



STATE OF SOUTH CAROLINA

Office of Comptroller General

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To the Citizens, Governor and Members of the South Carolina General Assembly

It is my pleasure to present to the citizens of South Carolina this Comprehensive Annual Financial Report for the State of South Carolina for the fiscal year ended June 30, 2000. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year.

The report includes information for the use of all parties who are interested in the State's finances. This includes the State's taxpayers, members of the General Assembly, and directors of State agencies as well as the State's investors and creditors.

Management is responsible for the accuracy of the data in this report as well as the completeness and fairness of the presentation. To the best of our knowledge and belief, this information is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds, account groups, and component units of the State of South Carolina. The report includes all disclosures that readers need to gain an understanding of the State of South Carolina's activities.

For the convenience of users, we have divided the report into three sections as follows:

- The Introductory Section, containing this letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting for the June 30, 1999 report, a list of State officials, and an organizational chart of State government.
- The Financial Section, consisting of the general purpose financial statements (combined statements, component unit combining

statements, and notes), required supplementary information, other combining financial statements, and schedules.

- The Statistical Section, presenting comparative financial data and other non-financial data.

MAJOR INITIATIVES

Legislative Initiatives

The 2000 session of the South Carolina General Assembly concentrated on three key issues related to the State's economic well-being: (1) the needs of senior citizens, (2) tax relief, and (3) public education.

The legislature placed particular emphasis on providing financial assistance to the aging by boosting the homestead exemption from \$20 thousand to \$50 thousand for the property tax year 2000 and thereafter. Lawmakers also created a fund to assist senior citizens who cannot afford to purchase prescription drugs but do not qualify for Medicaid drug benefits.

Tax relief for all South Carolinians was targeted toward two levies that had been under legislative scrutiny for several years: the personal property tax at the local level on motor vehicles such as cars, motorcycles, aircraft and boats; and the statewide sales tax collected on food purchases.

The phase-out of the tax on motor vehicles was submitted to public referendum in November, and South Carolina voters approved it overwhelmingly. The legislation provides for adoption of a sales and use tax at the local level to replace the revenue lost on the motor vehicle tax.

The first step in phasing out the sales tax on food was approved by the 2000 legislature, and under the plan adopted, the 5% tax will be reduced to 4% on January 1, 2001. The General Assembly's intent was to eliminate one-fourth of the remaining tax during each of the subsequent four years and to ensure that cuts in the food tax will not lead to funding reductions for public education.

Public education itself received substantial funding attention. The General Assembly's \$470 million-plus for the State's schools included a critical \$10 million of additional monies for the First Steps to School Readiness program, an initiative of Governor Jim Hodges. This program is designed to provide early childhood development and educational services that will enable children to begin school ready to learn. The State's LIFE Scholarship program was expanded to cover the full cost of tuition for students attending two-year and technical colleges, and the stipend for students attending four-year colleges was increased from \$2 thousand to \$3 thousand per year. School bus safety and teacher quality incentives also were included in the wide-ranging package of education legislation.

South Carolina drew the most attention, however, from the enactment of legislation that removed the Confederate battle flag from both houses of the General

Assembly and from the dome of the State House. The law now provides for the display of the South Carolina Infantry Battle Flag of the Confederacy on a new flagpole at the Confederate Soldier Monument on the north end of the State House grounds. The same act also established State employee holidays honoring Dr. Martin Luther King, Jr., on the third Monday in January and Confederate Memorial Day on May 10.

Projects to Implement New Accounting and Financial Reporting Requirements

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

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

ECONOMIC CONDITION AND OUTLOOK

Over the last three decades the economy of South Carolina has grown faster than that of the rest of the country. Businesses have migrated here from all over the world to take advantage of the State’s skilled labor force, competitive wages, lower-priced land, excellent port facilities, accessibility to markets, and in recent years, substantial tax incentives. Since 1970, industry has made approximately \$71.000 billion of investments in plants within the State.

The State’s recreation and retirement industries also have been rapidly growing economic sectors over the last three decades. Each year more retirees move here to take advantage of the area’s mild climate, lower cost of living, and special tax incentives for people over 65 years of age. The number of individuals receiving

Social Security retirement pay has grown at a rapid average annual rate of 4.1% since 1970. The annual income from retirement now exceeds an estimated \$7.700 billion.

The State's coastal areas have emerged as one of the leading recreation centers on the east coast, providing even more stimulus to South Carolina's growing economy. Personal income in Horry County, which includes the Myrtle Beach area, has grown at an extraordinary 9.9% per year over the last two decades and exceeds \$4.000 billion.

Since 1970, over 525,000 people have migrated to the State to take advantage of a growing economy and to retire here. Total personal income of South Carolina has grown over eleven-fold, one-fourth faster than growth in personal income in the United States. During the high inflationary 1970's, personal income grew at an average annual compound rate of 11.9% compared to a much lower 10.7% nationwide. Even in the lower inflationary 1980's, personal income in South Carolina grew a healthy 8.7% per year, compared to a lesser 7.8% nationwide. Employment in South Carolina over the last two decades has grown one-fourth faster than in the United States as a whole.

Although South Carolina has been one of the poorer states in the nation since the War Between the States, the State is closing the gap in wealth between it and the rest of the country. In 1970, per capita income of South Carolina was only 75% of the national average but has since increased to 82% of the national average.

The State's economy has begun fiscal year 2000-2001 with a modest slowdown in growth. Employment in the State was up by 350,000 in September 2000 versus its level during the recession of 1991. Although statistics for the fiscal year were not yet available from the Department of Commerce, the State's Board of Economic Advisors estimated that personal income growth was in the range of 5% to 6% but slower than last year's rate of growth.

In recent years, the State passed economic development legislation to further enhance the attractiveness of businesses to locate in rural sections of the State by substantially increasing the tax incentives that companies may be eligible to take. Through 1999, over 550 companies have taken advantage of the tax incentive package offered by the State. Global companies such as BMW, Honda of America, Bridgestone/Firestone, Michelin, and Hoffman-LaRoche have located corporate headquarters or have constructed multi-million dollar manufacturing facilities within the State. In addition to these projects, there have been other announcements of new plants or additions to existing plants in the State, which will contribute to the State's continued growth.

The State's Board of Economic Advisors (BEA) met on November 9, 2000, and reported that the State's Budgetary General Fund revenue collections at the end of the first four months of fiscal year 2000-2001 were slightly less than anticipated. The BEA reported that the State's economy has been impacted by six consecutive increases in interest rates by the Federal Reserve. The Sales Tax and Income Tax, the State's two leading sources of revenue, were both showing signs of slowing growth, indicating that the State's economy may be heading toward slower economic growth.

As a result, the BEA lowered the Budgetary General Fund revenue estimate for fiscal year 2000-2001 to an amount that is approximately \$96.000 million below the revenue estimate shown in the Appropriation Act. Accordingly, on November 21, 2000, the State Budget and Control Board acted to sequester \$98.611 million of appropriations to provide for this anticipated revenue shortfall. The Budget and Control Board's action will not reduce any individual agency's fiscal year 2000-2001 appropriations.

FINANCIAL CONTROLS

Internal Controls

The Statewide Accounting and Reporting System (STARS) is the State's budgetary-basis operating accounting system. This double-entry system, installed in 1981-1982, processes cash and budgetary transactions and maintains records for all budgeted funds and some unbudgeted funds. The State's higher education institutions and most of the enterprise entities maintain separate accrual-basis accounting systems.

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

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

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

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

Budgetary Controls

South Carolina's annual Appropriation Act includes legally adopted budgets for the Budgetary General Fund and for aggregated Other Budgeted Funds. Except for the Retail Sales Tax and selected other taxes estimated on a modified accrual basis, the State estimates revenues on a cash receipts basis. Appropriations for 1999-2000 covered all expenditures deemed applicable to that year and paid on or before July 20, 2000. Agencies may carry forward up to 10.0% of unexpended

Budgetary General Fund appropriations to the next year. Any remaining unexpended Budgetary General Fund appropriations lapse unless the Appropriation Act specifically authorizes agencies to carry them forward to the next fiscal year.

State law does not require encumbrance accounting. Accordingly, the State (except for some higher education institutions) does not record encumbrances. The State currently maintains budgetary control for expenditures at the level of summary object category within each program of each organizational unit. Except for accounts of higher education institutions, STARS verifies that an account has sufficient remaining appropriations before it will charge an expenditure to that account. Organizational units may request transfers of appropriations among object categories and/or among programs within the same budgetary fund. The Budget and Control Board has authority to approve these appropriation transfers within certain limits.

The initial budget appears in the annual Appropriation Act. The Budget and Control Board reduces the Budgetary General Fund's appropriations during the year if it anticipates a year-end operating deficit. Likewise, the State Board of Economic Advisors (BEA) may approve revisions of estimated revenues of the Budgetary General Fund during the year. The BEA approved such upward revisions on November 10, 1999, and February 10, 2000. The BEA revised estimated revenues downward on May 24, 2000, after considering current economic trends and other factors.

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

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

State law specifies procedures for processing requested budget changes in Other Budgeted Funds and for permanent improvement projects.

THE REPORTING ENTITY

The State's reporting entity includes all of the funds and account groups that make up the primary government of the State of South Carolina as well as its component units. The funds and account groups of the primary government are under the oversight of the State's General Assembly and the Budget and Control Board. The primary government consists of agencies, departments, funds, and institutions that are not legally separate from the State.

Component units are legally separate entities for which the State and its elected officials are financially accountable. Criteria to determine financial accountability include the ability of State officials to appoint a voting majority of the entity's governing body, the ability of the State to impose its will on the entity, and the potential for the entity to provide a financial benefit to the State or impose a financial burden upon the State. The State's discretely presented component units are: the

South Carolina Public Service Authority (Santee Cooper); South Carolina State Ports Authority; Connector 2000 Association, Inc.; the Savannah Lakes Regional Loan Fund; and the South Carolina First Steps to School Readiness Board of Trustees. Note 1a in the Notes to the Financial Statements provides a more complete description of the State's reporting entity.

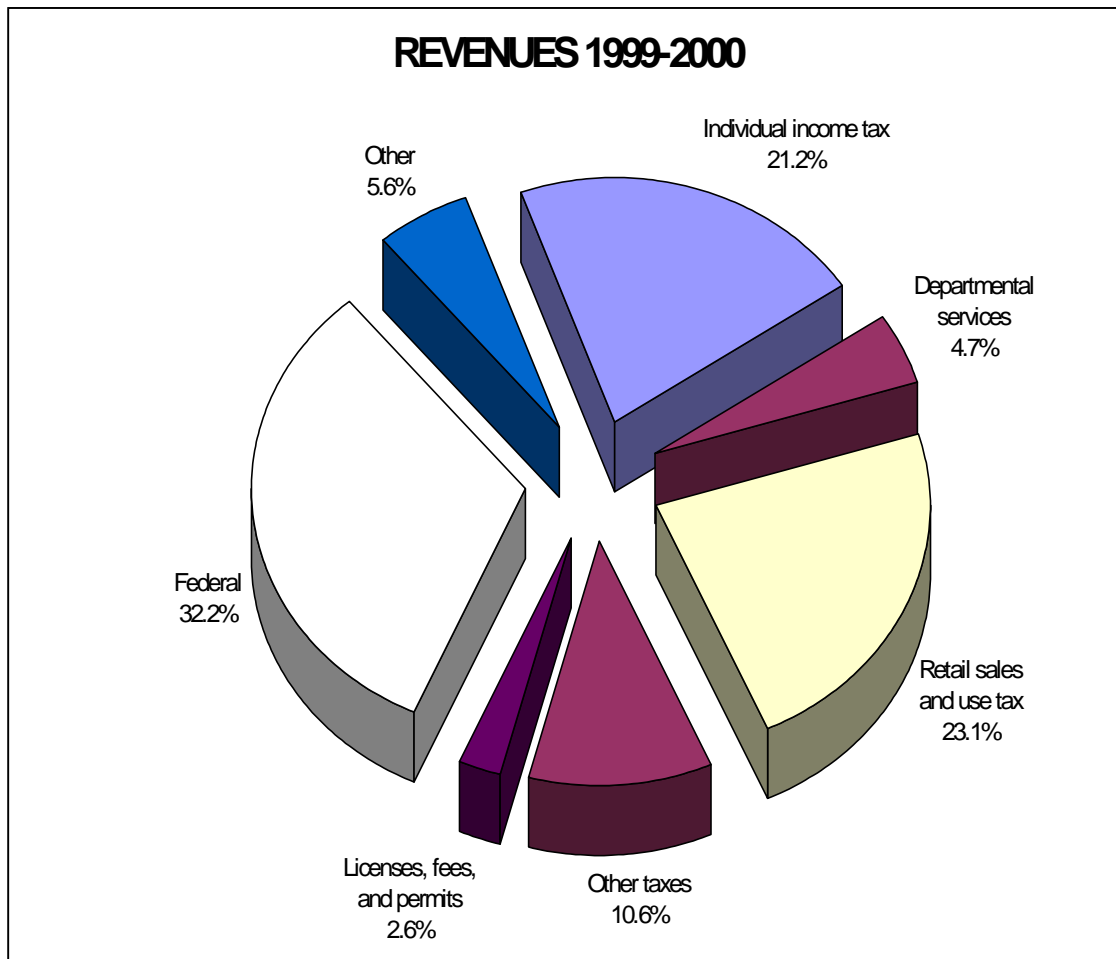
FINANCIAL OVERVIEW

The following sections detail revenues and expenditures of the State's General and Special Revenue Funds. In addition, for the fiscal year ended June 30, 2000, other financing uses exceeded other financing sources for these funds by \$330.252 million.

Revenues

The State's most significant sources of revenue are its 5.0% retail sales tax, its individual income tax (2.5% to 7.0% tax rates), and Federal grants. The following schedule summarizes revenues of the General and Special Revenue Funds for the fiscal year ended June 30, 2000 (expressed in thousands) and the amounts (expressed in thousands) and percentages of increases (decreases) in relation to prior year revenues:

Revenues	1999-2000 Amount	Percent of Total	Increase (Decrease) from 1998-1999	Percentage Increase (Decrease)
Individual income tax.....	\$ 2,453,465	21.2%	\$ 170,956	7.5%
Retail sales and use tax.....	2,676,686	23.1%	155,422	6.2%
Other taxes.....	1,227,671	10.6%	(46,695)	(3.7%)
Licenses, fees, and permits.....	306,067	2.6%	15,537	5.3%
Interest and other investment income....	154,753	1.3%	32,751	26.8%
Federal.....	3,708,958	32.2%	263,100	7.6%
Departmental services.....	539,549	4.7%	(314)	(0.1%)
Contributions.....	251,335	2.2%	58,483	30.3%
Fines and penalties.....	69,017	0.6%	(845)	(1.2%)
Tobacco legal settlement.....	96,274	0.8%	96,274	N/A
Other.....	83,650	0.7%	3,430	4.3%
Totals.....	\$ 11,567,425	100.0%	\$ 748,099	6.9%



The interest and other investment income category increased because the improvement in the State's financial position during 1999-2000 made more cash available for investment.

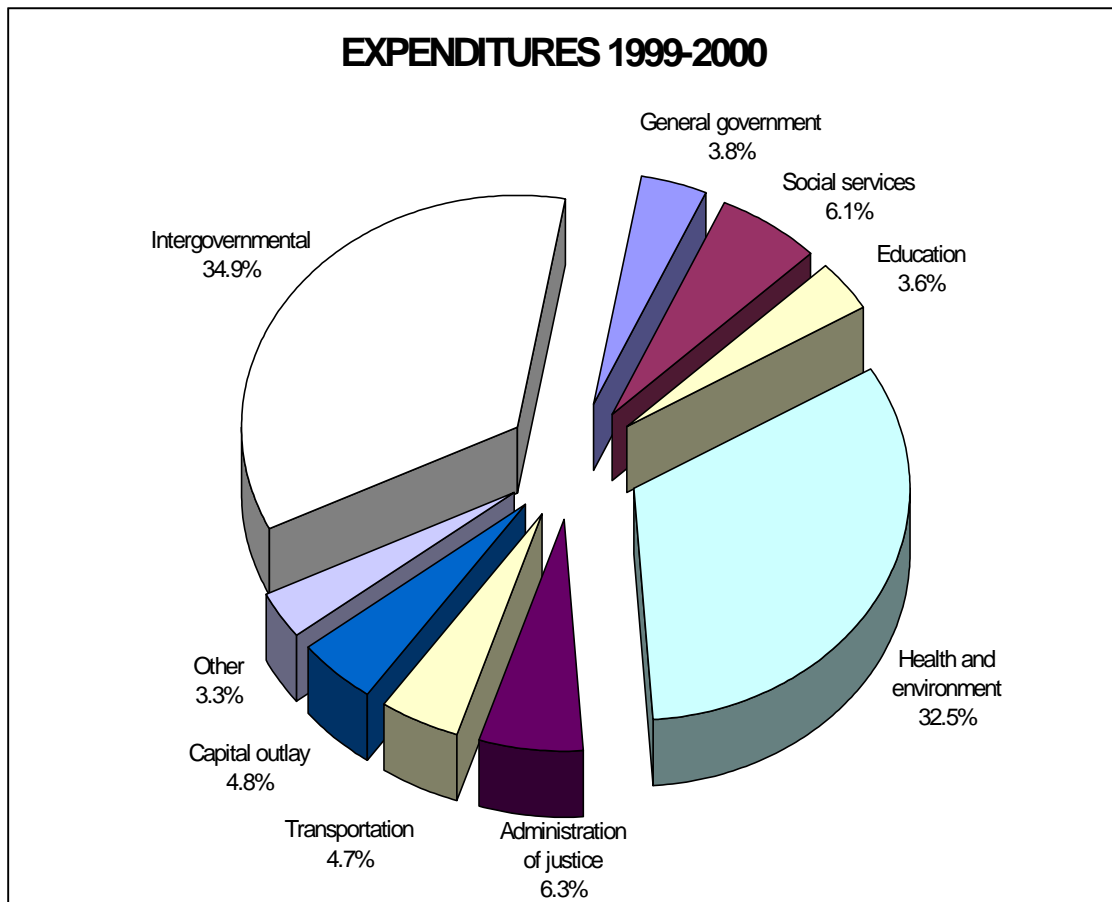
Contributions increased as a result of the activities of the South Carolina Transportation Infrastructure Bank. The amount of Contributions revenue that the bank received during 1999-2000 increased in response to an increase in the Bank's road-building activities.

During 1999-2000, the State received its initial settlement payments under a successful multi-state legal settlement with the tobacco industry.

Expenditures

The following schedule presents a summary of General Fund and Special Revenue Funds expenditures for the fiscal year ended June 30, 2000 (expressed in thousands), and the amounts (expressed in thousands) and percentages of increases (decreases) in relation to prior year expenditures:

Expenditures	1999-2000 Amount	Percent of Total	Increase from 1998-1999	Percentage Increase
Current:				
General government.....	\$ 422,935	3.8%	\$ 67,377	18.9%
Education.....	403,453	3.6%	47,526	13.4%
Health and environment.....	3,600,808	32.5%	156,999	4.6%
Social services.....	674,353	6.1%	25,664	4.0%
Administration of justice.....	694,845	6.3%	61,973	9.8%
Resources and economic development	180,403	1.6%	20,857	13.1%
Transportation.....	518,584	4.7%	214,760	70.7%
Capital outlay.....	527,769	4.8%	74,061	16.3%
Debt service:				
Principal retirement.....	107,621	1.0%	16,835	18.5%
Interest and fiscal charges.....	81,632	0.7%	26,439	47.9%
Intergovernmental.....	3,874,298	34.9%	611,658	18.7%
Totals.....	\$ 11,086,701	100.0%	\$ 1,324,149	13.6%



General Government expenditures increased for items such as the K-12 Technology Initiative and State match expenditures required to receive Federal disaster funds related to Hurricane Floyd and the winter storm. Additionally, the State began receiving funds under the Telecommunications Act of 1996 that it used to help fund connectivity projects benefitting public schools and libraries.

Education and Intergovernmental expenditures increased because additional funds were provided for programs to reduce class size, to improve literacy levels in early grades, and to implement the Education Accountability Act. In addition, the State increased aid to school districts through the issuance of general obligation State school facilities bonds for school construction and equipment.

Projects related to tourism and economic growth, including the *H. L. Hunley* Project, the Columbia Conference Center, and Spartanburg Renaissance Projects, led to increased expenditures in the Resources and Economic Development category.

Transportation expenditures were greater because of the State's increased participation in certain highway and transportation facilities projects, including a new by-pass near Myrtle Beach.

The increases in Capital Outlay and Debt Service Principal and Interest were associated with the issuance in 1998-1999 of \$475.000 million in revenue bonds used to help finance the increased State road and bridge construction projects.

Status of Fund Balances

GAAP-basis fund balances for the General Fund and Special Revenue Funds at June 30 (expressed in thousands) for the last five years were:

	2000	1999	1998	1997	1996
General Fund					
Reserved.....	\$ 388,139	\$ 335,038	\$ 286,945	\$ 450,686	\$ 545,796
Unreserved, designated.....	—	31,360	—	—	—
Unreserved, undesignated.....	33,297	—	(109,468)	(294,233)	(261,065)
Total General Fund.....	\$ 421,436	\$ 366,398	\$ 177,477	\$ 156,453	\$ 284,731
Special Revenue Funds					
Reserved.....	\$ 556,474	\$ 350,722	\$ 204,427	\$ 205,377	\$ 202,628
Unreserved, designated.....	50,082	336,826	165,328	128,640	112,144
Unreserved, undesignated.....	1,210,905	1,015,125	775,557	541,769	386,726
Total Special Revenue Funds.....	\$ 1,817,461	\$ 1,702,673	\$ 1,145,312	\$ 875,786	\$ 701,498

The reserved component of fund balance represents amounts legally required to be segregated and amounts that cannot be appropriated for future expenditure. The unreserved component of fund balance is computed as total fund balance less reserved amounts.

The designated portion of unreserved fund balance reflects tentative plans for future use of available financial resources. For 1996 through 1998, the General Fund's reserve requirements exceeded its total fund balance. This created a negative

unreserved component of fund balance in the General Fund, even though the total fund balance was positive in those years. In those years, the General Fund did not have an unreserved designated fund balance because it had no net financial resources to finance any tentative future spending plans.

At June 30, 1999, the State had tentative plans to use \$91.766 million of the fund balance in its Budgetary General Fund to pay for selected recurring and nonrecurring items. Of that amount, only \$31.360 million in net financial resources was available in the General Fund at June 30, 1999, to finance those tentative plans.

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

PROPRIETARY OPERATIONS

Primary Government

There are several proprietary segments of South Carolina's primary government. Significant segments among these include the State Housing Finance and Development Authority, which provides low-cost housing to the State's citizens by issuing bonds/notes and by administering Federal contracts and grants, and the Education Assistance Authority, which issues bonds for the purpose of making loans to eligible students.

Financial highlights of these segments (expressed in thousands) for the fiscal year ended June 30, 2000, are as follows:

	Housing Authority	Education Assistance Authority
Operating revenues....	\$ 49,033	\$ 46,679
Net income.....	8,341	4,328
Total assets.....	752,266	555,050
Total fund equity.....	185,526	127,469

Discretely Presented Proprietary Component Units

The State's two largest proprietary operations are discretely presented proprietary component units.

The Public Service Authority (Santee Cooper) is South Carolina's State-owned public power resource. The Public Service Authority (Santee Cooper) produces and sells electric power and wholesale water to individuals, businesses, electric cooperatives, and municipal power departments. The Public Service Authority (Santee Cooper) made payments to the State's General Fund of \$7.883 million during its fiscal year ended December 31, 1999. The distribution to the General Fund is based primarily on operating cash flows and mandatory reserve requirements.

The State Ports Authority develops and maintains State harbors and seaports and handles the commerce through these ports.

Highlights of segment financial information (expressed in thousands) for discretely presented proprietary component units for the fiscal year ended June 30, 2000, follow:

	Public Service Authority (Santee Cooper)	State Ports Authority
Operating revenues....	\$ 814,166	\$ 97,504
Net income.....	39,501	20,834
Total assets.....	3,563,223	525,216
Total fund equity.....	868,583	352,058

FIDUCIARY OPERATIONS

The most significant of the State's Fiduciary Funds are the four retirement plans administered by the South Carolina Retirement Systems. Those plans include: the South Carolina Retirement System, the Police Officers' Retirement System, the Retirement System for Members of the General Assembly, and the Retirement System for Judges and Solicitors. The State has funded all four of these plans in accordance with recommendations of the consulting actuaries, both in the current period and in past periods. The State has no pension liability for those plans at June 30, 2000.

The South Carolina Adjutant General's Office administers the National Guard Pension System. The State recorded a \$4.860 million pension liability for that plan in the General Long-Term Obligations Account Group at June 30, 2000. See Note 7, "Retirement Plans," in the Notes to the Financial Statements for more information.

DEBT ADMINISTRATION

The State finances many of its major capital needs by issuing bonds. Some of this debt is general obligation debt backed by the full faith, credit and taxing power of the State. Much of the debt, however, is revenue bonds and notes associated with specific State agencies and discretely presented component units. Specific revenue

flows of particular agencies and discretely presented component units service revenue debt.

Moody's Investors Service has rated South Carolina's general obligation bonds as "Aaa," and Standard & Poor's and Fitch Investors Service, Inc., rate these bonds as "AAA," the highest ratings that these services award. The Comptroller General's Office annually furnishes the State's Comprehensive Annual Financial Report and related information to the bond rating firms. This process is critical to ensuring that the State maintains its current high bond ratings.

During the fiscal year ended June 30, 2000, South Carolina issued \$346.034 million and retired \$94.840 million in general obligation bonds payable by governmental funds. The State budgets and pays principal and interest on capital improvement bonds and State school facilities bonds from current resources of the Budgetary General Fund. The Department of Transportation Special Revenue Fund pays the debt service on highway bonds. At June 30, 2000, the Higher Education Funds reported State institution general obligation bonds outstanding of \$99.945 million.

State law limits annual debt service expenditures rather than directly limiting the amount of outstanding debt for general obligation bond and notes. The annual debt service margin at June 30, 2000, was \$121.939 million in total for all institution bonds, \$45.283 million for highway bonds and \$71.542 million for general obligation bonds excluding institution and highway bonds.

Net general obligation bonds/notes outstanding per capita (which excludes general obligation bonds payable from Higher Education Funds) is an indicator of the State's debt position that citizens, investors, and management may find useful. The following table shows this amount at June 30 for the last three years:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net general obligation bonds/notes outstanding.....	\$1.394 billion	\$1.141 billion	\$952 million
Net general obligation bonds/notes outstanding per capita.....	\$357	\$294	\$248

The General Services Fund, an Internal Service Fund, had \$35.175 million of limited obligation lease revenue bonds outstanding at June 30, 2000.

The primary government's entities had revenue and Infrastructure Bank bonds, notes, and certificates of participation of \$2.051 billion outstanding on June 30, 2000. Revenue and Infrastructure Bank bonds, notes, and certificates of participation outstanding (expressed in thousands) by agency were:

South Carolina Housing Authority.....	\$ 542,440
South Carolina Education Assistance Authority.....	395,599
Transportation Infrastructure Bank bonds.....	574,275
Various higher education institutions.....	532,678
Other State agencies.....	5,690
Total—primary government.....	<u>\$ 2,050,682</u>

During the fiscal year ended June 30, 2000, the Housing Authority refunded \$135.735 million in revenue bonds to reduce its total debt service requirements by \$7.500 million and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$15.800 million. The Education Assistance Authority advance refunded \$39.050 million in revenue bonds to gain flexibilities provided by the 1993 bond resolution. For additional details on these refundings as well as a refunding in the Higher Education Funds, see Note 10 in the Notes to the Financial Statements.

In addition, discretely presented proprietary component units had the following amounts of bonds and notes outstanding (expressed in thousands) at June 30, 2000:

South Carolina Public Service Authority (Santee Cooper).....	\$ 2,059,278
South Carolina State Ports Authority.....	153,356
Connector 2000 Association, Inc.....	213,271
Total—discretely presented component units.....	<u>\$ 2,425,905</u>

During the fiscal year ended June 30, 2000, the Ports Authority executed an in-substance defeasance of \$27.975 million of outstanding revenue bonds using existing cash reserves. For additional details on this transaction, see Note 10 in the Notes to the Financial Statements.

CASH MANAGEMENT

State law requires full collateralization of all State Treasurer bank balances. Agencies and component units may have collateralization policies that differ from those of the State Treasurer.

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 and certain obligations of United States corporations. Under State law, the State Retirement Systems Investment Panel may make limited investments in equity securities for the State's Pension Trust Funds. For additional details, see Note 1g in the Notes to the Financial Statements.

As provided by law, the State Treasurer deposits money in a general deposit account. The State records earnings of the general deposit account as revenue of the

General Fund. The Treasurer deposits other monies into various special deposit accounts, each of which retains its own earnings.

State agencies that issue their own checks participate in pooled bank accounts. These agencies issue checks against the pooled bank accounts. Meanwhile, the State Treasurer invests account balances until the checks clear.

Investment income for the General Fund totaled \$76.607 million for the fiscal year ended June 30, 2000. This income includes realized and unrealized gains and losses.

RISK MANAGEMENT

The State generally does not purchase commercial insurance for the risks of loss to which it is exposed. Instead, State management believes it is more economical to manage its risk internally. Accordingly, the State sets aside assets for claim settlement in its Internal Service Funds—specifically, in the Insurance Reserve Fund (IRF), the Health and Disability Insurance Fund, and the State Accident Fund.

The IRF services claims for many of the risks 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. The IRF purchases aircraft and ocean marine insurance, areas in which the IRF has limited expertise. Further, the IRF purchases reinsurance to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability. Reinsurance permits partial recovery of losses from reinsurers; but the IRF, as direct insurer of the risks, remains primarily liable.

The Health and Disability Insurance Fund was established to provide health and dental insurance coverage for eligible employees and retirees of State agencies and school districts and group life and long term disability insurance coverage to eligible active State and public school employees. The State, the predominant participant, retains the risk of loss. Under the health insurance program, participants elect coverage through either a health maintenance organization or the State's self-insured plan. All dental, group life, and long-term disability coverage is through the State's self-insured plan.

Section 42-7-10 of the South Carolina Code of Laws, as amended, established the State Accident Fund to provide a program of workers' compensation insurance coverage to State entities. The State assumes the full risk for covered claims. The Fund purchases reinsurance to reduce its exposure to catastrophic losses on insured events; however, as direct insurer of the risk, the Fund remains primarily liable.

The State conducts various risk control programs to help minimize losses. For example, the health insurance program conducts extensive wellness education programs for covered employees that promote development and maintenance of healthful lifestyles.

The State also administers the Patients' Compensation Fund, an insurance enterprise, which provides medical malpractice insurance to participating licensed health care providers within the State of South Carolina.

AUDIT

An independent audit of the general purpose financial statements was performed jointly by the State Auditor and the independent certified public accounting firm of Deloitte & Touche LLP. This report for the fiscal year ended June 30, 2000, includes an unqualified opinion, the best possible result of the audit process.

The audit described above is not intended to meet the requirements of the Federal Single Audit Act as amended. The Single Audit reports for the State are issued separately.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of South Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1999. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR whose contents conform to rigorous program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

The State of South Carolina has received a Certificate of Achievement for the last twelve consecutive years (1987-1988 through 1998-1999). Again this year, the State will submit its CAFR to the Certificate of Achievement for Excellence in Financial Reporting program of the GFOA. I firmly believe that South Carolina's report for the fiscal year ended June 30, 2000, meets the requirements to receive the Certificate of Achievement.

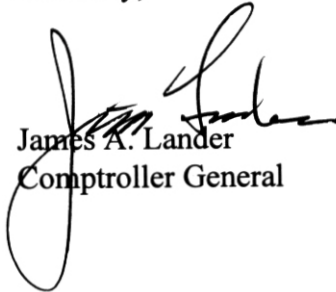
ACKNOWLEDGMENTS

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Sincerely,



James A. Lander
Comptroller General