

INNOVATION

FINANCIALS

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Report of Independent Auditors

The Advisory Board and Board of Directors
The South Carolina Public Service Authority
Moncks Corner, South Carolina

We have audited the accompanying combined balance sheet of the South Carolina Public Service Authority (a component unit of the state of South Carolina) as of December 31, 2006, and the related combined statement of revenues, and expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of December 31, 2005, were audited by other auditors whose report dated March 22, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Public Service Authority as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis section listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other information included in the annual report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

Cherry, Bekaert & Holland LLP

Raleigh, North Carolina
March 2, 2007

Combined Balance Sheets

South Carolina Public Service Authority
As of December 31, 2006 and 2005

	2006	2005
	(Thousands)	
ASSETS		
Current assets		
Unrestricted cash and cash equivalents	\$ 106,179	\$ 90,614
Unrestricted investments	18,326	90,980
Restricted cash and cash equivalents	76,995	124,555
Restricted investments	109,666	12,352
Receivables, net of allowance for doubtful accounts of \$674 and \$713 at December 31, 2006 and 2005, respectively	167,798	157,722
Materials inventory	67,309	56,892
Fuel inventory		
Fossils fuels	142,061	67,080
Nuclear fuel - net	22,111	15,987
Interest receivable	4,437	1,807
Prepaid expenses and other current assets	27,703	60,959
Total current assets	742,585	678,948
Noncurrent assets		
Unrestricted cash and cash equivalents	1,674	62
Unrestricted investments	78,084	75,527
Restricted cash and cash equivalents	53,510	37,901
Restricted investments	284,664	182,905
Capital assets		
Utility plant	4,657,520	4,336,788
Long lived assets - asset retirement cost	33,078	93,240
Accumulated depreciation	(2,103,066)	(1,960,802)
Total utility plant - net	2,587,532	2,469,226
Construction work in progress	1,286,639	1,057,193
Other physical property - net	2,120	2,209
Investment in associated companies	7,672	6,567
Regulatory asset - asset retirement obligation	164,192	153,090
Regulatory assets - derivative and hedging instruments	2,424	10
Deferred debits and other noncurrent assets		
Unamortized debt expenses	31,943	27,071
Costs to be recovered from future revenue	251,134	246,249
Other	46,320	46,244
Total noncurrent assets	4,797,908	4,304,254
Total assets	\$ 5,540,493	\$ 4,983,202

The accompanying notes are an integral part of these combined financial statements.

Combined Balance Sheets (continued)

South Carolina Public Service Authority

As of December 31, 2006 and 2005

	2006	2005
	(Thousands)	
LIABILITIES		
Current liabilities		
Current portion of long-term debt	\$ 79,136	\$ 69,674
Accrued interest on long-term debt	79,742	63,718
Commercial paper	195,072	285,449
Accounts payable	217,512	183,488
Other current liabilities	66,890	92,615
Total current liabilities	638,352	694,944
Noncurrent liabilities		
Construction fund liabilities	63,582	48,380
Asset retirement obligation liability	277,920	322,358
Total long-term debt (net of current portion)	3,190,690	2,657,160
Unamortized refunding and other costs	(100,660)	(138,169)
Long-term debt - net	3,090,030	2,518,991
Other deferred credits and noncurrent liabilities	46,223	61,959
Total noncurrent liabilities	3,477,755	2,951,688
Total liabilities	4,116,107	3,646,632
NET ASSETS		
Invested in capital assets, net of related debt	787,362	814,282
Restricted for debt service	84,804	70,263
Restricted for capital projects	20,854	3,079
Restricted for other	164,677	165,427
Unrestricted	366,689	283,519
Total net assets	1,424,386	1,336,570
Total liabilities and net assets	\$ 5,540,493	\$ 4,983,202

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Combined Statements of Revenues, Expenses and Changes in Net Assets

South Carolina Public Service Authority

Years ended December 31, 2006 and 2005

	2006	2005
	(Thousands)	
Operating revenues		
Sale of electricity	\$ 1,395,942	\$ 1,334,754
Sale of water	4,917	4,728
Other operating revenue	12,484	10,598
Total operating revenues	1,413,343	1,350,080
Operating expenses		
Electric operating expenses		
Production	70,235	65,614
Fuel	654,760	591,903
Purchased and interchanged power	104,280	117,519
Transmission	14,375	14,192
Distribution	8,938	8,041
Customer accounts	9,287	8,388
Sales	3,367	2,997
Administrative and general	60,148	62,223
Electric maintenance expense	84,609	77,789
Water operation expense	1,614	1,354
Water maintenance expense	335	372
Total operation and maintenance expenses	1,011,948	950,392
Depreciation and amortization	157,832	148,412
Sums in lieu of taxes	4,209	3,556
Total operating expenses	1,173,989	1,102,360
Operating income	\$ 239,354	\$ 247,720
Nonoperating revenues (expenses)		
Interest and investment revenue	\$ 25,800	\$ 12,952
Net increase in the fair value of investments	9,666	4,126
Interest expense on long-term debt	(163,208)	(143,562)
Other interest expense	(22,297)	(23,034)
Costs to be recovered from future revenue	4,885	34,374
Other - net	8,567	15,237
Total nonoperating revenues (expenses)	(136,587)	(99,907)
Income before transfers	102,767	147,813
Transfers out		
Distribution to the State	(14,951)	(12,422)
Total transfers out	(14,951)	(12,422)
Change in net assets	87,816	135,391
Total net assets - beginning	1,336,570	1,201,179
Total net assets - ending	\$ 1,424,386	\$ 1,336,570

The accompanying notes are an integral part of these combined financial statements.

Combined Statements of Cash Flows
South Carolina Public Service Authority
Years ended December 31, 2006 and 2005

	2006	2005
	(Thousands)	
Cash flows from operating activities		
Receipts from customers	\$ 1,403,306	\$ 1,333,354
Payments to non-fuel suppliers	(370,537)	(260,791)
Payments for fuel	(645,495)	(586,692)
Purchased power	(101,785)	(117,098)
Payments to employees	(122,032)	(116,951)
Other receipts-net	169,466	100,278
Net cash provided by operating activities	332,923	352,100
Cash flows from non-capital related financing activities		
Distribution to the State of South Carolina	(14,951)	(12,422)
Net cash used in non-capital related financing activities	(14,951)	(12,422)
Cash flows from capital-related financing activities		
Proceeds from sale of bonds	724,535	496,816
Net commercial paper (repayments) issuance	(90,486)	92,298
Repayment and refunding of bonds	(180,106)	(612,849)
Interest paid on borrowings	(150,712)	(156,665)
Construction and betterments of utility plant	(559,355)	(440,739)
Debt premium	18,414	11,130
Other - net	(2,036)	(2,994)
Net cash used in capital-related financing activities	(239,746)	(613,003)
Cash flows from investing activities		
Net (increase) decrease in investments	(119,310)	247,333
Interest on investments	23,144	13,173
Gain on sale of surplus property	3,166	10,952
Net cash (used by) provided by investing activities	(93,000)	271,458
Net (decrease) in cash and cash equivalents	(14,774)	(1,867)
Cash and cash equivalents-beginning	253,132	254,999
Cash and cash equivalents-ending	\$ 238,358	\$ 253,132

The accompanying notes are an integral part of these combined financial statements.

Combined Statements of Cash Flows (continued)South Carolina Public Service Authority
Years ended December 31, 2006 and 2005

	2006	2005
	(Thousands)	
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 239,354	\$ 247,720
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	167,329	153,602
Net power gains involving associated companies	(31,577)	(45,359)
Distributions from associated companies	27,420	44,164
Advances to associated companies	10	(97)
Other income	1,599	207
Changes in assets and liabilities		
Accounts receivable - net	(10,076)	(16,608)
Inventories	(85,398)	(40,024)
Prepaid expenses	30,274	(38,702)
Other deferred debits	(830)	(5,337)
Accounts payable	36,518	44,058
Other current liabilities	(25,795)	29,369
Other noncurrent liabilities	(15,905)	(20,893)
Net cash provided by operating activities	\$ 332,923	\$ 352,100

Composition of cash and cash equivalents**Current**

Unrestricted cash and cash equivalents	\$ 106,179	\$ 79,068
Restricted cash and cash equivalents	76,995	136,101

Noncurrent

Unrestricted cash and cash equivalents	1,674	62
Restricted cash and cash equivalents	53,510	37,901

Cash and cash equivalents at the end of the year

\$ 238,358	\$ 253,132
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