

# STATE OF SOUTH CAROLINA

Comprehensive Annual Financial Report • June 30, 2003



FRONT COVER

*Boardwalks snake through the wetlands at USC's Belle W. Baruch Institute for Marine Biology and Coastal Research, Georgetown, South Carolina. Photography and layout for covers provided by the University of South Carolina Office of University Publications.*

A large, black-outlined map of the state of South Carolina is centered on the page. The text of the report title is placed within the map's boundaries.

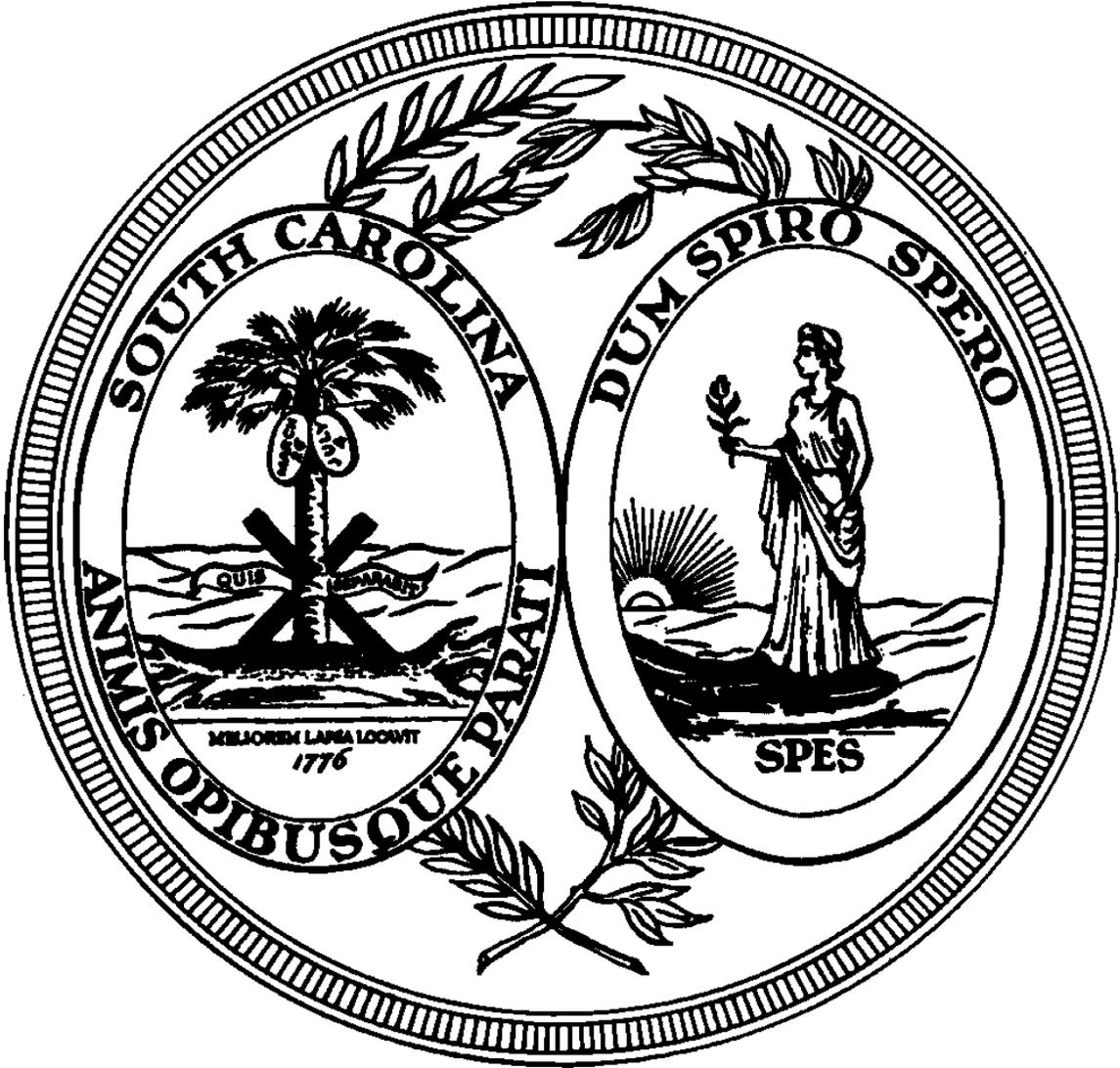
**STATE OF  
SOUTH CAROLINA**

**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

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

**2 0 0 3**

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



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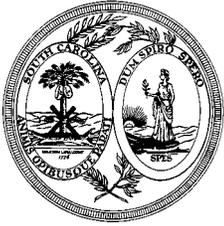
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# *Introductory Section*

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Letter of Transmittal  
Certificate of Achievement  
Principal State Officials  
Organization Chart



State of South Carolina  
**Office of Comptroller General**

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**RICHARD ECKSTROM**  
COMPTROLLER GENERAL

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

December 29, 2003

**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, 2003. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year.

Management is responsible for the accuracy of the data in this report as well as for the completeness and fairness of the presentation. To the best of our knowledge and belief, this information is accurate in all material respects and is reported in a manner that presents fairly the State's financial position and results of operations and provides disclosures that enable the reader to understand the State's financial condition. 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 for the report as of June 30, 2002; 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.

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

**PROFILE OF THE STATE OF SOUTH CAROLINA**

South Carolina stretches from the Atlantic Ocean to the Blue Ridge Mountains, containing 30,111 square miles. The coastal area, which is one of the leading recreation centers on the east coast, is the anchor of the State's thriving tourism industry. Since 1970, over 740,000 people have relocated to South Carolina to take advantage of its growing economy and to retire here.

As shown in the organization chart on page 15, South Carolina's government is divided into three separate branches: legislative, executive, and judicial. 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 local governments, including school districts, within its borders.

South Carolina is primarily a manufacturing state. While the textile industry is still the major industrial employer in the State, the State's economy has undergone a gradual transition to other sectors. Since 1950, the State's economic base has diversified into other sectors such as trade, health care, services, and durable goods manufacturing.

## **BUDGETARY AND INTERNAL CONTROLS**

The Statewide Accounting and Reporting System (STARS) is the State's budgetary-basis operating accounting system. The STARS system processes cash and budgetary transactions and maintains records for all budgeted funds and some unbudgeted funds. The State's higher education institutions and most of the other enterprise entities maintain separate accrual-basis accounting systems.

The Comptroller General's Office maintains an automated annual financial reporting system as well as an automated interface between STARS and that system. The Comptroller General's Office uses this automated system and interface to prepare this report in accordance with generally accepted accounting principles (GAAP). State agencies that use STARS prepare year-end forms to report amounts needed to adjust their budgetary-basis balances to comply with GAAP. The Comptroller General's Office then enters the data from these forms into its GAAP financial reporting system. Additional information entered into the GAAP financial reporting system is derived from the audited financial statements of certain entities and from other supplemental data provided by those entities.

South Carolina's annual Appropriation Act includes legally adopted budgets for the Budgetary General Fund and for Total Funds. For additional information, see the notes to the required supplementary information—budgetary. The initial budget appears in the annual Appropriation Act. After the budget year begins, the State Budget and Control Board may order spending cuts if revenue collections fail to reach predicted levels.

The State's internal controls, designed by the management of the State, provide reasonable assurance that the State will achieve the following objectives:

- Reliability of financial reporting,
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefits.

## **MAJOR INITIATIVES**

The General Assembly spent much of its 2003 session addressing concerns regarding the State's 2003-2004 budget. However, it also passed some major agency restructuring bills that reorganized the State's motor vehicle functions and its homeland security duties.

In order to improve agency accountability and provide to the public more cost efficient and effective services, the General Assembly, through the Department of Motor Vehicles Reform Act of 2003, carved from the Department of Public Safety two discrete units: the motor vehicle division and the motor carrier services unit. These units were moved under the supervision of the newly created Department of Motor Vehicles, established by the Act as a separate administrative agency, with a director appointed by, and directly accountable to, the Governor.

The homeland security legislation assigned most homeland security functions to the State Law Enforcement Division (SLED). Under the new law, SLED may establish and operate tactical response law enforcement units, coordinate counter-terrorism efforts in or affecting South Carolina, coordinate

federal homeland security grants, and represent the Governor in dealing with the United States Department of Homeland Security.

In a related effort, the South Carolina Maritime Security Act created the Maritime Security Commission. It also reestablished the South Carolina Naval Militia to augment port and coastal security.

Among other legislative actions, the General Assembly during the 2003 session strengthened laws for dealing with DUI offenders, domestic violence offenders, and predatory lending practices.

### **ECONOMIC CONDITION AND OUTLOOK**

Over the last three decades, South Carolina's economy has grown, and continues to grow, faster than that of the rest of the country. 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.

Several global companies have located corporate headquarters or multi-million-dollar manufacturing facilities within South Carolina. BMW recently announced that it plans to invest an additional \$400 million in its Upstate factory, creating 400 more jobs. In addition to BMW, other newly announced plants and expansions of existing facilities are expected to contribute to South Carolina's continued economic growth.

An impressive influx of people into South Carolina over the last three decades has generated tremendous economic growth in the State's coastal regions. These areas continue to distinguish themselves as leading tourist, recreation, and retirement centers relative to the entire United States East Coast. The growth along the coast has contributed significantly to the burgeoning economy of the State as a whole.

Since 1970, total South Carolina personal income increased over 1,200 percent and grew 20 percent faster than total United States personal income through 2000. During this period, 1970's personal income grew at an average annual compound rate of 11.9 percent in South Carolina (compared to 10.7 percent nationwide). During the 1980's, the State's personal income grew 8.7 percent per year (compared to 7.8 percent nationwide). Even in the 1990's, when inflation was lower, personal income in South Carolina grew a healthy 5.7 percent per year (compared to 5.6 percent nationwide). Despite the recent recession, South Carolina's total personal income still managed to grow 20 percent faster than the rest of the country.

Between 1970 and 2000, employment in South Carolina grew approximately 40 percent faster than in the United States as a whole. Despite the recent slowdown in the economy, employment levels in South Carolina have continued to fare better than in the nation as a whole. In fact, South Carolina had at least 246,000 jobs more in September 2003 than it had during the recession of 1991. See the management's discussion and analysis section of this report for additional information on the State's economy.

### **LONG TERM FINANCIAL PLANNING**

In June 2003, Governor Mark Sanford issued an executive order establishing the Governor's Commission on Management, Accountability and Performance (the MAP Commission). This fourteen-member Commission, comprised of prominent business leaders and state officials, was charged with the responsibility of analyzing government systems and services in South Carolina and was directed to propose changes to "reduce costs, increase accountability, improve service, consolidate similar functions, return functions to the private sector, and help South Carolina be more competitive in a world economy."

The MAP Commission issued a comprehensive report on September 30, 2003, which can be found on the Internet at [www.state.sc.us/governor](http://www.state.sc.us/governor). The report recommended sweeping changes for the structure of state government and focused on a number of areas dealing with its fiscal management.

Among some of the MAP Commission recommendations are proposals to increase the accuracy and reliability of revenue forecasting upon which the state appropriations act is based each year; increase the Constitutionally-established set-aside for capital and nonrecurring purposes from 2% to 3%; discontinue the practice of funding recurring expenses with non-recurring revenues; adopt a performance-based budgeting process instead of the current practice of incremental budgeting; and gradually eliminate the mismatch in revenues and expenditures resulting from using a “13th month” accrual of selected revenues.

The MAP Commission also recommended implementing a statewide capital budgeting process that would improve the current multi-year planning process contained in the State Comprehensive Permanent Improvement Plan by establishing a Capital Budgeting Authority to analyze and screen capital projects planned over the next three to five years and establishing a separate maintenance budget. Many of these recommendations will require authorization by the General Assembly and, in some cases, amendments to the State Constitution. It is expected that many of the recommendations included in the MAP Commission report will be reviewed and considered in the 2004 session of the General Assembly.

## **FIDUCIARY OPERATIONS**

The most significant of the State’s fiduciary funds are the four retirement plans administered by the South Carolina Retirement Systems. Those plans include: the South Carolina Retirement System, the Police Officers’ Retirement System, the Retirement System for Members of the General Assembly, and the Retirement System for Judges and Solicitors. The State has funded all four of those plans in accordance with at least the minimum recommendations of the consulting actuaries, both in the current period and in past periods. See Note 9, Retirement Plans, in the notes to the financial statements for more information.

## **CASH MANAGEMENT**

The State Treasurer is responsible for managing the State’s cash and investments, except for certain component units included within the reporting entity that manage and invest their own funds. State law requires full collateralization of all State Treasurer bank balances. Some component units may have collateralization policies that differ from those of the State Treasurer.

Investment income includes appreciation and depreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, particularly in the case of temporary changes in the fair value of investments that the State plans to hold to maturity. For additional details, see Note 1f, Summary of Significant Accounting Policies, and Note 5, Deposits and Investments, in the notes to the financial statements.

## **RISK MANAGEMENT**

The State conducts various risk control programs to help minimize losses to which it is exposed. The health insurance program conducts extensive wellness education programs that promote development and maintenance of healthful lifestyles for covered employees. The State self-funds many types of general liability and property losses rather than purchasing insurance. For additional information on the State’s risk management activities, see Note 11, Insurance Activities, in the notes to the financial statements.

## AUDIT

The State Auditor and KPMG 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, 2003. The auditors have provided an unqualified opinion, the most favorable outcome of the audit process.

## CERTIFICATE OF ACHIEVEMENT

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, 2002. To receive a Certificate of Achievement, which is valid for one year only, a government must publish an easily readable and efficiently organized CAFR. The CAFR contents must conform to rigorous program standards, including generally accepted accounting principles and applicable legal requirements. The State of South Carolina has received a Certificate of Achievement for the last fifteen consecutive years. This year, the State again plans to submit its CAFR to the GFOA's Certificate of Achievement program. We believe that South Carolina's report for the fiscal year ended June 30, 2003, continues to meet the requirements to receive the Certificate of Achievement.

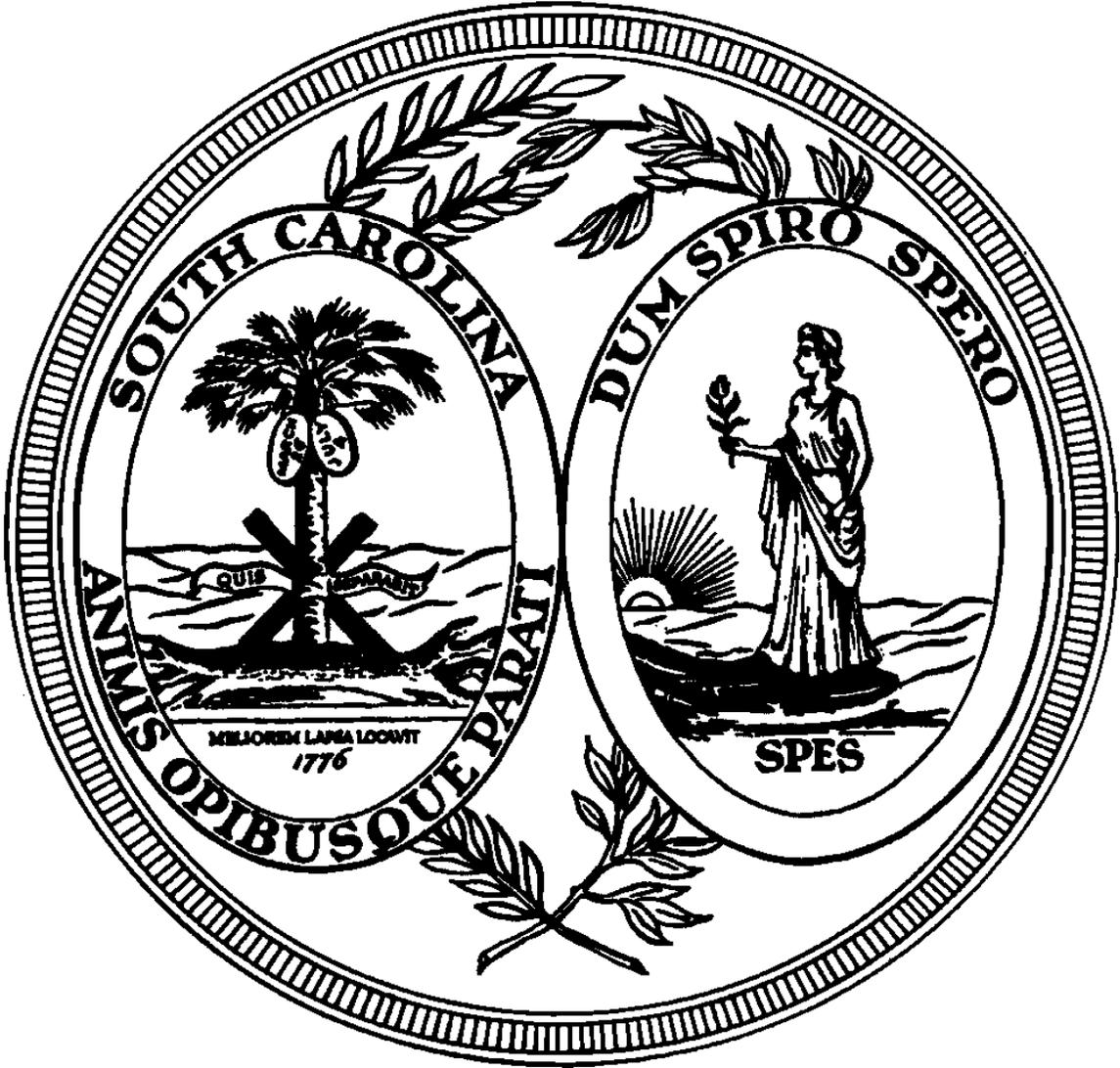
## ACKNOWLEDGMENTS

Production of this report would not have been possible without 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 and to Mr. Jim Green, Graphic Designer of the Publications and Printing Department at the University of South Carolina, for designing the report's cover. We also are grateful to Dr. William C. Gillespie, Chief Economist for the State of South Carolina Board of Economic Advisors, for providing information on the State's economy.

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, 2002

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



President

Executive Director

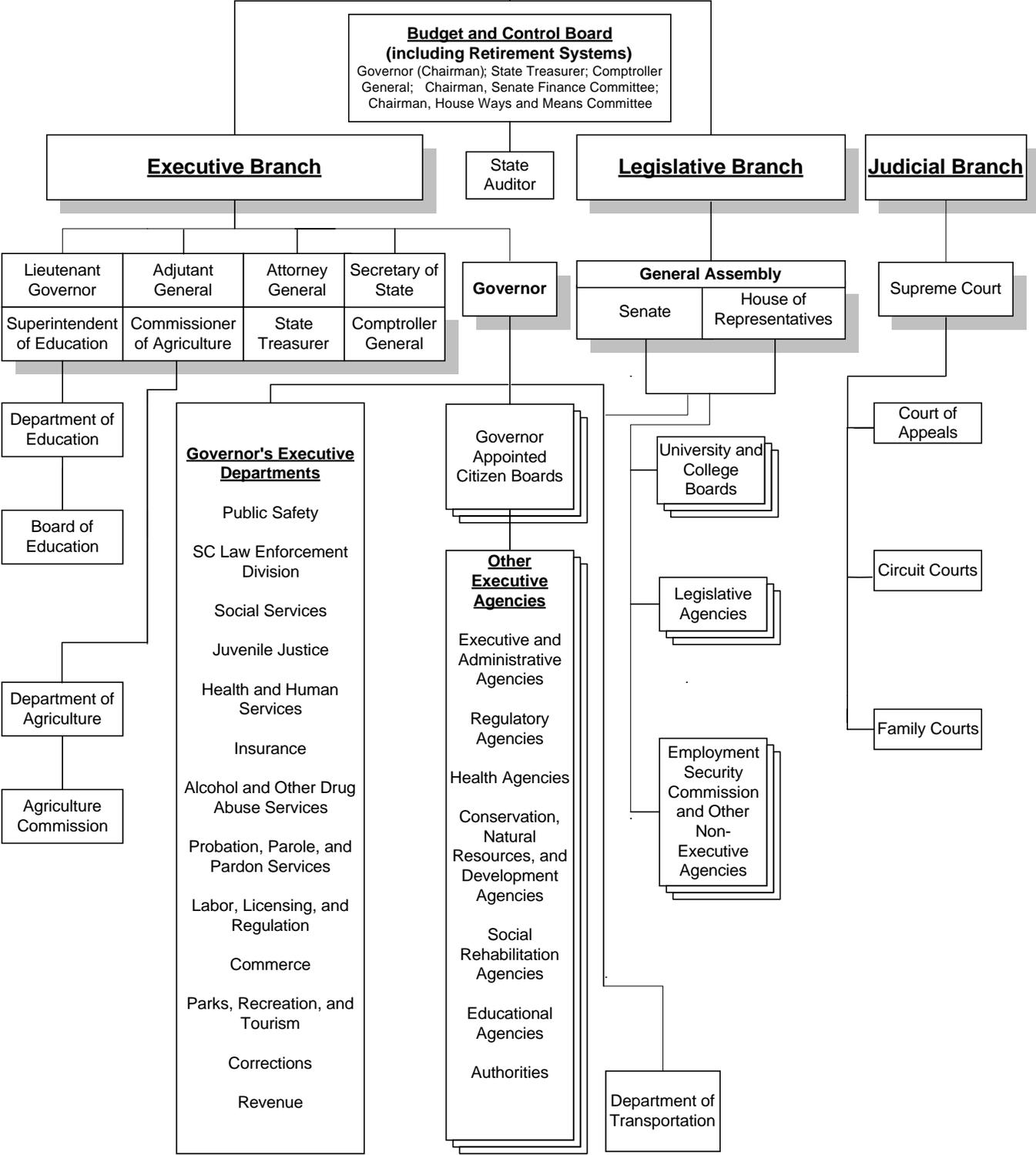
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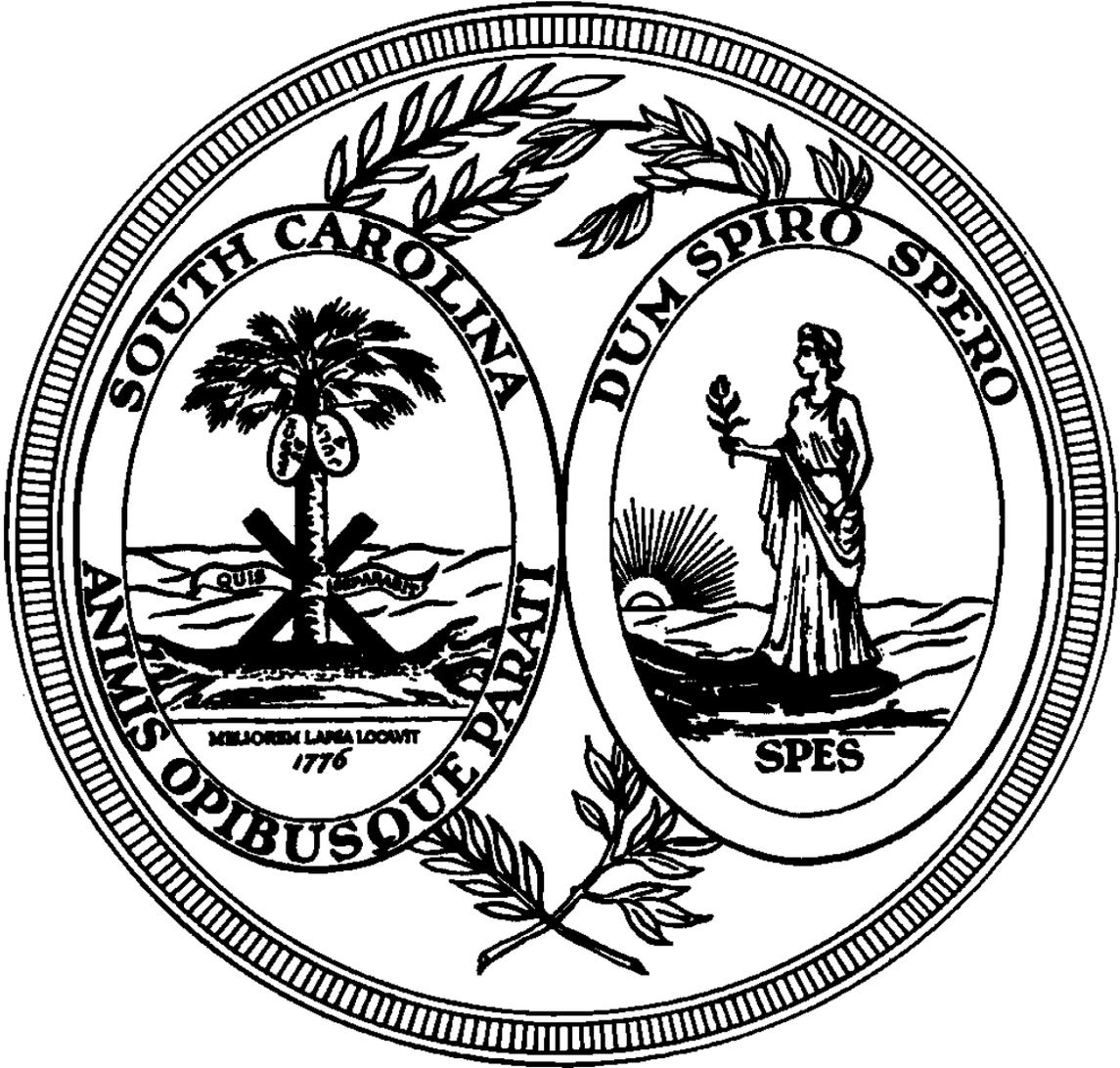
## Principal State Officials

	Term of Office
<b>LEGISLATIVE—THE GENERAL ASSEMBLY</b>	
André Bauer, President of the Senate and Lieutenant Governor	2003-2007
Glenn F. McConnell, President Pro Tempore of the Senate	2001-2005
David H. Wilkins, Speaker, House of Representatives	2003-2005
<b>EXECUTIVE</b>	
<b>STATE BUDGET AND CONTROL BOARD</b>	
Marshall (Mark) Clement Sanford, Jr., Chairman, Governor	2003-2007
Grady L. Patterson, Jr., State Treasurer	2003-2007
Richard Eckstrom, Comptroller General	2003-2007
Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee	2001-2005
Robert W. Harrell, Jr., Chairman, House Ways and Means Committee	2003-2005
Mark Hammond, Secretary of State	2003-2007
Henry McMaster, Attorney General	2003-2007
Inez Tenenbaum, State Superintendent of Education	2003-2007
Major General Stanhope S. Spears, Adjutant General	2003-2007
Charles R. Sharpe, Commissioner of Agriculture	2003-2007
<b>JUDICIAL</b>	
Jean H. Toal, Chief Justice, Supreme Court	2000-2004

The State's citizens elect the legislative and executive officials named above. The General Assembly elects the Chief Justice of 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 (Unaudited)

State of South Carolina



Office of the State Auditor

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 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, 2003, which collectively comprise the State's basic financial statements as listed in the accompanying 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, including KPMG LLP acting separately, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and agencies, is based solely on the reports of the other auditors.

	Percentage not jointly audited		Percentage audited by KPMG separately		Percentage audited by other auditors	
	Total Assets	Total Revenue	Total Assets	Total Revenue	Total Assets	Total Revenue
<u>Government-wide</u>						
Governmental activities	76	18	1	1	75	17
Business-type activities	99	98	40	56	59	42
Component units	100	100	-	-	100	100
<u>Fund statements</u>						
Local Government Infrastructure	100	100	-	-	100	100
Department of Transportation						
Special Revenue Fund	100	100	-	-	100	100
Higher Education	100	100	59	58	41	42
Unemployment Compensation	97	91	-	-	97	91
Housing Authority	100	100	-	-	100	100
Education Assistance Authority	100	100	-	-	100	100
Other remaining fund information	94	88	10	51	84	37

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)

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

were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

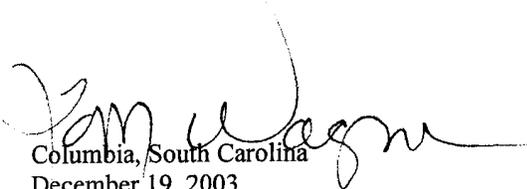
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to on the preceding page present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina as of June 30, 2003, 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 1(b) to the required supplementary information - budgetary, the State has adopted the provisions of Governmental Accounting Standards Board Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, effective July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, supplementary information, and statistical section, 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 has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

  
Columbia, South Carolina  
December 19, 2003

**KPMG LLP**

Greenville, South Carolina  
December 19, 2003

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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, 2003. Please read it together with 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 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 33 through 125 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, increases or decreases in net assets may indicate whether the State's financial health (*financial position*) 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 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, and financing of student loans are the most significant of South Carolina's business-type activities.

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

#### Fund Financial Statements

The fund financial statements on pages 40 through 63 of this report provide detailed information about the State's most significant funds—not the State as a whole. Funds are accounting devices that the State uses to track specific funding sources and spending for particular purposes. South Carolina, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State reports three types of *funds*:

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

The basic governmental fund statements are on pages 40 through 47 of this report.

**Proprietary funds:** Proprietary funds charge customers for the services they provide—whether

# Management's Discussion and Analysis

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

The basic proprietary fund statements are on pages 48 through 61 of this report.

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

The basic fiduciary fund statements are on pages 62 and 63 of this report.

## Component Unit Financial Statements

The *Government-wide Financial Statements* section above lists the State's major component units. More detailed financial statements for these component units are on pages 64 through 67 of this report.

## Notes to the Financial Statements

Immediately following the financial statements are *notes* that help explain some of the information in the financial statements and provide more detailed data. The notes on pages 71 through 125 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 budget for the General Fund with actual revenues collected and expenditures paid for the year. Following the schedule, at the end of the notes to the required supplementary information, is a reconciliation that helps explain the differences between the *budgetary-basis* budget funds and the *GAAP-basis* reported in the governmental fund statements. This section also includes schedules related to the State's National Guard Pension System. This required supplementary information is on pages 127 through 135 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, 2003, with Restated Comparative Data as of June 30, 2002  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change 2002-2003
	2002	2003	2002	2003	2002	2003	
<b>Assets</b>							
Current and other assets.....	\$ 5,947,937	\$ 5,826,749	\$ 3,564,834	\$ 3,628,526	\$ 9,512,771	\$ 9,455,275	(0.6%)
Capital assets.....	10,178,240	10,973,503	2,205,705	2,430,956	12,383,945	13,404,459	8.2%
<b>Total assets.....</b>	<b>16,126,177</b>	<b>16,800,252</b>	<b>5,770,539</b>	<b>6,059,482</b>	<b>21,896,716</b>	<b>22,859,734</b>	<b>4.4%</b>
<b>Liabilities</b>							
Long-term liabilities.....	4,297,085	4,567,721	2,088,293	2,174,106	6,385,378	6,741,827	5.6%
Other liabilities.....	2,778,287	2,909,443	679,617	832,297	3,457,904	3,741,740	8.2%
<b>Total liabilities.....</b>	<b>7,075,372</b>	<b>7,477,164</b>	<b>2,767,910</b>	<b>3,006,403</b>	<b>9,843,282</b>	<b>10,483,567</b>	<b>6.5%</b>
<b>Net Assets</b>							
Invested in capital assets, net of debt....	7,621,846	8,077,945	1,551,604	1,648,504	9,173,450	9,726,449	6.0%
Restricted.....	2,431,538	2,385,607	1,291,069	1,187,558	3,722,607	3,573,165	(4.0%)
Unrestricted.....	(1,002,579)	(1,140,464)	159,956	217,017	(842,623)	(923,447)	(9.6%)
<b>Total net assets.....</b>	<b>\$ 9,050,805</b>	<b>\$ 9,323,088</b>	<b>\$ 3,002,629</b>	<b>\$ 3,053,079</b>	<b>\$ 12,053,434</b>	<b>\$ 12,376,167</b>	<b>2.7%</b>

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## Management's Discussion and Analysis

### Net Assets

As we noted earlier, net assets may serve, over time, as a useful indicator of the State's financial position. For the 2002-2003 accounting year, the State's net assets totaled \$12.376 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).

The remaining *unrestricted* net assets—resources available for future spending—reported a *deficit* balance of \$923.447 million. The overall *negative* unrestricted net assets balance resulted from the \$1.140 billion deficit that the governmental activities reported. This deficit largely consisted of the following: (1) \$828.843 million in long-term debt to finance capital assets that are not on the State's financial statements because they belong to local governments, (2) a \$220.021 million deficit related to the use of Tobacco Settlement bond proceeds for operating purposes, and (3) an accumulated General Fund deficit of \$146.370 million. Please see Note 4 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* \$217.017 million unrestricted net asset balance. This resulted from net positive balances of \$435.531 million associated with higher education and certain other business-type activities. However, that positive balance was offset by a \$218.514 million deficit related to the State-run medical malpractice insurance program.

# Management's Discussion and Analysis

Exhibit 2  
**State of South Carolina's Changes in Net Assets**  
 For the Fiscal Year Ended June 30, 2003, with Restated Comparative Data for the Fiscal Year Ended June 30, 2002  
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change
	2002	2003	2002	2003	2002	2003	2002-2003
<b>Revenues</b>							
Program revenues:							
Charges for services.....	\$ 1,543,457	\$ 1,500,240	\$ 2,402,503	\$ 2,813,392	\$ 3,945,960	\$ 4,313,632	9.3%
Operating grants and contributions.....	4,472,482	5,041,709	523,672	429,283	4,996,154	5,470,992	9.5%
Capital grants and contributions.....	514,815	516,167	29,635	47,381	544,450	563,548	3.5%
General revenues:							
Individual income tax.....	2,357,050	2,282,464	—	—	2,357,050	2,282,464	(3.2%)
Retail sales and use tax.....	2,788,909	2,820,520	—	—	2,788,909	2,820,520	1.1%
Other taxes.....	1,271,326	1,323,521	—	—	1,271,326	1,323,521	4.1%
Unrestricted grants and contributions.....	37,744	82,721	—	—	37,744	82,721	119.2%
Unrestricted investment income.....	79,119	29,535	—	—	79,119	29,535	(62.7%)
Tobacco legal settlement.....	88,290	86,313	—	—	88,290	86,313	(2.2%)
Other.....	70,137	71,621	—	—	70,137	71,621	2.1%
<b>Total revenues.....</b>	<b>13,223,329</b>	<b>13,754,811</b>	<b>2,955,810</b>	<b>3,290,056</b>	<b>16,179,139</b>	<b>17,044,867</b>	<b>5.4%</b>
<b>Expenses</b>							
Governmental activities:							
General government.....	1,548,072	1,485,190	—	—	1,548,072	1,485,190	(4.1%)
Education.....	920,695	1,110,675	—	—	920,695	1,110,675	20.6%
Health and environment.....	3,888,356	4,142,255	—	—	3,888,356	4,142,255	6.5%
Social services.....	798,409	846,818	—	—	798,409	846,818	6.1%
Administration of justice.....	693,478	676,157	—	—	693,478	676,157	(2.5%)
Resources and economic development.....	221,644	202,982	—	—	221,644	202,982	(8.4%)
Transportation.....	400,646	473,086	—	—	400,646	473,086	18.1%
Intergovernmental.....	3,807,548	3,686,361	—	—	3,807,548	3,686,361	(3.2%)
Other.....	71,883	76,130	—	—	71,883	76,130	5.9%
Business-type activities:							
Higher education.....	—	—	2,270,359	2,460,589	2,270,359	2,460,589	8.4%
Higher education institution support <sup>a</sup> .....	—	—	717,480	728,103	717,480	728,103	1.5%
Unemployment compensation benefits.....	—	—	526,954	546,389	526,954	546,389	3.7%
Financing of housing facilities.....	—	—	125,422	133,632	125,422	133,632	6.5%
Medical malpractice insurance.....	—	—	78,949	50,113	78,949	50,113	(36.5%)
Financing of student loans.....	—	—	36,748	41,409	36,748	41,409	12.7%
Tuition prepayment program.....	—	—	33,862	27,208	33,862	27,208	(19.7%)
Patriots Point development.....	—	—	6,717	6,986	6,717	6,986	4.0%
Insurance claims processing.....	—	—	1,467	1,603	1,467	1,603	9.3%
Other.....	—	—	28,362	25,452	28,362	25,452	(10.3%)
<b>Total expenses.....</b>	<b>12,350,731</b>	<b>12,699,654</b>	<b>3,826,320</b>	<b>4,021,484</b>	<b>16,177,051</b>	<b>16,721,138</b>	<b>3.4%</b>
<b>Excess (deficiency) before transfers and special and extraordinary items.....</b>	<b>872,598</b>	<b>1,055,157</b>	<b>(870,510)</b>	<b>(731,428)</b>	<b>2,088</b>	<b>323,729</b>	<b>15,404.3%</b>
Special and extraordinary items.....	—	—	(6,851)	(996)	(6,851)	(996)	85.5%
Transfers.....	(862,126)	(782,874)	862,126	782,874	—	—	N/A
<b>Increase (decrease) in net assets.....</b>	<b>10,472</b>	<b>272,283</b>	<b>(15,235)</b>	<b>50,450</b>	<b>(4,763)</b>	<b>322,733</b>	<b>N/A</b>
<b>Net assets, beginning of year.....</b>	<b>9,040,333</b>	<b>9,050,805</b>	<b>3,017,864</b>	<b>3,002,629</b>	<b>12,058,197</b>	<b>12,053,434</b>	<b>0.0%</b>
<b>Net assets, end of year.....</b>	<b>\$ 9,050,805</b>	<b>\$ 9,323,088</b>	<b>\$ 3,002,629</b>	<b>\$ 3,053,079</b>	<b>\$ 12,053,434</b>	<b>\$ 12,376,167</b>	<b>2.7%</b>

<sup>a</sup> The higher education institution support activity represents 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 \$322.733 million, or 2.7% over the prior year's net assets.

## Governmental Activities

Net assets of the State's governmental activities increased by \$272.283 million, or 3.0%. Governmental activities' revenues are derived

## Management's Discussion and Analysis

mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the sources of revenues that these activities reported.

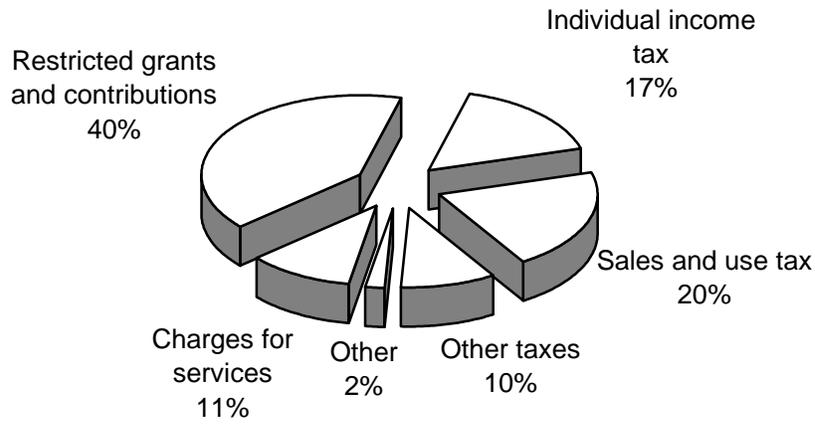
Governmental activities' expenses were mostly associated with services provided for health and environment, intergovernmental, general government, and education. *Exhibit 4* compares the cost of these services with their *program revenues*—revenues derived directly from the program itself or from parties 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 \$3.686 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, 2003, the State used \$5.642 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 \$782.874 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 2002-2003 accounting year:

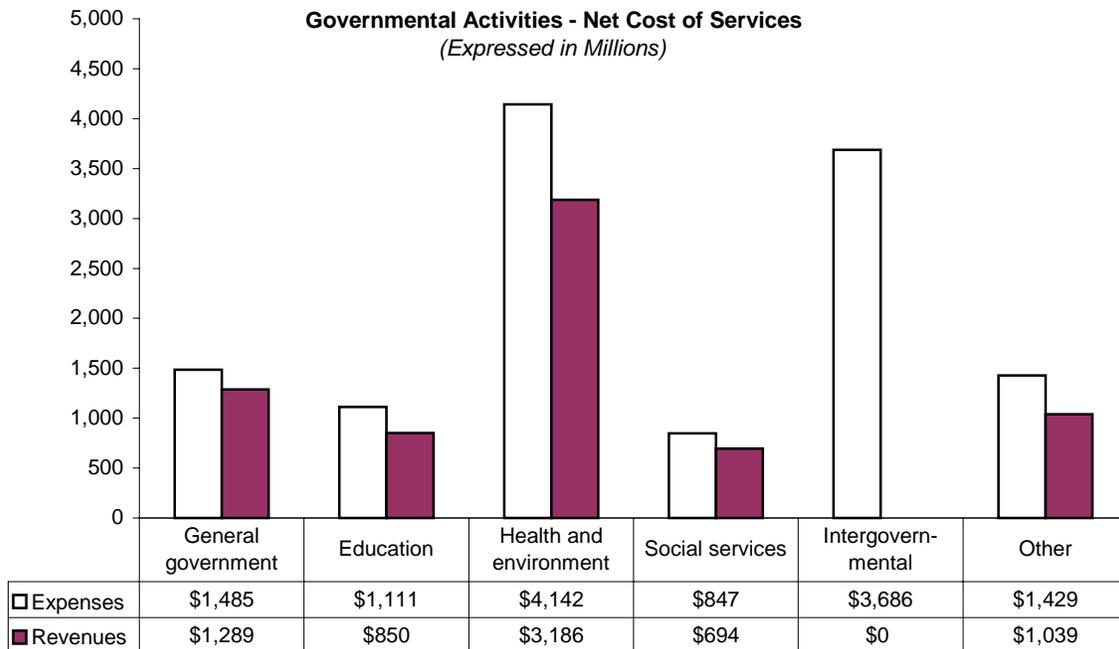
- Operating grants and contributions increased by \$569.227 million, or 12.7%, over last year. This increase related to increases in federal grant revenues and in contributions for education from the Lottery Commission. Federal Medicaid funding increased due to rising health costs and increased client participation. In addition, the percentage of federal funding for Medicaid expenses increased as a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). Federal funds for food stamp benefits were greater as a result of higher unemployment in the State. Lottery contributions increased significantly during this first full year of lottery operations. Lottery sales also grew in response to the introduction of the multi-state Powerball game and other new games.
- Unrestricted grants and contributions increased \$44.977 million, or 119.2%, because of the receipt of unrestricted, population-based grant revenues from the federal government under the JGTRRA of 2003.
- Unrestricted investment income declined \$49.584 million, or 62.7%, because the State had less cash to invest, interest rates were lower, and the State moved from longer-term to shorter-term investments.
- Education expenses rose \$189.980 million, or 20.6%. Lottery-based scholarships paid to the State's colleges and universities accounted for the majority of the increase during this first year of lottery-based scholarship funding.
- Transportation expenses increased \$72.440 million, or 18.1%, as the State Department of Transportation spent bond proceeds received in a prior fiscal year on various highway maintenance projects.
- Various program expenses, such as those for general government, administration of justice (prisons and public safety), resources and economic development, and intergovernmental (revenue-sharing with local governments) were less than the previous year, primarily because of General Fund budget cuts.
- Net transfers to business-type activities declined \$79.252 million, or 9.2%, because General Fund budget cuts reduced State funding of higher education.

# Management's Discussion and Analysis

*Exhibit 3*  
**Governmental Activities Revenues**



*Exhibit 4*  
**Governmental Activities - Net Cost of Services**  
*(Expressed in Millions)*



## Management's Discussion and Analysis

### Business-type Activities

Net assets of the State's business-type activities increased \$50.450 million, or 1.7%.

Business-type activities' revenues included charges for services (85.5%) and grants and contributions (including federal aid) (14.5%). Business-type activities' expenses were mostly to provide higher education services and support (79.3%), unemployment compensation benefits (13.6%), and housing services (3.3%).

Most business-type activities are self-supporting. Tuition and student fees, research and other grants (both private and governmental), and other charges primarily pay for the services that the Higher Education Fund provides. The Higher Education Fund, however, 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 2002-2003 accounting year:

- Charges for services increased \$410.889 million, or 17.1%. This was primarily because of increases for higher education and unemployment compensation activities. Revenues of State-supported colleges and universities were up significantly because of tuition and fee increases and increased enrollment. Institutions raised tuition and fees to help offset a reduction in State appropriations. Higher education revenues also increased because of lottery-funded scholarships that for the first time became available to in-State students who met certain requirements. In addition, the largest universities reported an increase in federally funded research grants. Unemployment compensation assessments experienced a 0.5% base rate increase in

January 2003. Higher unemployment and the related increase in unemployment claims led to the increase in assessments.

- Operating grants and contracts declined \$94.389 million, or 18.0%. This decrease mostly came from a decline in federal grants for unemployment compensation benefits. The State received \$109.412 million in surplus federal funds through a Reed Act distribution last year but did not receive any surplus funding this year.
- Higher education expenses increased \$190.230 million, or 8.4%, over last year. This increase was primarily due to first-year expenses of the lottery-funded scholarship program, additional costs associated with increased enrollment, and increases in employee compensation.
- Medical malpractice insurance expenses declined \$28.836 million, or 36.5%. The program incurred an unusually large amount of claims in 2001-2002 but saw a return in 2002-2003 to claims levels more in line with the 2000-2001 levels.
- Net transfers received from governmental activities decreased by \$79.252 million, or 9.2%. This represents a reduction in State appropriation funding to State-supported colleges and universities due to budget cuts.

### 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, 2003.

# Management's Discussion and Analysis

*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.....	\$ 57,982	\$ 936	\$ 1,494,124	\$ 8,815	\$ 2,250	\$ 138,745	\$ 1,702,852
Unreserved, designated.....	—	—	—	—	—	120,604	120,604
Unreserved, undesignated.....	(204,352)	295,666	(163,760)	(5,719)	536,991	404,658	863,484
<b>Totals.....</b>	<b>\$ (146,370)</b>	<b>\$ 296,602</b>	<b>\$ 1,330,364</b>	<b>\$ 3,096</b>	<b>\$ 539,241</b>	<b>\$ 664,007</b>	<b>\$ 2,686,940</b>
<b>Change from prior year...</b>	<b>\$ (6,419)</b>	<b>\$ 52,656</b>	<b>\$ 77,721</b>	<b>\$ (187,681)</b>	<b>\$ (129,585)</b>	<b>\$ (49,071)</b>	<b>\$ (242,379)</b>
<b>Percentage change.....</b>	<b>(4.6%)</b>	<b>21.6%</b>	<b>6.2%</b>	<b>(98.4%)</b>	<b>(19.4%)</b>	<b>(6.9%)</b>	<b>(8.3%)</b>

As the exhibit shows, at June 30, 2003, the State's governmental funds' ending fund balance was \$2.687 billion, which represents a decrease of \$242.379 million (or 8.3%) from the prior year. Almost half of this total (45.1%) makes up the *unreserved* fund balance—the amount available for spending in the coming year. The remaining fund balance, or 54.9%, 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 2002-2003 accounting year, the total fund balance of the General Fund decreased by \$6.419 million, or 4.6%, from last year. That is, the General Fund spent more than it took in, even though its revenues increased and its expenditures decreased relative to the previous year. Budget cuts and the receipt of unrestricted federal aid under the Jobs and Growth Tax Relief Reconciliation Act of 2003 helped stabilize fund balance, but offsetting negative factors were at work as well. For example, individual income tax revenues lagged behind last year because of higher unemployment and reduced corporate earnings. In addition, investment earnings decreased and debt service expenditures increased.

The *Department 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 by \$52.656 million, or 21.6%, over last year, in part because the State received additional federal Medicaid funding at the end of the 2002-2003 accounting year under the federal Jobs Growth and Tax Relief Reconciliation Act of 2003.

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 highway maintenance, regulation, and construction of public highways and bridges. The decrease in fund balance of \$187.681 million resulted primarily because during 2002-2003, the DOT spent bond proceeds it originally had received in a previous accounting year.

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 the State's share of the multi-state legal settlement with the tobacco industry. Fund balance declined \$129.585 million during 2002-2003 because the fund's health-related expenditures for the year exceeded its interest and investment earnings.

### Proprietary Funds

*Exhibit 6* shows the components of net assets for the State's various proprietary funds.

# Management's Discussion and Analysis

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	Education Assistance Authority	Nonmajor Enterprise	Total Enterprise	
Invested in capital assets (net of related debt).....	\$ 1,535,579	\$ —	\$ 73	\$ 95	\$ 112,757	\$ 1,648,504	\$ 125,437
Restricted, expendable.....	217,530	535,674	222,928	127,300	35,771	1,139,203	87,972
Restricted, nonexpendable.....	29,155	—	—	—	19,200	48,355	353
Unrestricted.....	332,097	—	965	1,064	(105,402)	228,724	(103,355)
<b>Totals.....</b>	<b>\$ 2,114,361</b>	<b>\$ 535,674</b>	<b>\$ 223,966</b>	<b>\$ 128,459</b>	<b>\$ 62,326</b>	<b>\$ 3,064,786</b>	<b>\$ 110,407</b>
<b>Change from prior year..</b>	<b>\$ 158,070</b>	<b>\$ (139,047)</b>	<b>\$ 11,674</b>	<b>\$ 4,980</b>	<b>\$ 18,937</b>	<b>\$ 54,614</b>	<b>\$ (95,556)</b>
<b>Percentage change.....</b>	<b>8.1%</b>	<b>(20.6%)</b>	<b>5.5%</b>	<b>4.0%</b>	<b>43.6%</b>	<b>1.8%</b>	<b>(46.4%)</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 \$158.070 million, or 8.1%, over last year. This total increase included a \$76.645 million, or 5.3%, increase in capital assets, net of related debt, and a \$62.255 million, or 23.1%, increase in unrestricted net assets. Capital assets, net of related debt, increased because of the completion of several large construction projects. Some of these projects are discussed in the *Capital Assets* subsection of the discussion and analysis. Unrestricted net assets represent resources that can be used for the institutions' on-going operations. The increase in this portion of net assets primarily was due to significant increases in tuition and student fees, increased enrollment, and an increase in federal research grants and contracts.

The *Unemployment Compensation Fund* experienced a significant decline in fund balance during the accounting year ended June 30, 2003. 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 \$139.047 million (20.6%) from the preceding year. The economic downturn put more people out of work, so the fund paid out more benefits. In addition, the fund earned less interest income than last year because it had less cash and because interest rates were lower.

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

Differences between the original budget and the final amended budget were substantial.

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 estimates if necessary. During the 2002-2003 accounting year, the BEA revised original revenue estimates downward by \$478.491 million, or 8.7%. These downward revisions were the result of unrealistic revenue forecasts as well as slower than expected economic growth.

If the BEA reduces revenue projections significantly, the State's *Budget and Control Board* (the Board) is responsible for reducing spending to keep the budget in balance. In response to the BEA's revised estimates, the Board reduced appropriations by \$518.200 million by eliminating a 2.0% set-aside for capital and nonrecurring items and by ordering 8.7% cuts for most State agencies. Appropriations had to be increased by \$31.961 million during the year to fund certain State-mandated programs that were underestimated in the Appropriation Act.

Even with these substantial reductions to the original budget, actual revenues at June 30, 2003, were \$82.153 million less than the revised expected revenues. Furthermore, actual revenues fell short of actual expenditures by \$26.780 million. The State was forced to expend *all* of the remaining

## Management’s Discussion and Analysis

\$38,797 million from its “rainy day account,” fully depleting that account. Despite these deficit-avoidance actions, the State ended the year with a budgetary fund *deficit* of \$131,227 million. See the *Budgetary Reporting* subsection of the *Required Supplementary Information* section on pages 128 through 133 of this report for a detailed budgetary comparison schedule.

### Capital Assets and Debt Administration

#### Capital Assets

At the end of the 2002-2003 accounting year, the State had \$13.404 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$1.020 billion, or 8.2%, over the previous accounting year (see Exhibit 7).

*Exhibit 7*  
**State of South Carolina's Capital Assets**  
*(Net of Depreciation, Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2002-2003
	2002	2003	2002	2003	2002	2003	
Land and improvements.....	\$ 648,770	\$ 858,814	\$ 184,799	\$ 201,018	\$ 833,569	\$ 1,059,832	27.1%
Infrastructure.....	5,174,989	5,647,697	—	—	5,174,989	5,647,697	9.1%
Buildings and improvements.....	844,698	890,319	1,479,836	1,709,790	2,324,534	2,600,109	11.9%
Vehicles.....	178,065	181,426	8,688	9,099	186,753	190,525	2.0%
Machinery and equipment.....	121,666	112,180	176,442	198,575	298,108	310,755	4.2%
Works of art and historical treasures.....	974	3,667	19,064	19,029	20,038	22,696	13.3%
Construction in progress.....	3,202,996	3,258,002	331,024	288,409	3,534,020	3,546,411	0.4%
Intangible assets.....	6,082	21,398	5,852	5,036	11,934	26,434	121.5%
<b>Total.....</b>	<b>\$ 10,178,240</b>	<b>\$ 10,973,503</b>	<b>\$ 2,205,705</b>	<b>\$ 2,430,956</b>	<b>\$ 12,383,945</b>	<b>\$ 13,404,459</b>	<b>8.2%</b>

## Management's Discussion and Analysis

As in the previous accounting year, the State's investment in land increased significantly during 2002-2003, because it acquired rights-of-way for highway construction and widening projects and it purchased several parcels of land and easements for conservation purposes.

The State's infrastructure investment also increased significantly during the 2002-2003 accounting year. The \$232.000 million Carolina Bays Parkway opened in December 2002, and an Interstate-85 widening project was completed at a cost of approximately \$70.000 million. The State also installed median cable barriers on the State's interstates. Construction continues on the Cooper River Bridge project and various road-widening projects.

The State's investment in buildings and improvements increased significantly, partly because public universities completed several large construction projects. The University of South Carolina had the largest increase to its reported buildings because it completed a new multi-purpose entertainment arena and a 170,000 square-foot

fitness and wellness center. Also, Clemson University renovated its recreation and wellness center and various athletic facilities.

Intangible assets increased from last fiscal year, primarily because the Department of Public Safety implemented its new Project Phoenix software system in Department of Motor Vehicle offices statewide.

See Note 8 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 \$6.513 billion in bonds and notes outstanding—an increase of \$444.586 million, or 7.3%, over last year (see *Exhibit 8*). Note 13, 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  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change
	2002	2003	2002	2003	2002	2003	2002-2003
Backed by the State:							
General obligation bonds.....	\$ 2,204,129	\$ 2,239,207	\$ 134,235	\$ 208,968	\$ 2,338,364	\$ 2,448,175	4.7%
Bond anticipation notes.....	—	—	8,400	—	8,400	—	(100.0%)
Backed by specific revenues:							
Revenue bonds and notes.....	4,398	33,429	1,574,598	1,643,188	1,578,996	1,676,617	6.2%
Infrastructure Bank bonds.....	1,193,046	1,463,582	—	—	1,193,046	1,463,582	22.7%
Tobacco Authority bonds.....	902,920	869,870	—	—	902,920	869,870	(3.7%)
Limited obligation bonds.....	30,597	27,040	—	—	30,597	27,040	(11.6%)
Bond anticipation notes.....	—	—	16,400	28,025	16,400	28,025	70.9%
<b>Total.....</b>	<b>\$ 4,335,090</b>	<b>\$ 4,633,128</b>	<b>\$ 1,733,633</b>	<b>\$ 1,880,181</b>	<b>\$ 6,068,723</b>	<b>\$ 6,513,309</b>	<b>7.3%</b>

## Management's Discussion and Analysis

New debt resulted mainly from the issuance of \$285.195 million in Infrastructure Bank revenue bonds. The State Infrastructure Bank uses its own revenues to pay the principal and interest (*debt service*) on these bonds. These revenues are primarily truck registration fees and penalties that the Department of Public Safety collects and transfers to the Bank.

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, Inc., rate these bonds as "AAA," and Moody's Investors Service rates them as "Aaa." These are the highest ratings that these services assign. In September 2003, Moody's revised the outlook for the State from stable to negative. In announcing the change in outlook, Moody's stated: "The negative outlook reflects a trend of weakened revenues resulting from continued slowing in the State's economy, which has led to multi-year General Fund year-end deficits."

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, 2003, 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: \$11.131 million in total for all institution bonds, \$22.012 million for highway bonds, and \$24.978 million for general obligation bonds, excluding institution and highway 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, 2003, the General Reserve Fund, sometimes called the *rainy day account*, had a zero balance instead of the \$147.708 million that would have been in the reserve had it been 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.

#### Budgetary General Fund for the 2003-2004 Accounting Year and Mitigation of the 2002-2003 Operating Deficit

On August 15, 2003, based on current-year and prior-year revenue collection trends, the State's

Board of Economic Advisors (BEA) declared a revenue shortfall for the 2003-2004 accounting year. As a result, the BEA adjusted its revenue estimate for the Budgetary General Fund downward by \$112.976 million from the amount included in the annual Appropriation Act.

On August 20, 2003, the State Budget and Control Board ordered \$141.804 million in spending reductions for 2003-2004. As required by Section 11-11-325 of the Code of Laws, the first \$98.599 million of this cut eliminated the entire 2.0% "set-aside" for capital and nonrecurring purposes. In accordance with Section 63.18 of the 2003-2004 Appropriation Act and Section 6 of Act 356 of 2002, the Board ordered an additional \$43.205 million in budget cuts for State agencies to help mitigate the Budgetary General Fund's 2002-2003 operating deficit as well as any anticipated 2003-2004 shortfall in revenue. The cuts will reduce most agencies' spending in 2003-2004 by approximately 1.0%.

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

The State's Budgetary General Fund revenue collections through the first five months of the 2003-2004 accounting year were \$50.725 million, or 2.4%, higher than the level collected in the same period in 2002. For July through November 2003, retail sales tax collections were 6.8% greater than July through November 2002 receipts, while net individual income tax collections were up 1.4% over the same period. Year-to-date net corporate income tax collections were up 109.5%, or \$16.106 million, for July through November 2003 as compared to the same period in 2002.

The BEA adopted a preliminary Budgetary General Fund revenue estimate of \$5.491 billion for the 2004-2005 accounting year. This revenue forecast represents a 2.0% increase over the revised base for 2003-2004 but is roughly \$4.000 million less than 2003-2004's appropriated base. The BEA will review this estimate in February 2004 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 as follows:

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, 2003

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents.....	\$ 2,026,992	\$ 1,431,405	\$ 3,458,397	\$ 142,681
Investments.....	168	47,111	47,279	181,380
Invested securities lending collateral.....	383,765	127,556	511,321	159
Receivables, net:				
Accounts.....	231,390	55,407	286,797	167,783
Contributions.....	—	10,202	10,202	1
Participants.....	—	5,987	5,987	—
Accrued interest.....	19,002	18,747	37,749	4,364
Income taxes.....	255,073	—	255,073	—
Sales and other taxes.....	399,020	—	399,020	—
Student accounts.....	—	28,900	28,900	—
Patient accounts.....	14,024	97,408	111,432	—
Loans and notes.....	23,188	52,852	76,040	—
Assessments.....	—	46,079	46,079	—
Due from Federal government and other grantors.....	567,772	99,211	666,983	—
Internal balances.....	19,728	(19,728)	—	—
Due from component units.....	25,822	—	25,822	—
Due from primary government.....	—	—	—	3
Inventories.....	42,805	28,497	71,302	155,765
Restricted assets:				
Cash and cash equivalents.....	45,137	271,993	317,130	67,305
Investments.....	115,109	6,132	121,241	71,373
Loans receivable.....	—	258	258	—
Other.....	2,404	2,069	4,473	—
Other current assets.....	15,999	20,454	36,453	10,095
Total current assets.....	<u>4,187,398</u>	<u>2,330,540</u>	<u>6,517,938</u>	<u>800,909</u>
Long-term assets:				
Receivables, net:				
Accounts.....	56,908	364	57,272	—
Contributions.....	—	4,029	4,029	—
Participants.....	—	18,320	18,320	—
Income taxes.....	33,575	—	33,575	—
Sales and other taxes.....	35,817	—	35,817	—
Patient accounts.....	13,227	—	13,227	—
Loans and notes.....	323,874	301,477	625,351	—
Investments.....	220,331	10,024	230,355	23,483
Restricted assets:				
Cash and cash equivalents.....	502,126	286,005	788,131	159,006
Investments.....	—	49,516	49,516	342,770
Accounts receivable.....	437,069	—	437,069	—
Loans receivable.....	—	587,227	587,227	—
Other.....	6,324	6,672	12,996	41
Other long-term assets.....	1,122	27,112	28,234	2,290
Deferred charges.....	8,978	7,240	16,218	274,634
Investment in joint venture.....	—	—	—	21,136
Non-depreciable capital assets.....	4,102,096	469,196	4,571,292	507,938
Depreciable capital assets, net.....	6,871,407	1,961,760	8,833,167	2,717,899
Total long-term assets.....	<u>12,612,854</u>	<u>3,728,942</u>	<u>16,341,796</u>	<u>4,049,197</u>
<b>Total assets.....</b>	<b><u>16,800,252</u></b>	<b><u>6,059,482</u></b>	<b><u>22,859,734</u></b>	<b><u>4,850,106</u></b>

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

PRIMARY GOVERNMENT

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable .....	\$ 583,552	\$ 96,461	\$ 680,013	\$ 87,377
Accrued salaries and related expenses.....	113,084	54,360	167,444	8,571
Accrued interest payable.....	39,814	9,666	49,480	60,823
Retainages payable.....	5,548	5,319	10,867	—
Tax refunds payable.....	431,787	3,985	435,772	—
Payables-aid to individuals/families.....	96	—	96	—
Prizes payable.....	—	—	—	23,611
Unemployment benefits payable.....	—	5,259	5,259	—
Intergovernmental payables.....	314,314	3,262	317,576	5,416
Tuition benefits payable.....	—	2,280	2,280	—
Policy claims.....	436,936	35,000	471,936	25,787
Due to component units.....	3	—	3	—
Due to primary government.....	—	—	—	25,822
Deferred revenues and deferred credits.....	190,890	120,311	311,201	19,358
Deposits.....	—	4,485	4,485	80
Amounts held in custody for others.....	—	3,844	3,844	—
Securities lending collateral.....	383,765	127,556	511,321	159
Liabilities payable from restricted assets:				
Accounts payable.....	—	4,444	4,444	2,744
Accrued interest payable.....	26,021	18,160	44,181	4,938
Bonds payable.....	26,195	66,155	92,350	—
Other.....	—	99,113	99,113	—
Notes payable.....	1,035	30,194	31,229	6,332
Revenue bonds anticipation notes payable.....	—	28,025	28,025	—
General obligation bonds payable.....	164,530	10,120	174,650	—
Revenue bonds payable.....	1,140	15,835	16,975	84,525
Limited obligation bonds payable.....	3,755	—	3,755	—
Certificates of participation payable.....	—	13,525	13,525	—
Capital leases payable.....	850	10,496	11,346	2,800
Commercial paper notes.....	—	—	—	303,177
Compensated absences payable.....	132,141	55,437	187,578	2,467
Other current liabilities .....	53,987	9,005	62,992	26,402
<b>Total current liabilities.....</b>	<b>2,909,443</b>	<b>832,297</b>	<b>3,741,740</b>	<b>690,389</b>
Long-term liabilities:				
Retainages payable.....	—	2,012	2,012	7,092
Tuition benefits payable.....	—	111,725	111,725	—
Policy claims.....	41,620	175,312	216,932	116,789
Deferred revenues and deferred credits.....	—	—	—	101,060
Notes payable.....	6,360	132,940	139,300	3,930
General obligation bonds payable.....	2,074,677	198,848	2,273,525	—
Tobacco Authority bonds payable.....	869,870	—	869,870	—
Infrastructure Bank bonds payable.....	1,437,387	—	1,437,387	—
Revenue bonds payable.....	24,894	1,398,064	1,422,958	2,589,351
Limited obligation bonds payable.....	23,285	—	23,285	—
Capital leases payable.....	3,256	54,949	58,205	21,562
Compensated absences payable.....	57,440	43,952	101,392	13,474
Other long-term liabilities.....	28,932	56,304	85,236	21,144
<b>Total long-term liabilities.....</b>	<b>4,567,721</b>	<b>2,174,106</b>	<b>6,741,827</b>	<b>2,874,402</b>
<b>Total liabilities.....</b>	<b>7,477,164</b>	<b>3,006,403</b>	<b>10,483,567</b>	<b>3,564,791</b>

Continued on Next Page

## Statement of Net Assets (Continued)

June 30, 2003

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	\$ 8,077,945	\$ 1,648,504	\$ 9,726,449	\$ 512,794
Restricted:				
Expendable:				
Unemployment compensation benefits.....	—	535,674	535,674	—
Education.....	257,472	126,115	383,587	1,532
Health.....	7,185	—	7,185	—
Transportation.....	212,363	—	212,363	—
Capital projects.....	177,758	93,650	271,408	350,270
Debt service.....	969,288	315,402	1,284,690	82,331
Loan programs.....	540,188	68,312	608,500	—
Waste management.....	89,169	—	89,169	—
Insurance programs.....	67,971	—	67,971	—
Other.....	62,026	50	62,076	73,884
Nonexpendable:				
Education.....	353	48,355	48,708	—
Other.....	1,834	—	1,834	—
Unrestricted.....	(1,140,464)	217,017	(923,447)	264,504
<b>Total net assets.....</b>	<b>\$ 9,323,088</b>	<b>\$ 3,053,079</b>	<b>\$ 12,376,167</b>	<b>\$ 1,285,315</b>

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

# Statement of Activities

For the Fiscal Year Ended June 30, 2003  
(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.....	\$ 1,485,190	\$ 1,020,219	\$ 260,990	\$ 7,511	\$ (196,470)
Education.....	1,110,675	34,293	813,915	1,369	(261,098)
Health and environment.....	4,142,255	140,467	3,041,914	3,500	(956,374)
Social services.....	846,818	2,439	691,604	—	(152,775)
Administration of justice.....	676,157	168,226	36,388	636	(470,907)
Resources and economic development.....	202,982	44,962	61,248	10,588	(86,184)
Transportation.....	473,086	89,634	135,650	492,563	244,761
Intergovernmental.....	3,686,361	—	—	—	(3,686,361)
Unallocated interest expense.....	76,130	—	—	—	(76,130)
<b>Total governmental activities.....</b>	<b>12,699,654</b>	<b>1,500,240</b>	<b>5,041,709</b>	<b>516,167</b>	<b>(5,641,538)</b>
Business-type activities:					
Higher education.....	2,460,589	1,543,441	213,827	47,328	(655,993)
Higher education institution support.....	728,103	742,754	43,570	53	58,274
Unemployment compensation benefits.....	546,389	374,112	34,169	—	(138,108)
Financing of housing facilities.....	133,632	45,564	101,899	—	13,831
Medical malpractice insurance.....	50,113	37,855	344	—	(11,914)
Financing of student loans.....	41,409	33,806	12,583	—	4,980
Tuition prepayment program.....	27,208	85	21,280	—	(5,843)
Patriots Point development.....	6,986	7,511	172	—	697
Insurance claims processing.....	1,603	1,602	—	—	(1)
Other.....	25,452	26,662	1,439	—	2,649
<b>Total business-type activities.....</b>	<b>4,021,484</b>	<b>2,813,392</b>	<b>429,283</b>	<b>47,381</b>	<b>(731,428)</b>
<b>Total primary government.....</b>	<b>\$ 16,721,138</b>	<b>\$ 4,313,632</b>	<b>\$ 5,470,992</b>	<b>\$ 563,548</b>	<b>\$ (6,372,966)</b>
<b>Component units:</b>					
Public Service Authority.....	\$ 984,901	\$ 1,033,746	\$ 22,805	\$ —	\$ 71,650
State Ports Authority.....	119,090	110,269	1,140	5,612	(2,069)
Connector 2000 Association, Inc.....	21,500	3,083	1,191	—	(17,226)
Lottery Commission.....	727,900	726,910	223	—	(767)
Other.....	68,994	27,785	29,058	—	(12,151)
<b>Total component units.....</b>	<b>\$ 1,922,385</b>	<b>\$ 1,901,793</b>	<b>\$ 54,417</b>	<b>\$ 5,612</b>	<b>\$ 39,437</b>

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

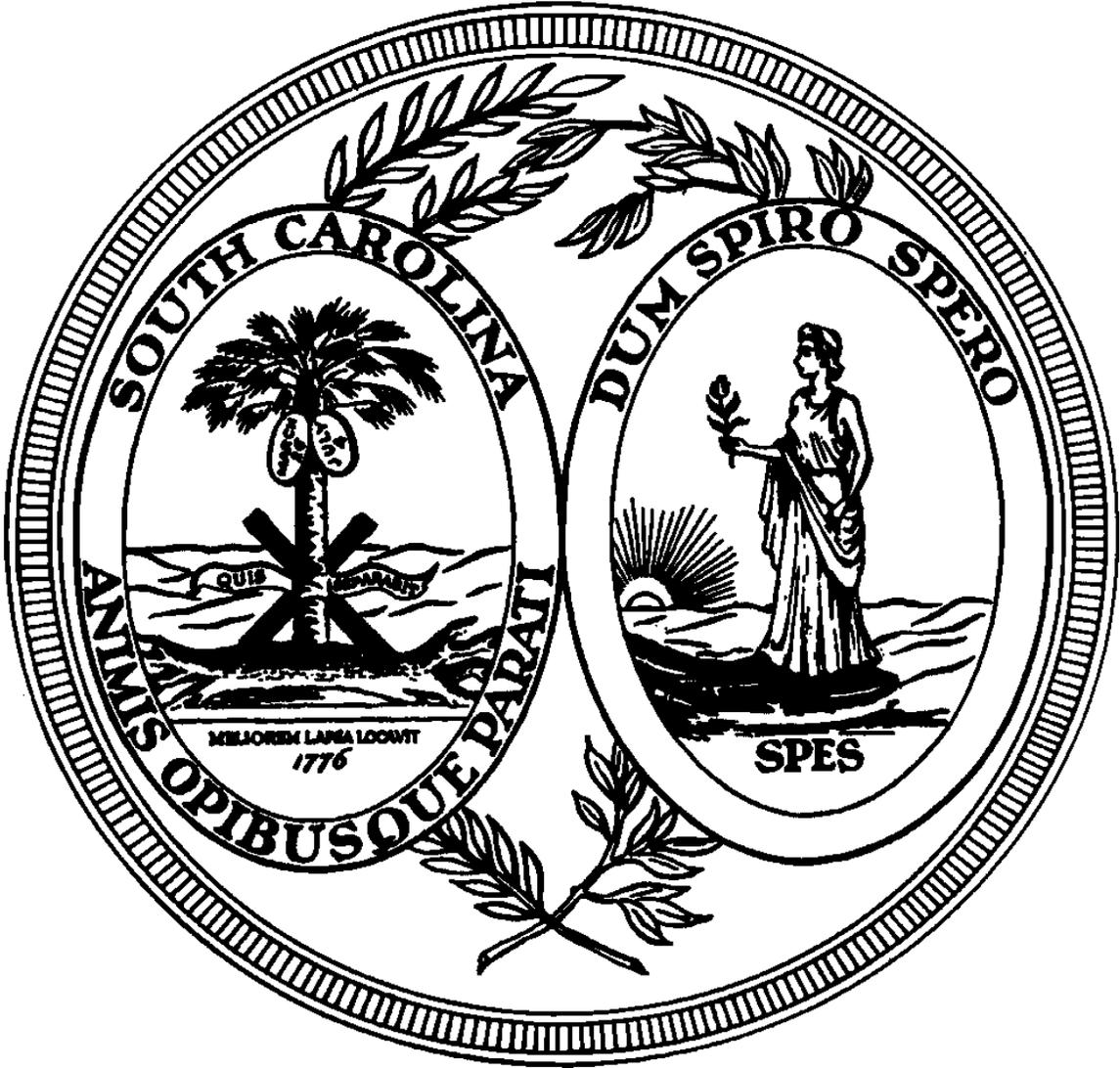
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## Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets:</b>				
Net (expense) revenue .....	\$ (5,641,538)	\$ (731,428)	\$ (6,372,966)	\$ 39,437
General revenues:				
Taxes:				
Individual income.....	2,282,464	—	2,282,464	—
Retail sales and use.....	2,820,520	—	2,820,520	—
Other.....	1,323,521	—	1,323,521	—
Total taxes.....	6,426,505	—	6,426,505	—
Unrestricted grants and contributions.....	82,721	—	82,721	—
Unrestricted investment income.....	29,535	—	29,535	—
Tobacco legal settlement.....	86,313	—	86,313	—
Special Items.....	—	(458)	(458)	—
Extraordinary loss on debt extinguishment.....	—	(538)	(538)	—
Other revenues.....	71,621	—	71,621	—
Transfers—internal activities.....	(782,874)	782,874	—	—
<b>Total general revenues and transfers.....</b>	<b>5,913,821</b>	<b>781,878</b>	<b>6,695,699</b>	<b>—</b>
<b>Change in net assets.....</b>	<b>272,283</b>	<b>50,450</b>	<b>322,733</b>	<b>39,437</b>
<b>Net assets at beginning of year, restated.....</b>	<b>9,050,805</b>	<b>3,002,629</b>	<b>12,053,434</b>	<b>1,245,878</b>
<b>Net assets at end of year.....</b>	<b>\$ 9,323,088</b>	<b>\$ 3,053,079</b>	<b>\$ 12,376,167</b>	<b>\$ 1,285,315</b>

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



**Balance Sheet**

## GOVERNMENTAL FUNDS

June 30, 2003

(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ —	\$ 250,555	\$ 242,112	\$ 202,569
Investments.....	4,743	340	—	—
Invested securities lending collateral.....	41,067	5,660	161,068	28,777
Receivables, net:				
Accounts.....	7,469	110,265	46,339	14,381
Accrued interest.....	2,668	300	4,956	1,448
Income taxes.....	288,648	—	—	—
Sales and other taxes.....	300,515	8,560	—	6,685
Patient accounts.....	15,079	12,172	—	—
Loans and notes.....	9	541	312,317	10,692
Due from Federal government and other grantors.....	10,761	455,944	—	98,440
Due from other funds.....	50,753	15,089	8,328	3,355
Due from component units.....	—	2	8,000	—
Interfund receivables.....	10,784	10,016	235,523	—
Inventories.....	13,872	15,016	—	6,470
Restricted assets:				
Cash and cash equivalents.....	—	—	547,093	162
Investments.....	—	—	—	—
Accounts receivable.....	—	—	437,069	—
Other.....	—	—	6,324	—
Other assets.....	—	547	—	5,169
<b>Total assets.....</b>	<b>\$ 746,368</b>	<b>\$ 885,007</b>	<b>\$ 2,009,129</b>	<b>\$ 378,148</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>Liabilities:</b>				
Accounts payable.....	\$ 131,805	\$ 272,096	\$ 23,739	\$ 69,380
Accrued salaries and related expenditures.....	63,258	29,498	24	15,116
Accrued interest payable.....	—	—	—	78
Retainages payable.....	—	754	—	2,720
Tax refunds payable.....	431,594	—	—	—
Payable—aid to individuals/families.....	96	—	—	—
Intergovernmental payables.....	14,148	159,035	863	—
Due to other funds.....	69,444	58,707	2,338	13,340
Due to component units.....	3	—	—	—
Interfund payables.....	9,538	6,185	6,500	235,451
Deferred revenues.....	103,248	56,440	484,233	10,190
Securities lending collateral.....	41,067	5,660	161,068	28,777
Other liabilities.....	28,537	30	—	—
<b>Total liabilities.....</b>	<b>892,738</b>	<b>588,405</b>	<b>678,765</b>	<b>375,052</b>
<b>Fund balances (deficits):</b>				
Reserved.....	57,982	936	1,494,124	8,815
Unreserved, designated reported in:				
Special revenue funds.....	—	—	—	—
Capital projects fund.....	—	—	—	—
Unreserved, undesignated reported in:				
General Fund.....	(204,352)	—	—	—
Special revenue funds.....	—	295,666	(163,760)	(5,719)
Permanent funds.....	—	—	—	—
<b>Total fund balances (deficits).....</b>	<b>(146,370)</b>	<b>296,602</b>	<b>1,330,364</b>	<b>3,096</b>
<b>Total liabilities and fund balances (deficits).....</b>	<b>\$ 746,368</b>	<b>\$ 885,007</b>	<b>\$ 2,009,129</b>	<b>\$ 378,148</b>

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

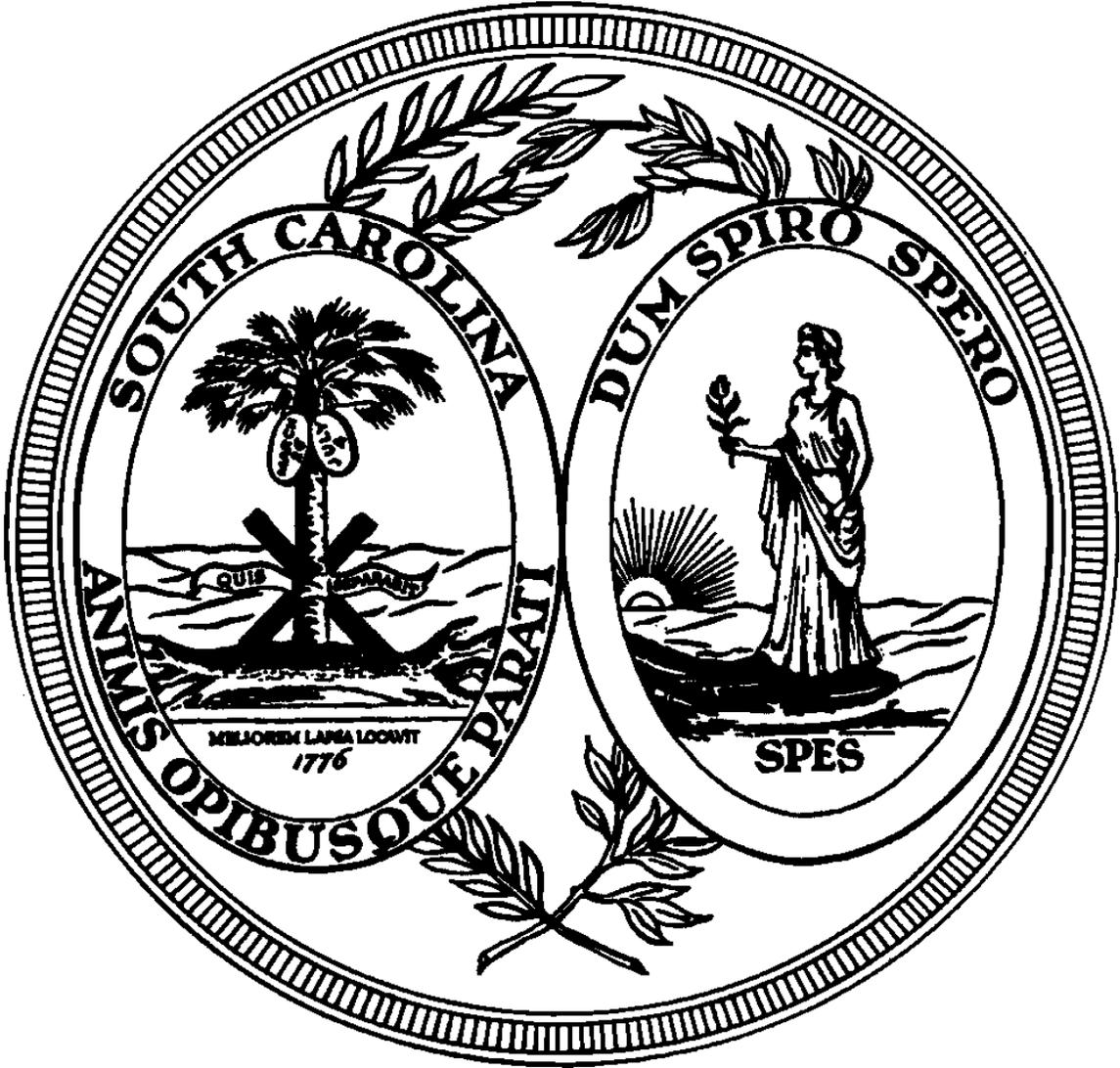
<u>State Tobacco Settlement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 540,282	\$ 584,521	\$ 1,820,039
—	501	5,584
5,261	69,821	311,654
—	4,242	182,696
743	5,058	15,173
—	—	288,648
—	119,077	434,837
—	—	27,251
—	23,503	347,062
—	2,627	567,772
—	7,887	85,412
—	17,819	25,821
3,000	459	259,782
2	32	35,392
—	8	547,263
—	115,109	115,109
—	—	437,069
—	2,404	8,728
—	—	5,716
<b>\$ 549,288</b>	<b>\$ 953,068</b>	<b>\$ 5,521,008</b>
\$ 3,453	\$ 17,255	\$ 517,728
8	1,714	109,618
—	—	78
—	1,935	5,409
—	193	431,787
—	—	96
1,311	137,297	312,654
14	21,764	165,607
—	—	3
—	23,344	281,018
—	15,685	669,796
5,261	69,821	311,654
—	53	28,620
<b>10,047</b>	<b>289,061</b>	<b>2,834,068</b>
2,250	138,745	1,702,852
—	16,315	16,315
—	104,289	104,289
—	—	(204,352)
536,991	403,819	1,066,997
—	839	839
<b>539,241</b>	<b>664,007</b>	<b>2,686,940</b>
<b>\$ 549,288</b>	<b>\$ 953,068</b>	<b>\$ 5,521,008</b>

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

June 30, 2003

(Expressed in Thousands)

<b>Total fund balances—governmental funds.....</b>		<b>\$ 2,686,940</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Certain assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Capital assets:		
Non-depreciable capital assets.....	\$ 4,095,322	
Depreciable capital assets.....	9,504,102	
Accumulated depreciation.....	<u>(2,781,341)</u>	
Total capital assets.....	10,818,083	
Food commodities.....	<u>652</u>	
Total assets.....		10,818,735
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.....		8,805
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.....		576,432
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.....		110,407
Eliminations relating to the consolidation of internal service funds resulted in an amount due from business-type activities to governmental activities in the statement of net assets.....		11,707
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.....	(4,572,659)	
Notes payable.....	(7,174)	
Accrued interest on bonds.....	(64,822)	
Capital leases.....	(1,164)	
Compensated absences.....	(184,104)	
Intergovernmental payable.....	(1,660)	
Policy claims.....	(6,670)	
Other.....	<u>(51,685)</u>	
Total long-term liabilities.....		<u>(4,889,938)</u>
<b>Net assets of governmental activities.....</b>		<b><u>\$ 9,323,088</u></b>



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

## GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
<b>Revenues:</b>				
Taxes:				
Individual income.....	\$ 2,282,196	\$ —	\$ 5,793	\$ —
Retail sales and use.....	2,068,826	604	—	—
Other.....	686,483	21,253	18,000	458,009
Licenses, fees, and permits.....	135,365	98,487	50,589	—
Interest and other investment income.....	27,180	1,790	76,737	8,201
Federal.....	176,343	4,378,309	13,878	431,887
Local and private grants.....	—	8,319	—	—
Departmental services.....	427,327	148,194	75,912	35,751
Contributions.....	11,874	23,227	62,849	—
Fines and penalties.....	18,461	39,951	—	—
Tobacco legal settlement.....	—	—	—	—
Other.....	12,814	103,032	—	6,439
<b>Total revenues.....</b>	<b>5,846,869</b>	<b>4,823,166</b>	<b>303,758</b>	<b>940,287</b>
<b>Expenditures:</b>				
Current:				
General government.....	271,083	101,478	486	—
Education.....	309,013	155,751	—	—
Health and environment.....	1,292,867	3,035,607	—	—
Social services.....	83,176	757,559	—	—
Administration of justice.....	503,424	126,276	—	—
Resources and economic development.....	87,618	66,210	753	—
Transportation.....	—	—	11,882	547,584
Capital outlay.....	—	—	—	443,343
Debt service:				
Principal retirement.....	155,656	269	20,440	22,102
Interest and fiscal charges.....	74,003	51	67,574	35,693
Intergovernmental.....	2,511,128	612,324	418,145	70,238
<b>Total expenditures.....</b>	<b>5,287,968</b>	<b>4,855,525</b>	<b>519,280</b>	<b>1,118,960</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>558,901</b>	<b>(32,359)</b>	<b>(215,522)</b>	<b>(178,673)</b>
<b>Other financing sources (uses):</b>				
Bonds and notes issued.....	107,700	—	285,195	—
Refunding bonds issued.....	59,335	—	—	46,080
Premiums on bonds issued.....	762	—	5,782	669
Capital leases.....	629	—	—	459
Payment to refunded bond escrow agent.....	(59,927)	—	—	(46,340)
Transfers in.....	204,880	106,128	3,554	444
Transfers out.....	(878,699)	(21,113)	(1,288)	(10,320)
<b>Total other financing sources (uses).....</b>	<b>(565,320)</b>	<b>85,015</b>	<b>293,243</b>	<b>(9,008)</b>
<b>Net change in fund balances.....</b>	<b>(6,419)</b>	<b>52,656</b>	<b>77,721</b>	<b>(187,681)</b>
<b>Fund balances (deficits) at beginning of year.....</b>	<b>(139,951)</b>	<b>243,946</b>	<b>1,252,643</b>	<b>190,777</b>
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ (146,370)</b>	<b>\$ 296,602</b>	<b>\$ 1,330,364</b>	<b>\$ 3,096</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>
\$ —	\$ —	\$ 2,287,989
—	747,708	2,817,138
—	108,631	1,292,376
—	105,949	390,390
15,922	28,028	157,858
—	13,622	5,014,039
—	1,011	9,330
—	16,639	703,823
—	237,896	335,846
—	23,120	81,532
—	86,313	86,313
251	1,502	124,038
<b>16,173</b>	<b>1,370,419</b>	<b>13,300,672</b>
10,749	91,909	475,705
—	168,142	632,906
103,355	80,791	4,512,620
—	4,192	844,927
—	15,196	644,896
3,672	4,545	162,798
—	—	559,466
—	81,941	525,284
—	33,066	231,533
—	58,960	236,281
30,491	826,696	4,469,022
<b>148,267</b>	<b>1,365,438</b>	<b>13,295,438</b>
<b>(132,094)</b>	<b>4,981</b>	<b>5,234</b>
—	100,000	492,895
—	—	105,415
—	4,110	11,323
—	—	1,088
—	—	(106,267)
6,758	86,899	408,663
(4,249)	(245,061)	(1,160,730)
<b>2,509</b>	<b>(54,052)</b>	<b>(247,613)</b>
<b>(129,585)</b>	<b>(49,071)</b>	<b>(242,379)</b>
<b>668,826</b>	<b>713,078</b>	<b>2,929,319</b>
<b>\$ 539,241</b>	<b>\$ 664,007</b>	<b>\$ 2,686,940</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, 2003  
(Expressed in Thousands)

<b>Net change in fund balances—total governmental funds.....</b>		<b>\$ (242,379)</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.....	\$ 673,943	
Depreciation expense.....	<u>(201,961)</u>	
Excess of capital outlay over depreciation expense.....		471,982
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.....		338,266
Losses on disposals of capital assets are reported as an expense in the statement of activities.....		(9,546)
Expenses for food commodities in the statement of activities do not provide current financial resources and are not reported as expenditures in the governmental funds.....		(288)
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.....	(492,895)	
Refunding bonds issued.....	(105,415)	
Bond premiums.....	<u>(11,323)</u>	
Net bond and note proceeds.....		(609,633)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets.....		2,899
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.....		(1,088)
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.....	224,964	
Note principal retirement.....	1,651	
Capital lease payments.....	4,918	
Payment to bond refunding agent.....	106,267	
Intergovernmental liability payments.....	<u>1,570</u>	
Total long-term debt repayment.....		339,370
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.....		(95,556)

# 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, 2003  
(Expressed in Thousands)

Because certain receivables will not be collected within one year after the State's fiscal year ends, the related revenues are not considered "available" and are deferred in the governmental funds.

Increase in deferred revenues.....	\$	96,757
------------------------------------	----	--------

Eliminations relating to the consolidation of internal service funds resulted in a net increase in expenses for the business-type activities in the statement of activities.....

4,164

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.....	\$	(4,154)	
Interest accreted on capital appreciation debt.....		(1,314)	
Amortization of bond issuance costs.....		(309)	
Net amortization of bond premiums and discounts.....		1,018	
Amortization of deferred losses on refunding of debt.....		(484)	
Decrease in compensated absences payable.....		2,984	
Decrease in retainages payable.....		53	
Decrease in policy claims payable.....		1,682	
Net increase in other payables.....		(22,141)	
Total additional expenses.....		<u>(22,665)</u>	<u>(22,665)</u>

**Change in net assets of governmental activities.....**

**\$ 272,283**

# Statement of Net Assets

## PROPRIETARY FUNDS

June 30, 2003

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 402,075	\$ 500,554	\$ 7,764
Investments.....	39,307	—	—
Invested securities lending collateral.....	53,636	2,670	10,890
Receivables, net:			
Accounts.....	30,072	8,367	1,428
Contributions.....	10,083	—	—
Participants.....	—	—	—
Accrued interest.....	10,132	7,442	40
Student accounts.....	28,900	—	—
Patient accounts.....	—	—	—
Loans and notes.....	107	—	745
Assessments.....	—	46,079	—
Due from Federal government and other grantors.....	94,403	3,317	1,485
Due from other funds.....	31,688	14	—
Due from component units.....	—	—	—
Inventories.....	13,709	—	—
Restricted assets:			
Cash and cash equivalents.....	77,380	—	74,442
Investments.....	64	—	—
Loans receivable.....	193	—	—
Other.....	181	—	—
Other current assets.....	16,199	—	—
Total current assets.....	<u>808,129</u>	<u>568,443</u>	<u>96,794</u>
Long-term assets:			
Investments.....	9,203	—	664
Receivables, net:			
Accounts.....	364	—	—
Contributions.....	3,779	—	—
Participants.....	—	—	—
Loans and notes.....	75,125	—	17,279
Interfund receivables.....	—	—	4,950
Restricted assets:			
Cash and cash equivalents.....	98,148	—	159,497
Investments.....	16	—	4,311
Loans receivable.....	49,690	—	521,651
Other.....	131	—	5,141
Other long-term assets.....	3,376	—	—
Deferred charges.....	1,206	—	4,430
Capital assets:			
Land and improvements.....	203,539	—	—
Buildings and improvements.....	2,453,421	—	—
Construction in progress.....	238,586	—	—
Vehicles.....	35,481	—	—
Machinery and equipment.....	374,576	—	309
Works of art and historical treasures.....	16,809	—	—
Intangible assets.....	9,381	—	—
Less: accumulated depreciation.....	<u>(1,213,208)</u>	<u>—</u>	<u>(236)</u>
Total capital assets, net.....	<u>2,118,585</u>	<u>—</u>	<u>73</u>
Total long-term assets.....	<u>2,359,623</u>	<u>—</u>	<u>717,996</u>
<b>Total assets.....</b>	<b><u>3,167,752</u></b>	<b><u>568,443</u></b>	<b><u>814,790</u></b>

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

**FUNDS**

<u>Education Assistance Authority</u>	<u>Nonmajor Enterprise</u>	<u>Totals</u>	<u>INTERNAL SERVICE FUNDS</u>
\$ 354,481	\$ 166,531	\$ 1,431,405	\$ 206,953
—	7,804	47,111	—
359	60,001	127,556	72,111
8,050	7,490	55,407	77,273
—	119	10,202	—
—	5,987	5,987	—
328	805	18,747	3,829
—	—	28,900	—
—	97,408	97,408	—
52,000	—	52,852	—
—	—	46,079	—
—	6	99,211	—
—	15,661	47,363	43,704
—	—	—	1
—	14,788	28,497	6,760
26,529	93,642	271,993	—
—	6,068	6,132	—
—	65	258	—
—	1,888	2,069	—
—	4,255	20,454	11,396
<u>441,747</u>	<u>482,518</u>	<u>2,397,631</u>	<u>422,027</u>
—	157	10,024	214,915
—	—	364	165
—	250	4,029	—
—	18,320	18,320	—
209,073	—	301,477	—
—	21,954	26,904	45,292
—	28,360	286,005	—
1,803	43,386	49,516	—
—	15,886	587,227	—
—	1,400	6,672	—
—	23,736	27,112	9
1,604	—	7,240	173
—	26,428	229,967	7,842
—	270,193	2,723,614	185,649
—	49,823	288,409	98
12	1,690	37,183	37,778
115	167,289	542,289	59,401
—	6,967	23,776	—
—	5,486	14,867	9,386
(32)	(215,673)	(1,429,149)	(144,734)
95	312,203	2,430,956	155,420
<u>212,575</u>	<u>465,652</u>	<u>3,755,846</u>	<u>415,974</u>
<u>654,322</u>	<u>948,170</u>	<u>6,153,477</u>	<u>838,001</u>

Continued on Next Page

# Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2003

(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.....	\$ 56,180	\$ 5,742	\$ —
Accrued salaries and related expenses.....	37,228	—	472
Accrued interest payable.....	6,017	—	—
Retainages payable.....	4,487	—	—
Tax refunds payable.....	—	3,985	—
Unemployment benefits payable.....	—	5,259	—
Intergovernmental payables.....	—	3,085	177
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	19,683	12,028	27
Deferred revenues.....	107,561	—	—
Deposits.....	4,485	—	—
Amounts held in custody for others.....	3,844	—	—
Securities lending collateral.....	53,636	2,670	10,890
Liabilities payable from restricted assets:			
Accounts payable.....	4,444	—	—
Accrued interest payable.....	—	—	14,562
Bonds payable.....	—	—	52,405
Other.....	—	—	7,476
Notes payable.....	2,918	—	—
Revenue bond anticipation notes payable.....	28,025	—	—
General obligation bonds payable.....	10,120	—	—
Revenue bonds payable.....	14,937	—	—
Limited obligation bonds payable.....	—	—	—
Certificates of participation payable.....	—	—	—
Capital leases payable.....	2,893	—	—
Compensated absences payable.....	40,314	—	285
Other current liabilities.....	4,295	—	914
Total current liabilities.....	<u>401,067</u>	<u>32,769</u>	<u>87,208</u>
Long-term liabilities:			
Retainages payable.....	2,012	—	—
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Interfund payables.....	22,285	—	—
Notes payable.....	13,638	—	—
General obligation bonds payable.....	198,848	—	—
Revenue bonds payable.....	289,071	—	503,328
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	33,130	—	—
Compensated absences payable.....	42,684	—	288
Other long-term liabilities.....	50,656	—	—
Total long-term liabilities.....	<u>652,324</u>	<u>—</u>	<u>503,616</u>
<b>Total liabilities.....</b>	<b><u>1,053,391</u></b>	<b><u>32,769</u></b>	<b><u>590,824</u></b>

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

**FUNDS**

<u>Education Assistance Authority</u>	<u>Nonmajor Enterprise</u>	<u>Totals</u>	<u>INTERNAL SERVICE FUNDS</u>
\$ 341	\$ 31,270	\$ 93,533	\$ 7,873
—	16,660	54,360	3,466
—	3,649	9,666	935
—	832	5,319	139
—	—	3,985	—
—	—	5,259	—
—	—	3,262	—
—	2,280	2,280	—
—	35,000	35,000	434,286
—	9,749	41,487	2,098
—	12,750	120,311	97,526
—	—	4,485	—
—	—	3,844	—
359	60,001	127,556	72,111
—	—	4,444	—
3,082	516	18,160	—
13,750	—	66,155	—
16,319	75,318	99,113	—
—	27,276	30,194	108
—	—	28,025	—
—	—	10,120	—
—	898	15,835	1,140
—	—	—	3,755
—	13,525	13,525	—
—	7,603	10,496	550
151	14,687	55,437	3,498
1,688	2,108	9,005	2,615
<u>35,690</u>	<u>314,122</u>	<u>870,856</u>	<u>630,100</u>
—	—	2,012	—
—	111,725	111,725	—
—	175,312	175,312	37,600
—	21,444	43,729	7,231
—	119,302	132,940	113
—	—	198,848	—
489,021	116,644	1,398,064	24,894
—	—	—	23,285
—	21,819	54,949	2,392
—	980	43,952	1,979
1,152	4,496	56,304	—
<u>490,173</u>	<u>571,722</u>	<u>2,217,835</u>	<u>97,494</u>
<b><u>525,863</u></b>	<b><u>885,844</u></b>	<b><u>3,088,691</u></b>	<b><u>727,594</u></b>

Continued on Next Page

# Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2003

(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.....	\$ 1,535,579	\$ —	\$ 73
Restricted:			
Expendable:			
Unemployment compensation benefits.....	—	535,674	—
Education.....	103,894	—	—
Capital projects.....	93,432	—	—
Debt service.....	20,204	—	184,225
Loan programs.....	—	—	38,703
Insurance programs.....	—	—	—
Other.....	—	—	—
Nonexpendable:			
Education.....	29,155	—	—
Unrestricted.....	332,097	—	965
<b>Total net assets.....</b>	<b><u>\$ 2,114,361</u></b>	<b><u>\$ 535,674</u></b>	<b><u>\$ 223,966</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>Education Assistance Authority</b>	<b>Nonmajor Enterprise</b>	<b>Totals</b>		
\$ 95	\$ 112,757	\$ 1,648,504		\$ 125,437
—	—	535,674		—
—	22,221	126,115		—
—	218	93,650		—
97,691	13,282	315,402		—
29,609	—	68,312		20,000
—	—	—		67,972
—	50	50		—
—	19,200	48,355		353
1,064	(105,402)	228,724		(103,355)
<b>\$ 128,459</b>	<b>\$ 62,326</b>	<b>3,064,786</b>		<b>\$ 110,407</b>
		(11,707)		
		<b>\$ 3,053,079</b>		

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

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
<b>Operating revenues:</b>			
Assessments.....	\$ —	\$ 223,108	\$ —
Charges for services.....	639,862	—	8,337
Contributions.....	—	—	—
Interest and other investment income.....	—	789	42,945
Operating revenues pledged for revenue bonds.....	122,423	—	—
Federal operating grants and contracts.....	447,378	128,716	—
State operating grants and contracts.....	168,408	—	—
Local/private operating grants and contracts.....	46,526	—	—
Other operating revenues.....	156,220	22,278	39
<b>Total operating revenues.....</b>	<b>1,580,817</b>	<b>374,891</b>	<b>51,321</b>
<b>Operating expenses:</b>			
General operations and administration.....	2,174,665	70	8,759
Benefits and claims.....	—	546,319	—
Tuition plan disbursements.....	—	—	—
Interest.....	—	—	30,326
Depreciation and amortization.....	103,424	—	287
Scholarships and fellowships.....	147,873	—	—
Other operating expenses.....	585	—	1,812
<b>Total operating expenses.....</b>	<b>2,426,547</b>	<b>546,389</b>	<b>41,184</b>
<b>Operating income (loss).....</b>	<b>(845,730)</b>	<b>(171,498)</b>	<b>10,137</b>
<b>Nonoperating revenues (expenses):</b>			
Federal and local government appropriations.....	53,891	—	—
Interest income.....	26,197	33,390	—
Contributions.....	67,889	—	—
Federal grants and contracts.....	7,106	—	96,134
Local/private grants and contracts.....	8,703	—	—
Interest expense.....	(26,977)	—	—
Other nonoperating revenues (expenses).....	9,478	—	(92,424)
<b>Total nonoperating revenues (expenses).....</b>	<b>146,287</b>	<b>33,390</b>	<b>3,710</b>
<b>Income (loss) before other revenues, expenses, losses, and transfers.....</b>	<b>(699,443)</b>	<b>(138,108)</b>	<b>13,847</b>
Capital contributions.....	—	—	—
Federal capital grants and contracts.....	27,006	—	—
Local/private capital grants and contracts.....	20,322	—	—
Additions to endowments.....	195	—	—
Extraordinary loss on early extinguishment of debt.....	—	—	(538)
Special items.....	—	—	—
Transfers in.....	830,073	40	—
Transfers out.....	(20,083)	(979)	(1,635)
<b>Change in net assets.....</b>	<b>158,070</b>	<b>(139,047)</b>	<b>11,674</b>
<b>Net assets at beginning of year (restated).....</b>	<b>1,956,291</b>	<b>674,721</b>	<b>212,292</b>
<b>Net assets at end of year.....</b>	<b>\$ 2,114,361</b>	<b>\$ 535,674</b>	<b>\$ 223,966</b>
Adjustment in Higher Education Fund related to consolidation of internal service funds.....			
<b>Change in net assets of business-type activities.....</b>			

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

**FUNDS**

<u>Education Assistance Authority</u>	<u>Nonmajor Enterprise</u>	<u>Totals</u>	<u>INTERNAL SERVICE FUNDS</u>
\$ —	\$ —	\$ 223,108	\$ —
33,806	276,598	958,603	1,407,304
—	15,673	15,673	777
2,969	5,615	52,318	49
—	537,121	659,544	—
—	—	576,094	—
—	—	168,408	—
—	—	46,526	—
—	33,737	212,274	11,857
<b>36,775</b>	<b>868,744</b>	<b>2,912,548</b>	<b>1,419,987</b>
28,038	723,406	2,934,938	298,474
—	49,367	595,686	1,190,723
—	26,704	26,704	—
11,300	24	41,650	—
154	21,858	125,723	14,168
—	—	147,873	—
1,917	965	5,279	3,551
<b>41,409</b>	<b>822,324</b>	<b>3,877,853</b>	<b>1,506,916</b>
<b>(4,634)</b>	<b>46,420</b>	<b>(965,305)</b>	<b>(86,929)</b>
—	—	53,891	—
—	2,794	62,381	26,797
—	3,300	71,189	—
—	—	103,240	—
—	1,266	9,969	—
—	(13,909)	(40,886)	(2,174)
9,614	3,517	(69,815)	160
<b>9,614</b>	<b>(3,032)</b>	<b>189,969</b>	<b>24,783</b>
<b>4,980</b>	<b>43,388</b>	<b>(775,336)</b>	<b>(62,146)</b>
—	—	—	259
—	—	27,006	—
—	52	20,374	—
—	405	600	—
—	—	(538)	—
—	(458)	(458)	—
—	—	830,113	7,554
—	(24,450)	(47,147)	(41,223)
<b>4,980</b>	<b>18,937</b>	<b>54,614</b>	<b>(95,556)</b>
<b>123,479</b>	<b>43,389</b>		<b>205,963</b>
<b>\$ 128,459</b>	<b>\$ 62,326</b>		<b>\$ 110,407</b>
		(4,164)	
		<b>\$ 50,450</b>	

# Statement of Cash Flows

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
<b>Cash flows from operating activities:</b>			
Receipts from customers, patients, and third-party payers.....	\$ 816,200	\$ —	\$ —
Assessments received.....	—	216,093	—
Grants received.....	634,543	126,591	5,404
Receipts from collection of loans and notes.....	319,761	—	121,772
Internal activity—payments from other funds.....	54,307	—	—
Tuition plan contributions received.....	—	—	—
Other operating cash receipts.....	29,132	20,566	1,258
Claims and benefits paid.....	—	(551,625)	(1,442)
Payments to suppliers for goods and services.....	(831,230)	—	(9,963)
Payments to employees.....	(1,393,575)	—	(4,842)
Payments for scholarships and fellowships.....	(108,462)	—	—
Loans issued to students.....	(292,959)	—	—
Program loans issued.....	—	—	(59,128)
Internal activity—payments to other funds.....	—	—	—
Other operating cash payments.....	(2,132)	(70)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>(774,415)</b>	<b>(188,445)</b>	<b>53,059</b>
<b>Cash flows from noncapital financing activities:</b>			
State, county, and local appropriations.....	51,365	—	—
Federal appropriations.....	13,384	—	—
Funds held for others.....	910	—	—
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 made to other funds.....	—	—	—
Proceeds from sale of revenue bonds.....	—	—	73,000
Principal payments on revenue bonds.....	—	—	(6,690)
Early retirement of bonds payable.....	—	—	(36,665)
Proceeds from issuance of noncapital debt.....	1,000	—	—
Principal paid on noncapital debt.....	(216)	—	—
Interest payments on noncapital debt.....	(369)	—	(30,202)
Payment of bond issuance costs.....	—	—	(577)
Gifts and grants for other than capital purposes.....	101,971	—	—
Federal revenue.....	—	—	96,134
Payments from Federal grants.....	—	—	(92,423)
Other cash receipts.....	3,372	4,977	—
Other cash payments.....	(1,433)	—	—
Transfers in.....	830,073	40	—
Transfers out.....	(20,083)	(979)	(1,635)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>979,994</b>	<b>4,038</b>	<b>942</b>
<b>Cash flows from capital and related financing activities:</b>			
Capital appropriations.....	61,878	—	—
Acquisition of capital assets.....	(297,233)	—	—
Principal payments on notes payable.....	(2,429)	—	—
Principal payments on limited obligation bonds.....	—	—	—
Proceeds from issuance of capital debt.....	142,601	—	—
Principal paid on capital debt and lease.....	(87,920)	—	—
Interest payments on capital debt.....	(27,831)	—	—
Payment of agent and broker fees.....	(15)	—	—
Proceeds from sale or disposal of capital assets.....	9,001	—	—
Capital grants and gifts received.....	40,708	—	—
<b>Net cash used in capital and related financing activities.....</b>	<b>(161,240)</b>	<b>—</b>	<b>—</b>

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

FUNDS			INTERNAL SERVICE FUNDS
Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ 27,341	\$ 776,413	\$ 1,619,954	\$ 949,922
—	133,388	349,481	—
—	—	766,538	—
580,005	—	1,021,538	—
—	—	54,307	459,597
—	18,717	18,717	—
—	35,328	86,284	11,403
—	(151,812)	(704,879)	(1,169,257)
(49,397)	(314,720)	(1,205,310)	(204,445)
(2,521)	(327,740)	(1,728,678)	(56,854)
—	—	(108,462)	—
—	—	(292,959)	—
(526,017)	—	(585,145)	—
—	(54,307)	(54,307)	(14,602)
—	(6,917)	(9,119)	(1,035)
<b>29,411</b>	<b>108,350</b>	<b>(772,040)</b>	<b>(25,271)</b>
—	—	51,365	—
—	—	13,384	—
—	—	910	—
—	3,082	3,102	959
—	(446)	(446)	—
—	—	—	1,412
—	(1,275)	(1,275)	—
—	—	—	(23,696)
—	—	73,000	26,164
(3,400)	—	(10,090)	—
—	—	(36,665)	—
—	36,000	37,000	—
—	(24,425)	(24,641)	—
(11,335)	(5,411)	(47,317)	—
—	(553)	(1,130)	—
—	5,134	107,105	—
—	—	96,134	—
—	—	(92,423)	—
—	307	8,656	—
(9,278)	(7)	(10,718)	—
—	—	830,113	7,554
—	(24,450)	(47,147)	(41,223)
<b>(24,013)</b>	<b>(12,044)</b>	<b>948,917</b>	<b>(28,830)</b>
—	—	61,878	—
(59)	(33,190)	(330,482)	(9,521)
—	(2)	(2,431)	(2,919)
—	—	—	(3,575)
—	4,950	147,551	—
—	(13,450)	(101,370)	(249)
—	(6,665)	(34,496)	(2,174)
—	(121)	(136)	—
—	63	9,064	242
—	59	40,767	—
<b>(59)</b>	<b>(48,356)</b>	<b>(209,655)</b>	<b>(18,196)</b>

Continued on Next Page

# Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Higher Education	Unemployment Compensation	ENTERPRISE Housing Authority
<b>Cash flows from investing activities:</b>			
Proceeds from sales and maturities of investments.....	\$ 71,164	\$ —	\$ —
Purchase of investments .....	(78,902)	—	—
Interest and dividends on investments.....	23,550	37,065	5,383
Collection of escrow payments from borrower.....	—	—	—
<b>Net cash provided by investing activities.....</b>	<b>15,812</b>	<b>37,065</b>	<b>5,383</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>60,151</b>	<b>(147,342)</b>	<b>59,384</b>
<b>Cash and cash equivalents at beginning of year (restated).....</b>	<b>517,452</b>	<b>647,896</b>	<b>182,319</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 577,603</b>	<b>\$ 500,554</b>	<b>\$ 241,703</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income (loss) .....	\$ (845,730)	\$ (171,498)	\$ 10,137
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	103,424	—	287
Provision for bad debts.....	370	—	—
Net increase in the fair value of investments.....	—	—	—
Realized gains and losses on investments.....	—	—	—
Issuance of loans and notes.....	—	—	(59,128)
Collection of loans and notes.....	—	—	81,974
Interest payments reclassified as noncapital financing activities.....	—	—	30,326
Interest and dividends on investments and interfund loans.....	—	(789)	(5,718)
Amounts received for payment of claims.....	—	—	—
Payment of claims.....	—	—	—
Other nonoperating revenues.....	—	—	—
Other nonoperating expenses.....	—	—	—
Other.....	(12,167)	—	(184)
<b>Change in assets—decreases (increases):</b>			
Accounts receivable, net.....	(46,091)	(1,706)	(1,309)
Receivable from participants, net.....	—	—	—
Assessments receivable, net.....	—	(6,843)	—
Accrued interest.....	—	—	(17)
Loans receivable.....	(420)	—	—
Due from Federal government and other grantors.....	—	43	(498)
Due from other funds.....	—	(5)	2
Inventories.....	—	—	—
Other assets.....	(3,869)	—	—
<b>Change in liabilities—increases (decreases):</b>			
Accounts payable.....	4,453	287	—
Accrued salaries and related expenses.....	—	—	(145)
Accrued interest payable.....	—	—	—
Retainages payable.....	—	—	—
Tax refunds payable.....	—	(172)	—
Unemployment benefits payable.....	—	(5,567)	—
Intergovernmental payables.....	—	(175)	(5,567)
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	—	(2,020)	27
Deferred revenues .....	13,195	—	—
Deposits.....	(700)	—	—
Amounts held in custody for others .....	253	—	—
Liabilities payable from restricted assets .....	—	—	1,950
Interfund payables.....	—	—	—
Compensated absences payable .....	415	—	9
Other liabilities.....	12,452	—	913
<b>Net cash provided by (used in) operating activities.....</b>	<b>\$ (774,415)</b>	<b>\$ (188,445)</b>	<b>\$ 53,059</b>

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

FUNDS			INTERNAL SERVICE FUNDS
Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ —	\$ 57,160	\$ 128,324	\$ 152,066
—	(55,405)	(134,307)	(107,051)
3,742	17,425	87,165	21,927
—	1,566	1,566	—
<b>3,742</b>	<b>20,746</b>	<b>82,748</b>	<b>66,942</b>
<b>9,081</b>	<b>68,696</b>	<b>49,970</b>	<b>(5,355)</b>
<b>371,929</b>	<b>219,837</b>	<b>1,939,433</b>	<b>212,308</b>
<b>\$ 381,010</b>	<b>\$ 288,533</b>	<b>\$ 1,989,403</b>	<b>\$ 206,953</b>
\$ (4,634)	\$ 46,420	\$ (965,305)	\$ (86,929)
154	21,858	125,723	14,168
—	59,071	59,441	—
1,144	—	1,144	—
—	(514)	(514)	—
(544,864)	—	(603,992)	—
591,909	—	673,883	—
11,973	1,919	44,218	—
(4,113)	(8,442)	(19,062)	—
—	131,786	131,786	—
—	(110,105)	(110,105)	—
—	5,576	5,576	714
—	(622)	(622)	(1,000)
(269)	905	(11,715)	86
(3,581)	(61,522)	(114,209)	(23,870)
—	3,044	3,044	—
—	—	(6,843)	—
—	51	34	(798)
—	—	(420)	—
—	—	(455)	—
—	(8,159)	(8,162)	(7,942)
—	(2,087)	(2,087)	(137)
595	51	(3,223)	(710)
(18,898)	(1,594)	(15,752)	(9,295)
—	2,696	2,551	2,549
—	359	359	904
—	—	—	33
—	—	(172)	—
—	—	(5,567)	—
—	—	(5,742)	—
—	26,270	26,270	—
—	7,660	7,660	63,492
(47)	(2,132)	(4,172)	274
—	(676)	12,519	22,938
—	—	(700)	—
—	—	253	—
—	41	1,991	—
—	(623)	(623)	—
42	(806)	(340)	273
—	(2,075)	11,290	(21)
<b>\$ 29,411</b>	<b>\$ 108,350</b>	<b>\$ (772,040)</b>	<b>\$ (25,271)</b>

Continued on Next Page

## Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	<u>Higher Education</u>	<u>Unemployment Compensation</u>	<u>ENTERPRISE Housing Authority</u>
<b>Noncash capital, investing, and financing activities:</b>			
Acquisition of capital assets through:			
Assumption of liabilities.....	\$ (49)	\$ —	\$ —
Transfers from other funds.....	18	—	—
Donations.....	2,745	—	—
Disposal of capital assets.....	69	—	—
Assignment of Perkins Loans.....	7	—	—
Increase (decrease) in fair value of investments.....	1,395	—	173
Accrual of arbitrage income.....	—	—	—
Long-term debt forgiven.....	—	—	—
Assumption of debt.....	1,042	—	—
<b>Total noncash capital, investing, and financing activities.....</b>	<b><u>\$ 5,227</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 173</u></b>

<b>FUNDS</b>			<b>INTERNAL SERVICE FUNDS</b>
<u>Education Assistance Authority</u>	<u>Nonmajor Enterprise</u>	<u>Totals</u>	
\$ —	\$ 52	\$ 3	\$ —
—	—	18	—
—	—	2,745	—
—	—	69	—
—	—	7	—
—	2,829	4,397	(3,145)
9,613	—	9,613	—
—	—	—	673
—	(18)	1,024	—
<b><u>\$ 9,613</u></b>	<b><u>\$ 2,863</u></b>	<b><u>\$ 17,876</u></b>	<b><u>\$ (2,472)</u></b>

# Statement of Fiduciary Net Assets

## FIDUCIARY FUNDS

June 30, 2003

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 2,876,473	\$ 1,356,098	\$ 30,569	\$ 170,572
Receivables, net:				
Accounts.....	—	—	81	12,414
Contributions.....	120,615	—	—	—
Employer long-term.....	1,567	—	—	—
Accrued interest.....	161,747	6,829	376	1,215
Unsettled investment sales.....	20,210	—	792	—
Sales and other taxes.....	—	—	—	3,045
Total receivables.....	<u>304,139</u>	<u>6,829</u>	<u>1,249</u>	<u>16,674</u>
Due from other funds.....	<u>3,776</u>	<u>—</u>	<u>—</u>	<u>57,702</u>
Investments, at fair value:				
United States government securities.....	2,198,688	—	—	250
United States government agencies and government-insured securities.....	1,792,774	79,929	—	—
Corporate bonds.....	5,178,951	655,145	—	—
Financial and other.....	2,604,602	—	145,205	14,194
Equities.....	7,919,429	—	—	—
Total investments.....	<u>19,694,444</u>	<u>735,074</u>	<u>145,205</u>	<u>14,444</u>
Securities held in lieu of surety bonds.....	—	—	—	334,693
Invested securities lending collateral.....	3,913,893	511,725	6,167	25,748
Capital assets, net .....	4,052	—	—	—
Other assets.....	596	—	4,482	—
<b>Total assets.....</b>	<b><u>26,797,373</u></b>	<b><u>2,609,726</u></b>	<b><u>187,672</u></b>	<b><u>619,833</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	4,198	—	254	28,767
Accounts payable—unsettled investment purchases.....	31,070	—	693	—
Due to other funds.....	28,765	—	—	—
Tax refunds payable.....	—	—	—	481
Intergovernmental payables.....	—	—	—	5,901
Deposits.....	—	—	—	744
Amounts held in custody for others.....	—	—	—	558,192
Deferred retirement benefits.....	424,906	—	—	—
Securities lending collateral.....	3,913,893	511,725	6,167	25,748
Other liabilities.....	3,705	—	—	—
<b>Total liabilities.....</b>	<b><u>4,406,537</u></b>	<b><u>511,725</u></b>	<b><u>7,114</u></b>	<b><u>619,833</u></b>
<b>NET ASSETS</b>				
Held in trust for:				
Pension benefits.....	22,390,836	—	—	—
External investment pool participants.....	—	2,098,001	—	—
Other purposes.....	—	—	180,558	—
<b>Total net assets.....</b>	<b><u>\$ 22,390,836</u></b>	<b><u>\$ 2,098,001</u></b>	<b><u>\$ 180,558</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, 2003

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
<b>Additions:</b>			
Licenses, fees, and permits.....	\$ —	\$ —	\$ 276
Contributions:			
Employer.....	609,632	—	—
Employee.....	465,709	—	—
Deposits from pool participants.....	—	5,298,324	—
Tuition plan deposits.....	—	—	116,260
<b>Total contributions.....</b>	<b>1,075,341</b>	<b>5,298,324</b>	<b>116,260</b>
Investment income:			
Interest income.....	1,860,880	28,413	10,206
Securities lending income.....	66,037	6,433	—
<b>Total investment income.....</b>	<b>1,926,917</b>	<b>34,846</b>	<b>10,206</b>
Less investment expense:			
Investment expense.....	18,881	—	—
Securities lending expense.....	47,353	5,390	—
<b>Net investment income.....</b>	<b>1,860,683</b>	<b>29,456</b>	<b>10,206</b>
Transfers between pension trust funds.....	1,580	—	—
Transfers in.....	2,770	—	597
<b>Total additions.....</b>	<b>2,940,374</b>	<b>5,327,780</b>	<b>127,339</b>
<b>Deductions:</b>			
Regular retirement benefits.....	1,163,148	—	—
Supplemental retirement benefits.....	2,770	—	—
Deferred retirement benefits.....	240,667	—	—
Refunds of retirement contributions to members.....	71,657	—	—
Group life insurance claims.....	16,366	—	—
Accidental death benefits.....	955	—	—
Withdrawals, pool participants.....	—	4,462,717	—
Distributions to pool participants.....	—	26,248	—
Depreciation.....	119	—	—
Administrative expense.....	14,498	61	996
Transfers between pension trust funds.....	1,580	—	—
Transfers out.....	—	—	597
Other expenses.....	—	—	340
<b>Total deductions.....</b>	<b>1,511,760</b>	<b>4,489,026</b>	<b>1,933</b>
<b>Change in net assets.....</b>	<b>1,428,614</b>	<b>838,754</b>	<b>125,406</b>
<b>Net assets at beginning of year (restated).....</b>	<b>20,962,222</b>	<b>1,259,247</b>	<b>55,152</b>
<b>Net assets at end of year.....</b>	<b>\$ 22,390,836</b>	<b>\$ 2,098,001</b>	<b>\$ 180,558</b>

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

# Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2003

(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.....	\$ 97,687	\$ 14,708	\$ 369	\$ 13,943	\$ 15,974	\$ 142,681
Investments.....	180,695	—	—	—	685	181,380
Invested securities lending collateral.....	—	—	—	—	159	159
Receivables, net						
Accounts .....	119,606	15,942	—	32,147	88	167,783
Contributions .....	—	—	—	—	1	1
Accrued interest .....	4,009	—	—	—	355	4,364
Due from primary government.....	—	—	—	—	3	3
Inventories.....	150,403	3,079	—	2,283	—	155,765
Restricted assets:						
Cash and cash equivalents.....	65,846	—	1,097	362	—	67,305
Investments.....	71,373	—	—	—	—	71,373
Other current assets.....	3,471	6,125	222	264	13	10,095
Total current assets.....	693,090	39,854	1,688	48,999	17,278	800,909
Long-term assets:						
Investments.....	—	—	—	—	23,483	23,483
Restricted assets:						
Cash and cash equivalents.....	82,320	73,055	3,631	—	—	159,006
Investments.....	316,542	5,935	20,293	—	—	342,770
Other.....	—	—	41	—	—	41
Other long-term assets.....	—	—	—	2,290	—	2,290
Deferred charges.....	268,335	1,754	4,545	—	—	274,634
Investment in joint venture.....	21,136	—	—	—	—	21,136
Non-depreciable capital assets.....	314,987	192,951	—	—	—	507,938
Depreciable capital assets, net.....	2,295,675	223,998	183,051	15,172	3	2,717,899
Total long-term assets.....	3,298,995	497,693	211,561	17,462	23,486	4,049,197
<b>Total assets.....</b>	<b>3,992,085</b>	<b>537,547</b>	<b>213,249</b>	<b>66,461</b>	<b>40,764</b>	<b>4,850,106</b>

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

	<u>Public Service Authority</u>	<u>State Ports Authority</u>	<u>Connector 2000 Association, Inc.</u>	<u>Lottery Commission</u>	<u>Nonmajor Component Units</u>	<u>Totals</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable.....	\$ 78,990	\$ 2,168	\$ 42	\$ 5,964	\$ 213	\$ 87,377
Accrued salaries and related expenses.....	4,878	2,920	—	723	50	8,571
Accrued interest payable.....	60,823	—	—	—	—	60,823
Prizes payable.....	—	—	—	23,611	—	23,611
Intergovernmental payables.....	5,333	45	—	—	38	5,416
Policy claims.....	—	—	—	—	25,787	25,787
Due to primary government.....	—	8,000	—	17,818	4	25,822
Deferred revenues and deferred credits.....	—	—	56	1,869	17,433	19,358
Deposits.....	—	—	7	—	73	80
Securities lending collateral.....	—	—	—	—	159	159
Liabilities payable from restricted assets:						
Accounts payable.....	—	777	1,967	—	—	2,744
Accrued interest payable.....	—	3,172	1,766	—	—	4,938
Notes payable.....	—	57	—	6,275	—	6,332
Revenue bonds payable.....	81,740	2,785	—	—	—	84,525
Capital leases payable.....	2,762	38	—	—	—	2,800
Commercial paper notes.....	303,177	—	—	—	—	303,177
Compensated absences payable.....	—	2,124	—	270	73	2,467
Other current liabilities.....	22,815	3,429	—	158	—	26,402
<b>Total current liabilities.....</b>	<b>560,518</b>	<b>25,515</b>	<b>3,838</b>	<b>56,688</b>	<b>43,830</b>	<b>690,389</b>
Long-term liabilities:						
Retainages payable.....	7,092	—	—	—	—	7,092
Policy claims.....	—	—	—	—	116,789	116,789
Deferred revenues and deferred credits.....	101,060	—	—	—	—	101,060
Notes payable.....	—	480	—	3,450	—	3,930
Revenue bonds payable.....	2,203,708	143,466	242,177	—	—	2,589,351
Capital leases payable.....	21,516	46	—	—	—	21,562
Compensated absences payable.....	12,929	—	—	514	31	13,474
Other long-term liabilities.....	21,144	—	—	—	—	21,144
<b>Total long-term liabilities.....</b>	<b>2,367,449</b>	<b>143,992</b>	<b>242,177</b>	<b>3,964</b>	<b>116,820</b>	<b>2,874,402</b>
<b>Total liabilities.....</b>	<b>2,927,967</b>	<b>169,507</b>	<b>246,015</b>	<b>60,652</b>	<b>160,650</b>	<b>3,564,791</b>
<b>NET ASSETS (DEFICITS)</b>						
Invested in capital assets, net of related debt.	253,984	269,949	(16,589)	5,447	3	512,794
Restricted, expendable:						
Education.....	—	—	—	—	1,532	1,532
Capital projects.....	275,423	73,055	1,792	—	—	350,270
Debt service.....	76,396	5,935	—	—	—	82,331
Other.....	71,353	—	—	362	2,169	73,884
Unrestricted.....	386,962	19,101	(17,969)	—	(123,590)	264,504
<b>Total net assets (deficits).....</b>	<b>\$ 1,064,118</b>	<b>\$ 368,040</b>	<b>\$ (32,766)</b>	<b>\$ 5,809</b>	<b>\$ (119,886)</b>	<b>\$ 1,285,315</b>

## Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2003

(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.....	\$ 984,901	\$ 1,033,746	\$ 22,805	\$ —
State Ports Authority.....	119,090	110,269	1,140	5,612
Connector 2000 Association, Inc.....	21,500	3,083	1,191	—
Lottery Commission.....	727,900	726,910	223	—
Nonmajor component units.....	68,995	27,785	29,059	—
<b>Totals.....</b>	<b>\$ 1,922,386</b>	<b>\$ 1,901,793</b>	<b>\$ 54,418</b>	<b>\$ 5,612</b>

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

<u>Net (Expense) Revenue</u>	<u>Net Assets (Deficit) Beginning of Year (Restated)</u>	<u>Net Assets (Deficit) End of Year</u>
\$ 71,650	\$ 992,468	\$ 1,064,118
(2,069)	370,109	368,040
(17,226)	(15,540)	(32,766)
(767)	6,576	5,809
(12,151)	(107,735)	(119,886)
<b><u>\$ 39,437</u></b>	<b><u>\$ 1,245,878</u></b>	<b><u>\$ 1,285,315</u></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, 2003:

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

##### Fiscal year ended December 31, 2002:

- 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 21 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, 2003.

##### *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 bonds payable solely from, and secured solely by, those receipts. The Authority's governing board is composed of the Governor or his designee, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The State receives the funding from the bond issuances, except in the event that the Authority issues bonds expressly to refund its outstanding bonds.

##### *State Housing Corporation*

The State Housing Corporation, a blended component unit accounted for as an enterprise fund, was organized to lease, operate, manage, and contract for the construction of office facilities for the South Carolina State Housing Finance and Development Authority and for affordable housing facilities for members of the beneficiary classes of the Authority.

##### *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 nonmajor enterprise funds include the following blended component units, all of which

## Notes to the Financial Statements

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

The *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 *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 *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, 2002.

*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.

### *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  
Post Office Box 11778  
Columbia, South Carolina 29211

State Housing Corporation  
c/o South Carolina State Housing  
Finance and Development Authority  
919 Bluff Road  
Columbia, South Carolina 29201

Governor's School for the Arts  
Foundation, Inc.  
15 University Street  
Greenville, South Carolina 29601

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

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

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

Medical University Facilities  
Corporation  
c/o Vice President for Finance and  
Administration  
Medical University of South Carolina  
171 Ashley Avenue  
Post Office Box 250003  
Charleston, South Carolina 29425

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

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

### **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, 2003.

#### *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, 2002.

#### *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.

## Notes to the Financial Statements

### *Connector 2000 Association, Inc.*

Connector 2000 Association, Inc., was created in 1996 to assist the Department of Transportation in the financing, acquisition, construction, and operation of 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 as long as they are within 90.0% to 120.0% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. The rates also 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, 2002.

### *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 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, 2002.

*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.

*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, 2002.

*The Savannah Lakes Regional Loan Fund (the Fund)* was established in 1990. It maintains a revolving loan fund to promote economic development in the State's Savannah Lakes Region. The Fund's Board of Directors consists of three members from each of two State agencies, the Department of Commerce and the Jobs—Economic Development Authority (JEDA). The State's primary government initially capitalized the fund. The primary government regularly provides gratis administrative services to the fund. In August 2003, JEDA provided written notice of its intent to dissolve the fund. Dissolution was to be effective within sixty days of the notification.

### *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  
Moncks Corner, South Carolina  
29461-2901

South Carolina State Ports Authority  
Post Office Box 22287  
Charleston, South Carolina 29413-2287

Connector 2000 Association, Inc.  
7486 Augusta Road  
Suite C, PMB #12  
Piedmont, South Carolina 29673

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

The South Carolina Medical Malpractice  
Liability Joint Underwriting  
Association  
c/o Marsh USA  
P.O. Box 128  
Greenville, South Carolina 29161

The Children's Trust Fund  
c/o United Way of South Carolina  
2711 Middleburg Drive, Suite 307  
Columbia, South Carolina 29204

## Notes to the Financial Statements

Savannah Lakes Regional Loan Fund  
c/o Jobs—Economic Development  
Authority  
Post Office Box 8327  
Columbia, South Carolina 29202

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, 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 provision of 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.

The Public Service Authority is a regulated electric utility that uses accounting principles established by the Federal Energy Regulatory Commission and reports in accordance with Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*.

## Notes to the Financial Statements

### 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, 2003, an employee of the Department of Social Services, reported within the social services function, worked on a temporary assignment at the Department of Alcohol and Other Drug Abuse Services, reported within the health and environment function. While on this assignment, the Department of Social Services continued to record the employee's salary and related benefits expenditures in a special revenue fund. However, the Department of Alcohol and Other Drug Abuse Services later reimbursed the Department of Social Services for these costs with General Fund monies. That is, the Department of Alcohol and Other Drug Abuse Services recorded a General Fund expenditure while the Department of Social Services reduced its special revenue funds 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 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

## Notes to the Financial Statements

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 most nonexchange and exchange-like 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.

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 financial statements using the *economic resources*

## Notes to the Financial Statements

measurement focus. Business enterprises use this same 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.

Nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, donations, fines, and penalties. 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. Fines and penalties are recognized in the period when an enforceable legal claim to the related assets has arisen. 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 18b provides additional details regarding pledges that were not measurable at June 30, 2003.

### 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 expenditures of the fiscal year. Deferred revenue is recorded for receivables that are measurable but not available at year-end.

Under the modified accrual basis, the State's governmental funds consider receivables collected within one year after year-end to be available and recognize them as revenues of the current year if measurable. Interest on investments is recorded as earned because it is deemed available when earned. Taxes, grants, donations, revenue resulting from the provision of material services and commodities, interest on investments, fines, and penalties associated with the current fiscal year are considered susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items in governmental funds 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's governmental funds do not report the receipt of food commodities as revenue and do not report the distribution of commodities as expenditures because there is no flow of *financial* resources in conjunction with these transactions. However, the State does record these receipts and distributions as revenues and expenses on the accrual basis of accounting.

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. It also recognizes food stamp coupons on hand as other assets and as deferred revenue.

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

## Notes to the Financial Statements

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.

Under State law, the State Retirement Systems Investment Panel (the Panel) may make limited investments in equity securities for the State's pension trust funds. 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.

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 6. Further, the State disaggregates its receivable balances in Note 6 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.

## Notes to the 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. Deferred costs include unrealized gains and losses related to the Authority's gas hedging activities. 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 associated with costs to be recovered from future revenue will coincide with the retirement of the outstanding long-term debt of the Authority.

Deferred charges also include the cost of a buy-out option on a coal contract exercised by the Authority. The cost is being amortized as a component of fuel costs over the remaining life of the former contract. Unamortized bond issuance costs are reported as deferred charges and are amortized as described in Note 1m.

### l. Tax Refunds Payable

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

### m. Long-Term Obligations

The State records general long-term debt and other long-term obligations of the primary government's governmental funds in the governmental activities reported in its government-wide financial statements. Long-term debt and other

## Notes to the Financial Statements

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 remaining life of the old debt or the life of the new debt, whichever is shorter. 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, 2003, 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, 2003, 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. Presentation of Additional Account Details and New Note Disclosures

The State adopted portions of the Governmental Accounting Standards Board's (GASB) Statement 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001, that were required to be implemented then. Effective July 1, 2002, the State adopted the remaining provisions of GASB 38. As a result, the State now presents additional detail regarding receivable and payable accounts on its statements of net assets and balance sheets, reports expanded disclosures regarding receivables, and provides new disclosures regarding transfers. Implementation of GASB 38 had no effect on the balances of State accounts.

In addition, effective July 1, 2002, the State implemented GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. This implementation resulted in changes in the State's disclosures about derivatives but no changes in any account balances.

### b. Change in Classification, South Carolina Tuition Prepayment Program

The South Carolina Tuition Prepayment Program (SCTPP), previously known as the PACE program, is a State program. An SCTPP tuition prepayment contract allows a user to make fixed payments over a fixed time to cover future undergraduate tuition expenses of a designated

## Notes to the Financial Statements

beneficiary at a South Carolina public higher education institution. Alternatively, the contract may be used to cover expenses, up to the weighted average tuition of South Carolina public institutions, at another educational institution to which the designated beneficiary has been admitted. The State previously classified this program as a private purpose trust fund. Effective July 1, 2002, the State began classifying the SCTPP as an enterprise fund because the program's predominant activity is collecting user fees under tuition prepayment contracts. As a result of this change, the State has restated the beginning balances of its private purpose trust funds, nonmajor enterprise funds, and business-type activities to remove the SCTPP from private purpose trust funds and to include the program in nonmajor enterprise funds and business-type activities. For the fiscal year ended June 30, 2003, the change in classification described above had the following effects on the financial statements of State's nonmajor enterprise funds: decreased the change in net assets by \$5.843 million; decreased net assets, beginning of the year, by \$11.572 million; and decreased net assets, end of the year, by \$17.415 million. The change also had the following effects on the financial statements of the State's private purpose trust funds: increased the change in net assets by \$5.843 million; increased net assets, beginning of the year, by \$11.572 million; increased net assets, end of the year, by \$17.415 million. Also see Note 4a.

### c. Discretely Presented Component Units: Impairment of Long-Lived Assets

The Public Service Authority and the State Ports Authority, major discretely presented component units, have chosen to present their statements in accordance with applicable pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. Accordingly, the Public Service Authority, for its fiscal year ended December 31, 2002, and the State Ports Authority, for its fiscal year ended June 30, 2003, adopted FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which superseded FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of*. Under FASB 144, these Authorities evaluate their previously held/used and newly acquired long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Authorities' adoption of FASB 144 had no material impact on their financial positions or results of operations for their fiscal years ended December 31, 2002, and June 30, 2003.

### d. Discretely Presented Component Unit: Change in Reporting Entity

Previously, the South Carolina Medical Malpractice Liability Insurance Joint Underwriting

Association (JUA) was excluded from the State of South Carolina's financial reporting entity because State officials did not appoint a voting majority of the JUA's board members. However, due to changes in State law, all of the JUA's board members now are Governor appointed and the State has the ability to impose its will on the organization. Accordingly, effective as of July 1, 2002, the State is presenting the JUA as a nonmajor discretely presented component unit.

For the fiscal year ended June 30, 2003, the change in reporting entity described above had the following effects on the financial statements of the State's other (i.e., nonmajor) discretely presented component units: increased net expense by \$4.778 million; decreased net assets, beginning of year, by \$117.893 million; and decreased net assets, end of year, by \$122.671 million.

### NOTE 3: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Educational expenditures in budgeted accounts aside from the General Fund exceeded appropriations by \$14.029 million at the legal level of control. Appropriations associated with the State's technical colleges are budgeted under the State Board for Technical and Comprehensive Education (the State Board). However, the sixteen colleges record the corresponding expenditures. Each college had sufficient budgetary-basis revenue and cash to provide for its budgetary-basis expenditures. To prevent an excess of expenditures over revenues in the future, the State Board plans to obtain updated expenditure estimates from the colleges during the fiscal year so that it can request additional spending authority to cover those expenditures.

### NOTE 4: 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, 2003:

# Notes to the Financial Statements

**Nonmajor Enterprise Funds:**

Patients' Compensation.....	\$ 218,514
State Housing Corporation.....	16
Tuition Prepayment Program.....	17,415
Pharmaceutical Education and Development Foundation (PEDF) of the Medical University of South Carolina.....	7,490

**Internal Service Funds:**

Employee Insurance Programs.....	79,915
State Accident Fund.....	64,194

**b. Negative Unrestricted Net Assets**

The government-wide statement of net assets displays a \$1.140 billion 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 in unrestricted net assets.

The State disburses some of the proceeds of its general obligation capital improvement bonds to local governments 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 portion of capital improvement bonds payable that is associated with these non-capital projects.

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

State school facilities bonds.....	\$ 689,095
Capital improvement bonds, non-capital purposes.....	139,748
<b>Total</b>	<b><u>\$ 828,843</u></b>

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 net to a deficit of \$220.021 million in governmental activities.

In addition, the \$146.370 million General Fund deficit contributes to the unrestricted net assets deficit for governmental activities.

## NOTE 5: DEPOSITS AND INVESTMENTS

By law, all deposits and investments are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units.

The following display reconciles the details included within this note to the accompanying financial statements at June 30, 2003 (expressed in thousands):

	State Treasurer's Deposits and Investments	Other	Total
<b>Primary Government</b>			
Deposits, carrying value.....	\$ 156,339	\$ 216,877	\$ 373,216
Investments, reported amount.....	24,603,307	9,874,147	34,477,454
Cash on hand.....	—	1,398	1,398
<b>Totals, primary government.....</b>	<b><u>\$ 24,759,646</u></b>	<b><u>\$ 10,092,422</u></b>	<b><u>\$ 34,852,068</u></b>
<b>Component Units</b>			
Deposits, carrying value.....	\$ 2,021	\$ 45,316	\$ 47,337
Investments, reported amount.....	324	940,492	940,816
Cash on hand.....	—	4	4
<b>Totals, component units.....</b>	<b><u>\$ 2,345</u></b>	<b><u>\$ 985,812</u></b>	<b><u>\$ 988,157</u></b>

	Government-wide Statement of Net Assets	Primary Government Fiduciary Funds Statement of Net Assets	Total	Component Units
<b>Current assets:</b>				
Cash and cash equivalents.....	\$ 3,458,397	\$ 4,433,712	\$ 7,892,109	\$ 142,681
Less: Unemployment Compensation Fund deposits with United States				
Treasury.....	(486,407)	—	(486,407)	—
Investments.....	47,279	20,589,167	20,636,446	181,380
Securities held in lieu of surety bonds.....	—	334,693	334,693	—
Invested securities lending collateral.....	511,321	4,457,533	4,968,854	159
Restricted assets:				
Cash and cash equivalents.....	317,130	—	317,130	67,305
Investments.....	121,241	—	121,241	71,373
<b>Long-term assets:</b>				
Investments.....	230,355	—	230,355	23,483
Restricted assets:				
Cash and cash equivalents.....	788,131	—	788,131	159,006
Investments.....	49,516	—	49,516	342,770
<b>Totals.....</b>	<b><u>\$ 5,036,963</u></b>	<b><u>\$ 29,815,105</u></b>	<b><u>\$ 34,852,068</u></b>	<b><u>\$ 988,157</u></b>

Amounts on deposit with the United States Treasury that relate to the Unemployment Compensation Fund, a major enterprise fund, are not categorized because they are neither deposits with financial institutions nor investments. The Lottery Commission, a major discretely presented component unit, is required to maintain funds on deposit with the Multi-State Lottery (MUSL). This account serves as a source for prize payouts should MUSL games not generate sufficient funds to pay prize winners. Those account deposits are recorded as restricted cash and cash equivalents on the government-wide statement of net assets and are disclosed as deposits in subsection a (Deposits) below.

## Notes to the Financial Statements

### a. Deposits

Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. At June 30, 2003, the State's deposits (expressed in thousands) were as follows:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Primary government .....	\$ 562,308	\$ 29,554	\$ 103,667	\$ 695,529	\$ 373,216
Discretely presented component units.....	\$ 19,815	\$ 318	\$ 28,895	\$ 49,028	\$ 47,337

Category 1 deposits are those covered by federal depository insurance or by collateral held by a State entity or by its agent in the entity's name. Category 2 deposits are collateralized with securities held by the pledging financial institution's trust department or agent in a State entity's name. Category 3 deposits are uncollateralized.

### b. Investments

Legally authorized investments 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. According to State law, up to 40% of the Pension Trust Funds' investments may be in equities. 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.

The State has classified its investments into three risk categories. Category 1 includes investments that were insured or registered or for which the securities were held by a State entity or its agent in the entity's name. Category 1 also includes investments for which a State entity has safekeeping responsibilities but no equity or ownership interest or control. Category 2 includes uninsured and unregistered investments for which the securities were held by the counterparty's trust department or agent in a State entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a State entity's name. The State's investments by risk category (expressed in thousands) at June 30, 2003, were as follows:

Primary Government	Category			Reported Amount	Fair Value
	1	2	3		
U.S. government securities.....	\$ 2,439,716	\$ 391,655	\$ 5,626	\$ 2,836,997	\$ 2,863,923
Corporate bonds.....	8,434,251	25,845	51	8,460,147	8,461,915
Municipal bonds.....	504,354	—	19,061	523,415	523,415
Equity securities.....	2,795,062	1,697	8,092	2,804,851	2,804,851
Repurchase agreements.....	4,444,848	4,205	1,149	4,450,202	4,450,202
Collateralized mortgage obligations.....	444,853	—	—	444,853	444,853
Asset-backed securities.....	339,093	—	—	339,093	339,093
Commercial paper.....	624,685	—	—	624,685	624,685
Securities lending program:					
Investments from cash collateral					
Corporate bonds.....	—	—	4,198,693	4,198,693	4,198,693
Repurchase agreements.....	—	—	711,256	711,256	711,256
Commercial paper.....	—	—	50,683	50,683	50,683
Other.....	24,014	42,267	3,571	69,852	71,126
Subtotals.....				25,514,727	25,544,695
Not categorized:					
Mutual funds.....				4,126,629	4,126,629
Securities lending program:					
U.S. government securities.....				3,251,606	3,251,606
Corporate bonds.....				287,550	287,550
Equity securities.....				1,296,942	1,296,942
<b>Totals—primary government.....</b>	<b>\$ 20,050,876</b>	<b>\$ 465,669</b>	<b>\$ 4,998,182</b>	<b>\$ 34,477,454</b>	<b>\$ 34,507,422</b>

## Notes to the Financial Statements

Discretely Presented Component Units	Category			Reported Amount	Fair Value
	1	2	3		
U.S. government securities.....	\$ 603,403	\$ —	\$ 98,832	\$ 702,235	\$ 702,235
Corporate bonds.....	—	—	8,314	8,314	8,314
Repurchase agreements.....	198,200	20,293	—	218,493	218,493
Securities lending program:					
Investments from cash collateral:					
Corporate bonds.....	—	—	159	159	159
Other.....	—	—	5,939	5,939	5,939
Subtotals.....				935,140	935,140
Not categorized:					
Securities lending program:					
U.S. government securities.....				156	156
Investment in primary government's investment pool.....				3	3
Mutual funds.....				5,517	5,517
<b>Totals—discretely presented component units.....</b>	<b>\$ 801,603</b>	<b>\$ 20,293</b>	<b>\$ 113,244</b>	<b>\$ 940,816</b>	<b>\$ 940,816</b>

The fiscal year for the Public Service Authority, a major discretely presented component unit, ends December 31. Included in the Public Service Authority's investments, carried at fair value, are nuclear decommissioning funds of \$100.800 million with related unrealized holding gains of \$17.400 million. All of the Authority's investments, with the exception of decommissioning funds, are limited to a maturity of ten years or less.

### c. Securities Lending Programs

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, 2003. At June 30, 2003, 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, 2003, 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, 2003, 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, 2003, 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, 2003, 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. At June 30, 2003, the fair value of the State's securities on loan was \$4.836 billion, and they are uncategorized as to custodial credit risk in the table in subsection b (Investments) above. For the State's cash collateral investments, the table includes the reported amount, fair value, and custodial credit risk by investment type.

### NOTE 6: 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, 2003, for the primary government were as follows:

## Notes to the Financial Statements

	Governmental Activities				
	Governmental Funds				Total Governmental Activities
	General	Departmental General Operating	Nonmajor Governmental Funds	Internal Service Funds	
<b>Allowances for Uncollectibles</b>					
Income taxes receivable.....	\$ 30,590	\$ —	\$ —	\$ —	\$ 30,590
Sales and other taxes receivable.....	15,043	36	42,104	—	57,183
Patient accounts receivable.....	10,876	21,329	—	—	32,205
Loans and notes receivable.....	22	6	90	—	118
Other receivables.....	60	16,582	—	80	16,722
<b>Total allowances for uncollectibles....</b>	<b>\$ 56,591</b>	<b>\$ 37,953</b>	<b>\$ 42,194</b>	<b>\$ 80</b>	<b>\$ 136,818</b>

	Business-Type Activities (Enterprise Funds)			
	Higher Education	Unemployment Compensation Benefits	Nonmajor Enterprise Funds	Total Business- Type Activities
<b>Allowance for Uncollectibles</b>				
Contributions receivable.....	\$ 1,284	\$ —	\$ —	\$ 1,284
Student accounts receivable.....	5,760	—	—	5,760
Patient accounts receivable.....	—	—	63,784	63,784
Loans and notes receivable.....	381	—	—	381
Loans and notes receivable—restricted...	234	—	347	581
Assessments receivable.....	—	5,042	—	5,042
Other receivables.....	206	2,064	—	2,270
<b>Total allowances for uncollectibles....</b>	<b>\$ 7,865</b>	<b>\$ 7,106</b>	<b>\$ 64,131</b>	<b>\$ 79,102</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, 2003, were as follows:

# Notes to the Financial Statements

	Governmental Activities						
	Governmental Funds						
	General	Department of			Internal Service Funds	Total Governmental Activities	
		General Operating	Local Government Infrastructure	Transportation Special Revenue			Nonmajor Governmental Funds
Net Long-Term Receivables							
Accounts receivable.....	\$ 396	\$ 17,760	\$ 38,587	\$ —	\$ —	\$ 165	\$ 56,908
Income taxes receivable.....	33,575	—	—	—	—	—	33,575
Sales and other taxes receivable.....	24,153	427	—	—	11,237	—	35,817
Patient accounts receivable.....	7,693	5,534	—	—	—	—	13,227
Loans and notes receivable.....	6	539	298,394	8,733	16,202	—	323,874
Accounts receivable—restricted.....	—	—	437,069	—	—	—	437,069
<b>Total noncurrent receivables, net.....</b>	<b>\$ 65,427</b>	<b>\$ 6,500</b>	<b>\$ 735,463</b>	<b>\$ 8,733</b>	<b>\$ 27,439</b>	<b>\$ —</b>	<b>\$ 843,562</b>

## NOTE 7: DETAILS OF RESTRICTED ASSETS

The purposes and amounts of the State's restricted assets at June 30, 2003 (expressed in thousands) were as follows:

Asset/Restricted For	Governmental Activities	Business Type Activities	Component Units
<b>Current:</b>			
<b>Cash and Cash Equivalents</b>			
Debt service.....	\$ 45,137	\$ 132,326	\$ 66,883
Capital projects.....	—	54,512	—
Student loan programs.....	—	108	—
Donor/sponsor specified.....	—	8,770	—
Endowments.....	—	31	—
Second Injury Fund claims.....	—	74,933	—
Other.....	—	1,313	422
<b>Total Cash and Cash Equivalents...</b>	<b>\$ 45,137</b>	<b>\$ 271,993</b>	<b>\$ 67,305</b>
<b>Investments</b>			
Debt service.....	\$ 115,109	\$ 316	\$ 71,373
Donor/sponsor specified.....	—	5,752	—
Endowments.....	—	64	—
<b>Total Investments.....</b>	<b>\$ 115,109</b>	<b>\$ 6,132</b>	<b>\$ 71,373</b>
<b>Loans Receivable</b>			
Student loan programs.....	\$ —	\$ 258	\$ —
<b>Other</b>			
Debt service.....	\$ 2,404	\$ 259	\$ —
Capital projects.....	—	18	—
Donor/sponsor specified.....	—	636	—
Second Injury Fund claims.....	—	1,120	—
Other.....	—	36	—
<b>Total Other.....</b>	<b>\$ 2,404</b>	<b>\$ 2,069</b>	<b>\$ —</b>

Asset/Restricted For	Governmental Activities	Business Type Activities	Component Units
<b>Noncurrent:</b>			
<b>Cash and Cash Equivalents</b>			
Debt service.....	\$ 335,030	\$ 189,069	\$ 19,318
Capital projects.....	167,096	70,348	139,688
Student loan programs.....	—	7,635	—
Endowments.....	—	17,398	—
Other.....	—	1,555	—
<b>Total Cash and Cash Equivalents.....</b>	<b>\$ 502,126</b>	<b>\$ 286,005</b>	<b>\$ 159,006</b>
<b>Investments</b>			
Debt service.....	\$ —	\$ 15,246	\$ 71,757
Capital projects.....	—	190	271,013
Student loan programs.....	—	486	—
Endowments.....	—	33,594	—
<b>Total Investments.....</b>	<b>\$ —</b>	<b>\$ 49,516</b>	<b>\$ 342,770</b>
<b>Accounts Receivable</b>			
Debt service.....	\$ 437,069	\$ —	\$ —
<b>Loans Receivable</b>			
Debt service.....	\$ —	\$ 537,145	\$ —
Student loan programs.....	—	50,082	—
<b>Total Loans Receivable.....</b>	<b>\$ —</b>	<b>\$ 587,227</b>	<b>\$ —</b>
<b>Other</b>			
Debt service.....	\$ 6,324	\$ 5,229	\$ —
Capital projects.....	—	—	41
Donor/sponsor specified.....	—	1,079	—
Endowments.....	—	360	—
Other.....	—	4	—
<b>Total Other.....</b>	<b>\$ 6,324</b>	<b>\$ 6,672</b>	<b>\$ 41</b>

## NOTE 8: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2003, for the primary government was as follows:

## Notes to the Financial Statements

	Beginning Balances July 1, 2002	Increases	Decreases	Ending Balances June 30, 2003
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 629,576	\$ 213,589	\$ (2,731)	\$ 840,434
Construction in progress.....	3,202,996	718,564	(663,558)	3,258,002
Works of art and historical treasures.....	966	2,694	—	3,660
<i>Total capital assets not being depreciated.....</i>	<u>3,833,538</u>	<u>934,847</u>	<u>(666,289)</u>	<u>4,102,096</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	49,939	2,083	—	52,022
Infrastructure (road and bridge network).....	6,829,917	577,343	(3,231)	7,404,029
Buildings and improvements.....	1,297,049	78,295	(4,119)	1,371,225
Vehicles.....	514,487	46,992	(25,237)	536,242
Machinery and equipment.....	395,320	19,972	(20,392)	394,900
Depreciable works of art and historical treasures.....	8	—	—	8
Intangibles.....	14,082	25,648	(674)	39,056
Total capital assets being depreciated, at historical cost.....	<u>9,100,802</u>	<u>750,333</u>	<u>(53,653)</u>	<u>9,797,482</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(30,745)	(2,897)	—	(33,642)
Infrastructure (road and bridge network).....	(1,654,928)	(104,143)	2,739	(1,756,332)
Buildings and improvements.....	(452,351)	(30,640)	2,085	(480,906)
Vehicles.....	(336,422)	(40,896)	22,502	(354,816)
Machinery and equipment.....	(273,654)	(27,146)	18,080	(282,720)
Depreciable works of art and historical treasures.....	—	(1)	—	(1)
Intangibles.....	(8,000)	(10,331)	673	(17,658)
Total accumulated depreciation.....	<u>(2,756,100)</u>	<u>(216,054)</u>	<u>46,079</u>	<u>(2,926,075)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>6,344,702</u>	<u>534,279</u>	<u>(7,574)</u>	<u>6,871,407</u>
<b>Capital assets for governmental activities, net.....</b>	<u><b>\$ 10,178,240</b></u>	<u><b>\$ 1,469,126</b></u>	<u><b>\$ (673,863)</b></u>	<u><b>\$ 10,973,503</b></u>

## Notes to the Financial Statements

	Beginning Balances July 1, 2002	Increases	Decreases	Ending Balances June 30, 2003
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 153,246	\$ 12,531	\$ (1,799)	\$ 163,978
Construction in progress.....	331,024	206,951	(249,566)	288,409
Works of art and historical treasures.....	16,699	110	—	16,809
<i>Total capital assets not being depreciated.....</i>	<u>500,969</u>	<u>219,592</u>	<u>(251,365)</u>	<u>469,196</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	57,977	8,080	(68)	65,989
Buildings and improvements.....	2,419,303	305,312	(1,001)	2,723,614
Vehicles.....	34,647	3,950	(1,414)	37,183
Machinery and equipment.....	507,244	66,422	(31,377)	542,289
Depreciable works of art and historical treasures.....	6,967	—	—	6,967
Intangibles.....	12,306	3,109	(548)	14,867
Total capital assets being depreciated, at historical cost.....	<u>3,038,444</u>	<u>386,873</u>	<u>(34,408)</u>	<u>3,390,909</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(26,424)	(2,525)	—	(28,949)
Buildings and improvements.....	(939,467)	(74,915)	558	(1,013,824)
Vehicles.....	(25,959)	(3,519)	1,394	(28,084)
Machinery and equipment.....	(330,802)	(40,533)	27,621	(343,714)
Depreciable works of art and historical treasures.....	(4,602)	(145)	—	(4,747)
Intangibles.....	(6,454)	(3,437)	60	(9,831)
Total accumulated depreciation.....	<u>(1,333,708)</u>	<u>(125,074)</u>	<u>29,633</u>	<u>(1,429,149)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>1,704,736</u>	<u>261,799</u>	<u>(4,775)</u>	<u>1,961,760</u>
<b>Capital assets for business-type activities, net.....</b>	<u><b>\$ 2,205,705</b></u>	<u><b>\$ 481,391</b></u>	<u><b>\$ (256,140)</b></u>	<u><b>\$ 2,430,956</b></u>

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2003, for the State's major discretely presented component units was as follows:

## Notes to the Financial Statements

	Beginning Balances July 1, 2002	Increases	Decreases	Ending Balances June 30, 2003
<b>Public Service Authority:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 87,770	\$ 5,455	\$ (22)	\$ 93,203
Construction in progress.....	410,712	231,518	(420,446)	221,784
<i>Total capital assets not being depreciated.....</i>	<u>498,482</u>	<u>236,973</u>	<u>(420,468)</u>	<u>314,987</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements (utility plant).....	3,395,111	411,802	(28,790)	3,778,123
Vehicles.....	29,424	97	(615)	28,906
Machinery and equipment.....	18,387	1,421	(1,157)	18,651
Intangibles.....	38,674	1,686	—	40,360
Total capital assets being depreciated, at historical cost.....	<u>3,481,596</u>	<u>415,006</u>	<u>(30,562)</u>	<u>3,866,040</u>
Less accumulated depreciation for:				
Buildings and improvements (utility plant).....	(1,417,156)	(126,930)	28,790	(1,515,296)
Vehicles.....	(15,161)	(30)	615	(14,576)
Machinery and equipment.....	(7,938)	(444)	1,157	(7,225)
Intangibles.....	(27,057)	(6,211)	—	(33,268)
Total accumulated depreciation.....	<u>(1,467,312)</u>	<u>(133,615)</u>	<u>30,562</u>	<u>(1,570,365)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,014,284</u>	<u>281,391</u>	<u>—</u>	<u>2,295,675</u>
<b>Public Service Authority, net.....</b>	<b><u>\$ 2,512,766</u></b>	<b><u>\$ 518,364</u></b>	<b><u>\$ (420,468)</u></b>	<b><u>\$ 2,610,662</u></b>

	Beginning Balances July 1, 2002	Increases	Decreases	Ending Balances June 30, 2003
<b>State Ports Authority:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 142,929	\$ 3,260	\$ (6,827)	\$ 139,362
Construction in progress.....	40,848	14,598	(1,857)	53,589
<i>Total capital assets not being depreciated.....</i>	<u>183,777</u>	<u>17,858</u>	<u>(8,684)</u>	<u>192,951</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	146,944	3,308	—	150,252
Buildings and improvements.....	246,335	1,480	(225)	247,590
Machinery and equipment.....	74,584	3,565	(1,648)	76,501
Total capital assets being depreciated, at historical cost.....	<u>467,863</u>	<u>8,353</u>	<u>(1,873)</u>	<u>474,343</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(79,773)	(6,306)	—	(86,079)
Buildings and improvements.....	(115,914)	(9,820)	225	(125,509)
Machinery and equipment.....	(34,343)	(6,062)	1,648	(38,757)
Total accumulated depreciation.....	<u>(230,030)</u>	<u>(22,188)</u>	<u>1,873</u>	<u>(250,345)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>237,833</u>	<u>(13,835)</u>	<u>—</u>	<u>223,998</u>
<b>State Ports Authority, net.....</b>	<b><u>\$ 421,610</u></b>	<b><u>\$ 4,023</u></b>	<b><u>\$ (8,684)</u></b>	<b><u>\$ 416,949</u></b>

## Notes to the Financial Statements

	Beginning Balances July 1, 2002	Increases	Decreases	Ending Balances June 30, 2003
<b>Connector 2000 Association, Inc.:</b>				
<i>Capital assets being depreciated:</i>				
Infrastructure (toll road).....	\$ 188,287	\$ 3,472	\$ —	\$ 191,759
Machinery and equipment.....	440	—	—	440
Total capital assets being depreciated, at historical cost.....	188,727	3,472	—	192,199
Less accumulated depreciation for:				
Infrastructure (toll road).....	(3,830)	(5,142)	—	(8,972)
Machinery and equipment.....	(88)	(88)	—	(176)
Total accumulated depreciation.....	(3,918)	(5,230)	—	(9,148)
<i>Total capital assets being depreciated, net.....</i>	184,809	(1,758)	—	183,051
<b>Connector 2000 Association, Inc., net.....</b>	<b>\$ 184,809</b>	<b>\$ (1,758)</b>	<b>\$ —</b>	<b>\$ 183,051</b>

	Beginning Balances July 1, 2002	Increases	Decreases	Ending Balances June 30, 2003
<b>Lottery Commission:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and improvements.....	\$ 579	\$ 45	\$ —	\$ 624
Vehicles.....	48	21	—	69
Machinery and equipment.....	17,686	1,585	—	19,271
Total capital assets being depreciated, at historical cost.....	18,313	1,651	—	19,964
Less accumulated depreciation for:				
Buildings and improvements.....	(18)	(124)	—	(142)
Vehicles.....	(7)	(19)	—	(26)
Machinery and equipment.....	(1,445)	(3,179)	—	(4,624)
Total accumulated depreciation.....	(1,470)	(3,322)	—	(4,792)
<i>Total capital assets being depreciated, net.....</i>	16,843	(1,671)	—	15,172
<b>Lottery Commission, net.....</b>	<b>\$ 16,843</b>	<b>\$ (1,671)</b>	<b>\$ —</b>	<b>\$ 15,172</b>

During the fiscal year ended June 30, 2003, depreciation expense was charged to functions of the primary government and its major discretely

presented component units as follows (expressed in thousands):

# Notes to the Financial Statements

	Governmental Funds	Internal Service Funds	Total Governmental Activities
General government.....	\$ 9,289	\$ 8,486	\$ 17,775
Education.....	18,659	1,249	19,908
Health and environment.....	16,532	1,073	17,605
Social services.....	854	1,759	2,613
Administration of justice.....	27,952	1,290	29,242
Resources and economic development.....	8,761	236	8,997
Transportation.....	119,914	—	119,914
<b>Total depreciation expense, governmental activities...</b>	<b>\$ 201,961</b>	<b>\$ 14,093</b>	<b>\$ 216,054</b>

	Business- Type Activities
Higher Education.....	\$ 103,396
Housing Authority.....	31
Education Assistance Authority.....	25
Other.....	21,622
<b>Total depreciation expense, business-type activities.....</b>	<b>\$ 125,074</b>

	Major Component Units
Public Service Authority.....	\$ 133,615
State Ports Authority.....	22,188
Connector 2000 Association, Inc.....	5,230
South Carolina Lottery Commission.....	3,322

At June 30, 2003, the primary government had outstanding construction commitments totaling \$824.358 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled \$56.795 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 \$6.662 million at June 30, 2003, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: \$377.905 million for the Public Service Authority at December 31, 2002; \$14.100 million for the State Ports Authority at June 30, 2003; and \$777 thousand for the Connector 2000 Association, Inc., at December 31, 2002.

The total interest expense incurred by the State's enterprise and internal service funds during the current fiscal year was \$82.536 million and \$2.174 million, respectively. Of the amount incurred by the State's enterprise funds, \$6.179 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 \$161.227 million during its fiscal

year ended December 31, 2002, 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 \$6.604 million during its fiscal year ended June 30, 2003, of which \$802 thousand was included as part of the cost of capital assets under construction. The Connector 2000 Association, Inc., a major discretely presented component unit, incurred total interest costs of \$13.731 million during its fiscal year ended December 31, 2002, none of which was included in the cost of capital assets under construction. The Lottery Commission, a major discretely presented component unit, incurred total interest costs of \$816 thousand during its fiscal year ended June 30, 2003, none of which was included in the cost of capital assets under construction.

In September 2003, an institution reported in the State's Higher Education Fund, a major enterprise fund, entered into a \$9.000 million contract to construct a new building to house its School of Business.

## NOTE 9: 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 System  
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

## Notes to the Financial Statements

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. 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 twelve years of service in a position as a judge or solicitor. Members may retire at age seventy with fifteen years of service, at age sixty-five with twenty years of service, or at any age with twenty-five years of service. 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 at June 30, 2003, is as follows:

	SCRS	PORS	GARS	JSRS
<b>State and school</b>				
Number of employers.....	97	4	1	1
Annual covered payroll.....	\$ 4,670,715	\$ 309,767	\$ 3,262	\$ 14,241
Average number of contributing members.....	144,604	10,418	170	128
<b>Other participating employers</b>				
Number of employers.....	545	261	—	—
Annual covered payroll.....	\$ 1,368,703	\$ 469,336	\$ —	\$ —
Average number of contributing members.....	49,420	14,266	—	—

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 5b 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, 2003, were as follows:

Plan	Rate
SCRS	6.0% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10.0% of earnable compensation
JSRS	7.0% of earnable compensation

Actuarially determined employer contribution rates for the four plans, expressed as percentages of compensation, for the fiscal year ended June 30, 2003, were as follows:

Plan	Rate
SCRS	7.70%
PORS	10.70%
GARS	79.00%
JSRS	41.66%

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, 2003, were \$1.550 million for SCRS and \$17 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:

## Notes to the Financial Statements

	GARS	JSRS
Annual pension cost.....	\$2,577	\$6,014
Employer contributions made.....	\$2,577	\$6,014
Actuarial valuation date.....	July 1, 2002	July 1, 2002
Actuarial cost method.....	Entry age	Entry age
Amortization method.....	Level percent, closed	Level percent, open
Remaining amortization period.....	25 years	30 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.....	2.00%	5.25%
Assumed inflation rate.....	4.25%	4.25%
Assumed cost-of-living adjustments.....	2.00%	4.25%

### 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 9f for funding status and progress.

	Fiscal Year Ended					
	June 30, 2003		June 30, 2002		June 30, 2001	
	Required	%	Required	%	Required	%
SCRS–State:						
Primary government.....	\$ 176,152	100%	\$ 181,217	100%	\$ 176,045	100%
Component units.....	9,595	100%	9,089	100%	8,808	100%
PORS–State:						
Primary government.....	\$ 34,566	100%	\$ 39,495	100%	\$ 40,079	100%
Component units.....	30	100%	25	100%	21	100%

## Notes to the Financial Statements

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 9f for funding status and progress:

Plan	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
GARS	2001	\$ 2,510	100%	\$ —
	2002	2,627	100%	—
	2003	2,577	100%	—
JSRS	2001	\$ 5,875	100%	\$ —
	2002	5,993	100%	—
	2003	6,014	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:

Plan	Actuarial Valuation Date July 1	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SCRS	2000	\$ 17,286,108	\$ 19,414,972	\$ 2,128,864	89.0%	\$ 5,881,847	36.2%
	2001	18,486,773	21,162,147	2,675,374	87.4%	6,017,537	44.5%
	2002	19,298,174	22,446,574	3,148,400	86.0%	6,147,712	51.2%
PORS	2000	\$ 2,008,554	\$ 2,095,991	\$ 87,437	95.8%	\$ 716,749	12.2%
	2001	2,197,982	2,324,257	126,275	94.6%	757,335	16.7%
	2002	2,351,100	2,527,876	176,776	93.0%	757,393	23.3%

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

Plan	Actuarial Valuation Date July 1	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
GARS	2000	\$ 40,730	\$ 64,616	\$ 23,886	63.0%	\$ 4,858	491.7%
	2001	42,788	68,291	25,503	62.7%	4,761	535.7%
	2002	43,841	73,046	29,205	60.0%	4,515	646.8%
JSRS	2000	\$ 87,536	\$ 144,631	\$ 57,095	60.5%	\$ 13,214	432.1%
	2001	94,795	159,246	64,451	59.5%	14,109	456.8%
	2002	100,074	166,440	66,366	60.1%	14,211	467.0%

## Notes to the Financial Statements

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, 2003, for the four plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	Totals
<b>Receivables:</b>					
Contributions.....	\$ 107,547	\$ 12,692	\$ 52	\$ 324	\$ 120,615
Employer long-term.....	1,550	17	—	—	1,567
Accrued interest.....	144,152	16,171	385	905	161,613
Unsettled investment sales.....	18,013	2,055	44	98	20,210
<b>Total receivables.....</b>	<b>\$ 271,262</b>	<b>\$ 30,935</b>	<b>\$ 481</b>	<b>\$ 1,327</b>	<b>\$ 304,005</b>
<b>Due from other funds.....</b>	<b>\$ 2,936</b>	<b>\$ 836</b>	<b>\$ 4</b>	<b>\$ —</b>	<b>\$ 3,776</b>
<b>Investments and invested securities lending collateral:</b>					
United States government securities.....	\$ 1,994,697	\$ 196,796	\$ 4,016	\$ 3,179	\$ 2,198,688
United States government agencies and government-insured securities.....	1,580,521	196,529	3,768	11,956	1,792,774
Corporate bonds.....	4,611,780	525,793	11,908	29,470	5,178,951
Financial and other.....	2,336,091	254,640	4,225	9,646	2,604,602
Equities.....	7,034,108	833,168	16,130	36,023	7,919,429
Invested securities lending collateral.....	3,535,984	352,687	8,633	15,589	3,912,893
<b>Total investments.....</b>	<b>\$ 21,093,181</b>	<b>\$ 2,359,613</b>	<b>\$ 48,680</b>	<b>\$ 105,863</b>	<b>\$ 23,607,337</b>

## Notes to the Financial Statements

### h. Teacher and Employee Retention Incentive Program

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

TERI participants retain the same status and employment rights they held upon entering the program but are not considered active employees for purposes of the group life insurance and disability retirement programs. A TERI retiree's monthly benefits are accrued and remain in the SCRS trust account during the TERI participation period, but no interest is accrued or paid thereon. Upon termination of employment or at the end of the TERI participation period (whichever is earlier), a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution.

A total of 10,946 members were participating in the TERI program at June 30, 2003. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2003, was as follows:

Beginning balance of TERI trust accounts..	\$	229,590
Additions .....		240,667
TERI distributions at termination.....		(45,351)
Ending balance of TERI trust accounts.....	\$	<u>424,906</u>

### 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, 2002, the date of the latest biennial actuarial valuation:

	<u>NGPS</u>
Retirees and beneficiaries receiving benefits.....	2,213
Terminated employees entitled to benefits but not yet receiving them.....	2,901
Active employees.....	<u>4,010</u>
Total participants.....	<u><u>9,124</u></u>

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 5b specifies the method used to value pension trust fund investments.

#### Contributions and Reserves

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 25 of the South Carolina Code of Laws prescribes requirements relating to membership, benefits, and employer contributions for the NGPS.

In accordance with State law, the State Adjutant General's Office administers the plan. Administrative charges are financed through investment earnings. The State funded the plan on an actuarial basis for the fiscal years ended June 30, 1994, through June 30, 1996. From July 1, 1996, through the present time, however, the plan has not been fully funded in accordance with actuarial recommendations. Members do not contribute.

The net assets of the National Guard Pension System are held in trust for the purpose of paying the supplemental retirement benefits to eligible members. The balance at June 30, 2003, was \$11.466 million.

## Notes to the Financial Statements

### 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.....	\$2,759
Employer contributions made.....	\$2,133
Actuarial valuation date.....	June 30, 2002
Actuarial cost method.....	Entry age normal
Amortization method.....	Level dollar, open
Remaining amortization period.....	30 years
Asset valuation method.....	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, 2003 (expressed in thousands):

	<u>NGPS</u>
Actuarially required contribution (ARC).....	\$ 2,870
Interest on the NPO.....	473
Adjustment to the ARC.....	(584)
Annual pension cost.....	<u>2,759</u>
Contributions made.....	<u>2,133</u>
Increase in NPO.....	626
NPO beginning of year.....	6,525
NPO end of year.....	<u>\$ 7,151</u>

The State recognized \$2.133 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)
1998	\$ 8,640	\$ 41,478	\$ 32,838	20.8%	\$ 40,333	81.4%
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%

# Notes to the Financial Statements

## 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):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2001	\$ 2,947	71.7%	\$ 5,720
2002	3,060	73.7%	6,525
2003	2,759	77.3%	7,151

## 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, 2003  
(Expressed in Thousands)**

<b>ASSETS</b>	
Cash and cash equivalents.....	\$ 11,332
Accrued interest receivable.....	134
Invested securities lending collateral.....	1,000
<b>Total assets.....</b>	<b>12,466</b>
<b>LIABILITIES</b>	
Securities lending collateral.....	1,000
<b>Total liabilities.....</b>	<b>1,000</b>
<b>NET ASSETS</b>	
<b>Held in trust for pension benefits....</b>	<b>\$ 11,466</b>

**Statement of Changes in Plan Net Assets  
National Guard Pension System  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

<b>Additions:</b>	
Employer retirement contributions.....	\$ 2,133
Investment income.....	925
<b>Total additions.....</b>	<b>3,058</b>
<b>Deductions:</b>	
Regular retirement benefits.....	2,231
Administrative expense.....	27
<b>Total deductions.....</b>	<b>2,258</b>
<b>Net increase in plan net assets.....</b>	<b>800</b>
<b>Net assets held in trust for pension benefits:</b>	
<b>Beginning of year.....</b>	<b>10,666</b>
<b>End of year.....</b>	<b>\$ 11,466</b>

## j. Defined Contribution Plan

The State previously reported two defined contribution plans, the Optional Retirement Plan (ORP) and the State Optional Retirement Plan (State ORP). Effective July 1, 2002, State law combined the two plans into one. We refer to that plan as *State ORP*.

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, 2003:

Covered payroll.....	\$ 324,900
Employee contributions.....	19,500
Employer contributions.....	16,200

## NOTE 10: 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, 25,113 retirees meet these eligibility requirements.

Eligible retirees choose among two health insurance plans and (effective January 1, 2003) two Health Maintenance Organization (HMO) options, all of which are underwritten by the State. The two health insurance plans are the Economy Plan and the Standard Plan. In accordance with contractual provisions of these plans, participants must meet specified annual deductible requirements. The Standard Plan pays 80.0% of allowable claims in excess of deductibles, and the Economy Plan pays 75.0% of allowable claims in excess of deductibles. There are no annual deductible requirements for the HMO options, and they pay 90.0% of allowable claims. Participants in the health insurance plans and the HMO options must pay co-payments for

## Notes to the Financial Statements

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, 2003, the State recognized expenses (net of participant contributions) of \$99.745 million to provide health and dental benefits to State participants in post-employment status. Approximately \$3.000 million of the post-employment benefit expense total was due to the HMO options becoming self-insured effective on January 1, 2003.

Effective January 1, 2004, the State health insurance plans will increase annual deductibles, annual out-of-pocket maximums, per-occurrence deductibles for outpatient hospital services, per-occurrence deductibles for emergency room services, and prescription drug copayments.

### NOTE 11: 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 \$206.884 million at June 30, 2003, includes a provision for claims in the process of review and for claims incurred but not reported. The liability for claims incurred but not reported is an actuarial estimate based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. This process does not necessarily result in an exact amount. The IRF continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

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

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2002	\$ 168,243	\$ 57,242	\$ (40,481)	\$ 185,004
2003	185,004	51,752	(29,872)	206,884

The IRF purchases aircraft and ocean marine insurance, areas in which the IRF has limited expertise.

The IRF purchases reinsurance to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional 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. For medical professional liability insurance, the IRF acquires reinsurance for catastrophic losses for losses exceeding \$250 thousand per occurrence for claims incurred prior to November 2002 and \$550 thousand thereafter. 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 a self-insured health maintenance organization (HMO) or another State self-insured plan. 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.

## Notes to the Financial Statements

The Employee Insurance Programs Fund establishes claims liabilities when information before the issuance of the financial statements indicates that it is probable that the Fund has incurred a reasonably estimable liability 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 \$188,153 million at June 30, 2003, 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 2003, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2003, \$26,780 million relates to group life and long-term disability insurance coverage and \$3.601 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
2002	\$ 141,029	\$ 916,728	\$ (902,688)	\$ 155,069
2003	155,069	1,075,485	(1,042,401)	188,153

### 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, 2003, the Fund's policy claims liability was \$76.849 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
2002	\$ 57,152	\$ 59,572	\$ (48,403)	\$ 68,321
2003	68,321	58,808	(50,280)	76,849

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of \$500 thousand are covered up to limits of statutory liability; the Fund retains the risk for the first \$500 thousand of loss. Reinsurance permits partial recovery of losses from reinsurers; but the Fund, as direct insurer of the risks, remains primarily liable. Effective November 15, 2002, reinsurance coverage reduces the Fund's exposure to losses on insured events related to State-owned aircraft in excess of \$1 million per occurrence up to a limit of \$9 million.

### 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

## Notes to the Financial Statements

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, 2003, the policy claims liabilities were \$210.312 million for the PCF and \$142.576 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, however, 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 million with the exception of Rainey Generating Station, which carries an approximate \$2.5 million deductible, and named storm losses, which carry deductibles from \$1 million up to \$15 million. In addition, a \$1.4 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 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 2002.

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, 2002, the amount of these liabilities, reported in the accompanying financial statements as part of the other current liabilities account, was \$1.566 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
2001	\$ 1,907	\$ 1,175	\$ (1,656)	\$ 1,426
2002	1,426	1,574	(1,434)	1,566

## Notes to the Financial Statements

### NOTE 12: 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, 2003 (expressed in thousands), follow for the primary government and for the State's major discretely presented component units, respectively:

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities	Totals
2004	\$ 1,268	\$ 13,773	\$ 15,041
2005	1,250	12,171	13,421
2006	1,218	11,605	12,823
2007	1,161	10,319	11,480
2008	510	6,443	6,953
2009 - 2013	191	14,715	14,906
2014 - 2018	—	13,096	13,096
2019 - 2023	—	2,622	2,622
<b>Total minimum payments</b> .....	<b>5,598</b>	<b>84,744</b>	<b>90,342</b>
Less: interest and executory costs.....	(1,492)	(19,299)	(20,791)
<b>Present value of net minimum payments</b> .....	<b>\$ 4,106</b>	<b>\$ 65,445</b>	<b>\$ 69,551</b>

Fiscal Year Ending December 31	Public Service Authority
2003	\$ 3,819
2004	3,708
2005	3,604
2006	3,388
2007	3,335
2008 - 2012	10,663
2013 - 2017	1,314
<b>Total minimum payments</b> .....	<b>29,831</b>
Less: interest and executory costs.....	(5,553)
<b>Present value of net minimum payments</b> .....	<b>\$ 24,278</b>

Fiscal Year Ending June 30	State Ports Authority
2004	\$ 43
2005	43
2006	6
<b>Total minimum payments</b> .....	<b>92</b>
Less: interest and executory costs.....	(8)
<b>Present value of net minimum payments</b> .....	<b>\$ 84</b>

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2003, 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.....	\$ —	\$ 5,911	\$ 5,911	\$ —	\$ —
Buildings and improvements.....	6,540	53,587	60,127	93,000	—
Machinery and equipment.....	2,482	9,998	12,480	—	163
Works of art and historical treasures.....	—	1,130	1,130	—	—
<b>Assets acquired under capital leases before accumulated amortization</b> .....	<b>9,022</b>	<b>70,626</b>	<b>79,648</b>	<b>93,000</b>	<b>163</b>
Less: accumulated amortization.....	(3,027)	(19,848)	(22,875)	(75,100)	(85)
<b>Assets acquired under capital leases, net</b> .....	<b>\$ 5,995</b>	<b>\$ 50,778</b>	<b>\$ 56,773</b>	<b>\$ 17,900</b>	<b>\$ 78</b>

## Notes to the Financial Statements

For the primary government's fiscal year ended June 30, 2003, minimum rental payments under operating leases were \$64.505 million and contingent rental payments were \$8.640 million. The State's contingent rental payments are for copiers, with expense being determined on a cost-per-copy basis.

For the Public Service Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$6.000 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$884 thousand. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$772 thousand.

At June 30, 2003, 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
2004	\$ 31,097	\$ 619
2005	24,610	578
2006	15,766	269
2007	11,506	48
2008	5,975	4
2009 - 2013	14,254	—
2014 - 2018	4,821	—
2019 - 2023	3,256	—
2024 - 2028	856	—
2029 - 2033	13	—
<b>Total minimum payments.....</b>	<b>\$ 112,154</b>	<b>\$ 1,518</b>

At December 31, 2002, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) for the Public Service Authority, a major discretely presented component unit, were as follows:

Fiscal Year Ending December 31	Component Unit—Public Service Authority
2003	\$ 4,700
2004	2,400
2005	1,300
<b>Total minimum payments.....</b>	<b>\$ 8,400</b>

### b. Facilities Leased to Others

At June 30, 2003, 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 \$425.470 million and related accumulated depreciation of \$127.862 million. Future minimum rental payments to be received at June 30, 2003, under these

operating leases (expressed in thousands) were as follows:

Fiscal Year Ending June 30	Component Unit—State Ports Authority
2004	\$ 22,915
2005	14,178
2006	877
2007	471
2008	471
2009-2013	2,994
<b>Total.....</b>	<b>\$ 41,906</b>

## NOTE 13: BONDS, NOTES, AND CERTIFICATES OF PARTICIPATION 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, 2003, were:

<b>Governmental Activities</b>		
Capital improvement bonds, 1.375% to 5.90%.....	\$	919,382
State highway bonds, 2.00% to 6.50%.....		630,730
State school facilities bonds, 3.00% to 5.75%.....		689,095
<b>Subtotal—governmental activities.....</b>		<b>2,239,207</b>
<b>Business-type Activities, Higher Education Fund</b>		
State institution bonds, 2.50% to 7.00%.....		208,968
<b>Total—general obligation bonds payable.....</b>		<b>\$ 2,448,175</b>

At June 30, 2003, \$94.522 million of capital improvement bonds were authorized but unissued.

At June 30, 2003, 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
2004	\$ 164,530	\$ 102,252	\$ 10,120	\$ 9,478
2005	178,343	95,053	10,680	8,936
2006	172,119	86,984	11,280	8,398
2007	160,270	79,017	11,790	7,856
2008	166,955	71,576	11,645	7,315
2009-2013	748,754	244,661	60,625	28,884
2014-2018	538,610	86,454	62,665	14,677
2019-2023	107,560	9,769	30,160	3,221
<b>Total debt service requirements.....</b>	<b>2,237,141</b>	<b>\$ 775,766</b>	<b>208,965</b>	<b>\$ 88,765</b>
Unamortized premiums.....	10,068		3	
Deferred amount on refunding.....	(8,002)		—	
<b>Total principal outstanding.....</b>	<b>\$ 2,239,207</b>		<b>\$ 208,968</b>	

The Department of Transportation Special Revenue Fund, a major governmental fund, pays the

# Notes to the Financial Statements

debt service for the State highway 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, 2003, was \$11.131 million in total for all institution bonds, \$22.012 million for highway bonds, and \$24.978 million for general obligation bonds excluding institution and highway 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, 2003, which are reported in the internal service funds, totaled \$27.040 million. Interest rates on these bonds ranged from 4.00% to 6.10%.

At June 30, 2003, 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, 2003, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Governmental Activities (Internal Service Funds)	
	Principal	Interest
2004	\$ 3,755	\$ 1,285
2005	3,930	1,111
2006	4,120	924
2007	4,320	725
2008	1,640	542
2009-2013	6,975	1,612
2014-2018	2,415	151
<b>Total debt service requirements.....</b>	<b>27,155</b>	<b>\$ 6,350</b>
Unamortized discounts.....	(115)	
<b>Total principal outstanding.....</b>	<b>\$ 27,040</b>	

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

## c. Revenue, Tobacco Authority, Infrastructure Bank, and Other Bonds, Notes, and Certificates of Participation

Revenue debt is associated with business-type activities. Revenue, Tobacco Settlement Revenue Management Authority (Tobacco Authority), Infrastructure Bank, and other bonds, notes, and certificates of participation are not backed by the full faith, credit, and taxing power of the State. Balances

of these types of debt outstanding (expressed in thousands) at June 30, 2003, were:

	Bonds	Notes	Certificates of Participation
<b>Primary Government:</b>			
<b>Governmental Activities:</b>			
Infrastructure Bank bonds, 4.45% to 6.00%.....	\$ 1,463,582	\$ —	\$ —
Tobacco Authority bonds, 6.00% to 7.666%.....	869,870	—	—
Educational Television Network note, 3.29%.....	—	3,565	—
Natural Resources Department note, 4.59%.....	—	367	—
Judicial Department note, 3.98%.....	—	270	—
Jobs—Economic Development Authority notes, 8.75% to 9.00%.....	—	25	—
Budget and Control Board internal service fund bond and notes 3.00% to 5.00%.....	26,034	3,168	—
<b>Totals—governmental activities.....</b>	<b>2,359,486</b>	<b>7,395</b>	<b>—</b>
<b>Business-type Activities:</b>			
Higher Education Fund bonds and notes, 3.00% to 8.50%.....	304,008	16,556	—
Housing Authority Fund bonds, 1.57% to 8.30%.....	555,733	—	—
Education Assistance Authority Fund bonds, 3.50% to 6.63%.....	502,771	—	—
<b>Nonmajor enterprise funds:</b>			
Nonmajor enterprise fund bonds and notes, 3.00% to 8.00%.....	117,542	49,578	—
Direct note obligations, 5.82% to 6.82%.....	—	97,000	—
Certificates of participation, 7.45% to 7.50%.....	—	—	13,525
<b>Totals—business-type activities.....</b>	<b>1,480,054</b>	<b>163,134</b>	<b>13,525</b>
<b>Totals—primary government.....</b>	<b>\$ 3,839,540</b>	<b>\$ 170,529</b>	<b>\$ 13,525</b>
<b>Major Discretely Presented Component Units:</b>			
Public Service Authority bonds, 2.50% to 7.42%.....	\$ 2,285,448	\$ —	\$ —
State Ports Authority bonds and notes, 1.35% to 6.20%.....	\$ 146,251	\$ 537	\$ —
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%.....	\$ 242,177	\$ —	\$ —
Lottery Commission notes, 8.00%.....	\$ —	\$ 9,725	\$ —

During the fiscal year ended June 30, 2003, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate swap agreement on its revenue bonds to maximize income. The agreement terminates in 2013. 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 TBMA Municipal SWAP Index. The notional amount for this agreement is \$49.440 million. Through June 30, 2003, the Bank had interest income of \$746 thousand and interest expense of \$232 thousand attributable to the agreement.

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 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

## Notes to the Financial Statements

May 15, 2024, for the 1994 and 1999A portions and May 15, 2027, for the 1999B portion. The notional amounts as of June 30, 2003, are as follows: Series 1994 obligations—\$9.400 million; Series 1999A obligations—\$37.550 million; and Series 1999B obligations—\$43.350 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$10.850 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, 2003, were 1.31% for the 1994 obligations, 0.995% for the 1999A obligations, and 0.95% 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 year ended June 30, 2003, 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 \$3.433 million on the 1994 obligations, \$13.040 million on the 1999A obligations, and \$11.221 million for the 1999B obligations as of June 30, 2003. 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 connection with a new loan of \$13.500 million, 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. 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, 2003, was \$13.500 million and the variable rate in effect at that date was 1.07%. 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, 2003, the swap had a negative fair value of \$126 thousand. Termination of the agreement would subject the Corporation to the risk of fluctuating interest rates.

As of June 30, 2003, debt service requirements of the UMA and the Corporation variable rate debt and net swap payments (expressed in thousands), assuming current interest rates remain the same for their term, were as follows:

Year Ending June 30	Variable Rate Notes		Interest Rate	Totals
	Principal	Interest	Swaps, Net	
2004	\$ 3,350	\$ 995	\$ 4,995	\$ 9,340
2005	2,750	1,017	4,970	8,737
2006	3,350	988	4,849	9,187
2007	3,445	954	4,701	9,100
2008	3,595	919	4,549	9,063
2009 - 2013	23,760	3,973	20,060	47,793
2014 - 2018	18,500	2,784	14,696	35,980
2019 - 2023	28,900	1,688	8,889	39,477
2024 - 2028	16,200	313	1,616	18,129
<b>Totals.....</b>	<b>\$ 103,850</b>	<b>\$ 13,631</b>	<b>\$ 69,325</b>	<b>\$ 186,806</b>

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, notes, and certificates of participation 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

Budget and Control Board bonds: loan repayments

Jobs-Economic Development Authority notes: loan repayments

##### Business-type Activities:

Higher education bonds, notes, and certificates of participation: 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, 2003, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2003, future debt service requirements (expressed in thousands) for revenue, Tobacco Authority, Infrastructure Bank, and other bonds, notes, and certificates of participation of the primary government were as follows:

# Notes to the Financial Statements

Year Ending June 30	Primary Government			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 28,370	\$ 132,773	\$ 124,187	\$ 73,139
2005	29,185	131,346	52,307	72,793
2006	34,716	129,743	77,737	69,500
2007	37,087	127,927	36,626	67,260
2008	45,847	125,892	70,985	64,582
2009 - 2013	313,455	584,706	335,740	275,114
2014 - 2018	359,605	483,346	271,444	211,629
2019 - 2023	399,575	382,182	344,633	145,987
2024 - 2028	577,015	245,402	180,130	76,141
2029 - 2033	487,625	66,027	148,550	27,545
2034 - 2038	46,975	1,174	26,900	1,947
<b>Total debt service requirements.....</b>	<b>2,359,455</b>	<b>\$ 2,410,518</b>	<b>1,669,239</b>	<b>\$ 1,085,637</b>
Unamortized premiums (discounts)....	7,426		(3,345)	
Deferred amount on refunding.....	—		(9,181)	
<b>Total principal outstanding.....</b>	<b>\$ 2,366,881</b>		<b>\$ 1,656,713</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, 2002, the carrying value of the Public Service Authority's debt was \$2.544 billion while the fair value was approximately \$3.000 billion. At June 30, 2003, the carrying value of the State Ports Authority debt was \$148.375 million while the fair value was approximately \$148.513 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, 2003, 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
2003	\$ 81,740	\$ 127,089	\$ —	\$ 3,532
2004	71,270	128,620	—	3,532
2005	76,825	124,604	—	3,532
2006	74,925	120,750	—	3,532
2007	70,990	116,802	—	3,532
2008 - 2012	393,505	525,385	38,200	17,040
2013 - 2017	518,125	396,509	61,300	15,557
2018 - 2022	654,715	241,981	93,700	13,651
2023 - 2027	197,300	119,129	128,800	11,190
2028 - 2032	204,070	73,722	169,400	7,914
2033 - 2037	176,550	23,683	197,000	3,655
2038 - 2042	—	—	57,700	113
<b>Total debt service requirements.....</b>	<b>2,520,015</b>	<b>\$ 1,998,274</b>	<b>746,100</b>	<b>\$ 86,780</b>
Unamortized premiums (discounts)....	15,958		(503,923)	
Deferred amount on refunding.....	(250,525)		—	
<b>Total principal outstanding.....</b>	<b>\$ 2,285,448</b>		<b>\$ 242,177</b>	

Year Ending June 30	Major Component Units			
	State Ports Authority		Lottery Commission	
	Principal	Interest	Principal	Interest
2004	\$ 2,842	\$ 6,570	\$ 6,275	\$ 603
2005	3,385	6,464	1,233	231
2006	3,025	6,330	1,335	129
2007	3,155	6,199	882	25
2008	18,585	27,095	—	—
2009 - 2013	24,235	22,546	—	—
2014 - 2018	11,550	15,589	—	—
2019 - 2023	54,135	6,462	—	—
2024 - 2028	—	1,375	—	—
2029 - 2033	25,000	275	—	—
<b>Total debt service requirements.....</b>	<b>145,912</b>	<b>\$ 98,905</b>	<b>9,725</b>	<b>\$ 988</b>
Unamortized premium.....	876		—	
<b>Total principal outstanding...</b>	<b>\$ 146,788</b>		<b>\$ 9,725</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, 2003, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government.....	\$ 58,571
Transportation.....	106,648
<b>Total allocated interest expense..</b>	<b>\$ 165,219</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, 2003, \$28.025 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, 2004.

## e. Defeased Bonds

During August 2002, the State issued \$27.895 million in general obligation State capital improvement refunding bonds with an average interest rate of 2.07% to refund \$26.900 million of general obligation State capital improvement refunding bonds with an average interest rate of

## Notes to the Financial Statements

5.80%. The net proceeds of \$27.828 million, including \$23 thousand in premiums (after payment of \$90 thousand in issuance costs), 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 \$928 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2005 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next three years by approximately \$1.004 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$981 thousand.

During June 2003, the State issued \$31.440 million in general obligation State capital improvement refunding bonds with an average interest rate of 2.58% to refund \$30.250 million of general obligation State capital improvement bonds with an average interest rate of 4.72%. The net proceeds of \$32.099 million including \$739 thousand in premiums (after payment of \$80 thousand in issuance costs) were used to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.849 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2009 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next six years by approximately \$1.659 million and to obtain an economic gain of approximately \$1.582 million.

During June 2003, the Department of Transportation Special Revenue Fund, a major governmental fund, issued \$46.080 million in general obligation State highway refunding bonds to refund \$39.675 million of general obligation State highway bonds. The net proceeds of \$46.340 million including \$669 thousand in premiums (after payment of \$409 thousand in issuance costs) 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 \$5.709 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2005 on a straight line basis. The bonds were refunded to reduce total debt service payments over the next eighteen years by approximately \$2.550 million and to obtain an economic gain of approximately \$2.230 million.

During July 2002, the College of Charleston, included in the Higher Education major enterprise fund, issued \$12.840 million in higher education facilities revenue refunding bonds with an average interest rate of 4.87% to refund \$12.600 million of housing and auxiliary facilities revenue refunding bonds with an average interest rate of 5.60%. The net proceeds of \$12.736 million (after payment of \$104 thousand in issuance costs) plus an additional \$883 thousand from College funds were used to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount

of the old debt of \$109 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2012. The bonds were refunded to reduce total debt service payments over the next ten years by approximately \$1.950 million and to obtain an economic gain of approximately \$1.750 million.

During February 2003, The Citadel, included in the Higher Education major enterprise fund, issued \$3.150 million in athletic facilities revenue refunding bonds with a fixed interest rate of 4.19% to refund \$3.000 million of athletic facilities revenue bonds with a fixed interest rate of 4.07%. While the current refunding resulted in an increase in total debt service payments over the next fifteen years of \$1.186 million and an economic loss of \$138 thousand, The Citadel converted a short-term, interest-only credit instrument into a fully amortizing fifteen year instrument. This approach provided The Citadel maximum ongoing flexibility for its evolving athletic facilities finance plan.

During its fiscal year ended December 31, 2002, the Public Service Authority, a major discretely presented component unit, issued \$108.035 million in refunding revenue bonds with an average interest rate of 5.396% to refund \$113.380 million in revenue bonds with an average interest rate of 6.323%. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$23.378 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next twenty years by approximately \$15.100 million and to obtain an economic gain of approximately \$8.600 million.

Also during its fiscal year ended December 31, 2002, the Public Service Authority issued \$440.760 million in refunding revenue bonds with an average interest rate of 4.985% to refund \$477.145 million in revenue bonds with an average interest rate of 5.353%. The net proceeds were used to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$73.613 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next twenty years by approximately \$82.000 million and to obtain an economic gain of approximately \$34.800 million.

In addition, during prior years the State defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the State placed the proceeds of the new bonds in irrevocable trusts 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, 2003, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

# Notes to the Financial Statements

	Governmental Activities	Business- type Activities	Totals— Primary Government
Capital improvement bonds.....	\$ 30,250	\$ —	\$ 30,250
State highway bonds.....	39,675	—	39,675
Higher Education Fund bonds..	—	89,262	89,262
<b>Totals.....</b>	<b>\$ 69,925</b>	<b>\$ 89,262</b>	<b>\$ 159,187</b>

In addition, at December 31, 2002, \$489.490 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), the Education Assistance Authority Fund (a major enterprise fund), and a university reported in the Higher Education 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, 2003, are reported as other liabilities of \$611 thousand in the Local Government Infrastructure Fund, as other liabilities payable from restricted assets of \$16.319 million and other liabilities of \$1.691 million in the Education Assistance Authority Fund, and as other liabilities of \$29 thousand in the Higher Education 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, 2003, the outstanding balance of bonds issued was \$172.399 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, 2003, the outstanding balance of bonds issued after June 30, 1995, was \$2.714 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, 2003, the outstanding balance of bonds issued was \$246.698 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, 2003, was \$8.005 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 \$3.407 million in the 1993-1994 through 2001-2002 fiscal years, and \$420 thousand in the 2002-2003 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated \$400 thousand in the 2003-2004 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 14 Changes in Liabilities, displays the activity of commercial paper notes and lines of credit during the fiscal year ended June 30, 2003, 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, 2003, are reported as notes payable. Other relevant information regarding these accounts is provided below.

The Medical University Hospital Authority, a blended component unit and nonmajor enterprise fund, has an agreement with a commercial bank for working capital lines of credit totaling approximately \$24.500 million. The University Medical Associates of the Medical University of South Carolina (UMA), a blended component unit and nonmajor enterprise fund, has a line of credit

## Notes to the Financial Statements

shared by two financial institutions with a maximum borrowing limit of \$15,500 million.

The Public Service Authority, a discretely presented component unit, has a \$400.000 million revolving credit agreement to support its issuance of commercial paper notes, with terms not to exceed 270 days, for valid corporate purposes.

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

### j. Connector 2000 Association's Bonds

The Connector 2000 Association (the Association) is one of the State's major discretely presented component units. In early January 2003, Standard & Poor's downgraded the Association's toll road revenue bonds to junk status (B-minus rating) after the Association tapped into its Senior Debt Reserve fund in order to pay the interest due January 1, 2003, on one of the bond issues. According to the Association's bond attorney, the Association's use of reserve funds to meet its debt service obligation does not constitute a default under the bond indenture.

### k. Subsequent Events

Since June 30, 2003, the State has issued bonds and notes as indicated in the table below (expressed in thousands).

#### Primary Government

Description	Governmental Activities	Business-type Activities
Revenue bonds.....	\$ 368,300	\$ 182,940
General obligation bonds.....	158,760	30,000
Revenue bond anticipation notes.....	—	32,700
Revenue notes.....	1,800	9,500
Totals.....	<u>\$ 528,860</u>	<u>\$ 255,140</u>

#### Component Units

Description	Revenue Bonds	Commerical Paper Notes
Public Service Authority.....	\$ 335,030	\$ 48,879

Of the total general obligation bonds that the primary government issued, \$156.560 million of the governmental activities bonds were to refund prior issues. Of the total revenue bonds that the primary government issued, all of the governmental activities bonds and \$8.150 million of the business-type activities bonds were to refund prior issues. All of the revenue bonds issued by the Public Service Authority, a major discretely presented component unit, were to refund prior issues.

## NOTE 14: 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, 2003, were:

## Notes to the Financial Statements

	Balances at July 1, 2002	Increases	Decreases	Balances at June 30, 2003	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities</b>					
Policy claims.....	\$ 417,127	\$ 1,187,250	\$ (1,125,821)	\$ 478,556	\$ 436,936
Notes payable.....	\$ 4,398	\$ 7,700	\$ (4,703)	\$ 7,395	\$ 1,035
General obligation bonds payable.....	\$ 2,199,898	\$ 305,415	\$ (268,172)	\$ 2,237,141	\$ 164,530
Unamortized discounts and premiums.....	4,231	5,542	295	10,068	—
Deferred amount on refunding.....	—	(8,486)	484	(8,002)	—
Total general obligation bonds payable....	\$ 2,204,129	\$ 302,471	\$ (267,393)	\$ 2,239,207	\$ 164,530
Tobacco Authority bonds payable.....	\$ 902,920	\$ —	\$ (33,050)	\$ 869,870	\$ —
Revenue bonds payable.....	\$ —	\$ 24,705	\$ —	\$ 24,705	\$ 1,140
Unamortized discounts and premiums.....	—	1,375	(46)	1,329	—
Total revenue bonds payable.....	\$ —	\$ 26,080	\$ (46)	\$ 26,034	\$ 1,140
Infrastructure Bank bonds payable.....	\$ 1,192,730	\$ 285,195	\$ (20,440)	\$ 1,457,485	\$ 26,195
Unamortized discounts and premiums.....	316	5,781	—	6,097	—
Total Infrastructure Bank bonds payable.	\$ 1,193,046	\$ 290,976	\$ (20,440)	\$ 1,463,582	\$ 26,195
Limited obligation bonds payable.....	\$ 30,730	\$ —	\$ (3,575)	\$ 27,155	\$ 3,755
Unamortized discounts and premiums.....	(133)	—	18	(115)	—
Total limited obligation bonds payable.....	\$ 30,597	\$ —	\$ (3,557)	\$ 27,040	\$ 3,755
Capital leases payable.....	\$ 8,185	\$ 1,374	\$ (5,453)	\$ 4,106	\$ 850
Compensated absences payable.....	\$ 192,224	\$ 116,234	\$ (118,877)	\$ 189,581	\$ 132,141
National Guard Pension System net pension obligation payable.....	\$ 6,525	\$ 626	\$ —	\$ 7,151	\$ —
Judgments and contingencies payable.....	\$ 14,516	\$ 37,813	\$ (16,891)	\$ 35,438	\$ 34,330
Arbitrage payable.....	\$ —	\$ 874	\$ (263)	\$ 611	\$ 611

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.

# Notes to the Financial Statements

	Balances at July 1, 2002	Increases	Decreases	Balances at June 30, 2003	Amounts Due Within One Year
<b>Primary Government:</b>					
<b>Business-type Activities</b>					
Policy claims.....	\$ 202,652	\$ 49,367	\$ (41,707)	\$ 210,312	\$ 35,000
Notes payable.....	\$ 143,688	\$ 21,191	\$ (16,198)	\$ 148,681	\$ 14,694
Deferred amount on refunding.....	(1,097)	—	50	(1,047)	—
Total notes payable.....	\$ 142,591	\$ 21,191	\$ (16,148)	\$ 147,634	\$ 14,694
General obligation bonds payable.....	\$ 134,235	\$ 84,090	\$ (9,360)	\$ 208,965	\$ 10,120
Unamortized discounts and premiums.....	—	3	—	3	—
Total general obligation bonds payable....	\$ 134,235	\$ 84,093	\$ (9,360)	\$ 208,968	\$ 10,120
Revenue bonds payable.....	\$ 1,430,583	\$ 139,920	\$ (78,970)	\$ 1,491,533	\$ 81,990
Deferred amount on refunding.....	(9,042)	—	908	(8,134)	—
Unamortized discounts and premiums.....	(4,159)	145	669	(3,345)	—
Total revenue bonds payable.....	\$ 1,417,382	\$ 140,065	\$ (77,393)	\$ 1,480,054	\$ 81,990
Certificates of participation payable.....	\$ 18,036	\$ —	\$ (4,511)	\$ 13,525	\$ 13,525
Capital leases payable.....	\$ 46,633	\$ 26,317	\$ (7,505)	\$ 65,445	\$ 10,496
Compensated absences payable.....	\$ 98,019	\$ 54,713	\$ (53,343)	\$ 99,389	\$ 55,437
Judgments and contingencies payable.....	\$ —	\$ 1,266	\$ (316)	\$ 950	\$ 950
Arbitrage payable.....	\$ 29,669	\$ 16	\$ (11,646)	\$ 18,039	\$ 540
<b>Major Component Units:</b>					
<b>Public Service Authority</b>					
Revenue bonds payable.....	\$ 2,257,990	\$ 921,710	\$ (659,685)	\$ 2,520,015	\$ 81,740
Deferred amount on refunding.....	(233,602)	(96,990)	80,067	(250,525)	—
Unamortized discounts and premiums.....	(35,101)	41,362	9,697	15,958	—
Total revenue bonds payable.....	\$ 1,989,287	\$ 866,082	\$ (569,921)	\$ 2,285,448	\$ 81,740
Capital leases payable.....	\$ 26,932	\$ —	\$ (2,654)	\$ 24,278	\$ 2,762
Compensated absences payable.....	\$ 12,193	\$ 1,948	\$ (1,212)	\$ 12,929	\$ —
Other liabilities (claims).....	\$ 1,426	\$ 1,574	\$ (1,434)	\$ 1,566	\$ 1,566

## Notes to the Financial Statements

	Balances at July 1, 2002	Increases	Decreases	Balances at June 30, 2003	Amounts Due Within One Year
<b>Major Component Units:</b>					
<b>State Ports Authority</b>					
Notes payable.....	\$ 316	\$ 422	\$ (201)	\$ 537	\$ 57
Revenue bonds payable.....	\$ 148,050	\$ —	\$ (2,675)	\$ 145,375	\$ 2,785
Unamortized discounts and premiums.....	922	—	(46)	876	—
Total revenue bonds payable.....	\$ 148,972	\$ —	\$ (2,721)	\$ 146,251	\$ 2,785
Capital leases payable.....	\$ 117	\$ —	\$ (33)	\$ 84	\$ 38
Compensated absences payable.....	\$ 2,051	\$ 1,987	\$ (1,914)	\$ 2,124	\$ 2,124
<b>Connector 2000 Association, Inc.</b>					
Revenue bonds payable.....	\$ 746,100	\$ —	\$ —	\$ 746,100	\$ —
Unamortized discounts and premiums.....	(514,122)	—	10,199	(503,923)	—
Total revenue bonds payable.....	\$ 231,978	\$ —	\$ 10,199	\$ 242,177	\$ —
<b>Lottery Commission</b>					
Notes payable.....	\$ 10,589	\$ —	\$ (864)	\$ 9,725	\$ 6,275
Compensated absences payable.....	\$ 334	\$ 830	\$ (380)	\$ 784	\$ 270

### b. Short-Term Debt

The State's Higher Education Fund sometimes issues Bond Anticipation Notes (BANS) in advance of issuing bonds. Short-term debt for the fiscal year ended June 30, 2003, included: BANS in the Higher

Education Fund, a major enterprise fund; commercial paper notes in the Public Service Authority, a major discretely presented component unit; and letters of credit in the nonmajor enterprise funds. Short-term debt activity during the fiscal year (expressed in thousands) was as follows:

# Notes to the Financial Statements

	Balances at July 1, 2002	Increases	Decreases	Balances at June 30, 2003
<b>Primary Government:</b>				
<i>Business-type Activities</i>				
General obligation bond anticipation notes payable.....	\$ 8,400	\$ 8,400	\$ (16,800)	\$ —
Revenue bond anticipation notes payable.....	\$ 16,400	\$ 37,425	\$ (25,800)	\$ 28,025
Notes payable (letters of credit).....	\$ 14,625	\$ 66,734	\$ (65,859)	\$ 15,500
<b>Major Component Unit:</b>				
<i>Public Service Authority</i>				
Commercial paper notes.....	\$ 308,965	\$ 303,177	\$ (308,965)	\$ 303,177

## NOTE 15: 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, 2003, the following amounts of fund balance in governmental funds (expressed in thousands) were reserved:

# Notes to the Financial Statements

	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	State Tobacco Settlement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Fund balances reserved for:</b>							
Interfund receivables.....	\$ 5,146	\$ 400	\$ 226,523	\$ —	\$ 2,250	\$ 419	\$ 234,738
Appropriations to be carried forward .....	45,689	—	—	—	—	—	45,689
Endowment and similar funds .....	—	—	—	—	—	1,834	1,834
Long-term loans and notes receivable .....	6	536	298,394	8,733	—	15,130	322,799
Debt requirements.....	—	—	969,207	82	—	117,521	1,086,810
School building aid .....	7,141	—	—	—	—	3,841	10,982
<b>Total reserved fund balances.....</b>	<b>\$ 57,982</b>	<b>\$ 936</b>	<b>\$ 1,494,124</b>	<b>\$ 8,815</b>	<b>\$ 2,250</b>	<b>\$ 138,745</b>	<b>\$ 1,702,852</b>

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

**a. Reserved**

**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 Endowment and Similar Funds**

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 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.

**c. 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.

# Notes to the Financial Statements

## NOTE 16: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2003 (expressed in thousands):

Description	Due From/To
Receivable fund: General	
Payable funds:	
Departmental General Operating.....	\$ 32,483
Higher Education.....	362
Unemployment Compensation.....	12,028
Internal service.....	10
Other.....	5,870
Receivable fund: Departmental General Operating	
Payable funds:	
General.....	13,854
Department of Transportation Special Revenue.....	53
State Tobacco Settlement.....	9
Internal service.....	105
Other.....	1,068
Receivable fund: Local Government Infrastructure	
Payable funds:	
General.....	5,374
Department of Transportation Special Revenue.....	2,954
Receivable fund: Department of Transportation Special Revenue Fund	
Payable funds:	
General.....	879
Local Government Infrastructure.....	2,325
Other.....	151
Receivable fund: Higher Education	
Payable funds:	
General.....	5,068
Departmental General Operating.....	6,362
Department of Transportation Special Revenue.....	55
Housing Authority.....	2
Internal service.....	2
Other.....	20,199
Receivable fund: Unemployment Compensation	
Payable funds:	
General.....	9
Departmental General Operating.....	2
Other.....	3
Receivable funds: Internal Service	
Payable funds:	
General.....	8,504
Departmental General Operating.....	3,845
Local Government Infrastructure.....	1
Department of Transportation Special Revenue.....	2
State Tobacco Settlement.....	1
Higher Education.....	1,753
Housing Authority.....	25
Internal service.....	275
Fiduciary.....	28,166
Other.....	1,132

Description	Due From/To
Receivable funds: Fiduciary	
Payable funds:	
General.....	\$ 30,928
Departmental General Operating.....	14,604
Local Government Infrastructure.....	12
Department of Transportation Special Revenue.....	10,272
State Tobacco Settlement.....	4
Higher Education.....	2,841
Fiduciary.....	599
Internal service.....	1,277
Other.....	941
Receivable funds: Other	
Payable Funds:	
General.....	4,828
Departmental General Operating.....	1,411
Department of Transportation Special Revenue.....	4
Higher Education.....	14,727
Internal service.....	429
Other.....	2,149
<b>Totals.....</b>	<b>\$ 237,957</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.....	\$ 3,889	\$ —
Higher Education.....	931	830
Internal service.....	5,734	4,316
Other.....	230	—
Receivable fund: Departmental General Operating		
Payable funds:		
General.....	9,466	—
Higher Education.....	400	400
Other.....	150	—
Receivable fund: Local Government Infrastructure		
Payable funds:		
General.....	72	72
Department of Transportation Special Revenue.....	235,451	226,451
Receivable fund: State Tobacco Settlement		
Payable funds: Local Govt Infrastructure.....	3,000	2,250
Receivable fund: Housing Authority		
Payable funds: Other.....	4,950	200
Receivable funds: Internal Service		
Payable funds:		
Departmental General Operating.....	2,000	2,000
Local Government Infrastructure.....	3,500	—
Internal service.....	1,334	978
Other.....	38,458	37,132
Receivable funds: Other		
Payable Funds:		
Departmental General Operating.....	296	256
Higher Education.....	20,954	20,954
Internal service.....	163	163
Other.....	1,000	—
<b>Totals.....</b>	<b>\$ 331,978</b>	<b>\$ 296,002</b>

## Notes to the Financial Statements

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:

- \$235.451 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.
- \$15.494 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.
- \$22.357 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.
- \$20.954 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 an internal leasing arrangement.

The following table summarizes interfund transfers during the fiscal year ended June 30, 2003 (expressed in thousands):

Description/Fund(s)	Transfers From/To
Transfers from the General Fund	
Transfers to:	
Departmental General Operating.....	\$ 62,288
Local Government Infrastructure.....	3,554
Department of Transportation Special Revenue.....	444
State Tobacco Settlement.....	6,757
Higher Education.....	731,386
Unemployment Compensation.....	40
Internal service.....	2,865
Fiduciary.....	2,770
Other.....	68,595
Transfers from Departmental General Operating	
Transfers to:	
General.....	15,323
Higher Education.....	730
Internal service.....	1,132
Other.....	3,928
Transfers from Local Government Infrastructure	
Transfers to:	
General.....	827
Departmental General Operating.....	460
State Tobacco Settlement.....	1
Transfer from Department of Transportation Special Revenue	
Transfer to:	
General.....	10,320

Description/Fund(s)	Transfers From/To
Transfers from State Tobacco Settlement	
Transfers to:	
General.....	\$ 4,002
Departmental General Operating.....	50
Internal service.....	197
Transfers from Higher Education	
Transfers to:	
General.....	7,039
Departmental General Operating.....	10,212
Other.....	2,832
Transfer from Unemployment Compensation	
Transfer to General.....	979
Transfer from Housing Authority	
Transfer to General.....	1,635
Transfers from Internal Service	
Transfers to:	
General.....	32,071
Departmental General Operating.....	7,707
Internal service.....	355
Other.....	1,090
Transfers from Fiduciary	
Transfers to:	
General.....	597
Fiduciary.....	1,580
Transfers from Other	
Transfers to:	
General.....	132,087
Departmental General Operating.....	25,411
Higher Education.....	97,957
Internal service.....	3,005
Fiduciary.....	597
Other.....	10,454
<b>Totals.....</b>	<b>\$ 1,251,277</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. The following is a listing of significant (i.e., \$5.000 million or more) transfers that occurred during the fiscal year ended June 30, 2003, that either (a) were non-routine or (b) were inconsistent with the normal activities of the fund making the transfer:

- An amount of \$6.758 million was transferred from the General Fund to the Tobacco Settlement Fund, a major governmental fund, as required by Proviso 60.7 of the 2002-2003 Appropriations Act to supplement funding of health-related programs.
- Provisos 72.97 and 72.98 of the 2002-2003 Appropriations Act redirected funds to the General Fund for operating expenditures of that fund. The following table summarizes these transfers during the fiscal year ended June 30, 2003 (expressed in thousands):

## Notes to the Financial Statements

Fund	Amount
Departmental General Operating.....	\$ 4,767
Local Government Infrastructure.....	827
Department of Transportation	
Special Revenue.....	5,381
State Tobacco Settlement.....	2
Higher Education.....	6,966
Housing Authority.....	18
Internal service.....	30,004
Fiduciary.....	597
Other.....	67,331
<b>Totals.....</b>	<b>\$ 115,893</b>

	Provision for Contractual and Other Adjustments	Provision for Uncollectible Accounts
Charges for services.....	\$ 177,597	\$ —
Operating revenues pledged for revenue bonds.....	305,555	37,468
<b>Totals.....</b>	<b>\$ 483,152</b>	<b>\$ 37,468</b>

### NOTE 17: 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 6 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, 2003, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	Scholarship Allowances
Charges for services.....	\$ 201,739
Operating revenues pledged for revenue bonds.....	16,283
Other operating revenues.....	15,267
<b>Total .....</b>	<b>\$ 233,289</b>

For the fiscal year ended June 30, 2003, the State's nonmajor enterprise funds presented \$172.294 million included in net charges for services and \$535.211 million included in net operating revenues pledged for revenue bonds after reductions for the following applicable discounts and allowances (expressed in thousands):

#### b. Extraordinary and Special Items

*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 reports significant transactions or other events within the control of management that are *either* unusual in nature *or* infrequent in occurrence as *special items*. The State recorded the extraordinary item and special item described below in both its government-wide and fund financial statements for the fiscal year ended June 30, 2003.

#### Extraordinary Loss on Early Extinguishment of Debt

The \$538 thousand extraordinary loss on early extinguishment of debt in the Housing Authority Fund, a major enterprise fund, consisted of a \$187 thousand loss from mortgage foreclosures and a \$351 thousand loss from the early redemption of bonds (\$87 thousand from writing off unamortized discounts and \$264 thousand from writing off unamortized bond issuance costs).

#### Special Item

The \$458 thousand special item (i.e., a loss) in the nonmajor enterprise funds resulted from the University Medical Associates for the Medical University of South Carolina's (UMA's) sale of one of its primary care practices. This sale was part of a larger plan of UMA's management to dispose of certain primary care practices in an effort to make its primary care network financially self-sustaining. The special item included the write-off of intangible assets, payments to physicians relative to the termination of their employment contracts, and payments of related legal expenses.

## Notes to the Financial Statements

### NOTE 18: 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, 2003, \$5.349 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, \$176 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, 2003, 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, 2003, and the eligibility requirements for the gifts have not been met.

### NOTE 19: 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, 2003, are presented below:

#### CONDENSED STATEMENT OF NET ASSETS

	Single Family	Home Ownership	Mortgage Revenue
<b>Assets</b>			
Current restricted assets.....	\$ 8,949	\$ 2,420	\$ 61,345
Noncurrent restricted assets.....	222,589	25,222	412,424
Other assets.....	964	16	3,261
Total assets.....	<u>232,502</u>	<u>27,658</u>	<u>477,030</u>
<b>Liabilities</b>			
Current liabilities payable from			
restricted assets.....	8,949	2,420	61,345
Noncurrent liabilities.....	108,207	8,169	370,847
Total liabilities.....	<u>117,156</u>	<u>10,589</u>	<u>432,192</u>
<b>Net assets</b>			
Restricted and expendable for:			
Debt service.....	106,576	15,771	41,429
Bond reserves.....	8,770	1,298	3,409
<b>Total net assets.....</b>	<b><u>\$ 115,346</u></b>	<b><u>\$ 17,069</u></b>	<b><u>\$ 44,838</u></b>

## Notes to the Financial Statements

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

	Single Family	Home Ownership	Mortgage Revenue
Operating revenues:			
Pledged revenues:			
Interest on loans.....	\$ 9,588	\$ 1,939	\$ 22,620
Income on deposit.....	786	415	4,312
Other revenues:			
Bond premium amortization.....	39	—	—
Total operating revenues.....	<u>10,413</u>	<u>2,354</u>	<u>26,932</u>
Operating expenses:			
Bond issuance cost amortization.....	41	1	199
Other operating expenses.....	5,910	735	23,866
Total operating expenses.....	<u>5,951</u>	<u>736</u>	<u>24,065</u>
Operating income.....	<u>4,462</u>	<u>1,618</u>	<u>2,867</u>
Loss on early extinguishment of debt (extraordinary item).....	—	(16)	(335)
Transfers:			
Transfers in.....	29	—	14,840
Transfers out.....	<u>(3,573)</u>	<u>(14,869)</u>	<u>—</u>
Increase (decrease) in net assets.....	918	(13,267)	17,372
Beginning net assets.....	<u>114,428</u>	<u>30,336</u>	<u>27,466</u>
Ending net assets.....	<u>\$ 115,346</u>	<u>\$ 17,069</u>	<u>\$ 44,838</u>

### CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Home Ownership	Mortgage Revenue
Net cash provided (used) by:			
Operating activities.....	\$ 28,387	\$ 7,564	\$ 26,122
Noncapital financing activities.....	(9,134)	(17,912)	23,866
Investing activities.....	<u>820</u>	<u>252</u>	<u>4,097</u>
Net increase (decrease).....	20,073	(10,096)	54,085
Beginning cash and cash equivalents.....	<u>68,642</u>	<u>14,174</u>	<u>81,808</u>
Ending cash and cash equivalents.....	<u>\$ 88,715</u>	<u>\$ 4,078</u>	<u>\$ 135,893</u>

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 20: 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, 2002, the Authority received distributions of \$26.632 million from TEA and recognized \$28.720 million in reductions to power costs and increases in electric revenues.

The Authority has provided certain guarantees and has pledged certain collateral to support TEA's transactions. The Authority's Board of Directors has approved the use of up to \$63.800 million to support TEA's activities. During its fiscal year ended December 31, 2002, the Authority advanced \$3.565 million to TEA in support of its future gas marketing activities and recorded \$4.632 million in realized gains from natural gas hedging transactions. The Authority deferred \$8.094 million in unrealized gains at December 31, 2002, as regulatory assets; it will recognize and recover these unrealized gains through its rates as the hedged power delivery occurs and it records fuel expense.

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

The Energy Authority  
76 South Laura Street, Suite 1500  
Jacksonville, Florida 32202

### b. Joint Operation

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

In accordance with regulatory accounting practices, the Authority reported capital assets of \$488.000 million and expenses of \$49.900 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.

Nuclear fuel costs are being amortized based on energy expended, which includes a component for estimated disposal costs of spent nuclear fuel. This amortization is included in fuel expense and is recovered through the Authority's rates.

In 2002, SCE&G commenced a re-racking project of the on-site spent fuel pool. The new pool storage capability will permit full core off-load through 2016. Further on-site storage, if required, will be accomplished through dry cask storage or other technology as it becomes available.

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

## Notes to the Financial Statements

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 \$100.800 million (adjusted to market) at December 31, 2002, 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.

The Energy Policy Act of 1992 gave the Department of Energy (DOE) the authority to assess utilities for the decommissioning of its facilities used for the enrichment of uranium included in nuclear fuel costs. In order to decommission these facilities, the DOE estimates that it would need to charge utilities \$150,000 million, indexed for inflation, annually for 15 years based on enrichment services used by utilities in past periods. Based on an estimate provided by SCE&G, the Authority's one-third share of this liability at December 31, 2002, totaled \$983 thousand. The Authority has deferred this amount and will recover it through rates as paid. These costs are included in deferred charges, and deferred revenues and deferred credits on the face of the accompanying financial statements.

The Price-Anderson Indemnification Act has established the maximum liability for public claims arising from any nuclear incident as \$9,500 billion. Nuclear liability insurance of approximately \$200,000 million per site would cover this amount, with potential retrospective assessments of up to \$88,100 million per licensee for each nuclear incident occurring at any reactor in the United States (payable at a rate not to exceed \$10,000 million per incident per year). Based on its one-third interest in the Summer Nuclear Station, the Authority would be responsible for a maximum assessment of \$29,400 million, not to exceed approximately \$3,300 million per incident per year. This amount is subject to further increases to reflect (i) inflation, (ii) increases in the licensing for operation of additional nuclear reactors, and (iii) any increase in the amount of commercial liability insurance that the Authority must maintain to comply with the NRC.

SCE&G and the Authority maintain, with Nuclear Electric Insurance Limited (NEIL), \$500,000 million primary and \$1,500 billion excess property and decontamination insurance to cover the costs of facility cleanup in the event of an accident. In addition to the premiums paid on the excess policy, SCE&G and the Authority also could be assessed a retroactive premium, not to exceed five times the annual premium, in the event of property damage to any nuclear generating facility

covered by NEIL. Based on the current annual premium and the Authority's one-third interest, the Authority's maximum retroactive premium would be \$3,000 million for the primary policy and \$3,300 million for the excess policy.

SCE&G and the Authority also maintain accidental outage insurance to cover replacement power costs (within policy limits) associated with an insured property loss. This policy carries a potential retrospective assessment of \$1,400 million.

The Authority does not purchase insurance for any retrospective premium assessments, claims in excess of stated coverage, or cost increases due to the purchase of replacement power.

### NOTE 21: 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, 2003, the Educational Television Endowment of South Carolina, Inc., disbursed \$6.607 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 Educational Foundation; the University of South Carolina Business Partnership Foundation; the South Carolina Research Institute; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the Lancaster County Educational Foundation, Inc.; the Clemson University Foundation; the Clemson University Research Foundation; the Health Sciences Foundation of the Medical University of South Carolina; the Medical University of South Carolina Foundation for Research Development; the Coastal Educational Foundation, Inc.; the Horry County Higher Education Commission; the College of Charleston Foundation; the Winthrop University Foundation; the Francis Marion University Foundation; 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.; Horry-Georgetown Technical College Foundation; Greenville Tech Foundation, Inc.; 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, 2003, the State entered into various transactions with these organizations. Approximate amounts within the State's Higher Education Fund that represented transactions with these related parties include: receivable from foundations—\$77.254 million; donations of cash and other assets from foundations—\$102.139 million; expenditures paid to foundations—\$2.911 million;

## Notes to the Financial Statements

and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$4.289 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, 2003, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC—\$6.283 million; notes receivable from SLC—\$261.073 million; program revenue from SLC—\$27.336 million; and reimbursements to SLC for administrative costs—\$5.615 million.

In September 2002, the State entered into an agreement with Wachovia Bank, National Association, as trustee, under which its governmental activities issued \$20.320 million of bonds to purchase real estate and build a student housing facility near Coastal Carolina University on behalf of the Coastal Carolina University Student Housing Foundation. At the same time, the State agreed to transfer all ownership interest in the property and improvements and any unspent bond proceeds to the Foundation as soon as the Foundation was notified of its tax exempt status. In return, the Foundation agreed to assume the debt. All bond proceeds were deposited into various trust accounts held by the Trustee. All costs during the year, including the land purchase, construction costs and interest payments on the bonds, were paid out of the various bond accounts. The property was deeded to the Foundation in September 2003. The State's nonmajor governmental funds received \$40 thousand in fees during the year as provided in the agreement.

### NOTE 22: 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 \$10.315 million during the Authority's fiscal year ended December 31, 2002.

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 the second payment of \$8.000 million during the fiscal year ended June 30, 2003.

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 \$213.133 million during the fiscal year ended June 30, 2003; the Commission owed an additional \$17.818 million to the Fund at June 30, 2003.

#### 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, 2002, were as follows (expressed in thousands):

Customer	Revenue	% of Total Operating Revenue
Central Electric Power Cooperative, Inc.....	\$ 514,000	50.5%
Alumax of South Carolina, Inc.....	101,000	9.9%

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

##### State Ports Authority

During the fiscal year ended June 30, 2003, two customers accounted for approximately 17.0% and 11.0% 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 23: CONTINGENCIES AND COMMITMENTS

#### a. Litigation

##### Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2003, 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 \$37.500 million. Although State losses in

## Notes to the Financial Statements

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 related lawsuits involving the calculation of retirement benefits. In 2001, two employees and an employer filed a putative class action lawsuit against the South Carolina Retirement Systems and the South Carolina Budget and Control Board. The suit alleged that the Retirement Systems wrongfully denied benefits to members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) due to misinterpretation of the definition of average final compensation. The plaintiffs allege that SCRS and PORS collected over \$2.000 billion and \$500.000 million, respectively, in excess contributions. Plaintiffs seek a declaratory judgment that a benefit was wrongfully denied and/or that excess contributions were collected and request that contributions be reduced in the future. Plaintiffs further seek a refund of over \$2.000 billion to members and employers. Finally, plaintiffs seek to impose a constructive trust on monies overpaid by plaintiffs and/or wrongfully withheld by the Systems. The case is pending under the original jurisdiction of the Supreme Court of South Carolina. A trial was held in March 2003 before a special referee, and parties are submitting post-trial briefs to the Court. In the second suit, in October 2002, four members of the Retirement Systems filed an action against the parties of the first suit alleging fraud on the court in an earlier case in which the Supreme Court of South Carolina had ruled against those plaintiffs. If the plaintiffs successfully reopen the earlier litigation, they will seek damages of approximately \$2.000 billion. Both of the preceding cases are based generally on the same facts. In the event the plaintiffs in either case were to prevail, there would be no additional liability in the other case.

On June 27, 2003, another suit was filed against the State's four largest retirement systems and the director of those systems. The plaintiff asserts that 1989 Act 189 violates the equal protection clause of the United States and the South Carolina Constitutions and violates uniformity and equality. The State defendants have filed a motion to dismiss the complaint. It appears that if a class is certified and the plaintiffs prevail, they will be entitled to a recovery in the hundreds of millions of dollars.

Two other lawsuits relating to the taxation of retirement benefits are pending against the State. One class action case challenges the taxation of federal retirees' income, and the other case challenges the State's law imposing income taxes upon benefits paid to retired government employees by the South Carolina Retirement Systems. In both actions, the State Circuit Court granted the State's motion to dismiss. In the case brought by the federal retirees, the State Supreme Court reversed the dismissal of the suit by the Circuit Court but did not comment on the merits of the case. The State Circuit Court then denied the relief sought by the plaintiff class and granted judgment in favor of the State. The plaintiffs appealed to the State Supreme Court, and the Court ruled in favor of the State on December 8, 2003. It currently is not known whether the plaintiffs plan to continue to prosecute

the case. The State Supreme Court dismissed the other case and required the plaintiff to pursue the claim administratively. A hearing is scheduled before the Administrative Law Division. In the event of an unfavorable outcome in both cases, the State's liability for retroactive relief could exceed \$751.000 million. The estimated unfavorable impact on future year revenues could be approximately \$22.500 million per year in the federal retirees' case, and approximately \$30.000 million to \$40.000 million per year in the State retirees' case.

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 \$9.559 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 now begun and will not conclude before sometime in 2004. In a second unrelated case involving an Indian tribe and a school district, the State is a party added as an intervener or defendant. Although the Circuit Court has entered an order favorable to the State on the Constitutional challenge, the Court may issue a supplemental order on the issue of credit for certain taxes paid. Whether the tribe would attempt to pursue the case further is not known now. Unfavorable rulings in this case potentially could have a considerable financial impact on the State. In a third 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.

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.

The State also is involved in a direct action against the United States to enjoin the collection of penalties for the State's purported failure to implement a statewide Child Support System. The State lost in the United States District Court on summary judgment, and on appeal in the Court of Appeals for the Fourth Circuit. The State has petitioned for *certiorari* to the United States Supreme Court. In the event of an unfavorable

## Notes to the Financial Statements

outcome in this case, the United States would continue to recover penalties from the State by withholding from the State portions of certain federal grant revenues until an approved system is in place. Penalties for the State's fiscal year ended June 30, 2003, were \$7.419 million.

Generally, liabilities recorded by the State's Insurance Reserve Fund (see Note 11a), 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

A group of customers of the Public Service Authority, a major discretely presented component unit and electric utility company, has filed suit against the Authority seeking monetary damages arising out of a change in the Authority's "Good Cents" rate. The Authority denied the material allegations and opposed the request for class certification, but the court granted a class certification to the plaintiffs. Discovery is ongoing. The Authority's management and counsel believe it is reasonably possible, but not probable, that the ultimate liabilities arising from this claim may total \$20,000 million to \$30,000 million if the plaintiffs are successful on all claims.

The Authority 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.

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.

The Authority offered land for sale to a number of its lessees. The lessees instituted an action alleging that the property appraisals were improper and the price that the Authority offered was unfair. The Court granted summary judgment in favor of the Authority. The plaintiffs have appealed.

Due to the uncertainty involving the ultimate outcome of the previously discussed unresolved lawsuits, the Authority has not recorded any liability for them in the accompanying financial statements.

### 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.

Due to the significant uncertainties discussed above, the State considers TSRs measurable only when received in cash. Accordingly, the State's financial statements do not record a receivable for any TSRs that the Authority may receive in future years.

### 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, 2003, or earlier years will not have a material impact on the State's financial statements.

### d. Federal Housing and Urban Development Loan Guarantee Program

During 1994, Lexington County entered into a contract for participation in the Housing and Urban Development (HUD) Section 108 loan guarantee program. Under this program, HUD arranges a public offering of notes guaranteed by federal funds and lends the note proceeds to the program

## Notes to the Financial Statements

participant. The participant guarantees the loan with HUD Community Development Block Grant (CDBG) funds. Because the County did not receive CDBG funds directly from HUD, the State cosigned the HUD contract and pledged its future federal CDBG funds on behalf of the County. The County lent its loan proceeds to fund an economic development project.

During 1997, the funded project declared bankruptcy. Because the project will not make any further loan payments to the County, the County will not receive the funds it would have used to make the corresponding loan payments to HUD. Under the agreement, therefore, the State must use its federal CDBG funds to make the loan payments on behalf of the County to the extent that such funds are available.

At June 30, 2003, \$1.660 million remained outstanding on the Lexington County loan. Accordingly, the State has recorded an intergovernmental payables liability in the governmental activities on the government-wide statement of net assets for the amount it owes HUD on this loan to be paid from federal CDBG funds. The State paid the remaining principal balance of \$1.660 million plus 8.0% interest during July 2003.

### e. Other Loan Guarantees

The South Carolina Education Assistance Authority, a major enterprise fund, guarantees student loans. At June 30, 2003, these loans totaled \$1.707 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, 2003, was less than 1.0%.

The nonmajor enterprise funds guarantee a portion of a mortgage debt up to a maximum of \$1.503 million.

### f. Purchase Commitments

#### Major Discretely Presented Component Unit— Public Service Authority

At December 31, 2002, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$640.710 million for coal. In addition, minimum obligations under purchased power contracts were: (a) approximately \$83.250 million at December 31, 2002, with a remaining term of thirty-two years; and (b) approximately \$10.000 million with a term of one year or less beginning in 2003. 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, 2002, these commitments

totaled approximately \$68.600 million over the next nine years.

The Authority has entered into a service agreement with a term extending through 2009 in the approximate amount of \$76.000 million. The agreement covers initial spare parts, parts and services for specified maintenance outages, and remote monitoring and diagnostics of the two turbine generators. The agreement can be cancelled after the Authority pays \$4.300 million for initial inspections for the generating units.

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

At June 30, 2003, the Lottery Commission had a remaining commitment of \$22.950 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.

### g. 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 \$1.701 billion for certain highway and transportation facilities projects. At June 30, 2003, the remaining commitments for these agreements totaled \$1.078 billion.

At June 30, 2003, the Department of Commerce had outstanding commitments of \$90.762 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, 2003, the Budget and Control Board had outstanding commitments of \$96.859 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 \$5.035 million at June 30, 2003, for affordable housing projects and developments.

### h. 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 (the Act), including provisions that relate to acid precipitation as well as to sulfur dioxide and nitrogen oxide emissions. The Authority believes that its cost of complying with

## Notes to the Financial Statements

the related United States Environmental Protection Agency (EPA) regulations relating to ozone transport, including capital costs, could approach approximately \$280.000 million by 2005 and that its annual operating costs associated with such compliance could approach \$10.000 million.

In July 2000, the Authority received a request for information from the EPA pursuant to Section 114 of the Act. The request is part of the EPA's enforcement initiative involving the power-generating sector, with particular emphasis on coal-fired units. The Authority has responded to the request, including an updated request in December 2002.

In 2001, the Authority executed an agreement with other public electric utilities to investigate the development of a Regional Transmission Organization (RTO), currently referred to as SeTrans, in the Southeastern United States. In February 2003, the Authority provided written notice to the SeTrans sponsors of its withdrawal from the SeTrans development process. However, the Authority maintains the option to participate in the development process or to become a member of SeTrans.

No accurate prediction of the outcome or impact on the Authority of either the EPA inquiry or the development of an RTO within the Southeastern states can be made at this time.

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

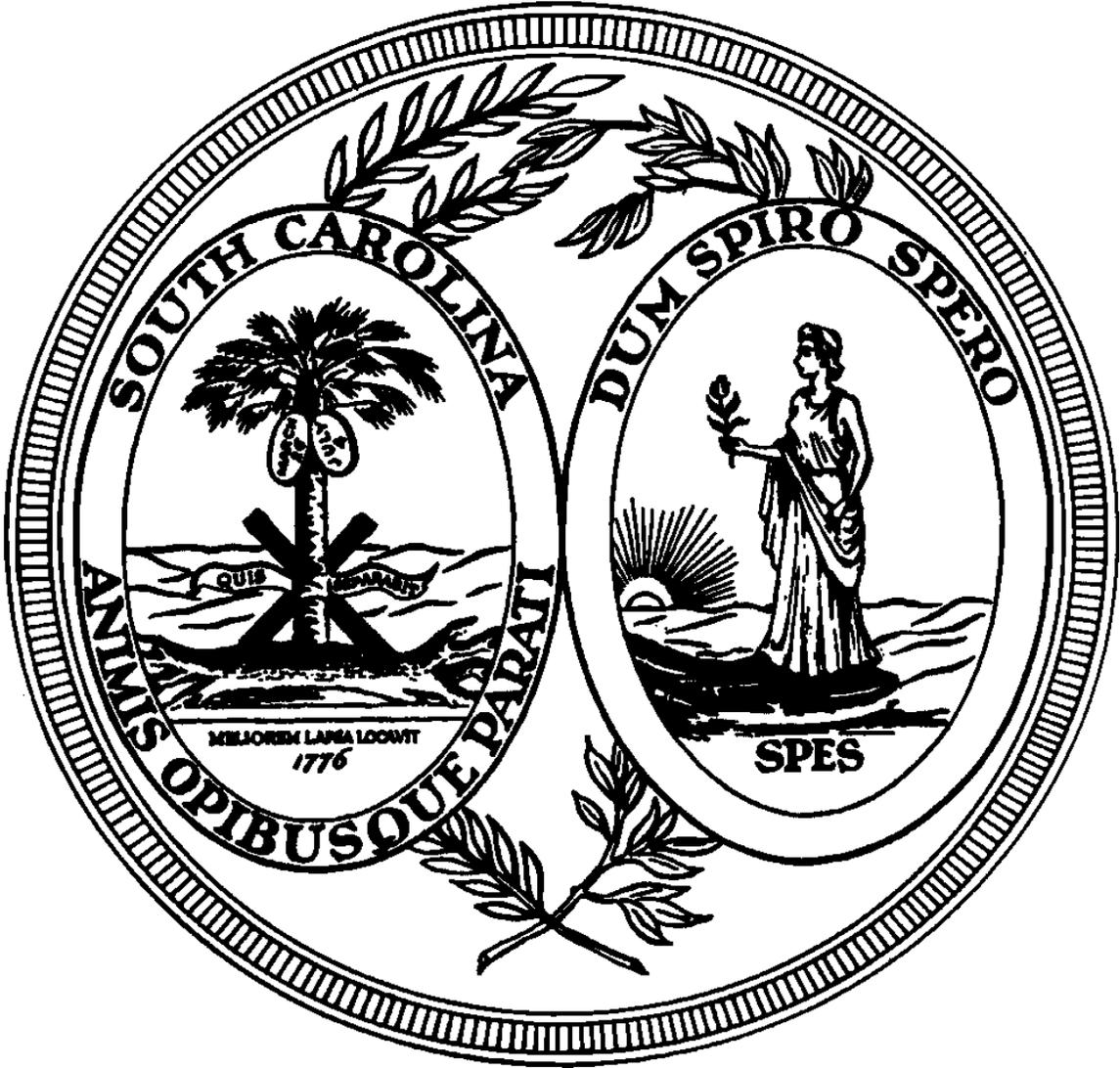
The Public Service Authority, a major discretely presented component unit, currently is a regulated

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.

### **j. 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 future debt service capability also is affected.



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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, 2003****(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.....	\$ 2,168,330	\$ 2,106,974	\$ 2,060,660	\$ (46,314)
Income tax, individual.....	2,307,231	1,916,316	1,859,125	(57,191)
Income tax, corporation.....	167,730	107,653	101,385	(6,268)
Total income and sales tax.....	4,643,291	4,130,943	4,021,170	(109,773)
Admissions tax.....	35,762	33,952	31,813	(2,139)
Aircraft tax.....	3,118	2,549	3,183	634
Alcoholic liquor tax.....	51,265	46,226	51,062	4,836
Bank tax.....	9,793	28,888	21,320	(7,568)
Beer and wine tax.....	91,786	91,829	91,086	(743)
Business license tax.....	28,619	28,863	29,192	329
Coin-operated device tax.....	2,500	2,500	2,379	(121)
Corporation license tax.....	68,036	70,651	64,380	(6,271)
Departmental revenue (primarily fees for services).....	55,863	60,863	55,096	(5,767)
Documentary tax.....	37,473	38,785	37,844	(941)
Earned on investments.....	38,400	21,200	21,635	435
Electric power tax.....	25,119	23,817	24,012	195
Estate tax.....	38,439	50,417	43,636	(6,781)
Insurance tax.....	117,710	136,948	134,082	(2,866)
Motor transport fees.....	3	15	5	(10)
Motor vehicle licenses.....	51,716	48,631	52,636	4,005
Petroleum inspection tax.....	8,579	8,049	8,007	(42)
Private car lines tax.....	3,827	3,477	2,614	(863)
Public Service Authority.....	10,473	11,284	10,484	(800)
Retailers' license tax.....	822	883	909	26
Savings and loan association tax.....	2,439	4,395	3,426	(969)
Workers' compensation insurance tax.....	9,209	11,207	12,296	1,089
Total regular sources.....	5,334,242	4,856,372	4,722,267	(134,105)
<b>Miscellaneous sources</b>				
Circuit and family court fines.....	10,288	9,667	9,689	22
Debt service reimbursement.....	3,751	3,751	3,286	(465)
Indirect cost recoveries.....	22,893	22,893	22,112	(781)
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.....	6,600	6,600	6,600	—
Nonrecurring revenue.....	143,479	143,479	196,479	53,000
Total miscellaneous sources.....	194,203	193,582	245,359	51,777
Other unbudgeted revenues.....	—	—	175	175
<b>Total revenues.....</b>	<b>5,528,445</b>	<b>5,049,954</b>	<b>4,967,801</b>	<b>(82,153)</b>

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget— Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Legislative.....	\$ 28,985	\$ 26,616	\$ 25,205	\$ 1,411
Judicial.....	39,117	35,890	35,841	49
Executive and administrative.....	254,212	135,917	124,843	11,074
Educational.....	2,918,824	2,685,036	2,657,777	27,259
Health.....	1,027,739	941,971	941,443	528
Social rehabilitation services.....	118,120	108,930	108,920	10
Correctional and public safety.....	481,033	469,350	469,350	—
Conservation, natural resources, and development.....	154,434	142,150	138,256	3,894
Regulatory.....	51,968	47,697	47,305	392
Transportation.....	486	444	444	—
Debt service.....	226,993	226,993	212,059	14,934
Miscellaneous.....	238,470	233,148	233,138	10
<b>Total expenditures.....</b>	<b>5,540,381</b>	<b>5,054,142</b>	<b>4,994,581</b>	<b>59,561</b>
<b>Net decrease in fund balance— budgetary basis.....</b>	<b>(11,936)</b>	<b>(4,188)</b>	<b>(26,780)</b>	<b>(22,592)</b>
<b>Fund balance (deficit) at beginning of year— budgetary basis.....</b>	<b>26,213</b>	<b>(104,447)</b>	<b>(104,447)</b>	<b>—</b>
<b>Fund balance (deficit) at end of year—budgetary basis.....</b>	<b>\$ 14,277</b>	<b>\$ (108,635)</b>	<b>\$ (131,227)</b>	<b>\$ (22,592)</b>

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

OTHER BUDGETED FUNDS

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget— Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Federal.....	\$ 4,622,626	\$ 5,599,917	\$ 5,226,040	\$ (373,877)
Earmarked.....	2,863,437	4,046,973	3,266,271	(780,702)
Restricted.....	2,053,471	2,317,057	2,063,597	(253,460)
<b>Total revenues.....</b>	<b>9,539,534</b>	<b>11,963,947</b>	<b>10,555,908</b>	<b>(1,408,039)</b>
<b>Expenditures:</b>				
Legislative.....	1,513	6,039	4,937	1,102
Judicial.....	150	13,373	9,574	3,799
Executive and administrative.....	311,910	397,224	298,927	98,297
Educational.....	3,039,633	3,569,230	3,073,939	495,291
Health.....	3,738,002	4,616,247	4,283,472	332,775
Social rehabilitation services.....	843,160	981,893	882,565	99,328
Correctional and public safety.....	210,213	312,324	231,821	80,503
Conservation, natural resources, and development.....	208,596	262,778	191,328	71,450
Regulatory.....	172,244	307,155	258,728	48,427
Transportation.....	1,082,350	1,619,141	1,384,020	235,121
Enterprise.....	—	2,651	2,651	—
<b>Total expenditures.....</b>	<b>9,607,771</b>	<b>12,088,055</b>	<b>10,621,962</b>	<b>1,466,093</b>
<b>Net increase (decrease) in fund balance— budgetary basis.....</b>	<b>(68,237)</b>	<b>(124,108)</b>	<b>(66,054)</b>	<b>58,054</b>
<b>Fund balance at beginning of year— budgetary basis.....</b>	<b>999,548</b>	<b>1,224,119</b>	<b>1,224,119</b>	<b>—</b>
<b>Fund balance at end of year—budgetary basis.....</b>	<b>\$ 931,311</b>	<b>\$ 1,100,011</b>	<b>\$ 1,158,065</b>	<b>\$ 58,054</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, effective with its fiscal year beginning July 1, 2002, 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 PRESENTA- TION

#### 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 twenty percent of the program budget. In addition, the Budget and Control Board, composed of five key executive and legislative officials, has the authority to restrict transfers of appropriations between personal service and other operating accounts.

The Appropriation Act for the 2002-2003 fiscal year directs the Budget and Control Board to reduce the Budgetary General Fund's appropriations during the year if necessary to prevent a deficit. Likewise, the State Board of Economic Advisors may approve revisions of estimated revenues for the Budgetary General Fund during the year.

#### b. Other Budgeted Funds

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

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds (or for Total Funds). However, Section 70 (*Recapitulation*) of the Appropriation Act includes net *source of funds*

## Notes to the Required Supplementary Information--Budgetary

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 2002-2003 fiscal year has approximately 2,600 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

### NOTE 4: BASIS OF BUDGETING

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

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

- (i) Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 20.
- (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, and retail sales 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: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Educational expenditures in budgeted accounts aside from the General Fund exceeded appropriations by \$14.029 million at the legal level of control. Appropriations associated with the State's technical colleges are budgeted under the State Board for Technical and Comprehensive Education (the State Board). However, the sixteen colleges record the corresponding expenditures. Each college had sufficient budgetary-basis revenue and cash to provide for its budgetary-basis expenditures. To prevent an excess of expenditures over revenues in the future, the State Board plans to obtain updated expenditure estimates from the colleges during the fiscal year so that it can request additional spending authority to cover those expenditures.

### NOTE 6: 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 decrease 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, 2003, were as follows:

# Notes to the Required Supplementary Information--Budgetary

<i>Budgetary funds</i> .....	<i>Budgetary</i>	<i>Other</i>	<i>Major Special Revenue Funds</i>			
	<i>General</i>	<i>Budgeted</i>	<i>Departmental</i>	<i>Local</i>	<i>Department of</i>	<i>State</i>
<i>GAAP funds</i> .....	<i>Fund</i>	<i>Funds</i>	<i>General</i>	<i>Government</i>	<i>Transportation</i>	<i>Tobacco</i>
	<i>General</i>	<i>Not</i>	<i>Operating</i>	<i>Infrastructure</i>	<i>Special</i>	<i>Settlement</i>
	<i>Fund</i>	<i>Applicable</i>			<i>Revenue</i>	
Net decrease in fund balance—budgetary basis .....	\$ (26,780)	\$ (66,054)	\$ —	\$ —	\$ —	\$ —
Perspective differences:						
Other Budgeted Funds attributable to nonmajor governmental and other GAAP funds .....		17,056				
Other Budgeted Funds attributable to major governmental GAAP funds .....		(48,998)				
Other Budgeted Funds reclassified among the State's major governmental GAAP funds .....	(1,630)	48,998	54,985	(157,216)	57,307	(2,444)
Basis of accounting differences .....	(45,292)		(2,671)	(194,012)	(244,988)	(254)
Entity differences .....	67,283		342	428,949	—	(126,887)
Net increase (decrease) in fund balance—GAAP basis .....	<u>\$ (6,419)</u>	<u>\$ —</u>	<u>\$ 52,656</u>	<u>\$ 77,721</u>	<u>\$ (187,681)</u>	<u>\$ (129,585)</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>
1998	\$ 8,640	\$ 41,478	\$ 32,838	20.8%	\$ 40,333	81.4%
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%

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. The State Adjutant General's Office administers the plan.

**REQUIRED SUPPLEMENTARY INFORMATION**

**National Guard Pension System**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

(Dollars in Thousands)

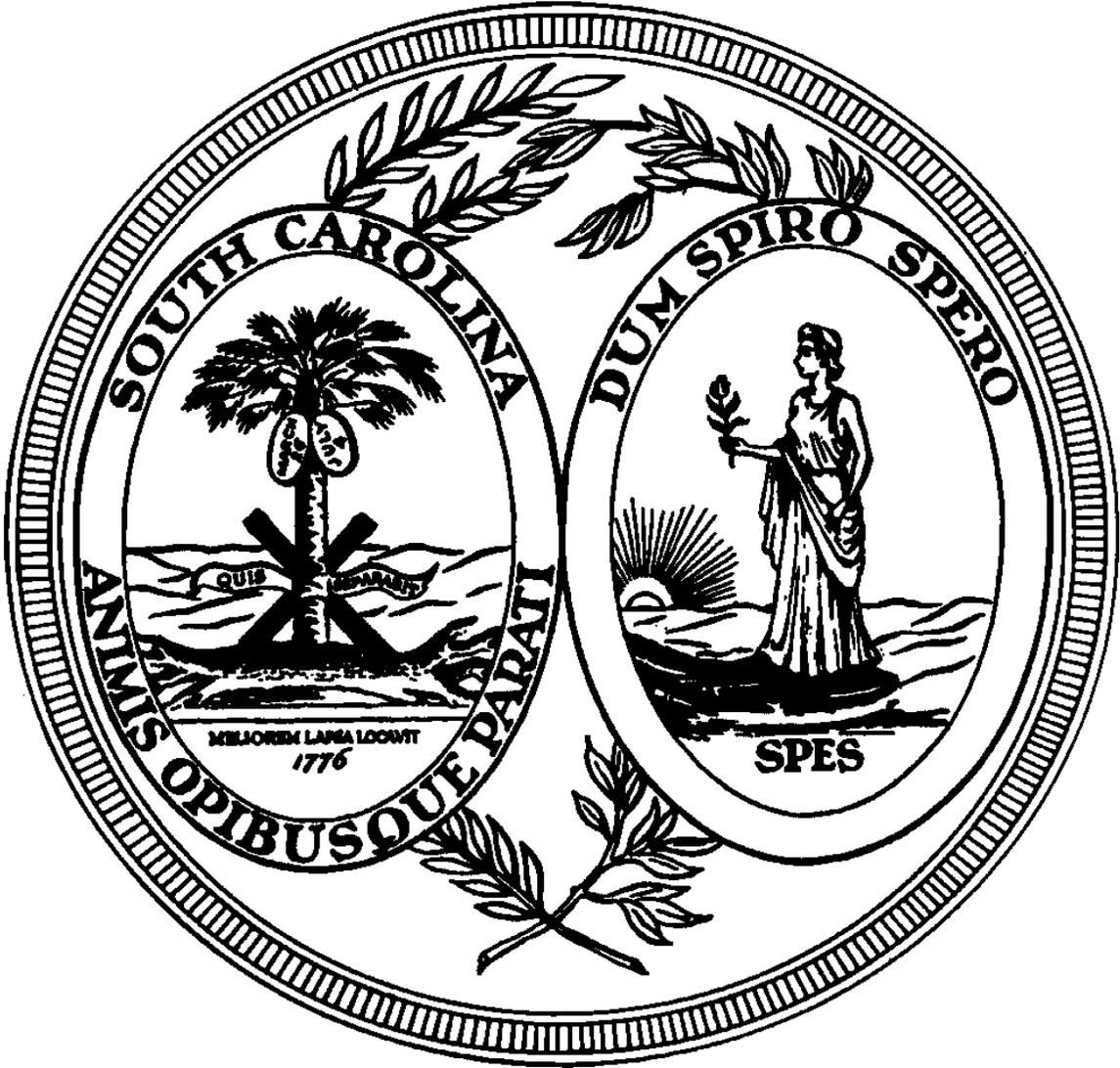
Fiscal Year Ended June 30	Employer Contributions	
	Annual Required Contribution	Percentage Contributed
1998	\$ 3,085	81.0%
1999	3,200	78.1%
2000	3,200	78.1%
2001	2,996	82.6%
2002	2,996	75.3%
2003	2,870	74.3%

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 State Adjutant General's Office administers the plan.

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, 2002
Actuarial cost method.....	Entry age normal
Amortization method.....	Level dollar, open
Remaining amortization period.....	30 years
Asset valuation method.....	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  
(UNAUDITED)**

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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

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## Governmental Funds

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, 2003

(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>ASSETS</b>						
Cash and cash equivalents.....	\$ 60,994	\$ 36,652	\$ 93,485	\$ 44,411	\$ 10,157	\$ 131
Investments.....	—	—	—	—	—	—
Invested securities lending collateral.....	1,634	7,533	18,414	80	1,196	—
Receivables, net:						
Accounts.....	365	—	307	1	—	—
Accrued interest.....	1,621	612	827	—	95	—
Sales and other taxes.....	57,902	26,830	—	28,491	—	—
Loans and notes.....	12,872	—	—	—	—	—
Due from Federal government and other grantors.....	—	—	—	—	—	—
Due from other funds.....	3,451	—	—	57	—	—
Due from component units.....	—	—	—	—	—	—
Interfund receivables.....	—	—	—	—	—	—
Inventories.....	—	—	32	—	—	—
Restricted assets:						
Cash and cash equivalents.....	—	—	—	—	—	8
Investments.....	—	—	—	—	—	115,109
Other.....	—	—	—	—	—	2,404
<b>Total assets.....</b>	<b>\$ 138,839</b>	<b>\$ 71,627</b>	<b>\$ 113,065</b>	<b>\$ 73,040</b>	<b>\$ 11,448</b>	<b>\$ 117,652</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable.....	\$ 4,597	\$ 1	\$ 4,338	\$ —	\$ 17	\$ —
Accrued salaries and related expenditures.....	694	—	216	—	—	—
Retainages payable.....	—	—	—	—	—	—
Tax refunds payable.....	129	—	—	60	—	—
Intergovernmental payables.....	39,276	3,421	761	69,894	—	—
Due to other funds.....	1,507	—	168	123	15	—
Interfund payables.....	350	—	—	—	—	—
Deferred revenues.....	5,166	—	—	2,883	3,036	—
Securities lending collateral.....	1,634	7,533	18,414	80	1,196	—
Other liabilities.....	48	—	—	—	—	—
<b>Total liabilities.....</b>	<b>53,401</b>	<b>10,955</b>	<b>23,897</b>	<b>73,040</b>	<b>4,264</b>	<b>—</b>
<b>Fund balances:</b>						
Reserved for:						
Interfund receivables.....	—	—	—	—	—	—
Long-term loans and notes receivable.....	6,052	—	—	—	—	—
Debt requirements.....	—	—	—	—	—	117,521
School building aid.....	3,841	—	—	—	—	—
Endowments.....	—	—	—	—	—	—
Unreserved:						
Designated for capital expenditures.....	—	—	—	—	—	—
Designated for scholarships.....	16,315	—	—	—	—	—
Undesignated.....	59,230	60,672	89,168	—	7,184	131
<b>Total fund balances.....</b>	<b>85,438</b>	<b>60,672</b>	<b>89,168</b>	<b>—</b>	<b>7,184</b>	<b>117,652</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 138,839</b>	<b>\$ 71,627</b>	<b>\$ 113,065</b>	<b>\$ 73,040</b>	<b>\$ 11,448</b>	<b>\$ 117,652</b>

**REVENUE**

**PERMANENT**

Education Lottery	Jobs-Economic Development Authority	Public Telecommunications	Other Special Revenue	Totals	CAPITAL PROJECTS	Bequests	Wildlife Endowment	Totals	TOTALS
\$ 109,380	\$ 4,171	\$ 20,348	\$ 71,197	\$ 450,926	\$ 130,947	\$ 1,264	\$ 1,384	\$ 2,648	\$ 584,521
—	501	—	—	501	—	—	—	—	501
22,998	—	2,670	5,677	60,202	8,150	1,180	289	1,469	69,821
—	16	2,034	1,519	4,242	—	—	—	—	4,242
1,271	22	153	308	4,909	123	12	14	26	5,058
—	—	—	5,480	118,703	374	—	—	—	119,077
—	1,047	—	9,584	23,503	—	—	—	—	23,503
—	—	—	—	—	2,627	—	—	—	2,627
—	—	1,006	1,276	5,790	2,097	—	—	—	7,887
17,819	—	—	—	17,819	—	—	—	—	17,819
—	—	—	459	459	—	—	—	—	459
—	—	—	—	32	—	—	—	—	32
—	—	—	—	8	—	—	—	—	8
—	—	—	—	115,109	—	—	—	—	115,109
—	—	—	—	2,404	—	—	—	—	2,404
<b>\$ 151,468</b>	<b>\$ 5,757</b>	<b>\$ 26,211</b>	<b>\$ 95,500</b>	<b>\$ 804,607</b>	<b>\$ 144,318</b>	<b>\$ 2,456</b>	<b>\$ 1,687</b>	<b>\$ 4,143</b>	<b>\$ 953,068</b>
\$ 3,146	\$ 3	\$ 266	\$ 1,418	\$ 13,786	\$ 3,469	\$ —	\$ —	\$ —	\$ 17,255
3	1	—	682	1,596	118	—	—	—	1,714
—	—	—	—	—	1,935	—	—	—	1,935
—	—	—	4	193	—	—	—	—	193
3,811	780	8,725	10,629	137,297	—	—	—	—	137,297
15,313	—	100	1,926	19,152	2,612	—	—	—	21,764
—	—	—	637	987	22,357	—	—	—	23,344
—	23	—	3,188	14,296	1,388	—	1	1	15,685
22,998	—	2,670	5,677	60,202	8,150	1,180	289	1,469	69,821
—	—	—	5	53	—	—	—	—	53
<b>45,271</b>	<b>807</b>	<b>11,761</b>	<b>24,166</b>	<b>247,562</b>	<b>40,029</b>	<b>1,180</b>	<b>290</b>	<b>1,470</b>	<b>289,061</b>
—	—	—	419	419	—	—	—	—	419
—	—	—	9,078	15,130	—	—	—	—	15,130
—	—	—	—	117,521	—	—	—	—	117,521
—	—	—	—	3,841	—	—	—	—	3,841
—	—	—	—	—	—	663	1,171	1,834	1,834
—	—	—	—	—	104,289	—	—	—	104,289
—	—	—	—	16,315	—	—	—	—	16,315
106,197	4,950	14,450	61,837	403,819	—	613	226	839	404,658
<b>106,197</b>	<b>4,950</b>	<b>14,450</b>	<b>71,334</b>	<b>557,045</b>	<b>104,289</b>	<b>1,276</b>	<b>1,397</b>	<b>2,673</b>	<b>664,007</b>
<b>\$ 151,468</b>	<b>\$ 5,757</b>	<b>\$ 26,211</b>	<b>\$ 95,500</b>	<b>\$ 804,607</b>	<b>\$ 144,318</b>	<b>\$ 2,456</b>	<b>\$ 1,687</b>	<b>\$ 4,143</b>	<b>\$ 953,068</b>

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

## NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2003  
(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.....	\$ 512,987	\$ —	\$ 1,486	\$ 233,235	\$ —	\$ —
Other.....	—	26,831	—	—	49,500	—
Licenses, fees, and permits.....	57	—	23,951	—	—	—
Interest and other investment income.....	2,333	3,535	4,838	(2)	562	5,375
Federal.....	—	—	—	—	—	—
Local and private grants.....	—	—	—	—	—	—
Departmental services.....	—	—	3,515	—	—	—
Contributions.....	—	—	9	—	7,502	—
Fines and penalties.....	—	—	1,471	—	—	—
Tobacco legal settlement.....	—	—	—	—	—	86,313
Other.....	283	19	201	—	—	—
<b>Total revenues.....</b>	<b>515,660</b>	<b>30,385</b>	<b>35,471</b>	<b>233,233</b>	<b>57,564</b>	<b>91,688</b>
<b>Expenditures:</b>						
Current:						
General government.....	1,568	—	—	37	—	159
Education.....	37,308	13,382	—	—	—	—
Health and environment.....	742	—	23,398	—	56,449	—
Social services.....	347	—	—	—	—	—
Administration of justice.....	1,499	—	—	—	—	—
Resources and economic development.....	—	—	—	—	—	—
Capital outlay.....	—	—	—	—	—	—
Debt service:						
Principal retirement.....	—	—	—	—	—	33,050
Interest and fiscal charges.....	—	—	—	—	—	58,888
Intergovernmental.....	481,238	26,067	4,195	231,608	—	—
<b>Total expenditures.....</b>	<b>522,702</b>	<b>39,449</b>	<b>27,593</b>	<b>231,645</b>	<b>56,449</b>	<b>92,097</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>(7,042)</b>	<b>(9,064)</b>	<b>7,878</b>	<b>1,588</b>	<b>1,115</b>	<b>(409)</b>
<b>Other financing sources (uses):</b>						
Bonds issued.....	—	—	—	—	—	—
Premiums on bonds issued.....	—	—	—	—	—	—
Transfers in.....	2,302	2,805	12	—	—	—
Transfers out.....	(4,476)	—	(54,326)	(1,588)	—	(2)
<b>Total other financing sources (uses).....</b>	<b>(2,174)</b>	<b>2,805</b>	<b>(54,314)</b>	<b>(1,588)</b>	<b>—</b>	<b>(2)</b>
<b>Net change in fund balances.....</b>	<b>(9,216)</b>	<b>(6,259)</b>	<b>(46,436)</b>	<b>—</b>	<b>1,115</b>	<b>(411)</b>
<b>Fund balances at beginning of year .....</b>	<b>94,654</b>	<b>66,931</b>	<b>135,604</b>	<b>—</b>	<b>6,069</b>	<b>118,063</b>
<b>Fund balances at end of year.....</b>	<b>\$ 85,438</b>	<b>\$ 60,672</b>	<b>\$ 89,168</b>	<b>\$ —</b>	<b>\$ 7,184</b>	<b>\$ 117,652</b>

REVENUE					PERMANENT				
Education Lottery	Jobs– Economic Development Authority	Public Telecommunications	Other Special Revenue	Totals	CAPITAL PROJECTS	Bequests	Wildlife Endowment	Totals	TOTALS
\$ —	\$ —	\$ —	\$ —	\$ 747,708	\$ —	\$ —	\$ —	\$ —	\$ 747,708
—	—	—	28,516	104,847	3,784	—	—	—	108,631
—	—	79,060	2,782	105,850	—	—	99	99	105,949
7,154	138	1,082	1,895	26,910	852	167	99	266	28,028
—	—	—	223	223	13,399	—	—	—	13,622
—	—	—	188	188	823	—	—	—	1,011
—	1,099	7,262	97	11,973	4,666	—	—	—	16,639
221,635	—	—	596	229,742	8,154	—	—	—	237,896
—	—	—	21,649	23,120	—	—	—	—	23,120
—	—	—	—	86,313	—	—	—	—	86,313
—	—	—	384	887	615	—	—	—	1,502
<b>228,789</b>	<b>1,237</b>	<b>87,404</b>	<b>56,330</b>	<b>1,337,761</b>	<b>32,293</b>	<b>167</b>	<b>198</b>	<b>365</b>	<b>1,370,419</b>
—	—	79,360	10,785	91,909	—	—	—	—	91,909
117,450	—	—	—	168,140	—	2	—	2	168,142
—	—	—	202	80,791	—	—	—	—	80,791
68	—	—	3,777	4,192	—	—	—	—	4,192
9	—	—	13,688	15,196	—	—	—	—	15,196
—	1,559	—	2,982	4,541	—	—	4	4	4,545
—	—	—	—	—	81,941	—	—	—	81,941
—	16	—	—	33,066	—	—	—	—	33,066
—	3	—	69	58,960	—	—	—	—	58,960
53,964	—	5,204	24,420	826,696	—	—	—	—	826,696
<b>171,491</b>	<b>1,578</b>	<b>84,564</b>	<b>55,923</b>	<b>1,283,491</b>	<b>81,941</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>1,365,438</b>
<b>57,298</b>	<b>(341)</b>	<b>2,840</b>	<b>407</b>	<b>54,270</b>	<b>(49,648)</b>	<b>165</b>	<b>194</b>	<b>359</b>	<b>4,981</b>
—	—	—	—	—	100,000	—	—	—	100,000
—	—	—	—	—	4,110	—	—	—	4,110
102	88	—	4,331	9,640	77,259	—	—	—	86,899
(33,904)	—	(5,562)	(5,246)	(105,104)	(139,957)	—	—	—	(245,061)
<b>(33,802)</b>	<b>88</b>	<b>(5,562)</b>	<b>(915)</b>	<b>(95,464)</b>	<b>41,412</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(54,052)</b>
<b>23,496</b>	<b>(253)</b>	<b>(2,722)</b>	<b>(508)</b>	<b>(41,194)</b>	<b>(8,236)</b>	<b>165</b>	<b>194</b>	<b>359</b>	<b>(49,071)</b>
<b>82,701</b>	<b>5,203</b>	<b>17,172</b>	<b>71,842</b>	<b>598,239</b>	<b>112,525</b>	<b>1,111</b>	<b>1,203</b>	<b>2,314</b>	<b>713,078</b>
<b>\$ 106,197</b>	<b>\$ 4,950</b>	<b>\$ 14,450</b>	<b>\$ 71,334</b>	<b>\$ 557,045</b>	<b>\$ 104,289</b>	<b>\$ 1,276</b>	<b>\$ 1,397</b>	<b>\$ 2,673</b>	<b>\$ 664,007</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 latest completed fiscal year.

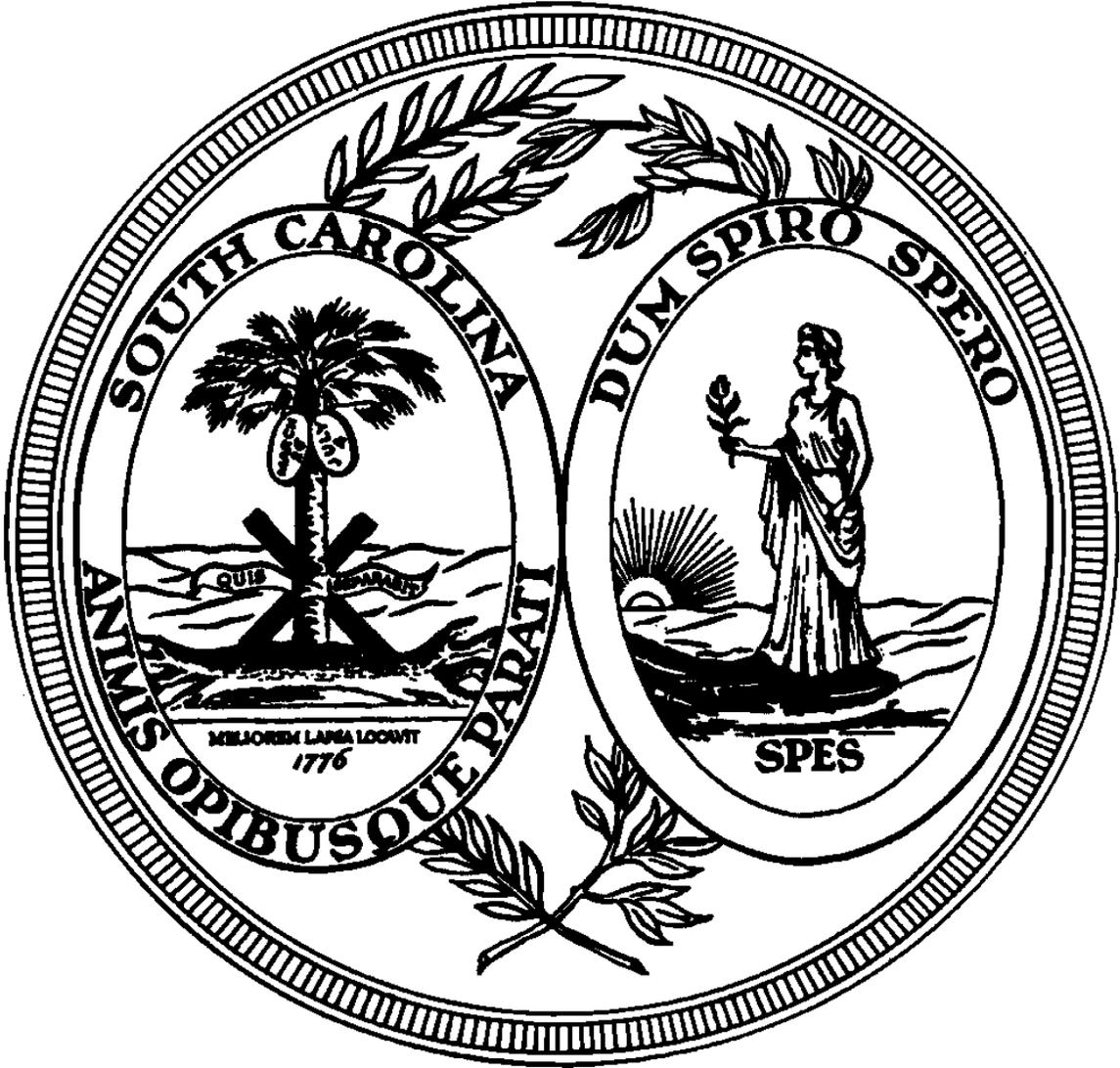
If amounts are withdrawn from the Reserve, the State Constitution requires restoration of the Reserve to full funding within three years.

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

<b>Fiscal Year Ended June 30</b>	<b>Start-of- Year Balance</b>	<b>Deposits</b>	<b>Withdrawals</b>	<b>End-of-Year Balance</b>	<b>Full-Funding Amount<sup>a</sup></b>	<b>Actual End-of- Year % Funded<sup>b</sup></b>
1994	\$ 66,832	\$ 43,346	\$ —	\$ 110,178	\$ 110,178	100%
1995	110,178	10,557	—	120,735	120,735	100%
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%

<sup>a</sup>Equals 3% of the Budgetary General Fund revenues for the latest completed 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 State Housing Corporation Fund.* The State Housing Corporation was organized to lease, operate, manage, and contract for the construction of office facilities for the South Carolina State Housing Finance and Development Authority and for affordable housing facilities for the members of the beneficiary classes of the Authority.

*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.

*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.

*Medical University Hospital Authority Fund (the Authority).* The Authority was created to manage and operate the Medical University of South Carolina's hospitals and clinics.

*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.

*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, 2002.

## Proprietary Funds

*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.

*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, 2003

(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>State</u> <u>Housing</u> <u>Corporation</u>	<u>Tuition</u> <u>Prepayment</u> <u>Program</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 3,821	\$ 6,156	\$ 208	\$ 4,890	\$ 71,804
Investments.....	—	—	—	—	—
Invested securities lending collateral.....	757	—	31,647	—	26,800
Receivables, net:					
Accounts.....	—	215	—	—	—
Contributions.....	—	—	—	—	—
Participants.....	—	—	—	—	5,987
Accrued interest.....	66	21	—	—	479
Patient accounts.....	—	—	—	—	—
Due from Federal government and other grantors.....	—	—	—	—	—
Due from other funds.....	—	—	—	—	—
Inventories.....	—	318	—	—	—
Restricted assets:					
Cash and cash equivalents.....	—	—	74,933	—	—
Investments.....	—	—	—	—	—
Loans receivable.....	—	—	—	—	—
Other.....	—	—	1,120	—	—
Other current assets.....	60	66	—	—	—
Total current assets.....	<u>4,704</u>	<u>6,776</u>	<u>107,908</u>	<u>4,890</u>	<u>105,070</u>
Long-term assets:					
Investments.....	—	—	—	—	—
Receivables, net:					
Contributions.....	—	—	—	—	—
Participants.....	—	—	—	—	18,320
Interfund receivables.....	—	—	—	—	—
Restricted assets:					
Cash and cash equivalents.....	—	—	—	—	—
Investments.....	—	—	—	—	—
Loans receivable.....	—	—	—	—	—
Other.....	—	—	—	—	—
Other long-term assets.....	—	—	—	68	—
Capital assets:					
Land and improvements.....	—	5,744	—	—	—
Buildings and improvements.....	—	1,460	—	—	—
Construction in progress.....	—	443	—	—	—
Vehicles.....	—	—	—	—	—
Machinery and equipment.....	—	539	59	—	—
Works of art and historical treasures.....	—	6,967	—	—	—
Intangible assets.....	—	—	—	—	—
Less: accumulated depreciation.....	—	(7,457)	(46)	—	—
Total capital assets, net.....	<u>—</u>	<u>7,696</u>	<u>13</u>	<u>—</u>	<u>—</u>
Total long-term assets.....	<u>—</u>	<u>7,696</u>	<u>13</u>	<u>68</u>	<u>18,320</u>
<b>Total assets.....</b>	<b><u>4,704</u></b>	<b><u>14,472</u></b>	<b><u>107,921</u></b>	<b><u>4,958</u></b>	<b><u>123,390</u></b>

<u>The Citadel Trust, Inc.</u>	<u>Pharmaceutical Education and Development Foundation</u>	<u>Medical University Hospital Authority</u>	<u>Medical University Facilities Corporation</u>	<u>University of South Carolina Trust</u>	<u>University Medical Associates</u>	<u>Other Enterprise</u>	<u>Totals</u>
\$ 266	\$ 327	\$ 26,475	\$ —	\$ 2,582	\$ 38,261	\$ 11,741	\$ 166,531
2,755	—	—	—	3,882	1,050	117	7,804
—	—	—	—	—	—	797	60,001
16	—	3,254	—	2,439	23	1,543	7,490
119	—	—	—	—	—	—	119
—	—	—	—	—	—	—	5,987
187	—	—	7	—	—	45	805
—	—	76,545	—	2,378	18,485	—	97,408
6	—	—	—	—	—	—	6
—	—	835	2,278	—	12,401	147	15,661
—	—	10,820	—	—	—	3,650	14,788
306	—	832	14,381	—	—	3,190	93,642
5,752	—	—	316	—	—	—	6,068
65	—	—	—	—	—	—	65
509	—	—	—	—	—	259	1,888
41	—	2,614	62	—	1,380	32	4,255
<u>10,022</u>	<u>327</u>	<u>121,375</u>	<u>17,044</u>	<u>11,281</u>	<u>71,600</u>	<u>21,521</u>	<u>482,518</u>
—	—	—	—	—	—	157	157
250	—	—	—	—	—	—	250
—	—	—	—	—	—	—	18,320
—	—	—	20,709	—	1,245	—	21,954
1,578	—	18,658	1,350	—	6,774	—	28,360
34,254	—	—	213	—	8,919	—	43,386
392	—	—	—	—	—	15,494	15,886
1,311	—	—	—	—	89	—	1,400
27	—	677	594	—	22,074	296	23,736
—	—	3,270	—	—	—	17,414	26,428
—	—	190,956	—	15,788	58,572	3,417	270,193
—	—	49,144	—	—	201	35	49,823
—	—	1,089	—	—	—	601	1,690
—	—	146,983	—	6,765	9,269	3,674	167,289
—	—	—	—	—	—	—	6,967
—	—	—	—	—	3,186	2,300	5,486
—	—	(174,616)	—	(7,624)	(21,020)	(4,910)	(215,673)
—	—	216,826	—	14,929	50,208	22,531	312,203
<u>37,812</u>	<u>—</u>	<u>236,161</u>	<u>22,866</u>	<u>14,929</u>	<u>89,309</u>	<u>38,478</u>	<u>465,652</u>
<b><u>47,834</u></b>	<b><u>327</u></b>	<b><u>357,536</u></b>	<b><u>39,910</u></b>	<b><u>26,210</u></b>	<b><u>160,909</u></b>	<b><u>59,999</u></b>	<b><u>948,170</u></b>

Continued on Next Page

# Combining Statement of Net Assets

NONMAJOR ENTERPRISE FUNDS (Continued)

June 30, 2003

(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>State</u> <u>Housing</u> <u>Corporation</u>	<u>Tuition</u> <u>Prepayment</u> <u>Program</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable.....	\$ 17	\$ 255	\$ 2	\$ —	\$ —
Accrued salaries and related expenses.....	17	249	95	—	—
Accrued interest payable.....	—	—	—	24	—
Retainages payable.....	—	—	—	—	—
Tuition benefits payable.....	—	—	—	—	2,280
Policy claims.....	35,000	—	—	—	—
Due to other funds.....	—	14	806	—	—
Deferred revenues.....	12,100	617	—	—	—
Securities lending collateral.....	757	—	31,647	—	26,800
Liabilities payable from restricted assets:					
Accrued interest payable.....	—	—	—	—	—
Other.....	—	—	75,253	—	—
Notes payable.....	—	—	—	—	—
Revenue bonds payable.....	—	—	—	—	—
Certificates of participation payable.....	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences payable.....	9	261	81	—	—
Other current liabilities.....	—	—	—	—	—
<b>Total current liabilities.....</b>	<b>47,900</b>	<b>1,396</b>	<b>107,884</b>	<b>24</b>	<b>29,080</b>
Long-term liabilities:					
Tuition benefits payable.....	—	—	—	—	111,725
Policy claims.....	175,312	—	—	—	—
Interfund payables.....	—	—	—	4,950	—
Notes payable.....	—	—	—	—	—
Revenue bonds payable.....	—	—	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences payable.....	6	—	24	—	—
Other long-term liabilities.....	—	—	—	—	—
<b>Total long-term liabilities.....</b>	<b>175,318</b>	<b>—</b>	<b>24</b>	<b>4,950</b>	<b>111,725</b>
<b>Total liabilities.....</b>	<b>223,218</b>	<b>1,396</b>	<b>107,908</b>	<b>4,974</b>	<b>140,805</b>
<b>NET ASSETS (DEFICITS)</b>					
Invested in capital assets, net of related debt.....	—	7,696	13	—	—
Restricted:					
Expendable:					
Education.....	—	—	—	—	—
Capital projects.....	—	—	—	—	—
Debt service.....	—	—	—	—	—
Other.....	—	—	—	—	—
Nonexpendable:					
Education.....	—	—	—	—	—
Unrestricted.....	(218,514)	5,380	—	(16)	(17,415)
<b>Total net assets (deficits).....</b>	<b>\$ (218,514)</b>	<b>\$ 13,076</b>	<b>\$ 13</b>	<b>\$ (16)</b>	<b>\$ (17,415)</b>

<u>The Citadel Trust, Inc.</u>	<u>Pharmaceutical Education and Development Foundation</u>	<u>Medical University Hospital Authority</u>	<u>Medical University Facilities Corporation</u>	<u>University of South Carolina Trust</u>	<u>University Medical Associates</u>	<u>Other Enterprise</u>	<u>Totals</u>
\$ 2	\$ 5,374	\$ 19,815	\$ —	\$ 2,532	\$ 1,602	\$ 1,671	\$ 31,270
12	—	12,257	—	33	3,784	213	16,660
—	—	2,613	733	—	279	—	3,649
—	—	832	—	—	—	—	832
—	—	—	—	—	—	—	2,280
—	—	—	—	—	—	—	35,000
—	—	7,919	—	—	835	175	9,749
—	—	—	—	—	—	33	12,750
—	—	—	—	—	—	797	60,001
—	—	—	—	—	—	516	516
—	—	—	—	—	—	65	75,318
—	—	490	1,000	—	25,784	2	27,276
—	—	—	478	420	—	—	898
—	—	—	13,525	—	—	—	13,525
—	—	6,970	—	76	557	—	7,603
—	—	11,991	—	673	1,277	395	14,687
8	—	75	—	—	2,025	—	2,108
<u>22</u>	<u>5,374</u>	<u>62,962</u>	<u>15,736</u>	<u>3,734</u>	<u>36,143</u>	<u>3,867</u>	<u>314,122</u>
—	—	—	—	—	—	—	111,725
—	—	—	—	—	—	—	175,312
—	1,000	—	—	—	—	15,494	21,444
—	—	12,393	12,500	—	94,393	16	119,302
—	—	96,963	10,341	9,340	—	—	116,644
—	—	21,196	—	44	579	—	21,819
—	—	—	—	—	852	98	980
<u>603</u>	<u>1,443</u>	<u>—</u>	<u>—</u>	<u>922</u>	<u>1,528</u>	<u>—</u>	<u>4,496</u>
<u>603</u>	<u>2,443</u>	<u>130,552</u>	<u>22,841</u>	<u>10,306</u>	<u>97,352</u>	<u>15,608</u>	<u>571,722</u>
<u>625</u>	<u>7,817</u>	<u>193,514</u>	<u>38,577</u>	<u>14,040</u>	<u>133,495</u>	<u>19,475</u>	<u>885,844</u>
—	—	78,815	—	5,049	(1,329)	22,513	112,757
22,221	—	—	—	—	—	—	22,221
218	—	—	—	—	—	—	218
—	—	—	1,333	—	9,081	2,868	13,282
—	—	—	—	—	—	50	50
19,200	—	—	—	—	—	—	19,200
5,570	(7,490)	85,207	—	7,121	19,662	15,093	(105,402)
<u>\$ 47,209</u>	<u>\$ (7,490)</u>	<u>\$ 164,022</u>	<u>\$ 1,333</u>	<u>\$ 12,170</u>	<u>\$ 27,414</u>	<u>\$ 40,524</u>	<u>\$ 62,326</u>

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

## NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

	Patients' Compensation	Patriots Point Development Authority	Second Injury	State Housing Corporation	Tuition Prepayment Program
<b>Operating revenues:</b>					
Charges for services.....	\$ 37,855	\$ 7,511	\$ 1,602	\$ —	\$ 85
Contributions.....	—	—	—	—	15,673
Interest and other investment income.....	—	—	—	8	5,607
Operating revenues pledged for revenue bonds.....	—	—	—	—	—
Other operating revenues.....	—	—	—	—	—
<b>Total operating revenues.....</b>	<b>37,855</b>	<b>7,511</b>	<b>1,602</b>	<b>8</b>	<b>21,365</b>
<b>Operating expenses:</b>					
General operations and administration.....	746	6,506	1,574	—	504
Benefits and claims.....	49,367	—	—	—	—
Tuition plan disbursements.....	—	—	—	—	26,704
Interest.....	—	—	—	24	—
Depreciation and amortization.....	—	320	4	—	—
Other operating expenses.....	—	138	25	—	—
<b>Total operating expenses.....</b>	<b>50,113</b>	<b>6,964</b>	<b>1,603</b>	<b>24</b>	<b>27,208</b>
<b>Operating income (loss).....</b>	<b>(12,258)</b>	<b>547</b>	<b>(1)</b>	<b>(16)</b>	<b>(5,843)</b>
<b>Nonoperating revenues (expenses):</b>					
Interest income.....	344	150	—	—	—
Contributions.....	—	22	—	—	—
Local/private grants and contracts.....	—	—	—	—	—
Interest expense.....	—	—	—	—	—
Other nonoperating revenues (expenses).....	—	(22)	—	—	—
<b>Total nonoperating revenues (expenses).....</b>	<b>344</b>	<b>150</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Income (loss) before other revenues, expenses, losses, and transfers.....</b>	<b>(11,914)</b>	<b>697</b>	<b>(1)</b>	<b>(16)</b>	<b>(5,843)</b>
Local/private capital grants and contracts.....	—	—	—	—	—
Additions to endowments.....	—	—	—	—	—
Special items.....	—	—	—	—	—
Transfers out.....	(1,505)	(131)	(3)	—	—
<b>Change in net assets.....</b>	<b>(13,419)</b>	<b>566</b>	<b>(4)</b>	<b>(16)</b>	<b>(5,843)</b>
<b>Net assets (deficits) at beginning of year (restated).....</b>	<b>(205,095)</b>	<b>12,510</b>	<b>17</b>	<b>—</b>	<b>(11,572)</b>
<b>Net assets (deficits) at end of year.....</b>	<b>\$ (218,514)</b>	<b>\$ 13,076</b>	<b>\$ 13</b>	<b>\$ (16)</b>	<b>\$ (17,415)</b>

<u>The Citadel Trust, Inc.</u>	<u>Pharmaceutical Education and Development Foundation</u>	<u>Medical University Hospital Authority</u>	<u>Medical University Facilities Corporation</u>	<u>University of South Carolina Trust</u>	<u>University Medical Associates</u>	<u>Other Enterprise</u>	<u>Totals</u>
\$ —	\$ —	\$ —	\$ —	\$ 21,076	\$ 184,454	\$ 24,015	\$ 276,598
—	—	—	—	—	—	—	15,673
—	—	—	—	—	—	—	5,615
—	—	535,212	1,909	—	—	—	537,121
1,432	—	13,113	—	14,574	4,411	207	33,737
<b>1,432</b>	<b>—</b>	<b>548,325</b>	<b>1,909</b>	<b>35,650</b>	<b>188,865</b>	<b>24,222</b>	<b>868,744</b>
108	267	506,651	1,919	34,957	148,430	21,744	723,406
—	—	—	—	—	—	—	49,367
—	—	—	—	—	—	—	26,704
—	—	—	—	—	—	—	24
—	—	17,365	21	911	2,779	458	21,858
—	—	—	—	—	—	802	965
<b>108</b>	<b>267</b>	<b>524,016</b>	<b>1,940</b>	<b>35,868</b>	<b>151,209</b>	<b>23,004</b>	<b>822,324</b>
<b>1,324</b>	<b>(267)</b>	<b>24,309</b>	<b>(31)</b>	<b>(218)</b>	<b>37,656</b>	<b>1,218</b>	<b>46,420</b>
—	5	63	—	(884)	1,616	1,500	2,794
3,278	—	—	—	—	—	—	3,300
66	—	—	—	—	—	1,200	1,266
—	—	(5,846)	—	(471)	(6,362)	(1,230)	(13,909)
(5)	100	—	—	—	3,483	(39)	3,517
<b>3,339</b>	<b>105</b>	<b>(5,783)</b>	<b>—</b>	<b>(1,355)</b>	<b>(1,263)</b>	<b>1,431</b>	<b>(3,032)</b>
<b>4,663</b>	<b>(162)</b>	<b>18,526</b>	<b>(31)</b>	<b>(1,573)</b>	<b>36,393</b>	<b>2,649</b>	<b>43,388</b>
59	—	—	—	(7)	—	—	52
405	—	—	—	—	—	—	405
—	—	—	—	—	(458)	—	(458)
(3,204)	—	(5,810)	(35)	—	(10,757)	(3,005)	(24,450)
<b>1,923</b>	<b>(162)</b>	<b>12,716</b>	<b>(66)</b>	<b>(1,580)</b>	<b>25,178</b>	<b>(356)</b>	<b>18,937</b>
<b>45,286</b>	<b>(7,328)</b>	<b>151,306</b>	<b>1,399</b>	<b>13,750</b>	<b>2,236</b>	<b>40,880</b>	<b>43,389</b>
<b>\$ 47,209</b>	<b>\$ (7,490)</b>	<b>\$ 164,022</b>	<b>\$ 1,333</b>	<b>\$ 12,170</b>	<b>\$ 27,414</b>	<b>\$ 40,524</b>	<b>\$ 62,326</b>

## Combining Statement of Cash Flows

### NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Patients' Compensation	Patriots Point Development Authority	Second Injury	State Housing Corporation
<b>Cash flows from operating activities:</b>				
Receipts from customers, patients, and third-party payers.....	\$ 37,155	\$ 4,940	\$ —	\$ —
Assessments received.....	—	—	133,388	—
Tuition plan contributions received.....	—	—	—	—
Other operating cash receipts.....	—	2,633	—	—
Claims and benefits paid.....	(41,707)	—	(110,105)	—
Payments to suppliers for goods and services.....	—	(3,027)	—	(68)
Payments to employees.....	—	(3,164)	—	—
Internal activity - payments to other funds.....	—	—	—	—
Other operating cash payments.....	(817)	(374)	(1,585)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>(5,369)</b>	<b>1,008</b>	<b>21,698</b>	<b>(68)</b>
<b>Cash flows from noncapital financing activities:</b>				
Principal payments received from other funds.....	—	—	—	—
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.....	—	—	—	—
Payment of bond issuance costs.....	—	—	—	—
Gifts and grants for other than capital purposes.....	—	—	—	—
Other cash receipts.....	—	—	—	—
Other cash payments.....	—	—	—	—
Transfers out.....	(1,505)	(131)	(3)	—
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>(1,505)</b>	<b>(131)</b>	<b>(3)</b>	<b>—</b>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets.....	—	(448)	—	—
Principal payments on notes payable.....	—	—	—	—
Proceeds from issuance of capital debt.....	—	—	—	4,950
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.....	—	—	—	—
<b>Net cash provided by (used in) capital and related financing activities.....</b>	<b>—</b>	<b>(448)</b>	<b>—</b>	<b>4,950</b>
<b>Cash flows from investing activities:</b>				
Proceeds from sales and maturities of investments.....	—	—	—	—
Purchase of investments.....	—	—	—	—
Interest and dividends on investments.....	367	150	6,127	8
Collection of escrow payments from borrower.....	—	—	—	—
<b>Net cash provided by (used in) investing activities.....</b>	<b>367</b>	<b>150</b>	<b>6,127</b>	<b>8</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>(6,507)</b>	<b>579</b>	<b>27,822</b>	<b>4,890</b>
<b>Cash and cash equivalents at beginning of year (restated).....</b>	<b>10,328</b>	<b>5,577</b>	<b>47,319</b>	<b>—</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 3,821</b>	<b>\$ 6,156</b>	<b>\$ 75,141</b>	<b>\$ 4,890</b>

Tuition Prepayment Program	The Citadel Trust, Inc.	Pharmaceutical Education and Development Foundation	Medical University Hospital Authority	Medical University Facilities Corporation	University of South Carolina Trust	University Medical Associates	Other Enterprise	Totals
\$ 215	\$ —	\$ —	\$ 531,778	\$ —	\$ 21,337	\$ 158,197	\$ 22,791	\$ 776,413
—	—	—	—	—	—	—	—	133,388
18,717	—	—	—	—	—	—	—	18,717
—	—	300	12,673	—	12,927	5,786	1,009	35,328
—	—	—	—	—	—	—	—	(151,812)
(504)	(44)	(319)	(224,843)	—	(14,843)	(50,921)	(20,151)	(314,720)
—	(64)	(80)	(222,039)	—	(20,986)	(76,724)	(4,683)	(327,740)
—	—	—	(54,307)	—	—	—	—	(54,307)
(434)	—	—	—	—	—	(2,782)	(925)	(6,917)
<b>17,994</b>	<b>(108)</b>	<b>(99)</b>	<b>43,262</b>	<b>—</b>	<b>(1,565)</b>	<b>33,556</b>	<b>(1,959)</b>	<b>108,350</b>
—	—	—	—	—	—	—	3,082	3,082
—	—	—	—	—	—	—	(446)	(446)
—	—	—	—	—	—	—	(1,275)	(1,275)
—	—	—	—	13,500	—	22,500	—	36,000
—	—	—	—	(1,219)	—	(23,206)	—	(24,425)
—	—	—	—	(1,895)	—	(3,516)	—	(5,411)
—	—	—	—	(436)	—	(117)	—	(553)
—	3,934	—	—	—	—	—	1,200	5,134
—	211	—	—	—	—	—	96	307
—	—	—	—	—	(7)	—	—	(7)
—	(3,204)	—	(5,810)	(35)	—	(10,757)	(3,005)	(24,450)
—	<b>941</b>	<b>—</b>	<b>(5,810)</b>	<b>9,915</b>	<b>(7)</b>	<b>(15,096)</b>	<b>(348)</b>	<b>(12,044)</b>
—	—	—	(28,376)	—	(2,058)	(856)	(1,452)	(33,190)
—	—	—	—	—	—	—	(2)	(2)
—	—	—	—	—	—	—	—	4,950
—	—	—	(7,878)	—	(515)	(1,321)	(3,736)	(13,450)
—	—	—	(3,291)	—	(472)	(2,901)	(1)	(6,665)
—	—	—	—	—	—	(121)	—	(121)
—	—	—	—	—	—	19	44	63
—	59	—	—	—	—	—	—	59
—	<b>59</b>	<b>—</b>	<b>(39,545)</b>	<b>—</b>	<b>(3,045)</b>	<b>(5,180)</b>	<b>(5,147)</b>	<b>(48,356)</b>
—	43,433	—	—	2,388	3,129	8,210	—	57,160
—	(45,352)	—	—	(1,277)	(1,550)	(7,226)	—	(55,405)
5,169	976	5	1,308	1,909	95	905	406	17,425
—	—	—	—	—	—	—	1,566	1,566
<b>5,169</b>	<b>(943)</b>	<b>5</b>	<b>1,308</b>	<b>3,020</b>	<b>1,674</b>	<b>1,889</b>	<b>1,972</b>	<b>20,746</b>
<b>23,163</b>	<b>(51)</b>	<b>(94)</b>	<b>(785)</b>	<b>12,935</b>	<b>(2,943)</b>	<b>15,169</b>	<b>(5,482)</b>	<b>68,696</b>
<b>48,641</b>	<b>2,201</b>	<b>421</b>	<b>46,750</b>	<b>2,796</b>	<b>5,525</b>	<b>29,866</b>	<b>20,413</b>	<b>219,837</b>
<b>\$ 71,804</b>	<b>\$ 2,150</b>	<b>\$ 327</b>	<b>\$ 45,965</b>	<b>\$ 15,731</b>	<b>\$ 2,582</b>	<b>\$ 45,035</b>	<b>\$ 14,931</b>	<b>\$ 288,533</b>

Continued on Next Page

# Combining Statement of Cash Flows

NONMAJOR ENTERPRISE FUNDS (Continued)

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Patients' Compensation	Patriots Point Development Authority	Second Injury	State Housing Corporation
<b>Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss).....	\$ (12,258)	\$ 547	\$ (1)	\$ (16)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization .....	—	320	4	—
Provision for bad debts.....	—	—	—	—
Realized gains and losses on investments.....	—	—	—	—
Interest payments reclassified as noncapital financing activities.....	—	—	—	—
Interest and dividends on investments and interfund loans.....	—	—	—	(8)
Amounts received for payment of claims.....	—	—	131,786	—
Payment of claims.....	—	—	(110,105)	—
Other nonoperating revenues.....	—	22	—	—
Other nonoperating expenses.....	—	—	—	—
Other.....	—	—	1	—
<b>Change in assets—decreases (increases):</b>				
Accounts receivable, net.....	—	26	—	—
Receivable from participants, net.....	—	—	—	—
Accrued interest.....	—	(4)	—	—
Due from other funds.....	—	—	—	—
Inventories.....	—	25	—	—
Other assets .....	(60)	(66)	—	(68)
<b>Change in liabilities—increases (decreases):</b>				
Accounts payable.....	(8)	82	(1)	—
Accrued salaries and related expenses.....	1	36	9	—
Accrued interest payable.....	—	—	—	24
Tuition benefits payable.....	—	—	—	—
Policy claims.....	7,660	—	—	—
Due to other funds.....	(1)	(8)	—	—
Deferred revenues .....	(700)	27	—	—
Liabilities payable from restricted assets.....	—	—	—	—
Interfund payables.....	—	—	—	—
Compensated absences payable .....	(3)	1	5	—
Other liabilities.....	—	—	—	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>\$ (5,369)</b>	<b>\$ 1,008</b>	<b>\$ 21,698</b>	<b>\$ (68)</b>
<b>Noncash capital, investing, and financing activities:</b>				
Acquisition of capital assets through assumption of liabilities.....	\$ —	\$ —	\$ —	\$ —
Increase (decrease) in fair value of investments.....	—	—	—	—
Assumption of debt.....	—	—	—	—
<b>Total noncash capital, investing, and financing activities.....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

<u>Tuition Prepayment Program</u>	<u>The Citadel Trust, Inc.</u>	<u>Pharmaceutical Education and Development Foundation</u>	<u>Medical University Hospital Authority</u>	<u>Medical University Facilities Corporation</u>	<u>University of South Carolina Trust</u>	<u>University Medical Associates</u>	<u>Other Enterprise</u>	<u>Totals</u>
\$ (5,843)	\$ 1,324	\$ (267)	\$ 24,309	\$ (31)	\$ (218)	\$ 37,656	\$ 1,218	\$ 46,420
—	—	—	17,365	21	911	2,779	458	21,858
—	—	—	37,468	—	—	21,603	—	59,071
—	(514)	—	—	—	—	—	—	(514)
—	—	—	—	1,919	—	—	—	1,919
(5,607)	(918)	—	—	(1,909)	—	—	—	(8,442)
—	—	—	—	—	—	—	—	131,786
—	—	—	—	—	—	—	—	(110,105)
—	—	100	—	—	—	5,451	3	5,576
—	—	—	—	—	—	(367)	(255)	(622)
1	—	—	332	—	—	—	571	905
129	—	200	(40,902)	—	(1,384)	(20,914)	1,323	(61,522)
3,044	—	—	—	—	—	—	—	3,044
—	—	—	—	—	—	—	55	51
—	—	—	—	—	—	(8,243)	84	(8,159)
—	—	—	—	—	—	—	(2,112)	(2,087)
—	—	—	(335)	—	—	600	(20)	51
—	—	(71)	4,598	—	(651)	(2,158)	(3,385)	(1,594)
—	—	—	3,144	—	(47)	(454)	7	2,696
—	—	—	363	—	—	(28)	—	359
26,270	—	—	—	—	—	—	—	26,270
—	—	—	—	—	—	—	—	7,660
—	—	(710)	(3,080)	—	—	1,658	9	(2,132)
—	—	—	—	—	—	—	(3)	(676)
—	—	—	—	—	—	—	41	41
—	—	(623)	—	—	—	—	—	(623)
—	—	—	—	—	22	(878)	47	(806)
—	—	1,272	—	—	(198)	(3,149)	—	(2,075)
<u>\$ 17,994</u>	<u>\$ (108)</u>	<u>\$ (99)</u>	<u>\$ 43,262</u>	<u>\$ —</u>	<u>\$ (1,565)</u>	<u>\$ 33,556</u>	<u>\$ (1,959)</u>	<u>\$ 108,350</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 52	\$ —	\$ 52
—	2,719	—	—	—	(595)	705	—	2,829
—	—	—	—	—	—	(18)	—	(18)
<u>\$ —</u>	<u>\$ 2,719</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (595)</u>	<u>\$ 739</u>	<u>\$ —</u>	<u>\$ 2,863</u>

## Combining Statement of Net Assets

## INTERNAL SERVICE FUNDS

June 30, 2003

(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.....	\$ 83,698	\$ 60,784	\$ 14,764	\$ 32,415	\$ 854
Invested securities lending collateral.....	53,975	14,031	2,869	1,037	—
Receivables, net:					
Accounts .....	11,568	3,481	59,472	219	—
Accrued interest.....	3,170	335	210	83	—
Due from other funds.....	1,788	28,223	891	9,260	557
Due from component units.....	—	—	—	1	—
Inventories.....	—	—	—	1,188	1,630
Other current assets.....	11,118	—	278	—	—
Total current assets.....	<u>165,317</u>	<u>106,854</u>	<u>78,484</u>	<u>44,203</u>	<u>3,041</u>
Long-term assets:					
Investments.....	191,082	22,537	943	—	—
Accounts receivable, net.....	—	—	165	—	—
Interfund receivables.....	22,436	—	—	22,356	—
Other long-term assets.....	—	—	9	—	—
Deferred charges.....	—	—	—	173	—
Capital assets:					
Land and improvements.....	—	—	—	6,914	—
Buildings and improvements.....	—	—	—	179,419	—
Construction in progress.....	—	—	—	30	—
Vehicles.....	—	—	—	1,610	30
Machinery and equipment.....	363	250	851	48,870	8
Intangible assets.....	—	—	8,152	891	—
Less: accumulated depreciation.....	(240)	(175)	(6,509)	(104,606)	(10)
Total capital assets, net.....	<u>123</u>	<u>75</u>	<u>2,494</u>	<u>133,128</u>	<u>28</u>
Total long-term assets.....	<u>213,641</u>	<u>22,612</u>	<u>3,611</u>	<u>155,657</u>	<u>28</u>
<b>Total assets.....</b>	<b><u>378,958</u></b>	<b><u>129,466</u></b>	<b><u>82,095</u></b>	<b><u>199,860</u></b>	<b><u>3,069</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>
\$ 9,166	\$ 891	\$ 2,669	\$ 1,476	\$ 236	\$ 206,953
—	199	—	—	—	72,111
325	—	1,806	401	1	77,273
—	31	—	—	—	3,829
2,327	110	494	—	54	43,704
—	—	—	—	—	1
14	—	3,928	—	—	6,760
—	—	—	—	—	11,396
<u>11,832</u>	<u>1,231</u>	<u>8,897</u>	<u>1,877</u>	<u>291</u>	<u>422,027</u>
—	—	—	353	—	214,915
—	—	—	—	—	165
500	—	—	—	—	45,292
—	—	—	—	—	9
—	—	—	—	—	173
928	—	—	—	—	7,842
527	—	5,703	—	—	185,649
—	—	68	—	—	98
34,958	—	1,180	—	—	37,778
31	2,531	6,497	—	—	59,401
—	343	—	—	—	9,386
(24,876)	(1,772)	(6,546)	—	—	(144,734)
<u>11,568</u>	<u>1,102</u>	<u>6,902</u>	<u>—</u>	<u>—</u>	<u>155,420</u>
<u>12,068</u>	<u>1,102</u>	<u>6,902</u>	<u>353</u>	<u>—</u>	<u>415,974</u>
<b><u>23,900</u></b>	<b><u>2,333</u></b>	<b><u>15,799</u></b>	<b><u>2,230</u></b>	<b><u>291</u></b>	<b><u>838,001</u></b>

Continued on Next Page

# Combining Statement of Net Assets

INTERNAL SERVICE FUNDS (Continued)

June 30, 2003

(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.....	\$ 413	\$ 99	\$ 1,164	\$ 4,104	\$ 441
Accrued salaries and related expenses.....	226	302	308	1,461	—
Accrued interest payable.....	—	—	—	935	—
Retainages payable.....	—	—	—	139	—
Policy claims.....	206,884	188,153	39,249	—	—
Due to other funds.....	9	140	7	1,207	23
Deferred revenues.....	29,097	6,290	62,139	—	—
Securities lending collateral.....	53,975	14,031	2,870	1,036	—
Notes payable.....	—	—	—	108	—
Revenue bonds payable.....	—	—	—	1,140	—
Limited obligation bonds payable.....	—	—	—	3,755	—
Capital leases payable.....	—	—	—	419	—
Compensated absences payable.....	48	35	255	1,984	—
Other current liabilities.....	—	—	2,615	—	—
<b>Total current liabilities.....</b>	<b>290,652</b>	<b>209,050</b>	<b>108,607</b>	<b>16,288</b>	<b>464</b>
Long-term liabilities:					
Policy claims.....	—	—	37,600	—	—
Interfund payables.....	—	—	—	6,531	700
Notes payable.....	—	—	—	113	—
Revenue bonds payable.....	—	—	—	24,894	—
Limited obligation bonds payable.....	—	—	—	23,285	—
Capital leases payable.....	—	—	—	1,678	—
Compensated absences payable.....	212	331	82	850	—
<b>Total long-term liabilities.....</b>	<b>212</b>	<b>331</b>	<b>37,682</b>	<b>57,351</b>	<b>700</b>
<b>Total liabilities.....</b>	<b>290,864</b>	<b>209,381</b>	<b>146,289</b>	<b>73,639</b>	<b>1,164</b>
<b>NET ASSETS (DEFICITS)</b>					
Invested in capital assets, net of related debt.....	122	75	2,495	103,990	28
Restricted:					
Expendable:					
Loan programs.....	20,000	—	—	—	—
Insurance programs.....	67,972	—	—	—	—
Nonexpendable:					
Education.....	—	—	—	—	—
Unrestricted.....	—	(79,990)	(66,689)	22,231	1,877
<b>Total net assets (deficits).....</b>	<b>\$ 88,094</b>	<b>\$ (79,915)</b>	<b>\$ (64,194)</b>	<b>\$ 126,221</b>	<b>\$ 1,905</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>
\$ 905	\$ 234	\$ 513	\$ —	\$ —	\$ 7,873
81	505	566	—	17	3,466
—	—	—	—	—	935
—	—	—	—	—	139
—	—	—	—	—	434,286
77	355	272	—	8	2,098
—	—	—	—	—	97,526
—	199	—	—	—	72,111
—	—	—	—	—	108
—	—	—	—	—	1,140
—	—	—	—	—	3,755
—	—	131	—	—	550
92	658	406	—	20	3,498
—	—	—	—	—	2,615
<u>1,155</u>	<u>1,951</u>	<u>1,888</u>	<u>—</u>	<u>45</u>	<u>630,100</u>
—	—	—	—	—	37,600
—	—	—	—	—	7,231
—	—	—	—	—	113
—	—	—	—	—	24,894
—	—	—	—	—	23,285
—	—	714	—	—	2,392
<u>39</u>	<u>282</u>	<u>174</u>	<u>—</u>	<u>9</u>	<u>1,979</u>
<u>39</u>	<u>282</u>	<u>888</u>	<u>—</u>	<u>9</u>	<u>97,494</u>
<u>1,194</u>	<u>2,233</u>	<u>2,776</u>	<u>—</u>	<u>54</u>	<u>727,594</u>
11,568	1,101	6,058	—	—	125,437
—	—	—	—	—	20,000
—	—	—	—	—	67,972
—	—	—	353	—	353
<u>11,138</u>	<u>(1,001)</u>	<u>6,965</u>	<u>1,877</u>	<u>237</u>	<u>(103,355)</u>
<u>\$ 22,706</u>	<u>\$ 100</u>	<u>\$ 13,023</u>	<u>\$ 2,230</u>	<u>\$ 237</u>	<u>\$ 110,407</u>

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

## INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

	Insurance Reserve	Employee Insurance Programs	State Accident Fund	General Services	Central Supplies and Equipment
<b>Operating revenues:</b>					
Charges for services.....	\$ 43,146	\$ 1,166,679	\$ 55,599	\$ 81,542	\$ 8,908
Contributions.....	—	—	—	—	—
Interest and other investment income.....	—	—	—	—	—
Other operating revenues.....	—	11,833	—	—	—
<b>Total operating revenues.....</b>	<b>43,146</b>	<b>1,178,512</b>	<b>55,599</b>	<b>81,542</b>	<b>8,908</b>
<b>Operating expenses:</b>					
General operations and administration.....	51,813	117,710	5,198	72,114	8,921
Benefits and claims.....	54,775	1,075,098	60,808	—	—
Depreciation and amortization.....	47	15	1,756	6,444	5
Other operating expenses.....	—	—	3,015	454	—
<b>Total operating expenses.....</b>	<b>106,635</b>	<b>1,192,823</b>	<b>70,777</b>	<b>79,012</b>	<b>8,926</b>
<b>Operating income (loss).....</b>	<b>(63,489)</b>	<b>(14,311)</b>	<b>(15,178)</b>	<b>2,530</b>	<b>(18)</b>
<b>Nonoperating revenues (expenses):</b>					
Interest income.....	17,842	7,311	1,121	385	—
Interest expense.....	—	—	—	(2,174)	—
Other nonoperating revenues (expenses).....	1	—	70	109	—
<b>Total nonoperating revenues (expenses).....</b>	<b>17,843</b>	<b>7,311</b>	<b>1,191</b>	<b>(1,680)</b>	<b>—</b>
<b>Income (loss) before other revenues and transfers.....</b>	<b>(45,646)</b>	<b>(7,000)</b>	<b>(13,987)</b>	<b>850</b>	<b>(18)</b>
Capital contributions.....	—	—	—	157	—
Transfers in.....	—	3,197	—	3,786	—
Transfers out.....	(23,574)	(6,497)	(1,808)	(4,816)	—
<b>Change in net assets.....</b>	<b>(69,220)</b>	<b>(10,300)</b>	<b>(15,795)</b>	<b>(23)</b>	<b>(18)</b>
<b>Net assets (deficits) at beginning of year.....</b>	<b>157,314</b>	<b>(69,615)</b>	<b>(48,399)</b>	<b>126,244</b>	<b>1,923</b>
<b>Net assets (deficits) at end of year.....</b>	<b>\$ 88,094</b>	<b>\$ (79,915)</b>	<b>\$ (64,194)</b>	<b>\$ 126,221</b>	<b>\$ 1,905</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>
\$ 16,373	\$ 15,581	\$ 19,090	\$ —	\$ 386	\$ 1,407,304
—	—	—	777	—	777
—	—	—	49	—	49
—	—	—	24	—	11,857
<b>16,373</b>	<b>15,581</b>	<b>19,090</b>	<b>850</b>	<b>386</b>	<b>1,419,987</b>
8,204	15,031	18,240	804	439	298,474
—	42	—	—	—	1,190,723
5,057	329	515	—	—	14,168
2	77	3	—	—	3,551
<b>13,263</b>	<b>15,479</b>	<b>18,758</b>	<b>804</b>	<b>439</b>	<b>1,506,916</b>
<b>3,110</b>	<b>102</b>	<b>332</b>	<b>46</b>	<b>(53)</b>	<b>(86,929)</b>
—	138	—	—	—	26,797
—	—	—	—	—	(2,174)
371	(8)	(383)	—	—	160
<b>371</b>	<b>130</b>	<b>(383)</b>	<b>—</b>	<b>—</b>	<b>24,783</b>
<b>3,481</b>	<b>232</b>	<b>(51)</b>	<b>46</b>	<b>(53)</b>	<b>(62,146)</b>
30	—	72	—	—	259
570	1	—	—	—	7,554
(3,889)	—	—	—	(639)	(41,223)
<b>192</b>	<b>233</b>	<b>21</b>	<b>46</b>	<b>(692)</b>	<b>(95,556)</b>
<b>22,514</b>	<b>(133)</b>	<b>13,002</b>	<b>2,184</b>	<b>929</b>	<b>205,963</b>
<b>\$ 22,706</b>	<b>\$ 100</b>	<b>\$ 13,023</b>	<b>\$ 2,230</b>	<b>\$ 237</b>	<b>\$ 110,407</b>

## Combining Statement of Cash Flows

## INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Insurance Reserve	Employee Insurance Programs	State Accident Fund	General Services
<b>Cash flows from operating activities:</b>				
Receipts from customers.....	\$ 3,379	\$ 910,940	\$ 14,909	\$ —
Internal activity—payments from other funds.....	32,208	252,751	52,299	81,890
Other operating cash receipts.....	637	10,050	—	—
Claims paid.....	(41,560)	(1,070,762)	(56,935)	—
Payments to suppliers for goods and services.....	(39,934)	(86,428)	(3,621)	(45,119)
Payments to employees.....	(2,816)	(2,966)	(3,870)	(26,226)
Internal activity—payments to other funds.....	(782)	—	(10,577)	(732)
Other operating cash payments.....	—	—	(35)	—
<b>Net cash provided by (used in) operating activities.....</b>	<b>(48,868)</b>	<b>13,585</b>	<b>(7,830)</b>	<b>9,813</b>
<b>Cash flows from noncapital financing activities:</b>				
Principal payments received from other funds.....	959	—	—	—
Receipt of interest from other funds.....	1,412	—	—	—
Loans made to other funds.....	(1,339)	—	—	(22,357)
Proceeds from sale of revenue bonds.....	—	—	—	26,164
Transfers in.....	—	3,197	—	3,786
Transfers out.....	(23,574)	(6,497)	(1,808)	(4,816)
<b>Net cash provided by (used in) noncapital financing activities.....</b>	<b>(22,542)</b>	<b>(3,300)</b>	<b>(1,808)</b>	<b>2,777</b>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets.....	(24)	(28)	(17)	(4,208)
Principal payments on notes payable.....	—	—	—	(2,919)
Principal payments on limited obligation bonds.....	—	—	—	(3,575)
Principal paid on capital debt and lease.....	—	—	—	(119)
Interest payments on capital debt.....	—	—	—	(2,174)
Proceeds from sale or disposal of capital assets.....	—	—	—	—
<b>Net cash used in capital and related financing activities.....</b>	<b>(24)</b>	<b>(28)</b>	<b>(17)</b>	<b>(12,995)</b>
<b>Cash flows from investing activities:</b>				
Proceeds from sales and maturities of investments.....	148,804	3,262	—	—
Purchase of investments.....	(103,620)	(3,244)	—	—
Interest on investments.....	14,163	6,061	1,180	385
<b>Net cash provided by (used in) investing activities.....</b>	<b>59,347</b>	<b>6,079</b>	<b>1,180</b>	<b>385</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>(12,087)</b>	<b>16,336</b>	<b>(8,475)</b>	<b>(20)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>95,785</b>	<b>44,448</b>	<b>23,239</b>	<b>32,435</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>\$ 83,698</b>	<b>\$ 60,784</b>	<b>\$ 14,764</b>	<b>\$ 32,415</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>
\$ —	\$ —	\$ —	\$ 19,089	\$ 1,220	\$ 385	\$ 949,922
8,908	15,662	15,879	—	—	—	459,597
—	—	1	714	—	1	11,403
—	—	—	—	—	—	(1,169,257)
(8,711)	(6,460)	(5,326)	(8,320)	(302)	(224)	(204,445)
—	(1,526)	(8,775)	(9,922)	(502)	(251)	(56,854)
—	(334)	(2,153)	(19)	—	(5)	(14,602)
—	—	—	(1,000)	—	—	(1,035)
<b>197</b>	<b>7,342</b>	<b>(374)</b>	<b>542</b>	<b>416</b>	<b>(94)</b>	<b>(25,271)</b>
—	—	—	—	—	—	959
—	—	—	—	—	—	1,412
—	—	—	—	—	—	(23,696)
—	—	—	—	—	—	26,164
—	570	1	—	—	—	7,554
—	(3,889)	—	—	—	(639)	(41,223)
—	<b>(3,319)</b>	<b>1</b>	—	—	<b>(639)</b>	<b>(28,830)</b>
(12)	(4,673)	(230)	(329)	—	—	(9,521)
—	—	—	—	—	—	(2,919)
—	—	—	—	—	—	(3,575)
—	—	—	(130)	—	—	(249)
—	—	—	—	—	—	(2,174)
—	242	—	—	—	—	242
<b>(12)</b>	<b>(4,431)</b>	<b>(230)</b>	<b>(459)</b>	—	—	<b>(18,196)</b>
—	—	—	—	—	—	152,066
—	—	—	—	(187)	—	(107,051)
—	—	138	—	—	—	21,927
—	—	<b>138</b>	—	<b>(187)</b>	—	<b>66,942</b>
<b>185</b>	<b>(408)</b>	<b>(465)</b>	<b>83</b>	<b>229</b>	<b>(733)</b>	<b>(5,355)</b>
<b>669</b>	<b>9,574</b>	<b>1,356</b>	<b>2,586</b>	<b>1,247</b>	<b>969</b>	<b>212,308</b>
<b>\$ 854</b>	<b>\$ 9,166</b>	<b>\$ 891</b>	<b>\$ 2,669</b>	<b>\$ 1,476</b>	<b>\$ 236</b>	<b>\$ 206,953</b>

Continued on Next Page

## Combining Statement of Cash Flows

INTERNAL SERVICE FUNDS (Continued)

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Insurance Reserve	Employee Insurance Programs	State Accident Fund	General Services
<b>Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss).....	\$ (63,489)	\$ (14,311)	\$ (15,178)	\$ 2,530
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation .....	47	15	1,756	6,444
Other nonoperating revenues.....	—	—	—	—
Other nonoperating expenses.....	—	—	—	—
Other.....	—	(1)	17	64
<b>Change in assets—decreases (increases):</b>				
Accounts receivable, net.....	(8,502)	(2,011)	(14,501)	332
Accrued interest.....	—	—	—	(83)
Due from other funds .....	—	(6,986)	—	(1,182)
Inventories.....	—	—	—	64
Other assets.....	(676)	—	(34)	—
<b>Change in liabilities—increases (decreases):</b>				
Accounts payable.....	(434)	(396)	(4,840)	(1,438)
Accrued salaries and related expenses.....	—	—	—	1,461
Accrued interest payable.....	—	—	—	935
Retainages payable.....	—	—	—	(4)
Policy claims.....	21,881	33,084	8,527	—
Due to other funds.....	—	—	—	531
Deferred revenues .....	2,303	4,225	16,410	—
Compensated absences payable.....	2	(34)	13	178
Other liabilities.....	—	—	—	(19)
<b>Net cash provided by (used in) operating activities.....</b>	<b>\$ (48,868)</b>	<b>\$ 13,585</b>	<b>\$ (7,830)</b>	<b>\$ 9,813</b>
<b>Noncash capital, investing, and financing activities:</b>				
Increase (decrease) in fair value of investments.....	\$ (4,456)	\$ 1,311	\$ —	\$ —
Long-term debt forgiven.....	—	—	—	673
<b>Total noncash capital, investing, and financing activities.....</b>	<b>\$ (4,456)</b>	<b>\$ 1,311</b>	<b>\$ —</b>	<b>\$ 673</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>
\$ (18)	\$ 3,110	\$ 102	\$ 332	\$ 46	\$ (53)	\$ (86,929)
5	5,057	329	515	—	—	14,168
—	—	—	714	—	—	714
—	—	—	(1,000)	—	—	(1,000)
1	6	(1)	—	(1)	1	86
—	(41)	332	151	371	(1)	(23,870)
—	(675)	—	—	—	(40)	(798)
331	(3)	(110)	8	—	—	(7,942)
7	—	—	(208)	—	—	(137)
—	—	—	—	—	—	(710)
(142)	(151)	(1,611)	(265)	—	(18)	(9,295)
—	—	505	566	—	17	2,549
—	—	(31)	—	—	—	904
—	36	—	1	—	—	33
—	—	—	—	—	—	63,492
13	—	23	(287)	—	(6)	274
—	—	—	—	—	—	22,938
—	4	89	15	—	6	273
—	(1)	(1)	—	—	—	(21)
<u>\$ 197</u>	<u>\$ 7,342</u>	<u>\$ (374)</u>	<u>\$ 542</u>	<u>\$ 416</u>	<u>\$ (94)</u>	<u>\$ (25,271)</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (3,145)
—	—	—	—	—	—	673
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2,472)</u>

## Fiduciary Funds

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

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

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

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

### a. Pension Trust Funds

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

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

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

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

*National Guard 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, 2003

(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.....	\$ 2,422,406	\$ 427,306	\$ 3,043	\$ 12,386	\$ 11,332	\$ 2,876,473
Receivables:						
Contributions.....	107,547	12,692	52	324	—	120,615
Employer long-term.....	1,550	17	—	—	—	1,567
Accrued interest.....	144,152	16,171	385	905	134	161,747
Unsettled investment sales.....	18,013	2,055	44	98	—	20,210
Total receivables.....	<u>271,262</u>	<u>30,935</u>	<u>481</u>	<u>1,327</u>	<u>134</u>	<u>304,139</u>
Due from other funds.....	2,936	836	4	—	—	3,776
Investments, at fair value:						
United States government securities.....	1,994,697	196,796	4,016	3,179	—	2,198,688
United States government agencies and government-insured securities.....	1,580,521	196,529	3,768	11,956	—	1,792,774
Corporate bonds.....	4,611,780	525,793	11,908	29,470	—	5,178,951
Financial and other.....	2,336,091	254,640	4,225	9,646	—	2,604,602
Equities.....	7,034,108	833,168	16,130	36,023	—	7,919,429
Total investments.....	<u>17,557,197</u>	<u>2,006,926</u>	<u>40,047</u>	<u>90,274</u>	<u>—</u>	<u>19,694,444</u>
Invested securities lending collateral.....	3,535,984	352,687	8,633	15,589	1,000	3,913,893
Capital assets, net.....	3,651	373	11	17	—	4,052
Other assets.....	528	64	1	3	—	596
<b>Total assets.....</b>	<b><u>23,793,964</u></b>	<b><u>2,819,127</u></b>	<b><u>52,220</u></b>	<b><u>119,596</u></b>	<b><u>12,466</u></b>	<b><u>26,797,373</u></b>
<b>LIABILITIES</b>						
Accounts payable.....	3,717	453	8	20	—	4,198
Accounts payable—unsettled investment purchases.....	27,600	3,268	62	140	—	31,070
Due to other funds.....	27,826	906	11	22	—	28,765
Deferred retirement benefits.....	424,906	—	—	—	—	424,906
Securities lending collateral.....	3,535,984	352,687	8,633	15,589	1,000	3,913,893
Other liabilities.....	3,106	591	8	—	—	3,705
<b>Total liabilities.....</b>	<b><u>4,023,139</u></b>	<b><u>357,905</u></b>	<b><u>8,722</u></b>	<b><u>15,771</u></b>	<b><u>1,000</u></b>	<b><u>4,406,537</u></b>
<b>NET ASSETS</b>						
Held in trust for pension benefits....	<b><u>\$ 19,770,825</u></b>	<b><u>\$ 2,461,222</u></b>	<b><u>\$ 43,498</u></b>	<b><u>\$ 103,825</u></b>	<b><u>\$ 11,466</u></b>	<b><u>\$ 22,390,836</u></b>

## Combining Statement of Changes in Plan Net Assets

### PENSION TRUST FUNDS

For the Fiscal Year Ended June 30, 2003

(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.....	\$ 512,345	\$ 86,563	\$ 2,577	\$ 6,014	\$ 2,133	\$ 609,632
Employee.....	408,325	55,641	612	1,131	—	465,709
Total retirement contributions.....	920,670	142,204	3,189	7,145	2,133	1,075,341
Investment income.....	1,662,778	184,350	4,006	8,821	925	1,860,880
Investment expense.....	16,776	1,988	37	80	—	18,881
Net income from investing activities.....	1,646,002	182,362	3,969	8,741	925	1,841,999
Securities lending income.....	58,898	6,733	165	241	—	66,037
Securities lending expense.....	42,119	4,918	129	187	—	47,353
Net income from securities lending activities.....	16,779	1,815	36	54	—	18,684
Total net investment income.....	1,662,781	184,177	4,005	8,795	925	1,860,683
Transfers between pension trust funds.....	34	1,461	7	78	—	1,580
Transfers in.....	2,688	82	—	—	—	2,770
<b>Total additions.....</b>	<b>2,586,173</b>	<b>327,924</b>	<b>7,201</b>	<b>16,018</b>	<b>3,058</b>	<b>2,940,374</b>
<b>Deductions:</b>						
Regular retirement benefits.....	1,022,993	124,634	5,073	8,217	2,231	1,163,148
Supplemental retirement benefits.....	2,688	82	—	—	—	2,770
Deferred retirement benefits.....	240,667	—	—	—	—	240,667
Refunds of retirement contributions						
to members.....	60,133	11,452	72	—	—	71,657
Group life insurance claims.....	14,759	1,594	5	8	—	16,366
Accidental death benefits.....	—	955	—	—	—	955
Depreciation.....	107	11	—	1	—	119
Administrative expense.....	12,815	1,561	29	66	27	14,498
Transfers between pension trust funds.....	1,525	—	55	—	—	1,580
<b>Total deductions.....</b>	<b>1,355,687</b>	<b>140,289</b>	<b>5,234</b>	<b>8,292</b>	<b>2,258</b>	<b>1,511,760</b>
<b>Change in net assets .....</b>	<b>1,230,486</b>	<b>187,635</b>	<b>1,967</b>	<b>7,726</b>	<b>800</b>	<b>1,428,614</b>
<b>Net assets at beginning of year.....</b>	<b>18,540,339</b>	<b>2,273,587</b>	<b>41,531</b>	<b>96,099</b>	<b>10,666</b>	<b>20,962,222</b>
<b>Net assets at end of year.....</b>	<b>\$ 19,770,825</b>	<b>\$ 2,461,222</b>	<b>\$ 43,498</b>	<b>\$ 103,825</b>	<b>\$ 11,466</b>	<b>\$ 22,390,836</b>

## Combining Statement of Fiduciary Net Assets

### PRIVATE-PURPOSE TRUST FUNDS

June 30, 2003

(Expressed in Thousands)

	<u>College Savings Plan</u>	<u>Other Private-Purpose Trust</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ —	\$ 30,569	\$ 30,569
Receivables, net:			
Accounts.....	—	81	81
Accrued interest.....	63	313	376
Unsettled investment sales.....	792	—	792
Investments.....	145,205	—	145,205
Invested securities lending collateral .....	—	6,167	6,167
Other assets.....	—	4,482	4,482
<b>Total assets.....</b>	<b>146,060</b>	<b>41,612</b>	<b>187,672</b>
<b>LIABILITIES</b>			
Accounts payable.....	229	25	254
Accounts payable—unsettled investment purchases.....	693	—	693
Securities lending collateral.....	—	6,167	6,167
<b>Total liabilities.....</b>	<b>922</b>	<b>6,192</b>	<b>7,114</b>
<b>NET ASSETS</b>			
Held in trust for other purposes.....	<b>\$ 145,138</b>	<b>\$ 35,420</b>	<b>\$ 180,558</b>

## Combining Statement of Changes in Fiduciary Net Assets

PRIVATE-PURPOSE TRUST FUNDS

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	College Savings Plan	Other Private-Purpose Trust	Totals
<b>Additions:</b>			
Licenses, fees, and permits.....	\$ —	\$ 276	\$ 276
Tuition plan deposits.....	116,260	—	116,260
Interest income.....	8,175	2,031	10,206
Transfers in.....	—	597	597
<b>Total additions.....</b>	<b>124,435</b>	<b>2,904</b>	<b>127,339</b>
<b>Deductions:</b>			
Administrative expense.....	854	142	996
Transfers out.....	—	597	597
Other expenses.....	—	340	340
<b>Total deductions.....</b>	<b>854</b>	<b>1,079</b>	<b>1,933</b>
<b>Change in net assets.....</b>	<b>123,581</b>	<b>1,825</b>	<b>125,406</b>
<b>Net assets at beginning of year, restated .....</b>	<b>21,557</b>	<b>33,595</b>	<b>55,152</b>
<b>Net assets at end of year.....</b>	<b>\$ 145,138</b>	<b>\$ 35,420</b>	<b>\$ 180,558</b>

## Combining Statement of Assets and Liabilities

### AGENCY FUNDS

June 30, 2003

(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.....	\$ —	\$ 10,849	\$ 159,723	\$ 170,572
Receivables, net:				
Accounts.....	—	26	12,388	12,414
Accrued interest.....	—	—	1,215	1,215
Taxes.....	—	—	3,045	3,045
Due from other funds.....	—	47,420	10,282	57,702
Investments.....	—	—	14,444	14,444
Securities held in lieu of surety bonds.....	334,528	—	165	334,693
Invested securities lending collateral .....	—	—	25,748	25,748
<b>Total assets.....</b>	<b><u>\$ 334,528</u></b>	<b><u>\$ 58,295</u></b>	<b><u>\$ 227,010</u></b>	<b><u>\$ 619,833</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ —	\$ 10,939	\$ 17,828	\$ 28,767
Tax refunds payable.....	—	—	481	481
Intergovernmental payables.....	—	—	5,901	5,901
Deposits.....	—	—	744	744
Amounts held in custody for others.....	334,528	47,356	176,308	558,192
Securities lending collateral.....	—	—	25,748	25,748
<b>Total liabilities.....</b>	<b><u>\$ 334,528</u></b>	<b><u>\$ 58,295</u></b>	<b><u>\$ 227,010</u></b>	<b><u>\$ 619,833</u></b>

# Combining Statement of Changes in Assets and Liabilities

## AGENCY FUNDS

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
<b>INSURANCE COMPANY DEPOSITS</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ —	\$ 35,389	\$ 35,389	\$ —
Securities held in lieu of surety bonds.....	369,918	113,251	148,641	334,528
<b>Total assets.....</b>	<b>\$ 369,918</b>	<b>\$ 148,640</b>	<b>\$ 184,030</b>	<b>\$ 334,528</b>
<b>Liabilities:</b>				
Amounts held in custody for others.....	\$ 369,918	\$ 113,251	\$ 148,641	\$ 334,528
<b>Total liabilities.....</b>	<b>\$ 369,918</b>	<b>\$ 113,251</b>	<b>\$ 148,641</b>	<b>\$ 334,528</b>
<b>PAYROLL CLEARING</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 11,170	\$ 1,051,137	\$ 1,051,458	\$ 10,849
Accounts receivable.....	25	26	25	26
Due from other funds.....	46,524	47,420	46,524	47,420
<b>Total assets.....</b>	<b>\$ 57,719</b>	<b>\$ 1,098,583</b>	<b>\$ 1,098,007</b>	<b>\$ 58,295</b>
<b>Liabilities:</b>				
Due to other funds.....	\$ 10,995	\$ 10,811	\$ 21,806	\$ —
Accounts payable.....	161	10,939	161	10,939
Amounts held in custody for others.....	46,563	888,944	888,151	47,356
<b>Total liabilities.....</b>	<b>\$ 57,719</b>	<b>\$ 910,694</b>	<b>\$ 910,118</b>	<b>\$ 58,295</b>

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2003</u>
<b>OTHER AGENCY</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 151,027	\$ 1,892,328	\$ 1,883,632	\$ 159,723
Accounts receivable.....	9,510	34,350	31,472	12,388
Accrued interest receivable.....	1,194	1,215	1,194	1,215
Taxes receivable.....	3,137	3,045	3,137	3,045
Due from other funds.....	5,501	10,282	5,501	10,282
Investments.....	21,507	—	7,063	14,444
Securities held in lieu of surety bonds.....	165	—	—	165
Invested securities lending collateral.....	27,970	25,748	27,970	25,748
<b>Total assets.....</b>	<b>\$ 220,011</b>	<b>\$ 1,966,968</b>	<b>\$ 1,959,969</b>	<b>\$ 227,010</b>
<b>Liabilities:</b>				
Due to other funds.....	\$ 15	\$ 192	\$ 207	\$ —
Accounts payable.....	8,585	22,804	13,561	17,828
Tax refunds payable.....	44	481	44	481
Intergovernmental payables.....	3,075	5,901	3,075	5,901
Deposits.....	733	744	733	744
Amounts held in custody for others.....	179,589	1,477,742	1,481,023	176,308
Securities lending collateral.....	27,970	25,748	27,970	25,748
<b>Total liabilities.....</b>	<b>\$ 220,011</b>	<b>\$ 1,533,612</b>	<b>\$ 1,526,613</b>	<b>\$ 227,010</b>
<b>TOTALS--ALL AGENCY FUNDS</b>				
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 162,197	\$ 2,978,854	\$ 2,970,479	\$ 170,572
Accounts receivable.....	9,535	34,376	31,497	12,414
Accrued interest receivable.....	1,194	1,215	1,194	1,215
Taxes receivable.....	3,137	3,045	3,137	3,045
Due from other funds.....	52,025	57,702	52,025	57,702
Investments.....	21,507	—	7,063	14,444
Securities held in lieu of surety bonds.....	370,083	113,251	148,641	334,693
Invested securities lending collateral.....	27,970	25,748	27,970	25,748
<b>Total assets.....</b>	<b>\$ 647,648</b>	<b>\$ 3,214,191</b>	<b>\$ 3,242,006</b>	<b>\$ 619,833</b>
<b>Liabilities:</b>				
Due to other funds.....	\$ 11,010	\$ 11,003	\$ 22,013	\$ —
Accounts payable.....	8,746	33,743	13,722	28,767
Tax refunds payable.....	44	481	44	481
Intergovernmental payables.....	3,075	5,901	3,075	5,901
Deposits.....	733	744	733	744
Amounts held in custody for others.....	596,070	2,479,937	2,517,815	558,192
Securities lending collateral.....	27,970	25,748	27,970	25,748
<b>Total liabilities.....</b>	<b>\$ 647,648</b>	<b>\$ 2,557,557</b>	<b>\$ 2,585,372</b>	<b>\$ 619,833</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 unit 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 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, 2002.

*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, 2002.

*The Savannah Lakes Regional Loan Fund* was established in 1990. It maintains a revolving loan fund to promote economic development in the State's Savannah Lakes Region.

### 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, 2003

(Expressed in Thousands)

	<b>Medical Malpractice Joint Underwriting Association</b>	<b>First Steps to School Readiness Board of Trustees</b>	<b>Children's Trust Fund of S.C., Inc.</b>	<b>Savannah Lakes Regional Loan Fund</b>	<b>Totals</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 13,695	\$ 1,700	\$ 201	\$ 378	\$ 15,974
Investments.....	—	—	545	140	685
Invested securities lending collateral.....	—	159	—	—	159
Receivables, net:					
Accounts.....	88	—	—	—	88
Contributions.....	—	—	1	—	1
Accrued interest.....	296	59	—	—	355
Due from primary government.....	—	3	—	—	3
Other current assets.....	13	—	—	—	13
Total current assets.....	<u>14,092</u>	<u>1,921</u>	<u>747</u>	<u>518</u>	<u>17,278</u>
Long-term assets:					
Investments.....	23,465	—	18	—	23,483
Depreciable capital assets, net.....	—	3	—	—	3
Total long-term assets.....	<u>23,465</u>	<u>3</u>	<u>18</u>	<u>—</u>	<u>23,486</u>
<b>Total assets.....</b>	<b><u>37,557</u></b>	<b><u>1,924</u></b>	<b><u>765</u></b>	<b><u>518</u></b>	<b><u>40,764</u></b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable.....	146	34	28	5	213
Accrued salaries and related expenses.....	—	50	—	—	50
Intergovernmental payables.....	—	38	—	—	38
Policy claims.....	25,787	—	—	—	25,787
Due to primary government.....	—	4	—	—	4
Deferred revenues and deferred credits.....	17,433	—	—	—	17,433
Deposits.....	73	—	—	—	73
Securities lending collateral.....	—	159	—	—	159
Compensated absences payable.....	—	73	—	—	73
Total current liabilities.....	<u>43,439</u>	<u>358</u>	<u>28</u>	<u>5</u>	<u>43,830</u>
Long-term liabilities:					
Policy claims.....	116,789	—	—	—	116,789
Compensated absences payable.....	—	31	—	—	31
Total long-term liabilities.....	<u>116,789</u>	<u>31</u>	<u>—</u>	<u>—</u>	<u>116,820</u>
<b>Total liabilities.....</b>	<b><u>160,228</u></b>	<b><u>389</u></b>	<b><u>28</u></b>	<b><u>5</u></b>	<b><u>160,650</u></b>
<b>NET ASSETS (DEFICIT)</b>					
Invested in capital assets, net of related debt..	—	3	—	—	3
Restricted, expendable:					
Education.....	—	1,532	—	—	1,532
Other.....	1,915	—	254	—	2,169
Unrestricted.....	(124,586)	—	483	513	(123,590)
<b>Total net assets (deficit).....</b>	<b><u>\$ (122,671)</u></b>	<b><u>\$ 1,535</u></b>	<b><u>\$ 737</u></b>	<b><u>\$ 513</u></b>	<b><u>\$ (119,886)</u></b>

## Combining Statement of Activities

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2003

(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>	
Medical Malpractice Joint Underwriting Association.....	\$ 34,371	\$ 27,785	\$ 1,808	\$ (4,778)
First Steps to School Readiness Board of Trustees.....	34,518	—	27,254	(7,264)
Children's Trust Fund of S.C., Inc.....	97	—	(11)	(108)
Savannah Lakes Regional Loan Fund.....	8	—	7	(1)
<b>Totals.....</b>	<b><u>\$ 68,994</u></b>	<b><u>\$ 27,785</u></b>	<b><u>\$ 29,058</u></b>	<b><u>\$ (12,151)</u></b>

<b>Net Assets (Deficit)</b> <b>Beginning</b> <b>of Year</b> <b>(Restated)</b>	<b>Net Assets (Deficit)</b> <b>End</b> <b>of Year</b>
<hr/> \$ (117,893)	<hr/> \$ (122,671)
8,799	1,535
845	737
514	513
<hr/> <b>\$ (107,735)</b>	<hr/> <b>\$ (119,886)</b>

## Balance Sheet

FIRST STEPS TO SCHOOL READINESS  
BOARD OF TRUSTEES

June 30, 2003

(Expressed in Thousands)

### ASSETS

Cash and cash equivalents.....	\$	1,700
Invested securities lending collateral.....		159
Accrued interest receivable.....		59
Due from primary government.....		3
<b>Total assets.....</b>	<b>\$</b>	<b>1,921</b>

### LIABILITIES AND FUND BALANCE

#### Liabilities:

Accounts and vouchers payable.....	\$	34
Accrued salaries and related payroll expenses.....		50
Intergovernmental payables.....		38
Due to primary government.....		4
Securities lending collateral.....		159
<b>Total liabilities.....</b>		<b>285</b>

#### Fund Balance:

Unreserved, undesignated.....		1,636
<b>Total liabilities and fund balance.....</b>	<b>\$</b>	<b>1,921</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.....** \$ **1,636**

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.....	\$	36	
Accumulated depreciation.....		(33)	
Total capital assets.....			3

Compensated absences payable are not due and payable  
in the current period and therefore are not reported in the  
Balance Sheet..... (104)

**Net assets of First Steps.....** \$ **1,535**

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

FIRST STEPS TO SCHOOL READINESS

BOARD OF TRUSTEES

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

**Revenues:**

Interest and other investment income.....	\$ 452
State operating grants and contracts.....	25,540
Contributions.....	<u>1,262</u>
<b>Total revenues.....</b>	<b><u>27,254</u></b>

**Expenditures:**

Current:	
Education.....	3,059
Intergovernmental .....	<u>31,452</u>
<b>Total expenditures.....</b>	<b><u>34,511</u></b>

Deficiency of revenues under expenditures..... (7,257)

Fund balance at beginning of year..... 8,893

Fund balance at end of year..... \$ 1,636

**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**

Net change in fund balance - First Steps..... \$ (7,257)

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

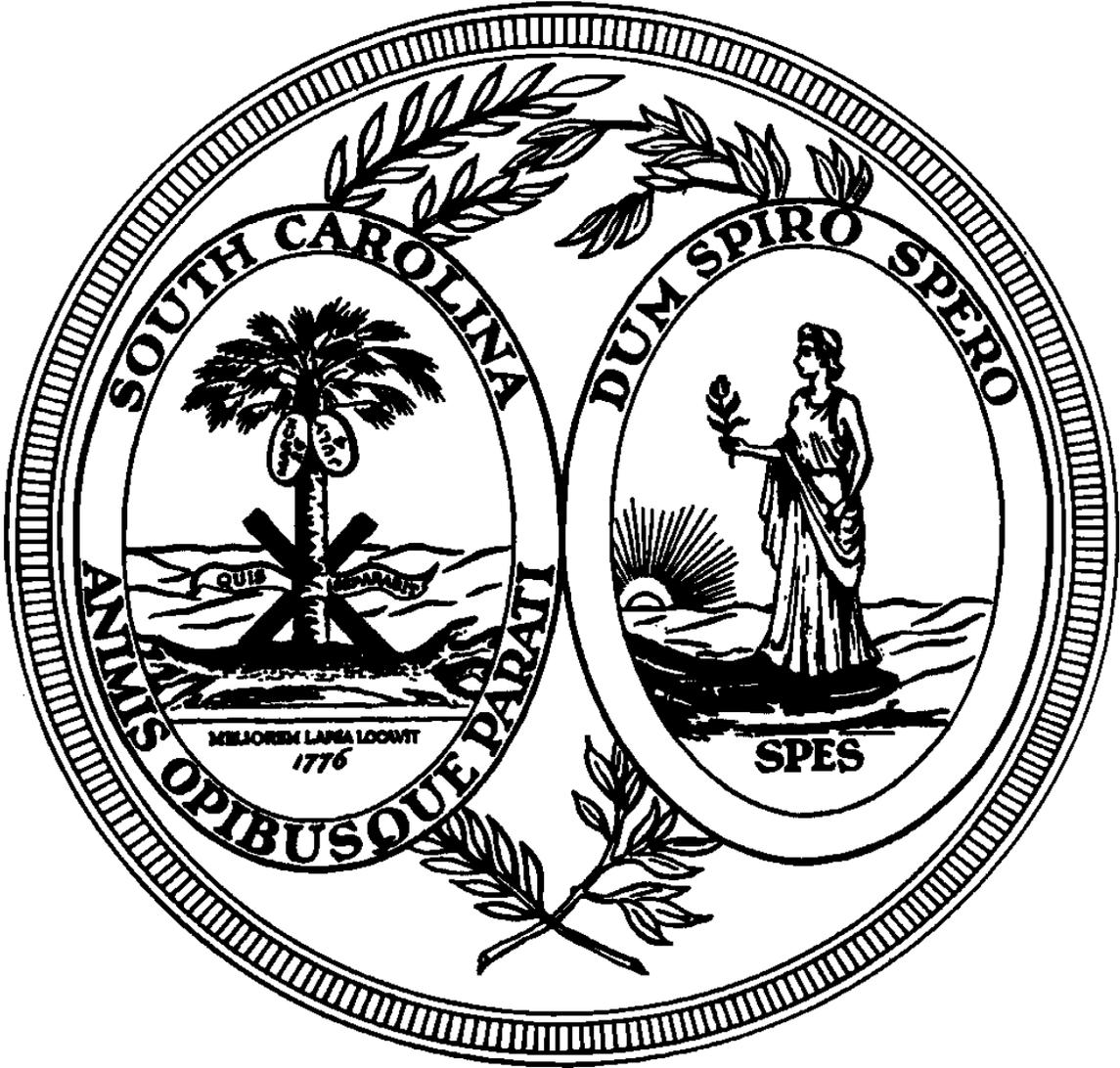
Capital outlays are reported as expenditures in the Balance Sheet.  
However, in the Combining Statement of Activities the cost of  
capital assets is allocated over their useful lives as depreciation  
expense. In the current period this amount is:

Depreciation expense..... (25)

Compensated absences expenses reported in the Combining Statement  
of Activities do not require the use of current financial resources and  
therefore are not reported as expenditures in the governmental fund.

Decrease in compensated absences payable..... 18

Change in net assets of First Steps..... \$ (7,264)



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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	1994	1995	1996	1997
General government <sup>b</sup> .....	\$ 399,456	\$ 352,015	\$ 330,519	\$ 351,156
Education .....	293,158	322,219	379,984	326,103
Health and environment <sup>c</sup> .....	2,166,088	2,320,642	2,946,457	3,032,995
Social services.....	678,772	697,958	709,747	700,442
Administration of justice.....	405,503	457,008	488,425	543,456
Resources and economic development.....	138,937	139,635	155,302	150,131
Transportation.....	214,574	203,837	218,366	230,384
Capital outlay.....	391,848	385,698	398,776	436,798
Debt service:				
Principal retirement.....	82,602	88,765	82,997	97,728
Interest and fiscal charges.....	49,107	48,796	50,574	53,493
Intergovernmental.....	2,157,866	2,358,823	2,636,440	2,805,584
<b>Total expenditures.....</b>	<b>\$ 6,977,911</b>	<b>\$ 7,375,396</b>	<b>\$ 8,397,587</b>	<b>\$ 8,728,270</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.

<sup>c</sup> Before July 1, 1995, the State used an agency fund to account for Medicaid assistance that the South Carolina Department of Health and Human Services paid to other State agency providers. Effective July 1, 1995, the State began classifying these transactions as quasi-external transactions (interfund services provided and used) in the governmental fund types. Prior years were not restated for this change.

## For the Fiscal Year Ended June 30

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
\$ 352,065	\$ 355,558	\$ 422,935	\$ 488,865	\$ 491,678	\$ 475,705
318,558	355,927	403,453	443,540	485,131	632,904
3,121,887	3,443,809	3,600,808	4,200,086	4,218,410	4,512,620
662,912	648,689	674,353	720,602	803,304	844,927
592,556	632,872	694,845	716,462	644,270	644,896
160,242	159,546	180,403	198,351	180,011	162,794
281,021	303,824	518,584	324,207	435,384	559,466
396,801	453,708	527,769	589,107	535,512	443,343
110,076	90,786	107,621	139,977	185,031	231,533
51,132	55,193	81,632	102,435	226,568	236,281
<u>3,032,018</u>	<u>3,262,640</u>	<u>3,874,298</u>	<u>4,132,596</u>	<u>4,530,261</u>	<u>4,469,022</u>
<b><u>\$ 9,079,268</u></b>	<b><u>\$ 9,762,552</u></b>	<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>

## Revenues by Source

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

Last Ten Fiscal Years  
(Expressed in Thousands)

Sources	1994	1995	1996	1997
Taxes:				
Individual income.....	\$ 1,519,030	\$ 1,646,375	\$ 1,809,287	\$ 1,927,600
Retail sales and use.....	1,756,157	1,892,801	2,034,484	2,141,864
Other.....	999,077	1,059,846	1,149,342	1,163,889
Licenses, fees, and permits.....	307,939	255,570	243,502	258,960
Interest and other investment				
income.....	48,596	82,412	98,728	113,199
Federal, local, and private grants.....	2,582,498	2,787,132	2,907,661	3,087,312
Departmental services <sup>b</sup> .....	161,375	215,485	535,117	533,395
Contributions .....	82,507	89,797	106,606	115,739
Fines and penalties.....	51,926	54,881	55,340	58,170
Tobacco legal settlement.....	—	—	—	—
Other.....	53,195	59,716	73,639	70,424
<b>Total revenues.....</b>	<b><u>\$ 7,562,300</u></b>	<b><u>\$ 8,144,015</u></b>	<b><u>\$ 9,013,706</u></b>	<b><u>\$ 9,470,552</u></b>

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

<sup>b</sup> Before July 1, 1995, the State used an agency fund to account for Medicaid assistance that the South Carolina Department of Health and Human Services paid to other State agency providers. Effective July 1, 1995, the State began classifying these transactions as quasi-external transactions (interfund services provided/used) in the governmental fund types. Prior years were not restated for this change.

## For the Fiscal Year Ended June 30

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
\$ 2,103,799	\$ 2,282,509	\$ 2,453,465	\$ 2,492,877	\$ 2,340,840	\$ 2,287,989
2,304,004	2,521,264	2,676,686	2,705,207	2,771,191	2,817,138
1,190,605	1,274,366	1,227,671	1,241,362	1,241,065	1,288,592
281,242	290,530	306,067	309,017	269,917	390,291
130,155	122,002	154,753	243,201	195,225	156,740
3,213,004	3,445,858	3,708,958	4,172,450	4,573,972	5,009,147
540,047	539,863	539,549	563,667	637,718	699,157
155,137	192,852	251,335	159,357	178,228	327,692
61,744	69,862	69,017	74,959	82,878	81,532
—	—	96,274	73,747	88,291	86,313
81,067	80,220	83,650	100,569	120,275	123,423
<b><u>\$ 10,060,804</u></b>	<b><u>\$ 10,819,326</u></b>	<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>

## 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>
1994	2.50 - 7%	5%	5%
1995	2.50 - 7%	5%	5%
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%

<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>
1994	3,705	\$ 929,571	\$ 40,420	\$ 889,151	\$ 239.99
1995	3,749	898,047	44,345	853,702	227.71
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	4,062	2,151,806	96,310	2,055,496	506.03
2002	4,107	2,348,630	142,635	2,205,995	537.13
2003	4,136	2,448,175	208,968	2,239,207	541.39

<sup>a</sup> Source: Office of Research and Statistics, State Budget and Control Board. Population statistic for 2003 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, 2003

(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.

Furthermore, Section 11-11-430 states: "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 percent of the general revenues of the State for the fiscal year next preceding (excluding revenues which are authorized to be pledged for State highway bonds and State institution bonds)."

## INSTITUTION BONDS

<u>Institution</u>	<u>Prior Year Revenues</u>	<u>90% Computation</u>	<u>Maximum Debt Service</u>	<u>Margin</u>
The Citadel.....	\$ 561	\$ 505	\$ 460	\$ 45
Clemson University.....	4,843	4,359	4,046	313
Coastal Carolina University.....	841	757	696	61
College of Charleston.....	2,500	2,250	573	1,677
Medical University of South Carolina..	11,521	10,369	4,938	5,431
South Carolina State University.....	679	611	318	293
University of South Carolina.....	9,771	8,794	6,522	2,272
Winthrop University.....	1,190	1,071	910	161
Midlands Technical College.....	1,132	1,019	827	192
Central Carolina Technical College....	728	655	202	453
Tri-County Technical College.....	1,075	968	735	233
<b>Totals.....</b>	<b>\$ 34,841</b>	<b>\$ 31,358</b>	<b>\$ 20,227</b>	<b>\$ 11,131</b>

## HIGHWAY BONDS

2001-2002 Budgetary General Fund revenues pledged for highway bonds.....	\$ 50,974
2001-2002 other revenues pledged for highway bonds.....	497,276
2001-2002 revenues pledged for highway bonds.....	548,250
15% of 2001-2002 revenues pledged for highway bonds.....	82,238
Less: maximum annual debt service for highway bonds <sup>a</sup> .....	60,226
<b>Legal debt service margin at June 30, 2003--highway bonds.....</b>	<b>\$ 22,012</b>

<sup>a</sup> As of June 30, 2003, 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, 2003

(Expressed in Thousands)

**GENERAL OBLIGATION BONDS (EXCLUDING INSTITUTION AND HIGHWAY BONDS AND BANS)**

2001-2002 Budgetary General Fund revenues .....	\$ 4,923,599
Less: 2001-2002 Budgetary General Fund revenues pledged for highway bonds <sup>a</sup> .....	50,974
2001-2002 net Budgetary General Fund revenues.....	4,872,625
5% of 2001-2002 net Budgetary General Fund revenues.....	243,631
Less: maximum annual debt service for general obligation bonds excluding institution and highway bonds and bond anticipation notes <sup>b</sup> .....	218,653
<b>Legal debt service margin at June 30, 2003--general obligation bonds excluding institution and highway bonds and bond anticipation notes.....</b>	<b>\$ 24,978</b>

<sup>a</sup> For the fiscal year ended June 30, 2003, there were no net Budgetary General Fund revenues pledged for institution bonds or bond anticipation notes.

<sup>b</sup> As of June 30, 2003, the maximum annual debt service will occur in the fiscal year ending June 30, 2005.

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

Last Ten Fiscal Years

(Expressed in Thousands)

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service	General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
1994	\$ 82,602	\$ 49,107	\$ 131,709	\$ 6,977,911	1.89%
1995	88,765	48,796	137,561	7,375,396	1.87%
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%

<sup>a</sup> General Governmental Expenditures include the General and Special Revenue Funds.

## 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
<b>Clemson University—1998 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
<b>Clemson University—2001 Athletic Facilities Revenue Bonds</b>					
2002	\$ 3,360	\$ 1,025	\$ 823	\$ 1,848	1.82
2003	4,299	985	871	1,856	2.32
<b>Clemson University—1998 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
<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
<b>College of Charleston—1992 Plant Improvement Bonds</b>					
1994	\$ 1,988	\$ 485	\$ 429	\$ 914	2.18
1995	2,047	565	393	958	2.14
1996	2,075	595	354	949	2.19
1997	1,152	600	319	919	1.25
1998	1,088	615	289	904	1.20
1999	1,024	630	259	889	1.15
2000	1,096	465	233	698	1.57
2001	1,098	505	209	714	1.54
2002	1,142	545	183	728	1.57
2003	1,188	580	168	748	1.59

<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>College of Charleston—1992 Revenue Bonds</b>					
1994	\$ 2,134	\$ 595	\$ 1,108	\$ 1,703	1.25
1995	2,302	625	1,076	1,701	1.35
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
<b>Francis Marion University—1999 Revenue Bonds</b>					
2000	\$ 1,272	\$ 885	\$ 300	\$ 1,185	1.07
2001	1,542	930	250	1,180	1.31
2002	1,506	980	216	1,196	1.26
2003	1,725	1,000	179	1,179	1.46
<b>Lander University—2002 Higher Education Facilities Revenue Bonds</b>					
2003	\$ 1,352	\$ 165	\$ 94	\$ 259	5.22
<b>Medical University of South Carolina—1986 Parking Facilities Revenue Bonds</b>					
1994	\$ 943	\$ 290	\$ 420	\$ 710	1.33
1995	961	305	403	708	1.36
1996	1,039	325	383	708	1.47
1997	1,406	345	361	706	1.99
1998	1,467	375	338	713	2.06
1999	1,545	395	312	707	2.19
2000	1,336	425	284	709	1.88
2001	1,518	455	254	709	2.14
2002	2,204	490	221	711	3.10
2003	2,510	525	186	711	3.53
<b>South Carolina State University—1991 Student Revenue Bonds</b>					
1994	\$ 681	\$ 80	\$ 294	\$ 374	1.82
1995	379	125	290	415	0.91
1996	517	170	284	454	1.14
1997	(106)	175	276	451	(0.24)
1998	(553)	185	266	451	(1.23)
1999	111	195	256	451	0.25
2000	289	205	246	451	0.64
2001	248	220	234	454	0.55
2002	459	230	222	452	1.02
2003	890	245	209	454	1.96

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>South Carolina State University—1993 Stadium Improvement Revenue Bonds</b>					
1994	\$ (338)	\$ —	\$ 57	\$ 57	(5.93)
1995	(682)	110	138	248	(2.75)
1996	(762)	110	134	244	(3.12)
1997	(1,016)	115	130	245	(4.15)
1998	(732)	120	128	248	(2.95)
1999	(741)	125	122	247	(3.00)
2000	(791)	125	118	243	(3.26)
2001	(1,384)	135	112	247	(5.60)
2002	(3,946)	140	108	248	(15.91)
2003	(3,963)	140	102	242	(16.38)
<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
<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
<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
<b>University of South Carolina Columbia Campus—1995 Parking Facilities</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
<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

<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 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
<b>University of South Carolina Columbia Campus—2002 Athletic Facilities Revenue Bonds</b>					
2003	\$ (202)	\$ —	\$ 1,223	\$ 1,223	(0.17)
<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
<b>Winthrop University—1997 Auxiliary 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	280	61	27	88	3.18
<b>Winthrop University—2001 Athletic Facilities Revenue Bonds</b>					
2002	\$ 458	\$ 120	\$ 67	\$ 187	2.45
2003	486	120	105	225	2.16
<b>Winthrop University—2002 Higher Education Facilities Revenue Bonds</b>					
2003	\$ 603	\$ 340	\$ 210	\$ 550	1.10

# Demographic Statistics

## Last Ten Years

<b>Year</b>	<b>Population<sup>a</sup> at June 30</b>	<b>Per Capita Income<sup>a</sup> Year Ended December 31</b>	<b>Median Age<sup>a</sup> (Years) at June 30</b>	<b>School Enrollment<sup>b</sup> at June 30</b>	<b>Unemployment Rate<sup>c</sup> at December 31</b>
1993	3,663,314	\$ 17,242	32.9	688,513	7.3%
1994	3,705,397	18,072	33.3	692,515	5.2%
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	22,914	35.4	720,855	4.4%
2000	4,023,725	24,209	35.4	716,721	4.1%
2001	4,062,125	24,840	35.7	714,427	5.9%
2002	4,107,183	25,400	36.0	723,313	6.2%
2003	4,136,020	d	36.3	725,638	d

<sup>a</sup> Source: Office of Research and Statistics, State Budget and Control Board. Population statistic for 2003 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.

## 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
1992	15,052	20,853	\$ 1,585	\$ 30,224	\$ 41,104	\$ 45,926
1993	15,840	21,186	1,662	31,005	43,084	50,963
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	d	d
2003	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 2002 nor 2003 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.

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

December 31, 2002

Name	Number of Plants in South Carolina	Number of Employees in South Carolina
Washington Group International .....	1	11,700
Michelin North America Incorporated.....	8	5,903
Springs Industries, Incorporated.....	10	5,748
Robert Bosch GmbH.....	6	5,279
BMW AG.....	1	4,300
General Electric Company.....	2	4,000
West Point Stevens.....	4	3,646
AB Electrolux .....	2	3,500
Timken Company.....	5	3,344
Sealed Air Corporation.....	3	2,994
Gold Kist Incorporated.....	1	2,338
Sonoco Products Company.....	3	2,136
Conbraco Industries Incorporated.....	4	1,921
Mohawk Industries Incorporated.....	5	1,795
Nucor Corporation.....	4	1,751
Mead Westvaco Corporation.....	3	1,694
Georgia-Pacific Corporation.....	11	1,661
Avondale Mills.....	7	1,649
Maytag Corporation.....	2	1,644

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

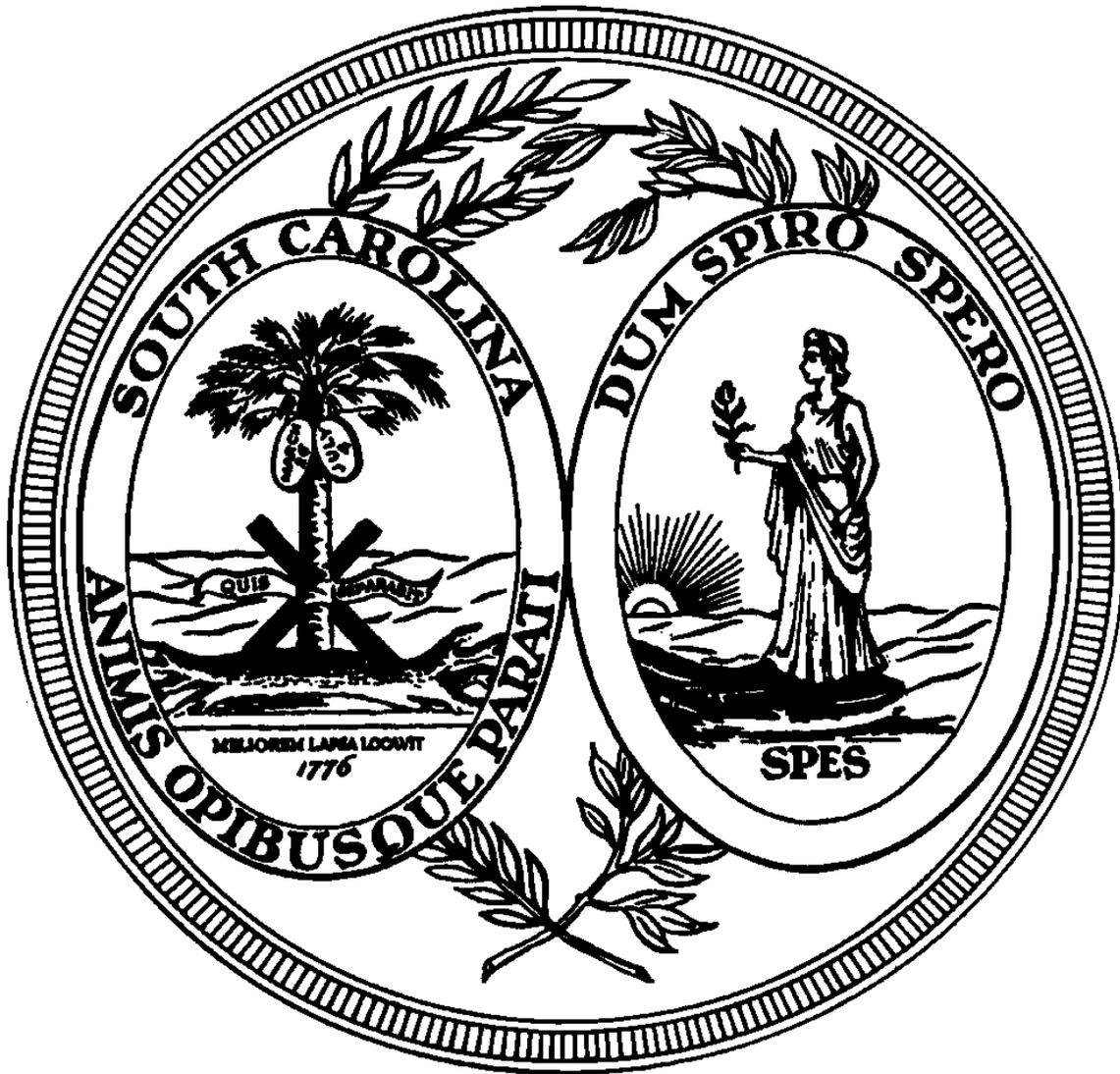
Source: South Carolina Department of Commerce

**Miscellaneous Statistics**  
**December 31, 2002 (Except as Noted)**

Date of ratification--U. S. Constitution.....	1788 <sup>a</sup>
Form of government.....	Legislative-Executive-Judicial
Miles of State highways.....	66,195 <sup>b</sup>
Land area (square miles).....	30,111 <sup>c</sup>
State police protection:	
Police and sheriff agencies.....	297 <sup>d</sup>
Total number of sworn officers.....	9,503 <sup>d</sup>
Higher education (universities, colleges, and technical education centers):	
Number of campuses.....	60 <sup>e</sup>
Number of students.....	177,536 <sup>e</sup>
Recreation:	
Number of State parks and historical sites.....	53 <sup>f</sup>
Area of State parks.....	80,902 acres <sup>f</sup>
Area of State forests.....	73,730 acres <sup>g</sup>
State employees--all funds (at June 30, 2003).....	61,719 <sup>h</sup>

Sources:

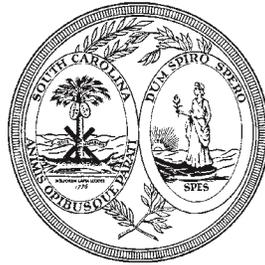
- <sup>a</sup>2003 Legislative Manual
- <sup>b</sup>Department of Transportation
- <sup>c</sup>Office of Research and Statistics, State Budget and Control Board
- <sup>d</sup>State Law Enforcement Division
- <sup>e</sup>Commission on Higher Education
- <sup>f</sup>Department of Parks, Recreation, and Tourism
- <sup>g</sup>Forestry Commission
- <sup>h</sup>Office of State Budget, State Budget and Control Board



Section 1-11-425 of the South Carolina Code of Laws requires inclusion of the following information:  
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# STATE OF SOUTH CAROLINA

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