED FUNDS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget— Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Federal.....	\$ 5,725,125	\$ 6,343,617	\$ 5,780,913	\$ (562,704)
Earmarked.....	3,387,509	4,185,071	3,677,875	(507,196)
Restricted.....	2,483,935	2,727,402	2,755,852	28,450
<b>Total revenues.....</b>	<b>11,596,569</b>	<b>13,256,090</b>	<b>12,214,640</b>	<b>(1,041,450)</b>
<b>Expenditures:</b>				
Legislative.....	3,688	6,048	3,867	2,181
Judicial.....	19,084	22,681	16,814	5,867
Executive and administrative.....	305,285	519,070	407,852	111,218
Educational.....	3,711,809	4,090,205	3,501,550	588,655
Health.....	4,488,986	4,972,800	4,664,403	308,397
Social rehabilitation services.....	1,137,617	1,140,917	1,068,962	71,955
Correctional and public safety.....	207,866	246,413	189,378	57,035
Conservation, natural resources, and development.....	202,527	340,287	235,678	104,609
Regulatory.....	250,235	386,035	323,207	62,828
Transportation.....	1,339,774	1,694,689	1,542,855	151,834
Miscellaneous.....	607	607	514	93
<b>Total expenditures.....</b>	<b>11,667,478</b>	<b>13,419,752</b>	<b>11,955,080</b>	<b>1,464,672</b>
<b>Net increase (decrease) in fund balance— budgetary basis.....</b>	<b>(70,909)</b>	<b>(163,662)</b>	<b>259,560</b>	<b>423,222</b>
<b>Fund balance at beginning of year— budgetary basis.....</b>	<b>1,246,400</b>	<b>1,246,400</b>	<b>1,246,400</b>	<b>—</b>
<b>Fund balance at end of year—budgetary basis.....</b>	<b>\$ 1,175,491</b>	<b>\$ 1,082,738</b>	<b>\$ 1,505,960</b>	<b>\$ 423,222</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 2004-2005 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.

Beginning fund balance for the State's Budgetary General Fund has been reduced by \$104.934 million from amounts previously reported to correct for the effects of accelerated revenue recognition in prior fiscal years. During fiscal years 1991, 1993, and 2001, the State had accelerated budgetary revenue recognition for selected revenues resulting in a permanent imbalance between fund balance for the General Fund reported on the budgetary basis and fund balance for the General Fund

reported in accordance with generally accepted accounting principles (GAAP). This imbalance had contributed significantly to the State's negative unreserved fund balance for its General Fund reported on the GAAP basis in prior years. In a recent opinion, the State Attorney General has determined that this restatement requires approval of the General Assembly.

### 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 2004-2005 fiscal year has approximately 2,500 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 29 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, 2005, were as follows:

	<i>Budgetary General Fund</i>	<i>Other Budgeted Funds</i>	Major Special Revenue Funds			
			Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	State Tobacco Settlement
<i>Budgetary funds</i> .....						
<b>GAAP funds</b> .....	<b>General Fund</b>	<b>Not Applicable</b>				
Net increase in fund balance—budgetary basis .....	\$ 517,866	\$ 259,560	\$ —	\$ —	\$ —	\$ —
Perspective differences:						
Other Budgeted Funds attributable to nonmajor governmental and other GAAP funds .....	—	(283,225)	—	—	—	—
Other Budgeted Funds attributable to major governmental GAAP funds .....	—	(23,665)	—	—	—	—
Other Budgeted Funds reclassified among the State’s major governmental GAAP funds .....	(44,357)	23,665	194,382	45,890	92,332	(5,022)
Basis of accounting differences .....	(7,465)	—	(45,604)	(7,328)	11,563	(1,383)
Entity differences .....	13,096	—	2,710	39,258	—	(1,825)
Net increase (decrease) in fund balance—GAAP basis .....	<u>\$ 479,140</u>	<u>\$ —</u>	<u>\$ 151,488</u>	<u>\$ 77,820</u>	<u>\$ 103,895</u>	<u>\$ (8,230)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**National Guard Pension System**

**SCHEDULE OF FUNDING PROGRESS**

(Dollars in Thousands)

<b>Biennial Actuarial Valuation Date June 30</b>	<b>Actuarial Valuation of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL As a Percentage of Covered Payroll ((b-a)/c)</b>
2000	\$ 11,089	\$ 43,427	\$ 32,338	25.5%	\$ 40,789	79.3%
2002	12,608	44,678	32,070	28.2%	45,711	70.2%
2004	13,567	47,281	33,714	28.7%	42,391	79.5%

The unfunded actuarial accrued liability expressed as a percentage of covered payroll is a measure of the significance of the unfunded actuarial liability relative to the State's capacity to pay it. The funded ratio represents the assets expressed as a percentage of the actuarial accrued liability. The trend in those two ratios provides information about whether the financial strength of the plan is improving or deteriorating over time. An improvement is indicated when the funded ratio is increasing and the ratio of the unfunded actuarial liability to active covered payroll is decreasing.

While the State Adjutant General's Office currently administers the plan, the State's General Assembly passed legislation during 2005 transferring the plan's administration to the Director of the South Carolina Retirement Systems. This transfer will be effective January 1, 2006.

**REQUIRED SUPPLEMENTARY INFORMATION**

**National Guard Pension System**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

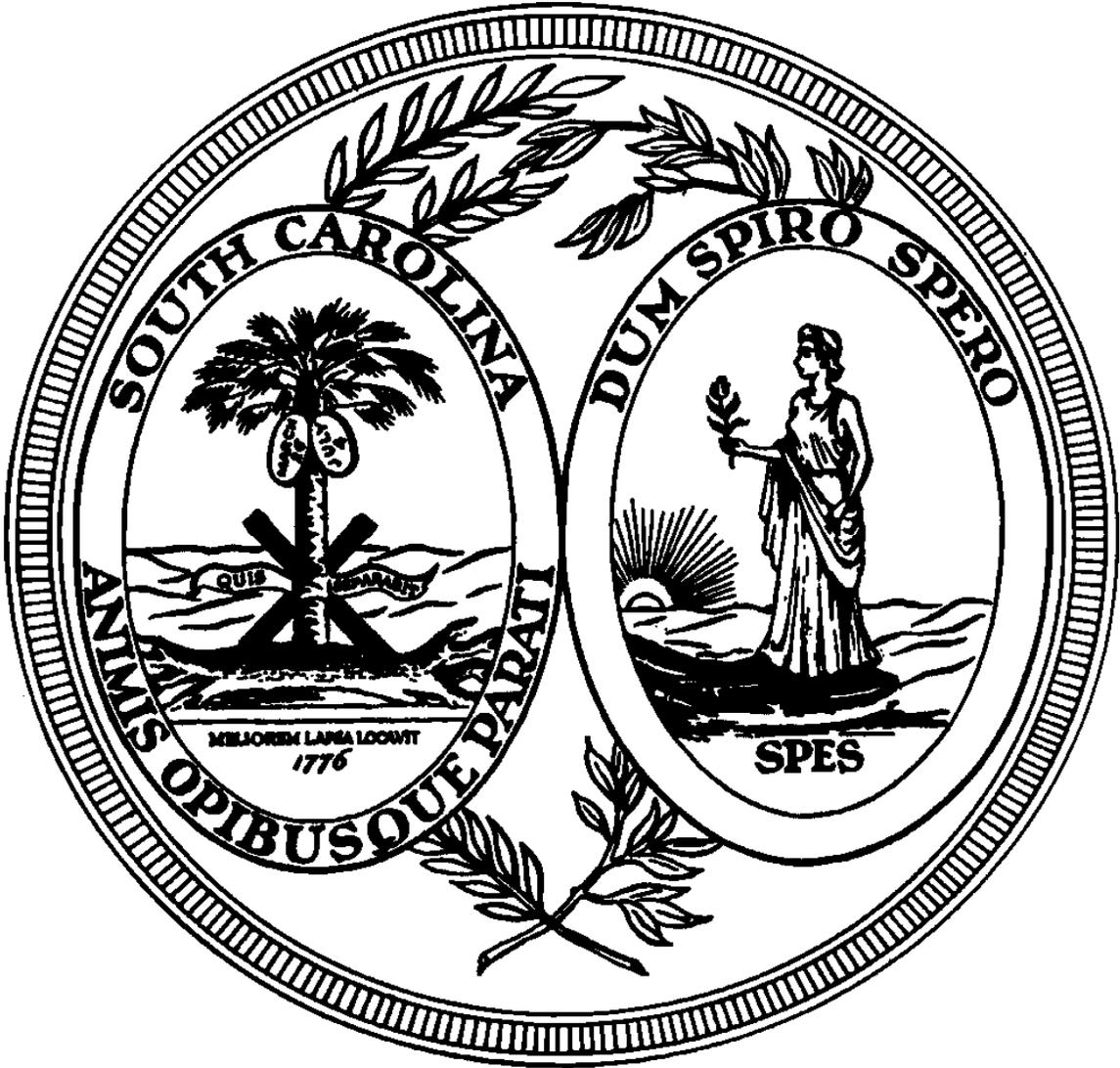
(Dollars in Thousands)

<b>Fiscal Year Ended June 30</b>	<b>Employer Contributions</b>	
	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2000	\$ 3,200	78.1%
2001	2,996	82.6%
2002	2,996	75.3%
2003	2,870	74.3%
2004	2,870	69.6%
2005	2,969	67.2%

The schedule of employer contributions provides information about the required contributions of the State and the extent to which those contributions are being made. The schedule gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The information presented above was determined as part of the actuarial valuations. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date.....	June 30, 2004
Actuarial cost method.....	Entry age
Amortization method.....	Level dollar, open
Remaining amortization period.....	30 years
Asset valuation method.....	5 year smoothed market
Actuarial assumptions:	
Investment rate of return.....	7.25%
Projected salary increases.....	Not applicable
Assumed inflation rate .....	4.25%
Assumed cost-of-living adjustments.....	Not applicable



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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, 2005

(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.....	\$ 56,824	\$ 27,891	\$ 100,446	\$ 68,955	\$ 13,456	\$ 351
Invested securities lending collateral.....	930	3,755	13,390	398	1,063	—
Receivables, net:						
Accounts.....	318	—	316	—	—	—
Accrued interest.....	1,251	258	537	4	53	—
Sales and other taxes.....	67,363	11,790	—	44,824	—	—
Loans and notes.....	14,210	—	—	—	—	—
Due from Federal government and other grantors.....	4	—	—	—	—	—
Due from other funds.....	2,543	—	16	167	—	—
Due from component units.....	—	—	—	—	—	—
Interfund receivables.....	—	—	—	—	—	—
Inventories.....	—	—	23	—	—	—
Restricted assets:						
Investments.....	—	—	—	—	—	113,729
Other.....	—	—	—	—	—	37,165
<b>Total assets.....</b>	<b>\$ 143,443</b>	<b>\$ 43,694</b>	<b>\$ 114,728</b>	<b>\$ 114,348</b>	<b>\$ 14,572</b>	<b>\$ 151,245</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable.....	\$ 2,191	\$ —	\$ 3,041	\$ —	\$ 13	\$ —
Accrued salaries and related expenditures.....	633	—	205	—	—	—
Retainages payable.....	—	—	—	—	—	—
Tax refunds payable.....	495	—	—	64	—	—
Intergovernmental payables.....	1,090	812	819	109,464	—	—
Due to other funds.....	1,662	—	180	253	113	—
Interfund payables.....	150	—	—	—	—	—
Deferred revenues.....	6,699	—	—	4,168	3,215	—
Securities lending collateral.....	930	3,754	13,390	399	1,063	—
Other liabilities.....	35	—	—	—	—	—
<b>Total liabilities.....</b>	<b>13,885</b>	<b>4,566</b>	<b>17,635</b>	<b>114,348</b>	<b>4,404</b>	<b>—</b>
<b>Fund balances:</b>						
Reserved for:						
Interfund receivables.....	—	—	—	—	—	—
Long-term loans and notes receivable.....	5,295	—	—	—	—	150,895
School building aid.....	758	—	—	—	—	—
Endowments.....	—	—	—	—	—	—
Unreserved:						
Designated for scholarships.....	15,247	—	—	—	—	—
Designated for capital expenditures.....	—	—	—	—	—	—
Undesignated.....	108,258	39,128	97,093	—	10,168	350
<b>Total fund balances.....</b>	<b>129,558</b>	<b>39,128</b>	<b>97,093</b>	<b>—</b>	<b>10,168</b>	<b>151,245</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 143,443</b>	<b>\$ 43,694</b>	<b>\$ 114,728</b>	<b>\$ 114,348</b>	<b>\$ 14,572</b>	<b>\$ 151,245</b>

**REVENUE**

**PERMANENT**

Education Lottery	Jobs-Economic Development Authority	Public Telecommunications	Other Special Revenue	Totals	CAPITAL PROJECTS	Bequests	Wildlife Endowment	Totals	TOTALS
\$ 100,676	\$ 2,183	\$ 23,506	\$ 66,708	\$ 460,996	\$ 215,482	\$ 1,297	\$ 1,770	\$ 3,067	\$ 679,545
14,486	—	2,492	2,511	39,025	70,841	13	54	67	109,933
49	24	—	2	709	1	—	—	—	710
943	2	114	161	3,323	524	9	12	21	3,868
—	—	—	2,241	126,218	753	—	—	—	126,971
—	974	—	11,336	26,520	—	—	—	—	26,520
—	—	—	—	4	5,645	—	—	—	5,649
—	—	1,365	3,439	7,530	1,201	—	—	—	8,731
21,244	—	—	—	21,244	—	—	—	—	21,244
—	—	—	4,397	4,397	—	—	—	—	4,397
—	—	—	—	23	—	—	—	—	23
—	—	—	—	113,729	—	—	—	—	113,729
—	—	—	—	37,165	—	—	—	—	37,165
<b>\$ 137,398</b>	<b>\$ 3,183</b>	<b>\$ 27,477</b>	<b>\$ 90,795</b>	<b>\$ 840,883</b>	<b>\$ 294,447</b>	<b>\$ 1,319</b>	<b>\$ 1,836</b>	<b>\$ 3,155</b>	<b>\$ 1,138,485</b>
\$ 2,282	\$ 9	\$ 1,040	\$ 1,095	\$ 9,671	\$ 5,701	\$ —	\$ —	\$ —	\$ 15,372
18	—	—	585	1,441	65	—	—	—	1,506
—	—	—	—	—	1,651	—	—	—	1,651
—	—	—	3	562	—	—	—	—	562
1,028	—	8,500	7,673	129,386	—	—	—	—	129,386
4,233	—	346	2,175	8,962	6,617	24	—	24	15,603
—	—	—	223	373	22,462	—	—	—	22,835
—	—	—	—	14,082	3,347	—	—	—	17,429
14,486	—	2,492	2,511	39,025	70,841	13	54	67	109,933
—	—	—	753	788	—	—	—	—	788
<b>22,047</b>	<b>9</b>	<b>12,378</b>	<b>15,018</b>	<b>204,290</b>	<b>110,684</b>	<b>37</b>	<b>54</b>	<b>91</b>	<b>315,065</b>
—	—	—	3,805	3,805	—	—	—	—	3,805
—	885	—	10,614	167,689	—	—	—	—	167,689
—	—	—	—	758	—	—	—	—	758
—	—	—	—	—	—	663	1,418	2,081	2,081
—	—	—	—	15,247	—	—	—	—	15,247
—	—	—	—	—	183,763	—	—	—	183,763
115,351	2,289	15,099	61,358	449,094	—	619	364	983	450,077
<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>\$ 137,398</b>	<b>\$ 3,183</b>	<b>\$ 27,477</b>	<b>\$ 90,795</b>	<b>\$ 840,883</b>	<b>\$ 294,447</b>	<b>\$ 1,319</b>	<b>\$ 1,836</b>	<b>\$ 3,155</b>	<b>\$ 1,138,485</b>

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

## NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2005  
(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.....	\$ 583,283	\$ —	\$ 1,683	\$ 299,028	\$ —	\$ —
Other.....	—	11,790	—	—	49,500	—
Licenses, fees, and permits.....	—	250	25,894	—	—	—
Interest and other investment income.....	2,758	1,707	2,611	—	306	4,347
Federal.....	6	—	—	—	—	—
Local and private grants.....	—	—	—	—	—	—
Departmental services.....	—	—	592	—	—	—
Contributions.....	—	—	—	—	7,407	—
Fines and penalties.....	—	—	223	—	—	—
Tobacco legal settlement.....	—	—	—	—	—	73,231
Other.....	22	—	—	—	—	—
<b>Total revenues.....</b>	<b>586,069</b>	<b>13,747</b>	<b>31,003</b>	<b>299,028</b>	<b>57,213</b>	<b>77,578</b>
<b>Expenditures:</b>						
Current:						
General government.....	1,616	—	2	84	—	98
Education.....	34,006	13,069	—	—	—	—
Health and environment.....	648	—	24,115	—	56,154	—
Social services.....	341	—	—	—	—	—
Administration of justice.....	1,654	—	—	—	—	—
Resources and economic development.....	—	—	—	—	—	—
Capital outlay.....	—	—	—	—	—	—
Debt service:						
Principal retirement.....	—	—	—	—	—	24,725
Interest and fiscal charges.....	—	—	—	—	—	54,496
Intergovernmental.....	528,121	27,383	4,456	296,999	—	—
<b>Total expenditures.....</b>	<b>566,386</b>	<b>40,452</b>	<b>28,573</b>	<b>297,083</b>	<b>56,154</b>	<b>79,319</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>19,683</b>	<b>(26,705)</b>	<b>2,430</b>	<b>1,945</b>	<b>1,059</b>	<b>(1,741)</b>
<b>Other financing sources (uses):</b>						
Bonds issued.....	—	—	—	—	—	—
Premiums on bonds issued.....	—	—	—	—	—	—
Transfers in.....	1,918	2,035	—	—	—	—
Transfers out.....	(1,665)	(7)	(1,130)	(1,945)	—	(110)
<b>Total other financing sources (uses).....</b>	<b>253</b>	<b>2,028</b>	<b>(1,130)</b>	<b>(1,945)</b>	<b>—</b>	<b>(110)</b>
<b>Net change in fund balances.....</b>	<b>19,936</b>	<b>(24,677)</b>	<b>1,300</b>	<b>—</b>	<b>1,059</b>	<b>(1,851)</b>
<b>Fund balances at beginning of year (restated).....</b>	<b>109,622</b>	<b>63,805</b>	<b>95,793</b>	<b>—</b>	<b>9,109</b>	<b>153,096</b>
<b>Fund balances at end 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>

REVENUE					PERMANENT				
Education Lottery	Jobs– Economic Development Authority	Public Telecommunications	Other Special Revenue	Totals	CAPITAL PROJECTS	Bequests	Wildlife Endowment	Totals	TOTALS
\$ —	\$ —	\$ —	\$ —	\$ 883,994	\$ —	\$ —	\$ —	\$ —	\$ 883,994
—	—	—	31,311	92,601	6,800	—	—	—	99,401
—	—	84,161	3,678	113,983	—	—	137	137	114,120
5,450	110	504	1,298	19,091	1,839	(43)	79	36	20,966
—	—	—	62	68	39,769	—	—	—	39,837
—	—	—	—	—	55	—	—	—	55
—	227	8,946	253	10,018	3,129	—	—	—	13,147
278,418	—	—	608	286,433	307	—	—	—	286,740
—	—	—	21,369	21,592	—	—	—	—	21,592
—	—	—	—	73,231	—	—	—	—	73,231
137	—	—	150	309	824	—	—	—	1,133
<b>284,005</b>	<b>337</b>	<b>93,611</b>	<b>58,729</b>	<b>1,501,320</b>	<b>52,723</b>	<b>(43)</b>	<b>216</b>	<b>173</b>	<b>1,554,216</b>
8,750	—	83,856	12,355	106,761	—	—	—	—	106,761
221,057	—	—	—	268,132	—	—	—	—	268,132
346	—	—	57	81,320	—	24	—	24	81,344
4	—	—	9,506	9,851	—	—	—	—	9,851
19	—	—	12,830	14,503	—	—	—	—	14,503
—	2,544	—	5,269	7,813	—	—	—	—	7,813
—	—	—	—	—	67,596	—	—	—	67,596
—	—	—	—	24,725	—	—	—	—	24,725
—	—	—	18	54,514	1,034	—	—	—	55,548
105,736	—	6,598	15,648	984,941	—	—	—	—	984,941
<b>335,912</b>	<b>2,544</b>	<b>90,454</b>	<b>55,683</b>	<b>1,552,560</b>	<b>68,630</b>	<b>24</b>	<b>—</b>	<b>24</b>	<b>1,621,214</b>
<b>(51,907)</b>	<b>(2,207)</b>	<b>3,157</b>	<b>3,046</b>	<b>(51,240)</b>	<b>(15,907)</b>	<b>(67)</b>	<b>216</b>	<b>149</b>	<b>(66,998)</b>
—	—	—	—	—	74,880	—	—	—	74,880
—	—	—	—	—	49	—	—	—	49
6	72	5	7,887	11,923	16,728	—	—	—	28,651
(17,313)	—	(296)	(3,873)	(26,339)	(70,698)	—	—	—	(97,037)
<b>(17,307)</b>	<b>72</b>	<b>(291)</b>	<b>4,014</b>	<b>(14,416)</b>	<b>20,959</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>6,543</b>
<b>(69,214)</b>	<b>(2,135)</b>	<b>2,866</b>	<b>7,060</b>	<b>(65,656)</b>	<b>5,052</b>	<b>(67)</b>	<b>216</b>	<b>149</b>	<b>(60,455)</b>
<b>184,565</b>	<b>5,309</b>	<b>12,233</b>	<b>68,717</b>	<b>702,249</b>	<b>178,711</b>	<b>1,349</b>	<b>1,566</b>	<b>2,915</b>	<b>883,875</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>

## 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.

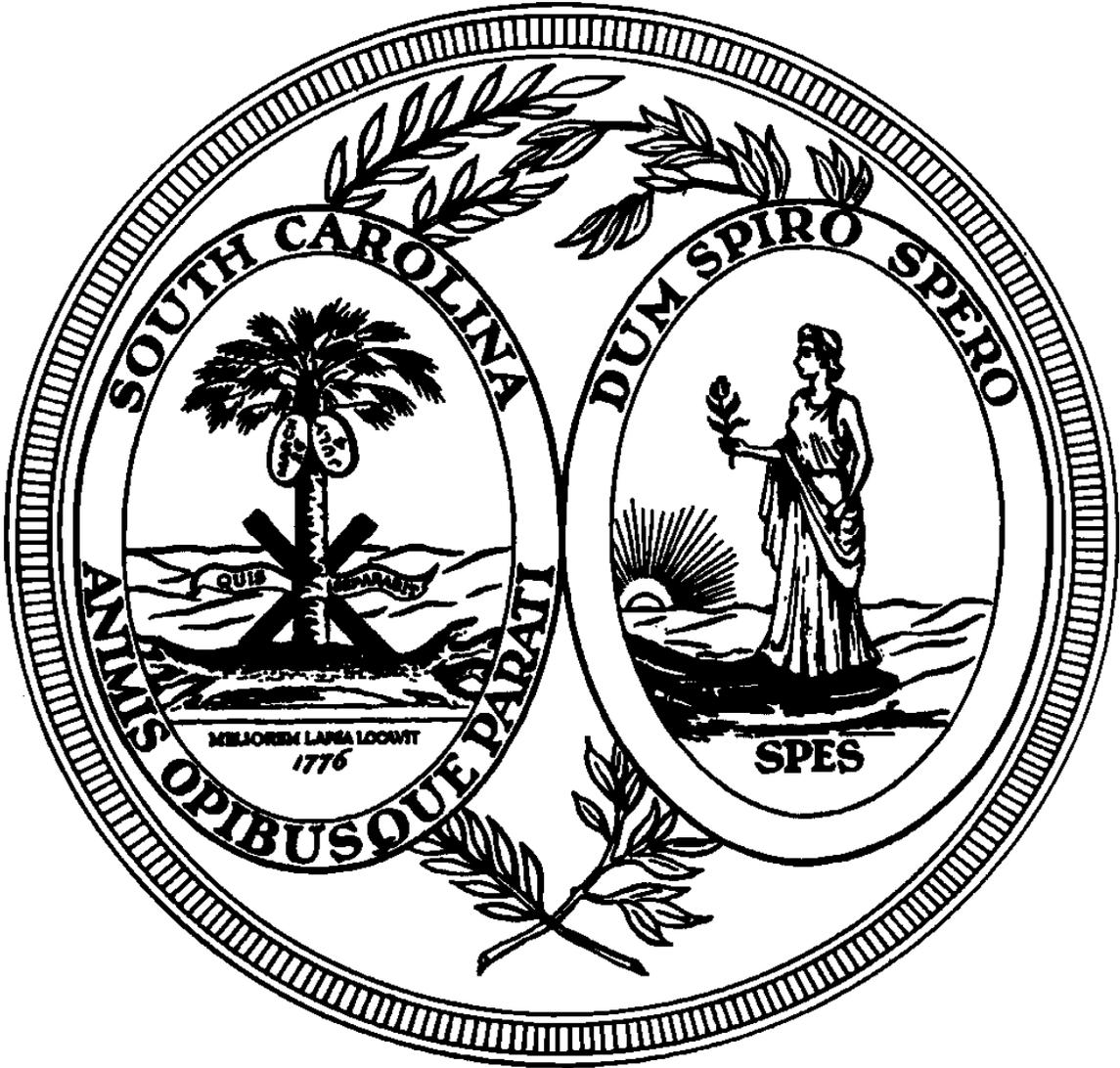
If amounts are withdrawn from the Reserve, the State Constitution requires restoration of the Reserve to full funding within three years.

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>
1996	\$ 120,735	\$ 6,271	\$ —	\$ 127,006	\$ 127,006	100%
1997	127,006	3,374	—	130,380	130,380	100%
1998	130,380	—	—	130,380	137,650	95%
1999	130,380	7,270	—	137,650	145,371	95%
2000	137,650	7,721	—	145,371	147,916	98%
2001	145,371	2,545	(87,393)	60,523	150,202	40%
2002	60,523	2,286	(62,809)	—	152,410	0%
2003	—	38,797	(38,797)	—	147,708	0%
2004	—	74,455	(49,300)	25,155	149,034	17%
2005	25,155	50,000	—	75,155	153,488	49%

<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, 2004.

*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.

*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, 2005

(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.....	\$ 8,220	\$ 3,149	\$ 242	\$ 106,272	\$ 185
Investments.....	—	—	—	—	2,551
Invested securities lending collateral.....	1,130	365	6,778	18,107	—
Receivables, net:					
Accounts.....	—	202	—	—	1
Contributions.....	—	—	—	—	179
Participants.....	—	—	—	6,255	—
Accrued interest.....	6	5	—	304	128
Patient accounts.....	—	—	—	—	—
Due from other funds.....	—	—	—	—	—
Inventories.....	—	293	—	—	—
Restricted assets:					
Cash and cash equivalents.....	—	—	41,797	—	767
Investments.....	—	—	—	—	7,756
Loans receivable.....	—	—	—	—	90
Other.....	—	—	503	—	486
Prepaid items.....	80	9	—	—	6
Other current assets.....					
	—	—	—	—	—
<b>Total current assets.....</b>	<b>9,436</b>	<b>4,023</b>	<b>49,320</b>	<b>130,938</b>	<b>12,149</b>
Long-term assets:					
Receivables, net:					
Contributions.....	—	—	—	—	195
Participants.....	—	—	—	18,948	—
Interfund receivables.....	—	—	—	—	—
Restricted assets:					
Cash and cash equivalents.....	—	—	—	—	1,751
Investments.....	—	—	—	—	43,284
Loans receivable.....	—	—	—	—	166
Other.....	—	—	—	—	645
Prepaid items.....	—	—	—	—	—
Other long-term assets.....					
	—	—	—	—	29
Capital assets:					
Land and improvements.....	—	6,548	—	—	—
Buildings and improvements.....	—	1,500	—	—	—
Construction in progress.....	—	4,040	—	—	—
Vehicles.....	—	—	—	—	—
Machinery and equipment.....	—	558	65	—	—
Works of art and historical treasures.....	—	7,955	—	—	—
Intangible assets.....	—	—	—	—	—
Less: accumulated depreciation.....	—	(7,997)	(53)	—	—
<b>Total capital assets, net.....</b>	<b>—</b>	<b>12,604</b>	<b>12</b>	<b>—</b>	<b>—</b>
<b>Total long-term assets.....</b>	<b>—</b>	<b>12,604</b>	<b>12</b>	<b>18,948</b>	<b>46,070</b>
<b>Total assets.....</b>	<b>9,436</b>	<b>16,627</b>	<b>49,332</b>	<b>149,886</b>	<b>58,219</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>Other Enterprise</u>	<u>Totals</u>
\$ 3,304	\$ 36,081	\$ —	\$ —	\$ 1	\$ 23,142	\$ 180,596
7,316	25,247	—	—	—	—	35,114
—	—	—	—	—	2,824	29,204
1,039	253	—	—	—	1,116	2,611
—	—	—	—	—	—	179
—	—	—	—	—	—	6,255
—	—	7	—	—	108	558
2,475	25,496	—	—	—	—	27,971
—	5,961	2,278	813	—	434	9,486
—	—	—	—	—	3,617	3,910
—	—	48	2,610	—	2,313	47,535
—	—	316	—	—	—	8,072
—	—	—	—	—	—	90
—	—	—	—	—	1,289	2,278
—	631	—	152	—	121	999
—	1,053	64	59	—	—	1,176
<u>14,134</u>	<u>94,722</u>	<u>2,713</u>	<u>3,634</u>	<u>1</u>	<u>34,964</u>	<u>356,034</u>
—	—	—	—	—	—	195
—	—	—	—	—	—	18,948
—	—	17,934	23,943	—	—	41,877
—	3,079	1,350	3,995	—	—	10,175
—	16,452	213	138	—	—	60,087
—	—	—	—	—	14,399	14,565
—	—	—	—	—	—	645
—	11,365	—	2,745	—	—	14,110
—	7,720	475	1,066	—	296	9,586
—	—	—	—	—	18,683	25,231
16,205	59,530	—	—	—	8,218	85,453
—	—	—	—	—	83	4,123
—	—	—	—	—	704	704
5,574	8,862	—	—	—	3,436	18,495
—	—	—	—	—	—	7,955
—	3,401	—	—	—	2,300	5,701
<u>(7,372)</u>	<u>(25,807)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,726)</u>	<u>(49,955)</u>
<u>14,407</u>	<u>45,986</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>24,698</u>	<u>97,707</u>
<u>14,407</u>	<u>84,602</u>	<u>19,972</u>	<u>31,887</u>	<u>—</u>	<u>39,393</u>	<u>267,895</u>
<b><u>28,541</u></b>	<b><u>179,324</u></b>	<b><u>22,685</u></b>	<b><u>35,521</u></b>	<b><u>1</u></b>	<b><u>74,357</u></b>	<b><u>623,929</u></b>

Continued on Next Page

**Combining Statement of Net Assets**

NONMAJOR ENTERPRISE FUNDS (Continued)

June 30, 2005

(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.....	\$ 12	\$ 203	\$ 2	\$ —	\$ 37
Accrued salaries and related expenses.....	23	269	99	—	—
Accrued interest payable.....	—	—	—	—	—
Retainages payable.....	—	—	—	—	—
Tuition benefits payable.....	—	—	—	9,077	—
Policy claims.....	38,500	—	—	—	—
Due to other funds.....	1	17	747	32	—
Deferred revenues.....	12,303	978	—	—	—
Securities lending collateral.....	1,130	365	6,778	18,107	—
Liabilities payable from restricted assets:					
Accounts payable.....	—	—	—	—	—
Accrued interest payable.....	—	—	—	—	—
Other.....	—	—	41,555	—	—
Notes payable.....	—	—	—	—	—
Revenue bonds payable.....	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences payable.....	2	270	75	—	—
Other current liabilities.....	—	—	—	—	245
Total current liabilities.....	<u>51,971</u>	<u>2,102</u>	<u>49,256</u>	<u>27,216</u>	<u>282</u>
Long-term liabilities:					
Tuition benefits payable.....	—	—	—	158,279	—
Policy claims.....	171,867	—	—	—	—
Interfund payables.....	—	—	—	—	—
Notes payable.....	—	—	—	—	—
Revenue bonds payable.....	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences payable.....	11	—	64	—	—
Other long-term liabilities.....	—	—	—	—	21
Total long-term liabilities.....	<u>171,878</u>	<u>—</u>	<u>64</u>	<u>158,279</u>	<u>21</u>
<b>Total liabilities.....</b>	<b><u>223,849</u></b>	<b><u>2,102</u></b>	<b><u>49,320</u></b>	<b><u>185,495</u></b>	<b><u>303</u></b>
<b>NET ASSETS (DEFICITS)</b>					
Invested in capital assets, net of related debt.....	—	12,604	12	—	—
Restricted:					
Expendable:					
Education.....	—	—	—	—	25,563
Capital projects.....	—	—	—	—	3,163
Debt service.....	—	—	—	—	—
Nonexpendable:					
Education.....	—	—	—	—	23,429
Unrestricted.....	(214,413)	1,921	—	(35,609)	5,761
<b>Total net assets (deficits).....</b>	<b><u>\$ (214,413)</u></b>	<b><u>\$ 14,525</u></b>	<b><u>\$ 12</u></b>	<b><u>\$ (35,609)</u></b>	<b><u>\$ 57,916</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>Other Enterprise</u>	<u>Totals</u>
\$ 2,403	\$ 1,824	\$ —	\$ 1,519	\$ 8,018	\$ 1,829	\$ 15,847
78	6,771	—	—	—	300	7,540
—	189	192	734	—	—	1,115
—	—	—	401	—	—	401
—	—	—	—	—	—	9,077
—	—	—	—	—	—	38,500
—	—	—	43	—	466	1,306
—	—	—	—	—	33	13,314
—	—	—	—	—	2,824	29,204
—	—	—	—	—	2	2
—	—	—	—	—	480	480
—	—	—	—	—	—	41,555
—	9,400	1,050	1,100	—	—	11,550
420	—	554	—	—	—	974
147	193	—	—	—	—	340
709	1,455	—	—	—	354	2,865
—	2,275	—	—	—	—	2,520
<u>3,757</u>	<u>22,107</u>	<u>1,796</u>	<u>3,797</u>	<u>8,018</u>	<u>6,288</u>	<u>176,590</u>
—	—	—	—	—	—	158,279
—	—	—	—	—	—	171,867
—	—	—	—	—	14,399	14,399
—	89,303	10,450	31,984	—	—	131,737
8,500	—	9,274	—	—	—	17,774
395	49	—	—	—	—	444
—	970	—	—	—	109	1,154
611	1,452	—	—	—	—	2,084
<u>9,506</u>	<u>91,774</u>	<u>19,724</u>	<u>31,984</u>	<u>—</u>	<u>14,508</u>	<u>497,738</u>
<u>13,263</u>	<u>113,881</u>	<u>21,520</u>	<u>35,781</u>	<u>8,018</u>	<u>20,796</u>	<u>674,328</u>
4,945	(2,414)	—	—	—	24,699	39,846
—	—	—	—	—	—	25,563
—	—	—	647	—	—	3,810
—	9,081	1,165	—	—	3,122	13,368
—	—	—	—	—	—	23,429
10,333	58,776	—	(907)	(8,017)	25,740	(156,415)
<u>\$ 15,278</u>	<u>\$ 65,443</u>	<u>\$ 1,165</u>	<u>\$ (260)</u>	<u>\$ (8,017)</u>	<u>\$ 53,561</u>	<u>\$ (50,399)</u>

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

## NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2005

(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.....	\$ 41,638	\$ 7,107	\$ 1,657	\$ —	\$ —
Contributions.....	—	—	—	16,852	—
Interest and other investment income.....	—	—	—	4,986	—
Operating revenues pledged for revenue bonds.....	—	—	—	—	—
Other operating revenues.....	—	—	—	—	3,982
<b>Total operating revenues.....</b>	<b>41,638</b>	<b>7,107</b>	<b>1,657</b>	<b>21,838</b>	<b>3,982</b>
<b>Operating expenses:</b>					
General operations and administration.....	855	6,170	1,624	—	127
Benefits and claims.....	46,577	—	—	—	—
Tuition plan disbursements.....	—	—	—	26,653	—
Depreciation and amortization.....	—	273	4	—	—
Other operating expenses.....	—	195	27	—	—
<b>Total operating expenses.....</b>	<b>47,432</b>	<b>6,638</b>	<b>1,655</b>	<b>26,653</b>	<b>127</b>
<b>Operating income (loss).....</b>	<b>(5,794)</b>	<b>469</b>	<b>2</b>	<b>(4,815)</b>	<b>3,855</b>
<b>Nonoperating revenues (expenses):</b>					
Interest income.....	286	135	—	303	—
Contributions.....	—	30	—	—	1,396
Local/private grants and contracts.....	—	—	—	—	137
Interest expense.....	—	—	—	—	—
Other nonoperating revenues (expenses).....	—	—	—	10	51
<b>Total nonoperating revenues (expenses).....</b>	<b>286</b>	<b>165</b>	<b>—</b>	<b>313</b>	<b>1,584</b>
<b>Income (loss) before other revenues, expenses, losses, and transfers.....</b>	<b>(5,508)</b>	<b>634</b>	<b>2</b>	<b>(4,502)</b>	<b>5,439</b>
Local/private capital grants and contracts.....	—	—	—	—	355
Additions to endowments.....	—	—	—	—	763
Transfers in.....	—	—	—	—	—
Transfers out.....	—	—	—	(471)	(2,807)
<b>Change in net assets.....</b>	<b>(5,508)</b>	<b>634</b>	<b>2</b>	<b>(4,973)</b>	<b>3,750</b>
<b>Net assets (deficits) at beginning of year.....</b>	<b>(208,905)</b>	<b>13,891</b>	<b>10</b>	<b>(30,636)</b>	<b>54,166</b>
<b>Net assets (deficits) at end of year.....</b>	<b>\$ (214,413)</b>	<b>\$ 14,525</b>	<b>\$ 12</b>	<b>\$ (35,609)</b>	<b>\$ 57,916</b>

University of South Carolina Trust	University Medical Associates	Medical University Facilities Corporation	CHS Development Company	Pharmaceutical Education and Development Foundation	Other Enterprise	Totals
\$ 21,583	\$ 181,362	\$ —	\$ —	\$ —	\$ 25,799	\$ 279,146
—	—	—	—	—	—	16,852
—	—	—	—	—	—	4,986
—	—	1,327	711	—	—	2,038
14,778	4,609	—	—	6	5,672	29,047
<b>36,361</b>	<b>185,971</b>	<b>1,327</b>	<b>711</b>	<b>6</b>	<b>31,471</b>	<b>332,069</b>
32,704	146,427	1,155	424	25	26,015	215,526
—	—	—	—	—	—	46,577
—	—	—	—	—	—	26,653
945	3,103	64	211	—	593	5,193
—	—	—	—	—	6	228
<b>33,649</b>	<b>149,530</b>	<b>1,219</b>	<b>635</b>	<b>25</b>	<b>26,614</b>	<b>294,177</b>
<b>2,712</b>	<b>36,441</b>	<b>108</b>	<b>76</b>	<b>(19)</b>	<b>4,857</b>	<b>37,892</b>
272	1,904	—	—	—	1,730	4,630
—	—	—	—	—	—	1,426
—	—	—	—	—	—	137
(431)	(5,801)	—	—	—	(1,179)	(7,411)
—	4,797	—	152	—	(353)	4,657
<b>(159)</b>	<b>900</b>	<b>—</b>	<b>152</b>	<b>—</b>	<b>198</b>	<b>3,439</b>
<b>2,553</b>	<b>37,341</b>	<b>108</b>	<b>228</b>	<b>(19)</b>	<b>5,055</b>	<b>41,331</b>
—	—	—	—	—	—	355
—	—	—	—	—	—	763
—	—	—	507	—	—	507
—	(15,726)	(36)	—	—	(233)	(19,273)
<b>2,553</b>	<b>21,615</b>	<b>72</b>	<b>735</b>	<b>(19)</b>	<b>4,822</b>	<b>23,683</b>
<b>12,725</b>	<b>43,828</b>	<b>1,093</b>	<b>(995)</b>	<b>(7,998)</b>	<b>48,739</b>	<b>(74,082)</b>
<b>\$ 15,278</b>	<b>\$ 65,443</b>	<b>\$ 1,165</b>	<b>\$ (260)</b>	<b>\$ (8,017)</b>	<b>\$ 53,561</b>	<b>\$ (50,399)</b>

## Combining Statement of Cash Flows

### NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2005

(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.....	\$ 41,616	\$ 4,272	\$ —	\$ 32	\$ —
Assessments received.....	—	—	127,424	—	—
Tuition plan contributions received.....	—	—	—	15,362	—
Other operating cash receipts.....	—	3,238	—	—	—
Claims and benefits paid.....	(39,810)	—	(166,925)	—	—
Payments to suppliers for goods and services.....	—	(3,075)	—	—	(56)
Payments to employees.....	—	(3,224)	—	—	(71)
Other operating cash payments.....	(871)	(449)	(1,629)	(2,575)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>935</b>	<b>762</b>	<b>(41,130)</b>	<b>12,819</b>	<b>(127)</b>
<b>Cash flows from noncapital financing activities:</b>					
Principal payments made to other funds.....	—	—	—	—	—
Interest payments made to other funds.....	—	—	—	—	—
Proceeds from issuance of noncapital debt.....	—	—	—	—	—
Principal paid on noncapital debt.....	—	—	—	—	—
Interest payments on noncapital debt.....	—	—	—	—	—
Gifts and grants for other than capital purposes.....	—	—	—	—	3,044
Other cash receipts.....	—	—	—	—	—
Other cash payments.....	—	—	—	—	(408)
Transfers in.....	—	—	—	—	—
Transfers out.....	—	—	—	(471)	(2,807)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(471)</b>	<b>(171)</b>
<b>Cash flows from capital and related financing activities:</b>					
Acquisition of capital assets.....	—	(3,136)	(6)	—	—
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.....	—	—	—	—	355
<b>Net cash provided by (used in) capital and related financing activities.....</b>	<b>—</b>	<b>(3,136)</b>	<b>(6)</b>	<b>—</b>	<b>355</b>
<b>Cash flows from investing activities:</b>					
Proceeds from sales and maturities of investments.....	—	—	—	—	24,816
Purchase of investments.....	—	—	—	—	(27,034)
Interest and dividends on investments.....	309	147	1,689	5,352	1,039
Collection of escrow payments from borrower.....	—	—	—	—	—
<b>Net cash provided by (used in) investing activities.....</b>	<b>309</b>	<b>147</b>	<b>1,689</b>	<b>5,352</b>	<b>(1,179)</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>1,244</b>	<b>(2,227)</b>	<b>(39,447)</b>	<b>17,700</b>	<b>(1,122)</b>
<b>Cash and cash equivalents at beginning of year (restated).....</b>	<b>6,976</b>	<b>5,376</b>	<b>81,486</b>	<b>88,572</b>	<b>3,825</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 8,220</b>	<b>\$ 3,149</b>	<b>\$ 42,039</b>	<b>\$ 106,272</b>	<b>\$ 2,703</b>

University of South Carolina Trust	University Medical Associates	Medical University Facilities Corporation	CHS Development Company	Pharmaceutical Education and Development Foundation	Other Enterprise	Totals
\$ 21,607	\$ 185,857	\$ —	\$ —	\$ —	\$ 26,077	\$ 279,461
—	—	—	—	—	—	127,424
—	—	—	—	—	—	15,362
16,658	5,303	—	152	6	913	26,270
—	—	—	—	—	—	(206,735)
(12,350)	(55,746)	—	(33)	(49)	(16,921)	(88,230)
(21,220)	(86,793)	—	—	—	(4,377)	(115,685)
—	(291)	—	—	—	(95)	(5,910)
<b>4,695</b>	<b>48,330</b>	<b>—</b>	<b>119</b>	<b>(43)</b>	<b>5,597</b>	<b>31,957</b>
—	—	—	—	—	(585)	(585)
—	—	—	—	—	(1,199)	(1,199)
—	7,000	—	—	—	—	7,000
—	(22,337)	(1,513)	—	—	—	(23,850)
—	(3,085)	(1,191)	—	—	—	(4,276)
—	—	—	—	—	—	3,044
—	—	—	—	70	—	70
—	(117)	—	—	(27)	—	(552)
—	—	—	506	—	—	506
—	(15,726)	(35)	—	—	(234)	(19,273)
<b>—</b>	<b>(34,265)</b>	<b>(2,739)</b>	<b>506</b>	<b>43</b>	<b>(2,018)</b>	<b>(39,115)</b>
(253)	(993)	—	(16,546)	—	(874)	(21,808)
(502)	(1,241)	—	—	—	—	(1,743)
(431)	(2,766)	—	(395)	—	—	(3,592)
—	(121)	—	—	—	—	(121)
—	208	—	—	—	—	208
—	—	—	—	—	—	355
<b>(1,186)</b>	<b>(4,913)</b>	<b>—</b>	<b>(16,941)</b>	<b>—</b>	<b>(874)</b>	<b>(26,701)</b>
3,577	48,647	2,685	12,610	—	—	92,335
(5,863)	(65,739)	(1,278)	(1,329)	—	—	(101,243)
104	1,524	1,326	764	—	447	12,701
—	—	—	—	—	786	786
<b>(2,182)</b>	<b>(15,568)</b>	<b>2,733</b>	<b>12,045</b>	<b>—</b>	<b>1,233</b>	<b>4,579</b>
<b>1,327</b>	<b>(6,416)</b>	<b>(6)</b>	<b>(4,271)</b>	<b>—</b>	<b>3,938</b>	<b>(29,280)</b>
<b>1,977</b>	<b>45,576</b>	<b>1,404</b>	<b>10,876</b>	<b>1</b>	<b>21,517</b>	<b>267,586</b>
<b>\$ 3,304</b>	<b>\$ 39,160</b>	<b>\$ 1,398</b>	<b>\$ 6,605</b>	<b>\$ 1</b>	<b>\$ 25,455</b>	<b>\$ 238,306</b>

Continued on Next Page

## Combining Statement of Cash Flows

NONMAJOR ENTERPRISE FUNDS (Continued)

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	<u>Patients'</u> <u>Compensation</u>	<u>Patriots</u> <u>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).....	\$ (5,794)	\$ 469	\$ 2	\$ (4,815)	\$ 3,855
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization .....	—	273	4	—	—
Realized gains and losses on investments.....	—	—	—	—	(3,982)
Interest and dividends on investments and interfund loans.....	—	—	—	(4,986)	—
Amounts received for payment of claims.....	—	—	125,744	—	—
Payment of claims.....	—	—	(166,925)	—	—
Other nonoperating revenues.....	—	30	—	—	—
Other nonoperating expenses.....	—	—	—	—	—
Other.....	—	—	—	—	—
<b>Change in assets—decreases (increases):</b>					
Accounts receivable, net.....	—	(1)	—	—	—
Receivable from participants, net.....	—	—	—	(1,490)	—
Accrued interest.....	(23)	—	—	—	—
Due from other funds.....	—	—	(6)	—	—
Inventories.....	—	30	—	—	—
Other assets .....	13	31	25	—	—
<b>Change in liabilities—increases (decreases):</b>					
Accounts payable.....	(8)	(441)	(1)	—	—
Accrued salaries and related expenses.....	3	32	5	—	—
Tuition benefits payable.....	—	—	—	24,078	—
Policy claims.....	6,767	—	—	—	—
Due to other funds.....	—	(32)	—	32	—
Deferred revenues .....	(22)	377	—	—	—
Liabilities payable from restricted assets.....	—	—	—	—	—
Compensated absences payable .....	(1)	(6)	22	—	—
Other liabilities.....	—	—	—	—	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>\$ 935</b>	<b>\$ 762</b>	<b>\$ (41,130)</b>	<b>\$ 12,819</b>	<b>\$ (127)</b>
<b>Noncash capital, investing, and financing activities:</b>					
Increase in fair value of investments.....	\$ —	\$ —	\$ —	\$ —	\$ 1,790

<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>Other Enterprise</u>	<u>Totals</u>
\$ 2,712	\$ 36,441	\$ 108	\$ 76	\$ (19)	\$ 4,857	\$ 37,892
945	3,103	64	211	—	593	5,193
—	—	—	—	—	—	(3,982)
—	—	—	—	—	—	(4,986)
—	—	—	—	—	—	125,744
—	—	—	—	—	—	(166,925)
—	—	—	—	—	714	744
—	—	—	—	—	(1,006)	(1,006)
—	5,117	(172)	(168)	—	(8)	4,769
1,904	(3,627)	—	—	—	43	(1,681)
—	—	—	—	—	—	(1,490)
—	—	—	—	—	102	79
—	—	—	—	—	(277)	(283)
—	—	—	—	—	(38)	(8)
—	4,093	—	—	5	350	4,517
(772)	1,882	—	—	(29)	480	1,111
(7)	—	—	—	—	19	52
—	—	—	—	—	—	24,078
—	—	—	—	—	—	6,767
—	—	—	—	—	(145)	(145)
—	—	—	—	—	—	355
—	—	—	—	—	(90)	(90)
3	119	—	—	—	3	140
(90)	1,202	—	—	—	—	1,112
<u>\$ 4,695</u>	<u>\$ 48,330</u>	<u>\$ —</u>	<u>\$ 119</u>	<u>\$ (43)</u>	<u>\$ 5,597</u>	<u>\$ 31,957</u>
<u>\$ 176</u>	<u>\$ 819</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,788</u>

# Combining Statement of Net Assets

## INTERNAL SERVICE FUNDS

June 30, 2005

(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.....	\$ 96,364	\$ 154,930	\$ 23,132	\$ 27,677	\$ 73
Invested securities lending collateral.....	—	21,027	2,957	232	—
Receivables, net:					
Accounts .....	18,782	8,146	65,659	652	—
Accrued interest.....	2,646	196	149	11	—
Due from other funds.....	104	28,901	1,818	8,392	677
Due from component units.....	—	—	—	4	—
Inventories.....	—	—	—	1,100	1,560
Prepaid items.....	9,825	—	54	—	—
Total current assets.....	<u>127,721</u>	<u>213,200</u>	<u>93,769</u>	<u>38,068</u>	<u>2,310</u>
Long-term assets:					
Investments.....	187,289	15,648	811	—	—
Accounts receivable, net.....	—	—	90	—	—
Interfund receivables.....	20,483	—	—	22,375	—
Deferred charges.....	—	—	—	149	—
Capital assets:					
Land and improvements.....	—	—	—	7,676	—
Buildings and improvements.....	—	—	—	179,464	—
Construction in progress.....	—	—	—	42	—
Vehicles.....	—	—	—	1,607	29
Machinery and equipment.....	344	321	703	48,746	8
Intangible assets.....	—	—	8,152	3,743	—
Less: accumulated depreciation.....	(261)	(143)	(8,708)	(114,360)	(20)
Total capital assets, net.....	<u>83</u>	<u>178</u>	<u>147</u>	<u>126,918</u>	<u>17</u>
Total long-term assets.....	<u>207,855</u>	<u>15,826</u>	<u>1,048</u>	<u>149,442</u>	<u>17</u>
<b>Total assets.....</b>	<b><u>335,576</u></b>	<b><u>229,026</u></b>	<b><u>94,817</u></b>	<b><u>187,510</u></b>	<b><u>2,327</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>
\$ 9,229	\$ 869	\$ 4,513	\$ 1,474	\$ 220	\$ 318,481
—	133	—	—	—	24,349
558	—	2,853	425	—	97,075
—	14	—	—	—	3,016
1,633	104	378	—	23	42,030
—	—	—	—	—	4
16	—	4,120	—	—	6,796
—	—	—	—	—	9,879
<b>11,436</b>	<b>1,120</b>	<b>11,864</b>	<b>1,899</b>	<b>243</b>	<b>501,630</b>
—	—	—	406	—	204,154
—	—	—	—	—	90
1,430	—	—	—	—	44,288
—	—	—	—	—	149
928	—	—	—	—	8,604
527	—	6,510	—	—	186,501
—	—	—	—	—	42
43,499	—	1,188	—	—	46,323
31	2,084	5,595	—	—	57,832
—	343	—	—	—	12,238
(33,392)	(1,640)	(6,710)	—	—	(165,234)
<b>11,593</b>	<b>787</b>	<b>6,583</b>	<b>—</b>	<b>—</b>	<b>146,306</b>
<b>13,023</b>	<b>787</b>	<b>6,583</b>	<b>406</b>	<b>—</b>	<b>394,987</b>
<b>24,459</b>	<b>1,907</b>	<b>18,447</b>	<b>2,305</b>	<b>243</b>	<b>896,617</b>

# Combining Statement of Net Assets

INTERNAL SERVICE FUNDS (Continued)

June 30, 2005

(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.....	\$ 804	\$ 531	\$ 478	\$ 3,061	\$ 425
Accrued salaries and related expenses.....	268	360	306	1,532	—
Accrued interest payable.....	—	—	—	793	—
Retainages payable.....	—	—	—	36	—
Policy claims.....	251,956	184,928	45,618	—	—
Due to other funds.....	19	115	2	901	97
Deferred revenues.....	52,205	4,013	70,956	—	—
Securities lending collateral.....	—	21,027	2,957	232	—
Notes payable.....	—	—	—	546	—
Revenue bonds payable.....	—	—	—	1,260	—
Limited obligation bonds payable.....	—	—	—	4,120	—
Capital leases payable.....	—	—	—	479	—
Compensated absences payable.....	32	23	259	2,077	—
Other current liabilities.....	—	—	5,367	—	—
<b>Total current liabilities.....</b>	<b>305,284</b>	<b>210,997</b>	<b>125,943</b>	<b>15,037</b>	<b>522</b>
Long-term liabilities:					
Policy claims.....	—	—	81,748	—	—
Interfund payables.....	—	—	—	5,594	—
Notes payable.....	—	—	—	2,394	—
Revenue bonds payable.....	—	—	—	22,261	—
Limited obligation bonds payable.....	—	—	—	15,272	—
Capital leases payable.....	—	—	—	750	—
Compensated absences payable.....	300	453	81	1,189	—
<b>Total long-term liabilities.....</b>	<b>300</b>	<b>453</b>	<b>81,829</b>	<b>47,460</b>	<b>—</b>
<b>Total liabilities.....</b>	<b>305,584</b>	<b>211,450</b>	<b>207,772</b>	<b>62,497</b>	<b>522</b>
<b>NET ASSETS (DEFICITS)</b>					
Invested in capital assets, net of related debt.....	83	178	146	103,356	17
Restricted:					
Expendable:					
Loan programs.....	20,000	—	—	—	—
Insurance programs.....	9,909	17,398	—	—	—
Nonexpendable:					
Education.....	—	—	—	—	—
Unrestricted.....	—	—	(113,101)	21,657	1,788
<b>Total net assets (deficits).....</b>	<b>\$ 29,992</b>	<b>\$ 17,576</b>	<b>\$ (112,955)</b>	<b>\$ 125,013</b>	<b>\$ 1,805</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>
\$ 2,263	\$ 659	\$ 381	\$ —	\$ —	\$ 8,602
74	560	886	—	12	3,998
—	—	—	—	—	793
—	—	—	—	—	36
—	—	—	—	—	482,502
54	404	892	—	10	2,494
—	—	—	—	—	127,174
—	133	—	—	—	24,349
—	—	—	—	—	546
—	—	—	—	—	1,260
—	—	—	—	—	4,120
—	—	131	—	—	610
102	619	366	—	8	3,486
—	—	—	—	—	5,367
<u>2,493</u>	<u>2,375</u>	<u>2,656</u>	<u>—</u>	<u>30</u>	<u>665,337</u>
—	—	—	—	—	81,748
—	—	—	—	—	5,594
—	—	—	—	—	2,394
—	—	—	—	—	22,261
—	—	—	—	—	15,272
—	—	453	—	—	1,203
59	354	210	—	5	2,651
59	354	663	—	5	131,123
<u>2,552</u>	<u>2,729</u>	<u>3,319</u>	<u>—</u>	<u>35</u>	<u>796,460</u>
11,593	787	6,000	—	—	122,160
—	—	—	—	—	20,000
—	—	—	—	—	27,307
—	—	—	406	—	406
10,314	(1,609)	9,128	1,899	208	(69,716)
<u>\$ 21,907</u>	<u>\$ (822)</u>	<u>\$ 15,128</u>	<u>\$ 2,305</u>	<u>\$ 208</u>	<u>\$ 100,157</u>

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

## INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	Insurance Reserve	Employee Insurance Programs	State Accident Fund	General Services	Central Supplies and Equipment
<b>Operating revenues:</b>					
Charges for services.....	\$ 81,175	\$ 1,342,418	\$ 78,690	\$ 83,646	\$ 8,972
Contributions.....	—	—	—	—	—
Interest and other investment income.....	—	—	—	1,035	—
Other operating revenues.....	—	21,593	—	—	—
<b>Total operating revenues.....</b>	<b>81,175</b>	<b>1,364,011</b>	<b>78,690</b>	<b>84,681</b>	<b>8,972</b>
<b>Operating expenses:</b>					
General operations and administration.....	53,625	115,276	4,945	75,633	9,183
Benefits and claims.....	42,065	1,161,986	74,840	10	—
Interest.....	—	—	—	13	—
Depreciation and amortization.....	27	20	901	7,056	5
Other operating expenses.....	—	—	4,837	458	—
<b>Total operating expenses.....</b>	<b>95,717</b>	<b>1,277,282</b>	<b>85,523</b>	<b>83,170</b>	<b>9,188</b>
<b>Operating income (loss).....</b>	<b>(14,542)</b>	<b>86,729</b>	<b>(6,833)</b>	<b>1,511</b>	<b>(216)</b>
<b>Nonoperating revenues (expenses):</b>					
Interest income.....	11,561	6,707	893	77	—
Interest expense.....	—	—	—	(2,172)	—
Other nonoperating revenues (expenses).....	(6)	—	68	2,679	(10)
<b>Total nonoperating revenues (expenses).....</b>	<b>11,555</b>	<b>6,707</b>	<b>961</b>	<b>584</b>	<b>(10)</b>
<b>Income (loss) before other revenues and transfers.....</b>	<b>(2,987)</b>	<b>93,436</b>	<b>(5,872)</b>	<b>2,095</b>	<b>(226)</b>
Capital contributions.....	—	—	—	—	—
Transfers in.....	5	—	—	3,098	150
Transfers out.....	(351)	(353)	—	(6,568)	(150)
<b>Change in net assets.....</b>	<b>(3,333)</b>	<b>93,083</b>	<b>(5,872)</b>	<b>(1,375)</b>	<b>(226)</b>
<b>Net assets (deficits) at beginning of year.....</b>	<b>33,325</b>	<b>(75,507)</b>	<b>(107,083)</b>	<b>126,388</b>	<b>2,031</b>
<b>Net assets (deficits) at end of year.....</b>	<b>\$ 29,992</b>	<b>\$ 17,576</b>	<b>\$ (112,955)</b>	<b>\$ 125,013</b>	<b>\$ 1,805</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>
\$ 17,770	\$ 16,421	\$ 24,981	\$ —	\$ 302	\$ 1,654,375
—	—	—	571	—	571
—	—	—	63	—	1,098
—	—	—	—	—	21,593
<b>17,770</b>	<b>16,421</b>	<b>24,981</b>	<b>634</b>	<b>302</b>	<b>1,677,637</b>
13,451	15,943	23,397	626	248	312,327
—	—	—	—	—	1,278,901
—	—	—	—	—	13
3,684	267	431	—	—	12,391
3	88	4	—	2	5,392
<b>17,138</b>	<b>16,298</b>	<b>23,832</b>	<b>626</b>	<b>250</b>	<b>1,609,024</b>
<b>632</b>	<b>123</b>	<b>1,149</b>	<b>8</b>	<b>52</b>	<b>68,613</b>
—	78	—	—	—	19,316
—	—	—	—	—	(2,172)
1,053	(36)	500	—	—	4,248
<b>1,053</b>	<b>42</b>	<b>500</b>	<b>—</b>	<b>—</b>	<b>21,392</b>
<b>1,685</b>	<b>165</b>	<b>1,649</b>	<b>8</b>	<b>52</b>	<b>90,005</b>
8	—	—	—	—	8
164	—	—	—	—	3,417
(2,330)	(636)	—	—	(14)	(10,402)
<b>(473)</b>	<b>(471)</b>	<b>1,649</b>	<b>8</b>	<b>38</b>	<b>83,028</b>
<b>22,380</b>	<b>(351)</b>	<b>13,479</b>	<b>2,297</b>	<b>170</b>	<b>17,129</b>
<b>\$ 21,907</b>	<b>\$ (822)</b>	<b>\$ 15,128</b>	<b>\$ 2,305</b>	<b>\$ 208</b>	<b>\$ 100,157</b>

# Combining Statement of Cash Flows

## INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Insurance Reserve	Employee Insurance Programs	State Accident Fund	General Services
<b>Cash flows from operating activities:</b>				
Receipts from customers.....	\$ 46,185	\$ 1,110,169	\$ 17,603	\$ —
Internal activity—payments from other funds.....	38,484	232,407	66,481	84,632
Other operating cash receipts.....	—	17,367	16,677	2,646
Claims paid.....	(37,982)	(1,137,925)	(65,034)	—
Payments to suppliers for goods and services.....	(35,518)	(130,085)	(5,416)	(45,749)
Payments to employees.....	(2,956)	(4,066)	(3,775)	(31,070)
Internal activity—payments to other funds.....	(689)	—	(10,234)	(853)
Other operating cash payments.....	—	—	(1)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>7,524</b>	<b>87,867</b>	<b>16,301</b>	<b>9,606</b>
<b>Cash flows from noncapital financing activities:</b>				
Principal payments received from other funds.....	1,246	—	—	—
Principal payments made to other funds.....	—	—	—	(344)
Receipt of interest from other funds.....	1,290	—	—	—
Loans received from other funds.....	—	—	—	2,827
Transfers in.....	5	—	—	3,098
Transfers out.....	(351)	(353)	—	(6,568)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>2,190</b>	<b>(353)</b>	<b>—</b>	<b>(987)</b>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets.....	(20)	(147)	(32)	(4,765)
Principal payments received from other funds.....	—	—	—	1,190
Principal payments on limited obligation bonds.....	—	—	—	(3,930)
Principal paid on capital debt and lease.....	—	—	—	(448)
Interest payments on capital debt.....	—	—	—	(2,172)
Proceeds from sale or disposal of capital assets.....	—	—	—	—
<b>Net cash used in capital and related financing activities.....</b>	<b>(20)</b>	<b>(147)</b>	<b>(32)</b>	<b>(10,125)</b>
<b>Cash flows from investing activities:</b>				
Proceeds from sales and maturities of investments.....	112,856	4,196	—	—
Purchase of investments.....	(61,711)	(401)	—	—
Interest on investments.....	12,202	6,768	857	77
<b>Net cash provided by (used in) investing activities.....</b>	<b>63,347</b>	<b>10,563</b>	<b>857</b>	<b>77</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>73,041</b>	<b>97,930</b>	<b>17,126</b>	<b>(1,429)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>23,323</b>	<b>57,000</b>	<b>6,006</b>	<b>29,106</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 96,364</b>	<b>\$ 154,930</b>	<b>\$ 23,132</b>	<b>\$ 27,677</b>

Central Supplies and Equipment	Motor Pool	Pension Adminis- tration	Prison Industries	Governor's School for the Arts Foundation, Inc.	Other Internal Service	Totals
\$ —	\$ —	\$ —	\$ 24,981	\$ 583	\$ 302	\$ 1,199,823
8,973	17,937	16,431	—	—	—	465,345
—	255	88	664	—	—	37,697
—	—	—	—	—	—	(1,240,941)
(9,217)	(10,083)	(2,795)	(6,049)	—	1	(244,911)
—	(1,377)	(9,609)	(15,295)	(627)	(238)	(69,013)
—	(472)	(3,571)	(1,664)	—	(25)	(17,508)
(11)	(1)	2	(1)	—	—	(12)
<b>(255)</b>	<b>6,259</b>	<b>546</b>	<b>2,636</b>	<b>(44)</b>	<b>40</b>	<b>130,480</b>
—	—	—	—	—	—	1,246
—	—	—	—	—	—	(344)
—	—	—	—	—	—	1,290
—	—	—	—	—	—	2,827
150	164	—	—	—	—	3,417
(150)	(2,330)	(636)	—	—	(14)	(10,402)
—	<b>(2,166)</b>	<b>(636)</b>	—	—	<b>(14)</b>	<b>(1,966)</b>
—	(3,784)	(252)	(20)	—	—	(9,020)
—	—	—	—	—	—	1,190
—	—	—	—	—	—	(3,930)
—	—	—	—	—	—	(448)
—	—	(79)	(129)	—	—	(2,380)
—	184	—	—	—	—	184
—	<b>(3,600)</b>	<b>(331)</b>	<b>(149)</b>	—	—	<b>(14,404)</b>
—	—	—	—	—	—	117,052
—	—	—	—	(52)	—	(62,164)
—	—	—	—	—	—	19,904
—	—	—	—	<b>(52)</b>	—	<b>74,792</b>
<b>(255)</b>	<b>493</b>	<b>(421)</b>	<b>2,487</b>	<b>(96)</b>	<b>26</b>	<b>188,902</b>
<b>328</b>	<b>8,736</b>	<b>1,290</b>	<b>2,026</b>	<b>1,570</b>	<b>194</b>	<b>129,579</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>

Continued on Next Page

# Combining Statement of Cash Flows

INTERNAL SERVICE FUNDS (Continued)

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	<u>Insurance Reserve</u>	<u>Employee Insurance Programs</u>	<u>State Accident Fund</u>	<u>General Services</u>
<b>Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss).....	\$ (14,542)	\$ 86,729	\$ (6,833)	\$ 1,511
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization.....	27	20	901	7,056
Other nonoperating revenues.....	—	—	—	2,619
Other.....	(347)	1	—	—
<b>Change in assets—decreases (increases):</b>				
Accounts receivable, net.....	(2,982)	(1,289)	5,350	(208)
Accrued interest.....	—	—	—	13
Due from other funds .....	—	(4,348)	—	(1,458)
Inventories.....	—	—	—	172
Other assets.....	749	—	528	—
<b>Change in liabilities—increases (decreases):</b>				
Accounts payable.....	19	175	1,215	135
Accrued salaries and related expenses.....	—	—	—	2
Accrued interest payable.....	—	—	—	(61)
Retainages payable.....	—	—	—	9
Policy claims.....	16,702	5,056	16,415	—
Due to other funds.....	—	—	—	(361)
Deferred revenues .....	7,873	1,446	(1,319)	—
Compensated absences payable.....	25	77	44	177
<b>Net cash provided by (used in) operating activities.....</b>	<b><u>\$ 7,524</u></b>	<b><u>\$ 87,867</u></b>	<b><u>\$ 16,301</u></b>	<b><u>\$ 9,606</u></b>
<b>Noncash capital, investing, and financing activities:</b>				
Increase in fair value of investments.....	\$ 1,076	\$ 308	\$ —	\$ —
Long-term debt forgiven.....	—	—	—	757
<b>Total noncash capital, investing, and financing activities.....</b>	<b><u>\$ 1,076</u></b>	<b><u>\$ 308</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 757</u></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>
\$ (216)	\$ 632	\$ 123	\$ 1,149	\$ 8	\$ 52	\$ 68,613
5	3,684	267	431	—	—	12,391
—	255	88	664	—	—	3,626
(10)	33	2	(1)	—	—	(322)
—	(54)	—	(634)	(52)	—	131
—	—	11	—	—	—	24
(17)	186	7	160	—	11	(5,459)
53	(4)	—	132	—	—	353
—	—	—	—	—	—	1,277
(163)	1,535	29	140	—	(1)	3,084
—	—	3	109	—	(2)	112
—	—	—	—	—	—	(61)
—	—	—	—	—	—	9
—	—	—	—	—	—	38,173
93	(41)	(27)	500	—	3	167
—	—	—	—	—	—	8,000
—	33	43	(14)	—	(23)	362
<b>\$ (255)</b>	<b>\$ 6,259</b>	<b>\$ 546</b>	<b>\$ 2,636</b>	<b>\$ (44)</b>	<b>\$ 40</b>	<b>\$ 130,480</b>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,384
—	—	—	—	—	—	757
<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,141</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 Pension 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, 2005

(Expressed in Thousands)

	South Carolina Retirement System	Police Officers' Retirement System	General Assembly Retirement System	Judges' and Solicitors' Retirement System	National Guard Pension System	Totals
<b>ASSETS</b>						
Cash and cash equivalents.....	\$ 2,532,141	\$ 280,238	\$ 8,035	\$ 13,774	\$ 11,451	\$ 2,845,639
Receivables:						
Contributions.....	115,365	14,697	123	682	—	130,867
Employer long-term.....	1,755	30	—	—	—	1,785
Accrued interest.....	102,115	11,670	216	543	70	114,614
Unsettled investment sales.....	43,894	5,234	97	225	—	49,450
Total receivables.....	<u>263,129</u>	<u>31,631</u>	<u>436</u>	<u>1,450</u>	<u>70</u>	<u>296,716</u>
Due from other funds.....	5,381	1,417	74	42	—	6,914
Investments, at fair value:						
United States government securities.....	2,718,706	385,895	1,707	16,196	—	3,122,504
United States government agencies and government-insured securities.....	1,684,747	290,734	4,247	10,471	—	1,990,199
Corporate bonds.....	3,979,140	432,351	9,305	22,320	—	4,443,116
Financial and other.....	1,821,367	238,895	2,559	5,140	—	2,067,961
Equities.....	9,788,784	1,168,825	20,453	50,406	—	11,028,468
Total investments.....	<u>19,992,744</u>	<u>2,516,700</u>	<u>38,271</u>	<u>104,533</u>	<u>—</u>	<u>22,652,248</u>
Invested securities lending collateral.....	3,530,026	547,147	5,900	27,304	572	4,110,949
Capital assets, net.....	3,437	351	10	16	—	3,814
Other assets.....	145	19	—	1	—	165
<b>Total assets.....</b>	<b><u>26,327,003</u></b>	<b><u>3,377,503</u></b>	<b><u>52,726</u></b>	<b><u>147,120</u></b>	<b><u>12,093</u></b>	<b><u>29,916,445</u></b>
<b>LIABILITIES</b>						
Accounts payable.....	5,026	598	11	26	—	5,661
Accounts payable—unsettled investment purchases.....	55,156	6,634	121	285	—	62,196
Due to other funds.....	28,472	757	15	112	—	29,356
Deferred retirement benefits.....	884,776	—	—	—	—	884,776
Securities lending collateral.....	3,530,026	547,147	5,900	27,304	572	4,110,949
Other liabilities.....	3,064	475	—	—	—	3,539
<b>Total liabilities.....</b>	<b><u>4,506,520</u></b>	<b><u>555,611</u></b>	<b><u>6,047</u></b>	<b><u>27,727</u></b>	<b><u>572</u></b>	<b><u>5,096,477</u></b>
<b>NET ASSETS</b>						
Held in trust for pension benefits....	<b><u>\$ 21,820,483</u></b>	<b><u>\$ 2,821,892</u></b>	<b><u>\$ 46,679</u></b>	<b><u>\$ 119,393</u></b>	<b><u>\$ 11,521</u></b>	<b><u>\$ 24,819,968</u></b>

# Combining Statement of Changes in Plan Net Assets

## PENSION TRUST FUNDS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	South Carolina Retirement System	Police Officers' Retirement System	General Assembly Retirement System	Judges' and Solicitors' Retirement System	National Guard Pension System	Totals
<b>Additions:</b>						
Retirement contributions:						
Employer.....	\$ 538,809	\$ 90,528	\$ 2,890	\$ 6,260	\$ 1,996	\$ 640,483
Employee.....	433,252	58,802	924	2,034	—	495,012
Total retirement contributions.....	972,061	149,330	3,814	8,294	1,996	1,135,495
Interest income and net appreciation						
in investments.....	1,507,920	177,144	3,265	8,210	557	1,697,096
Investment expense.....	19,878	2,386	41	101	—	22,406
Net income from investing activities.....	1,488,042	174,758	3,224	8,109	557	1,674,690
Securities lending income.....	75,142	10,315	121	428	—	86,006
Securities lending expense.....	66,297	9,224	107	389	—	76,017
Net income from securities lending activities.....	8,845	1,091	14	39	—	9,989
Total net investment income.....	1,496,887	175,849	3,238	8,148	557	1,684,679
Transfers between pension trust funds.....	2	2,071	11	58	—	2,142
Transfers in.....	1,982	64	—	—	—	2,046
<b>Total additions.....</b>	<b>2,470,932</b>	<b>327,314</b>	<b>7,063</b>	<b>16,500</b>	<b>2,553</b>	<b>2,824,362</b>
<b>Deductions:</b>						
Regular retirement benefits.....	1,173,459	151,477	5,560	9,215	2,519	1,342,230
Supplemental retirement benefits.....	1,982	64	—	—	—	2,046
Deferred retirement benefits.....	338,778	—	—	—	—	338,778
Refunds of retirement contributions						
to members.....	67,434	13,441	31	—	—	80,906
Group life insurance claims.....	13,710	1,468	16	1	—	15,195
Accidental death benefits.....	—	1,047	—	—	—	1,047
Depreciation.....	107	11	—	1	—	119
Administrative expense.....	14,242	1,808	31	76	25	16,182
Transfers between pension trust funds.....	2,136	4	2	—	—	2,142
<b>Total deductions.....</b>	<b>1,611,848</b>	<b>169,320</b>	<b>5,640</b>	<b>9,293</b>	<b>2,544</b>	<b>1,798,645</b>
<b>Change in net assets .....</b>	<b>859,084</b>	<b>157,994</b>	<b>1,423</b>	<b>7,207</b>	<b>9</b>	<b>1,025,717</b>
<b>Net assets at beginning of year.....</b>	<b>20,961,399</b>	<b>2,663,898</b>	<b>45,256</b>	<b>112,186</b>	<b>11,512</b>	<b>23,794,251</b>
<b>Net assets at end 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>

## Combining Statement of Fiduciary Net Assets

### PRIVATE-PURPOSE TRUST FUNDS

June 30, 2005

(Expressed in Thousands)

	<u>College Savings Plan</u>	<u>Other Private-Purpose Trust</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ —	\$ 26,880	\$ 26,880
Receivables, net:			
Accrued interest.....	250	197	447
Unsettled investment sales.....	455	—	455
Investments.....	489,411	—	489,411
Invested securities lending collateral .....	—	1,166	1,166
Other assets.....	—	4,665	4,665
<b>Total assets.....</b>	<b><u>490,116</u></b>	<b><u>32,908</u></b>	<b><u>523,024</u></b>
<b>LIABILITIES</b>			
Accounts payable.....	965	19	984
Accounts payable—unsettled investment purchases.....	339	—	339
Securities lending collateral.....	—	1,166	1,166
<b>Total liabilities.....</b>	<b><u>1,304</u></b>	<b><u>1,185</u></b>	<b><u>2,489</u></b>
<b>NET ASSETS</b>			
Held in trust for other purposes.....	<b><u>\$ 488,812</u></b>	<b><u>\$ 31,723</u></b>	<b><u>\$ 520,535</u></b>

## Combining Statement of Changes in Fiduciary Net Assets

PRIVATE-PURPOSE TRUST FUNDS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	College Savings Plan	Other Private-Purpose Trust	Totals
<b>Additions:</b>			
Licenses, fees, and permits.....	\$ —	\$ 177	\$ 177
Tuition plan deposits.....	136,856	—	136,856
Interest income.....	32,703	1,115	33,818
<b>Total additions.....</b>	<b>169,559</b>	<b>1,292</b>	<b>170,851</b>
<b>Deductions:</b>			
Administrative expense.....	3,781	255	4,036
Payments in accordance with trust agreements.....	—	202	202
Other expenses.....	—	8	8
<b>Total deductions.....</b>	<b>3,781</b>	<b>465</b>	<b>4,246</b>
<b>Change in net assets.....</b>	<b>165,778</b>	<b>827</b>	<b>166,605</b>
<b>Net assets at beginning of year (restated).....</b>	<b>323,034</b>	<b>30,896</b>	<b>353,930</b>
<b>Net assets at end of year.....</b>	<b>\$ 488,812</b>	<b>\$ 31,723</b>	<b>\$ 520,535</b>

## Combining Statement of Assets and Liabilities

### AGENCY FUNDS

June 30, 2005

(Expressed in Thousands)

	<u>Insurance Company Deposits</u>	<u>Payroll Clearing</u>	<u>Other Agency</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ —	\$ 10,653	\$ 152,850	\$ 163,503
Receivables, net:				
Accounts.....	—	30	5,156	5,186
Accrued interest.....	—	—	675	675
Taxes.....	—	—	2,486	2,486
Due from other funds.....	—	47,996	12,388	60,384
Investments.....	—	—	37,242	37,242
Securities held in lieu of surety bonds.....	314,396	—	165	314,561
Invested securities lending collateral .....	—	—	15,749	15,749
<b>Total assets.....</b>	<b><u>\$ 314,396</u></b>	<b><u>\$ 58,679</u></b>	<b><u>\$ 226,711</u></b>	<b><u>\$ 599,786</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ —	\$ 246	\$ 18,255	\$ 18,501
Tax refunds payable.....	—	—	664	664
Intergovernmental payables.....	—	—	2,366	2,366
Deposits.....	—	—	1,115	1,115
Amounts held in custody for others.....	314,396	58,433	188,562	561,391
Securities lending collateral.....	—	—	15,749	15,749
<b>Total liabilities.....</b>	<b><u>\$ 314,396</u></b>	<b><u>\$ 58,679</u></b>	<b><u>\$ 226,711</u></b>	<b><u>\$ 599,786</u></b>

# Combining Statement of Changes in Assets and Liabilities

## AGENCY FUNDS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b>INSURANCE COMPANY DEPOSITS</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ —	\$ 40,141	\$ 40,141	\$ —
Securities held in lieu of surety bonds.....	354,537	—	40,141	314,396
<b>Total assets.....</b>	<b>\$ 354,537</b>	<b>\$ 40,141</b>	<b>\$ 80,282</b>	<b>\$ 314,396</b>
<b>Liabilities:</b>				
Amounts held in custody for others.....	\$ 354,537	\$ —	\$ 40,141	\$ 314,396
<b>Total liabilities.....</b>	<b>\$ 354,537</b>	<b>\$ —</b>	<b>\$ 40,141</b>	<b>\$ 314,396</b>
<b>PAYROLL CLEARING</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 10,347	\$ 1,006,914	\$ 1,006,608	\$ 10,653
Accounts receivable.....	24	30	24	30
Due from other funds.....	44,956	47,996	44,956	47,996
<b>Total assets.....</b>	<b>\$ 55,327</b>	<b>\$ 1,054,940</b>	<b>\$ 1,051,588</b>	<b>\$ 58,679</b>
<b>Liabilities:</b>				
Accounts payable.....	\$ 10,519	\$ 246	\$ 10,519	\$ 246
Due to other funds.....	—	50	50	—
Amounts held in custody for others.....	44,808	868,816	855,191	58,433
<b>Total liabilities.....</b>	<b>\$ 55,327</b>	<b>\$ 869,112</b>	<b>\$ 865,760</b>	<b>\$ 58,679</b>

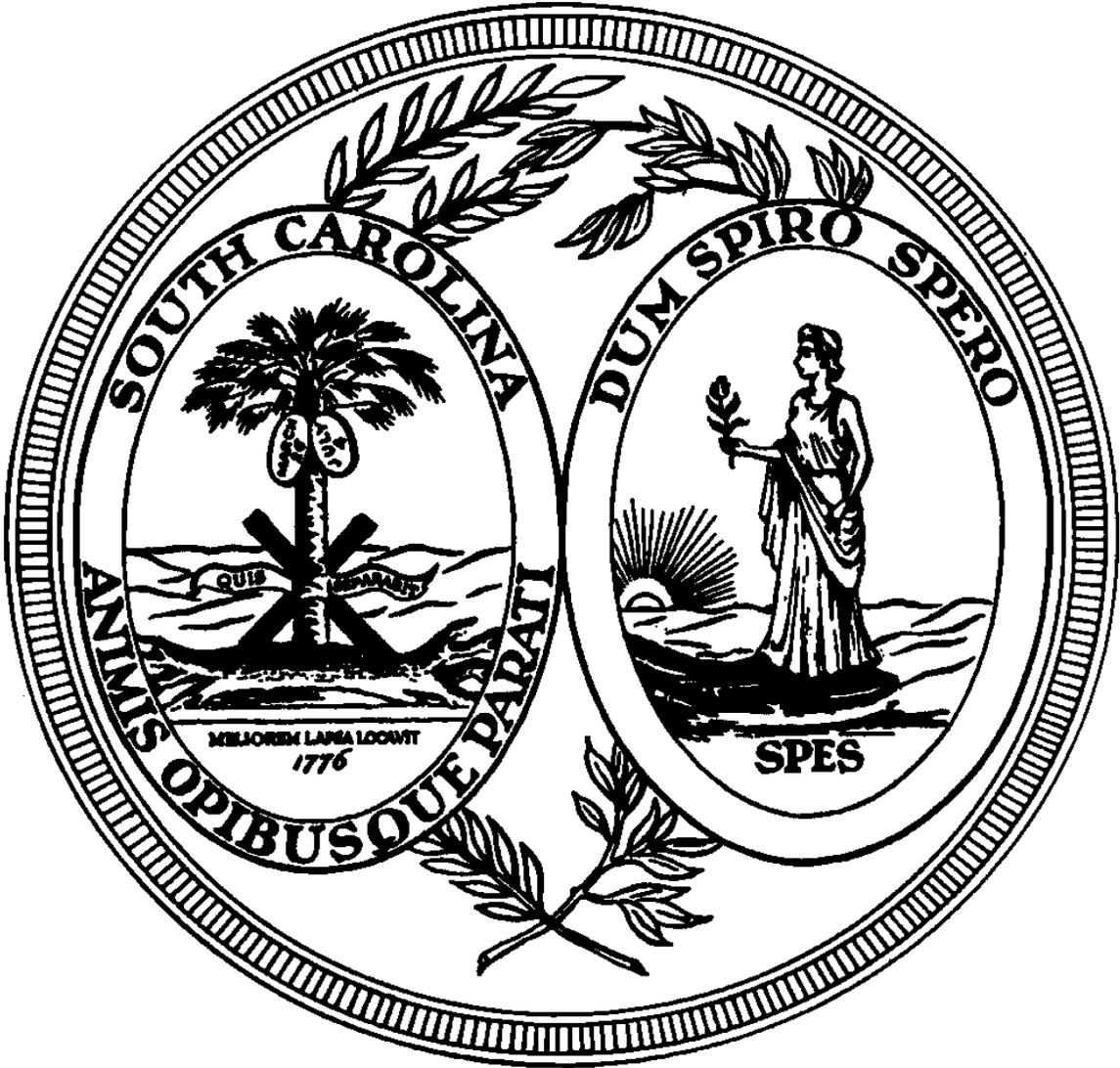
# Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b>OTHER AGENCY</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 164,634	\$ 2,179,792	\$ 2,191,576	\$ 152,850
Accounts receivable.....	7,926	32,322	35,092	5,156
Accrued interest receivable.....	1,061	675	1,061	675
Taxes receivable.....	3,012	2,486	3,012	2,486
Due from other funds.....	11,008	12,388	11,008	12,388
Investments.....	23,931	13,311	—	37,242
Securities held in lieu of surety bonds.....	165	—	—	165
Invested securities lending collateral.....	29,717	15,749	29,717	15,749
<b>Total assets.....</b>	<b>\$ 241,454</b>	<b>\$ 2,256,723</b>	<b>\$ 2,271,466</b>	<b>\$ 226,711</b>
<b>Liabilities:</b>				
Accounts payable.....	\$ 16,757	\$ 19,298	\$ 17,800	\$ 18,255
Due to other funds.....	—	1,000	1,000	—
Tax refunds payable.....	139	664	139	664
Intergovernmental payables.....	2,680	2,366	2,680	2,366
Deposits.....	1,097	1,115	1,097	1,115
Amounts held in custody for others.....	191,064	1,787,733	1,790,235	188,562
Securities lending collateral.....	29,717	15,749	29,717	15,749
<b>Total liabilities.....</b>	<b>\$ 241,454</b>	<b>\$ 1,827,925</b>	<b>\$ 1,842,668</b>	<b>\$ 226,711</b>
<b>TOTALS--ALL AGENCY FUNDS</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 174,981	\$ 3,226,847	\$ 3,238,325	\$ 163,503
Accounts receivable.....	7,950	32,352	35,116	5,186
Accrued interest receivable.....	1,061	675	1,061	675
Taxes receivable.....	3,012	2,486	3,012	2,486
Due from other funds.....	55,964	60,384	55,964	60,384
Investments.....	23,931	13,311	—	37,242
Securities held in lieu of surety bonds.....	354,702	—	40,141	314,561
Invested securities lending collateral.....	29,717	15,749	29,717	15,749
<b>Total assets.....</b>	<b>\$ 651,318</b>	<b>\$ 3,351,804</b>	<b>\$ 3,403,336</b>	<b>\$ 599,786</b>
<b>Liabilities:</b>				
Accounts payable.....	\$ 27,276	\$ 19,544	\$ 28,319	\$ 18,501
Due to other funds.....	—	1,050	1,050	—
Tax refunds payable.....	139	664	139	664
Intergovernmental payables.....	2,680	2,366	2,680	2,366
Deposits.....	1,097	1,115	1,097	1,115
Amounts held in custody for others.....	590,409	2,656,549	2,685,567	561,391
Securities lending collateral.....	29,717	15,749	29,717	15,749
<b>Total liabilities.....</b>	<b>\$ 651,318</b>	<b>\$ 2,697,037</b>	<b>\$ 2,748,569</b>	<b>\$ 599,786</b>



## 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—First Steps to School Readiness Board of Trustees
- Statement of Revenues, Expenditures, and Changes in Fund Balances—First Steps to School Readiness Board of Trustees

### a. Nonmajor Discretely Presented Component Units

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, 2004.

*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 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, 2004.

### b. First Steps to School Readiness Board of Trustees (First Steps)

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.

## Combining Statement of Net Assets

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2005

(Expressed in Thousands)

	<u>Clemson University Foundation</u>	<u>University of South Carolina Educational Foundation</u>	<u>Medical Malpractice Joint Underwriting Association</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 6,159	\$ 11,405	\$ 9,089
Investments.....	—	571	46,261
Invested securities lending collateral.....	—	—	—
Receivables, net:			
Accounts.....	225	138	147
Contributions.....	2,319	8,532	—
Accrued interest.....	—	15	571
Due from primary government.....	—	—	—
Restricted assets:			
Cash and cash equivalents.....	6,682	—	—
Prepaid items.....	—	26	—
Deferred charges.....	—	—	1,532
Total current assets.....	<u>15,385</u>	<u>20,687</u>	<u>57,600</u>
Long-term assets:			
Receivables, net:			
Accounts.....	2,093	118	—
Contributions.....	25,161	9,392	—
Investments.....	282,676	234,193	—
Other long-term assets.....	86	—	—
Non-depreciable capital assets.....	8,971	—	—
Depreciable capital assets, net.....	415	68	65
Total long-term assets.....	<u>319,402</u>	<u>243,771</u>	<u>65</u>
<b>Total assets.....</b>	<b><u>334,787</u></b>	<b><u>264,458</u></b>	<b><u>57,665</u></b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable.....	299	601	563
Accrued salaries and related expenses.....	4	—	—
Intergovernmental payables.....	—	—	—
Policy claims.....	—	—	35,000
Due to primary government.....	60,548	28,265	—
Deferred revenues and deferred credits.....	—	—	25,082
Securities lending collateral.....	—	—	—
Accounts payable from restricted assets.....	247	—	—
Compensated absences payable.....	—	—	—
Other current liabilities.....	—	360	—
Total current liabilities.....	<u>61,098</u>	<u>29,226</u>	<u>60,645</u>
Long-term liabilities:			
Policy claims.....	—	—	149,816
Amounts held in custody for others.....	2,252	—	73
Notes payable.....	—	150	—
Compensated absences payable.....	—	—	—
Other long-term liabilities.....	7,631	2,589	—
Total long-term liabilities.....	<u>9,883</u>	<u>2,739</u>	<u>149,889</u>
<b>Total liabilities.....</b>	<b><u>70,981</u></b>	<b><u>31,965</u></b>	<b><u>210,534</u></b>
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt.....	9,386	69	65
Restricted, expendable:			
Education.....	82,433	71,181	—
Other.....	—	—	2,008
Restricted, nonexpendable, education.....	151,835	132,239	—
Unrestricted.....	20,152	29,004	(154,942)
<b>Total net assets (deficit).....</b>	<b><u>\$ 263,806</u></b>	<b><u>\$ 232,493</u></b>	<b><u>\$ (152,869)</u></b>

<u>First Steps to School Readiness Board of Trustees</u>	<u>Children's Trust Fund of S.C., Inc.</u>	<u>Totals</u>
\$ 3,578	\$ 188	\$ 30,419
—	726	47,558
365	—	365
—	—	510
—	—	10,851
20	—	606
2	—	2
—	—	6,682
—	—	26
—	—	1,532
<u>3,965</u>	<u>914</u>	<u>98,551</u>
—	—	2,211
—	—	34,553
—	18	516,887
—	—	86
—	—	8,971
6	—	554
6	18	563,262
<u>3,971</u>	<u>932</u>	<u>661,813</u>
154	—	1,617
58	2	64
103	—	103
—	—	35,000
25	—	88,838
—	—	25,082
365	—	365
—	—	247
83	—	83
—	—	360
<u>788</u>	<u>2</u>	<u>151,759</u>
—	—	149,816
—	—	2,325
—	—	150
48	—	48
—	—	10,220
<u>48</u>	<u>—</u>	<u>162,559</u>
<u>836</u>	<u>2</u>	<u>314,318</u>
6	—	9,526
3,129	—	156,743
—	254	2,262
—	—	284,074
—	676	(105,110)
<u>\$ 3,135</u>	<u>\$ 930</u>	<u>\$ 347,495</u>

## Combining Statement of Activities

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Clemson University Foundation.....	\$ 16,900	\$ —	\$ 45,712	\$ 28,812
University of South Carolina Educational Foundation.....	16,970	—	32,325	15,355
Medical Malpractice Joint Underwriting Association.....	54,161	41,878	1,342	(10,941)
First Steps to School Readiness Board of Trustees.....	23,865	—	25,457	1,592
Children's Trust Fund of S.C., Inc.....	157	—	241	84
<b>Totals.....</b>	<b>\$ 112,053</b>	<b>\$ 41,878</b>	<b>\$ 105,077</b>	<b>\$ 34,902</b>

<u>Net Assets (Deficit)</u> <u>Beginning of Year</u>	<u>Net Assets (Deficit)</u> <u>End of Year</u>
\$ 234,994	\$ 263,806
217,138	232,493
(141,928)	(152,869)
1,543	3,135
846	930
<u>\$ 312,593</u>	<u>\$ 347,495</u>

## Balance Sheet

FIRST STEPS TO SCHOOL READINESS  
BOARD OF TRUSTEES

June 30, 2005

(Expressed in Thousands)

### ASSETS

Cash and cash equivalents.....	\$	3,578
Invested securities lending collateral.....		365
Accrued interest receivable.....		20
Due from primary government.....		2
<b>Total assets.....</b>	<b>\$</b>	<b>3,965</b>

### LIABILITIES AND FUND BALANCE

#### Liabilities:

Accounts payable.....	\$	154
Accrued salaries and related expenditures.....		58
Intergovernmental payables.....		103
Due to primary government.....		25
Securities lending collateral.....		365
<b>Total liabilities.....</b>		<b>705</b>

#### Fund Balance:

Unreserved, undesignated.....		3,260
<b>Total liabilities and fund balance.....</b>	<b>\$</b>	<b>3,965</b>

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

**Total fund balance - First Steps.....** \$ **3,260**

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.....		(40)	
Total capital assets.....			6

Compensated absences payable are not due and payable  
in the current period and therefore are not reported in the  
Balance Sheet..... (131)

**Net assets of First Steps.....** \$ **3,135**

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

FIRST STEPS TO SCHOOL READINESS  
BOARD OF TRUSTEES

For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

**Revenues:**

Interest and other investment income.....	\$ 210
Federal.....	3,449
State operating grants and contracts.....	21,151
Contributions.....	<u>647</u>
<b>Total revenues.....</b>	<b><u>25,457</u></b>

**Expenditures:**

Current:	
Education.....	6,192
Intergovernmental .....	<u>17,634</u>
<b>Total expenditures.....</b>	<b><u>23,826</u></b>

<b>Excess of revenues over expenditures.....</b>	<b>1,631</b>
<b>Fund balance at beginning of year.....</b>	<b><u>1,629</u></b>
<b>Fund balance at end of year.....</b>	<b><u><u>\$ 3,260</u></u></b>

**Reconciliation of the First Steps 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 - First Steps.....</b>	<b>\$ 1,631</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.

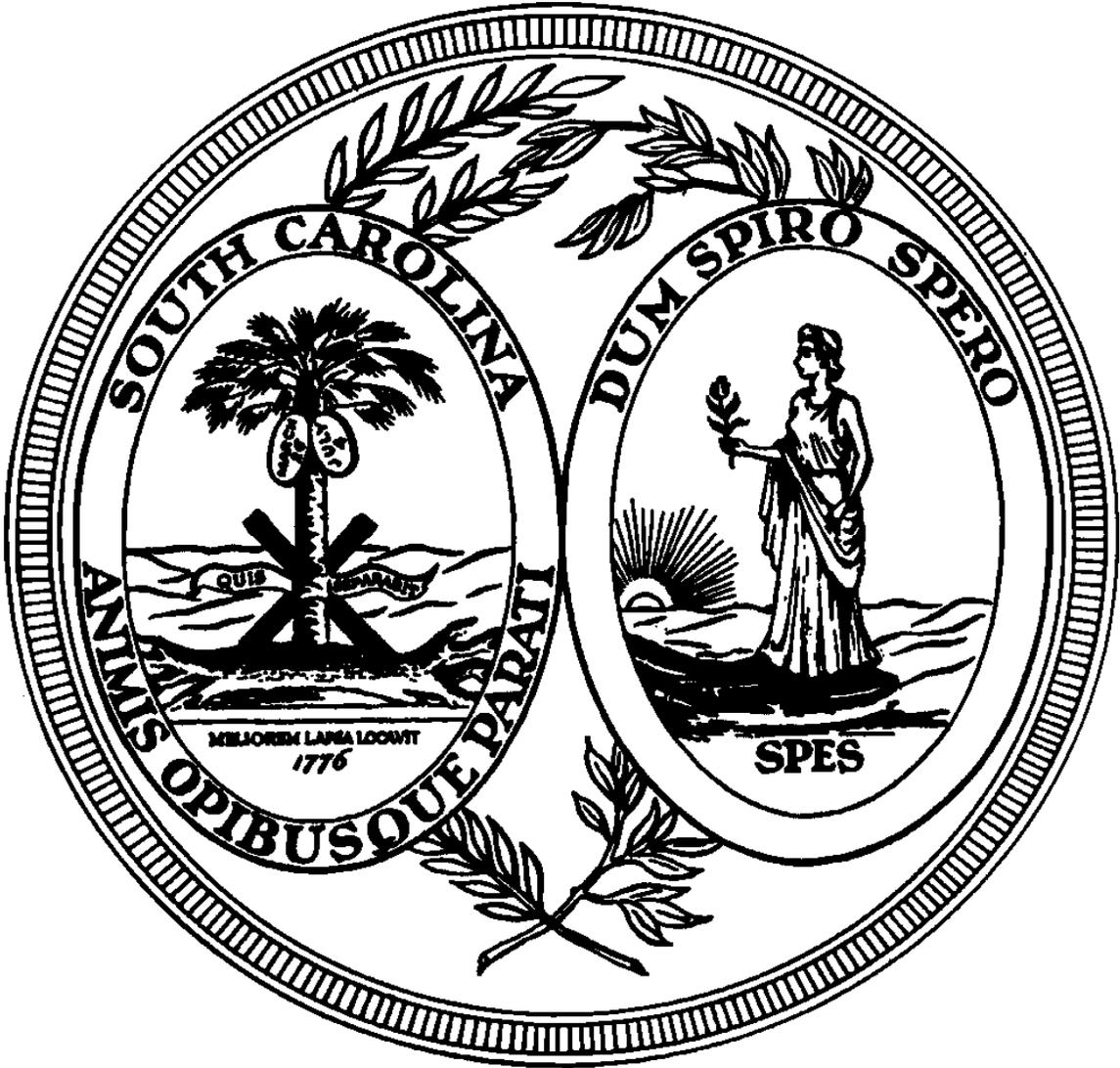
However, in the Combining Statement of Activities the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period these amounts are:

Capital outlay.....	1
Depreciation expense.....	<u>(2)</u>

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>(38)</u>
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<b>Change in net assets of First Steps.....</b>	<b><u><u>\$ 1,592</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.

## Expenditures by Function

GENERAL GOVERNMENTAL FUND TYPES<sup>a</sup>

Last Ten Fiscal Years  
(Expressed in Thousands)

Function	1996	1997	1998	1999
General government <sup>b</sup> .....	\$ 330,519	\$ 351,156	\$ 352,065	\$ 355,558
Education .....	379,984	326,103	318,558	355,927
Health and environment.....	2,946,457	3,032,995	3,121,887	3,443,809
Social services.....	709,747	700,442	662,912	648,689
Administration of justice.....	488,425	543,456	592,556	632,872
Resources and economic development.....	155,302	150,131	160,242	159,546
Transportation.....	218,366	230,384	281,021	303,824
Capital outlay.....	398,776	436,798	396,801	453,708
Debt service:				
Principal retirement.....	82,997	97,728	110,076	90,786
Interest and fiscal charges.....	50,574	53,493	51,132	55,193
Intergovernmental.....	<u>2,636,440</u>	<u>2,805,584</u>	<u>3,032,018</u>	<u>3,262,640</u>
<b>Total expenditures.....</b>	<b><u>\$ 8,397,587</u></b>	<b><u>\$ 8,728,270</u></b>	<b><u>\$ 9,079,268</u></b>	<b><u>\$ 9,762,552</u></b>

<sup>a</sup> General governmental fund types include the General Fund and special revenue funds.

<sup>b</sup> Until July 1, 2001, the State Infrastructure Bank (the Bank) was reported as part of the general government function. Since July 1, 2001, the Bank has been reported as part of the transportation function. Prior years were not restated for this change.

**For the Fiscal Year Ended June 30**

<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
\$ 422,935	\$ 488,865	\$ 491,678	\$ 475,705	\$ 533,227	\$ 613,314
403,453	443,540	485,131	632,904	652,100	680,676
3,600,808	4,200,086	4,218,410	4,512,620	4,931,105	5,129,216
674,353	720,602	803,304	844,927	874,703	999,624
694,845	716,462	644,270	644,896	574,404	582,748
180,403	198,351	180,011	162,794	154,066	179,635
518,584	324,207	435,384	559,466	614,220	629,430
527,769	589,107	535,512	443,343	463,321	540,087
107,621	139,977	185,031	231,533	220,265	243,050
81,632	102,435	226,568	236,281	237,941	251,855
<u>3,874,298</u>	<u>4,132,596</u>	<u>4,530,261</u>	<u>4,469,022</u>	<u>4,594,739</u>	<u>4,678,620</u>
<b><u>\$ 11,086,701</u></b>	<b><u>\$ 12,056,228</u></b>	<b><u>\$ 12,735,560</u></b>	<b><u>\$ 13,213,491</u></b>	<b><u>\$ 13,850,091</u></b>	<b><u>\$ 14,528,255</u></b>

## Revenues by Source

GENERAL GOVERNMENTAL FUND TYPES<sup>a</sup>

Last Ten Fiscal Years  
(Expressed in Thousands)

Sources	1996	1997	1998	1999
Taxes:				
Individual income.....	\$ 1,809,287	\$ 1,927,600	\$ 2,103,799	\$ 2,282,509
Retail sales and use.....	2,034,484	2,141,864	2,304,004	2,521,264
Other.....	1,149,342	1,163,889	1,190,605	1,274,366
Licenses, fees, and permits.....	243,502	258,960	281,242	290,530
Interest and other investment				
income.....	98,728	113,199	130,155	122,002
Federal, State, local, and private grants...	2,907,661	3,087,312	3,213,004	3,445,858
Departmental services.....	535,117	533,395	540,047	539,863
Contributions .....	106,606	115,739	155,137	192,852
Fines and penalties.....	55,340	58,170	61,744	69,862
Tobacco legal settlement.....	—	—	—	—
Other.....	73,639	70,424	81,067	80,220
<b>Total revenues.....</b>	<b><u>\$ 9,013,706</u></b>	<b><u>\$ 9,470,552</u></b>	<b><u>\$ 10,060,804</u></b>	<b><u>\$ 10,819,326</u></b>

<sup>a</sup> General governmental fund types include the General Fund and special revenue funds.

**For the Fiscal Year Ended June 30**

<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
\$ 2,453,465	\$ 2,492,877	\$ 2,340,840	\$ 2,287,989	\$ 2,408,756	\$ 2,765,012
2,676,686	2,705,207	2,771,191	2,817,138	2,996,073	3,225,931
1,227,671	1,241,362	1,241,065	1,288,592	1,368,549	1,431,120
306,067	309,017	269,917	390,291	440,066	462,049
154,753	243,201	195,225	156,740	75,369	121,083
3,708,958	4,172,450	4,573,972	5,009,147	5,629,214	5,948,777
539,549	563,667	637,718	699,157	665,947	637,221
251,335	159,357	178,228	327,692	534,320	680,867
69,017	74,959	82,878	81,532	105,601	107,197
96,274	73,747	88,291	86,313	74,180	73,231
83,650	100,569	120,275	123,423	86,112	83,379
<b><u>\$ 11,567,425</u></b>	<b><u>\$ 12,136,413</u></b>	<b><u>\$ 12,499,600</u></b>	<b><u>\$ 13,268,014</u></b>	<b><u>\$ 14,384,187</u></b>	<b><u>\$ 15,535,867</u></b>

## Income and Sales Tax Rates

Last Ten Fiscal Years

<b>Fiscal Year Ended June 30</b>	<b>Individual Income Tax</b>	<b>Corporate Income Tax</b>	<b>Retail Sales Tax<sup>a</sup></b>
1996	2.50 - 7%	5%	5%
1997	2.50 - 7%	5%	5%
1998	2.50 - 7%	5%	5%
1999	2.50 - 7%	5%	5%
2000	2.50 - 7%	5%	5%
2001	2.50 - 7%	5%	5%
2002	2.50 - 7%	5%	5%
2003	2.50 - 7%	5%	5%
2004	2.50 - 7%	5%	5%
2005	2.50 - 7%	5%	5%

<sup>a</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.

Source: Department of Revenue.

## Net General Obligation Bonds and Notes Per Capita

Last Ten Fiscal Years

<b>Fiscal Year Ended June 30</b>	<b>Population<sup>a</sup> (Thousands)</b>	<b>Gross Bonded Debt<sup>b</sup> (Thousands)</b>	<b>Debt Payable From Higher Education Fund (Thousands)</b>	<b>Net General Bonded Debt<sup>c</sup> (Thousands)</b>	<b>Net General Bonded Debt Per Capita</b>
1996	3,796	\$ 1,007,394	\$ 41,900	\$ 965,494	\$ 254.35
1997	3,860	1,052,173	85,365	966,808	250.47
1998	3,919	1,036,642	84,465	952,177	242.96
1999	3,975	1,218,872	78,305	1,140,567	286.94
2000	4,024	1,493,551	99,945	1,393,606	346.32
2001	4,061	2,151,806	96,310	2,055,496	506.16
2002	4,106	2,348,630	142,635	2,205,995	537.26
2003	4,149	2,448,175	208,968	2,239,207	539.70
2004	4,198	2,509,001	242,740	2,266,261	539.84
2005	4,218	2,528,676	230,423	2,298,253	544.87

<sup>a</sup> Source: Office of Research and Statistics, State Budget and Control Board. Population statistic for 2005 is projected.

<sup>b</sup> Includes general obligation bonds payable and general obligation bond anticipation notes reported as governmental activities or in the Higher Education Fund; also includes general obligation notes payable reported as governmental activities.

<sup>c</sup> Net general bonded debt is the gross general bonded debt less the general obligation debt payable not expected to be repaid through general governmental resources (e.g., the debt payable from the Higher Education Fund).

Note: Assessed value data is not presented because the State of South Carolina does not receive property tax revenue.

# Computation of Legal Debt Margin

June 30, 2005

(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 11-41-50 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 five and one-half 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).

Futhermore, 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).

## INSTITUTION BONDS

Institution	Prior Year Revenues	90% Computation	Maximum Debt Service	Margin
The Citadel.....	\$ 562	\$ 506	\$ 457	\$ 49
Clemson University.....	6,881	6,193	4,800	1,393
Coastal Carolina University.....	968	871	696	175
College of Charleston.....	4,214	3,793	573	3,220
Lander University.....	12,341	11,107	775	10,332
Medical University of South Carolina....	20,895	18,806	5,747	13,059
South Carolina State University.....	729	656	318	338
University of South Carolina.....	11,462	10,316	7,054	3,262
Winthrop University.....	3,299	2,969	1,318	1,651
Central Carolina Technical College.....	826	743	202	541
Midlands Technical College.....	1,494	1,345	827	518
Tri-County Technical College.....	1,076	968	735	233
<b>Totals.....</b>	<b>\$ 64,747</b>	<b>\$ 58,273</b>	<b>\$ 23,502</b>	<b>\$ 34,771</b>

## HIGHWAY BONDS

2003-2004 Budgetary General Fund revenues pledged for highway bonds.....	\$ 52,071
2003-2004 other revenues pledged for highway bonds.....	534,517
2003-2004 revenues pledged for highway bonds.....	586,588
15% of 2003-2004 revenues pledged for highway bonds.....	87,988
Less: maximum annual debt service for highway bonds <sup>a</sup> .....	71,766
<b>Legal debt service margin at June 30, 2005--highway bonds.....</b>	<b>\$ 16,222</b>

<sup>a</sup> As of June 30, 2005, the maximum annual debt service will occur in the fiscal year ending June 30, 2009.

Continued on Next Page

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

June 30, 2005

(Expressed in Thousands)

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

2003-2004 Budgetary General Fund revenues .....	\$ 5,116,279
Less: 2003-2004 Budgetary General Fund revenues pledged for highway bonds <sup>b</sup> .....	52,071
2003-2004 net Budgetary General Fund revenues.....	5,064,208
5.5% of 2003-2004 net Budgetary General Fund revenues.....	278,531
Less: maximum annual debt service for general obligation bonds excluding institution and highway bonds and bond anticipation notes <sup>c</sup> .....	226,157
<b>Legal debt service margin at June 30, 2005--general obligation bonds excluding institution and highway bonds and bond anticipation notes.....</b>	<b>\$ 52,374</b>

<sup>b</sup> For the fiscal year ended June 30, 2005, there were no net Budgetary General Fund revenues pledged for State institution bonds and anticipation notes.

<sup>c</sup> As of June 30, 2005, the maximum annual debt service will occur in the fiscal year ending June 30, 2006.

**ECONOMIC DEVELOPMENT BONDS**

2003-2004 Budgetary General Fund revenues .....	\$ 5,116,279
Less: 2003-2004 Budgetary General Fund revenues pledged for highway bonds <sup>d</sup> .....	52,071
2003-2004 net Budgetary General Fund revenues.....	5,064,208
0.5% of 2003-2004 net Budgetary General Fund revenues.....	25,321
Less: maximum annual debt service for economic development bonds <sup>e</sup> .....	9,632
<b>Legal debt service margin at June 30, 2005--economic development bonds.....</b>	<b>\$ 15,689</b>

<sup>d</sup> For the fiscal year ended June 30, 2005, there were no net Budgetary General Fund revenues pledged for State institution bonds and anticipation notes.

<sup>e</sup> As of June 30, 2005, the maximum annual debt service will occur in the fiscal year ending June 30, 2006.

Source: South Carolina Comptroller General's Office

## Revenue Bond Coverage—Enterprise Funds<sup>a</sup>

Last Ten Fiscal Years  
(Dollars in Thousands)

Fiscal Year Ended June 30	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
		Principal	Interest	Total	
<b>The Citadel—1997 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
<b>The Citadel—2003 Athletic Facilities Revenue Refunding Bonds</b>					
2004	\$ 2,823	\$ 154	\$ 133	\$ 287	9.84
2005	2,897	162	126	288	10.06
<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
<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
<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

<sup>a</sup> All of the bonds described in this schedule are accounted for in the Higher Education Fund, a major enterprise fund.

Fiscal Year Ended June 30	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
		Principal	Interest	Total	
<b>Coastal Carolina University—1999 Revenue Refunding and Improvement 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
<b>College of Charleston—Higher Education Facilities Revenue Bonds</b>					
1996	\$ 2,081	\$ 655	\$ 1,048	\$ 1,703	1.22
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
<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
<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
<b>Spartanburg Technical College—2001 Special 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
<b>Spartanburg Technical College—2004 Special Fee Capital Improvement Bonds</b>					
2005	\$ 447	\$ 200	\$ 165	\$ 365	1.22

Continued on Next Page

## Revenue Bond Coverage—Enterprise Funds<sup>a</sup> (Continued)

Last Ten Fiscal Years  
(Dollars in Thousands)

Fiscal Year Ended June 30	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
		Principal	Interest	Total	
<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
<b>University of South Carolina Columbia Campus—1995 Parking Facilities Revenue Bonds</b>					
1996	\$ 237	\$ —	\$ 237	\$ 237	1.00
1997	1,054	580	474	1,054	1.00
1998	1,051	605	446	1,051	1.00
1999	1,032	615	417	1,032	1.00
2000	1,033	645	388	1,033	1.00
2001	1,007	650	357	1,007	1.00
2002	987	660	327	987	1.00
2003	630	335	295	630	1.00
2004	629	350	279	629	1.00
2005	633	370	263	633	1.00
<b>University of South Carolina Columbia Campus—1996 Auxiliary Revenue Bonds</b>					
1997	\$ 1,099	\$ —	\$ 1,099	\$ 1,099	1.00
1998	1,781	315	1,466	1,781	1.00
1999	1,779	335	1,444	1,779	1.00
2000	1,786	365	1,421	1,786	1.00
2001	1,787	390	1,397	1,787	1.00
2002	1,790	420	1,370	1,790	1.00
2003	1,791	450	1,341	1,791	1.00
2004	1,796	485	1,311	1,796	1.00
2005	1,803	525	1,278	1,803	1.00
<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
<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
<b>University of South Carolina Columbia Campus—2004 Auxiliary Revenue Bonds</b>					
2005	\$ 1,838	\$ 725	\$ 1,202	\$ 1,927	0.95

<sup>a</sup> All of the bonds described in this schedule are accounted for in the Higher Education Fund, a major enterprise fund.

Fiscal Year Ended June 30	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage Ratio
		Principal	Interest	Total	
<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
<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
<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

Source: South Carolina Comptroller General's Office

## Ratio of Annual Debt Service Expenditures for General Obligation Debt to Total General Governmental Expenditures<sup>a</sup>

Last Ten Fiscal Years  
(Dollars in Thousands)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>General Governmental Expenditures</u>	<u>Ratio of Debt Service to General Governmental Expenditures</u>
1996	\$ 82,997	\$ 50,574	\$ 133,571	\$ 8,397,587	1.59%
1997	97,728	53,493	151,221	8,728,270	1.73%
1998	110,076	51,132	161,208	9,079,268	1.78%
1999	90,786	55,193	145,979	9,762,552	1.50%
2000	107,621	81,632	189,253	11,086,701	1.71%
2001	139,977	102,435	242,412	12,056,228	2.01%
2002	185,031	226,568	411,599	12,735,560	3.23%
2003	231,533	236,281	467,814	13,200,996	3.54%
2004	220,265	237,941	458,206	13,850,091	3.31%
2005	243,050	251,855	494,905	14,528,255	3.41%

<sup>a</sup> General governmental expenditures include the General Fund and special revenue funds.

# Property Value, Construction, and Bank Deposits

Last Ten Years

(Dollars in Millions)

Year	Nonresidential Construction	Residential Construction <sup>a</sup>		Bank Deposits at December 31	Property Value <sup>b</sup>	
	Thousands of Square Feet at December 31	Number of Units at December 31	Value at December 31		Nonresidential at June 30	Residential at June 30
1994	20,369	23,670	\$ 1,898	\$ 30,475	\$ 44,204	\$ 54,118
1995	22,345	22,400	1,826	33,035	45,334	57,987
1996	25,816	28,281	2,402	30,032	46,864	60,977
1997	31,397	27,984	2,430	23,515	48,409	63,905
1998	23,763	31,070	2,821	24,729	51,294	70,109
1999	26,181	32,894	3,261	25,921	57,699	77,131
2000	23,396	30,777	3,278	27,443	61,943	81,611
2001	26,424	27,975	3,183	29,269	72,803	92,494
2002	24,896	30,969	3,811	31,459	75,351	99,423
2003	23,611	37,079	4,491	34,283	80,509	105,402
2004	23,865	39,094	5,214	37,249	d	d
2005	c	c	c	c	d	d

<sup>a</sup> The residential construction statistics exclude mobile home permits.

<sup>b</sup> Property taxes do not represent a source of revenue for the State.

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

<sup>d</sup> Due to legislation requiring that tax assessments be based on the prior year's property value, neither the 2004 nor 2005 information is yet available.

Sources: Board of Economic Advisors, State Budget and Control Board; Department of Revenue; University of South Carolina, Moore School of Business, Division of Research.

## Demographic Statistics

### Last Ten Years

<u>Year</u>	<u>Population<sup>a</sup> at June 30</u>	<u>Per Capita Income<sup>a</sup> Year Ended December 31</u>	<u>Median Age<sup>a</sup> (Years) at June 30</u>	<u>School Enrollment<sup>b</sup> at June 30</u>	<u>Unemployment Rate<sup>c</sup> at December 31</u>
1995	3,748,582	\$ 19,473	33.7	701,140	5.5%
1996	3,796,200	20,403	34.1	699,058	5.8%
1997	3,859,696	20,998	34.5	708,751	3.6%
1998	3,919,235	22,115	35.0	718,969	4.2%
1999	3,974,682	23,075	35.4	720,855	4.4%
2000	4,023,548	24,424	35.4	716,721	4.1%
2001	4,061,209	24,985	35.7	714,427	5.9%
2002	4,105,848	25,485	36.0	723,313	6.4%
2003	4,148,744	26,144	36.3	725,638	6.7%
2004	4,198,068	27,172	36.6	729,541	6.7%
2005	4,218,310	d	36.9	732,958	d

<sup>a</sup> Source: Office of Research and Statistics, State Budget and Control Board. Population statistic for 2005 is projected.

<sup>b</sup> Source: South Carolina Department of Education.

<sup>c</sup> Source: South Carolina Employment Security Commission.

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

**Largest Manufacturing Companies<sup>a</sup>**

December 31, 2004

<b>Name</b>	<b>Number of Plants in South Carolina</b>	<b>Number of Employees in South Carolina</b>
Washington Group International .....	1	11,700
Michelin North America Incorporated.....	8	5,903
BMW AG.....	1	4,600
Robert Bosch GmbH.....	5	4,379
General Electric Company.....	2	4,000
AB Electrolux .....	2	3,500
Springs Industries, Incorporated.....	6	3,389
Sealed Air Corporation.....	3	2,994
The Timken Company.....	4	2,804
West Point Stevens.....	2	2,371
Gold Kist Incorporated.....	1	2,360
International Paper Incorporated.....	7	1,972
Honeywell International Incorporated.....	5	1,950
Wellman Incorporated.....	3	1,832
Nucor Corporation.....	4	1,828
Mohawk Industries .....	5	1,813
Sonoco Products Company.....	3	1,781
Eaton Corporation.....	5	1,772
MeadWestvaco Corporation.....	7	1,739
Georgia-Pacific Corporation.....	11	1,690
ArvinMeritor Incorporated.....	4	1,652
Avondale Mills.....	7	1,649

<sup>a</sup>Based on number of employees. This list includes all companies with 1,600 or more employees.

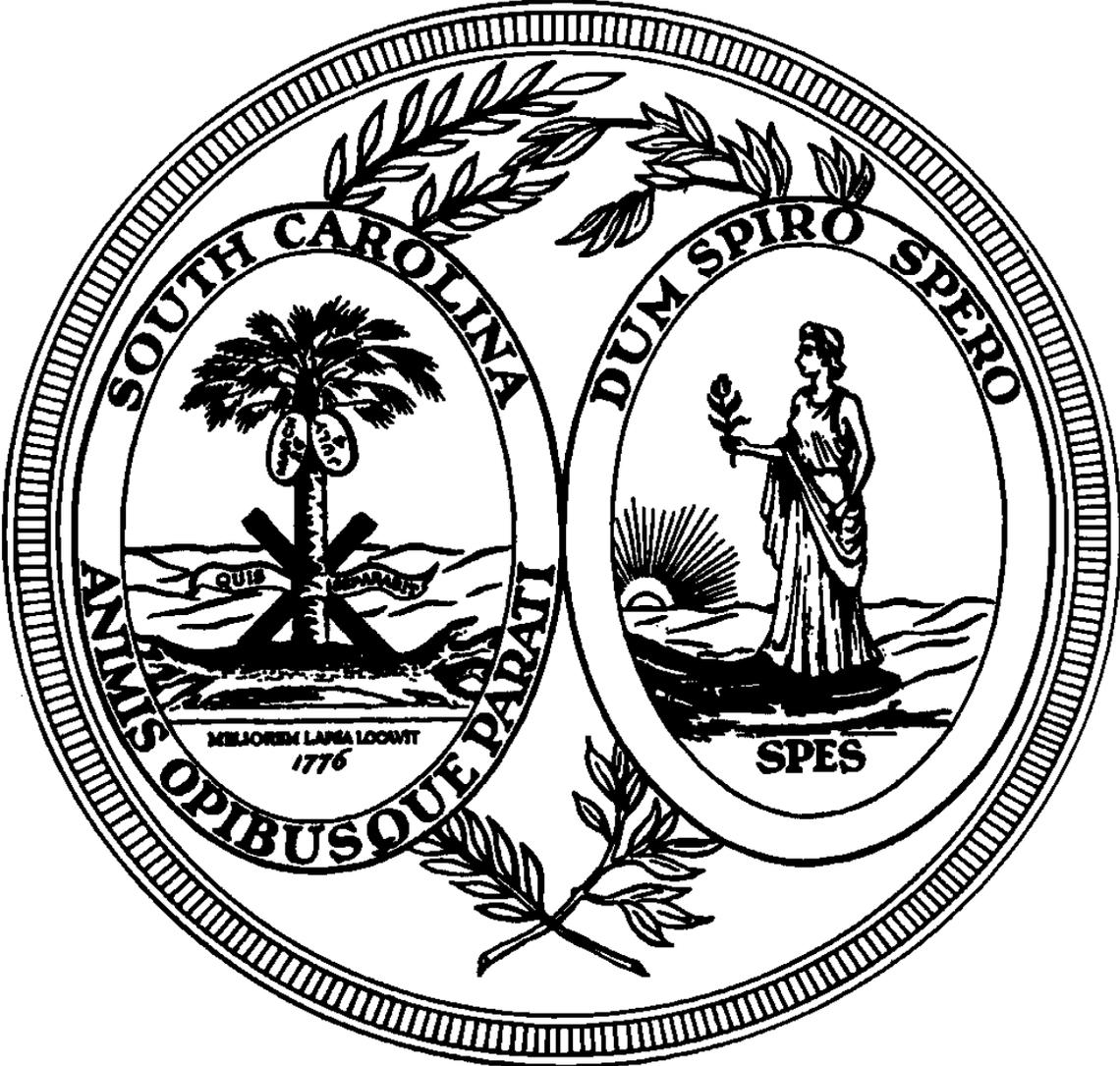
Source: South Carolina Department of Commerce

**Miscellaneous Statistics**  
**December 31, 2004 (Except as Noted)**

Date of ratification--U. S. Constitution.....	1788 <sup>a</sup>
Form of government.....	Legislative-Executive-Judicial
Miles of State highways.....	66,252 <sup>b</sup>
Land area (square miles).....	30,111 <sup>c</sup>
State police protection--(at October 31, 2004):	
Police and sheriff agencies.....	264 <sup>d</sup>
Total number of sworn officers.....	9,053 <sup>d</sup>
Higher education (universities, colleges, and technical education centers):	
Number of campuses.....	60 <sup>e</sup>
Number of students.....	210,917 <sup>e</sup>
Recreation:	
Number of State parks and historical sites.....	53 <sup>f</sup>
Area of State parks.....	81,168 acres <sup>f</sup>
Area of State forests.....	91,600 acres <sup>g</sup>
State employees--all funds (at June 30, 2005).....	60,459 <sup>h</sup>

Sources:

- <sup>a</sup> 2005 Legislative Manual
- <sup>b</sup> Department of Transportation
- <sup>c</sup> Office of Research and Statistics, State Budget and Control Board
- <sup>d</sup> State Law Enforcement Division
- <sup>e</sup> Commission on Higher Education
- <sup>f</sup> Department of Parks, Recreation, and Tourism
- <sup>g</sup> Forestry Commission
- <sup>h</sup> Office of State Budget, State Budget and Control Board



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