Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Scope of Reporting Entity

The State of South Carolina is governed by the South Carolina General Assembly, an elected legislative body, and several elected executives. These general purpose financial statements present the State and its component units—entities for which the State and its elected officials are considered to be financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the State's operations. Accordingly, data from these component units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the State.

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

Primary Government

All constitutional offices, departments, agencies, commissions, and authorities have been included in the State's reporting entity as part of the primary government unless otherwise noted. 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, 2000:
- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 1999:
- The Public Railways Division of the Department of Commerce

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

The ten State-supported universities and the sixteen area technical colleges and their blended and discrete component units are reported within the State's Higher Education Funds as part of the primary government. Although the universities and colleges operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their boards and budgets a significant portion of their funds.

Note 1u provides further information concerning component units of the universities and colleges. The component units of the universities and colleges are:

Blended Component Units:
- The Citadel Trust
- IPTAY Scholarship Fund
- The Faculty House of Carolina, Inc.

Blended Component Units Discretely Presented:
- Clemson Research Facilities Corporation
- University of South Carolina School of Medicine Educational Trust
- Clinical Faculty Practice Plan (University of South Carolina)
- Charleston Memorial Hospital
- University Medical Associates of the Medical University of South Carolina (including its three for-profit subsidiaries)
- Medical University Facilities Corporation
- Pharmaceutical Education and Development Foundation of the Medical University of South Carolina
- Medical University of South Carolina Foundation for Research Development
- Francis Marion University Center for Research and Professional Services
- Medical University Hospital Authority

Blended Component Units

The State's financial statements 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. Complete financial statements for the Foundation may be obtained from its office as follows:

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

Discretely Presented Component Units

The State's financial statements include the discretely presented component units listed below.

Fiscal year ended June 30, 2000:
- South Carolina First Steps to School Readiness Board of Trustees
- South Carolina State Ports Authority
- Savannah Lakes Regional Loan Fund

Notes to the Financial Statements

Fiscal year ended December 31, 1999:
South Carolina Public Service Authority (Santee Cooper)

Fiscal year ended December 31, 1999, development stage enterprise:
Connector 2000 Association, Inc.

Governmental

The South Carolina First Steps to School Readiness Board of Trustees was established in 1999 as a non-profit corporation organized 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 voting members of the Board include the Governor, State Superintendent of Education, ten persons appointed by the Governor, four persons 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.

Proprietary

The South Carolina Public Service Authority (Santee Cooper), a public utility company, was created by the State General Assembly 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. By law, the Authority must annually transfer to the State General Fund any net earnings not necessary for prudent business operations.

The South Carolina State Ports Authority was created in 1942 by the State General Assembly for the purposes of developing and improving 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.

Connector 2000 Association, Inc., a development stage enterprise, 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 Association is considered to be in the development stage during the construction of the Southern Connector. The project is expected to be completed and in full operation in 2001. 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% to 120% 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. As required for a development stage enterprise, the Association's financial statements include statements of revenues, expenses, and changes in accumulated deficit and of cash flows with cumulative amounts from the Association's inception.

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. 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.

Separate financial statements are not available for the First Steps to School Readiness Board of Trustees. Complete financial statements for the remaining component units may be obtained from the entity's administrative office as follows:

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.
J. Peters & Associates
14 Belle Meade Court
Greenville, South Carolina 29605

Savannah Lakes Regional Loan Fund
1201 Main Street, Suite 1750
Columbia, South Carolina 29201

These financial statements exclude the related foundations listed in Note 14 because the State does not significantly influence operations of the related foundations nor are the related foundations accountable to the State for fiscal matters.

Related Organizations

A related organization is one for which the primary government is accountable but not *financially accountable*. The South Carolina Children's Trust Fund, the Gift of Life Trust Fund of South Carolina, 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 a voting majority of their members is appointed by the Governor. Enterprise Development, Inc., of South Carolina is a related organization because the State created the organization and could abolish it, but the State is not financially accountable for it.

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

Notes to the Financial Statements

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.

Subsequent Event

The Tobacco Settlement Revenue Management Authority commenced operations in August 2000 in accordance with an act of the General Assembly. The purpose of the Authority is to receive all of the tobacco receipts due to the State under the Master Settlement Agreement after June 30, 2001, and to issue bonds of the Authority payable solely from and secured solely by these receipts. The Authority's governing board is composed of the Governor, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. It is anticipated that the Authority will be included in the State's reporting entity as a blended component unit for the fiscal year ended June 30, 2001.

b. Basis of Presentation–Fund Accounting

The State uses fund accounting under which it segregates its resources and accounts for them in various individual funds. Each individual fund is an accounting entity with a self-balancing set of accounts. Individual funds that have similar characteristics are combined into fund types.

Governmental Funds

Governmental Funds finance most of the State's governmental functions. The measurement focus of the Governmental Funds is on sources, uses, and balances of financial resources.

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.

Special Revenue Funds account for specific revenue sources (other than for Capital Projects, Trust, and Higher Education Funds) that are legally restricted for specified purposes.

Capital Projects Funds account for resources to acquire major capital facilities for use by the General Fund and Special Revenue Funds.

Debt Service Funds are not used because the State does not accumulate resources to pay future years' general long-term obligations. Instead, the State finances such payments directly from the current year's resources.

Proprietary Funds

Proprietary Funds account for activities similar to those found in the private sector. The Financial Accounting Standards Board (FASB) and its predecessor organizations have issued accounting and reporting standards for activities in the private sector. The State's Proprietary Funds have elected not to apply standards issued by those organizations after November 30, 1989. These funds, however, have applied all applicable pronouncements issued by the Governmental Accounting Standards Board (GASB).

The measurement focus of the Proprietary Funds is upon determination of net income, financial position, and cash flows.

Enterprise Funds account for business-like State activities that provide goods/services to the public financed primarily through user charges.

Internal Service Funds provide goods/services to other funds, agencies, component units, or governments on a cost-allocation basis.

Fiduciary Funds

Fiduciary Funds account for resources the State holds as trustee or agent for individuals, private organizations, or other governmental units. Both principal and earnings of Expendable Trust Funds may be used for purposes allowed under the trust agreements. Only the earnings, but not the principal, of Nonexpendable Trust Funds may be expended.

Expendable Trust Funds have the same measurement focus as Governmental Funds. Nonexpendable Trust, the Investment Trust Fund, and Pension Trust Funds have the same measurement focus as Proprietary Funds. Agency Funds are custodial in nature and do not involve measurement of results of operations.

Account Groups

The General Fixed Assets Account Group includes all fixed assets of the primary government other than those accounted for in the Proprietary, Fiduciary, and Higher Education Funds.

The General Long-Term Obligations Account Group accounts for all long-term obligations of the primary government not accounted for in the Proprietary and Higher Education Funds. Significant long-term obligations include bonds, capital leases, compensated absences, and claims and judgments.

Discretely Presented Component Units

The State's discretely presented proprietary component units conduct business-like activities that provide goods/services to the public and are financed primarily through user charges. The measurement focus of these entities is upon determination of net income, financial position, and cash flows. The Public Service Authority and the State Ports Authority have elected to apply all FASB pronouncements that are not inconsistent with GASB pronouncements. The remaining discretely presented proprietary component units have elected not to apply standards issued by the FASB after November 30, 1989. The measurement focus of the discretely presented governmental component unit is on sources, uses, and balances of financial resources.

Notes to the Financial Statements

c. Basis of Accounting

The basis of accounting determines when the State recognizes revenues and expenditures/expenses and related assets and liabilities, regardless of measurement focus.

Governmental, Expendable Trust, Agency Funds, and Discretely Presented Governmental Component Unit

The modified accrual basis of accounting is used in Governmental, Expendable Trust, and Agency Funds as well as in the discretely presented governmental component unit. Under the modified accrual basis, revenues are recorded when they become susceptible to accrual (i.e., both measurable and available). Except for entitlements, unemployment insurance taxes, and interest on investments, revenues are deemed available at year-end only if received within one month following year-end. Unemployment insurance taxes in the Expendable Trust Funds are deemed available at year-end only if received within forty-five days following year-end. Interest on investments is recorded as earned because it is deemed available when earned. Deferred revenue is recorded for receivables that are measurable but not available at year-end.

Individual and corporate income taxes in the hands of employers or corporations, sales and similar taxes (including gasoline taxes) in the hands of merchants or other State collection agents, delinquent taxes, charges for services and commodities, and interest income are accrued at year-end. Fines, forfeitures, licenses and fees, and other miscellaneous taxes and revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Expenditures generally are recorded when goods or services are received. An exception is that principal and interest on obligations reflected in the General Long-Term Obligations Account Group are recorded as expenditures when due. Additional exceptions are that expenditures for compensated absences, claims and judgments, and special employee termination benefits reflected in the General Long-Term Obligations Account Group are recorded when paid.

Proprietary Funds, Similar Trust Funds, and Discretely Presented Proprietary Component Units

The State uses the accrual basis of accounting to report activity of the Proprietary Funds, Nonexpendable Trust Fund, Pension Trust Funds, Investment Trust Fund, and the discretely presented proprietary component units. Under the accrual basis of accounting, funds recognize revenues when earned and expenses when incurred. The Public Service Authority, a discretely presented proprietary component unit, is a regulated utility that uses accounting principles established by the Federal Energy Regulatory Commission. The Connector 2000 Association, Inc., a discretely presented proprietary component unit, uses accounting principles established for development stage enterprises.

Grant/Entitlement Revenues

The State recognizes grants, including non-cash support, as revenue when the State has incurred grant costs and has met all related grant requirements (such as matching requirements). In contrast, the State recognizes entitlements as revenue at the beginning of the entitlement period.

Non-cash support in the form of food commodities totaled $15.177 million for the fiscal year ended June 30, 2000. The State recognizes the face value of food stamp benefits distributed as revenue and expenditures in the Departmental General Operating Fund (a Special Revenue Fund) at the date of distribution to individual recipients. Food stamp revenues and expenditures for the fiscal year ended June 30, 2000, totaled $246.782 million. In addition, the State has recorded $50 thousand for food stamp coupons on hand at June 30, 2000. At June 30, 2000, food stamp coupons on hand represented all of the Other Assets account and part of Deferred Revenue.

The State normally does not account for any grants in its Agency Funds. Pending determination of which funds are to be financed, however, grant/entitlement monies to be distributed to other State agencies are accounted for in Agency Funds. At June 30, 2000, assets totaling $3.962 million were being held in Agency Funds pending such determination.

d. Cash and Cash Equivalents

The amounts shown on the Combined Balance Sheet as Cash and Cash Equivalents represent petty cash, cash on deposit in banks, 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 unit participate in the cash management pool. Significant exceptions, however, are: retirement plans, the Local Government Investment Pool (an external investment pool), the Housing Authority Fund (an Enterprise Fund), and certain activities of the Higher Education Funds. Of the discretely presented proprietary component units, only the State Ports Authority participates in the pool. For activities excluded from the pool, Cash Equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

Notes to the Financial Statements

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. Cash on Deposit with Fiscal Agents

The Cash on Deposit with Fiscal Agents in the Trust and Agency Funds consists of amounts associated with the unemployment compensation program that are on deposit with the United States Treasury.

g. 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% 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 State's Pension Trust Funds. Note 4c (State Retirement Systems Investment Panel) includes specific details related to the Panel's investment plan for the current fiscal year.

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 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 in the Fiduciary Funds as a separate Investment Trust Fund. The LGIP's separate financial report may be obtained by writing to the following address:

The State Treasurer's Office
Local Government Investment Pool
Post Office Drawer 11778
Columbia, South Carolina 29201

h. Receivables

Receivables are stated net of allowances for uncollectible amounts. Uncollectible amounts are estimated based upon past collection experience.

i. Inventories

Inventories of the Governmental Funds are valued at cost using predominantly the average cost methodology. Inventories of the Proprietary Funds and the discretely presented proprietary component units are valued at cost using the average cost methodology. The Governmental Funds and the discretely presented governmental component unit use the purchases method while the Proprietary Funds and the discretely presented proprietary component units use the consumption method.

j. Servicing Rights

The Public Railways Division of the Department of Commerce (reported in the Other Enterprise Funds) entered into a servicing agreement during its fiscal year ended December 31, 1995. The Division reports servicing rights as an intangible asset which will be amortized to operating expenses over the life of the agreement. The servicing rights are stated net of accumulated amortization.

k. Interest in License Agreement

The Connector 2000 Association, Inc., a development stage enterprise reported as a discretely presented component unit, is a party to a License Agreement with the State's Department of Transportation (DOT). The Association is financing and constructing the Southern Connector toll road under the terms of the Agreement. The Agreement grants to the Association various rights and obligations pertaining to the financing, acquisition, construction, and operation of the Southern Connector. However, DOT retains fee simple title to the Southern Connector, all real property and improvements thereon, and all rights-of-way acquired during construction. Following completion of the Southern Connector's construction and commencement of toll road operations, the

Notes to the Financial Statements

Association will be entitled to collect the tolls and will be required to pay monthly license fees to DOT.

The Association's interest in the License Agreement is an intangible asset that will generate revenues for the Association upon completion of the Southern Connector's construction and commencement of toll road operations. In order to account for its interest in the License Agreement, the Association is capitalizing all costs of acquisition and construction of the Southern Connector, including interest expense attributable to the construction period. Once the toll road is open to the public, the Association's interest in the License Agreement will be amortized on a straight-line basis over the remaining term of the Agreement through 2038. Construction of the project is expected to be completed during 2001.

l. Fixed Assets and Depreciation

Fixed assets are valued at historical cost or at estimated historical cost if actual historical cost data are not available. Donated fixed assets are recorded at fair market value on the donation date.

Governmental Funds and Discretely Presented Governmental Component Unit

Governmental Funds record expenditures when they acquire fixed assets and capitalize those assets in the General Fixed Assets Account Group. The General Fixed Assets Account Group records neither depreciation nor capitalization of interest expenditures during construction. The discretely presented governmental component unit records expenditures when it acquires fixed assets and capitalizes those assets. The State does not capitalize its public domain (infrastructure) assets.

Proprietary Funds, Similar Trust Funds, and Discretely Presented Proprietary Component Units

Proprietary Funds, Nonexpendable Trust Funds, Pension Trust Funds, the Investment Trust Fund, and discretely presented proprietary component units capitalize fixed assets when acquired. Net interest costs are capitalized on projects during the construction period. Depreciation is provided using the straight-line method over the following estimated useful lives:

Asset	Years
Wando River channel dredging project	50
Other land improvements	3-60
Residential buildings	20-30
Office and other buildings	5-50
Naval museum exhibits	10-25
Hydro-electric utility plants	55
Other utility plants	22-37
Automobiles, vans, light trucks	5-8
Heavy trucks and buses	8-15
Airplanes and helicopters	3-8
Other furnishings and equipment	2-25

Depreciation on fixed assets acquired from Contributed Capital is closed to Retained Earnings.

m. Restricted Assets and Liabilities Payable from Restricted Assets

Most of the amounts reported as Restricted Assets in the Enterprise Funds and in the discretely presented proprietary component units represent assets required to be held and/or used as specified in bond indentures and bond resolutions. In the Enterprise Funds, Restricted Assets also include amounts collected by the Second Injury Fund to pay claims for which the Fund has no risk. The amounts held by the Second Injury Fund are offset by Liabilities Payable from Restricted Assets to demonstrate that the Fund has not assumed any risk for the payment of claims.

Restricted assets are classified into four categories: Cash and Cash Equivalents, Investments, Loans Receivable, and Other. The State's restricted assets consist primarily of United States government securities, repurchase agreements, and mortgage loans receivable.

n. Deferred Charges

Deferred costs to be recovered from future revenues of the South Carolina Public Service Authority (a regulated utility which is a discretely presented component unit) are recorded as Deferred Charges. The Authority's rates are based upon debt service and operating fund requirements. The Authority recognizes differences between debt principal maturities and straight-line depreciation as costs to be recovered from future revenue. The recovery of outstanding amounts 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.

o. 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. This estimated payable is recorded as Tax Refunds Payable and a reduction of Tax Revenues.

In November 1999, the State's Supreme Court repealed video-poker gambling in South Carolina effective July 1, 2000. The State classifies the related machine licenses as a tax. As a result of the repeal, the State is obligated to refund to video poker operators the portion of the machine licenses extending beyond June 30, 2000. Accordingly, Tax Refunds Payable at June 30 includes an estimated

Notes to the Financial Statements

$64.400 million in refunds due to video-poker operators.

p. Long-Term Obligations

The State records long-term debt of the primary government's governmental funds in the General Long-Term Obligations Account Group. Other governmental fund obligations not expected to be financed with current available financial resources also are recorded in the General Long-Term Obligations Account Group. Long-term debt and other obligations financed by proprietary funds are recorded as liabilities in the appropriate funds.

The State's debt in the General Long-Term Obligations Account Group includes capital appreciation (deep-discount) bonds that were issued at stated interest rates significantly below the effective interest rate. The resulting discount is systematically reduced and the carrying amount of the debt is systematically increased over the life of the bonds.

For Governmental Fund Types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as Other Financing Sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as expenditures.

For Proprietary Fund Types and the discretely presented proprietary component units, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds 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. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Unamortized issuance costs are reported as deferred charges.

A component unit of an institution reported in the State's Higher Education Funds enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

q. 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.

When employees earn vacation leave, Governmental Fund Types of the primary government record a liability in the General Long-Term Obligations Account Group for the amount expected to be used or paid in cash. The General and Special Revenue Funds record expenditures when employees use leave.

The Proprietary Funds and the discretely presented proprietary component units record an expense and a liability when employees earn vacation leave.

The State does not record a liability for unpaid accumulated sick leave.

r. Accumulated Deficit—Development Stage

The Connector 2000 Association, Inc., is a development stage enterprise reported as a discretely presented component unit. Cumulative net losses are reported as Accumulated Deficit—Development Stage.

s. Interfund Transactions

The State accounts for the following types of interfund transactions:

Interfund loans may occur between two State funds. Short-term interfund loans outstanding at year-end are recorded as Interfund Receivables/Payables. Advances To/From Other Funds represent long-term interfund loans receivable and payable.

Reimbursements result when one fund makes an expenditure on behalf of another fund. Reimbursement transactions reduce expenditures in the reimbursed fund and increase expenditures in the reimbursing fund.

Quasi-external transactions involve charges for goods or services that one fund delivers or provides to another. These transactions may result in the recording of short-term receivables or payables (Due From or To Other Funds, Primary Government, or Component Units) at year-end.

Residual equity transfers are nonroutine or nonrecurring transfers between funds.

Operating transfers include all interfund transactions that are not loans, reimbursements, quasi-external transactions, or residual equity transfers.

The State eliminates material intrafund transactions and interfund transactions that occur within a single combined financial statement fund type.

t. 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

Notes to the Financial Statements

claimants, the State records a liability and reduces revenue in the General Fund.

u. Higher Education Funds

Financial activities of the State's higher education institutions are reported in the Higher Education Funds within the State's primary government. These funds use generally accepted accounting principles that apply to colleges and universities as contained in *Audits of Colleges and Universities* published by the American Institute of Certified Public Accountants. The Higher Education Funds are presented in a separate column on the Combined Balance Sheet. The Combined Statement of Changes in Fund Balances–Higher Education Funds presents the following fund types:

Current Funds account for resources that higher education institutions may use for any purpose in carrying out their primary objectives. Restricted Current Funds include resources that donors or other outside agencies have restricted for specific current operating purposes. All other current funds are Unrestricted Current Funds.

Loan Funds account for resources available for loans to students, faculty, or staff of higher education institutions.

Endowment and Similar Funds account for endowment and quasi-endowment transactions. These funds are similar to trust funds. The State must comply with the terms of any applicable agreements.

Plant Funds account for transactions involving physical properties of the higher education institutions. The Unexpended Plant subgroup accounts for monies that institutions have available to finance the acquisition, construction, or improvement of physical properties. Resources that institutions have set aside for the renewal and replacement of institutional properties are also recorded in this subgroup. The Retirement of Indebtedness subgroup includes monies to pay debt service and to retire indebtedness on institutional properties. The Investment in Plant subgroup accounts for funds that institutions have expended for (and thus have invested in) their properties and any related outstanding debt.

Agency Funds within the Higher Education Funds account for amounts that higher education institutions hold as custodians or fiscal agents for others.

Foundations and Institutes Funds account for certain component units of the State's colleges and universities. Most of these component units have fiscal years ended June 30, but some have fiscal years ended December 31. All component units in the Foundations and Institutes Funds meet the criteria for blending but are presented in a separate column because they use a basis of accounting different from the one followed by the State's colleges and universities. Most of the component units of higher education institutions are governmental entities that follow one of the two accounting and financial reporting models defined by the Governmental Accounting Standards Board's Statement 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. A few of the component units, however, are non-governmental entities that follow generally accepted accounting principles for non-profit entities as prescribed by the Financial Accounting Standards Board.

The Combined Statement of Current Funds Revenues, Expenditures, and Other Changes–Higher Education Funds is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

Cash transfers between the higher education institutions and the General Fund and Special Revenue Funds appear as revenues and expenditures on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances–Budget and Actual (Budgetary Basis)—All Budgeted Funds. On all other combined operating statements, however, such transfers to (from) the institutions appear in the Higher Education Funds as Operating Transfers In (Out).

The measurement focus in the Higher Education Funds is upon determination of resources received and used. The Higher Education Funds use the accrual basis. Although certain not-for-profit component units in the Foundations and Institutes Fund record depreciation of fixed assets, other Higher Education Funds do not. In addition, revenues from tuition and student fees of a summer session are reported totally within the fiscal year in which the session is predominantly conducted. Current Funds used to finance plant assets are accounted for as (1) expenditures for normal replacement of movable equipment and library books, (2) mandatory transfers for required provisions for debt amortization/interest, and (3) transfers of a nonmandatory nature for all other cases.

Higher Education Funds record expenditures when they acquire fixed assets and capitalize those assets within their Plant Funds. These funds capitalize interest expenditures during construction but do not record depreciation.

Unamortized bond discounts are netted against the related portion of bonds payable in the Retirement of Indebtedness subgroup. The discounts are amortized to interest on indebtedness over the life of the bonds using the straight-line method.

Inventories of the Higher Education Funds are valued at the lower of cost or market using the first-in, first-out method. These funds use the consumption method of recording inventories.

The State's colleges and universities record an expenditure and liability in the Unrestricted Current Funds when employees earn credits toward future compensated absences.

v. Totals (Memorandum Only) Columns

Amounts in the "Totals–Memorandum Only" columns for the primary government and for the reporting entity represent an aggregation of the combined financial statement line-items to facilitate financial analysis. Amounts in the "Totals–Memorandum Only" columns are not comparable to a consolidation.

Notes to the Financial Statements

NOTE 2: BUDGETARY ACCOUNTING AND REPORTING

a. Budgetary Funds

South Carolina's Appropriation Act does not present budgets by GAAP fund. Instead, it presents budgets for:

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.

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 Federal and department-generated resources. Total Funds include certain Proprietary and Capital Project Fund activities but exclude Pension Trust Funds and most other Trust and Agency Fund activities.

The accompanying financial statements include a Combined Statement of Revenues, Expenditures, and Changes in Fund Balances–Budget and Actual (Budgetary Basis)–All Budgeted Funds. The Budgetary General Fund category on that statement corresponds to the General Funds column in the Appropriation Act. The Other Budgeted Funds category represents the difference between the Total Funds and the General Funds columns in the Appropriation Act.

b. Budgetary Basis of Accounting

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Agencies may carry forward up to 10% of unexpended Budgetary General Fund appropriations to the next fiscal year. Any remaining unexpended Budgetary General Fund 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 budgetary basis of accounting. 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 in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances–Budget and Actual (Budgetary Basis) are recorded on the modified accrual basis: Admissions Tax, Alcoholic Liquors Tax, Beer and Wine Tax, Business License Tax, Electric Power Tax, Gasoline Tax, Sales Taxes (including the Education Improvement Act—1% Sales Tax, Excise Tax—Casual Sales, and Retail Sales Tax—4%), Soft Drinks Tax, and Commercial Nuclear Waste Tax.

(iv) All other revenues are recorded only when the State receives the related cash.

c. Budgetary Policies

State law does not require the use of encumbrance accounting. Neither the General Fund nor the Budgetary General Fund, therefore, records encumbrances or a reserve for encumbrances. Instead, the General Fund records the authorized appropriations to be carried forward as a reserve of fund balance.

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. All budgeted departments and agencies except the higher education institutions process their disbursement vouchers through a central budgetary accounting system maintained by the Comptroller General's Office. Departments and agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriations exist. The State's 1999-2000 Appropriation Act has approximately 3,050 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. Departments and agencies may request transfers of appropriations among programs within the same budgetary fund. 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.

Each year, the General Assembly enacts an Appropriation Act that includes initial estimated revenue and appropriation figures for the Budgetary General Fund. The 1999-2000 Appropriation Act 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.

For Other Budgeted Funds, the annual Appropriation Act presents estimated revenue amounts only for the Education Improvement Act, revenues earmarked for tax relief, and revenues of the Department of Transportation. The Budget and Control Board, however, provides estimated revenue amounts for the other resources in these funds. The Appropriation Act includes appropriation amounts for Other Budgeted Funds in total, although it does not provide separate appropriation amounts for the Education Improvement Act and other individual funds within the aggregate.

Notes to the Financial Statements

As operating conditions change, departments and agencies may request revisions of estimated revenues and expenditures 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 that the General Assembly did not specifically authorize. The Budget and Control Board and the Joint Bond Review Committee must approve and review these changes. During the current fiscal year, the State's budget was amended in accordance with the procedures outlined above.

During 1998-1999, the General Assembly and the Governor approved Supplemental Appropriation Act line-items that added $216.625 million of additional appropriations to the Budgetary General Fund for the fiscal year ended June 30, 2000.

Late in 1999-2000, the General Assembly and the Governor approved $91.194 million of supplemental appropriations from 1998-1999 unobligated budgetary surplus funds.

d. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2000, the Educational function within Other Budgeted Funds had $14.194 million of expenditures in excess of appropriations at the level of legal control. These overexpenditures were associated with the State’s technical colleges. The technical colleges maintain their own accounting systems. The colleges had sufficient budgetary-basis revenue and cash to provide for their budgetary-basis expenditures.

e. Legal Limit On Appropriations

State law imposes a ceiling on appropriations for general, school, and highway purposes. The limit equals the greater of : (1) the limit for the last fiscal year increased by the average percentage rate of growth in State personal income for the previous three completed calendar years, or (2) 9.5% of the total personal income of the State for the last completed calendar year.

The 1999-2000 Appropriation Act included appropriations of $6.238 billion for general, school, and highway purposes–$1.717 billion less than the legal limit.

f. Legal Limit on Number of State Employees

The State's Constitution and statutes limit the number of employees that the Budgetary General Fund may fund. The number of these employees may not increase faster than the State's population. On June 30, 2000, 39,461 employees were funded by the State's Budgetary General Fund–8,411 fewer than the legal limit.

g. Reconciliation of Budget to GAAP Reporting Differences

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances–Budget and Actual (Budgetary Basis)–All Budgeted Funds presents comparisons of the State's legally adopted budget with actual data on the budgetary basis of accounting. Budgetary accounting principles, however, differ significantly from GAAP accounting principles. These different accounting principles result in basis, perspective, entity, and timing differences in the excess of revenues and other sources of financial resources over (under) expenditures and other uses of financial resources. These differences (expressed in thousands) for the fiscal year ended June 30, 2000, were:

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses						
	Budgetary Balances Classified Into GAAP Fund Structure						
GAAP Fund Type	**Budgetary General Fund**	**Other Budgeted Funds**	**Total Budgeted Funds**	**Timing Differences**	**Basis Differences**	**Entity Differences (Unbudgeted Funds)**	**GAAP Balances**
General Fund	$ (149,445)	$ 85,937	$ (63,508)	$ —	$ (26,532)	$ 145,358	$ 55,318
Special Revenue Funds	—	11,735	11,735	—	71,607	11,812	95,154
Capital Projects Fund	—	4,991	4,991	—	(2,345)	11,829	14,475
Enterprise Funds	—	4,978	4,978	—	3,333	(84,630)	(76,319)
Internal Service Funds	—	2,190	2,190	—	10,100	(116,591)	(104,301)
Expendable Trust Funds	—	(89)	(89)	—	—	67,598	67,509
Nonexpendable Trust Fund	—	108	108	—	(13)	(9)	86
Pension Trust Funds	—	—	—	—	—	877,560	877,560
Investment Trust Fund	—	—	—	—	—	157,562	157,562
Agency Funds	—	12,044	12,044	—	(12,044)	—	—
Higher Education Funds	—	4,942	4,942	2,134	(24,748)	169,793	152,121
Component Unit—Governmental	—	18,618	18,618	—	41	—	18,659
Component Units—Proprietary	—	(5,028)	(5,028)	—	—	65,244	60,216
Totals (Memorandum Only)	**$ (149,445)**	**$ 140,426**	**$ (9,019)**	**$ 2,134**	**$ 19,399**	**$ 1,305,526**	**$ 1,318,040**

Notes to the Financial Statements

NOTE 3: ACCOUNTING AND REPORTING CHANGES

a. Reporting Change—Fund Structure

In the past, the State's fund structure included the Department of Transportation Internal Service Fund. This fund accounted for a rental pool for equipment used for highway construction projects and provided other administrative services to other funds of the Department of Transportation. Beginning July 1, 1999, the State's management decided to eliminate this fund and to report these activities as part of the Department of Transportation Special Revenue Fund. The effects of this change on beginning fund equity balances are shown in the table below, and the effect on the General Fixed Assets Account Group is shown in Note 6.

b. Effects of Accounting and Reporting Changes on Beginning Fund Equity

The schedule below, expressed in thousands, details changes made to beginning fund equity to give effect to (a) the fund structure reporting change described above and (b) changes in capitalization thresholds for certain fixed assets:

	Special	Internal Service Funds		Higher Education Funds
	Revenue Funds	Contributed Capital	Retained Earnings	Investment in Plant
June 30, 1999, fund equity as previously reported	$ 1,702,673	$ 81,961	$ 264,710	$ 2,612,636
Effect of changes in capitalization policy	—	—	—	(11,159)
Reporting change--fund structure	19,130	(12,210)	(12,729)	—
July 1, 1999, fund equity as restated	**$ 1,721,803**	**$ 69,751**	**$ 251,981**	**$ 2,601,477**

c. Account Reclassification

In the past, the State reported the liability for policy claims reported but not yet paid for its risk management programs within its Accounts Payable and Accrued Liabilities account with the liability for policy claims incurred but not reported within its Insurance Claims Incurred But Not Reported account. Beginning July 1, 1999, the State has reported both the liability for policy claims reported but not yet paid and the liability for policy claims incurred but not reported in a new account labeled Policy Claims.

At June 30, 1999, the State included in its Accounts Payable and Accrued Liabilities account liabilities for policy claims known but not yet paid of $16.000 million in its Enterprise Funds and $147.346 million in its Internal Service Funds. Liabilities for policy claims incurred but not reported totaling $9.440 million in the Enterprise Funds and $171.489 million in the Internal Service Funds at June 30, 1999, were previously reported separately on the face of the financial statements.

NOTE 4: DEPOSITS AND INVESTMENTS

By law, all deposits and investments are under the control of the State Treasurer except for those which by specific authority are under the control of other agencies or discretely presented proprietary component units, primarily the Public Service Authority.

The following display reconciles the details included within this footnote to the Combined Balance Sheet at June 30, 2000 (expressed in thousands):

Notes to the Financial Statements

Combined Balance Sheet		
Cash and cash equivalents	$	7,339,677
Cash on deposit with fiscal agents		800,827
Less: Unemployment Compensation Benefits Fund deposits with United States Treasury		(800,827)
Investments		17,694,336
Invested securities lending collateral		1,551,826
Restricted assets:		
Cash and cash equivalents		527,617
Investments		414,216
Total	**$**	**27,527,672**

Disclosure regarding deposits and investments plus reconciling items		
Carrying value of deposits	$	180,431
Reported amount of investments		27,346,139
Cash on hand		1,102
Total	**$**	**27,527,672**

Amounts on deposit with the United States Treasury that relate to the Unemployment Compensation Benefits Fund are not categorized because they are neither deposits with financial institutions nor investments.

a. Deposits

Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. At June 30, 2000, the deposits of the State's primary government and its discretely presented component units (expressed in thousands) were as follows:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Primary Government	$ 288,858	$ 20,945	$ 42,491	$ 352,294	$ 120,715
Component Units	1,931	379	57,406	59,716	59,716
Totals	**$ 290,789**	**$ 21,324**	**$ 99,897**	**$ 412,010**	**$ 180,431**

Category 1 deposits are those covered by Federal depository insurance or by collateral held by a State entity (i.e., primary government or discretely presented component unit) 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.

All deposits under the control of the State Treasurer are fully insured or collateralized, except at June 30, 2000, Category 1 deposits were under-collateralized approximately $7.000 million because the pledging financial institution's collateral of $10.000 million was not received until the next business day. Under the terms of the collateral agreement, the pledging financial institution has two days to fully collateralize deposits upon receiving the State's notification of an increase in deposits.

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. Limited investments in equity securities are now allowed by State law for the State's Pension Trust Funds as explained in subsection c (State Retirement Systems Investment Panel) below. 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.

For the fiscal year ended June 30, 2000, the State's primary government and its discretely presented component units have classified their 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 (i.e., primary government or discretely presented component unit) 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 investments of the State's primary government and its discretely presented component units by risk category (expressed in thousands) at June 30, 2000, were:

Notes to the Financial Statements

	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Primary Government					
U.S. government securities	$ 6,740,617	$ 306,527	$ 30,588	$ 7,077,732	$ 7,052,766
Corporate bonds	8,963,607	30,054	75	8,993,736	8,993,783
Equity securities	1,559,064	—	—	1,559,064	1,559,064
Repurchase agreements	2,411,821	1,112	22,551	2,435,484	2,435,484
Collateralized mortgage obligations	643,426	—	—	643,426	643,426
Asset-backed securities	82,063	—	—	82,063	82,063
Commercial paper	1,172,615	—	—	1,172,615	1,172,615
Securities lending program					
Investments from cash collateral					
Corporate bonds	—	—	851,621	851,621	851,621
Repurchase agreements	—	—	675,190	675,190	675,190
Commercial paper	—	—	25,015	25,015	25,014
Other	31,578	40,786	5,406	77,770	78,045
Subtotals				23,593,716	23,569,071
Not categorized:					
Mutual funds				1,379,692	1,379,692
Securities lending program					
U.S. government securities				1,367,746	1,367,746
Corporate bonds				67,989	67,989
Equity securities				57,915	57,915
Unsettled investment transactions				28,864	28,864
Totals—primary government	**$** 21,604,791	**$** 378,479	**$** 1,610,446	26,495,922	26,471,277
Discretely Presented Component Units					
U.S. government securities	$ 536,595	$ —	$ 85,722	622,317	622,317
Repurchase agreements	116,500	110,799	—	227,299	227,299
Subtotals				849,616	849,616
Not categorized:					
Investment in primary government's investment pool				59	59
Mutual funds				542	542
Totals—discretely presented component units	**$** 653,095	**$** 110,799	**$** 85,722	850,217	850,217
Totals—reporting entity				**$** 27,346,139	**$** 27,321,494

At June 30, 2000, the State held collateralized mortgage obligations primarily in its Pension Trust Funds. These securities were purchased to protect the State's Pension Trust Funds from principal prepayment risk during an environment of declining interest rates and to provide incremental yield above that available on corporate securities with similar terms. These securities also provide diversification in the Pension Trust Fund investment portfolios and maintain the high quality of government-sponsored instruments in the portfolios. It is estimated that these securities will provide future cash inflows on a time schedule that approximately matches the outflows associated with Pension Trust Fund liabilities. These highly marketable securities are rated AAA by the major rating agencies

The asset-backed securities held by the State at June 30, 2000, had an average life of one to three

Notes to the Financial Statements

years and a legal final maturity of five to six years. These securities represented an undivided ownership interest in a trust consisting of credit-card, automobile loan, and utility receivables and provided incremental yields above other securities with similar maturities without increasing the risk of the investment portfolios. These asset-backed securities are rated AAA by the major credit rating agencies.

The fiscal year for the Public Service Authority, a discretely presented component unit, ends December 31. Included in the Public Service Authority's investments, carried at fair value, are nuclear decommissioning funds of $60.907 million with related unrealized holding gains of $6.290 million. All of the Authority's investments, with the exception of decommissioning funds, are limited to a maturity of ten years or less.

c. State Retirement Systems Investment Panel

State law created the State Retirement Systems Investment Panel that may make limited investments in equity securities for the State's Pension Trust Funds. The five-member investment panel, established by legislation, is responsible for developing investment goals and objectives and defining the types of investments that the State's Pension Trust Funds can purchase. By law, a maximum of 10% of assets for each pension system may be invested in equities annually until a maximum of 40% of assets is invested in equities.

The annual investment plan adopted by the panel for the fiscal year ended June 30, 1999, provided for 5% of the assets to be invested in a Standard and Poor's 500 index fund. As of June 30, 2000, the balance held in mutual funds for the State's Pension Trust Funds was $1.354 billion. The annual investment plan adopted by the panel for the fiscal year ended June 30, 2000, provided for an additional investment of 10% of the market value of the pension system's assets (as of June 30, 1999) in the equity market during the 1999-2000 fiscal year. As of June 30, 2000, the balance invested in the equity market for the State's Pension Trust Funds was $1.555 billion.

d. 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, and other securities 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, 2000. At June 30, 2000, 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, 2000, 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, 2000, was in the form of securities. The market value of the required collateral must meet or exceed 102% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. During the fiscal year ended June 30, 2000, the State met the 102% requirement. The State cannot pledge or sell collateral securities unless the borrower defaults. The lending agent, on behalf of the State, invests cash collateral received. Accordingly, at June 30, 2000, these investments of cash collateral were recorded as assets on the State's Combined Balance Sheet. 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, 2000, the fair value of the State's securities on loan was $1.494 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 5: TAXES RECEIVABLE

Taxes receivable (expressed in thousands) at June 30, 2000, were:

	General Fund	Special Revenue Funds	Trust and Agency Funds
Retail sales and use................	$ 219,714	$ 82,483	$ —
Individual income......................	160,373	—	—
Corporate income....................	6,746	—	—
Unemployment.........................	—	—	35,914
Gasoline and motor vehicle......	586	29,804	4,957
Alcoholic beverages and tobacco.................................	15,357	—	—
Other..	15,029	16,845	—
Gross taxes receivable.......	**417,805**	**129,132**	**40,871**
Less: Allowance for uncollectible taxes.............................	35,053	4,763	35
Net taxes receivable............	**$ 382,752**	**$ 124,369**	**$ 40,836**

A total of $418.387 million in net taxes receivable pertaining to the General Fund and Special Revenue Funds were current receivables as of June 30, 2000, and were collected within thirty days after that date.

Notes to the Financial Statements

NOTE 6: FIXED ASSETS

Property, plant, and equipment (expressed in thousands) at June 30, 2000, consisted of:

	Primary Government					
	Enter-prise	Internal Service	Trust and Agency	General Fixed Assets	Higher Educa-tion	Com-ponent Units
Land and improvements......	$ 18,882	$ 6,338	$ 582	$ 200,907	$ 141,114	$ 256,622
Buildings, improvements, and utility plant.................	4,083	178,145	4,749	1,120,598	2,283,621	3,643,403
Machinery, equipment, and other.........................	15,561	125,949	4	1,083,007	804,130	59,681
Construction in progress.....	—	814	—	60,271	120,005	246,108
Property, plant and equipment before accumulated depreciation...................	**38,526**	**311,246**	**5,335**	**2,464,783**	**3,348,870**	**4,205,814**
Less: accumulated depreciation...................	**(12,123)**	**(130,735)**	**(926)**	**—**	**(21,533)**	**(1,502,990)**
Total property, plant and equipment, net........	**$ 26,403**	**$ 180,511**	**$ 4,409**	**$ 2,464,783**	**$ 3,327,337**	**$ 2,702,824**

Changes in general fixed assets (expressed in thousands) for the fiscal year ended June 30, 2000, were:

	July 1, 1999 Balances as Previously Reported	Adjustment	Restated July 1, 1999 Balances	Additions	Retirements	June 30, 2000 Balance
Land and improvements...	$ 195,473	$ —	$ 195,473	$ 6,780	$ 1,346	$ 200,907
Buildings, improvements and utility plant................	1,122,468	—	1,122,468	41,365	43,235	1,120,598
Machinery, equipment, and other........................	1,042,264	12,210	1,054,474	115,314	86,781	1,083,007
Construction in progress..	46,614	—	46,614	52,142	38,485	60,271
Total General Fixed Assets..........................	**$ 2,406,819**	**$ 12,210**	**$ 2,419,029**	**$ 215,601**	**$ 169,847**	**$ 2,464,783**

Notes to the Financial Statements

The "Adjustment" column in the table above reports amounts that changed as a result of the fund structure reporting change described in Note 3.

Construction in progress retirements are recorded as additions to other categories of assets.

Outstanding commitments for construction of fixed assets and public domain (infrastructure) assets at June 30, 2000, totaled $619.773 million for the primary government. Outstanding commitments for construction of such assets for discretely presented component units were as follows: $217.502 million for the Public Service Authority at December 31, 1999; $20.818 million for the State Ports Authority at June 30, 2000; and $74.335 million for the Connector 2000 Associates, Inc., at December 31, 1999.

At June 30, 2000, the primary government had other significant permanent improvement projects in progress that will not be capitalized when completed. These projects include replacements, repairs, and/or renovations to existing facilities. Outstanding commitments for these projects total $8.791 million.

The primary government recorded capitalized construction period interest of $1.473 million during the fiscal year ended June 30, 2000. The Connector 2000 Association, Inc., a discretely presented component unit, recorded capitalized construction period interest of $4.578 million during its fiscal year ended December 31, 1999.

During the fiscal year ended June 30, 2000, certain higher education institutions entered into commitments to sell land totaling $16.700 million.

NOTE 7: RETIREMENT PLANS

Note 1c describes the basis of accounting that the State's five defined benefit pension plans use to report Pension Trust Fund activity. Note 4 specifies the method used to value Pension Trust Fund investments.

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. Membership is required as a condition of employment. Both employers and employees must contribute. Benefits vest after five years of service. Vested members who retire at age sixty-five or with thirty years of service at any age receive an annual benefit, payable monthly, for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 1.82% of average final compensation times years of service. Reduced benefits are payable as early as age fifty-five.

PORS, established by Section 9-11-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits police officers and fire fighters employed by the State or its political subdivisions. Membership is required as a condition of employment. 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. 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. 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. 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, 2000, was as follows:

Notes to the Financial Statements

	SCRS	PORS	GARS	JSRS
State and school	99	1	1	1
Other	520	255	—	—
Total participating employers	619	256	1	1

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 may not be transferred from one plan to another or used for any purpose other than to benefit each plan's participants.

b. 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 (as amended) 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, 2000, were as follows:

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

Actuarially determined employer contribution rates for the four plans, expressed as percentages of compensation, for the fiscal year ended June 30, 2000, were as follows:

Plan	Rate
SCRS	7.70%
PORS	10.70%
JSRS	40.76%
GARS	71.32%

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, 2000, were $2.576 million for SCRS and $432 thousand for PORS.

c. 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:

	GARS	JSRS
Annual pension cost	$2,636	$5,659
Employer contributions made	$2,636	$5,659
Actuarial valuation date	July 1, 1999	July 1, 1999
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent, open	Level percent, open
Remaining amortization period	25 years	27 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%

d. 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:

Notes to the Financial Statements

	Fiscal Year Ended					
	June 30, 2000		June 30, 1999		June 30, 1998	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS–State:						
Primary government.....	$ 164,900	100%	$ 155,644	100%	$ 149,541	100%
Component units..........	8,244	100%	7,675	100%	7,397	100%
PORS–State:						
Primary government.....	$ 33,331	100%	$ 30,892	100%	$ 29,674	100%
Component units..........	20	100%	18	100%	17	100%

The following table presents 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 (dollars expressed in thousands):

Plan	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
GARS	1998	$ 2,796	100%	$ —
	1999	2,768	100%	—
	2000	2,636	100%	—
JSRS	1998	$ 4,991	100%	$ —
	1999	5,485	100%	—
	2000	5,659	100%	—

e. Funding Status and Progress

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

Plan	Actuarial Valuation Date July 1	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability (AAL) Entry Age *(b)*	Unfunded AAL (UAAL) *(b-a)*	Funded Ratio *(a/b)*	Covered Payroll *(c)*	UAAL as a Percentage of Covered Payroll *((b-a)/c)*
GARS	1997	$ 33,627	$ 60,052	$ 26,425	56.0%	$ 4,721	559.7%
	1998	36,260	60,330	24,070	60.1%	4,810	500.4%
	1999	38,685	63,501	24,816	60.9%	4,979	498.4%
JSRS	1997	$ 68,980	$ 112,185	$ 43,205	61.5%	$ 11,221	385.0%
	1998	75,699	124,756	49,057	60.7%	11,564	424.2%
	1999	81,780	134,272	52,492	60.9%	12,748	411.8%

Notes to the Financial Statements

f. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2000, for the four plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	Totals
Receivables:					
Contributions	$ 96,118	$ 10,277	$ 13	$ 312	$ 106,720
Employer long-term	2,576	432	—	—	3,008
Accrued interest	180,850	19,670	444	981	201,945
Unsettled investment sales	25,281	2,930	59	125	28,395
Due from other funds	11,572	3,048	1	61	14,682
Total receivables	**$ 316,397**	**$ 36,357**	**$ 517**	**$ 1,479**	**$ 354,750**
Investments:					
United States government securities	$ 2,577,261	$ 258,431	$ 8,586	$ 3,812	$ 2,848,090
United States government agencies and government-insured securities	3,062,458	305,790	6,012	22,485	3,396,745
Corporate bonds	4,324,758	490,086	11,371	24,106	4,850,321
Financial and other	2,440,707	249,656	4,368	7,780	2,702,511
Equities	2,591,886	297,962	6,084	12,887	2,908,819
Invested securities lending collateral	1,277,578	130,418	2,201	3,696	1,413,893
Total investments	**$ 16,274,648**	**$ 1,732,343**	**$ 38,622**	**$ 74,766**	**$ 18,120,379**

g. Subsequent Event

Legislation amending State law relating to the South Carolina Retirement System (SCRS) was approved by action of the Governor in November 2000. The amendment reduces from thirty to twenty-eight the years of creditable service required to retire at any age without penalty and will make other changes effective January 1, 2001.

h. 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. That office does not issue a separate financial report for the NGPS.

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 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.

Notes to the Financial Statements

The following table shows the number of employees by type of membership as of June 30, 2000, the date of the latest actuarial valuation:

	NGPS
Retirees and beneficiaries receiving benefits.........................	1,963
Terminated employees entitled to benefits but not yet receiving them........................	2,555
Active employees...........................	5,289
Total participants............................	9,807

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

Receivables and Investments

The assets of the NGPS consist of Cash and Cash Equivalents and Accounts Receivable. At June 30, 2000, all of the $165 thousand in Accounts Receivable represented accrued interest.

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 required to be reserved for the purpose of paying the supplemental retirement benefits to eligible members. The balance in the reserve at June 30, 2000, was $8.384 million.

Funding Policy and Annual Pension Cost

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

	NGPS
Annual pension cost....................	$3,157
Employer contributions made.......	$2,499
Actuarial valuation date................	June 30, 2000
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	Not applicable
Assumed cost-of-living adjustments...........................	Not applicable

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2000 (expressed in thousands):

	NGPS
Actuarially required contribution (ARC)......	$ 3,200
Interest on the NPO....................................	304
Adjustment to the ARC..............................	(347)
Annual pension cost..................................	3,157
Contributions made....................................	2,499
Increase in NPO...	658
NPO beginning of year...............................	4,202
NPO end of year..	$ 4,860

The State recognized $2.499 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:

Notes to the Financial Statements

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)
1996	$ 6,259	$ 36,756	$ 30,497	17.0%	$ 48,861	62.4%
1998	8,640	41,478	32,838	20.8%	40,333	81.4%
2000	11,219	44,069	32,850	25.5%	40,789	80.5%

Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. The following table presents the Annual Pension Cost, percentage of Annual Pension Cost contributed, and the Net Pension Obligation for the latest three fiscal years for the plan (dollars expressed in thousands):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1998	$ 3,055	81.8%	$ 3,537
1999	3,164	79.0%	4,202
2000	3,157	79.2%	4,860

i. Defined Contribution Plan

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan administered by the South Carolina Retirement Systems. The ORP was established under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the colleges presented in the State's Higher Education Funds who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS (see Section b (Funding Policies) above). Employer and employee contributions to the ORP were $8.900 million and $10.700 million, respectively, for the fiscal year ended June 30, 2000.

NOTE 8: 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 five 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, approximately 21,026 retirees meet these eligibility requirements.

Eligible retirees choose between two health insurance plans underwritten by the State, the Economy Plan and the Standard Plan. In accordance with contractual provisions of the plans, participants must meet specified annual deductible requirements. Thereafter, the Standard Plan pays 85% of allowable claims, and the Economy Plan pays 80% of allowable claims. The State pays 100% of allowable claims, however, after the participant has paid the annual out-of-pocket limit prescribed by each plan. Both plans disallow claims in excess of specified annual and lifetime maximums. In addition, State health benefits are reduced if the participant receives or qualifies to receive Medicare benefits. Effective January 1, 2001, the percentage of allowable claims the plans will pay decreases to 80% for the Standard Plan and 75% for the Economy Plan.

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

Both health plans and the dental plan are financed on a pay-as-you-go basis. During the fiscal year ended June 30, 2000, the State recognized expenses (net of participant contributions) of $82.715 million to provide health and dental benefits to State participants in post-employment status.

Notes to the Financial Statements

NOTE 9: LEASES AND INSTALLMENT PURCHASES

a. Lease and Installment Purchase Commitments

The State leases land, office facilities, equipment, and other assets under both capital and operating leases. Some of these leases take the form of installment purchases of property. The present value of future minimum capital lease and installment purchase payments and minimum annual lease payments for capital leases and installment purchases (expressed in thousands) follow:

Fiscal Year Ending June 30	Primary Government: Internal Service Funds	Primary Government: General Long-Term Obligations Account Group	Primary Government: Higher Education Funds	Component Units	Totals
2001	$ 487	$ 3,263	$ 6,476	$ 4,169	$ 14,395
2002	487	2,780	6,142	3,834	13,243
2003	487	1,367	5,628	3,818	11,300
2004	487	1,306	4,998	3,819	10,610
2005	487	1,278	4,424	3,708	9,897
2006 and after	1,216	1,263	54,118	22,304	78,901
Total minimum payments................	**3,651**	**11,257**	**81,786**	**41,652**	**138,346**
Less: interest and executory costs......	(817)	(1,445)	(33,677)	(9,351)	(45,290)
Present value of net minimum payments..	**$ 2,834**	**$ 9,812**	**$ 48,109**	**$ 32,301**	**$ 93,056**

Assets under capital leases at June 30, 2000, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Primary Government: Internal Service Funds	Primary Government: General Long-Term Obligations Account Group	Primary Government: Higher Education Funds	Component Units	Totals
Land and improvements..	$ —	$ —	$ 5,479	$ —	$ 5,479
Buildings, improvements, and utility plant.................	5,231	—	52,304	97,341	154,876
Machinery, equipment, and other.............................	—	19,412	13,815	293	33,520
Assets acquired under capital leases before accumulated amortization...............................	**5,231**	**19,412**	**71,598**	**97,634**	**193,875**
Less: accumulated amortization.............................	(1,308)	—	—	(71,509)	(72,817)
Assets acquired under capital leases, net......	**$ 3,923**	**$ 19,412**	**$ 71,598**	**$ 26,125**	**$ 121,058**

Operating lease payments during the fiscal year ended June 30, 2000, totaled $74.294 million. At June 30, 2000, future minimum payments under operating leases (expressed in thousands) were as follows:

Notes to the Financial Statements

Fiscal Year Ending June 30	Operating Leases Primary Government	Component Units	Totals
2001	$ 37,779	$ 4,407	$ 42,186
2002	34,177	3,382	37,559
2003	23,490	2,920	26,410
2004	17,527	2,485	20,012
2005	9,409	—	9,409
2006 and after	24,417	—	24,417
Total minimum payments....	**$ 146,799**	**$ 13,194**	**$ 159,993**

b. Facilities Leased to Others

Non-State parties lease land and facilities under operating leases from the State Ports Authority, a discretely presented component unit, and from Enterprise Funds (the Patriots Point Development Authority and the Other Enterprise Funds). At June 30, 2000, the State Ports Authority had leased to others certain land and facilities having a cost of approximately $304.171 million and $87.673 million of related accumulated depreciation. At June 30, 2000, the total cost of land and improvements leased to others by the Enterprise Funds was $9.434 million, with $826 thousand of related accumulated depreciation. Future minimum rental payments to be received at June 30, 2000, under these operating leases (expressed in thousands) were:

Fiscal Year Ending June 30	Enterprise Funds	Component Unit
2001	$ 378	$ 17,571
2002	325	17,391
2003	307	10,021
2004	327	3,930
2005	327	3,754
2006 and after	12,867	3,625
Total.............	**$ 14,531**	**$ 56,292**

NOTE 10: 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, 2000, were:

General Long-Term Obligations Account Group	
Capital improvement bonds, 3.50% to 6.35%............	$ 815,252
State highway bonds, 3.50% to 6.50%......................	326,940
State school facilities bonds, 4.25% to 5.75%...........	250,000
Subtotal–General Long-Term Obligations Account Group..	**1,392,192**
Higher Education Funds	
State institution bonds, 4.25% to 7.00%....................	99,945
Total—general obligation bonds payable............	**$ 1,492,137**

Of the $815.252 million in outstanding capital improvement bonds, $29.442 million are capital appreciation (deep-discount) bonds.

At June 30, 2000, $372.475 million of capital improvement bonds were authorized but unissued.

At June 30, 2000, future debt service requirements (expressed in thousands) for general obligation bonds were:

Year Ending June 30	Principal	Interest	Totals
2001	$ 133,198	$ 72,149	$ 205,347
2002	114,970	65,914	180,884
2003	132,652	60,046	192,698
2004	111,325	53,752	165,077
2005	123,813	47,833	171,646
2006 and after	886,199	234,137	1,120,336
Total debt service requirements............	**1,502,157**	**$ 533,831**	**$ 2,035,988**
Unamortized discounts...	(10,020)		
Total principal outstanding................	**$ 1,492,137**		

Notes to the Financial Statements

The Department of Transportation Special Revenue Fund pays the debt service for the State highway bonds recorded in the General Long-Term Obligations Account Group. The General Fund pays debt service for the other general obligation bonds recorded in the General Long-Term Obligations Account Group. The Higher Education Plant Funds (Retirement of Indebtedness) pay the debt service for general obligation bonds recorded in the Higher Education Funds.

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, 2000, was $121.939 million in total for all institution bonds, $45.283 million for highway bonds, and $71.542 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 (expressed in thousands) outstanding at June 30, 2000, were:

Internal Service Funds		
Lease revenue bonds, 4.00% to 6.50%..............	$	35,175

At June 30, 2000, there were no limited obligation bonds authorized but unissued.

The State issued the lease revenue bonds to finance the cost of capital facilities for use by certain State agencies. The bonds are secured by pledges of lease rental payments that the agencies will pay from their General Fund appropriations and Special Revenue Funds.

At June 30, 2000, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Principal	Interest	Totals
2001	$ 3,190	$ 1,712	$ 4,902
2002	3,330	1,536	4,866
2003	3,480	1,365	4,845
2004	3,655	1,205	4,860
2005	3,820	1,036	4,856
2006 and after	17,870	3,485	21,355
Total debt service requirements.............	**35,345**	**$ 10,339**	**$ 45,684**
Unamortized discounts.....	(170)		
Total principal outstanding..................	**$ 35,175**		

The General Services Fund, an Internal Service Fund, pays all debt service for the lease revenue bonds.

c. Revenue and Infrastructure Bank Bonds, Notes, and Certificates of Participation

Revenue and Infrastructure Bank bonds, notes, and certificates of participation are not backed by the full faith, credit, and taxing power of the State. Revenue and Infrastructure Bank bonds, notes, and certificates of participation outstanding (expressed in thousands) at June 30, 2000, were:

	Bonds	Notes	Certificates of Participation
Primary Government:			
Enterprise Funds			
Housing Authority bonds, 3.50% to 7.40%..	$ 542,440	$ —	$ —
Education Assistance Authority bonds, 3.50% to 6.63%.........................	395,599	—	—
Jobs—Economic Development Authority notes, 8.75% to 9.00%............	—	238	—
Other Enterprise notes, 6.00%.................	—	23	—
Totals—Enterprise Funds...................	**938,039**	**261**	**—**
Internal Service Funds			
Budget and Control Board notes, 4.52% to 5.32%......................................	—	4,015	—
General Long-Term Obligations Account Group			
Infrastructure Bank bonds, 4.45% to 6.00%...	574,275	—	—
Mental Health Department note, 4.59%......	—	249	—
Deaf and Blind School note, 4.59%...........	—	313	—
Natural Resources Department note, 4.59%...	—	852	—
Totals—General Long-Term Obligations Account Group................	**574,275**	**1,414**	**—**
Higher Education Funds			
Various bonds and notes, 3.75% to 10.15%..	328,406	83,864	—
Direct note obligations, 5.70% to 6.82%....	—	100,526	—
Certificates of participation, 5.60% to 7.50%..	—	—	19,882
Totals—Higher Education Funds.........	**328,406**	**184,390**	**19,882**
Totals—Primary Government...........	**1,840,720**	**190,080**	**19,882**
Discretely Presented Component Units:			
Public Service Authority bonds, 4.00% to 7.42%.....................................	2,059,278	—	—
State Ports Authority bonds, 3.80% to 6.20%..	153,356	—	—
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%..........................	213,271	—	—
Totals—Discretely Presented Component Units.............................	**2,425,905**	**—**	**—**
Totals—revenue bonds, notes, and certificates of participation payable......................................	**$ 4,266,625**	**$ 190,080**	**$ 19,882**

Certain revenue bonds require the individual enterprises to provide sufficient revenue to pay debt service and to fund all necessary expenses to run the enterprises.

University Medical Associates of the Medical University of South Carolina (UMA) is a component unit of the Medical University of South Carolina, an institution reported in the Higher Education Funds. During January 1995, UMA issued $55.000 million in Direct Note Obligations, Select Auction Variable Rate Securities. During December 1997, UMA issued an additional $40.000 million in Direct Note Obligations, Select Auction Variable Rate Securities. During December 1999, UMA issued

Notes to the Financial Statements

$39.400 million and $45.600 million in Direct Note Obligations, Select Auction Variable Rate Securities. UMA used a portion of the proceeds to partially refund the 1995 and 1997 issues. The variable rate of interest is set every 35 days. UMA entered into twenty-five year interest rate swap agreements for these obligations. Based on the swap agreements, UMA owes interest calculated at a fixed rate of 6.82% on $10.000 million of the 1995 issue, 6.82% on the $39.400 million issue and 5.70% on the $45.600 million issue. If the actual floating variable interest rates exceed these rates, the counterparty pays the differential to UMA. If the actual floating variable rates are less than these rates, UMA pays the counterparty. Only the net difference in interest payments is actually exchanged with the counterparties. The $10.000 million, $39.400 million, and $45.600 million in note principal are not exchanged; they are only the basis on which the interest payments are calculated. UMA continues to pay interest to the note holders at the variable rate provided by the notes. However, during the term of the swap agreements, UMA effectively pays fixed rates on the debt. The debt service requirements to maturity included in this note are based on those fixed rates. UMA will be exposed to variable rates if the counterparties to the swaps default or if the swaps are terminated. For the year ended June 30, 2000, total interest costs incurred were $7.018 million.

The funds that receive the proceeds of revenue and Infrastructure Bank bonds, notes, and certificates of participation have pledged revenues for payment of debt service as follows:

Primary Government:

Enterprise Funds

State Housing Authority bonds: State Housing Authority Fund revenues

Education Assistance Authority bonds: loan repayments and United States Commissioner of Education funds

Jobs-Economic Development Authority notes: loan repayments

Internal Service Funds

Budget and Control Board notes: rental payments for vehicles and office space

General Long-Term Obligations Account Group

Infrastructure Bank bonds: Transportation Infrastructure Bank revenues

Mental Health Department note: rental payments for equipment

Deaf and Blind School note: client service revenues

Natural Resources Department note: boat title and registration fees

Higher Education Funds

Various higher education bonds, notes, and certificates of participation: various specific higher education revenues

Discretely Presented Proprietary Component Units:

Public Service Authority bonds: Public Service Authority Fund revenues

State Ports Authority bonds: State Ports Authority Fund revenues

Connector 2000 Association, Inc., bonds: investment earnings during the development stage and toll revenues once toll operations commence

At June 30, 2000, future debt service requirements (expressed in thousands) for revenue and Infrastructure Bank bonds, notes, and certificates of participation were:

Primary Government:

Year Ending June 30	Principal	Interest	Totals
2001	$ 96,806	$ 106,560	$ 203,366
2002	64,692	105,775	170,467
2003	72,277	102,405	174,682
2004	70,334	98,162	168,496
2005	69,678	94,843	164,521
2006 and after	1,688,285	1,015,327	2,703,612
Total debt service requirements........................	**2,062,072**	**$ 1,523,072**	**$ 3,585,144**
Unamortized discounts...............	(5,343)		
Deferred amount on refunding...	(6,047)		
Total principal outstanding...	**$ 2,050,682**		

Discretely Presented Component Units:

Year Ending June 30	Principal	Interest	Totals
2001	$ 85,285	$ 134,992	$ 220,277
2002	68,075	136,009	204,084
2003	72,570	131,722	204,292
2004	89,520	127,527	217,047
2005	78,660	122,448	201,108
2006 and after	2,336,211	2,106,447	4,442,658
Total debt service requirements........................	**2,730,321**	**$ 2,759,145**	**$ 5,489,466**
Unamortized discounts...............	(41,952)		
Deferred amount on refunding...	(262,464)		
Total principal outstanding...	**$ 2,425,905**		

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 discretely presented proprietary component units. At December 31, 1999, the carrying value of the Public Service Authority's debt was $2.394 billion while the fair value was approximately $2.640 billion. At June 30, 2000, the carrying value of the State Ports Authority debt was $152.413 million while the fair value was approximately $149.799 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.

d. Extraordinary Loss on Early Extinguishment of Debt

The $470 thousand of Extraordinary Loss on the Early Extinguishment of Debt in the Enterprise Funds represented a loss on Housing Authority debt extinguishments that resulted from bond redemptions using existing cash reserves.

The State Ports Authority, a discretely presented proprietary component unit, incurred an Extraordinary Loss on the Early Extinguishment of Debt of $1.992 million in connection with a bond defeasance using existing cash reserves.

e. Defeased Bonds

University Medical Associates of the Medical University of South Carolina (UMA), is a component unit of the Medical University of South

Notes to the Financial Statements

Carolina, an institution reported in the State's Higher Education Funds. During December 1999, UMA issued $85.000 million in Direct Note Obligations, Select Auction Variable Rate Securities. The proceeds were used to refund $78.050 million in Direct Note Obligations, Select Auction Variable Rate Securities and to pay down two lines of credit. As a result of the current refunding, UMA reduced its total debt service requirements by $19.400 million and obtained an economic gain (difference between the present values of the old and new debt service payments) of $10.600 million.

During the fiscal year ended June 30, 2000, the Housing Authority, an entity reported in the Enterprise Funds, issued $261.345 million in Mortgage Revenue Bonds with an average interest rate of 6.83%. Of the $261.345 million, $105.114 million was to refund $135.735 million in Mortgage Revenue Bonds. The proceeds applicable to the refunding plus an additional $35.083 million were used in the current refunding. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3.205 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2032 using the bonds outstanding method. The Authority refunded these bonds to reduce its total debt service payments over the next 32 years by $7.500 million and to obtain an economic gain of $15.800 million.

During June 2000, the Education Assistance Authority, an entity reported in the Enterprise Funds, issued $59.050 million in Guaranteed Student Loan Revenue and Refunding Bonds with an auction interest rate varying up to 12.00% to advance refund $39.050 million in Student Loan Revenue Bonds with an average interest rate of 6.00% and to provide financing for student loans. The net proceeds of $39.050 million (after payment of $687 thousand for a bond premium, insurance and other issuance costs and $19.313 million for the purchase of new student loans) 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 $343 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2003 using the straight-line basis. The Authority completed the advance refunding to gain flexibilities provided by the 1993 bond resolution. The refunding increases the Authority's total debt payments over the next nineteen years by $13.738 million and results in an economic loss of $275 thousand.

During August 1999, the State Ports Authority, a discretely presented proprietary component unit, executed an in-substance defeasance of $27.975 million of outstanding revenue bonds. The Authority used existing cash reserves to purchase United States government securities.

In addition, during prior years the State defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds of the new bonds were placed in irrevocable trusts to provide for all future debt service payments on the old bonds. At June 30, 2000, the following outstanding bonds (expressed in thousands) are considered defeased:

	Primary Government		
	Enterprise Funds	Higher Education Funds	Component Units
Education Assistance Authority bonds............	$ 39,050	$ —	$ —
Public Service Authority bonds.........................	—	—	703,030
Other..............................	—	51,077	—
Totals..........................	**$ 39,050**	**$ 51,077**	**$ 703,030**

Since adequate funds have been placed with a trustee to pay fully the principal and interest of these bonds, the liabilities are not recorded in the accompanying financial statements.

f. 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 Jobs-Economic Development Authority, an Enterprise 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, 2000, the outstanding balance of bonds issued after June 30, 1995, was $1.084 billion. The original amount of bonds issued prior to that date is not available.

The State Housing Finance and Development Authority, an 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, 2000, the outstanding balance of bonds issued was $188.538 million.

The Educational Facilities Authority, reported as part of the State's primary government, 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, 2000, the outstanding balance of bonds issued was $101.980 million.

g. Resources Authority Debt

In prior years, the Resources Authority, reported as part of the primary government, issued bonds and used the proceeds to purchase obligations of local

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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 Combined Balance Sheet. The Authority's outstanding debt at June 30, 2000, was $24.160 million. Effective October 1994, the General Assembly enacted legislation that prohibits the Authority from issuing bonds except to refund bonds previously issued.

Beginning in fiscal year 1993-1994, one local governmental entity has been unable to meet its financial obligation under the terms of a $5.025 million revenue bond that was purchased by the Authority. 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. At June 30, 2000, the system was partially operating and producing some revenue but construction had not been completed. The State paid a total of $2.147 million in the fiscal years 1993-1994 through 1998-1999, and $420 thousand in 1999-2000 to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated $400 thousand in fiscal year 2000-2001 to be used, if needed, to offset the loss of revenues from the delinquent local entity.

h. Commercial Paper Notes

The Public Service Authority, a discretely presented proprietary component unit, has recorded a $370.059 million liability for Commercial Paper Notes at its fiscal year ended December 31, 1999. The paper is issued for valid corporate purposes with a term not to exceed 270 days. The Authority has a $500.000 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement for the Authority's fiscal year ended December 31, 1999.

i. Subsequent Events

Since June 30, 2000, the State's primary government has issued $9.587 million of general obligation bonds and $268.810 million of revenue bonds.

The State's primary government plans to issue $1.200 million in revenue notes and $16.600 million in revenue bonds in December 2000.

Before June 30, 2001, the Tobacco Settlement Revenue Management Authority, a blended component unit of the State's primary government, plans to issue approximately $800.000 million in revenue bonds to securitize future payments received under the multi-state legal settlement with the tobacco industry.

NOTE 11: CHANGES IN GENERAL LONG-TERM OBLIGATIONS

Changes in general long-term obligations (expressed in thousands) for the fiscal year ended June 30, 2000, were:

	Balances at July 1, 1999	Increases	Decreases	Balances at June 30, 2000
Intergovernmental payables............	$ 7,430	$ —	$ (1,320)	$ 6,110
Policy claims.........	4,448	3,239	(3,071)	4,616
Notes payable.......	785	851	(222)	1,414
General obligation bonds payable....	1,139,782	347,250	(94,840)	1,392,192
Infrastructure Bank bonds payable..............	275,000	308,900	(9,625)	574,275
Capital lease and installment debt obligations payable....................	12,482	151	(2,821)	9,812
Compensated absences payable..	180,637	91,683	(76,562)	195,758
Other liabilities.......	24,044	2,605	(5,535)	21,114
Totals...............	**$ 1,644,608**	**$ 754,679**	**$ (193,996)**	**$ 2,205,291**

The majority of Other Liabilities consists of claims and judgments payable and the National Guard Pension System Net Pension Obligation. The increase of $347.250 million for General Obligation Bonds Payable includes $1.216 million in accretion of interest on capital appreciation (deep-discount) bonds.

NOTE 12: INTERFUND BALANCES

a. Interfund Assets and Liabilities Within the Primary Government

Interfund assets and liabilities (expressed in thousands) for each individual fund within the primary government at June 30, 2000, were:

Notes to the Financial Statements

Fund Type/Fund	Due From	Due To	Interfund Receivables	Interfund Payables	Advances To	Advances From
General						
General Fund	$ 56,479	$ 69,333	$ 7,849	$ 1,422	$ 7,461	$ 2,150
Less: eliminations	(39,721)	(39,721)	(1,422)	(1,422)	—	—
Adjusted General Fund	16,758	29,612	6,427	—	7,461	2,150
Special Revenue						
Departmental General Operating Fund	16,360	58,076	—	5,761	400	—
Education Improvement Act Fund	2,483	1,516	—	400	—	—
Children's Education Endowment Fund	13	—	—	—	—	—
Repair, Maintenance, and Renovation Fund	985	595	—	—	—	—
Waste Management Fund	1,568	239	—	—	—	—
Department of Transportation Special Revenue Fund	52,461	162,475	1,359	—	2,151	—
Local Government Infrastructure Fund	168,962	8,733	200	—	—	—
Accommodations and Local Option Sales Tax Fund	81	183	—	—	—	—
Energy Settlement Fund	—	46	—	—	—	—
Omnibus Crime Fund	11	484	—	—	—	—
Medicaid Expansion Fund	—	1,853	—	—	—	—
Other Special Revenue Funds	2,132	598	66	30	69	—
Less: eliminations	(200,624)	(200,624)	(1,625)	(1,625)	—	—
Adjusted Special Revenue Funds	44,432	34,174	—	4,566	2,620	—
Capital Projects						
Capital Projects Fund	3,493	2,919	—	—	—	—
Less: eliminations	(640)	(640)	—	—	—	—
Adjusted Capital Projects Fund	2,853	2,279	—	—	—	—
Enterprise						
Housing Authority Fund	—	21	—	—	—	—
Education Assistance Authority Fund	728	202	—	—	—	—
Second Injury Fund	—	600	—	—	—	—
Patriots Point Development Authority Fund	9	17	—	—	—	—
Other Enterprise Funds	—	394	—	200	—	17,064
Less: eliminations	(258)	(258)	—	—	—	—
Adjusted Enterprise Funds	479	976	—	200	—	17,064
Internal Service						
Insurance Reserve Fund	558	18	1,556	—	23,254	—
Health and Disability Insurance Fund	17,397	80	—	—	—	—
State Accident Fund	746	26	—	—	—	—
General Services Fund	8,554	856	—	1,996	—	13,061
Central Supplies and Equipment Fund	891	84	—	1,000	—	—
Motor Pool Fund	2,887	53	—	—	—	—
Pension Administration Fund	—	613	—	—	—	—
Prison Industries Fund	1,310	268	—	—	—	—
Other Internal Service Funds	15	24	1,289	1,257	5,244	4,903
Less: eliminations	(2,022)	(2,022)	(2,845)	(2,845)	(11,626)	(11,626)
Adjusted Internal Service Funds	30,336	—	—	1,408	16,872	6,338

Notes to the Financial Statements

Fund Type/Fund	Due From	Due To	Interfund Receivables	Interfund Payables	Advances To	Advances From
Trust and Agency						
Expendable Trust:						
Unemployment Compensation Benefits Fund.............	$ —	$ 180	$ —	$ —	$ —	$ —
Other Expendable Trust Funds..................................	—	7	—	—	—	—
Pension Trust:						
South Carolina Retirement System............................	11,572	15,655	—	—	—	—
Police Officers' Retirement System............................	3,048	590	—	—	—	—
General Assembly Retirement System.......................	1	—	—	—	—	—
Judges' and Solicitors' Retirement System.................	61	—	—	—	—	—
Agency Funds:						
Federal Interfund Activity Fund..................................	1	2,835	—	—	—	—
Payroll Clearing Fund..	49,179	10,737	—	—	—	—
Other Agency Funds..	8,258	82,801	—	—	—	—
Less: eliminations...	(55,034)	(55,034)	—	—	—	—
Adjusted Trust and Agency Funds........................	17,086	57,771	—	—	—	—
Higher Education						
Unrestricted Current Funds...	13,864	4,596	—	—	—	—
Restricted Current Funds..	5,283	1,781	—	—	—	—
Endowment and Similar Funds...................................	—	—	—	—	690	—
Unexpended Plant Funds...	3	—	—	—	—	490
Retirement of Indebtedness Funds.............................	—	—	—	—	490	—
Investment in Plant Funds..	—	—	—	253	—	31,906
Agency Funds...	95	—	—	—	—	—
Foundations and Institutes..	—	—	—	—	29,615	—
Less: eliminations..	(1,305)	(1,305)	—	—	(30,795)	(30,795)
Adjusted Higher Education Funds........................	17,940	5,072	—	253	—	1,601
Totals–Primary Government..............................	$ 129,884	$ 129,884	$ 6,427	$ 6,427	$ 26,953	$ 27,153

b. Interfund Assets and Liabilities Between the Primary Government and Discretely Presented Component Units

Interfund assets and liabilities (expressed in thousands) between discretely presented component units and the primary government at June 30, 2000, were:

Receivable Primary Government Fund	Payable Component Unit	Amount (Thousands)
General Services Fund.............	First Steps to School Readiness....	$ 2
Payroll Clearing Fund................	First Steps to School Readiness....	17
Higher Education--Unrestricted Current Fund..........................	First Steps to School Readiness....	117
Higher Education--Restricted Current Fund..........................	First Steps to School Readiness....	37
Total...		**$ 173**

Receivable Component Unit	Payable Primary Government Fund	Amount (Thousands)
First Steps to School Readiness..............................	General Fund................................	$ 10
First Steps to School Readiness..............................	Departmental General Operating Fund..	5
State Ports Authority.................	General Fund................................	67
Total...		**$ 82**

c. Inequality of Advances To and Advances From Other Funds

Advances From Other Funds exceed Advances To Other Funds by $200 thousand because of an interfund loan from the Local Government Infrastructure Fund, a Special Revenue Fund, to the Division of Public Railways (reported as part of Other Enterprise Funds). The Division of Public

Notes to the Financial Statements

Railways reports using a fiscal year ending December 31, while the Local Government Infrastructure Fund's fiscal year ends June 30. The Division of Public Railways' $200 thousand June 2000 loan payment was not reflected in its Advances From Other Funds at December 31, 1999, but that payment reduced the Local Government Infrastructure Fund's Advances To Other Funds as of June 30, 2000.

d. Inequality of Transfers From Component Units and Transfers To Primary Government

Transfers From Component Units exceed Transfers To Primary Government by $614 thousand because the Public Service Authority, a discretely presented component unit, reports using a fiscal year ending December 31. The $614 thousand difference represents Transfers From Component Units to the General Fund for the fiscal year ended June 30, 2000, less Transfers To Primary Government from the Public Service Authority for its fiscal year ended December 31, 1999.

e. Inequality of Residual Equity Transfers In and Out

Residual Equity Transfers Out of $768 thousand in the Capital Projects Fund were recorded as additions to Contributed Capital in the Enterprise Funds. These balances resulted from transfers of Capital Improvement Bond proceeds.

Residual Equity Transfers Out of $555 thousand in the General Fund were recorded as additions to Contributed Capital in the Internal Service Funds. These balances resulted from payments forgiven on long-term interfund loans.

NOTE 13: RESERVATIONS AND DESIGNATIONS OF FUND EQUITY

Reserved components of fund equity represent amounts legally segregated and amounts that cannot be appropriated. Designated portions of unreserved fund equity reflect tentative plans for future use of available financial resources.

The unreserved component of fund equity is computed as total fund equity less reserved amounts.

a. Primary Government—Reserved Retained Earnings

At June 30, 2000, the $266.683 million balance of Reserved Retained Earnings in the primary government's Enterprise Funds consisted entirely of Retained Earnings Reserved for Debt Requirements. The reservations are required by bond indentures and other financing agreements.

b. Primary Government—Reserved and Designated Fund Balances

At June 30, 2000, the following amounts of fund balance (expressed in thousands) were reserved or designated:

Notes to the Financial Statements

	General	Special Revenue	Trust and Agency	Higher Education
Fund balances reserved for:				
Pension and other benefits	$ —	$ —	$ 20,505,876	$ —
External investment pool participants	—	—	1,052,175	—
Restricted fund balance	—	—	—	168,952
Federal government grants refundable	—	—	—	47,622
General fund reserve	145,371	—	—	—
Inventories	13,979	18,088	—	—
Advances to other funds	7,461	2,620	—	—
Appropriations to be carried forward	212,367	—	—	—
Endowment and similar funds	—	—	1,672	62,521
Long-term loans and notes receivable	61	357,145	—	—
Debt requirements	—	151,100	—	11,118
School building aid	8,900	27,521	—	—
Encumbrances	—	—	—	2,134
Other special purposes	—	—	—	8,827
Total reserved fund balances	**$ 388,139**	**$ 556,474**	**$ 21,559,723**	**$ 301,174**

	Special Revenue	Capital Projects	Higher Education
Unreserved fund balances designated for:			
Capital expenditures	$ 31,624	$ 105,214	$ —
Loan funds	—	—	2,866
Scholarships	18,458	—	—
Endowment and similar funds	—	—	61,618
Plant funds	—	—	65,714
Special purposes	—	—	7,448
Total unreserved, designated fund balances	**$ 50,082**	**$ 105,214**	**$ 137,646**

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

Reserved for Pension and Other Benefits

This account includes $19.668 billion reserved for pension, group life, and accidental death benefits. It also includes $838.314 million of reserves to recognize the restricted nature of the fund balances in the Unemployment Compensation Benefits Fund.

Reserved for External Investment Pool Participants

Amounts reserved for external investment pool participants consist of public monies deposited with the State Treasurer by local governmental units and other political subdivisions of the State. The State Treasurer invests these monies on the participants' behalf in an investment portfolio.

Reserves in the Higher Education Funds

Outside sources may restrict certain Higher Education Funds' resources. The financial statements present restricted fund balances as reserves. These reserves include reserves for endowments and other higher education restricted funds to be used for special purposes.

Grant monies received from the United States government under certain student loan programs are recorded as Reserved for Federal Government Grants Refundable. The purpose of this reserve is to indicate that these amounts can neither be

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appropriated nor expended and to reflect the State's ongoing responsibility to lend the resources only in accordance with applicable Federal program guidelines.

General Fund Reserve

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

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

At June 30, 1999, the Reserve was $7.721 million below the full-funding amount of $145.371 million. On September 1, 1999, $7.721 million of budgetary surplus from 1998-1999 was added to the reserve to bring its balance to $145.371 million. During the remainder of the fiscal year ended June 30, 2000, the Reserve remained at $145.371 million. Accordingly, at June 30, 2000, the reserve was $2.545 million below the full-funding amount of $147.916 million. A provision of law that became effective in November 2000 will increase the Reserve by $2.545 million during 2000-2001.

Reserved for Inventories

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

Reserved for Advances to Other Funds and Reserved for Long-Term Loans and Notes Receivable

Advances to Other Funds, Long-Term Loans, and Notes Receivable are assets that do not represent expendable available resources. The 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. The Reserve for Appropriations to be Carried Forward, however, is used in situations where the General Assembly has authorized Budgetary General Fund appropriations to be carried forward to the next fiscal year. For additional information, see Note 2c.

Reserved for Endowment and Similar Funds

This reserve recognizes restrictions placed on donated resources. In the Fiduciary Fund Types, the reserve represents amounts donated to State-owned secondary schools and to certain other State departments.

Reserved for Debt Requirements

The amounts recorded as Reserved for Debt Requirements in the Higher Education Funds are reservations required by financing agreements and bond indentures of discretely presented component units of the Medical University of South Carolina.

The South Carolina Transportation Infrastructure Bank, reported within the State's Special Revenue Funds, recorded an amount as Reserved for Debt Requirements as required by certain financing agreements and bond indentures.

Reserved for School Building Aid

Amounts in the General Fund and in the Education Improvement Act Fund, a Special Revenue Fund, are reserved if committed to State school districts to build school buildings or to retire debt on such buildings. Such amounts are not available for appropriation.

Reserved for Encumbrances

Although not required by State law, some technical colleges reported in the Higher Education Funds use encumbrance accounting. These institutions also record a reserve for encumbrances.

Reserved for Other Special Purposes

Amounts Reserved for Other Special Purposes in the Higher Education Unrestricted Current Funds consist of resources that are reserved for various operating purposes specific to certain individual higher education institutions.

Designated for Capital Expenditures

The amount reported in the Special Revenue Funds represents amounts that the Department of Transportation designated for replacement of structurally deficient bridges and new road construction. State Highway Bonds will finance these projects. The State reports the entire fund balance in the Capital Projects Fund as Designated for Capital Expenditures.

Designated for Loan Funds

Amounts Designated for Loan Funds in the Higher Education Funds consist of resources which are designated for loans to students, faculty, or staff of higher education institutions.

Designated for Scholarships

Of the amount reported as Designated for Scholarships in the Special Revenue Funds, $18.400 million is to be used for the Teacher Loan Program. The program makes loans to students to

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attract talented individuals to teach in areas of critical need. For each year the borrower teaches in a critical need area, 20.0% to 33.0% of the loan is canceled. If the borrower does not teach, however, the loan must be repaid. The remaining $58 thousand reported as Designated for Scholarships in the Special Revenue Funds is being accumulated to establish endowments at public and private colleges and universities. The purpose of these endowments is to provide environmental scholarships.

Designated for Endowment and Similar Funds

The Designated for Endowment and Similar Funds account includes resources that the State's higher education institutions intend to use in a manner similar to endowments in future years.

Designated for Plant Funds

Amounts Designated for Plant Funds in the Higher Education Funds consist of resources designated to finance the acquisition, construction, improvement, renewal, or replacement of physical properties, and to pay debt service and retire indebtedness on institutional properties.

Designated for Special Purposes

Amounts Designated for Special Purposes in the Higher Education Unrestricted Current Funds consist of resources that are designated for various operating purposes specific to certain individual higher education institutions.

c. Subsequent Event

In June 2000, the State General Assembly approved a plan to appropriate $96.914 million of the fund balance in its Budgetary General Fund in fiscal year 2000-2001 to pay for certain recurring and nonrecurring items. Of that amount, only $33.297 million in net financial resources was available in the General Fund at June 30, 2000, to finance those items. Had the Governor approved the plan in June 2000, the General Fund at June 30, 2000, would have had an unreserved, designated fund balance of $33.297 million. However, the Governor delayed signing the bill until November 16, 2000, and as a result, the General Fund at June 30, 2000, had an unreserved, undesignated fund balance of $33.297 million.

NOTE 14: RELATED PARTY TRANSACTIONS

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

The most significant of these organizations include: 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 Real Estate Foundation; the Clemson University Research Foundation; the Clemson Advancement Foundation for Design and Building; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Engineering Foundation; the Health Sciences Foundation of the Medical University of South Carolina; the Coastal Educational Foundation, Inc., of Coastal Carolina University; the Coastal Carolina Booster Club, Inc.; the College of Charleston Foundation; the Cougar Club of the College of Charleston; the Winthrop University Foundation; the Alumni Association of Winthrop University; the Winthrop University Eagle Club; the Francis Marion University Foundation; the Citadel Development Foundation; the Citadel Alumni Association; the Citadel's Brigadier Foundation; South Carolina State University Educational Foundation; the S.T.A.T.E. Club of South Carolina State University; the South Carolina State University Alumni Association; the Lander University Foundation; the Lander University Alumni Association; Aiken Technical College Foundation, Inc.; Horry-Georgetown Technical College Foundation; Greenville Technical Foundation, Inc.; Tri-County Technical College Foundation; the South Carolina Student Loan Corporation; the Educational Television Endowment of South Carolina, Inc.; the South Carolina State Museum Foundation; the South Carolina Research Authority; and the Carolina Capital Investment Corporation.

Those organizations above that are related to higher education report total assets of $853.074 million. During the fiscal year ended June 30, 2000, the State entered into various transactions with these organizations. Approximate amounts within the State's Higher Education Funds that represented transactions with these related parties include: receivable from foundations–$55.888 million; donations of cash and other assets from foundations–$47.564 million; expenditures paid to foundations–$9.638 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations–$2.610 million.

The South Carolina Education Assistance Authority (EAA), an Enterprise Fund, has designated the South Carolina Student Loan Corporation (SLC) as the entity to administer the EAA student loan program. During the fiscal year ended June 30, 2000, EAA entered into various transactions with SLC. Approximate amounts within the State's Enterprise Funds that represent these transactions include: accounts receivable from SLC–$8.892 million; notes receivable from SLC–$372.201 million; program revenue from SLC–$34.349 million; accounts payable to SLC–$10.271 million; and reimbursements to SLC for administrative costs–$5.884 million.

During the fiscal year ended June 30, 2000, the Educational Television Endowment of South Carolina, Inc., disbursed $10.228 million on behalf

Notes to the Financial Statements

of the State for programs, development, advertising, and other costs.

The Jobs—Economic Development Authority (JEDA), an Enterprise Fund, maintains a management and administrative agreement with Carolina Capital Investment Corporation (CCIC). During the fiscal year ended June 30, 2000, JEDA paid CCIC $403 thousand for management and administrative expenses and incurred payables to CCIC of $161 thousand.

NOTE 15: SEGMENT INFORMATION

a. Enterprise Funds

The State groups its Enterprise Funds into the following segments: the State Housing Finance and Development Authority (Housing Authority), the South Carolina Education Assistance Authority, the Jobs—Economic Development Authority, and the Patients' Compensation Fund. In addition, the Patriots Point Development Authority, the Second Injury Fund, and Other Enterprise Funds are grouped into an Other segment.

The Housing Authority provides low-cost housing to the State's citizens by issuing bonds/notes and by administering Federal contracts and grants. The South Carolina Education Assistance Authority issues revenue bonds for the purpose of making student loans. The Jobs—Economic Development Authority acts with others in the promotion of development, especially in areas of the State with greatest need. The Authority is supported primarily by interest on project loans. The Patients' Compensation Fund provides for the payment of that portion of any medical malpractice claim, settlement or judgment against a health care provider that is in excess of $100 thousand per incident or in excess of $300 thousand in the aggregate for one year. All providers licensed in South Carolina are eligible to participate in the Fund upon remitting the annual assessment fees in amounts determined by the governing board of the Fund.

Financial information (expressed in thousands) for these segments for the fiscal year ended June 30, 2000, follows:

	Housing Authority	Education Assistance Authority	Jobs—Economic Development Authority	Patients' Compensation	Other	Totals
Operating revenues	$ 49,033	$ 46,679	$ 1,630	$ 15,353	$ 27,607	$ 140,302
Depreciation and amortization expense	299	243	—	1	987	1,530
Operating income (loss)	7,909	16,578	(2,479)	(89,479)	1,177	(66,294)
Federal revenue	25,062	—	—	—	—	25,062
Operating transfers in	—	—	125	—	250	375
Operating transfers out	—	—	—	—	(104)	(104)
Extraordinary loss	(470)	—	—	—	—	(470)
Net income (loss)	8,341	4,328	(2,105)	(89,479)	2,596	(76,319)
Current capital contributions and transfers	—	—	—	—	793	793
Property, plant, and equipment:						
Additions	343	56	—	—	742	1,141
Retirements	(103)	(77)	—	—	(75)	(255)
Net working capital	215,136	202,687	6,824	10,126	21,175	455,948
Total assets	752,266	555,050	11,638	18,151	128,098	1,465,203
Bonds and other long-term payable from operating revenues	535,435	404,811	187	111,511	17,086	1,069,030
Total fund equity (deficit)	185,526	127,469	9,676	(101,380)	49,033	270,324

b. Discretely Presented Proprietary Component Units

The segments of the State's discretely presented proprietary component units are the Public Service Authority, the State Ports Authority, the Connector 2000 Association, Inc., and the Savannah Lakes Regional Loan Fund.

The Public Service Authority sells electric power and wholesale water. The State Ports Authority develops and maintains State harbors and seaports and handles the commerce through these ports. The Connector 2000 Association, Inc., is a development stage enterprise created to assist the Department of Transportation in the financing, acquisition, construction, and operation of turnpikes and other transportation projects. The Savannah Lakes Regional Loan Fund maintains a revolving

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loan fund to promote economic development in the State's Savannah Lakes Region.

Financial information (expressed in thousands) for these segments for the fiscal year ended June 30, 2000, follows:

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Savannah Lakes Regional Loan Fund	Totals
Operating revenues..........................	$ 814,166	$ 97,504	$ —	$ 9	$ 911,679
Depreciation and amortization expense.......................................	118,617	17,275	—	—	135,892
Operating income...........................	221,839	20,695	—	—	242,534
Transfers from primary government....	—	12,300	—	—	12,300
Transfers to primary government.......	(7,883)	—	—	—	(7,883)
Extraordinary loss...........................	—	(1,992)	—	—	(1,992)
Net income (loss)............................	39,501	20,834	(140)	21	60,216
Current capital contributions and transfers.......................................	212	9,128	—	—	9,340
Property, plant, and equipment:					
Additions..................................	173,514	51,407	—	—	224,921
Retirements..............................	(28,301)	(2,998)	—	—	(31,299)
Net working capital..........................	(155,067)	45,719	99,968	477	(8,903)
Total assets....................................	3,563,223	525,216	224,378	483	4,313,300
Bonds and other long-term liabilities payable from operating revenues.....	2,102,894	151,607	213,271	—	2,467,772
Total fund equity (deficit)..................	868,583	352,058	(267)	477	1,220,851

The Public Service Authority's sale of electric power to two major customers constitutes a concentration of credit risk. For its fiscal year ended December 31, 1999, the Authority's Revenue and Accounts Receivable (expressed in thousands) attributable to those customers were:

Customer	Revenue	% of Total Operating Revenue	Accounts Receivable	% of Total Accounts Receivable
Central Electric Power Cooperative, Inc.............	$ 370,000	45.45%	$ 44,206	50.05%
Alumax of South Carolina, Inc..................	92,000	11.30%	7,670	8.68%

During the fiscal year ended June 30, 2000, one customer accounted for approximately 25% of the State Ports Authority's revenues.

NOTE 16: DEFICIT RETAINED EARNINGS

The Patients' Compensation Fund, reported in the Enterprise Funds, had a deficit Retained Earnings balance of $101.380 million at June 30, 2000. This deficit resulted from losses that the Fund has experienced over the last several years. The Fund has increased premiums in recent years, and it is their intent to increase them again prior to June 30, 2001. In September 2000, the Fund collected a special assessment from members which totaled approximately $16.000 million. However, the liability recorded for unpaid claims each year is based on an actuarial analysis performed after June 30. The premium increases and assessment may not be sufficient to prevent an accounting deficit when the actuarial liability is recorded.

The Patriots Point Development Authority, reported in the Enterprise Funds, had a deficit Retained Earnings balance of $1.146 million at June 30, 2000. This deficit resulted primarily from an interrupted development project and the related bankruptcy proceedings in the past. The interrupted project left the Authority with an unfinished hotel and marina. The Authority expects that revenues from profitable operating leases of the property to the new developer of the hotel and amenities complex as well as private contributions eventually will eliminate the deficit Retained Earnings.

The Health and Disability Insurance Fund, reported in the Internal Service Funds, had deficit Retained Earnings of $82.024 million at

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June 30, 2000. This deficit resulted from unprecedented growth in claims expenditures and a change in the prescription drug benefit methodology effective January 2000. Prescription drug claims, formerly paid only after the patient filed a paper claim form, now are filed electronically by the pharmacy. While this change is not expected to affect annual claims costs, it accelerated drug claim payments during the period January through June 2000. Employer contribution rates were increased effective January 2000 and will increase by 20% effective January 2001. Also effective January 2001, benefit payments will be reduced by increasing the employee annual deductibles and by increasing the employee share of coinsurance. All enrollee contribution rates also will increase. The Fund expects that these actions will result in a positive movement toward correction of the deficit Retained Earnings.

The State Accident Fund, reported in the Internal Service Funds, had a deficit Retained Earnings balance of $20.218 million at June 30, 2000. This deficit resulted from a decrease in revenues and increase in claims expenses over the prior fiscal year. The Fund has purchased excess-of-loss reinsurance as of July 1, 2000, to cover claims exceeding $250 thousand for accidents that occur subsequent to June 30, 2000. The Fund also will determine if rates should be increased in January 2001 and if other rating factors should change. Revised procedures for claim case management that are expected to reduce claim costs will begin in January 2001. The Fund anticipates additional efficiencies from its new automated system.

The Connector 2000 Association, Inc., a development stage enterprise reported as a discretely presented proprietary component unit, had an accumulated deficit of $267 thousand for its fiscal year ended December 31, 1999. See Note 1r for additional information.

At June 30, 2000, the Savannah Lakes Regional Loan Fund, a discretely presented proprietary component unit, reported a deficit Retained Earnings balance of $543 thousand. This deficit resulted from the default of a loan that is related to the Lake Russell development project. The Fund hopes to eliminate this deficit when a developer is found to take over the Lake Russell project.

NOTE 17: 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), an Internal Service Fund. 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 claims liability of $151.149 million at June 30, 2000, includes a provision for claims in the process of review and for claims incurred but not reported. The liabilities for claims in the process of review and for claims incurred but not reported are reported as Policy Claims in the financial statements. 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. Estimates of liabilities for incurred claims are continually reviewed and revised as changes occur. Revisions are reflected in the current year's operating statement.

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
1999	$ 146,778	$ 21,021	$ (28,900)	$ 138,899
2000	138,899	39,844	(27,594)	151,149

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. Reinsurance for catastrophic losses in the area of property insurance is purchased for losses above $2.000 million per location and $10.000 million per occurrence. For medical professional liability insurance, reinsurance for catastrophic losses is acquired for losses exceeding $250 thousand per occurrence. Reinsurance permits partial recovery of losses from reinsurers; but the IRF, as direct insurer of the risks, remains primarily liable. The unpaid claims liabilities were reduced by

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$6.100 million and $5.600 million as of June 30, 2000, and 1999, respectively, for amounts relating to unpaid claims estimated to be recoverable from reinsurers.

b. Health and Disability Insurance Fund

The Health and Disability Insurance Fund, an Internal Service Fund, was established to provide health and dental insurance coverage for eligible employees and retirees of State agencies and school districts and 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 health maintenance organization or the State's self-insured plan. All dental, group life, and long-term disability coverage is through the State's self-insured plan. 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, and retirees directly pay their own share of premiums. Agencies and school districts pay the premiums for group life and long term disability.

The Health and Disability Insurance Fund establishes claims liabilities when information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of the unpaid claims liability. The unpaid claims liability of $157.439 million at June 30, 2000, includes a provision for claims in the process of review and for claims incurred but not reported. The liabilities for claims in the process of review and for claims incurred but not reported are reported as Policy Claims in the financial statements. The liability for claims incurred but not reported is estimated actuarially 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. Estimates of liabilities for incurred claims are continually reviewed and revised as changes occur. Revisions are reflected in the current year's operating statement.

Claim costs for group life and 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 5.50% for 2000 and 1999, compounded annually. Of the total claims liability reported for the Health and Disability Insurance Fund at June 30, 2000, $23.384 million relates to group life and long-term disability insurance coverage. Claims liabilities for health and dental insurance coverage are not discounted 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
1999	$ 101,644	$ 642,148	$ (614,986)	$ 128,806
2000	128,806	741,882	(713,249)	157,439

Section 1-11-710(A)(4) of the South Carolina Code of Laws requires that the Health and Disability Insurance Fund maintain "a reserve equal to not less than an average of one and one-half months' claims" to pay the cost of administering the health and dental insurance programs of the State. At June 30, 2000, the Fund was not in compliance with this statute due to a decrease in cash reserves. See Note 16 for related information on the Fund's deficit retained earnings at June 30, 2000.

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. Estimated amounts of salvage and subrogation and reinsurance recoverable, if any, on both settled and unsettled claims are deducted from the liability for unpaid claims to the extent they can be reasonably estimated. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. At June 30, 2000, the claims liability for the Fund was $56.326 million. The liabilities for claims reported but not yet paid and for claims incurred but not reported are reported as Policy Claims in the financial statements. Because actual claims costs

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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
1999	$ 51,326	$ 30,874	$ (31,011)	$ 51,189
2000	51,189	41,118	(35,981)	56,326

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses are covered up to $45.000 million per event and $2.000 million per individual, with the Fund retaining the risk for the first $5.000 million of loss. Reinsurance permits partial recovery of losses from reinsurers; but the Fund, as direct insurer of the risks, remains primarily liable. There were no amounts estimated to be recoverable from reinsurers at June 30, 2000, or at June 30, 1999.

d. Patients' Compensation Fund

The State's Enterprise Funds include the South Carolina Medical Malpractice Patients' Compensation Fund (PCF). The PCF is accounted for as an insurance enterprise because it is primarily composed of non-governmental entities. Accordingly, the PCF follows the guidance of FASB Statement 60, *Accounting and Reporting by Insurance Enterprises*.

State law created the PCF to pay that portion of any medical malpractice claim, settlement, or judgment against a licensed health care provider that exceeds $100 thousand per incident or $300 thousand in the aggregate for one year. In the event the PCF incurs a liability exceeding $100 thousand to any person under a single occurrence, the PCF may not pay more than $100 thousand per year until the claim has been paid in full. However, the Board of Governors of the PCF may authorize payments in excess of $100 thousand per year so as 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 PCF actuarially 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. At June 30, 2000, the claims liability for the PCF was $111.511 million. The liabilities for claims reported but not settled and for claims incurred but not reported are reported as Policy Claims in the financial statements. The PCF does not incur claim adjustment expenses because it provides only excess liability coverage. 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 used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed 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 reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

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

The Public Service Authority (Santee Cooper), a discretely presented component unit with a December 31 fiscal year-end, 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 $1 thousand to approximately $850 thousand with the exception of named storm losses which carry deductibles up to $3.000 million. Also a $1.000 million self-insured layer exists between the Authority's primary and excess liability policies.

The Authority self-insures its risks related to auto, dental, and environmental incidents that do not arise out of an insured event. Automotive exposure is up to $2.000 million per incident. Risk exposure for the dental plan is limited by plan provisions. There have not been any third-party claims for environmental damages for calendar years 1999 or 1998.

The State reports all of the Authority's risk management activities within the Public Service Authority's accounts. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

At December 31, 1999, the amount of these liabilities was $2.135 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

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Fiscal Year Ended December 31	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
1998	$ 1,293	$ 1,260	$ (991)	$ 1,562
1999	1,562	2,205	(1,632)	2,135

NOTE 18: JOINT VENTURE AND JOINT OPERATION

a. Joint Venture

In May 1997, the Public Service Authority (the Authority), a discretely presented component unit, along with two unrelated publicly owned electric utilities formed a wholesale power marketing joint venture (the Venture). During 1999, a third unrelated entity joined the Venture. The Authority now has a one-fourth ownership interest, which it records as an equity investment. The Venture 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, 1999, the Authority received distributions of $22.291 million from the Venture and recognized $21.586 million in reductions to power costs, partially offset by $740 thousand in equity losses. In addition, due to the entry of the additional member, the Authority received $500 thousand, representing a partial return of trading capital previously extended.

The Authority provides certain guarantees and has pledged certain collateral to support the Venture's transactions. The Authority's Board of Directors has approved the use of $15.000 million to support the Venture's trading activities in the form of corporate guarantees, letters of credit and/or cash as determined by management.

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

The Energy Authority
76 South Laura Street
Jacksonville, Florida 32201-1599

b. Joint Operation

The Summer Nuclear Station is a joint operation owned by the Public Service Authority (the Authority), a 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 Property, Plant, and Equipment of $494.000 million and expenses of $41.801 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.

SCE&G has on-site spent fuel storage capability until at least 2006 and expects to be able to expand its storage capacity to accommodate the spent fuel output for the life of the plant through rod consolidation, 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 decommissioning study completed in 1991 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as $76.266 million in 1990 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 1991 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled $60.366 million (adjusted to market) at December 31, 1999, 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, 1999, totaled $1.407 million. This amount has been deferred and will be recovered 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. This amount would be covered by nuclear liability

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insurance of approximately $200.000 million per site, 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 American Nuclear Insurers (ANI) and 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 $2.000 million.

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

NOTE 19: CONTINGENCIES AND COMMITMENTS

a. Litigation

Among the unresolved lawsuits in which the State was involved at June 30, 2000, are several that challenge the legality of certain taxes. The challenged revenues include the sales tax on gross business proceeds, and the deprivation of sales tax exemption for persons 85 or older. In the event of unfavorable outcomes for these cases, the ultimate liability is estimated to be approximately $63.057 million. State losses in these cases could reduce future revenues. These estimates do not include the impact on future revenues.

The South Carolina Retirement Systems are involved in a lawsuit filed by four retired members. The plaintiffs challenge the Systems' treatment of unused annual leave in the calculation of retirement payments. The Circuit Court ruled in favor of the State at trial, and the plaintiffs appealed the decision to the South Carolina Supreme Court. On May 22, 2000, the Supreme Court found in favor of the plaintiffs. On June 21, 2000, the State filed a motion for a rehearing. On July 24, 2000, the Supreme Court unanimously granted the State's request for a rehearing. The State's liability in the event of an unfavorable outcome is actuarially estimated at $1.950 billion for retirees and active members of the South Carolina Retirement System and the Police Officers' Retirement System. The State continues to defend its position and believes it is meritorious.

Two class action lawsuits relating to the taxation of retirement benefits are pending against the State. One case challenges the taxation of federal retirees' income, and a second 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 first case, 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 case will now proceed in State Circuit Court. The second case is still pending on appeal in the State Supreme Court and is awaiting oral argument. In the event of an unfavorable outcome in both cases, the State's liability for retroactive relief is estimated at $522.500 million. In addition, the estimated unfavorable impact on future year revenues would be an additional $47.500 million per year.

The State is involved in other legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes cases involving claims asserted against the State arising from alleged torts, breach of contract, and possible violations of State Laws. These cases include a class action suit challenging the constitutionality of the State's Debt Set-Off Act. In the event of unfavorable outcomes in all of the above matters, the State's liability is estimated to be approximately $12.382 million.

While the State is uncertain as to the ultimate outcome of any of the above-described lawsuits, 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 time for the Defendants to file an Answer in this case has been continued until the Plaintiffs decide whether to amend the complaint.

The State is also 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's suit against the United States has been dismissed, but it is anticipated that this decision will be appealed. In the event of an unfavorable outcome in this case, the State's total liability is estimated to be $7.104 million. A liability in the amount of $947 thousand, representing penalties paid in July 2000, has been recorded in the General Long-Term Obligations Account Group.

Directly related to the above case, the State has also instigated an administrative proceeding before the State's Procurement Review Panel for breach of contract against the vendor with whom the State contracted to develop and implement the statewide Child Support System. The vendor, in turn, has brought suit against the State in State Circuit Court,

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and the State has counterclaimed, subject to its motion to dismiss. The Court has dismissed the case pursuant to the motion, but the Order is under appeal. In the event of an unfavorable outcome in this case, the State's liability is not expected to exceed approximately $8.000 million. The administrative proceedings before the Panel have been stayed by the court pending the appeal.

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

The South Carolina Supreme Court has concluded that the statutory government liability cap provided in the South Carolina Tort Claims Act does not apply to tort cases filed against the State prior to July 1, 1994. The State has recorded liabilities for the uninsured judgments against the State in cases filed prior to July 1, 1994. These uninsured liabilities at June 30, 2000, consist of $3.200 million recorded in the State's General Long-Term Obligations Account Group.

b. Gain from Tobacco Settlement

As a party to a successful multi-state legal settlement with the tobacco industry, the State of South Carolina stands to receive settlement payments through 2025. The settlement money is intended to compensate the State for costs it has incurred in providing health and other services to its citizens that were necessitated by the use of tobacco products.

Future settlement payments are subject to several adjustments. These adjustments include a "volume adjustment," ongoing and potential future litigation against the tobacco industry, and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable, the State has not recorded a receivable for the future payments at June 30, 2000.

On June 30, 2000, the Governor signed into law the Tobacco Settlement Revenue Management Authority Act. Under this law, rights to the State's tobacco receipts due after June 30, 2001, have been assigned to the Tobacco Settlement Revenue Management Authority.

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 when the State and the Federal government agree upon reimbursement terms. It is presently not possible for management to determine the outcome of pending audit disallowances. Based on an analysis of historical data, however, the State believes that any such reimbursements relating to the fiscal year ended June 30, 2000, or earlier years will not have a material impact on the State's financial statements.

d. Education Assistance Loan Guarantees

The South Carolina Education Assistance Authority within the State's Enterprise Funds guarantees student loans. At June 30, 2000, these loans totaled $1.320 billion. The United States Department of Education reinsures 100% of losses under these guarantees for loans made prior to October 1, 1993; 98% of losses for loans made on or after October 1, 1993, but before October 1, 1998; and 95% for loans made on or after October 1, 1998. If the loan default rate exceeds 5.0% 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, 2000, was approximately 1.2%.

e. 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 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. If the State does not receive CDBG funds in future years, the Federal government is responsible for the payments to the note holders.

At June 30, 2000, $6.110 million remained outstanding on the Lexington County loan. The payment terms require the State to repay this amount in four years at 8.0% interest. Accordingly, the State has recorded an Intergovernmental Payables liability in the General Long-Term Obligations Account Group for the amount it owes HUD on this loan to be paid from federal CDBG funds.

f. Purchase Commitments

At December 31, 1999, the Public Service Authority, a discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $317.507 million for coal. In addition, minimum obligations under purchased power contracts were: (a) approximately $91.000 million and $36.000 million at December 31, 1999, with

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remaining terms of thirty-five years and four years, respectively; and (b) approximately $25.000 million with terms of one year or less beginning in 2001. 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, 1999, these commitments totaled approximately $83.600 million over the next ten years.

g. Transportation Infrastructure Bank Loan Commitments

The South Carolina Transportation Infrastructure Bank, reported within the State's Special Revenue Funds, has entered into intergovernmental agreements with Horry County and York County to fund interest-bearing loans totaling $554.178 million for road and bridge construction projects. At June 30, 2000, the undrawn loan balance is $345.446 million. The Bank also has agreements with various counties to provide financial assistance totaling $906.500 million for certain road projects. At June 30, 2000, the remaining commitments for these agreements totaled $657.872 million.

h. Clean Air Act

The Public Service Authority, a discretely presented component unit and electric utility company, endeavors to ensure that its facilities comply with applicable environmental regulations and standards. Congress has promulgated comprehensive amendments to the Clean Air Act, including the addition of a new federal program relating to acid precipitation. Most of the Clean Air Act Amendment regulations and the Environmental Protection Agency's (EPA) regulations related to ozone transport are now final, and costs have been quantified. The Authority has installed continuous emissions monitoring equipment at a cost of $5.200 million and estimates that it will spend approximately $8.200 million more to complete necessary combustion upgrades. Although the EPA regulations are currently in litigation, potential costs to the Public Service Authority could exceed $170.000 million in capital expenditures by 2004 and annual recurring costs could exceed $30.000 million.

i. Deregulation of Electric Utilities

The Public Service Authority, a 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.

Bills have been introduced in the United States Congress and the South Carolina General Assembly to provide for retail customer choice. The outcome of these initiatives and the impact on the Authority cannot be determined at this time.

The Authority 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, the effects of increased competition on the Authority's operations and financial condition cannot be predicted.

NOTE 20: PLEDGES OF GIFTS—HIGHER EDUCATION FUNDS

The State's Higher Education Funds expect to collect pledges (expressed in thousands) as follows :

Fiscal Year Ending June 30	Higher Education Funds: Current Unrestricted	Current Restricted	Unexpended Plant	Totals
2001	$ 1,962	$ 190	$ 75	$ 2,227
2002	—	151	75	226
2003	—	1	75	76
2004	—	—	—	—
2005	—	—	—	—
Thereafter	148	1,070	—	1,218
Totals	**$ 2,110**	**$ 1,412**	**$ 225**	**$ 3,747**

In December 1993, a benefactor established a charitable remainder uni-trust consisting of $60.000 million of publicly traded common stock. Upon the benefactor's death the trust will receive one-third of the remaining assets. In fiscal year 1998-1999, another donor established a charitable remainder trust consisting of assets valued at less than $600 thousand. Upon the death of the beneficiaries, this trust will receive all of the remaining assets. This second pledge is restricted for scholarships. Because of the significant uncertainties involved in these charitable remainder trust situations, it is not possible to estimate the ultimate value of these pledges.

It is not practicable to estimate the net realizable value at June 30, 2000, of any of the pledges described above; accordingly, they are not recorded as pledges receivable in the accompanying financial statements.

Notes to the Financial Statements

NOTE 21: FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) issued Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, in December 1998 and Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, in June 1999. To comply with generally accepted accounting principles for governments, the State of South Carolina must implement Statement 33, except for the accrual-basis revenue recognition provisions of that Statement, beginning July 1, 2000. Beginning July 1, 2001, the State must implement the accrual-basis revenue recognition provisions of Statement 33 as well as Statement 34, except for the provisions of Statement 34 that relate to retroactive reporting of major general infrastructure assets. Beginning July 1, 2005, the State must implement the provisions of Statement 34 that relate to retroactive reporting of major general infrastructure assets. Management intends to implement these statements no later than the dates specified by the GASB. The State has performed an evaluation of its readiness to implement these pronouncements, has prepared a detailed work plan, and has begun to perform early steps toward implementation.

Management anticipates that compliance with GASB Statements 33 and 34 will significantly affect the content and format of the State of South Carolina's Comprehensive Annual Financial Reports (CAFRs) for fiscal years ending after the implementation dates described above. However, the State's management has not yet determined the extent of those effects on specific account balances, financial statements, notes to the financial statements, or other presentations within the CAFR.