

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, 2001:

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

Fiscal year ended December 31, 2000:

- 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, Inc.
- 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)
- 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 presented as part of the State's Internal Service Funds. 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

The Tobacco Settlement Revenue Management Authority commenced operations in August 2000 in accordance with an act of the General Assembly that resulted from South Carolina's participation in a settlement (the Master Settlement Agreement or MSA) that arose out of litigation that a group of state governments brought against the tobacco industry. The legally separate Authority's primary purposes are (a) to receive all receipts due to South Carolina under the MSA after June 30, 2001, and (b) to issue the Authority's bonds payable solely from, and secured solely by, those receipts. The Authority's governing board is composed of the Governor or his designee, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House

Notes to the Financial Statements

Ways and Means Committee. The State receives the funding raised as a result of bond issuances, except for the issuance of bonds for the express purpose of refunding outstanding bonds of the Authority. The Authority is reported in a single Special Revenue Fund. The Authority bonds are reported as part of the State's General Long-Term Obligation Account Group; its fixed assets, if any, are reported as part of the State's General Fixed Assets Account Group. Complete financial statements may be obtained from the Authority's administrative office as follows:

South Carolina Tobacco Settlement
Management Revenue Authority
Post Office Box 11778
Columbia, South Carolina 29211

Discretely Presented Component Units

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

Fiscal year ended June 30, 2001:
South Carolina First Steps to School
Readiness Board of Trustees
South Carolina State Ports Authority
Savannah Lakes Regional Loan Fund

Fiscal year ended December 31, 2000:
South Carolina Public Service Authority
(Santee Cooper)

Fiscal year ended December 31, 2000,
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. Financial activity for the First Steps to School Readiness Board of Trustees, including its General Fixed Assets Account Group, is reported within a single column. Separate financial statements are not available for the First Steps to School Readiness Board of Trustees.

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. The State's primary government has provided financial support to the Authority in the past, and State law grants the primary government access to the Authority's surplus net revenues.

Connector 2000 Association, Inc., 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. At December 31, 2000, the end of its fiscal year, the Association was considered to be in the development stage (also see Note 1k). The Department of Transportation initially set the toll rates for the Southern Connector and has the right, but not the obligation, to revise the rates as long as they are within 90.0% to 120.0% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. The rates also must be in compliance with revenue covenants of the Association's financing agreements. 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. The State's primary government initially capitalized the fund and regularly provides gratis administrative services to the fund.

Complete financial statements for the proprietary 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

Notes to the Financial Statements

Connector 2000 Association, Inc.
J. Peters & Associates
880 South Pleasantburg Drive, Suite 2B
Greenville, South Carolina 29607

Savannah Lakes Regional Loan Fund
Post Office Box 8327
Columbia, South Carolina 29202

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 appoints one out of seven board members of the Charleston Naval Complex Redevelopment Authority and three out of nine board members of the Myrtle Beach Air Force Base Redevelopment Authority.

During the fiscal year ended June 30, 2001, the State joined the Atlantic Low-Level Radioactive Waste Compact, a voluntary association of states that, by federal law, is legally separate from each of the party states. South Carolina does not have an ongoing financial interest in the Compact.

Subsequent Event

The South Carolina Lottery Commission commenced operations in July 2001 in accordance with an act of the General Assembly. The Commission, established to serve the State's citizens, is governed by a nine-member board with three members appointed by the Governor, three appointed by the President Pro Tempore of the Senate, and three appointed by the Speaker of the

House of Representatives. By law, the Commission's net proceeds must be transferred to the State to support improvements and enhancements for educational purposes and programs as provided by the General Assembly. It is anticipated that the Commission will be included in the State's reporting entity as a blended component unit for the fiscal year ended June 30, 2002.

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.

Notes to the Financial Statements

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 assets 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 and of its blended component units 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.

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.

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.

Income, sales, and similar taxes are recognized in the period when the underlying income or sales transactions occur. Grants, donations, and similar items are recognized as revenue as soon as all

eligibility requirements imposed by providers have been met. Fines, penalties, and taxes other than those based on underlying income or sales transactions are recognized in the period when an enforceable legal claim to the related assets has arisen. Pledges are recognized as receivables and revenues, net of estimated uncollectible amounts, if all eligibility requirements are met, the promise is verifiable, and the resources are measurable and probable of collection. Note 20 provides additional details regarding pledges that were not measurable at June 30, 2001.

The State shares certain of its revenues with municipalities, counties, and districts within its borders. The State recognizes expenditure or expense when the recipient government has met all eligibility requirements.

Accrual Basis

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, revenues generally are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

Modified Accrual Basis

The State uses the modified accrual basis of accounting to report activity in Governmental, Expendable Trust, and Agency Funds as well as in the discretely presented governmental component unit. Under the modified accrual basis, revenues, net of estimated uncollectible amounts, are recognized in the fiscal year when they become susceptible to accrual—that is, as soon as they become both measurable and available to finance expenditures of the fiscal year. Deferred revenue is recorded for receivables that are measurable but not available at year-end.

Under the modified accrual basis, revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, management of the State deems intergovernmental grant revenues as available at the end of the fiscal year if it expects to receive the related cash within the next year. Unemployment insurance taxes in the Expendable Trust Funds are deemed available at year-end only if received within forty-five days after year-end. Interest on investments is recorded as earned because it is deemed available when earned. Substantially all

Notes to the Financial Statements

other revenues are deemed available at year-end only if received within one month after year-end.

Taxes, grants, donations, the provision of material services and commodities, interest on investments, fines, and penalties associated with the current fiscal year are considered susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when the State receives the related cash.

Under the modified accrual basis, expenditures generally are recorded when a liability is incurred, as under accrual accounting. An exception, however, is that principal and interest on 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 reflected in the General Long-Term Obligations Account Group are recorded when paid.

Non-cash support in the form of food commodities totaled \$16.647 million for the fiscal year ended June 30, 2001. The State does not report the receipt of food commodities as revenue and does not report the distribution of commodities as expenditures in governmental funds because there is no flow of financial resources in conjunction with these transactions.

In contrast, 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 because this distribution represents a flow of financial resources. Food stamp revenues and expenditures for the fiscal year ended June 30, 2001, totaled \$260.591 million. In addition, the State records food stamp coupons on hand as Other Assets and as Deferred Revenue. At June 30, 2001, the State had \$33 thousand of food stamp coupons on hand.

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 Tobacco Settlement Revenue Management Authority (a blended component unit and Special Revenue Fund), the Housing Authority (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.

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 100.0% of funds advanced), United States Treasury bills, Federal agency discount notes, and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities (i.e., those rated at least A by two leading national rating services). In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

Under State law, the State Retirement Systems Investment Panel (the Panel) may make limited investments in equity securities for the State's Pension Trust Funds. Each member of the State Budget and Control Board appoints one member of the five-member Panel. The Panel's objective is to optimize the long-term performance of equity investments consistent with a prudent level of portfolio risk, considering the liabilities and liquidity needs of the State's Pension Trust Funds. (Also see Note 4c, State Retirement Systems Investment Panel.)

Notes to the Financial Statements

Substantially all of the State's investments are presented at fair value; securities are valued at the last reported sales price as provided by an independent pricing service. In contrast, however, the State has presented at historical cost the investment securities and other instruments that the Chief Insurance Commissioner holds for insurance companies in lieu of surety bonds. These securities are separately classified on the Combined Balance Sheet as Securities Held in Lieu of Surety Bonds. These instruments are recorded in the State's Agency Funds and are not held for investment purposes.

The State sponsors the Local Government Investment Pool (LGIP), an external investment pool reported in the Fiduciary Funds as a separate Investment Trust Fund. The LGIP's complete financial statements may be obtained by writing to the following address:

The State Treasurer's Office
Local Government Investment Pool
Post Office Drawer 11778
Columbia, South Carolina 29211

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 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.

Subsequent to the Association's fiscal year ended December 31, 2000, DOT accepted the roadways and bridges, thereby permitting the Association to commence operations of the Southern Connector. Although toll collection operations began during March 2001, it has not yet been determined that the collection system is working properly. When that determination has been made, the project will be considered substantially complete. The Association will be required to make the monthly license fee payments to DOT beginning the first month after the first anniversary of project completion. Beginning with the fiscal year ending December 31, 2001, the Association will no longer be reported as a development stage enterprise.

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

Notes to the Financial Statements

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:

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

p. Long-Term Obligations

The State records long-term debt of the primary government's governmental funds, including blended governmental component units, 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.

Notes to the Financial Statements

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 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 Equity—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

Notes to the Financial Statements

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.

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. A temporary provision of the State's Appropriation Act allowed agencies to carry forward up to 10.0% of original Budgetary General Fund appropriations from the 1999-2000 fiscal year into the 2000-2001 fiscal year, but this provision was suspended in the 2000-2001 fiscal year to help prevent a budgetary deficit in that year. 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.

Notes to the Financial Statements

- (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) Certain “non-cash” activity, such as food stamp benefits, is recorded as revenue and expenditures in the fiscal year in which the resources are distributed to the beneficiaries.
- (v) All other revenues are recorded only when the State receives the related cash.

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 Appropriation Act for the 2000-2001 fiscal year has approximately 2,980 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 Appropriation Act for the

2000-2001 fiscal year directs the Budget and Control Board to reduce the Budgetary General Fund's appropriations during the year if necessary to prevent a deficit. Likewise, the State Board of Economic Advisors may approve revisions of estimated revenues for the Budgetary General Fund during the year.

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.

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 the 2000-2001 fiscal year, the General Assembly and the Governor approved \$127.218 million of supplemental appropriations from unobligated budgetary surplus funds of the 1999-2000 fiscal year.

d. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2001, the Educational function within Other Budgeted Funds had \$14.491 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 Appropriation Act for the 2000-2001 fiscal year included appropriations of \$6.807 billion for general, school, and highway purposes—\$1.523 billion less than the legal limit.

Notes to the Financial Statements

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, 2001, 38,365 employees were funded by the State's Budgetary General Fund—10,285 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, 2001, were:

GAAP Fund Type	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses						
	Budgetary Balances Classified Into GAAP Fund Structure			Timing Differences	Basis Differences	Entity Differences (Unbudgeted Funds)	GAAP Balances
	Budgetary General Fund	Other Budgeted Funds	Total Budgeted Funds				
General Fund.....	\$ (422,703)	\$ (71,765)	\$ (494,468)	\$ —	\$ 7,613	\$ 42,135	\$ (444,720)
Special Revenue Funds.....	—	10,174	10,174	—	555,663	824,772	1,390,609
Capital Projects Fund.....	—	(1,831)	(1,831)	—	(4,869)	26,317	19,617
Enterprise Funds.....	—	127	127	—	13,698	(35,911)	(22,086)
Internal Service Funds.....	—	(373)	(373)	—	6,286	10,582	16,495
Expendable Trust Funds.....	—	(62)	(62)	—	6	(19,206)	(19,262)
Nonexpendable Trust Fund.....	—	94	94	—	17	5	116
Pension Trust Funds.....	—	(17)	(17)	—	(1)	1,405,087	1,405,069
Investment Trust Fund.....	—	—	—	—	—	149,609	149,609
Agency Funds.....	—	(8,704)	(8,704)	—	8,704	—	—
Higher Education Funds.....	—	14,306	14,306	1,242	34,030	197,540	247,118
Component Unit—Governmental...	—	24,056	24,056	—	576	—	24,632
Component Units—Proprietary.....	—	(5,565)	(5,565)	—	—	89,430	83,865
Totals (Memorandum Only).....	\$ (422,703)	\$ (39,560)	\$ (462,263)	\$ 1,242	\$ 621,723	\$ 2,690,360	\$ 2,851,062

NOTE 3: ACCOUNTING AND REPORTING CHANGES

a. Nonexchange Transactions

Effective July 1, 2000, the State adopted the Governmental Accounting Standards Board's (GASB) Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions* as amended, which changed the basis of accounting for transactions classified as nonexchange (also see Note 1c, Basis of Accounting). The specific effects of that implementation are discussed below.

Effective July 1, 2000, the State began recording taxes receivable and deferred revenue for estimated income taxes associated with January through June taxpayer earnings in situations where the State estimates that the taxpayers will owe the State money when they file their tax returns in April of the

following calendar year. Before July 1, 2000, the State had recognized neither taxes receivable nor deferred revenue in such situations. This change had no effect on fund balances.

In addition, the State now accrues insurance taxes and certain other taxes when the underlying exchange transaction has occurred if the resources are deemed to be available. Previously, the State recorded these taxes on the cash basis. This change resulted in an increase in tax receivables reported at June 30. This change had little effect on fund balances since the majority of these receivables were not available at June 30. This resulted mostly in an increase in deferred revenues rather than in revenues.

The State now has begun recognizing fines and penalties in Governmental Funds in the fiscal year during which an enforceable legal claim has arisen and the resources are deemed available. The State previously recognized revenue from fines and penalties only when it received the related cash. The State recorded an increase in accounts receivable

Notes to the Financial Statements

and in revenue from fines and penalties during the current fiscal year as a result of this change, primarily due to the accrual of court fines. Local governments, acting in the capacity of agents of the State, collect court fines and penalties on or before June 30 that they do not remit to the State until July.

The State shares with its local governments sales tax revenues that it collects and reports within the State's Accommodations and Local Option Sales Tax Fund, a Special Revenue Fund. Although in past years the State had recognized receivables and sales tax revenues for sales transactions that occurred on or before June 30, it did not report a corresponding liability and expenditure to the local governmental entities. Effective July 1, 2000, the State began recording this liability and expenditure.

In addition, effective on July 1, 2000, the State's Higher Education Funds began recognizing receivables and revenues for pledges or promises of assets when all eligibility requirements are met, provided the promises are verifiable and the resources are measurable and probable of collection. In the past, some such pledges had been disclosed but were not recognized until received in cash.

On July 1, 2000, the State began recognizing deferred revenues in Governmental and Expendable Trust Funds in cases where grants receivable are deemed to be measurable but not available. Before July 1, 2000, the State recorded revenue, rather than deferred revenue, in such situations. In connection with, and at the same time as, its implementation of GASB Statement 33, the State changed its availability period for grants from one month to one year. (See Note 21 for additional information regarding this change and related changes planned for the fiscal year ending June 30, 2002.) Almost all grant receivables are available within one year. Accordingly, there was no net cumulative effect on fund equity and no effect on balances for the fiscal year ended June 30, 2001, of the GASB Statement 33 change with respect to grant recognition when combined with the State's change in its availability period for grant transactions.

The State's implementation of GASB Statement 33 resulted in the restatement of fund balances as detailed in subsection b below and resulted in the following increases (decreases) in balances (expressed in thousands) in the State's Governmental Funds for the fiscal year ended June 30, 2001:

	General Fund	Special Revenue Funds	Capital Projects Fund
Assets:			
Receivables, net:			
Taxes.....	\$ 164,290	\$ 8,301	\$ 323
Accounts.....	685	4,095	—
Assets.....	<u>164,975</u>	<u>12,396</u>	<u>323</u>
Liabilities:			
Accounts Payable.....	—	24,376	—
Tax Refunds Payable....	25	5	3
Deferred Revenue.....	160,370	1,043	—
Liabilities.....	<u>160,395</u>	<u>25,424</u>	<u>3</u>
Fund Balances.....	4,580	(13,028)	320
Revenues.....	4,580	11,348	320
Expenditures.....	—	24,376	—

It was not practicable to estimate the quantitative effect of implementing GASB Statement 33 on the balances of the Higher Education Funds for the fiscal year ended June 30, 2001.

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 the State's implementation of GASB Statement 33 as described above and correction of an account balance:

	General Fund	Special Revenue Funds	Capital Projects Fund	Enterprise	Higher Education Funds		
				Funds Retained Earnings	Current Unrestricted	Current Restricted	Endowment
June 30, 2000, fund equity as previously reported.....	\$ 421,436	\$ 1,817,461	\$ 105,214	\$ 249,221	\$ 171,019	\$ 56,019	\$ 124,188
Effect of correction in arbitrage liability, Education Assistance Authority...	—	—	—	(29,568)	—	—	—
Effect of GASB 33 implementation.....	4,348	(20,063)	326	—	1,840	353	963
June 30, 2000, fund equity as restated.....	<u>\$ 425,784</u>	<u>\$ 1,797,398</u>	<u>\$ 105,540</u>	<u>\$ 219,653</u>	<u>\$ 172,859</u>	<u>\$ 56,372</u>	<u>\$ 125,151</u>

The correction in arbitrage liability had no effect on net income for the year ended June 30, 2000.

Notes to 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 component units.

The following display reconciles the details included within this footnote to the Combined Balance Sheet at June 30, 2001 (expressed in thousands):

Combined Balance Sheet	
Cash and cash equivalents.....	\$ 8,365,138
Cash on deposit w/ fiscal agents.....	759,403
Less: Unemployment Compensation Benefits Fund deposits w/ United States Treasury.....	(759,403)
Investments.....	18,861,271
Securities held in lieu of surety bonds.....	368,346
Invested securities lending collateral.....	2,002,178
Restricted assets:	
Cash and cash equivalents.....	459,138
Investments.....	290,921
Total.....	\$ 30,346,992

Disclosure regarding deposits and investments plus reconciling items	
Carrying value of deposits.....	\$ 187,680
Reported amount of investments.....	30,158,165
Cash on hand.....	1,147
Total.....	\$ 30,346,992

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, 2001, the State's deposits (expressed in thousands) were as follows:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Primary government	\$ 344,079	\$ 20,131	\$ 46,020	\$ 410,230	\$ 170,574
Discretely presented component units.....	3,339	260	13,507	17,106	17,106
Totals	\$ 347,418	\$ 20,391	\$ 59,527	\$ 427,336	\$ 187,680

Category 1 deposits are those covered by Federal depository insurance or by collateral held by a State entity or by its agent in the entity's name. Category 2 deposits are collateralized with securities held by the pledging financial institution's trust department or agent in a State entity's name. Category 3 deposits are uncollateralized. All deposits under the control of the State Treasurer are fully insured or collateralized.

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, 2001, the State has classified its investments into three risk categories. Category 1 includes investments that were insured or registered or for which the securities were held by a State entity or its agent in the entity's name. Category 1 also includes investments for which a State entity has safekeeping responsibilities but no equity or ownership interest or control. Category 2 includes uninsured and unregistered investments for which the securities were held by the counterparty's trust department or agent in a State entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a State entity's name. The State's investments by risk category (expressed in thousands) at June 30, 2001, were as follows:

Notes to the Financial Statements

	Category			Reported Amount	Fair Value
	1	2	3		
Primary Government					
U.S. government securities.....	\$ 5,970,088	\$ 310,278	\$ 14,855	\$ 6,295,221	\$ 6,278,035
Corporate bonds.....	8,520,030	29,588	49	8,549,667	8,550,657
Municipal bonds.....	646,954	—	21,881	668,835	666,527
Equity securities.....	2,306,197	3,024	4,720	2,313,941	2,313,941
Repurchase agreements.....	3,715,840	2,833	24,186	3,742,859	3,742,859
Collateralized mortgage obligations.....	633,499	—	—	633,499	633,499
Asset-backed securities.....	463,218	—	—	463,218	463,218
Commercial paper.....	513,992	—	4,601	518,593	518,593
Securities lending program					
Investments from cash collateral					
Corporate bonds.....	—	—	866,310	866,310	866,310
Repurchase agreements.....	—	—	915,796	915,796	915,796
Commercial paper.....	—	—	219,045	219,045	219,045
Other.....	1,212	43,437	10,783	55,432	56,433
Subtotals.....				25,242,416	25,224,913
Not categorized:					
Mutual funds.....				2,226,826	2,226,826
Securities lending program					
U.S. government securities.....				1,672,344	1,672,344
Corporate bonds.....				60,912	60,912
Equity securities.....				182,412	182,412
Unsettled investment transactions.....				76,375	76,375
Totals—primary government.....	\$ 22,771,030	\$ 389,160	\$ 2,082,226	29,461,285	29,443,782
Discretely Presented Component Units					
U.S. government securities.....	\$ 323,021	\$ —	\$ 58,384	381,405	381,405
Repurchase agreements.....	254,410	45,281	15,767	315,458	315,458
Subtotals.....				696,863	696,863
Not categorized:					
Investment in primary government's investment pool.....				3	3
Mutual funds.....				14	14
Totals—discretely presented component units.....	\$ 577,431	\$ 45,281	\$ 74,151	696,880	696,880
Totals—reporting entity.....				\$ 30,158,165	\$ 30,140,662

The State debits its Investments account for investment purchases on the trade date. Investment purchases that were unsettled at June 30 are not

categorized as to risk in the above table unless the counterparty holds a deposit or margin account against them. The unsettled purchase transactions reported in the table above present no custodial risk

Notes to the Financial Statements

because the counterparty holds no deposit or margin account against the securities.

At June 30, 2001, 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, 2001, also primarily in the State's Pension Trust Funds, had an average life of one to three years and a legal final maturity of two to five years. These securities represented an undivided ownership interest in a trust consisting of 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 State's Pension Trust Fund investment portfolios held other asset-backed securities issued by the South Carolina Tobacco Settlement Revenue Management Authority, a blended component unit presented within the State's Special Revenue Funds. These securities are rated Aa3 and have an average life of 4.12 years with a legal final maturity during 2016.

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 \$75.420 million with related unrealized holding gains of \$11.827 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. The Panel may make limited investments in equity securities for the State's Pension Trust Funds. The five-member 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 10.0% of assets for each pension system may be invested in equities annually until a maximum of 40.0% of assets is invested in equities.

The State began investing in equities during the fiscal year ended June 30, 1999. As of June 30, 2001, approximately 20.2% of the assets of the State's Pension Trust Funds were invested in equities.

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, other securities and equities for collateral in the form of cash or other securities. The contracts with the State's custodians require them to indemnify the State if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the State for income distributions by the securities' issuers while the securities are on loan.

The weighted average maturity of the State's collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2001. At June 30, 2001, 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, 2001, 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, 2001, was in the form of securities. The market value of the required collateral must meet or exceed 102.0% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. During the fiscal year ended June 30, 2001, the State met the 102.0% requirement. The State cannot pledge or sell collateral securities unless the borrower defaults. The lending agent, on behalf of the State, invests cash collateral received. Accordingly, at June 30, 2001, 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, 2001, the fair value of the State's securities on loan was \$1.916 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.

Notes to the Financial Statements

NOTE 5: TAXES RECEIVABLE

Taxes receivable (expressed in thousands) at June 30, 2001, were:

	General Fund	Special Revenue Funds	Capital Projects Fund	Trust and Agency Funds
Retail sales and use...	\$ 219,084	\$ 81,346	\$ —	\$ —
Individual income.....	315,125	—	—	—
Corporate income.....	12,834	—	—	—
Unemployment.....	—	—	—	34,024
Gasoline and motor vehicle.....	609	32,257	—	5,651
Alcoholic beverages and tobacco.....	15,976	—	—	—
Other.....	77,523	52,491	323	2,627
Gross taxes receivable.....	641,151	166,094	323	42,302
Less: Allow ance for uncollectible taxes..	58,159	4,892	—	69
Net taxes receivable.....	\$ 582,992	\$ 161,202	\$ 323	\$ 42,233

A total of \$466.627 million in net taxes receivable pertaining to the General Fund and Special Revenue Funds were current receivables as of June 30, 2001, and were collected within thirty days after that date.

NOTE 6: FIXED ASSETS

Property, plant, and equipment (expressed in thousands) at June 30, 2001, consisted of:

	Primary Government					
	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Higher Education	Component Units
Land and improvements.....	\$ 20,068	\$ 6,676	\$ 582	\$ 209,612	\$ 147,325	\$ 260,634
Buildings, improvements, and utility plant.....	4,017	178,478	4,749	1,173,950	2,374,897	3,698,226
Machinery, equipment, and other.....	15,409	129,346	4	1,097,731	853,992	75,751
Construction in progress.....	1,032	5,124	—	66,071	197,092	445,022
Property, plant and equipment before accumulated depreciation.....	40,526	319,624	5,335	2,547,364	3,573,306	4,479,633
Less: accumulated depreciation.....	(12,603)	(140,183)	(1,046)	—	(170,527)	(1,610,835)
Total property, plant and equipment, net.....	\$ 27,923	\$ 179,441	\$ 4,289	\$ 2,547,364	\$ 3,402,779	\$ 2,868,798

Notes to the Financial Statements

Changes in general fixed assets (expressed in thousands) for the fiscal year ended June 30, 2001, were:

	July 1, 2000			June 30, 2001
	Balances	Additions	Retirements	Balances
Land and improvements...	\$ 200,907	\$ 8,965	\$ 260	\$ 209,612
Buildings, improvements and utility plant.....	1,120,598	60,128	6,776	1,173,950
Machinery, equipment, and other.....	1,083,007	104,180	89,456	1,097,731
Construction in progress..	60,271	65,571	59,771	66,071
Total General Fixed Assets.....	\$ 2,464,783	\$ 238,844	\$ 156,263	\$ 2,547,364

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, 2001, totaled \$798.426 million for the primary government. Outstanding commitments for construction of such assets for discretely presented component units were as follows: \$108.605 million for the Public Service Authority at December 31, 2000; \$11.271 million for the State Ports Authority at June 30, 2001; and \$12.714 million for the Connector 2000 Association, Inc., at December 31, 2000.

At June 30, 2001, 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 \$11.406 million.

The primary government recorded capitalized construction period interest of \$1.792 million during the fiscal year ended June 30, 2001. The Connector 2000 Association, Inc., a discretely presented component unit, recorded capitalized construction period interest of \$8.846 million during its fiscal year ended December 31, 2000.

During the fiscal year ended June 30, 2001, certain higher education institutions entered into commitments to sell land totaling \$14.456 million. One higher education institution also entered into a commitment to purchase land and buildings totaling \$3.813 million. These transactions are expected to occur during the fiscal year ending June 30, 2002.

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 twenty-eight years of service at any age receive an annual benefit, payable monthly, for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 1.82% of average final compensation times years of service. Reduced benefits are payable as early as age fifty-five.

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

Notes to the Financial Statements

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, 2001, is as follows:

	SCRS	PORS	GARS	JSRS
State and school.....	100	1	1	1
Other.....	528	253	—	—
Total participating employers.....	628	254	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 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, 2001, 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, 2001, were as follows:

Plan	Rate
SCRS	7.70%
PORS	10.70%
JSRS	41.56%
GARS	66.63%

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, 2001, were \$2.613 million for SCRS and \$106 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.....	\$2,510	\$5,875
Employer contributions made.....	\$2,510	\$5,875
Actuarial valuation date.....	July 1, 2000	July 1, 2000
Actuarial cost method.....	Entry age	Entry age
Amortization method.....	Level percent, closed	Level percent, open
Remaining amortization period.....	24 years	29 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, 2001		June 30, 2000		June 30, 1999	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS—State:						
Primary government.....	\$ 176,045	100%	\$ 164,900	100%	\$ 155,644	100%
Component units.....	8,808	100%	8,244	100%	7,675	100%
PORS—State:						
Primary government.....	\$ 40,079	100%	\$ 33,331	100%	\$ 30,892	100%
Component units.....	21	100%	20	100%	18	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	1999	\$ 2,768	100%	\$ —
	2000	2,636	100%	—
	2001	2,510	100%	—
JSRS	1999	\$ 5,485	100%	\$ —
	2000	5,659	100%	—
	2001	5,875	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 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	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%
	2000	40,730	64,616	23,886	63.0%	4,858	491.7%
JSRS	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%
	2000	87,536	144,631	57,095	60.5%	13,214	432.1%

Notes to the Financial Statements

f. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at

June 30, 2001, for the four plans administered by the South Carolina Retirement Systems were as follows:

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
Receivables:					
Contributions.....	\$ 107,192	\$ 12,005	\$ 52	\$ 372	\$ 119,621
Employer long-term.....	2,613	106	—	—	2,719
Accrued interest.....	177,580	19,257	440	947	198,224
Unsettled investment sales....	51,674	2,349	47	100	54,170
Due from other funds.....	16,696	3,912	2	64	20,674
Total receivables.....	<u>\$ 355,755</u>	<u>\$ 37,629</u>	<u>\$ 541</u>	<u>\$ 1,483</u>	<u>\$ 395,408</u>
Investments:					
United States government securities.....	\$ 2,461,850	\$ 262,434	\$ 8,748	\$ 3,850	\$ 2,736,882
United States government agencies and government-insured securities.....	2,704,043	317,581	6,333	23,333	3,051,290
Corporate bonds.....	4,434,319	478,638	11,644	24,895	4,949,496
Financial and other.....	2,558,734	295,621	4,602	9,706	2,868,663
Equities.....	4,117,697	477,918	9,654	20,712	4,625,981
Invested securities lending collateral.....	1,505,119	171,390	9,437	6,031	1,691,977
Total investments.....	<u>\$ 17,781,762</u>	<u>\$ 2,003,582</u>	<u>\$ 50,418</u>	<u>\$ 88,527</u>	<u>\$ 19,924,289</u>

g. Teacher and Employee Retention Incentive Program

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

TERI participants retain the same status and employment rights they held upon entering the program but are not considered active employees for purposes of the group life insurance and disability retirement programs. A TERI retiree's monthly benefits are accrued and remain in the SCRS trust account during the TERI participation period, but no interest is accrued or paid thereon. Upon termination of employment or at the end of the TERI participation period (whichever is earlier), a retiree

may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution.

A total of 5,883 members were participating in the TERI program at June 30, 2001. The financial activity of the program (dollars expressed in thousands) during the fiscal year ended June 30, 2001, was as follows:

Beginning balance	\$ —
Additions	56,487
TERI distributions at termination.....	(1,843)
Ending balance.....	<u>\$ 54,644</u>

Notes to the Financial Statements

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.

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

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

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

Receivables and Investments

The assets of the NGPS consist of Cash and Cash Equivalents and Accounts Receivable. At June 30, 2001, all of the \$154 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, 2001, was \$9.930 million.

Funding Policy and Annual Pension Cost

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

	<u>NGPS</u>
Annual pension cost.....	\$2,947
Employer contributions made.....	\$2,474
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, 2001 (expressed in thousands):

	<u>NGPS</u>
Actuarially required contribution (ARC).....	\$ 2,996
Interest on the NPO.....	352
Adjustment to the ARC.....	(401)
Annual pension cost.....	<u>2,947</u>
Contributions made.....	<u>2,474</u>
Increase in NPO.....	473
NPO beginning of year.....	4,860
NPO end of year.....	<u>\$ 5,333</u>

The State recognized \$2.474 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

Biennial Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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
1999	\$ 3,164	79.0%	\$ 4,202
2000	3,157	79.2%	4,860
2001	2,947	84.0%	5,333

i. Defined Contribution Plans

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.

Public school teachers and administrators hired on or after July 1, 2000, have the option of participating in the State Optional Retirement Program (State ORP). The requirements for entry into the State ORP are the same as for entry into the ORP for eligible employees.

Under State law, contributions to the ORP or the State ORP are required at the same rates as for the SCRS (see Section b, Funding Policies). Covered payroll amounts as well as the amounts of actual employer and employee contributions to the ORP and State ORP are summarized in the following schedule (dollars expressed in thousands) for the fiscal year ended June 30, 2001:

	ORP	State ORP
Covered payroll.....	\$ 193,200	\$ 23,800
Employee contributions.....	11,600	1,400
Employer contributions.....	9,700	1,200

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

Notes to the Financial Statements

system. Currently, approximately 22,000 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. For the period July 1 through December 31, 2000, the Standard Plan paid 85.0% of allowable claims in excess of deductibles, and the Economy Plan paid 80.0% of allowable claims in excess of deductibles. Beginning January 1, 2001, payment rates changed to 80.0% and 75.0% of claims in excess of deductibles, respectively. Participants pay co-payments for prescription drugs. The State pays 100.0% of allowable claims after the participant has paid the specified 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. Additionally, effective January 1, 2001, the annual deductibles were increased.

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, 2001, the State recognized expenses (net of participant contributions) of

\$94,507 million to provide health and dental benefits to State participants in post-employment status. The decrease in plan expense for the fiscal year ended June 30, 2001, attributable to the above-described changes in benefits, which occurred effective January 1, 2001, could not be estimated. Post employment benefits expense experienced a *net increase* of approximately \$12,000 million over the previous year; without the plan changes described above, that net increase would have been greater.

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				Component Units	Totals
	Internal Service Funds	General Long-Term Obligations Account Group	Higher Education Funds			
2002	\$ 487	\$ 3,039	\$ 7,319	\$ 4,003	\$ 14,848	
2003	487	1,533	6,496	3,995	12,511	
2004	487	1,389	5,539	3,853	11,268	
2005	487	1,341	4,885	3,742	10,455	
2006	487	1,293	4,540	3,614	9,934	
2007 and after	729	—	50,214	18,701	69,644	
Total minimum payments.....	3,164	8,595	78,993	37,908	128,660	
Less: interest and executory costs.....	(628)	(1,089)	(31,211)	(7,982)	(40,910)	
Present value of net minimum payments.....	\$ 2,536	\$ 7,506	\$ 47,782	\$ 29,926	\$ 87,750	

Assets under capital leases at June 30, 2001, were as follows (expressed in thousands):

Notes to the Financial Statements

	Primary Government				Totals
	Internal Service Funds	General Long-Term Obligations Account Group	Higher Education Funds	Component Units	
Assets Acquired Under Capital Leases					
Land and improvements.....	\$ —	\$ —	\$ 5,479	\$ —	\$ 5,479
Buildings, improvements, and utility plant.....	5,231	—	52,703	96,556	154,490
Machinery, equipment, and other.....	—	17,209	16,749	228	34,186
Assets acquired under capital leases before accumulated amortization.....	5,231	17,209	74,931	96,784	194,155
Less: accumulated amortization.....	(1,412)	—	(7,327)	(73,271)	(82,010)
Assets acquired under capital leases, net.....	\$ 3,819	\$ 17,209	\$ 67,604	\$ 23,513	\$ 112,145

Operating lease payments during the fiscal year ended June 30, 2001, totaled \$85.414 million. At June 30, 2001, future minimum payments under operating leases (expressed in thousands) were as follows:

Fiscal Year Ending June 30	Operating Leases		
	Primary Government	Component Units	Totals
2002	\$ 38,540	\$ 3,706	\$ 42,246
2003	33,228	3,327	36,555
2004	25,736	2,944	28,680
2005	15,989	95	16,084
2006	7,199	7	7,206
2007 and after	23,682	—	23,682
Total minimum payments....	\$ 144,374	\$ 10,079	\$ 154,453

Fiscal Year Ending June 30	Enterprise Funds	Component Unit
2002	\$ 581	\$ 22,595
2003	568	16,315
2004	557	15,842
2005	551	9,632
2006	547	594
2007 and after	13,729	2,632
Total.....	\$ 16,533	\$ 67,610

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, 2001, the State Ports Authority had leased to others certain land and facilities having a cost of approximately \$326.003 million and \$99.777 million of related accumulated depreciation. At June 30, 2001, the total cost of land and improvements leased to others by the Enterprise Funds was \$9.420 million, with \$835 thousand of related accumulated depreciation. Future minimum rental payments to be received at June 30, 2001, under these operating leases (expressed in thousands) were:

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, 2001, were:

Notes to the Financial Statements

General Long-Term Obligations Account Group

Capital improvement bonds, 3.50% to 6.20%.....	\$ 893,941
State highway bonds, 3.50% to 6.50%.....	672,135
State school facilities bonds, 3.50% to 5.75%.....	488,450
Subtotal—General Long-Term Obligations	
Account Group.....	<u>2,054,526</u>

Higher Education Funds

State institution bonds, 4.25% to 7.00%.....	96,310
Total—general obligation bonds payable.....	<u>\$ 2,150,836</u>

Of the \$893.941 million in outstanding capital improvement bonds, \$27.415 million are capital appreciation (deep-discount) bonds.

At June 30, 2001, \$325.264 million of capital improvement bonds were authorized but unissued.

At June 30, 2001, future debt service requirements (expressed in thousands) for general obligation bonds were:

Year Ending June 30	Principal	Interest	Totals
2002	\$ 146,715	\$ 103,786	\$ 250,501
2003	164,157	96,381	260,538
2004	147,080	88,486	235,566
2005	159,628	80,721	240,349
2006	152,594	72,893	225,487
2007 and after	1,390,424	399,025	1,789,449
Total debt service requirements.....	<u>2,160,598</u>	<u>\$ 841,292</u>	<u>\$ 3,001,890</u>
Unamortized discounts....	(9,762)		
Total principal outstanding.....	<u>\$ 2,150,836</u>		

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, 2001, was \$9.878 million in total for all institution bonds, \$21.496 million for highway bonds, and \$52.753 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, 2001, were:

Internal Service Funds

Lease revenue bonds, 4.00% to 6.10%.....	\$ 34,003
--	-----------

At June 30, 2001, 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, 2001, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Principal	Interest	Totals
2002	\$ 3,425	\$ 1,623	\$ 5,048
2003	3,575	1,448	5,023
2004	3,755	1,285	5,040
2005	3,930	1,111	5,041
2006	4,120	924	5,044
2007 and after	15,350	3,030	18,380
Total debt service requirements.....	<u>34,155</u>	<u>\$ 9,421</u>	<u>\$ 43,576</u>
Unamortized discounts.....	(152)		
Total principal outstanding.....	<u>\$ 34,003</u>		

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

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

Revenue, Tobacco Settlement Revenue Management Authority (Tobacco Authority), and Infrastructure Bank bonds, notes, and certificates of participation are not backed by the full faith, credit, and taxing power of the State. Revenue, Tobacco Authority, and Infrastructure Bank bonds, notes, and certificates of participation outstanding (expressed in thousands) at June 30, 2001, were:

Notes to the Financial Statements

	Bonds	Notes	Certificates of Participation
Primary Government:			
Enterprise Funds			
Housing Authority bonds, 3.50% to 8.30%.....	\$ 505,506	\$ —	\$ —
Education Assistance Authority bonds, 3.50% to 6.63%.....	426,220	—	—
Jobs—Economic Development Authority notes, 8.75% to 9.00%.....	—	131	—
Other Enterprise notes, 6.00%.....	—	21	—
Totals—Enterprise Funds.....	931,726	152	—
Internal Service Funds			
Budget and Control Board notes, 3.74% to 4.91%.....	—	6,056	—
General Long-Term Obligations Account Group			
Tobacco Authority bonds, 6.38% to 7.67%.....	934,530	—	—
Infrastructure Bank bonds, 4.45% to 6.00%.....	832,575	—	—
Educational Television Network note, 3.92%.....	—	111	—
Deaf and Blind School note, 4.59%.....	—	160	—
Natural Resources Department note, 4.59%.....	—	699	—
Totals—General Long-Term Obligations Account Group.....	1,767,105	970	—
Higher Education Funds			
Various bonds and notes, 3.40% to 9.00%.....	351,858	77,625	—
Direct note obligations, 5.70% to 6.82%.....	—	98,926	—
Certificates of participation, 5.60% to 7.50%.....	—	—	19,010
Totals—Higher Education Funds.....	351,858	176,551	19,010
Totals—Primary Government.....	3,050,689	183,729	19,010
Discretely Presented Component Units:			
Public Service Authority bonds, 4.00% to 7.42%.....	1,992,561	—	—
State Ports Authority bonds, 2.90% to 6.20%.....	151,563	—	—
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%.....	222,353	—	—
Totals—Discretely Presented Component Units.....	2,366,477	—	—
Totals—revenue bonds, notes, and certificates of participation payable.....	\$ 5,417,166	\$ 183,729	\$ 19,010

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 \$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 thirty-five 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 1994 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, 2001, total interest costs incurred were \$6.759 million.

The funds that receive the proceeds of revenue, Tobacco Authority, 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

- Tobacco Authority bonds: Tobacco settlement revenues
- Infrastructure Bank bonds: Transportation Infrastructure Bank revenues
- Educational Television Network note: sale of goods and services
- 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 revenues
- State Ports Authority bonds: State Ports Authority revenues
- Connector 2000 Association, Inc., bonds: investment earnings during the development stage and toll revenues once toll operations commence

At June 30, 2001, future debt service requirements (expressed in thousands) for revenue, Tobacco Authority, and Infrastructure Bank bonds, notes, and certificates of participation were:

Notes to the Financial Statements

Primary Government:

Year Ending June 30	Principal	Interest	Totals
2002	\$ 104,651	\$ 176,352	\$ 281,003
2003	91,219	173,677	264,896
2004	86,521	168,497	255,018
2005	84,912	164,375	249,287
2006	120,155	158,413	278,568
2007 and after	2,776,152	1,978,562	4,754,714
Total debt service requirements.....	3,263,610	\$ 2,819,876	\$ 6,083,486
Unamortized discounts.....	(4,531)		
Deferred amount on refunding...	(5,651)		
Total principal outstanding...	\$ 3,253,428		

Discretely Presented Component Units:

Year Ending June 30	Principal	Interest	Totals
2002	\$ 68,075	\$ 135,652	\$ 203,727
2003	72,570	131,365	203,935
2004	89,520	127,169	216,689
2005	78,660	122,091	200,751
2006	55,400	118,653	174,053
2007 and after	2,289,813	1,970,211	4,260,024
Total debt service requirements.....	2,654,038	\$ 2,605,141	\$ 5,259,179
Unamortized discounts.....	(39,866)		
Deferred amount on refunding...	(247,695)		
Total principal outstanding...	\$ 2,366,477		

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, 2000, the carrying value of the Public Service Authority's debt was \$2.308 billion while the fair value was approximately \$2.350 billion. At June 30, 2001, the carrying value of the State Ports Authority debt was \$151.036 million while the fair value was approximately \$154.450 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 \$372 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.

e. Defeased Bonds

During June 2001, the Education Assistance Authority, an entity reported in the Enterprise Funds, issued \$49.200 million in Guaranteed Student Loan Revenue and Refunding Bonds with an auction interest rate varying up to 12.00% to advance refund \$19.200 million in Student Loan Revenue Bonds with an average interest rate of 5.50% and to provide financing for student loans. The net proceeds of \$19.200 million (after payment of \$329 thousand for issuance costs and \$29.671 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 \$31 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 ten years by \$4.414 million and results in an economic loss (difference between the present values of the old and new debt service payments) of \$114 thousand.

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, 2001, the following outstanding bonds (expressed in thousands) are considered defeased:

	Primary Government		
	Enterprise Funds	Higher Education Funds	Component Units
Education Assistance Authority bonds.....	\$ 19,200	\$ —	\$ —
Public Service Authority bonds.....	—	—	702,695
Other.....	—	22,719	—
Totals.....	\$ 19,200	\$ 22,719	\$ 702,695

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.

Notes to the Financial Statements

f. Arbitrage Rebate Payable

The Internal Revenue Code and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. The Education Assistance Authority, an entity reported in the Enterprise Funds, and certain universities reported in the Higher Education Funds have incurred arbitrage rebate liabilities in connection with student loan and university revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 2001, have been recorded as Other Long-Term Liabilities of \$38.578 million in the Enterprise Funds, and as Other Liabilities of \$153 thousand in the Higher Education Funds.

g. Conduit Debt

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

The 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, 2001, the outstanding balance of bonds issued after June 30, 1995, was \$1.334 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, 2001, the outstanding balance of bonds issued was \$214.081 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, 2001, the outstanding balance of bonds issued was \$118.038 million.

h. 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 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, 2001, was \$22.545 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, 2001, the system was partially operating and producing some revenue but construction had not been completed. The State paid a total of \$2.567 million in the 1993-1994 through 1999-2000 fiscal years, and \$420 thousand in the 2000-2001 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated \$400 thousand in the 2001-2002 fiscal year to be used, if needed, to offset the loss of revenues from the delinquent local entity.

i. Commercial Paper Notes

The Public Service Authority, a discretely presented proprietary component unit, has recorded a \$331.578 million liability for Commercial Paper Notes at its fiscal year ended December 31, 2000. The paper is issued for valid corporate purposes with a term not to exceed 270 days. The Authority has a \$425.000 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, 2000.

j. Subsequent Events

Since June 30, 2001, the State's primary government has issued \$34.000 million of State institution general obligation bonds and \$63.455 million of revenue bonds. Of the total revenue bonds, \$8.180 million of bonds were issued to refund prior bond issues. The primary government also has issued \$16.282 million of revenue notes. The Public Service Authority, a discretely presented component unit, has issued \$7.650 million of commercial paper notes and \$54.890 million of revenue bonds. Of the total revenue bonds, \$8.605 million were issued to refund a prior bond issue.

The State's primary government plans to issue \$11.250 million in State institution general obligation bonds prior to December 31.

Notes to the Financial Statements

NOTE 11: CHANGES IN GENERAL LONG-TERM OBLIGATIONS

Changes in general long-term obligations (expressed in thousands) for the fiscal year ended June 30, 2001, were:

	Balances at July 1, 2000	Increases	Decreases	Balances at June 30, 2001
Intergovernmental payables.....	\$ 6,110	\$ —	\$ (1,400)	\$ 4,710
Policy claims.....	4,616	6,299	(4,183)	6,732
Notes payable.....	1,414	111	(555)	970
General obligation bonds payable....	1,392,192	788,147	(125,813)	2,054,526
Tobacco Authority bonds payable....	—	934,530	—	934,530
Infrastructure Bank bonds payable.....	574,275	268,810	(10,510)	832,575
Capital lease and installment debt obligations payable.....	9,812	676	(2,982)	7,506
Compensated absences payable..	195,758	94,201	(104,065)	185,894
Other liabilities.....	21,114	18,250	(5,985)	33,379
Totals.....	\$ 2,205,291	\$ 2,111,024	\$ (255,493)	\$ 4,060,822

The majority of Other Liabilities consists of claims and judgments payable and the National Guard Pension System Net Pension Obligation. The increase of \$788.147 million for General Obligation Bonds Payable includes \$1.560 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, 2001, were:

Fund Type/Fund	Due From	Due To	Interfund Receivables	Interfund Payables	Advances To	Advances From
General						
General Fund.....	\$ 67,062	\$ 93,383	\$ 12,656	\$ —	\$ 6,650	\$ 2,050
Less: eliminations.....	(67,053)	(67,053)	—	—	—	—
Adjusted General Fund.....	9	26,330	12,656	—	6,650	2,050
Special Revenue						
Departmental General Operating Fund.....	20,117	55,552	150	10,615	400	—
Education Improvement Act Fund.....	21,121	1,664	—	350	—	—
Children's Education Endowment Fund.....	8	—	—	—	—	—
Repair, Maintenance, and Renovation Fund.....	3,805	10	—	—	—	—
Waste Management Fund.....	1,265	183	—	—	—	—
Department of Transportation Special Revenue Fund..	38,123	199,494	—	—	2,050	—
Local Government Infrastructure Fund.....	212,972	6,699	—	—	—	—
Accommodations and Local Option Sales Tax Fund....	217	168	—	—	—	—
Medicaid Expansion Fund.....	—	201	—	—	—	—
State Tobacco Settlement Fund.....	—	12,195	—	—	—	—
Other Special Revenue Funds.....	8,246	3,863	69	618	—	2,912
Less: eliminations.....	(268,470)	(268,470)	(219)	(219)	—	—
Adjusted Special Revenue Funds.....	37,404	11,559	—	11,364	2,450	2,912
Capital Projects						
Capital Projects Fund.....	1,669	2,636	—	—	—	—
Less: eliminations.....	(52)	(52)	—	—	—	—
Adjusted Capital Projects Fund.....	1,617	2,584	—	—	—	—
Enterprise						
Housing Authority Fund.....	—	14	—	—	—	—
Education Assistance Authority Fund.....	—	9	—	—	—	—
Second Injury Fund.....	—	581	—	—	—	—
Patriots Point Development Authority Fund.....	—	17	—	—	—	—
Other Enterprise Funds.....	5	70	—	—	—	17,270
Less: eliminations.....	(5)	(5)	—	—	—	—
Adjusted Enterprise Funds.....	—	686	—	—	—	17,270

Notes to the Financial Statements

Fund Type/Fund	Due From	Due To	Interfund Receivables	Interfund Payables	Advances To	Advances From
Internal Service						
Insurance Reserve Fund.....	\$ 5,426	\$ 277	\$ 915	\$ —	\$ 21,353	\$ —
Health and Disability Insurance Fund.....	21,264	105	—	—	—	—
State Accident Fund.....	644	10	—	—	—	—
General Services Fund.....	6,700	1,059	—	949	—	6,878
Central Supplies and Equipment Fund.....	573	23	—	1,000	—	—
Motor Pool Fund.....	1,325	549	—	—	—	—
Pension Administration Fund.....	—	355	—	—	—	—
Prison Industries Fund.....	1,004	257	—	—	—	—
Other Internal Service Funds.....	25	5,204	9	9	—	—
Less: eliminations.....	(7,839)	(7,839)	(924)	(924)	(1,171)	(1,171)
Adjusted Internal Service Funds.....	29,122	—	—	1,034	20,182	5,707
Trust and Agency						
Expendable Trust:						
Unemployment Compensation Benefits Fund.....	6	454	—	—	—	—
Pension Trust:						
South Carolina Retirement System.....	16,696	20,879	—	—	—	—
Police Officers' Retirement System.....	3,912	738	—	—	—	—
General Assembly Retirement System.....	2	—	—	—	—	—
Judges' and Solicitors' Retirement System.....	64	—	—	—	—	—
National Guard Pension System.....	—	25	—	—	—	—
Agency Funds:						
Federal Interfund Activity Fund.....	8	1,952	—	—	—	—
Payroll Clearing Fund.....	51,781	11,214	—	—	—	—
Other Agency Funds.....	5,033	73,842	—	—	—	—
Less: eliminations.....	(54,577)	(54,577)	—	—	—	—
Adjusted Trust and Agency Funds.....	22,925	54,527	—	—	—	—
Higher Education						
Unrestricted Current Funds.....	10,858	4,700	—	—	—	—
Restricted Current Funds.....	2,064	4,771	—	—	—	—
Loan Funds.....	1	—	—	—	—	—
Endowment and Similar Funds.....	—	—	—	—	595	—
Unexpended Plant Funds.....	1,155	—	—	—	—	480
Retirement of Indebtedness Funds.....	—	—	—	—	480	—
Investment in Plant Funds.....	—	—	—	258	—	30,393
Agency Funds.....	2	—	—	—	—	—
Foundations and Institutes.....	—	—	—	—	28,455	—
Less: eliminations.....	(1,149)	(1,149)	—	—	(29,530)	(29,530)
Adjusted Higher Education Funds.....	12,931	8,322	—	258	—	1,343
Totals—Primary Government.....	\$ 104,008	\$ 104,008	\$ 12,656	\$ 12,656	\$ 29,282	\$ 29,282

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, 2001, were:

Receivable Primary Government Fund	Payable Component Unit	Amount (Thousands)
General Fund.....	First Steps to School Readiness....	\$ 15
Departmental General Operating Fund.....	First Steps to School Readiness....	49
State Accident Fund.....	First Steps to School Readiness....	1
General Services Fund.....	First Steps to School Readiness....	3
Motor Pool Fund.....	First Steps to School Readiness....	2
Payroll Clearing Fund.....	First Steps to School Readiness....	23
Higher Education—Unrestricted Current Funds.....	First Steps to School Readiness....	5
Total.....		\$ 98

Notes to the Financial Statements

Receivable Component Unit	Payable Primary Government Fund	Amount (Thousands)
First Steps to School		
Readiness.....	Education Improvement Act Fund.....	\$ 19
Total.....		\$ 19

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

Transfers From Component Units exceed Transfers To Primary Government by \$719 thousand because the Public Service Authority, a discretely presented component unit, reports using a fiscal year ending December 31. The \$719 thousand difference represents Transfers From Component Units to the General Fund for the fiscal year ended June 30, 2001, less Transfers To Primary Government from the Public Service Authority for its fiscal year ended December 31, 2000.

d. Inequality of Residual Equity Transfers In and Out

Residual Equity Transfers Out of \$592 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.

Residual Equity Transfers Out of \$260.525 million in the Higher Education Funds were recorded as additions to Contributed Capital, net of accumulated depreciation, in the Foundations and Institutes Higher Education Fund. This represents the transfer of all assets, liabilities, and fund balances from the Medical University of South Carolina Medical Center to the Medical University Hospital Authority. Due to a large Bonds Payable liability in the Unexpended Plant Fund, the balance

shown for the transfer out in that fund is a positive amount.

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, 2001, the \$258.037 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. The \$10.005 million balance of Reserved Retained Earnings in the Higher Education Funds consisted of reservations required by financing agreements and bond indentures of a component unit of the Medical University of South Carolina reported within the Higher Education Foundations and Institutes Fund.

b. Primary Government—Reserved and Designated Fund Balances

At June 30, 2001, the following amounts of fund balance (expressed in thousands) were reserved or designated:

Notes to the Financial Statements

	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>Higher Education</u>
Fund balances reserved for:				
Pension and other benefits	\$ —	\$ —	\$ 21,868,771	\$ —
External investment pool participants	—	—	1,201,784	—
Restricted fund balance	—	—	—	170,310
Federal government grants refundable	—	—	—	50,480
General fund reserve	60,523	—	—	—
Inventories	12,784	14,164	—	—
Advances to other funds	6,650	2,450	—	—
Appropriations to be carried forward	56,160	—	—	—
Endowment and similar funds	—	—	1,766	65,838
Long-term loans and notes receivable	46	531,408	—	—
Debt requirements	—	313,343	—	11,118
School building aid	16,916	14,080	—	—
Encumbrances	—	—	—	1,242
Other special purposes	—	—	—	23,782
Total reserved fund balances.....	\$ 153,079	\$ 875,445	\$ 23,072,321	\$ 322,770

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Higher Education</u>
Unreserved fund balances designated for:			
Capital expenditures	\$ 321,609	\$ 125,157	\$ —
Loan funds	—	—	2,888
Scholarships	22,900	—	—
Endowment and similar funds	—	—	66,406
Plant funds	—	—	69,693
Special purposes	—	—	7,760
Total unreserved, designated fund balances.....	\$ 344,509	\$ 125,157	\$ 146,747

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 \$21.073 billion reserved for pension, group life, and accidental death benefits. It also includes \$796.140 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 appropriated nor expended and to reflect the State's ongoing responsibility to lend the resources only in accordance with applicable Federal program guidelines.

Notes to the Financial Statements

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, 2000, the Reserve's balance was \$145.371 million, \$2.545 million below the full-funding amount. In November 2000, \$2.545 million was added to the Reserve to bring its balance to \$147.916 million. At the end of the 2000-2001 fiscal year, the State withdrew \$87.393 million from the Reserve to avoid a year-end negative unreserved fund balance on the budgetary basis. At June 30, 2001, the Reserve's balance was \$60.523 million, \$89.679 million below the full-funding amount of \$150.202 million. In accordance with the Appropriation Act for the 2001-2002 fiscal year, the State added \$2.286 million to the Reserve in July 2001. This brought the Reserve's balance to \$62.809 million.

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 component units of the Medical University of South Carolina.

The South Carolina Transportation Infrastructure Bank and the Tobacco Settlement Revenue Management Authority, reported within the State's Special Revenue Funds, each 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 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.

Notes to the Financial Statements

Designated for Scholarships

Of the amount reported as Designated for Scholarships in the Special Revenue Funds, \$22.898 million is to be used for the Teacher Loan Program. The program makes loans to students to 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 \$2 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.

NOTE 14: RELATED PARTY TRANSACTIONS

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

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.; Technical College of the Lowcountry Foundation, Inc.; Northeastern Technical College Foundation; Central Carolina Technical College Foundation; Denmark Technical College Foundation; Florence-Darlington Technical College Education Foundation; Horry-Georgetown Technical College Foundation; Greenville Technical Foundation, Inc.; Midlands Technical College Foundation; Orangeburg-Calhoun Technical College Foundation; Piedmont Technical College Foundation; Spartanburg Technical College Education Foundation, Inc.; Tri-County Technical College Foundation; Trident Technical College Foundation; Williamsburg Technical College Foundation; York Technical College Foundation, Inc.; 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 \$832.222 million. During the fiscal year ended June 30, 2001, 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—\$60.254 million; donations of cash and other assets from foundations—\$55.899 million; expenditures paid to foundations—\$3.813 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$3.643 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, 2001, EAA entered into various transactions with SLC. Approximate amounts within the State's Enterprise Funds that represent these transactions include: accounts receivable from SLC—\$5.349 million; notes receivable from SLC—\$240.917 million; program revenue from SLC—\$33.669 million; accounts payable to SLC—\$12.907 million; and reimbursements to SLC for administrative costs—\$6.768 million.

During the fiscal year ended June 30, 2001, the Educational Television Endowment of South Carolina, Inc., disbursed \$9.003 million on behalf of the State for programs, development, advertising, and other costs.

Notes to the Financial Statements

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, 2001, JEDA paid CCIC \$293 thousand for management and administrative expenses and incurred payables to CCIC of \$168 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 (\$200 thousand as of November 2000) per incident or in excess of \$300 thousand (\$600 thousand as of November 2000) 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, 2001, follows:

	Housing Authority	Education Assistance Authority	Jobs—Economic Development Authority	Patients' Compen- sation	Other	Totals
Operating revenues.....	\$ 53,720	\$ 49,973	\$ 844	\$ 34,735	\$ 26,041	\$ 165,313
Depreciation and amortization expense.....	454	160	—	3	880	1,497
Operating income (loss).....	11,666	17,842	(3,835)	(48,090)	2,015	(20,402)
Federal revenue.....	38,116	—	—	—	—	38,116
Operating transfers in.....	—	—	125	—	—	125
Operating transfers out.....	—	—	—	—	(197)	(197)
Extraordinary loss.....	(372)	—	—	—	—	(372)
Net income (loss).....	14,717	10,869	(3,559)	(48,090)	3,977	(22,086)
Property, plant, and equipment:						
Additions.....	187	35	—	1	2,506	2,729
Retirements.....	(164)	(13)	—	—	(552)	(729)
Net working capital.....	139,636	373,449	3,794	3,429	23,591	543,899
Total assets.....	731,675	602,267	8,097	13,123	132,950	1,488,112
Bonds and other long-term liabilities payable from operating revenues..	493,996	471,619	52	152,901	17,289	1,135,857
Total fund equity (deficit).....	200,243	108,770	6,117	(149,470)	53,010	218,670

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 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, 2001, follows:

Notes to the Financial Statements

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Savannah Lakes Regional Loan Fund	Totals
Operating revenues.....	\$ 862,415	\$ 104,655	\$ —	\$ 8	\$ 967,078
Depreciation and amortization expense.....	116,539	18,913	—	—	135,452
Operating income.....	209,610	18,795	—	4	228,409
Transfers from primary government....	—	11,179	—	—	11,179
Transfers to primary government.....	(8,497)	—	—	—	(8,497)
Net income (loss).....	66,320	18,394	(876)	27	83,865
Property, plant, and equipment:					
Additions.....	253,952	50,411	—	—	304,363
Retirements.....	(25,912)	(4,712)	—	—	(30,624)
Net working capital.....	(116,567)	30,154	36,612	504	(49,297)
Total assets.....	3,563,812	543,261	233,306	504	4,340,883
Bonds and other long-term liabilities payable from operating revenues.....	2,076,130	149,275	222,353	—	2,447,758
Total fund equity (deficit).....	935,174	377,324	(1,143)	504	1,311,859

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, 2000, 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.....	\$ 379,000	43.95%	\$ 43,409	43.88%
Alumax of South Carolina, Inc.....	89,000	10.32%	7,645	7.73%

During the fiscal year ended June 30, 2001, two customers accounted for approximately 16.00% and 12.00% of the State Ports Authority's revenues.

NOTE 16: DEFICIT FUND BALANCES AND RETAINED EARNINGS

The State's General Fund had a deficit Fund Balance of \$20.723 million at June 30, 2001, primarily as a result of the economic recession. Tax revenues did not meet expectations. The State Budget and Control Board took action in November 2000 and May 2001 to sequester

\$98.611 million set aside for appropriation in the 2001-2002 fiscal year and agency appropriations totaling \$48.117 million. These measures, however, were unable to completely counteract the revenue shortfall. The same economic forces that reduced revenues during the fiscal year ended June 30, 2001, are expected to continue in effect through much of the fiscal year ending June 30, 2002. State officials are carefully monitoring the situation and will take such action as deemed appropriate and necessary.

The Patriots' Compensation Fund, reported in the Enterprise Funds, had a deficit Retained Earnings balance of \$149,470 million at June 30, 2001. This deficit resulted from losses that the Fund has experienced over the last several years. Contributing factors are that the Fund's coverage is unlimited and the Fund does not purchase reinsurance to help defray the effect of large individual claims. The Fund has increased premiums in recent years, and the Fund is reviewing the June 30, 2001, actuarial report at this time. In September 2000, the Fund collected a special assessment from members, which totaled approximately \$16.000 million. The Fund also has increased the threshold for covered losses as described in Note 17d. However, the liability recorded for unpaid claims each year is based on the actuarial analysis performed after June 30. Premium increases and assessments 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 \$438 thousand at

Notes to the Financial Statements

June 30, 2001. 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 \$72.304 million at June 30, 2001. This deficit is a result of continued dramatic increases in claims volume and prescription costs. Effective January 2001, management enacted a combination of increased employer contributions and benefit payment reductions. Further measures have been deemed necessary, and additional funding increases and cost-sharing initiatives will be implemented in January 2002. These measures include an increase in both employee and employer contributions, new deductibles for emergency room and outpatient services, an increased copayment for prescription drugs, a new generic substitution policy, and an increase in the out-of-pocket prescription drug maximum. Additionally, beginning in 2002, the State Health Plan will be operating under a new administrative services contract that will allow for further cost savings initiatives. For the fiscal year ended June 30, 2001, previous reserve requirements were suspended by a provision of State law that reads as follows: "Notwithstanding any other provision of law, the State Health Plan is only required to seek a twenty-two day reserve fund by the end of calendar year 2001."

The State Accident Fund, reported in the Internal Service Funds, had a deficit Retained Earnings balance of \$30.692 million at June 30, 2001. This deficit is the result of claims expenses in excess of revenues in recent fiscal years. 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. Effective January 2001, the Fund changed a rating formula to generate additional premium revenue. During January 2002, the Fund expects to modify the premium volume discount program also to generate additional revenue. The Fund recently implemented a medical management cost containment program that is expected to reduce claim costs significantly.

The Connector 2000 Association, Inc., a development stage enterprise reported as a discretely presented proprietary component unit, had an accumulated deficit of \$1.143 million for its fiscal year ended December 31, 2000. See Note 1r for additional information.

At June 30, 2001, the Savannah Lakes Regional Loan Fund, a discretely presented proprietary component unit, reported a deficit Retained Earnings balance of \$516 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 \$168.243 million at June 30, 2001, 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
2000	\$ 138,899	\$ 39,844	\$ (27,594)	\$ 151,149
2001	151,149	52,513	(35,419)	168,243

Notes to the Financial Statements

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.

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 to provide group life and long-term disability insurance coverage to eligible active State and public school employees. The State, the predominant participant, retains the risk of loss. Under the health insurance program, participants elect coverage through either a 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 \$141,029 million at June 30, 2001, 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 5.75% for 2001 and 5.50% for 2000, compounded annually. Of the total claims liability reported for the Health and Disability Insurance Fund at June 30, 2001, \$24.540 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
2000	\$ 128,806	\$ 741,882	\$ (713,249)	\$ 157,439
2001	157,439	776,657	(793,067)	141,029

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, 2001, the claims liability for the Fund was \$57.152 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

Notes to the Financial Statements

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
2000	\$ 51,189	\$ 41,118	\$ (35,981)	\$ 56,326
2001	56,326	35,089	(34,263)	57,152

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of \$250 thousand (\$5.000 million last year) are covered up to limits of statutory liability (up to \$45.000 million last year), with the Fund retaining the risk for the first \$250 thousand of loss. Reinsurance permits partial recovery of losses from reinsurers; but the Fund, as direct insurer of the risks, remains primarily liable.

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 (\$200 thousand as of November 2000) per incident or \$300 thousand (\$600 thousand as of November 2000) 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, 2001, the claims liability for the PCF was \$152.901 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 2000 or 1999.

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, 2000, the amount of these liabilities was \$1.907 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

Fiscal Year Ended December 31	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
1999	\$ 1,562	\$ 2,205	\$ (1,632)	\$ 2,135
2000	2,135	1,238	(1,466)	1,907

Notes to the Financial Statements

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). Subsequently, three additional unrelated entities joined the Venture, including two during the Authority's fiscal year ended December 31, 2000. The Authority now has a twenty-one percent 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, 2000, the Authority received distributions of \$39.153 million from the Venture and recognized \$43.779 million in reductions to power costs, partially offset by \$1.569 million in equity losses. In addition, due to the entry of the additional members, the Authority received \$214 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 up to \$30.300 million to support the Venture's trading activities in the form of corporate guarantees, letters of credit and/or cash as determined by management. During its fiscal year ended December 31, 2000, the Authority advanced \$1.083 million to the Venture in support of its future gas marketing activities.

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

\$45.593 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 2000 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as \$143.433 million in 1999 dollars. The Authority accrues its share of the estimated decommissioning costs over the remaining life of the facility. These costs are being recovered through the Authority's rates.

To comply with the NRC regulations, the Authority established an external trust fund and has been making deposits into this fund since September 1990. In addition, the Authority established an internal decommissioning account. The Authority makes deposits into this fund in the amount necessary to fund the difference between the 2000 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled \$75.439 million (adjusted to market) at December 31, 2000, 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, 2000, 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 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

Notes to the Financial Statements

the Summer Nuclear Station, the Authority would be responsible for a maximum assessment of \$29.400 million, not to exceed approximately \$3.300 million per incident per year. This amount is subject to further increases to reflect (i) inflation, (ii) increases in the licensing for operation of additional nuclear reactors, and (iii) any increase in the amount of commercial liability insurance that the Authority must maintain to comply with the NRC.

SCE&G and the Authority maintain, with Nuclear Electric Insurance Limited (NEIL), \$500.000 million primary and \$1.500 billion excess property and decontamination insurance to cover the costs of facility cleanup in the event of an accident. In addition to the premiums paid on the excess policy, SCE&G and the Authority also could be assessed a retroactive premium, not to exceed five times the annual premium, in the event of property damage to any nuclear generating facility covered by NEIL. Based on the current annual premium and the Authority's one-third interest, the Authority's maximum retroactive premium would be \$1.900 million for the primary policy and \$1.500 million for the excess policy.

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, 2001, are several that challenge the legality of certain taxes. The challenged revenues include the sales tax on gross business proceeds and on certain machinery used in manufacturing. In the event of unfavorable outcomes for these cases, the ultimate liability is not expected to exceed \$55.000 million. State losses in these cases could reduce future revenues. These estimates do not include the impact on future revenues.

On September 21, 2001, two employees and an employer filed a putative class action lawsuit against the South Carolina Retirement Systems and the South Carolina Budget and Control Board alleging that the Retirement Systems wrongfully denied benefits to members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) due to misinterpretation of the definition of average final compensation. The plaintiffs further allege that SCRS and PORS collected over \$2.000 billion and \$500.000 million, respectively, in excess contributions. Plaintiffs seek a declaratory judgment that a benefit was wrongfully denied and/or that excess contributions were collected and further request that contributions be reduced in the future. Plaintiffs seek a refund of over \$2.000 billion to members and employers. Finally, plaintiffs seek to impose a constructive trust on monies overpaid by plaintiffs and/or wrongfully withheld by the Systems.

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 is now proceeding in State Circuit Court. A plaintiff class has been certified. The second case was dismissed by the State Supreme Court. The court required the plaintiff to pursue the claim administratively. The claim is now pending before the administrative law division. In the event of an unfavorable outcome in both cases, the State's liability for retroactive relief is estimated at \$435.000 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 \$11.192 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. Discovery is proceeding, and the plaintiffs have amended their complaint to allege a damage claim. A motion to dismiss is pending as to the damage claim.

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 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 lost in the United States District Court on summary judgment, and an appeal is pending at the Court of Appeals for the Fourth Circuit. In the event of an unfavorable outcome in this case, the State's total liability is not expected to exceed \$7.104 million. A liability of \$1.464 million, representing penalties, 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 and is seeking

Notes to the Financial Statements

\$60.000 million 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, brought suit against the State in State Circuit Court. The State Supreme Court has affirmed the dismissal of the vendor's claims against the State. Although administrative proceedings are pending, settlement discussions are continuing to be held within the mediation process.

Generally, liabilities recorded by the State's Insurance Reserve Fund (see Note 17a), an Internal Service Fund, are sufficient to cover claims arising from alleged torts, up to the liability limits established by the South Carolina Tort Claims Act. Currently, no tort claims are pending that are expected to result in any significant liability in excess of the provision for Policy Claims recorded by the Insurance Reserve Fund.

b. Tobacco Settlement Revenue Management Authority

In 1998, South Carolina was a party to a successful multi-state legal settlement with the tobacco industry known as the Master Settlement Agreement (MSA). Installment payments under the MSA are intended to compensate the State for costs it incurred in providing health and other services to its citizens that were necessitated by the use of tobacco products. The Tobacco Settlement Revenue Management Authority (the Authority), a blended component unit of the State, commenced operations in August 2000. State law transferred to the Authority all tobacco settlement revenues (TSRs) that the State receives after June 30, 2001. (Previously, the State recorded these revenues in its General Fund.)

On March 22, 2001, the Authority issued bonds secured by and payable solely from (a) TSRs and related investment earnings pledged under the bond indenture and (b) other assets of the Authority established and held in accordance with the bond indenture. No other State assets are legally or morally obligated to pay principal and interest on the Authority's bonds.

The Authority's payment of principal and interest on its bonds depends on a number of contingencies. Some of these contingencies are briefly described below.

The amounts of TSRs that the State will collect depend on many factors, including cigarette consumption and the continued financial capability of the tobacco industry. In addition, various parties have initiated lawsuits that challenge terms of the MSA. In the event of one or more unfavorable outcomes in these cases, the Authority may not have adequate financial resources to pay the scheduled debt service on its bonds.

The United States Internal Revenue Service (IRS) currently is examining certain tobacco settlement revenue bond transactions completed before the Authority issued its bonds. If the IRS were to determine, with respect to those other transactions, that interest on the bonds is includable in gross income for federal income tax purposes, such determination could affect the exclusion of

interest on the Authority's bonds for federal income tax purposes.

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, 2001, 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, 2001, these loans totaled \$1.426 billion. The United States Department of Education reinsures 100.0% of losses under these guarantees for loans made prior to October 1, 1993; 98.0% of losses for loans made on or after October 1, 1993, but before October 1, 1998; and 95.0% for loans made on or after October 1, 1998. If the loan default rate exceeds 5.0% of the loans in repayment status, however, the United States Department of Education decreases the reinsurance rate. The State's default rate during the fiscal year ended June 30, 2001, was less than 1.0%.

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.

Notes to the Financial Statements

At June 30, 2001, \$4.710 million remained outstanding on the Lexington County loan. The payment terms require the State to repay this amount in three 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, 2000, the Public Service Authority, a discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$233.507 million for coal. In addition, minimum obligations under purchased power contracts were: (a) approximately \$88.500 million and \$29.000 million at December 31, 2000, with remaining terms of thirty-four years and three 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, 2000, these commitments totaled approximately \$60.200 million over the next nine years.

The Authority has entered into a long-term service agreement in the approximate amount of \$76.000 million with a term of nine years. The agreement covers initial spare parts, parts and services for specified maintenance outages, and remote monitoring and diagnostics of the two turbine generators. The agreement can be cancelled after the Authority pays \$4.250 million for initial inspections for the generating units.

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 \$705.578 million for road and bridge construction projects. At June 30, 2001, the undrawn loan balance is \$354.594 million. The Bank also has agreements with various counties to provide financial assistance totaling \$836.300 million for certain road projects. At June 30, 2001, the remaining commitments for these agreements totaled \$544.536 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. The Authority also upgraded the combustion systems on some of its boilers at a cost of \$8.020 million. Although the EPA regulations are currently in litigation, potential costs to the Public Service Authority could exceed \$266.000 million in capital expenditures by 2004 and annual recurring costs could exceed \$10.000 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.

The Authority has developed and is implementing a long-term strategic plan designed to position it to compete effectively in the changing competitive environment. Although the Authority is preparing for a deregulated market, 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 recognize receivables and revenues for pledges or promises of cash or other assets from nongovernmental entities when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable of collection. The following potentially significant pledges, however, were not recorded in the accompanying financial statements because they were not deemed to be measurable at June 30, 2001:

1. 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 the trust will receive all of the remaining assets. This second pledge is restricted for scholarships.
2. Properties valued at approximately \$17.852 million in 1996 were pledged but will not transfer to the State's Higher Education Funds until the later of (a) the termination of a lease in 2024 or (b) satisfaction of debt obligations.

Notes to the Financial Statements

3. Pledges to the Clemson University Foundation and to the Clemson University Real Estate Foundation are recorded as revenue only after certain payment conditions for scholarships and other costs have been met.

NOTE 21: FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, in June 1999, and Statement 38, *Certain Financial Statement Note Disclosures*, in June 2001. Beginning July 1, 2001, the State must implement Statement 34, except for the provisions that relate to retroactive reporting of major general infrastructure assets, and certain provisions of Statement 38. Beginning July 1, 2002, the State must implement the remaining provisions of Statement 38. 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 34 and 38 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.

In conjunction with its implementation of the above pronouncements, the State plans to raise its fixed asset capitalization limits and to change its availability period to one year for purposes of recognizing all revenues in governmental funds. As reported in Note 3a above, the State began this transition in the current year by adopting the one-year availability period for purposes of recognizing intergovernmental grants. The State's financial managers believe that this change will help to minimize reconciling items between the government-wide financial statements and the traditional fund financial statements, which is expected to enhance understandability of the financial statements prepared in accordance with the new reporting model.