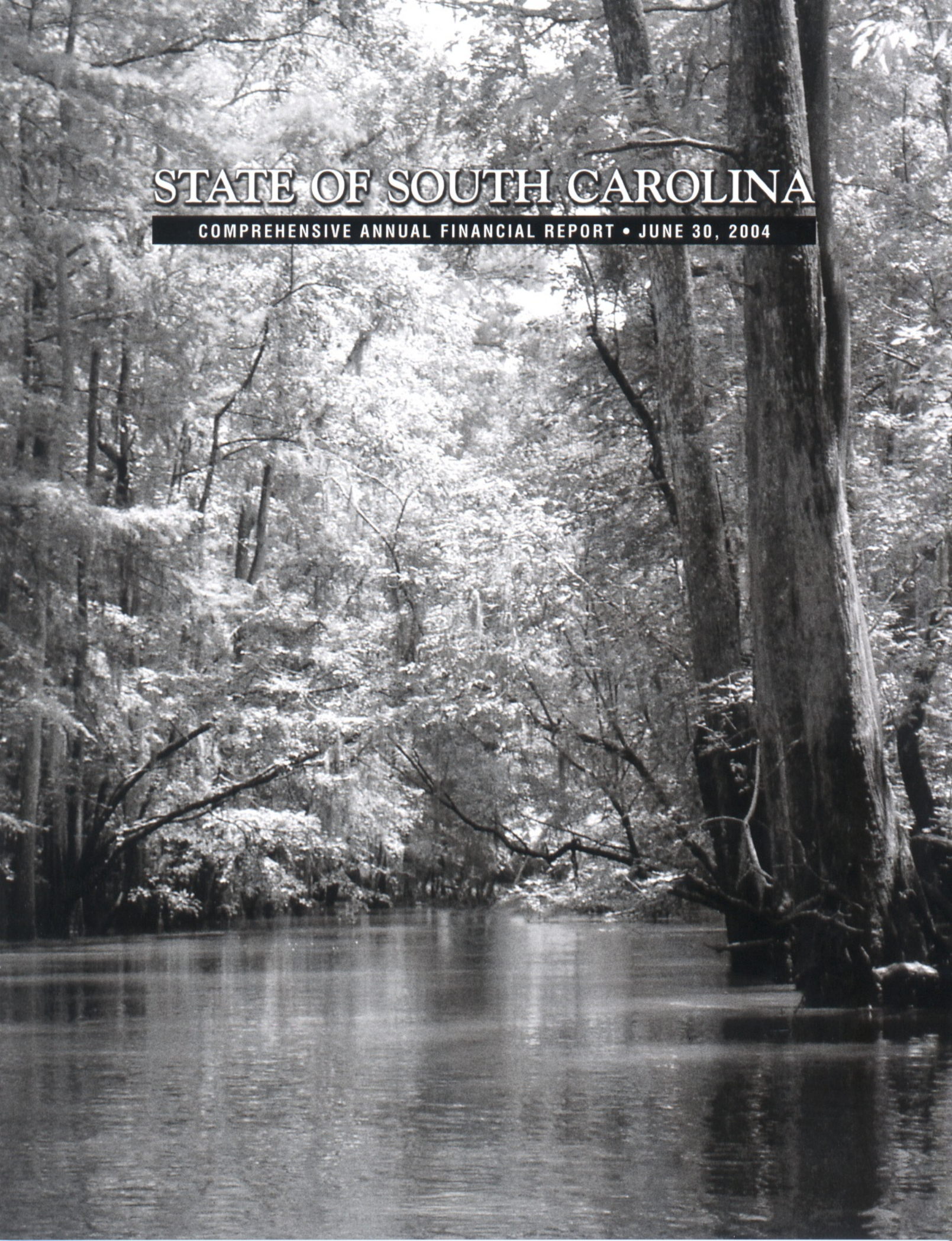


# STATE OF SOUTH CAROLINA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT • JUNE 30, 2004

FRONT COVER

*Cedar Creek in Congaree National Park, America's 57th*
*and South Carolina's first National Park.*
*Photography provided by the National Park Service.*
*Layout for covers provided by the University of South Carolina Office of University Publications.*

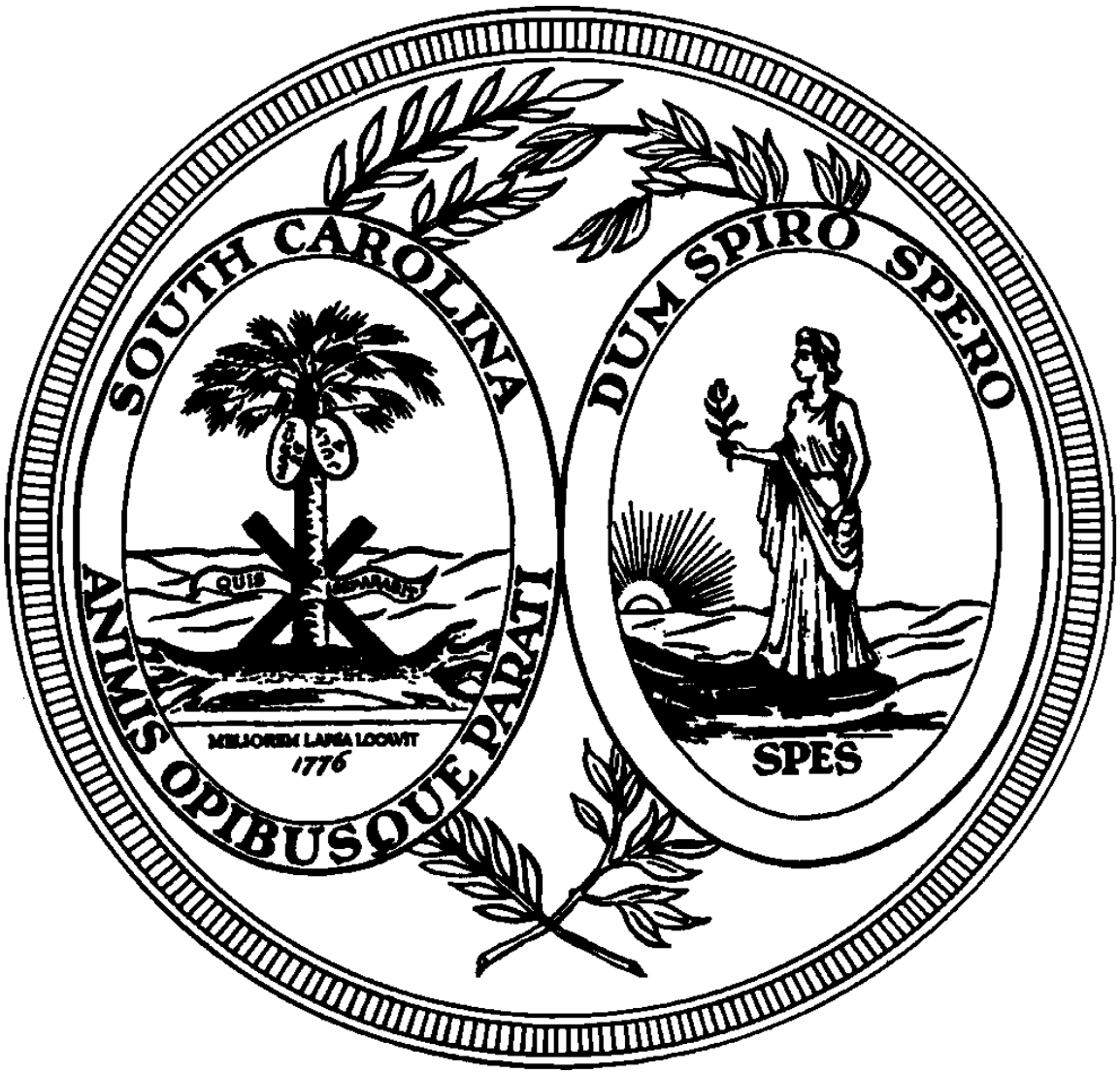
# STATE OF SOUTH CAROLINA

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

**2004**

**Prepared by the Comptroller General's Office**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DUM SPIRO SPERO
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# *Introductory Section*

Letter of Transmittal
Certificate of Achievement
Principal State Officials
Organization Chart

State of South Carolina
# Office of Comptroller General

1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201

Telephone: (803) 734-2121
Fax: (803) 734-2064
E-Mail: cgoffice@cg.state.sc.us

**RICHARD ECKSTROM**
COMPTROLLER GENERAL

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

December 10, 2004

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

I am pleased to present to the citizens of South Carolina this Comprehensive Annual Financial Report for the State of South Carolina for the fiscal year ended June 30, 2004. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year.

Management is responsible for the accuracy of the data in this report as well as for the completeness and fairness of the presentation. To the best of our knowledge and belief, this information is accurate in all material respects and is reported in a manner that presents fairly the State's financial position and results of operations and provides disclosures that enable the reader to understand the State's financial condition. For the convenience of users, we have divided the report into three sections as follows:

- The Introductory Section, containing this letter of transmittal; the Certificate of Achievement for Excellence in Financial Reporting that we recently received for our report as of June 30, 2003; a list of State officials; and an organizational chart of State government.
- The Financial Section, including the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements, required supplementary information, other combining financial statements, and schedules.
- The Statistical Section, presenting comparative financial data and other non-financial data.

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

## PROFILE OF THE STATE OF SOUTH CAROLINA

South Carolina stretches from the Atlantic Ocean to the Blue Ridge Mountains, containing 30,111 square miles. The coastal area, which is one of the leading recreation centers on the east coast, is the anchor of the State's thriving tourism industry. Since 1970, over 600,000 people have relocated to South Carolina to enjoy the State's growing economy or to retire here.

As shown in the organizational chart on page 15, State government is divided into three separate branches: legislative, executive, and judicial. State government provides a full range of services to South Carolina's citizens including educational, health, social/human, transportation, public safety, regulatory, and conservation/natural resources services. In addition, the State provides grants and loans to assist local governments, including school districts, within its borders.

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

## BUDGETARY AND INTERNAL CONTROLS

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

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

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

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

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

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

## MAJOR INITIATIVES

In addition to the State's 2004-2005 budget, the General Assembly completed several legislative initiatives during the year. State legislators continued their commitment to economic development and job creation through approval of several bills designed to promote economic growth within the State. The South Carolina Motion Picture Incentive Act provides financial incentives to the film industry for filming movies in the State. The South Carolina Small

Business Regulatory Flexibility Act established a procedure under the direction of the Department of Commerce (the Department) to review proposed agency regulations on an on-going basis and assess the costs that these proposed regulations impose on small businesses. When necessary, the Department can petition agencies to pursue less intrusive or less costly alternative methods of achieving the purpose of a proposed regulation.

The Fiscal Discipline Plan of 2004 requires the Comptroller General to report to the State Budget and Control Board (the Board) by August 31 each year the amount of budgetary General Fund revenues and expenditures recorded for the preceding fiscal year, and any resulting surplus or deficit for the budgetary General Fund. If the Comptroller General determines that annual expenditures exceeded revenues, the Board must meet within sixty days to deal with the operating deficit in the budgetary General Fund.

In addition, during the 2004 session, the General Assembly passed legislation that toughened the prosecution of those who use the Internet to exploit minors, and expanded the inmate DNA sampling program. Other legislative action strengthened laws dealing with parties who defraud secured creditors.

## ECONOMIC CONDITION AND OUTLOOK

Over the last three decades, South Carolina's economy has grown, and continues to grow, faster than much of the rest of the country. Since 1970, industry has made $88 billion of capital investment within the State. 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.

Recently passed economic development legislation has substantially increased the tax incentives available to over 800 companies locating in rural sections of the State. Several global companies have located corporate headquarters or multi-million-dollar manufacturing facilities within South Carolina. Companies such as BMW, Honda of America, Bridgestone/Firestone, Fuji, Michelin, and Roche have located corporate headquarters or have constructed multi-million dollar manufacturing facilities within the State. In addition to these projects, there have been many announcements of new plants or of expansions to existing facilities that will contribute to South Carolina's continued economic growth.

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

Since 1970, total South Carolina personal income has grown over eight-fold, ten percent faster than the growth in total United States personal income. During the 1970's, personal income grew at an average annual compound rate of 11.8 percent in South Carolina (compared to 10.7 percent nationwide). During the 1980's, the State's personal income grew 8.7 percent per year (compared to 7.8 percent nationwide). Even in the 1990's, when inflation was lower, personal income in South Carolina grew a healthy 5.9 percent per year (compared to 5.6 percent nationwide).

The State's employment conditions are improving. The most recent available employment data indicates average wages in the State increased 2.8 percent during 2003 as compared to 2002. Although the State has lost jobs in the textile and apparel industry in the last decade, its tourism industry has flourished. Employment gains in service-oriented industries,

such as tourism, have helped offset job losses in other sectors of the economy. See the management's discussion and analysis section of this report for additional information on the State's economy.

## FIDUCIARY OPERATIONS

State government's most significant fiduciary funds are the four retirement plans administered by the South Carolina Retirement Systems. Those plans include: the South Carolina Retirement System, the Police Officers' Retirement System, the Retirement System for Members of the General Assembly, and the Retirement System for Judges and Solicitors. The State has funded all four of those plans in accordance with at least the minimum recommendations of the consulting actuaries, both in the current period and in past periods. See Note 8, Retirement Plans, in the notes to the financial statements for more information.

## CASH MANAGEMENT

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

Investment income includes appreciation and depreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, particularly in the case of temporary changes in the fair value of investments that the State intends to hold to maturity. For additional details, see Note 1f, Summary of Significant Accounting Policies, and Note 4, Deposits and Investments, in the notes to the financial statements.

## RISK MANAGEMENT

The State conducts various risk control programs to help minimize losses to which it is exposed. The health insurance program conducts extensive wellness education programs that promote development and maintenance of healthful lifestyles for covered employees. The State self-funds many types of general liability and property losses rather than purchasing insurance. For additional information on the State's risk management, see Note 10, Insurance Activities, in the notes to the financial statements.

## AUDIT

The State Auditor and KPMG LLP, an independent certified public accounting firm, jointly performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2004. The auditors have provided an unqualified opinion, the most favorable outcome of the audit process.

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) recently 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, 2003. To receive a Certificate of Achievement, which is valid for one year only, a government must publish an easily readable and efficiently organized CAFR. The CAFR contents must conform to rigorous program standards, including generally accepted accounting

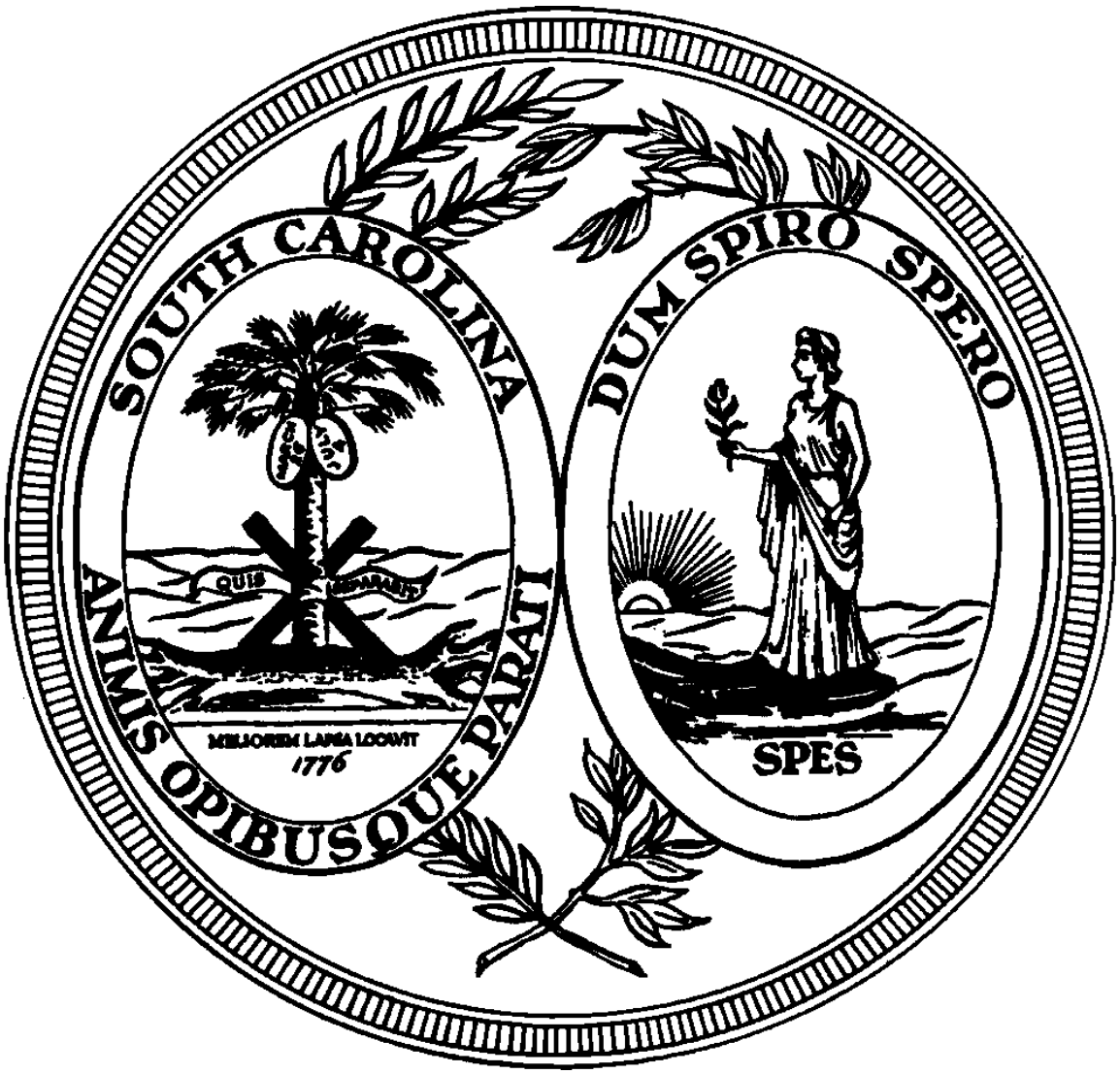
principles and applicable legal requirements. The State of South Carolina has received a Certificate of Achievement for each of the last sixteen years. This year, the State again plans to submit its CAFR to the GFOA's Certificate of Achievement program. We believe that our report for the fiscal year ended June 30, 2004, continues to meet the GFOA's stringent requirements to receive the Certificate of Achievement.

## ACKNOWLEDGMENTS

Production of this report was made possible only by the support of all State agencies and component units that supplied GAAP closing data on a timely basis. We extend special appreciation to Mr. Larry Pearce, Director of Publications and Printing at the University of South Carolina, for designing the report's attractive cover and to the National Park Service for providing the cover photograph. Dr. William C. Gillespie, Chief Economist for the State Board of Economic Advisors, provided much of the report's useful information on the State's economy.

Sincerely,

Richard Eckstrom
Comptroller General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# CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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

Nancy L. Zielke

President

Jeffrey R. Esser

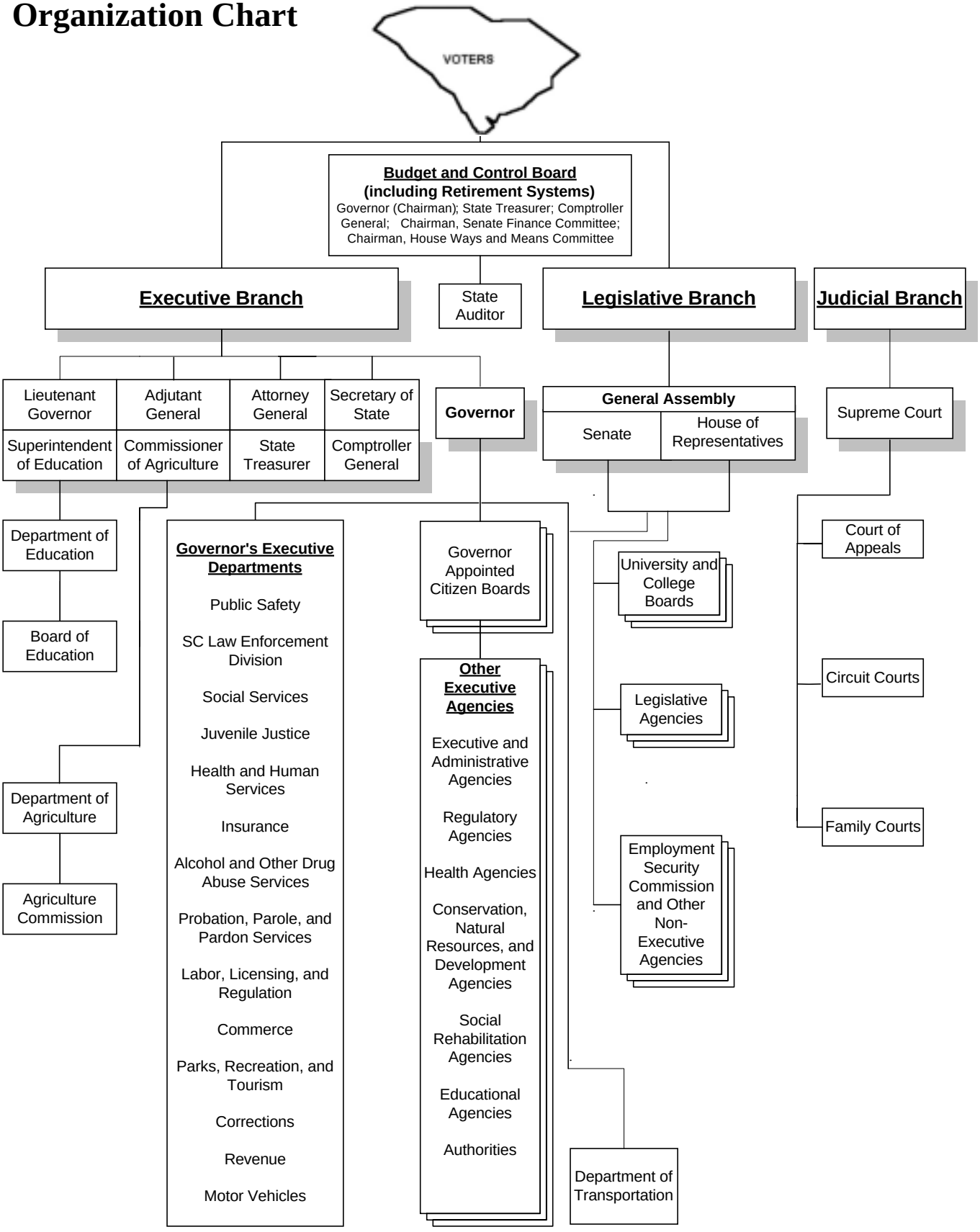
Executive Director

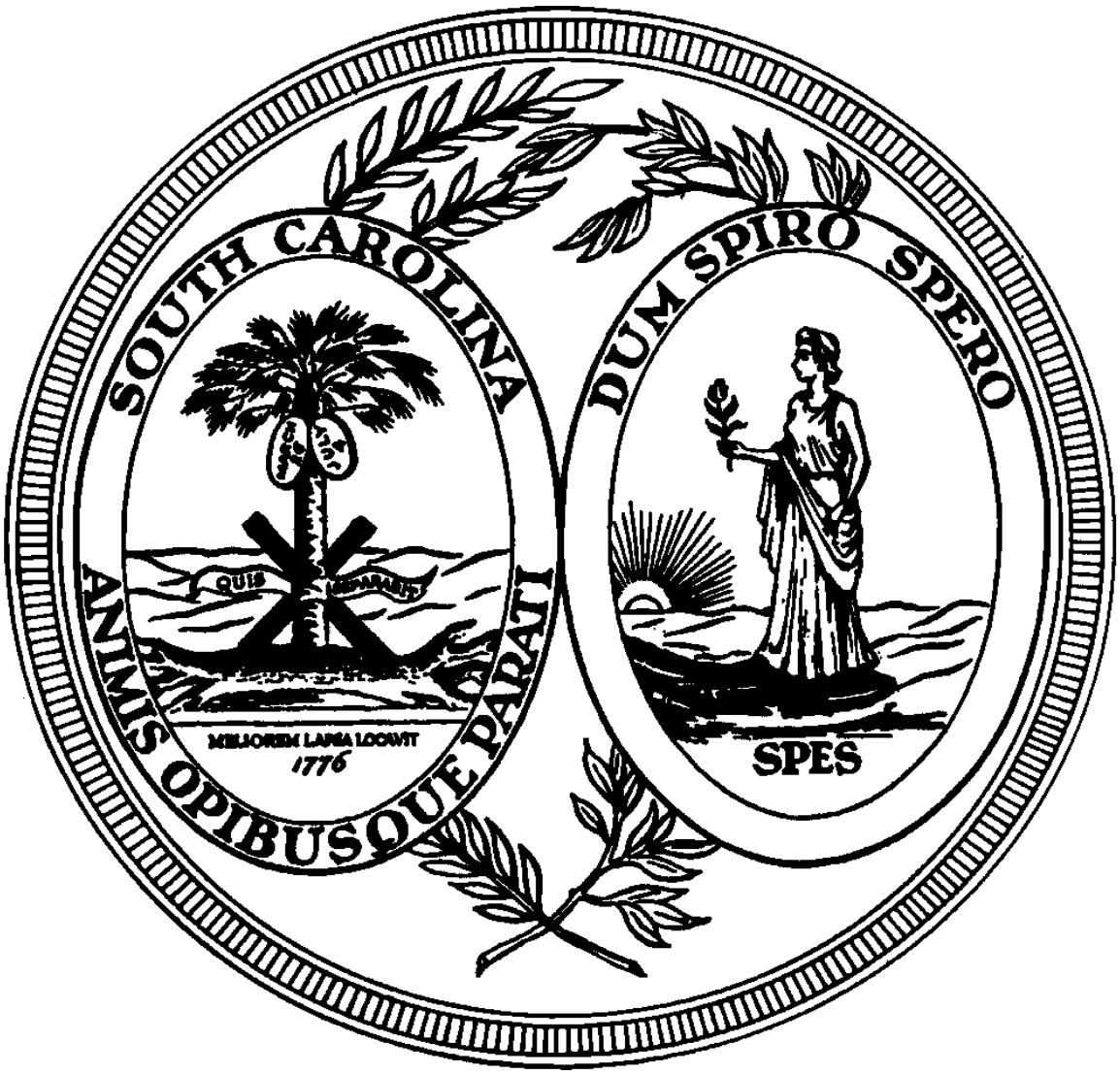
# Principal State Officials

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

The State's citizens elect the legislative and executive branch officials named above. (On September 14, 2004, the Governor appointed an interim Commissioner of Agriculture to fill a vacancy that occurred in that office.) The General Assembly elects certain members of the judicial branch, including the Supreme Court.

# Organization Chart

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# *Financial Section*

Independent Auditors' Report
Management's Discussion and Analysis (Unaudited)
Basic Financial Statements
Required Supplementary Information (Unaudited)
Supplementary Information

State of South Carolina

Office of the State Auditor

KPMG

## Independent Auditors' Report

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

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina (the State), as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain component units and agencies of the State of South Carolina, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP acting separately, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and agencies, is based solely on the reports of the other auditors.

| | Percentage not jointly audited | | Percentage audited by KPMG separately | | Percentage audited by other auditors | |
|---|---|---|---|---|---|---|
| | Total Assets | Total Revenue | Total Assets | Total Revenue | Total Assets | Total Revenue |
| Government-wide | | | | | | |
| Governmental activities | 76 | 21 | 1 | 1 | 75 | 20 |
| Business-type activities | 99 | 98 | 39 | 53 | 60 | 45 |
| Component units | 100 | 100 | 5 | 2 | 95 | 98 |
| Fund statements | | | | | | |
| Local Government Infrastructure | 100 | 100 | | | 100 | 100 |
| Department of Transportation Special Revenue Fund | 100 | 100 | | | 100 | 100 |
| Higher Education | 100 | 100 | 61 | 61 | 39 | 39 |
| Unemployment Compensation | 97 | 91 | | | 97 | 91 |
| Housing Authority | 100 | 100 | | | 100 | 100 |
| Education Assistance Authority | 100 | 100 | | | 100 | 100 |
| Other remaining fund information | 95 | 87 | 10 | 46 | 85 | 41 |

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

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

misstatement. The financial statements of the discretely presented component units identified in Note 1(a) were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the State implemented Governmental Accounting Standards Board's (GASB) Technical Bulletin No. 2004-1 *Tobacco Settlement Recognition and Financial Reporting Entity Issues* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, effective July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, supplementary information to the financial statements and the statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information to the financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Columbia, South Carolina
December 10, 2004

KPMG LLP

Greenville, South Carolina
December 10, 2004

# MANAGEMENT'S DISCUSSION AND ANALYSIS—

**Required Supplementary Information**
**(Unaudited)**

# Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2004. Please read it together with (1) the Comptroller's *Letter of Transmittal* at the front of this report and (2) the financial statements, which follow this section.

## Overview of the Financial Statements

This discussion and analysis provides an introduction to the State of South Carolina's basic financial statements, which include the following parts: (1) *government-wide financial statements,* (2) *fund financial statements,* (3) *component unit financial statements,* and (4) *notes to the financial statements*. This report also contains certain *required supplementary information* and other supplementary information.

### Government-wide Financial Statements

The government-wide statements present a long-term view of the State's finances *as a whole,* using *accrual-basis accounting*—the same accounting methods that most businesses use. The basic government-wide financial statements are on pages 33 through 129 of this report.

There are two government-wide financial statements:

*Statement of net assets*: This statement presents information on *all* of the State's assets and liabilities, both short-term (*current*) and long-term (*non-current*). In addition, the statement reports the difference between assets and liabilities as *net assets*. Over time, increases or decreases in net assets may indicate whether the State's financial health (*financial position*) is strengthening or weakening. However, the statement of net assets does not tell the whole story. To assess the State's overall financial health, you would also need to consider factors such as the State's economy and the condition of its *capital assets* such as its buildings and *infrastructure* (roads and bridges).

*Statement of activities*: This statement presents information showing how the State's overall net assets changed during the year. The State reports a change in its net assets as soon as an underlying event occurs that would cause a change. The statement of activities accounts for all current-year revenues and expenses, regardless of when the State received or paid cash. Although governments compile the statement of activities using accounting methods similar to businesses, this statement's format is quite different from the format of a business's income statement. The statement of activities can help to show how much it costs the State to provide various services. It also can help to show the extent to which each government function covers its own costs through user fees, charges, or grants. The net *revenue (expense)* column on the far right of this statement (page 38) shows how much a particular function relies on taxes and other general revenues to finance its programs.

The government-wide statements report three different kinds of *activities*:

*Governmental activities:* Most of the State's basic services are included here, such as general government, education, health and environment, social services, administration of justice, and intergovernmental (State aid to local governmental entities, including aid to the State's public school system). Taxes (primarily income and sales taxes) and federal grants finance most of these services.

*Business-type activities:* These activities usually recover all, or a significant portion, of the costs of their services or goods by charging fees to customers. Higher education (State-supported colleges and universities), unemployment compensation benefits, financing of housing facilities, and financing of student loans are the most significant of South Carolina's business-type activities.

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

### Fund Financial Statements

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

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

# Management's Discussion and Analysis

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

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

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

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

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

### Component Unit Financial Statements

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

### Notes to the Financial Statements

Immediately following the financial statements are *notes* that help explain some of the information in the financial statements and provide more detailed data. The notes on pages 71 through 129 are necessary to fully understand the financial statements.

### Required Supplementary Information

This section includes certain *required* reporting information that supplements the basic financial statements. Included in this section is a schedule that compares the State's legally adopted General Fund budget with actual revenues collected and expenditures paid for the year. Note 5 to the required supplementary information is a reconciliation that helps explain differences between the changes in fund balance of certain funds when presented on the budgetary-basis and the changes in fund balance of these funds when presented on the GAAP basis as reported in the governmental fund statements. This section also includes schedules related to the State's National Guard Pension System, a single-employer defined benefit pension plan. This required supplementary information is on pages 131 through 139 of this report.

## Government-wide Financial Analysis

*Exhibits 1* and *2* summarize the State's overall financial position and results of operations for the past two years based on information included in the government-wide financial statements.

*Exhibit 1*

**State of South Carolina's Net Assets as of June 30, 2004, with Restated Comparative Data as of June 30, 2003**

*(Expressed in Thousands)*

| | Governmental Activities | | Business-type Activities | | Totals—Primary Government | | Total Percentage Change |
|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2003-2004 |
| **Assets** | | | | | | | |
| Current and other assets | $ 6,381,109 | $ 5,863,634 | $ 3,768,061 | $ 3,628,526 | $ 10,149,170 | $ 9,492,160 | 6.9% |
| Capital assets | 11,670,170 | 10,973,503 | 2,589,266 | 2,430,956 | 14,259,436 | 13,404,459 | 6.4% |
| **Total assets** | **18,051,279** | **16,837,137** | **6,357,327** | **6,059,482** | **24,408,606** | **22,896,619** | **6.6%** |
| **Liabilities** | | | | | | | |
| Long-term liabilities | 4,893,936 | 4,567,721 | 2,375,252 | 2,174,106 | 7,269,188 | 6,741,827 | 7.8% |
| Other liabilities | 3,138,328 | 2,909,443 | 829,529 | 832,297 | 3,967,857 | 3,741,740 | 6.0% |
| **Total liabilities** | **8,032,264** | **7,477,164** | **3,204,781** | **3,006,403** | **11,237,045** | **10,483,567** | **7.2%** |
| **Net Assets** | | | | | | | |
| Invested in capital assets, net of debt | 8,534,931 | 8,077,945 | 1,695,208 | 1,648,504 | 10,230,139 | 9,726,449 | 5.2% |
| Restricted | 2,445,033 | 2,385,607 | 1,186,958 | 1,187,558 | 3,631,991 | 3,573,165 | 1.6% |
| Unrestricted | (960,949) | (1,103,579) | 270,380 | 217,017 | (690,569) | (886,562) | 22.1% |
| **Total net assets** | **$ 10,019,015** | **$ 9,359,973** | **$ 3,152,546** | **$ 3,053,079** | **$ 13,171,561** | **$ 12,413,052** | **6.1%** |

# Management's Discussion and Analysis

### Net Assets

As we noted earlier, net assets may serve, over time, as a useful indicator of the State's financial position. For the 2003-2004 accounting year, the State's net assets totaled $13.172 billion.

The largest portion of the State's net assets reflects its investment in capital assets (for example, buildings, roads, and bridges), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, they are *not* available for future spending. Further, the State cannot sell the capital assets themselves to pay off the related debt because it needs the assets for its operations; so it must find other resources to pay off the debt.

*Restricted* net assets generally are available for future spending but are subject to external restrictions (such as bond covenants, federal government grant restrictions) or restrictions imposed by enabling State legislation or through State constitutional provisions. The State's largest restricted balances include capital improvement bond proceeds (restricted for various capital projects), and loan program funds (restricted primarily for local government water and sewer projects).

*Unrestricted* net assets—resources available for future spending—reported a *deficit* balance of $690.569 million. The overall *negative* unrestricted net assets balance resulted from the $960.949 million deficit that the governmental activities reported. This deficit largely consisted of the following: (1) $796.200 million in long-term debt to finance capital assets is included while the assets are not included on the State's financial statements because most of those assets belong to local governments and because some of the debt proceeds were used for non-capital purposes, and (2) a $200.474 million deficit related to the use of Tobacco Settlement bond proceeds for operating purposes. Please see Note 3 in the notes to the financial statements for a more detailed explanation of the deficit reported for the State's governmental activities.

The State's *business-type activities*, on the other hand, reported a *positive* $270.380 million unrestricted net asset balance. This resulted from net positive balances of $479.285 million associated with higher education and certain other business-type activities. However, that positive balance was offset by a $208.905 million deficit related to the State-run medical malpractice insurance program.

# Management's Discussion and Analysis

*Exhibit 2*
**State of South Carolina's Changes in Net Assets**
**For the Fiscal Year Ended June 30, 2004, with Restated Comparative Data for the Fiscal Year Ended June 30, 2003**
*(Expressed in Thousands)*

| | Governmental Activities | | Business-type Activities | | Totals—Primary Government | | Total Percentage Change |
|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2003-2004 |
| **Revenues** | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | $ 1,599,859 | $ 1,500,240 | $ 3,010,024 | $ 2,813,392 | $ 4,609,883 | $ 4,313,632 | 6.9% |
| Operating grants and contributions | 5,656,373 | 5,139,624 | 422,971 | 429,283 | 6,079,344 | 5,568,907 | 9.2% |
| Capital grants and contributions | 584,722 | 516,167 | 47,136 | 47,381 | 631,858 | 563,548 | 12.1% |
| General revenues: | | | | | | | |
| Individual income tax | 2,416,437 | 2,282,464 | — | — | 2,416,437 | 2,282,464 | 5.9% |
| Retail sales and use tax | 3,009,485 | 2,820,520 | — | — | 3,009,485 | 2,820,520 | 6.7% |
| Other taxes | 1,390,893 | 1,323,521 | — | — | 1,390,893 | 1,323,521 | 5.1% |
| Unrestricted grants and contributions | 80,333 | 82,721 | — | — | 80,333 | 82,721 | (2.9%) |
| Unrestricted investment income | 18,723 | 29,535 | — | — | 18,723 | 29,535 | (36.6%) |
| Tobacco legal settlement | 74,180 | 80,042 | — | — | 74,180 | 80,042 | (7.3%) |
| Other | 75,967 | 71,621 | — | — | 75,967 | 71,621 | 6.1% |
| **Total revenues** | **14,906,972** | **13,846,455** | **3,480,131** | **3,290,056** | **18,387,103** | **17,136,511** | **7.3%** |
| **Expenses** | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | 1,587,442 | 1,485,190 | — | — | 1,587,442 | 1,485,190 | 6.9% |
| Education | 1,228,354 | 1,110,675 | — | — | 1,228,354 | 1,110,675 | 10.6% |
| Health and environment | 4,588,137 | 4,240,170 | — | — | 4,588,137 | 4,240,170 | 8.2% |
| Social services | 942,591 | 846,818 | — | — | 942,591 | 846,818 | 11.3% |
| Administration of justice | 628,227 | 676,157 | — | — | 628,227 | 676,157 | (7.1%) |
| Resources and economic development | 192,000 | 202,982 | — | — | 192,000 | 202,982 | (5.4%) |
| Transportation | 531,667 | 473,086 | — | — | 531,667 | 473,086 | 12.4% |
| Intergovernmental | 3,813,383 | 3,686,361 | — | — | 3,813,383 | 3,686,361 | 3.4% |
| Other | 67,614 | 76,130 | — | — | 67,614 | 76,130 | (11.2%) |
| Business-type activities: | | | | | | | |
| Higher education | — | — | 2,527,649 | 2,460,589 | 2,527,649 | 2,460,589 | 2.7% |
| Higher education institution support [a] | — | — | 757,252 | 728,103 | 757,252 | 728,103 | 4.0% |
| Unemployment compensation benefits | — | — | 493,619 | 546,389 | 493,619 | 546,389 | (9.7%) |
| Financing of housing facilities | — | — | 137,671 | 133,632 | 137,671 | 133,632 | 3.0% |
| Medical malpractice insurance | — | — | 30,733 | 50,113 | 30,733 | 50,113 | (38.7%) |
| Financing of student loans | — | — | 39,641 | 41,409 | 39,641 | 41,409 | (4.3%) |
| Tuition prepayment program | — | — | 30,620 | 27,208 | 30,620 | 27,208 | 12.5% |
| Patriots Point development | — | — | 6,976 | 6,986 | 6,976 | 6,986 | (0.1%) |
| Insurance claims processing | — | — | 1,586 | 1,603 | 1,586 | 1,603 | (1.1%) |
| Other | — | — | 22,659 | 25,452 | 22,659 | 25,452 | (11.0%) |
| **Total expenses** | **13,579,415** | **12,797,569** | **4,048,406** | **4,021,484** | **17,627,821** | **16,819,053** | **4.8%** |
| **Excess (deficiency) before transfers and special and extraordinary items** | **1,327,557** | **1,048,886** | **(568,275)** | **(731,428)** | **759,282** | **317,458** | **139.2%** |
| Special and extraordinary items | — | — | (773) | (996) | (773) | (996) | 22.4% |
| Net transfers | (668,515) | (782,874) | 668,515 | 782,874 | — | — | N/A |
| **Increase in net assets** | **659,042** | **266,012** | **99,467** | **50,450** | **758,509** | **316,462** | **N/A** |
| **Net assets, beginning of year** | **9,359,973** | **9,093,961** | **3,053,079** | **3,002,629** | **12,413,052** | **12,096,590** | **0.0%** |
| **Net assets, end of year** | **$ 10,019,015** | **$ 9,359,973** | **$ 3,152,546** | **$ 3,053,079** | **$ 13,171,561** | **$ 12,413,052** | **6.1%** |

[a] The higher education institution support activity represents associations, foundations, and authorities created for the benefit of the State's higher education institutions.

## Changes in Net Assets

The State's net assets increased $758.509 million, or 6.1%, over the prior year's net assets.

## Governmental Activities

Net assets of the State's governmental activities increased by $659.042 million, or 7.0%, primarily due to increased revenues. Governmental activities' revenues are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the sources of revenues that support governmental activities.

Governmental activities' expenses were mostly associated with services provided for health and environment, intergovernmental, general government, education, and social services. *Exhibit 4* compares the cost of these services with their *program revenues*—revenues derived directly from the program itself or from parties outside the State's taxpayers or citizenry. The difference between the two represents the *net cost* of these services that taxes and other general revenues financed. Intergovernmental expenses of $3.813 billion represent aid provided to local governments, including local school districts; taxes and other general revenues entirely supported these expenses. This aid includes formula-based State revenue sharing, aid to local school districts for public education, and subsidies to reimburse

# Management's Discussion and Analysis

counties for the State's residential property tax relief program. For the accounting year ended June 30, 2004, the State used $5.738 billion in tax and other general revenues to finance the net cost of all services that the State's governmental activities provided. Governmental activities reported $668.515 million in net transfers to the State's business-type activities, most of which represents support provided to the State's public colleges and universities.

The following paragraphs highlight the most significant changes in revenues, expenses, and net transfers for governmental activities during the 2003-2004 accounting year:

- Operating grants and contributions increased by $516.749 million, or 10.1%, over last year. This change related to increases in federal grant revenues and in contributions for education from the Lottery Commission. Federal Medicaid funding increased due to rising health costs and increased client participation. In addition, the percentage of federal funding for Medicaid expenses increased as a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003. Federal funds for food stamp benefits were greater because of an increase in households receiving these benefits. Lottery contributions increased significantly during this second full fiscal year of lottery operations.
- Capital grants and contributions increased $68.555 million, or 13.3%, because of increased federal funding for State highway construction projects.
- State tax revenues rebounded due to improving economic conditions. Tax revenues increased $390.310 million, or 6.1%, over last year. Individual income and sales taxes increased 5.9% and 6.7%, respectively, as the State's employment picture improved. By comparison, there was no growth in tax revenues reported during the previous fiscal year. Individual income taxes actually declined 3.2% during fiscal year 2002-2003 because of higher unemployment during that reporting period.
- Education expenses rose $117.679 million, or 10.6%. Most of this increase was due to an increase in federal grant revenues distributed by the State Department of Education to South Carolina's school districts. Additionally, lottery-based scholarships paid to the State's colleges and universities increased during this second fiscal year of lottery-based scholarship funding.
- Health expenses increased $347.967 million, or 8.2%. Medicaid expenses continue to climb as a result of an increase in client participants and overall higher health costs.
- Social service expenses were $95.773 million, or 11.3%, more than last year primarily because of an increase in the number of families receiving food stamp benefits.
- Administration of justice expenses declined $47.930 million, or 7.1%. Prior to fiscal year 2003-2004, the State's motor vehicle program was reported under the State Department of Public Safety. As a result of government restructuring, that program became a cabinet agency under the Governor's authority and its activity is now reported within the general government function.
- Transportation expenses rose $58.581 million, or 12.4%, because of an increase in highway construction and maintenance projects.
- Net transfers to business-type activities declined $114.359 million, or 14.6%, primarily due to a reduction in State appropriation funding to State-supported colleges and universities.

# Management's Discussion and Analysis

*Exhibit 3*

**Revenues Supporting Governmental Activities - By Source**

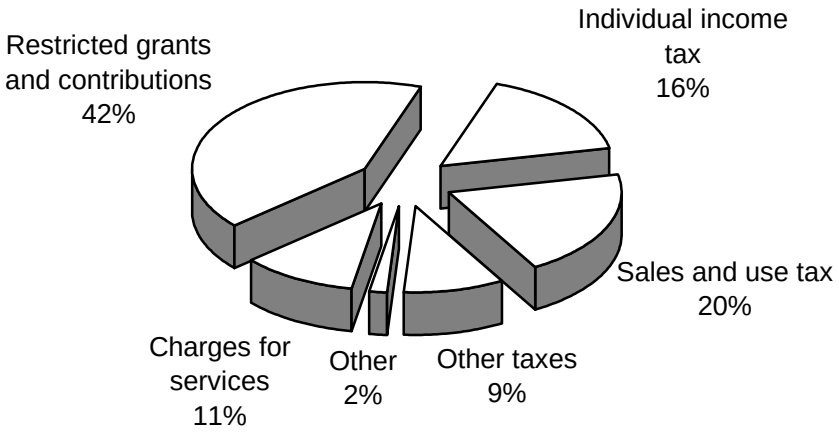
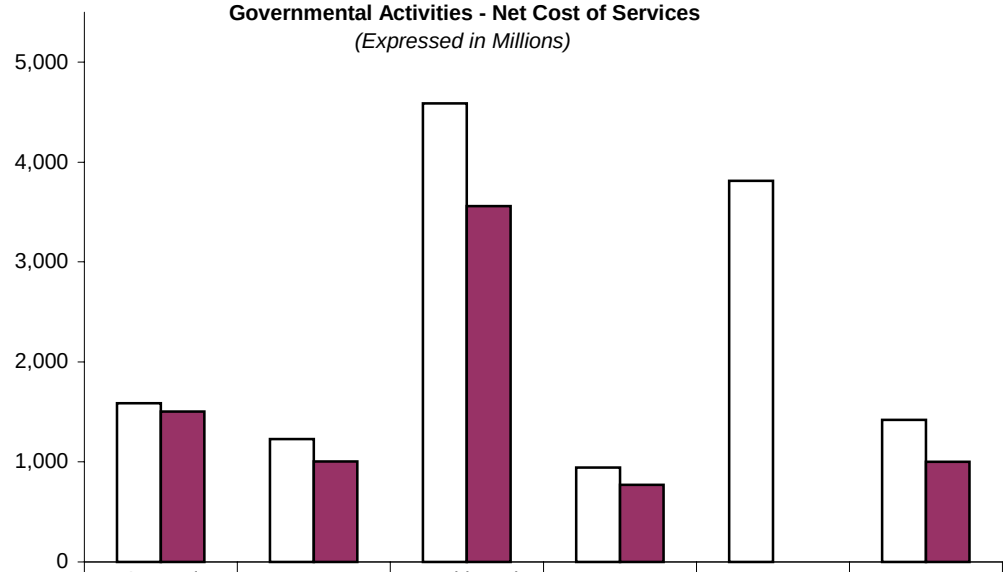



*Exhibit 4*

**Governmental Activities - Net Cost of Services**

*(Expressed in Millions)*




| | General government | Education | Health and environment | Social services | Intergovern-mental | Other |
|---|---|---|---|---|---|---|
| Expenses | $1,587 | $1,228 | $4,588 | $943 | $3,813 | $1,420 |
| Revenues | $1,505 | $1,006 | $3,558 | $772 | $0 | $1,000 |

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### Business-type Activities

Net assets of the State's business-type activities increased $99.467 million, or 3.3%.

Business-type activities' revenues included charges for services (86.5%) and grants and contributions (including federal aid) (13.5%). Business-type activities' expenses were mostly to provide higher education services and support (81.1%), unemployment compensation benefits (12.2%), and housing services (3.4%).

Most business-type activities are self-supporting. Tuition and student fees, research and other grants (both private and governmental), and other charges primarily pay for the services that the Higher Education Fund provides. The Higher Education Fund, however, receives substantial resources (primarily transfers of annual appropriations) from the State's governmental activities. Essentially, net transfers to the Higher Education Fund represent the cost of educational services that taxes and other general revenues of governmental activities support.

The following paragraphs highlight the most significant changes in revenues, expenses, and net transfers for business-type activities during the 2003-2004 accounting year:

- Charges for services increased $196.632 million, or 7.0%. This was primarily because of increases for higher education activities. Revenues of State-supported colleges and universities were up because of tuition and fee increases and increased enrollment. Institutions raised tuition and fees to help offset a reduction in State appropriations. Higher education revenues also increased because of lottery-funded scholarships to in-State students who met certain requirements.
- Unemployment compensation benefit expenses declined $52.770 million, or 9.7%, primarily due to the ending of the Emergency Unemployment Compensation program.
- Net transfers received from governmental activities decreased by $114.359 million, or 14.6%. This represents a reduction in State appropriation funding to State-supported colleges and universities.

## Financial Analysis of the State's Funds

The State of South Carolina uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the fund financial statements, the focus is on reporting major funds.

### Governmental Funds

*Exhibit 5* shows the components of fund balance for the State's various governmental funds as of June 30, 2004.

*Exhibit 5*
**State of South Carolina's Governmental Fund Balances**
*(Expressed in Thousands)*

| | General Fund | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue | State Tobacco Settlement | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| Reserved | $ 90,605 | $ 972 | $ 1,716,773 | $ 10,508 | $ — | $ 174,737 | $ 1,993,595 |
| Unreserved, designated | — | — | — | — | — | 195,589 | 195,589 |
| Unreserved, undesignated | (97,632) | 353,753 | (304,053) | (120,107) | 498,871 | 516,935 | 847,767 |
| **Totals** | **$ (7,027)** | **$ 354,725** | **$ 1,412,720** | **$ (109,599)** | **$ 498,871** | **$ 887,261** | **$ 3,036,951** |
| **Change from prior year** | **$ 139,343** | **$ 58,123** | **$ 82,356** | **$ (112,695)** | **$ (40,370)** | **$ 186,369** | **$ 313,126** |
| **Percentage change** | **95.2%** | **19.6%** | **6.2%** | **(3,640.0%)** | **(7.5%)** | **26.6%** | **11.5%** |

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At June 30, 2004, the State's governmental funds' ending fund balance was $3.037 billion, which represents an increase of $313.126 million, or 11.5%, from the prior year. About one-third of this total (34.4%) makes up the *unreserved* fund balance—the amount available for spending in the coming year. The remaining fund balance, or 65.6%, is *reserved* and is *not* available for future appropriation because it is accessible only for specific purposes. The following paragraphs discuss the major governmental funds that had significant changes in fund balance:

The *General Fund* is one of two large State operating funds. This fund includes resources that pay for the services that the State traditionally has provided to its citizens. These resources, such as taxes, are accounted for in the General Fund unless State law requires them to be accounted for in another fund. During the 2003-2004 accounting year, the total fund balance of the General Fund increased by $139.343 million, or 95.2%, from last year. This increase resulted mainly from tax revenue growth because of improving economic conditions and most State agencies receiving less State appropriation expenditure authority. Total revenues grew $283.813 million, or 4.9%, while expenditures increased by just $59.459 million, or 1.1%. Individual income taxes increased $116.279 million, or 5.1%, sales and use taxes increased $128.080 million, or 6.2%, and other taxes increased $51.107 million, or 7.4%. In contrast, tax revenues for fiscal year 2002-2003 experienced no growth from the prior fiscal year. Individual income taxes for that period actually declined 2.4% from the prior year due to higher unemployment. Growth in General Fund expenditures was nominal for most functional categories with the exception of the health and environment and administration of justice categories. Health and environment expenditures grew $105.181 million, or 8.1%, and were attributable to increases in the State's share of matching funds associated with the federal Medicaid assistance program. Medicaid payments increased during the year due to greater client participation and higher health costs. Reported expenditures associated with the administration of justice fell $48.379 million, or 9.6%, primarily because the Division of Motor Vehicles, previously reported within the Department of Public Safety, was restructured as a separate agency and classified as part of the general government function for fiscal year 2003-2004. Other financing sources of the General Fund declined $78.592 million, or 13.9%, primarily because fewer bond proceeds were received this year than last year.

The *Departmental General Operating Fund* accounts for resources, other than General Fund resources, that State agencies may use for operating purposes. These resources include significant amounts of federal grant receipts. Fund balance increased by $58.123 million, or 19.6%, over last year, mainly because revenues were $608.751 million, or 12.6%, higher than last year, while expenditures increased only $569.967 million, or 11.7%. Revenues increased mostly because of increased license and fee revenues, fines and penalty revenues, and additional federal Medicaid funding under the federal Jobs Growth and Tax Relief Reconciliation Act of 2003. Health expenditures grew $414.489 million, or 13.7%, over last year because of an increase in federal Medicaid assistance payments related to increased client participation and higher health costs.

The *Department of Transportation (DOT) Special Revenue Fund* accounts for various gasoline taxes, fees, fines, and federal grant resources. The DOT uses these resources to pay for its general operations, which include highway maintenance, regulation, and construction of public highways and bridges. Fund balance decreased $112.695 million during 2003-2004 resulting in a total fund deficit of $109.599 million at the end of the fiscal year. This occurred primarily because of long-term commitments by DOT to provide funding for highway construction projects administered by the State Infrastructure Bank (included within the Local Government Infrastructure Fund which is presented with the State's other major governmental funds in the basic financial statements). These commitments are recorded as interfund payables by the DOT Special Revenue Fund and as interfund receivables by the Local Government Infrastructure Fund. The commitments will be discharged (i.e., reduced) as DOT provides construction services to the Bank.

The *State Tobacco Settlement Fund* accounts for revenues received from the General Fund and from the Tobacco Settlement Revenue Management Authority, a blended component unit and nonmajor governmental fund designated to receive and manage the State's share of the multi-state legal settlement with the tobacco industry. Fund balance declined $40.370 million, or 7.5%, during 2003-2004 because the fund's health-related expenditures for the year exceeded its interest and investment earnings.

### Proprietary Funds

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

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*Exhibit 6*
**State of South Carolina's Proprietary Fund Net Assets**
*(Expressed in Thousands)*

| | Enterprise Funds | | | | | | |
|---|---|---|---|---|---|---|---|
| **Fund Net Assets** | **Higher Education** | **Unemployment Compensation** | **Housing Authority** | **Education Assistance Authority** | **Nonmajor Enterprise** | **Total Enterprise** | **Internal Service Funds** |
| Invested in capital assets (net of related debt) | $ 1,557,142 | $ — | $ 65 | $ 225 | $ 137,776 | $ 1,695,208 | $ 124,730 |
| Restricted, expendable | 281,935 | 431,072 | 233,696 | 123,179 | 57,406 | 1,127,288 | 33,229 |
| Restricted, nonexpendable | 38,044 | — | — | — | 21,626 | 59,670 | 354 |
| Unrestricted | 394,413 | — | 1,268 | 1,055 | (110,726) | 286,010 | (141,184) |
| **Totals** | **$ 2,271,534** | **$ 431,072** | **$ 235,029** | **$ 124,459** | **$ 106,082** | **$ 3,168,176** | **$ 17,129** |
| **Change from prior year** | **$ 157,173** | **$ (104,602)** | **$ 11,063** | **$ (4,000)** | **$ 43,756** | **$ 103,390** | **$ (93,278)** |
| **Percentage change** | **7.4%** | **(19.5%)** | **4.9%** | **(3.1%)** | **70.2%** | **3.4%** | **(84.5%)** |

The State has two kinds of proprietary funds: enterprise funds and internal service funds.

*Enterprise funds* are reported as business-type activities in the government-wide financial statements. Enterprise funds sell goods or services primarily to parties outside of State government.

The *Higher Education Fund*, an enterprise fund, accounts for the general operations of ten four-year higher education institutions and sixteen area technical colleges. Fund net assets increased $157.173 million, or 7.4%. This total increase included a $62.316 million, or 18.8%, increase in unrestricted net assets. Unrestricted net assets represent resources that can be used for the institutions' on-going operations. The increase in this portion of net assets primarily was due to increases in tuition and student fees, as well as increased enrollment.

The *Unemployment Compensation Fund*, another enterprise fund, experienced a significant decline in fund balance during the accounting year ended June 30, 2004. This fund collects assessments from employers and uses these resources to pay benefits to unemployed persons who are legally eligible to receive such benefits. The fund's net assets decreased $104.602 million, or 19.5%, primarily because unemployment benefit payments exceeded the insurance premiums and program revenues received. In addition, the fund earned less interest income than last year because it had less cash and because interest rates were lower.

South Carolina's *internal service funds* provide certain services (including maintenance, insurance, printing, data processing, and motor pool services) and some goods (such as office supplies) primarily to other State funds but sometimes to local governments as well. The objective of an internal service fund is to charge its customers for the costs of the services or goods that it provides. Because internal service funds primarily benefit State government, South Carolina reports them as governmental activities in the government-wide financial statements.

## Budgetary General Fund Highlights

The State's *Board of Economic Advisors (BEA)* is responsible for forecasting revenues for the budget. State law requires that the BEA meet at least quarterly to review revenue collections and to adjust its forecasts if necessary. If the BEA reduces revenue projections significantly once the budget year begins, the State's *Budget and Control Board* (the Board) is responsible for mandating spending cuts to keep the budget in balance.

On August 15, 2003, based on current-year and prior-year revenue collection trends, the State's Board of Economic Advisors (BEA) declared a revenue shortfall for the 2003-2004 accounting year and adjusted its revenue estimate for the Budgetary General Fund downward by $112.976 million from the amount included in the annual Appropriation Act.

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

On May 13, 2004, the BEA revised its revenue estimate upward by $130.000 million because tax revenue collections were greater than expected as economic conditions for the State improved. The

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Board elected not to restore the 1% agency budget cuts it had ordered in August 2003.

The 2003-2004 appropriations had to be increased by $29.251 million during the year to fund certain State-mandated programs that were underestimated in the Appropriation Act. The Department of Corrections received $23.700 million of these additional appropriations.

Actual revenues at June 30, 2004, were $59.306 million more than the revised expected revenues. Furthermore, actual revenues were $251.660 million greater than actual expenditures. Because of a better economy and actions taken by the Board to reduce agency spending, the State was able to eliminate last year's $131.227 million budgetary general fund *deficit*, and end the year with a budgetary general fund surplus of $120.433 million. Also, an additional $25.155 million was restored to the State's "rainy day account," which had been fully depleted at the end of fiscal year 2002-2003. See the *Budgetary Reporting* subsection of the *Required Supplementary Information* section on pages 132 through 137 of this report for a detailed budgetary comparison schedule.

## Capital Assets and Debt Administration

### Capital Assets

At the end of the 2003-2004 accounting year, the State had $14.259 billion invested in capital assets. This represented a net increase (including additions and deductions) of $854.977 million, or 6.4%, over the previous accounting year (see *Exhibit 7*).

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

| | Governmental Activities | | Business-type Activities | | Totals—Primary Government | | Total Percentage Change |
|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2003-2004 |
| Land and improvements | $ 1,366,894 | $ 858,814 | $ 204,828 | $ 201,018 | $ 1,571,722 | $ 1,059,832 | 48.3% |
| Infrastructure | 5,775,804 | 5,647,697 | — | — | 5,775,804 | 5,647,697 | 2.3% |
| Buildings and improvements | 910,181 | 890,319 | 1,774,445 | 1,709,790 | 2,684,626 | 2,600,109 | 3.3% |
| Vehicles | 163,472 | 181,426 | 10,575 | 9,099 | 174,047 | 190,525 | (8.6%) |
| Machinery and equipment | 110,642 | 112,180 | 202,328 | 198,575 | 312,970 | 310,755 | 0.7% |
| Works of art and historical treasures | 3,667 | 3,667 | 18,913 | 19,029 | 22,580 | 22,696 | (0.5%) |
| Construction in progress | 3,326,648 | 3,258,002 | 373,483 | 288,409 | 3,700,131 | 3,546,411 | 4.3% |
| Intangible assets | 12,862 | 21,398 | 4,694 | 5,036 | 17,556 | 26,434 | (33.6%) |
| **Total** | **$ 11,670,170** | **$ 10,973,503** | **$ 2,589,266** | **$ 2,430,956** | **$ 14,259,436** | **$ 13,404,459** | **6.4%** |

# Management's Discussion and Analysis

As in the previous accounting year, the State's investment in land increased significantly during 2003-2004, because it acquired rights-of-way for highway construction and widening projects and it purchased several parcels of land and easements for conservation purposes.

Intangible assets decreased from last fiscal year, primarily because of depreciation expense on the Department of Motor Vehicle's Project Phoenix software system.

See Note 7 in the notes to the financial statements within this report for additional information on the State's capital assets.

### Long-term Debt

At the end of the accounting year, the State had $6.932 billion in bonds and notes outstanding—an increase of $418.240 million, or 6.4%, over last year (see *Exhibit 8*). Note 12, in the notes to the financial statements, includes more detailed information about the State's long-term debt.

*Exhibit 8*

**State of South Carolina's Outstanding Bonds and Notes**

(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Totals—Primary Government | | Total Percentage Change |
|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2003-2004 |
| Backed by the State: | | | | | | | |
| General obligation bonds..... | $ 2,266,261 | $ 2,239,207 | $ 242,740 | $ 208,968 | $ 2,509,001 | $ 2,448,175 | 2.5% |
| Backed by specific revenues: | | | | | | | |
| Revenue bonds and notes..... | 33,686 | 33,429 | 1,750,104 | 1,643,188 | 1,783,790 | 1,676,617 | 6.4% |
| Infrastructure Bank bonds..... | 1,725,514 | 1,463,582 | — | — | 1,725,514 | 1,463,582 | 17.9% |
| Tobacco Authority bonds..... | 845,630 | 869,870 | — | — | 845,630 | 869,870 | (2.8%) |
| Limited obligation bonds..... | 23,304 | 27,040 | — | — | 23,304 | 27,040 | (13.8%) |
| Bond anticipation notes..... | — | — | 44,310 | 28,025 | 44,310 | 28,025 | 58.1% |
| **Total.....** | **$ 4,894,395** | **$ 4,633,128** | **$ 2,037,154** | **$ 1,880,181** | **$ 6,931,549** | **$ 6,513,309** | **6.4%** |

# Management's Discussion and Analysis

New debt resulted mainly from the issuance of $275.435 million in Infrastructure Bank revenue bonds. The State Infrastructure Bank uses its own revenues to pay the principal and interest (*debt service*) on these bonds. These revenues are primarily truck registration fees and penalties that the Department of Motor Vehicles collects and transfers to the Bank.

Three bond rating services assign ratings to bonds that the State backs with its own taxing authority (*general obligation bonds*). Standard & Poor's and Fitch Ratings rate these bonds as "AAA," and Moody's Investors Service rates them as "Aaa." These are the highest ratings that these services assign. In September 2003, Moody's revised the outlook for the State from stable to negative. In announcing the change in outlook, Moody's stated: "The negative outlook reflects a trend of weakened revenues resulting from continued slowing in the State's economy, which has led to multi-year General Fund year-end deficits." Standard & Poor's and Fitch Ratings continue to recognize the State's outlook as stable.

The State limits the amount of annual payments for principal and interest on general obligation bonds and notes rather than directly limiting the amount of those bonds and notes that the State may have outstanding. At June 30, 2004, the State legally could issue additional bonds as long as the new debt would not increase the State's annual principal and interest payments by more than the following amounts: $23.012 million in total for all institution bonds, $23.162 million for highway bonds, $37.059 million for general obligation bonds, excluding institution and highway bonds, and $22.378 million for economic development bonds. (*Institution bonds* are general obligation bonds that benefit the State's Higher Education Fund.)

## Economic Factors and Next Year's Budget

### The "Rainy Day Account"

At June 30, 2004, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of $25.155 million rather than the $149.034 million needed to be fully funded at that date. The State's Constitution requires restoration of the reserve to full funding within three years after a withdrawal. State law defines full funding for the reserve as 3% of the Budgetary General Fund's revenues for the latest completed accounting year.

### Budgetary General Fund for the 2004-2005 Accounting Year

On November 10, 2004, based on current-year revenue collection trends, the State's Board of Economic Advisors (BEA) revised its original revenue estimate for fiscal year 2004-2005 upward by $108.961 million, to a total of $5.704 billion.

See the *Budgetary General Fund Highlights* subsection above for additional information about the responsibilities of the BEA and the State Budget and Control Board.

### Economic Conditions

The State's Budgetary General Fund revenue collections through the first five months of the 2004-2005 fiscal year were $114.102 million, or 5.3%, higher than the level collected in the same period in 2003. For July through November 2004, retail sales tax collections were 1.1% greater than July through November 2003 receipts, while net individual income tax collections were up 7.1% over the same period. Year-to-date net corporate income tax collections were up 62.0%, or $19.096 million, for July through November 2004 as compared to the same period in 2003.

The BEA adopted a preliminary Budgetary General Fund revenue estimate of $5.878 billion for the 2005-2006 accounting year. This revenue forecast represents a 3.0% increase over the revised base for 2004-2005. The BEA will review this estimate again in February 2005 and either adjust or finalize it then.

## Requests For Information

The primary purpose of this financial report is to provide South Carolina's citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Please address your questions concerning information in this report as follows:

Office of the Comptroller General
1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201

# BASIC
# FINANCIAL STATEMENTS

# Statement of Net Assets

**June 30, 2004**
**(Expressed in Thousands)**

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals | COMPONENT UNITS |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 2,229,317 | $ 1,252,891 | $ 3,482,208 | $ 166,245 |
| Investments | 287 | 57,912 | 58,199 | 182,850 |
| Invested securities lending collateral | 383,582 | 124,411 | 507,993 | 19,030 |
| Receivables, net: | | | | |
| Accounts | 252,968 | 44,266 | 297,234 | 182,958 |
| Contributions | — | 5,281 | 5,281 | 18,100 |
| Participants | — | 5,778 | 5,778 | — |
| Accrued interest | 19,511 | 5,281 | 24,792 | 3,400 |
| Income taxes | 267,731 | — | 267,731 | — |
| Sales and other taxes | 426,453 | — | 426,453 | — |
| Student accounts | — | 28,075 | 28,075 | — |
| Patient accounts | 16,286 | 112,560 | 128,846 | — |
| Loans and notes | 27,564 | 106,573 | 134,137 | — |
| Assessments | — | 53,031 | 53,031 | — |
| Due from Federal government and other grantors | 664,358 | 104,591 | 768,949 | — |
| Internal balances | 9,428 | (9,428) | — | — |
| Due from component units | 18,125 | 82,623 | 100,748 | — |
| Inventories | 44,098 | 28,365 | 72,463 | 111,382 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 51,110 | 243,986 | 295,096 | 194,263 |
| Investments | 113,196 | 17,854 | 131,050 | 13,740 |
| Loans receivable | — | 295 | 295 | — |
| Other | 66,330 | 2,161 | 68,491 | — |
| Prepaid items | 17,224 | 24,632 | 41,856 | 7,428 |
| Other current assets | — | 3,066 | 3,066 | 5,038 |
| Deferred charges | — | — | — | 1,415 |
| Total current assets | 4,607,568 | 2,294,204 | 6,901,772 | 905,849 |
| Long-term assets: | | | | |
| Receivables, net: | | | | |
| Accounts | 74,896 | 429 | 75,325 | 2,311 |
| Contributions | — | 2,950 | 2,950 | 29,710 |
| Participants | — | 17,935 | 17,935 | — |
| Income taxes | 37,129 | — | 37,129 | — |
| Sales and other taxes | 46,412 | — | 46,412 | — |
| Patient accounts | 7,185 | — | 7,185 | — |
| Loans and notes | 355,050 | 485,242 | 840,292 | — |
| Investments | 278,156 | 14,715 | 292,871 | 520,061 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 524,768 | 321,801 | 846,569 | 40,060 |
| Investments | — | 64,368 | 64,368 | 265,271 |
| Accounts receivable | 426,426 | — | 426,426 | 7 |
| Loans receivable | — | 522,487 | 522,487 | — |
| Other | 5,718 | 7,268 | 12,986 | 510 |
| Prepaid items | 163 | 15,329 | 15,492 | — |
| Other long-term assets | 774 | 12,465 | 13,239 | 5,139 |
| Deferred charges | 16,864 | 8,868 | 25,732 | 374,560 |
| Investment in joint venture | — | — | — | 9,096 |
| Non-depreciable capital assets | 4,679,297 | 556,761 | 5,236,058 | 828,096 |
| Depreciable capital assets, net | 6,990,873 | 2,032,505 | 9,023,378 | 2,721,407 |
| Total long-term assets | 13,443,711 | 4,063,123 | 17,506,834 | 4,796,228 |
| **Total assets** | **18,051,279** | **6,357,327** | **24,408,606** | **5,702,077** |

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

# Statement of Net Assets (Continued)

**June 30, 2004**
**(Expressed in Thousands)**

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals | COMPONENT UNITS |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 670,514 | $ 135,560 | $ 806,074 | $ 116,013 |
| Accrued salaries and related expenses | 109,421 | 64,279 | 173,700 | 9,312 |
| Accrued interest payable | 38,318 | 9,995 | 48,313 | 68,986 |
| Retainages payable | 4,260 | 10,303 | 14,563 | 449 |
| Tax refunds payable | 492,534 | 3,610 | 496,144 | — |
| Payables-aid to individuals/families | 579 | — | 579 | — |
| Prizes payable | — | — | — | 47,497 |
| Unemployment benefits payable | — | 5,082 | 5,082 | — |
| Intergovernmental payables | 341,638 | 4,166 | 345,804 | 32 |
| Tuition benefits payable | — | 6,456 | 6,456 | — |
| Policy claims | 471,133 | 37,500 | 508,633 | 37,228 |
| Due to primary government | — | — | — | 100,748 |
| Unearned revenues and deferred credits | 209,607 | 108,233 | 317,840 | 22,885 |
| Deposits | — | 5,051 | 5,051 | 9 |
| Amounts held in custody for others | — | 3,525 | 3,525 | — |
| Securities lending collateral | 383,582 | 124,411 | 507,993 | 19,030 |
| Liabilities payable from restricted assets: | | | | |
| Accounts payable | — | 108 | 108 | 18 |
| Accrued interest payable | 28,570 | 17,396 | 45,966 | 1,766 |
| Bonds payable | 27,855 | 28,905 | 56,760 | — |
| Other | — | 89,775 | 89,775 | — |
| Notes payable | 1,513 | 29,639 | 31,152 | 5,407 |
| Revenue bonds anticipation notes payable | — | 44,310 | 44,310 | — |
| General obligation bonds payable | 188,313 | 12,315 | 200,628 | — |
| Revenue bonds payable | 1,190 | 14,605 | 15,795 | 74,175 |
| Limited obligation bonds payable | 3,930 | — | 3,930 | — |
| Capital leases payable | 875 | 8,951 | 9,826 | 2,799 |
| Commercial paper notes | — | — | — | 345,050 |
| Compensated absences payable | 120,552 | 57,487 | 178,039 | 2,207 |
| Other current liabilities | 43,944 | 7,867 | 51,811 | 33,651 |
| Total current liabilities | 3,138,328 | 829,529 | 3,967,857 | 887,262 |
| Long-term liabilities: | | | | |
| Retainages payable | — | 294 | 294 | 11,105 |
| Intergovernmental payables | 400 | — | 400 | — |
| Tuition benefits payable | — | 136,823 | 136,823 | — |
| Policy claims | 60,512 | 166,100 | 226,612 | 128,452 |
| Unearned revenues and deferred credits | — | — | — | 276,296 |
| Amounts held in custody for others | — | — | — | 2,157 |
| Liabilities payable from restricted assets: | | | | |
| Other | — | 12,068 | 12,068 | — |
| Notes payable | 7,371 | 177,637 | 185,008 | 5,837 |
| General obligation bonds payable | 2,077,948 | 230,425 | 2,308,373 | — |
| Tobacco Authority bonds payable | 845,630 | — | 845,630 | — |
| Infrastructure Bank bonds payable | 1,697,659 | — | 1,697,659 | — |
| Revenue bonds payable | 23,612 | 1,499,318 | 1,522,930 | 2,535,346 |
| Limited obligation bonds payable | 19,374 | — | 19,374 | — |
| Capital leases payable | 2,381 | 45,634 | 48,015 | 18,848 |
| Compensated absences payable | 73,639 | 44,718 | 118,357 | 14,138 |
| Other long-term liabilities | 85,410 | 62,235 | 147,645 | 46,464 |
| Total long-term liabilities | 4,893,936 | 2,375,252 | 7,269,188 | 3,038,643 |
| **Total liabilities** | **8,032,264** | **3,204,781** | **11,237,045** | **3,925,905** |

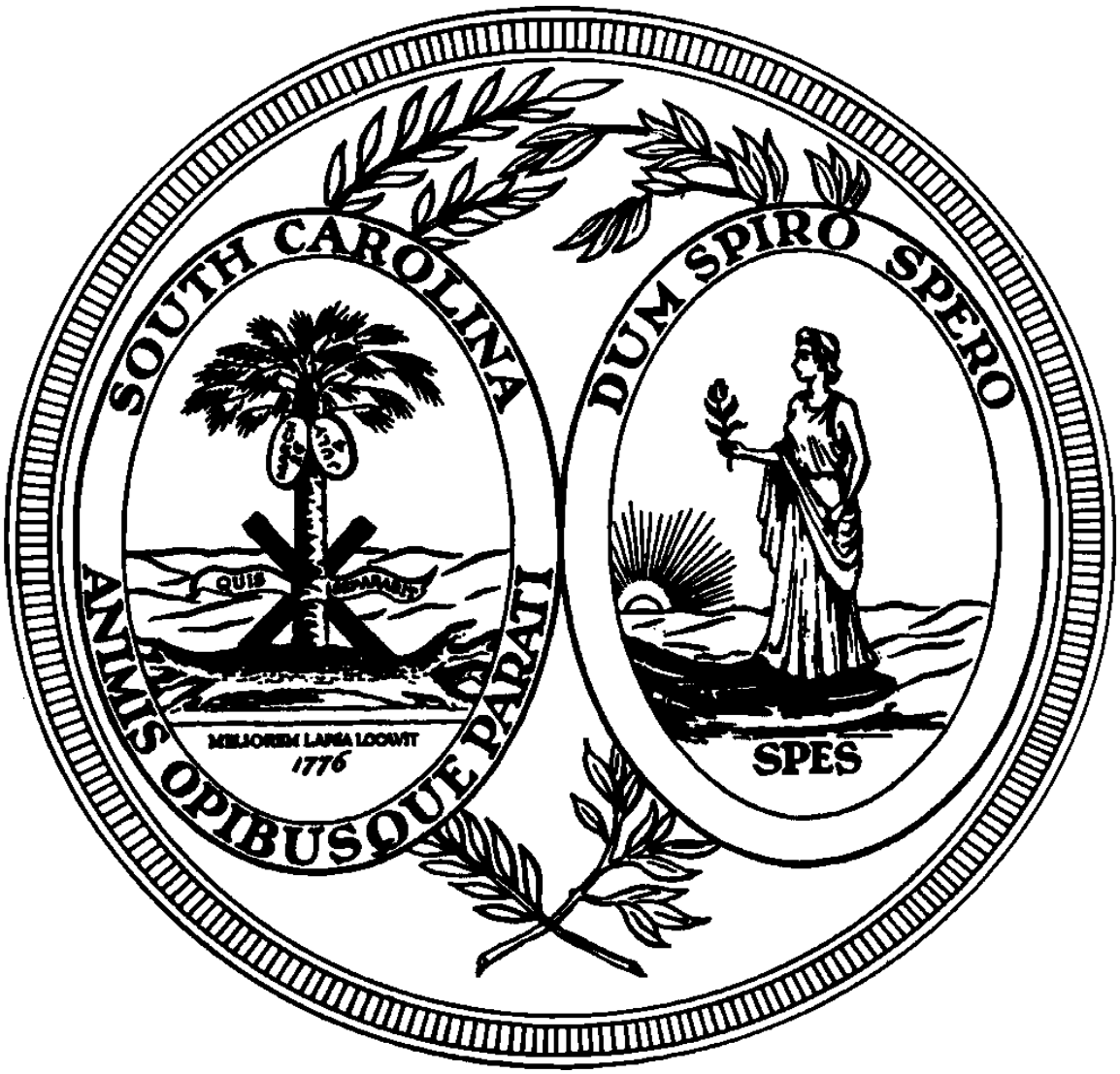
**Continued on Next Page**

# Statement of Net Assets (Continued)

**June 30, 2004**
**(Expressed in Thousands)**

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals | COMPONENT UNITS |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | $ 8,534,931 | $ 1,695,208 | $ 10,230,139 | $ 816,533 |
| Restricted: | | | | |
| Expendable: | | | | |
| Unemployment compensation benefits | — | 431,072 | 431,072 | — |
| Education | 365,545 | 138,235 | 503,780 | 138,487 |
| Health | 9,109 | — | 9,109 | — |
| Transportation | 139,785 | — | 139,785 | — |
| Capital projects | 225,070 | 140,020 | 365,090 | 202,911 |
| Debt service | 1,128,281 | 339,596 | 1,467,877 | 115,012 |
| Loan programs | 402,532 | 78,365 | 480,897 | — |
| Waste management | 95,864 | — | 95,864 | — |
| Insurance programs | 13,229 | — | 13,229 | — |
| Other | 63,319 | — | 63,319 | 55,168 |
| Nonexpendable: | | | | |
| Education | 354 | 59,670 | 60,024 | 267,410 |
| Other | 1,945 | — | 1,945 | — |
| Unrestricted | (960,949) | 270,380 | (690,569) | 180,651 |
| **Total net assets** | **$ 10,019,015** | **$ 3,152,546** | **$ 13,171,561** | **$ 1,776,172** |

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

## For the Fiscal Year Ended June 30, 2004
## (Expressed in Thousands)

| Functions | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue |
|---|---|---|---|---|---|
| **Primary government:** | | | | | |
| Governmental activities: | | | | | |
| General government | $ 1,587,442 | $ 1,231,619 | $ 271,586 | $ 1,753 | $ (82,484) |
| Education | 1,228,354 | 31,850 | 971,403 | 2,581 | (222,520) |
| Health and environment | 4,588,137 | 121,094 | 3,436,873 | 16 | (1,030,154) |
| Social services | 942,591 | 4,605 | 767,341 | 5 | (170,640) |
| Administration of justice | 628,227 | 88,888 | 41,128 | — | (498,211) |
| Resources and economic development | 192,000 | 48,136 | 53,157 | 40,885 | (49,822) |
| Transportation | 531,667 | 73,667 | 114,885 | 539,482 | 196,367 |
| Intergovernmental | 3,813,383 | — | — | — | (3,813,383) |
| Unallocated interest expense | 67,614 | — | — | — | (67,614) |
| **Total governmental activities** | **13,579,415** | **1,599,859** | **5,656,373** | **584,722** | **(5,738,461)** |
| Business-type activities: | | | | | |
| Higher education | 2,527,649 | 1,724,447 | 219,715 | 44,655 | (538,832) |
| Higher education institution support | 757,252 | 769,117 | 44,075 | 2,481 | 58,421 |
| Unemployment compensation benefits | 493,619 | 367,633 | 24,746 | — | (101,240) |
| Financing of housing facilities | 137,671 | 40,673 | 108,641 | — | 11,643 |
| Medical malpractice insurance | 30,733 | 40,291 | 51 | — | 9,609 |
| Financing of student loans | 39,641 | 28,628 | 7,013 | — | (4,000) |
| Tuition prepayment program | 30,620 | 2 | 17,715 | — | (12,903) |
| Patriots Point development | 6,976 | 7,514 | 277 | — | 815 |
| Insurance claims processing | 1,586 | 1,583 | — | — | (3) |
| Other | 22,659 | 30,136 | 738 | — | 8,215 |
| **Total business-type activities** | **4,048,406** | **3,010,024** | **422,971** | **47,136** | **(568,275)** |
| **Total primary government** | **$ 17,627,821** | **$ 4,609,883** | **$ 6,079,344** | **$ 631,858** | **$ (6,306,736)** |
| **Component units:** | | | | | |
| Public Service Authority | $ 999,224 | $ 1,049,044 | $ 8,542 | $ — | $ 58,362 |
| State Ports Authority | 106,419 | 116,817 | 977 | 3,216 | 14,591 |
| Connector 2000 Association, Inc | 22,346 | 3,336 | 1,055 | — | (17,955) |
| Lottery Commission | 950,008 | 953,163 | 225 | — | 3,380 |
| Other | 104,397 | 34,022 | 116,545 | — | 46,170 |
| **Total component units** | **$ 2,182,394** | **$ 2,156,382** | **$ 127,344** | **$ 3,216** | **$ 104,548** |

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

# Statement of Activities (Continued)

## For the Fiscal Year Ended June 30, 2004
## (Expressed in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| **Changes in net assets:** | | | | |
| Net (expense) revenue | $ (5,738,461) | $ (568,275) | $ (6,306,736) | $ 104,548 |
| General revenues: | | | | |
| Taxes: | | | | |
| Individual income | 2,416,437 | — | 2,416,437 | — |
| Retail sales and use | 3,009,485 | — | 3,009,485 | — |
| Other | 1,390,893 | — | 1,390,893 | — |
| Total taxes | 6,816,815 | — | 6,816,815 | — |
| Unrestricted grants and contributions | 80,333 | — | 80,333 | — |
| Unrestricted investment income | 18,723 | — | 18,723 | — |
| Tobacco legal settlement | 74,180 | — | 74,180 | — |
| Extraordinary loss on debt extinguishment | — | (773) | (773) | — |
| Other revenues | 75,967 | — | 75,967 | — |
| Transfers–internal activities | (668,515) | 668,515 | — | — |
| **Total general revenues and transfers** | **6,397,503** | **667,742** | **7,065,245** | **—** |
| **Change in net assets** | **659,042** | **99,467** | **758,509** | **104,548** |
| **Net assets at beginning of year (restated)** | **9,359,973** | **3,053,079** | **12,413,052** | **1,671,624** |
| **Net assets at end of year** | **$ 10,019,015** | **$ 3,152,546** | **$ 13,171,561** | **$ 1,776,172** |

# Balance Sheet

GOVERNMENTAL FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | General Fund | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 213,156 | $ 259,243 | $ 228,860 | $ 137,205 |
| Investments | 17,229 | 374 | — | — |
| Invested securities lending collateral | 26,566 | 28,364 | 160,156 | 15,963 |
| Receivables, net: | | | | |
| Accounts | 5,158 | 127,514 | 57,469 | 10,351 |
| Accrued interest | 3,054 | 335 | 5,397 | 1,264 |
| Income taxes | 304,860 | — | — | — |
| Sales and other taxes | 332,316 | 8,321 | — | 6,266 |
| Patient accounts | 8,306 | 15,165 | — | — |
| Loans and notes | 11 | 572 | 343,342 | 12,873 |
| Due from Federal government and other grantors | 11,929 | 519,085 | — | 131,699 |
| Due from other funds | 49,621 | 33,924 | 11,620 | 3,874 |
| Due from component units | — | 41 | — | — |
| Interfund receivables | 7,067 | 580 | 279,235 | — |
| Inventories | 12,625 | 18,720 | — | 5,313 |
| Restricted assets: | | | | |
| Cash and cash equivalents | — | — | 574,714 | 1,163 |
| Investments | — | — | — | — |
| Accounts receivable | — | — | 426,426 | — |
| Other | — | — | 32,400 | — |
| Prepaid items | — | 339 | — | 5,891 |
| Other assets | — | — | — | 774 |
| **Total assets** | **$ 991,898** | **$ 1,012,577** | **$ 2,119,619** | **$ 332,636** |
| **LIABILITIES AND FUND BALANCES (DEFICITS)** | | | | |
| **Liabilities:** | | | | |
| Accounts payable | $ 152,390 | $ 311,355 | $ 36,771 | $ 91,285 |
| Accrued salaries and related expenditures | 60,178 | 27,938 | 72 | 16,027 |
| Accrued interest payable | — | — | — | 4 |
| Retainages payable | — | 906 | — | 2,392 |
| Tax refunds payable | 491,722 | — | — | — |
| Payable–aid to individuals/families | 579 | — | — | — |
| Intergovernmental payables | 24,081 | 172,660 | 453 | — |
| Due to other funds | 101,476 | 56,754 | 2,695 | 18,286 |
| Interfund payables | — | 4,916 | 5,750 | 279,235 |
| Deferred revenues | 105,568 | 54,942 | 501,002 | 19,043 |
| Securities lending collateral | 26,566 | 28,364 | 160,156 | 15,963 |
| Other liabilities | 36,365 | 17 | — | — |
| **Total liabilities** | **998,925** | **657,852** | **706,899** | **442,235** |
| **Fund balances (deficits):** | | | | |
| Reserved | 90,605 | 972 | 1,716,773 | 10,508 |
| Unreserved, designated reported in: | | | | |
| Special revenue funds | — | — | — | — |
| Capital Projects Fund | — | — | — | — |
| Unreserved, undesignated reported in: | | | | |
| General Fund | (97,632) | — | — | — |
| Special revenue funds | — | 353,753 | (304,053) | (120,107) |
| Permanent funds | — | — | — | — |
| **Total fund balances (deficits)** | **(7,027)** | **354,725** | **1,412,720** | **(109,599)** |
| **Total liabilities and fund balances** | **$ 991,898** | **$ 1,012,577** | **$ 2,119,619** | **$ 332,636** |

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

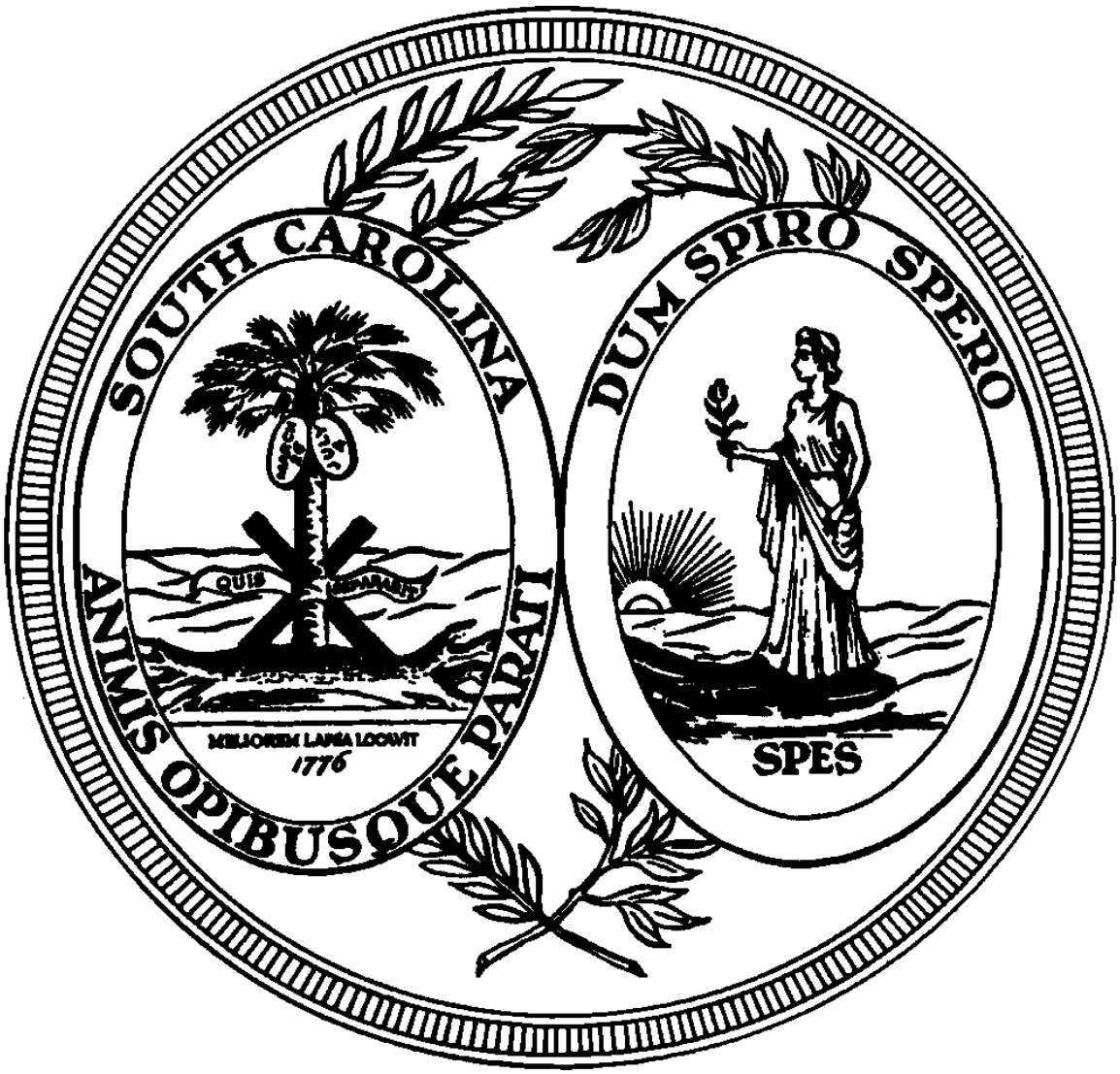
| State Tobacco Settlement | Nonmajor Governmental Funds | Totals |
|---|---|---|
| $ 497,613 | $ 763,661 | $ 2,099,738 |
| — | 581 | 18,184 |
| 8,703 | 78,021 | 317,773 |
| | | |
| — | 6,235 | 206,727 |
| 401 | 5,224 | 15,675 |
| — | — | 304,860 |
| — | 125,962 | 472,865 |
| — | — | 23,471 |
| — | 25,816 | 382,614 |
| | | |
| — | 1,645 | 664,358 |
| — | 5,524 | 104,563 |
| — | 18,083 | 18,124 |
| 2,250 | 1,983 | 291,115 |
| — | 25 | 36,683 |
| | | |
| — | 1 | 575,878 |
| — | 113,196 | 113,196 |
| — | — | 426,426 |
| — | 39,648 | 72,048 |
| — | — | 6,230 |
| — | — | 774 |
| **$ 508,967** | **$ 1,185,605** | **$ 6,151,302** |
| | | |
| | | |
| $ 1,191 | $ 14,621 | $ 607,613 |
| — | 1,396 | 105,611 |
| — | — | 4 |
| — | 935 | 4,233 |
| — | 812 | 492,534 |
| — | — | 579 |
| 202 | 144,143 | 341,539 |
| — | 14,937 | 194,148 |
| — | 24,553 | 314,454 |
| — | 17,900 | 698,455 |
| 8,703 | 78,021 | 317,773 |
| — | 1,026 | 37,408 |
| **10,096** | **298,344** | **3,114,351** |
| | | |
| — | 174,737 | 1,993,595 |
| | | |
| — | 16,878 | 16,878 |
| — | 178,711 | 178,711 |
| | | |
| — | — | (97,632) |
| 498,871 | 515,965 | 944,429 |
| — | 970 | 970 |
| **498,871** | **887,261** | **3,036,951** |
| **$ 508,967** | **$ 1,185,605** | **$ 6,151,302** |

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

**June 30, 2004**
**(Expressed in Thousands)**

| | | |
|---|---|---|
| **Total fund balances–governmental funds** | | **$ 3,036,951** |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Certain assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | |
| Capital assets: | | |
| Non-depreciable capital assets | $ 4,670,868 | |
| Depreciable capital assets | 9,789,025 | |
| Accumulated depreciation | (2,940,149) | |
| Total capital assets | 11,519,744 | |
| Food commodities | 265 | |
| Total assets | | 11,520,009 |
| Bond issue costs are reported as current expenditures in the funds. However, issue costs are deferred and amortized over the life of the bonds and are included in governmental activities in the statement of net assets | | 16,701 |
| Certain State revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds | | 608,022 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets | | 17,129 |
| Eliminations relating to the consolidation of internal service funds resulted in an amount due from business-type activities to governmental activities in the statement of net assets | | 15,630 |
| Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| Bonds payable | (4,837,405) | |
| Notes payable | (8,771) | |
| Accrued interest on bonds | (66,030) | |
| Capital leases | (863) | |
| Compensated absences | (188,329) | |
| Intergovernmental payable | (499) | |
| Policy claims | (5,635) | |
| Other | (87,895) | |
| Total long-term liabilities | | (5,195,427) |
| **Net assets of governmental activities** | | **$ 10,019,015** |

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


SOUTH CAROLINA
ANIMIS OPIBUSQUE PARATI
DUM SPIRO SPERO
QUIS SEPARABIT
MELIOREM LAPSA LOCAVIT
1776
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# Statement of Revenues, Expenditures, and Changes in Fund Balances

GOVERNMENTAL FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | General Fund | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Taxes: | | | | |
| Individual income | $ 2,398,475 | $ — | $ 10,281 | $ — |
| Retail sales and use | 2,196,906 | 667 | — | — |
| Other | 737,590 | 19,289 | 18,000 | 488,164 |
| Licenses, fees, and permits | 129,521 | 118,292 | 54,597 | — |
| Interest and other investment income | 11,925 | 1,066 | 38,649 | 778 |
| Federal | 180,916 | 4,853,031 | 18,216 | 568,349 |
| Local and private grants | — | 8,601 | — | — |
| Departmental services | 409,128 | 146,519 | 72,346 | 23,644 |
| Contributions | 12,134 | 176,246 | 50,658 | — |
| Fines and penalties | 25,531 | 57,787 | — | — |
| Tobacco legal settlement | — | — | — | — |
| Other | 28,556 | 50,419 | 550 | 4,399 |
| **Total revenues** | **6,130,682** | **5,431,917** | **263,297** | **1,085,334** |
| **Expenditures:** | | | | |
| Current: | | | | |
| General government | 277,279 | 153,172 | 464 | — |
| Education | 324,233 | 149,346 | — | — |
| Health and environment | 1,398,048 | 3,450,096 | — | — |
| Social services | 79,178 | 789,112 | — | — |
| Administration of justice | 455,045 | 106,305 | — | — |
| Resources and economic development | 78,087 | 69,404 | 2,701 | — |
| Transportation | — | — | 15,714 | 598,506 |
| Capital outlay | — | — | — | 463,321 |
| Debt service: | | | | |
| Principal retirement | 144,345 | 417 | 26,195 | 25,043 |
| Interest and fiscal charges | 69,372 | 72 | 79,076 | 33,073 |
| Intergovernmental | 2,521,840 | 707,568 | 405,058 | 75,328 |
| **Total expenditures** | **5,347,427** | **5,425,492** | **529,208** | **1,195,271** |
| **Excess (deficiency) of revenues over (under) expenditures** | **783,255** | **6,425** | **(265,911)** | **(109,937)** |
| **Other financing sources (uses):** | | | | |
| Bonds and notes issued | 900 | — | 335,435 | 2,200 |
| Refunding bonds issued | 156,560 | — | 368,300 | — |
| Premiums on bonds issued | 1,723 | — | 8,833 | 6 |
| Payment to refunded bond escrow agent | (156,360) | — | (368,246) | — |
| Transfers in | 250,448 | 119,090 | 3,950 | 16 |
| Transfers out | (897,183) | (67,392) | (5) | (4,980) |
| **Total other financing sources (uses)** | **(643,912)** | **51,698** | **348,267** | **(2,758)** |
| **Net change in fund balances** | **139,343** | **58,123** | **82,356** | **(112,695)** |
| **Fund balances (deficits) at beginning of year (restated)** | **(146,370)** | **296,602** | **1,330,364** | **3,096** |
| **Fund balances (deficits) at end of year** | **$ (7,027)** | **$ 354,725** | **$ 1,412,720** | **$ (109,599)** |

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

| State Tobacco Settlement | Nonmajor Governmental Funds | Totals |
|---|---|---|
| $ — | $ — | $ 2,408,756 |
| — | 798,500 | 2,996,073 |
| — | 110,425 | 1,373,468 |
| — | 113,035 | 415,445 |
| 9,260 | 13,671 | 75,349 |
| — | 39,416 | 5,659,928 |
| — | 582 | 9,183 |
| — | 16,615 | 668,252 |
| — | 295,417 | 534,455 |
| — | 22,283 | 105,601 |
| — | 74,180 | 74,180 |
| — | 2,872 | 86,796 |
| **9,260** | **1,486,996** | **14,407,486** |
| | | |
| 2,357 | 99,955 | 533,227 |
| — | 178,523 | 652,102 |
| 6,783 | 76,178 | 4,931,105 |
| — | 6,413 | 874,703 |
| — | 13,054 | 574,404 |
| 3 | 3,871 | 154,066 |
| — | — | 614,220 |
| — | 68,501 | 531,822 |
| | | |
| — | 24,265 | 220,265 |
| — | 57,960 | 239,553 |
| 40,482 | 844,463 | 4,594,739 |
| **49,625** | **1,373,183** | **13,920,206** |
| | | |
| **(40,365)** | **113,813** | **487,280** |
| | | |
| — | 129,260 | 467,795 |
| — | — | 524,860 |
| — | 772 | 11,334 |
| — | — | (524,606) |
| — | 179,070 | 552,574 |
| (5) | (236,546) | (1,206,111) |
| **(5)** | **72,556** | **(174,154)** |
| **(40,370)** | **186,369** | **313,126** |
| **539,241** | **700,892** | **2,723,825** |
| **$ 498,871** | **$ 887,261** | **$ 3,036,951** |

# Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

## For the Fiscal Year Ended June 30, 2004 (Expressed in Thousands)

| | | |
|---|---|---|
| **Net change in fund balances–total governmental funds** | | **$ 313,126** |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period, these amounts are: | | |
| Capital outlay | $ 620,405 | |
| Depreciation expense | (197,642) | |
| Excess of capital outlay over depreciation expense | | 422,763 |
| Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources | | 283,846 |
| Losses on disposals of capital assets are reported as an expense in the statement of activities | | (4,948) |
| Expenses for food commodities in the statement of activities do not provide current financial resources and are not reported as expenditures in the governmental funds | | (387) |
| Bond and note proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from: | | |
| Bonds and notes issued | (467,795) | |
| Refunding bonds issued | (524,860) | |
| Bond premiums | (11,334) | |
| Net bond and note proceeds | | (1,003,989) |
| Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets | | 8,458 |
| Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of: | | |
| Bond principal retirement | 218,630 | |
| Note principal retirement | 1,103 | |
| Capital lease payments | 301 | |
| Payment to bond refunding agent | 524,606 | |
| Total long-term debt repayment | | 744,640 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is included in governmental activities in the statement of activities | | (93,278) |
| Because certain receivables will not be collected within one year after the State's fiscal year ends, the related revenues are not considered "available" and are deferred in the governmental funds. | | |
| Increase in deferred revenues | | 31,590 |

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

**Continued on Next Page**

# Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Continued)

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | | |
|---|---|---|
| Eliminations relating to the consolidation of internal service funds resulted in a net increase in expenses for the business-type activities in the statement of activities | | $ 3,923 |
| Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: | | |
| Net increase in accrued interest | $ (1,208) | |
| Interest accreted on capital appreciation debt | (1,275) | |
| Amortization of bond issuance costs | (562) | |
| Net amortization of bond premiums and discounts | 494 | |
| Amortization of deferred losses on refunding of debt | (5,912) | |
| Increase in compensated absences payable | (4,225) | |
| Decrease in intergovernmental payable | 1,161 | |
| Decrease in policy claims payable | 1,035 | |
| Net increase in other payables | (36,210) | |
| Total additional expenses | | (46,702) |
| **Change in net assets of governmental activities** | | **$ 659,042** |

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

# Statement of Net Assets

PROPRIETARY FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | ENTERPRISE | | |
|---|---|---|---|
| | Higher Education | Unemployment Compensation | Housing Authority |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 469,765 | $ 391,433 | $ 15,415 |
| Investments | 41,004 | — | — |
| Invested securities lending collateral | 78,302 | — | 6,388 |
| Receivables, net: | | | |
| Accounts | 11,555 | 8,717 | 100 |
| Contributions | 5,088 | — | — |
| Participants | — | — | — |
| Accrued interest | 4,329 | 124 | 13 |
| Student accounts | 28,075 | — | — |
| Patient accounts | — | — | — |
| Loans and notes | 40 | — | 41,733 |
| Assessments | — | 53,031 | — |
| Due from Federal government and other grantors | 100,366 | 331 | 3,894 |
| Due from other funds | 50,133 | — | — |
| Due from component units | 82,623 | — | — |
| Inventories | 14,357 | — | — |
| Restricted assets: | | | |
| Cash and cash equivalents | 89,936 | — | 29,317 |
| Investments | 65 | — | — |
| Loans receivable | 204 | — | — |
| Other | 286 | — | — |
| Prepaid items | 14,220 | — | — |
| Other current assets | 2,034 | — | — |
| Total current assets | 992,382 | 453,636 | 96,860 |
| Long-term assets: | | | |
| Investments | 14,115 | — | 600 |
| Receivables, net: | | | |
| Accounts | 429 | — | — |
| Contributions | 2,625 | — | — |
| Participants | — | — | — |
| Loans and notes | 4,296 | — | 22,197 |
| Interfund receivables | — | — | — |
| Restricted assets: | | | |
| Cash and cash equivalents | 117,941 | — | 183,694 |
| Investments | 16 | — | 3,998 |
| Loans receivable | 48,978 | — | 458,278 |
| Other | 711 | — | 5,224 |
| Prepaid items | 436 | — | — |
| Other long-term assets | 3,196 | — | — |
| Deferred charges | 1,110 | — | 4,073 |
| Capital assets: | | | |
| Land and improvements | 208,204 | — | — |
| Buildings and improvements | 2,576,481 | — | — |
| Construction in progress | 308,597 | — | — |
| Vehicles | 36,368 | — | — |
| Machinery and equipment | 401,869 | — | 327 |
| Works of art and historical treasures | 16,810 | — | — |
| Intangible assets | 9,427 | — | — |
| Less: accumulated depreciation | (1,303,946) | — | (262) |
| Total capital assets, net | 2,253,810 | — | 65 |
| Total long-term assets | 2,447,663 | — | 678,129 |
| **Total assets** | **3,440,045** | **453,636** | **774,989** |

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

| FUNDS | | | | |
|---|---|---|---|---|
| Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| $ 194,404 | $ 181,874 | $ 1,252,891 | $ 129,579 |
| — | 16,908 | 57,912 | — |
| — | 39,721 | 124,411 | 65,809 |
| | | | |
| 9,510 | 14,384 | 44,266 | 94,726 |
| — | 193 | 5,281 | — |
| — | 5,778 | 5,778 | — |
| 142 | 673 | 5,281 | 3,836 |
| — | — | 28,075 | — |
| — | 112,560 | 112,560 | — |
| 64,800 | — | 106,573 | — |
| — | — | 53,031 | — |
| — | — | 104,591 | — |
| — | 11,528 | 61,661 | 38,979 |
| — | — | 82,623 | 1 |
| — | 14,008 | 28,365 | 7,150 |
| | | | |
| 30,937 | 93,796 | 243,986 | — |
| — | 17,789 | 17,854 | — |
| — | 91 | 295 | — |
| — | 1,875 | 2,161 | — |
| — | 10,412 | 24,632 | 11,157 |
| — | 1,032 | 3,066 | — |
| 299,793 | 522,622 | 2,365,293 | 351,237 |
| | | | |
| — | — | 14,715 | 260,259 |
| | | | |
| — | — | 429 | 152 |
| — | 325 | 2,950 | — |
| — | 17,935 | 17,935 | — |
| 458,749 | — | 485,242 | — |
| — | 19,340 | 19,340 | 46,403 |
| | | | |
| — | 20,166 | 321,801 | — |
| 551 | 59,803 | 64,368 | — |
| — | 15,231 | 522,487 | — |
| — | 1,333 | 7,268 | — |
| — | 14,893 | 15,329 | — |
| — | 9,269 | 12,465 | — |
| 2,021 | 1,664 | 8,868 | 161 |
| | | | |
| — | 28,341 | 236,545 | 8,631 |
| — | 291,843 | 2,868,324 | 186,501 |
| — | 64,886 | 373,483 | 964 |
| 17 | 2,359 | 38,744 | 44,030 |
| 293 | 170,504 | 572,993 | 59,892 |
| — | 6,987 | 23,797 | — |
| — | 5,497 | 14,924 | 9,386 |
| (85) | (235,251) | (1,539,544) | (158,978) |
| 225 | 335,166 | 2,589,266 | 150,426 |
| 461,546 | 495,125 | 4,082,463 | 457,401 |
| **761,339** | **1,017,747** | **6,447,756** | **808,638** |

**Continued on Next Page**

# Statement of Net Assets

PROPRIETARY FUNDS (Continued)

**June 30, 2004**
**(Expressed in Thousands)**

| | ENTERPRISE | | |
|---|---|---|---|
| | Higher Education | Unemployment Compensation | Housing Authority |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 61,974 | $ 191 | $ — |
| Accrued salaries and related expenses | 42,942 | — | 511 |
| Accrued interest payable | 6,214 | — | — |
| Retainages payable | 9,620 | — | — |
| Tax refunds payable | — | 3,610 | — |
| Unemployment benefits payable | — | 5,082 | — |
| Intergovernmental payables | — | 3,989 | 177 |
| Tuition benefits payable | — | — | — |
| Policy claims | — | — | — |
| Due to other funds | 15,983 | 9,692 | 30 |
| Deferred revenues | 95,273 | — | — |
| Deposits | 5,051 | — | — |
| Amounts held in custody for others | 3,525 | — | — |
| Securities lending collateral | 78,302 | — | 6,388 |
| Liabilities payable from restricted assets: | | | |
| Accounts payable | 78 | — | — |
| Accrued interest payable | — | — | 13,763 |
| Bonds payable | — | — | 7,910 |
| Other | — | — | 7,644 |
| Notes payable | 4,940 | — | — |
| Revenue bond anticipation notes payable | 44,310 | — | — |
| General obligation bonds payable | 12,315 | — | — |
| Revenue bonds payable | 13,672 | — | — |
| Limited obligation bonds payable | — | — | — |
| Capital leases payable | 2,835 | — | — |
| Compensated absences payable | 41,255 | — | 314 |
| Other current liabilities | 5,045 | — | 118 |
| Total current liabilities | 443,334 | 22,564 | 36,855 |
| Long-term liabilities: | | | |
| Retainages payable | 294 | — | — |
| Tuition benefits payable | — | — | — |
| Policy claims | — | — | — |
| Interfund payables | 21,483 | — | — |
| Liabilities payable from restricted assets: | | | |
| Other | — | — | — |
| Notes payable | 29,461 | — | — |
| General obligation bonds payable | 230,425 | — | — |
| Revenue bonds payable | 311,050 | — | 502,786 |
| Limited obligation bonds payable | — | — | — |
| Capital leases payable | 31,028 | — | — |
| Compensated absences payable | 43,325 | — | 319 |
| Other long-term liabilities | 58,111 | — | — |
| Total long-term liabilities | 725,177 | — | 503,105 |
| **Total liabilities** | **1,168,511** | **22,564** | **539,960** |

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

| FUNDS | | | | |
|---|---|---|---|---|
| Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| $ 28,907 | $ 39,591 | $ 130,663 | $ 7,014 |
| — | 20,826 | 64,279 | 3,810 |
| — | 3,781 | 9,995 | 854 |
| — | 683 | 10,303 | 27 |
| — | — | 3,610 | — |
| — | — | 5,082 | — |
| — | — | 4,166 | — |
| — | 6,456 | 6,456 | — |
| — | 37,500 | 37,500 | 468,333 |
| — | 17,525 | 43,230 | 2,348 |
| — | 12,960 | 108,233 | 119,174 |
| — | — | 5,051 | — |
| — | — | 3,525 | — |
| — | 39,721 | 124,411 | 65,809 |
| | | | |
| — | 30 | 108 | — |
| 3,133 | 500 | 17,396 | — |
| 20,995 | — | 28,905 | — |
| — | 82,131 | 89,775 | — |
| — | 24,699 | 29,639 | 113 |
| — | — | 44,310 | — |
| — | — | 12,315 | — |
| — | 933 | 14,605 | 1,190 |
| — | — | — | 3,930 |
| — | 6,116 | 8,951 | 579 |
| 174 | 15,744 | 57,487 | 3,323 |
| 859 | 1,845 | 7,867 | 4,051 |
| 54,068 | 311,041 | 867,862 | 680,555 |
| | | | |
| — | — | 294 | — |
| — | 136,823 | 136,823 | — |
| — | 166,100 | 166,100 | 57,677 |
| — | 14,983 | 36,466 | 5,938 |
| | | | |
| 12,068 | — | 12,068 | — |
| — | 148,176 | 177,637 | — |
| — | — | 230,425 | — |
| 568,889 | 116,593 | 1,499,318 | 23,612 |
| — | — | — | 19,374 |
| — | 14,606 | 45,634 | 1,814 |
| — | 1,074 | 44,718 | 2,539 |
| 1,855 | 2,269 | 62,235 | — |
| 582,812 | 600,624 | 2,411,718 | 110,954 |
| **636,880** | **911,665** | **3,279,580** | **791,509** |

**Continued on Next Page**

# Statement of Net Assets

PROPRIETARY FUNDS (Continued)

**June 30, 2004**
**(Expressed in Thousands)**

| | ENTERPRISE | | |
|---|---|---|---|
| | Higher Education | Unemployment Compensation | Housing Authority |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | $ 1,557,142 | $ — | $ 65 |
| Restricted: | | | |
| Expendable: | | | |
| Unemployment compensation benefits | — | 431,072 | — |
| Education | 114,156 | — | — |
| Capital projects | 128,991 | — | — |
| Debt service | 38,788 | — | 186,400 |
| Loan programs | — | — | 47,296 |
| Insurance programs | — | — | — |
| Nonexpendable: | | | |
| Education | 38,044 | — | — |
| Unrestricted | 394,413 | — | 1,268 |
| **Total net assets** | **$ 2,271,534** | **$ 431,072** | **$ 235,029** |
| Adjustment in Higher Education Fund related to consolidation of internal service funds | | | |
| **Net assets of business-type activities** | | | |

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

| FUNDS | | | | |
|---|---|---|---|---|
| Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| $ 225 | $ 137,776 | $ 1,695,208 | $ 124,730 |
| | | | |
| — | — | 431,072 | — |
| — | 24,079 | 138,235 | — |
| — | 11,029 | 140,020 | — |
| 92,110 | 22,298 | 339,596 | — |
| 31,069 | — | 78,365 | 20,000 |
| — | — | — | 13,229 |
| | | | |
| — | 21,626 | 59,670 | 354 |
| 1,055 | (110,726) | 286,010 | (141,184) |
| **$ 124,459** | **$ 106,082** | **3,168,176** | **$ 17,129** |
| | | (15,630) | |
| | | **$ 3,152,546** | |

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

PROPRIETARY FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | ENTERPRISE | | |
|---|---|---|---|
| | Higher Education | Unemployment Compensation | Housing Authority |
| **Operating revenues:** | | | |
| Assessments | $ — | $ 257,159 | $ — |
| Charges for services | 735,774 | — | 8,045 |
| Contributions | — | — | — |
| Interest and other investment income | — | 283 | 38,862 |
| Operating revenues pledged for revenue bonds | 120,805 | — | — |
| Federal operating grants and contracts | 485,714 | 87,329 | — |
| State operating grants and contracts | 198,071 | — | — |
| Local/private operating grants and contracts | 49,156 | — | — |
| Other operating revenues | 180,160 | 24,217 | 55 |
| **Total operating revenues** | **1,769,680** | **368,988** | **46,962** |
| **Operating expenses:** | | | |
| General operations and administration | 2,229,739 | 70 | 9,446 |
| Benefits and claims | — | 493,549 | — |
| Tuition plan disbursements | — | — | — |
| Interest | — | — | 29,415 |
| Depreciation and amortization | 107,666 | — | 318 |
| Scholarships and fellowships | 150,947 | — | — |
| Other operating expenses | 513 | — | 2,345 |
| **Total operating expenses** | **2,488,865** | **493,619** | **41,524** |
| **Operating income (loss)** | **(719,185)** | **(124,631)** | **5,438** |
| **Nonoperating revenues (expenses):** | | | |
| Federal and local government appropriations | 53,906 | — | — |
| Interest income | 20,110 | 23,391 | — |
| Contributions | 74,466 | — | — |
| Federal grants and contracts | 5,307 | — | 102,317 |
| Local/private grants and contracts | 7,626 | — | — |
| Interest expense | (29,592) | — | — |
| Other nonoperating revenues (expenses) | 2,719 | — | (96,099) |
| **Total nonoperating revenues (expenses)** | **134,542** | **23,391** | **6,218** |
| **Income (loss) before other revenues, expenses, losses, and transfers** | **(584,643)** | **(101,240)** | **11,656** |
| Capital contributions | — | — | — |
| Federal capital grants and contracts | 33,218 | — | — |
| Local/private capital grants and contracts | 8,972 | — | — |
| Additions to endowments | 7,544 | — | — |
| Extraordinary loss on early extinguishment of debt | (209) | — | (564) |
| Special item | — | — | — |
| Transfers in | 710,617 | 40 | — |
| Transfers out | (18,326) | (3,402) | (29) |
| **Change in net assets** | **157,173** | **(104,602)** | **11,063** |
| **Net assets at beginning of year** | **2,114,361** | **535,674** | **223,966** |
| **Net assets at end of year** | **$ 2,271,534** | **$ 431,072** | **$ 235,029** |

Adjustment in Higher Education Fund related to consolidation of internal service funds……

**Change in net assets of business-type activities……**

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

| FUNDS | | | |
|---|---|---|---|
| Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| $ — | $ — | $ 257,159 | $ — |
| 28,628 | 267,007 | 1,039,454 | 1,494,529 |
| — | 14,172 | 14,172 | 613 |
| 2,569 | 3,743 | 45,457 | 1,671 |
| — | 580,377 | 701,182 | — |
| — | — | 573,043 | — |
| — | — | 198,071 | — |
| — | — | 49,156 | — |
| — | 34,557 | 238,989 | 14,715 |
| **31,197** | **899,856** | **3,116,683** | **1,511,528** |
| | | | |
| 27,368 | 747,626 | 3,014,249 | 287,698 |
| — | 29,812 | 523,361 | 1,297,081 |
| — | 30,609 | 30,609 | — |
| 9,802 | 18 | 39,235 | — |
| 229 | 25,190 | 133,403 | 13,231 |
| — | — | 150,947 | — |
| 2,242 | 238 | 5,338 | 4,184 |
| **39,641** | **833,493** | **3,897,142** | **1,602,194** |
| **(8,444)** | **66,363** | **(780,459)** | **(90,666)** |
| | | | |
| — | — | 53,906 | — |
| — | 3,559 | 47,060 | 10,437 |
| — | 1,435 | 75,901 | — |
| — | — | 107,624 | 512 |
| — | 65 | 7,691 | — |
| — | (14,320) | (43,912) | (2,406) |
| 4,444 | 3,901 | (85,035) | 2,588 |
| **4,444** | **(5,360)** | **163,235** | **11,131** |
| | | | |
| **(4,000)** | **61,003** | **(617,224)** | **(79,535)** |
| — | — | — | 3,635 |
| — | — | 33,218 | — |
| — | 2,480 | 11,452 | — |
| — | 503 | 8,047 | — |
| — | — | (773) | — |
| — | 155 | 155 | — |
| — | 136 | 710,793 | 5,602 |
| — | (20,521) | (42,278) | (22,980) |
| **(4,000)** | **43,756** | **103,390** | **(93,278)** |
| **128,459** | **62,326** | | **110,407** |
| **$ 124,459** | **$ 106,082** | | **$ 17,129** |
| | | ..... (3,923) | |
| | | **..... $ 99,467** | |

# Statement of Cash Flows

PROPRIETARY FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | ENTERPRISE | | |
|---|---|---|---|
| | Higher Education | Unemployment Compensation | Housing Authority |
| **Cash flows from operating activities:** | | | |
| Receipts from customers, patients, and third-party payers | $ 925,206 | $ — | $ — |
| Assessments received | — | 249,832 | — |
| Grants received | 710,827 | 87,568 | — |
| Receipts from collection of loans and notes | 355,936 | — | 128,825 |
| Internal activity–payments from other funds | 52,946 | — | — |
| Tuition plan contributions received | — | — | — |
| Other operating cash receipts | 70,809 | 23,880 | 6,285 |
| Claims and benefits paid | — | (492,641) | (1,987) |
| Payments to suppliers for goods and services | (868,372) | — | (5,751) |
| Payments to employees | (1,411,451) | — | (4,886) |
| Payments for scholarships and fellowships | (104,562) | — | — |
| Loans issued to students | (327,975) | — | — |
| Program loans issued | — | — | (70,964) |
| Internal activity–payments to other funds | — | — | — |
| Other operating cash payments | (41,295) | (70) | — |
| **Net cash provided by (used in) operating activities** | **(637,931)** | **(131,431)** | **51,522** |
| **Cash flows from noncapital financing activities:** | | | |
| State, county, and local appropriations | 46,548 | — | — |
| Federal appropriations | 9,700 | — | — |
| Funds held for others | (169) | — | — |
| Principal payments received from other funds | 20 | — | — |
| Principal payments made to other funds | — | — | — |
| Receipt of interest from other funds | — | — | — |
| Interest payments made to other funds | — | — | — |
| Loans received from other funds | — | — | — |
| Loans made to other funds | — | — | — |
| Proceeds from sale of revenue bonds | — | — | 50,000 |
| Principal payments on revenue bonds | — | — | (40,910) |
| Early retirement of bonds payable | — | — | (54,250) |
| Proceeds from issuance of noncapital debt | 1,150 | — | — |
| Principal paid on noncapital debt | (230) | — | — |
| Interest payments on noncapital debt | (305) | — | (29,968) |
| Payment of bond issuance costs | — | — | (574) |
| Gifts and grants for other than capital purposes | 108,881 | — | — |
| Federal revenue | — | — | 102,317 |
| Payments from Federal grants | — | — | (98,132) |
| Other cash receipts | 7,345 | — | — |
| Other cash payments | (87) | (5,320) | — |
| Transfers in | 710,617 | 40 | — |
| Transfers out | (18,326) | (3,402) | (29) |
| **Net cash provided by (used in) noncapital financing activities** | **865,144** | **(8,682)** | **(71,546)** |

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

| FUNDS | | | | |
|---|---|---|---|---|
| Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| $ 32,293 | $ 770,902 | $ 1,728,401 | $ 1,076,971 |
| — | 129,003 | 378,835 | — |
| — | — | 798,395 | — |
| 425,475 | — | 910,236 | — |
| — | — | 52,946 | 443,771 |
| — | 14,255 | 14,255 | — |
| — | 34,139 | 135,113 | 15,407 |
| — | (161,119) | (655,747) | (1,261,682) |
| (41,782) | (278,641) | (1,194,546) | (206,421) |
| (2,875) | (348,433) | (1,767,645) | (64,266) |
| — | — | (104,562) | — |
| — | — | (327,975) | — |
| (648,162) | — | (719,126) | — |
| — | (52,946) | (52,946) | (15,508) |
| — | (4,673) | (46,038) | (146) |
| **(235,051)** | **102,487** | **(850,404)** | **(11,874)** |
| — | — | 46,548 | — |
| — | — | 9,700 | — |
| — | — | (169) | — |
| — | — | 20 | 1,098 |
| — | (510) | (510) | (700) |
| — | — | — | 1,293 |
| — | (1,239) | (1,239) | — |
| — | — | — | 528 |
| — | — | — | (1,000) |
| 100,150 | — | 150,150 | — |
| (13,750) | — | (54,660) | — |
| — | — | (54,250) | — |
| — | 20,500 | 21,650 | — |
| — | (39,501) | (39,731) | — |
| (9,751) | (4,898) | (44,922) | — |
| (570) | (74) | (1,218) | — |
| — | 1,936 | 110,817 | — |
| — | — | 102,317 | — |
| — | — | (98,132) | — |
| — | 377 | 7,722 | — |
| (497) | — | (5,904) | — |
| — | 136 | 710,793 | 5,602 |
| — | (20,521) | (42,278) | (22,980) |
| **75,582** | **(43,794)** | **816,704** | **(16,159)** |

**Continued on Next Page**

# Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | ENTERPRISE | | |
|---|---|---|---|
| | Higher Education | Unemployment Compensation | Housing Authority |
| **Cash flows from capital and related financing activities:** | | | |
| Capital appropriations | $ 6,254 | $ — | $ — |
| Acquisition of capital assets | (241,068) | — | (26) |
| Principal payments received from other funds | — | — | — |
| Loans made to other funds | — | — | — |
| Principal payments on notes payable | (1,174) | — | — |
| Principal payments on limited obligation bonds | — | — | — |
| Proceeds from issuance of capital debt | 151,334 | — | — |
| Principal paid on capital debt and lease | (62,465) | — | — |
| Interest payments on capital debt | (29,269) | — | — |
| Payment of agent and broker fees | (3) | — | — |
| Proceeds from sale or disposal of capital assets | 1,582 | — | — |
| Capital grants and gifts received | 38,628 | — | — |
| **Net cash used in capital and related financing activities** | **(136,181)** | **—** | **(26)** |
| **Cash flows from investing activities:** | | | |
| Proceeds from sales and maturities of investments | 75,316 | — | — |
| Purchase of investments | (78,409) | — | — |
| Interest and dividends on investments | 12,100 | 30,992 | 6,773 |
| Collection of escrow payments from borrower | — | — | — |
| **Net cash provided by (used in) investing activities** | **9,007** | **30,992** | **6,773** |
| **Net increase (decrease) in cash and cash equivalents** | **100,039** | **(109,121)** | **(13,277)** |
| **Cash and cash equivalents at beginning of year (restated)** | **577,603** | **500,554** | **241,703** |
| **Cash and cash equivalents at end of year** | **$ 677,642** | **$ 391,433** | **$ 228,426** |
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:** | | | |
| Operating income (loss) | $ (719,185) | $ (124,631) | $ 5,438 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 107,666 | — | 318 |
| Provision for bad debts | 404 | — | — |
| Net increase in the fair value of investments | (254) | — | — |
| Realized gains and losses on investments | — | — | — |
| Issuance of loans and notes | — | — | (70,964) |
| Collection of loans and notes | — | — | 95,403 |
| Interest payments reclassified as noncapital financing activities | — | — | 29,415 |
| Interest and dividends on investments and interfund loans | — | (283) | (6,555) |
| Amounts received for payment of claims | — | — | — |
| Payment of claims | — | — | — |
| Other nonoperating revenues | — | — | — |
| Other nonoperating expenses | — | — | — |
| Other | — | (1) | 47 |

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

| FUNDS | | | | |
|---|---|---|---|---|
| Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| $ — | $ — | $ 6,254 | $ — |
| (206) | (43,898) | (285,198) | (5,148) |
| — | — | — | 1,140 |
| — | — | — | (2,348) |
| — | (18) | (1,192) | (108) |
| — | — | — | (3,755) |
| — | 33,169 | 184,503 | — |
| — | (15,886) | (78,351) | (549) |
| — | (9,620) | (38,889) | (2,406) |
| — | (1,291) | (1,294) | — |
| — | 277 | 1,859 | 181 |
| — | 2,481 | 41,109 | — |
| **(206)** | **(34,786)** | **(171,199)** | **(12,993)** |
| — | 56,390 | 131,706 | 93,457 |
| — | (79,679) | (158,088) | (147,935) |
| 4,006 | 12,372 | 66,243 | 18,130 |
| — | 1,681 | 1,681 | — |
| **4,006** | **(9,236)** | **41,542** | **(36,348)** |
| **(155,669)** | **14,671** | **(163,357)** | **(77,374)** |
| **381,010** | **281,165** | **1,982,035** | **206,953** |
| **$ 225,341** | **$ 295,836** | **$ 1,818,678** | **$ 129,579** |
| $ (8,444) | $ 66,363 | $ (780,459) | $ (90,666) |
| | | | |
| 229 | 25,190 | 133,403 | 13,231 |
| — | — | 404 | — |
| 97 | — | (157) | — |
| — | (5,557) | (5,557) | — |
| (662,305) | — | (733,269) | — |
| 400,106 | — | 495,509 | — |
| 10,515 | 2,384 | 42,314 | — |
| (2,665) | (6,117) | (15,620) | — |
| — | 127,438 | 127,438 | — |
| — | (124,327) | (124,327) | — |
| — | 6,019 | 6,019 | 1,082 |
| — | (1,111) | (1,111) | (130) |
| (279) | (3,056) | (3,289) | (2,598) |

**Continued on Next Page**

# Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | ENTERPRISE | | |
|---|---|---|---|
| | Higher Education | Unemployment Compensation | Housing Authority |
| **Change in assets—decreases (increases):** | | | |
| Accounts receivable, net | $ (20,034) | $ (350) | $ 1,328 |
| Receivable from participants, net | — | — | — |
| Patient accounts receivable, net | — | — | — |
| Assessments receivable, net | — | (6,952) | — |
| Accrued interest | — | — | 27 |
| Loans receivable | (898) | — | — |
| Due from Federal government and other grantors | — | 2,986 | (2,409) |
| Due from other funds | — | 14 | — |
| Inventories | — | — | — |
| Interfund receivables | — | — | — |
| Other assets | (13,906) | — | — |
| **Change in liabilities—increases (decreases):** | | | |
| Accounts payable | 9,111 | (230) | — |
| Accrued salaries and related expenses | — | — | 39 |
| Accrued interest payable | — | — | — |
| Retainages payable | — | — | — |
| Tax refunds payable | — | (375) | — |
| Unemployment benefits payable | — | (177) | — |
| Intergovernmental payables | — | 904 | — |
| Tuition benefits payable | — | — | — |
| Policy claims | — | — | — |
| Due to other funds | — | (2,336) | 3 |
| Deferred revenues | (970) | — | — |
| Deposits | 2,490 | — | — |
| Liabilities payable from restricted assets | — | — | 168 |
| Compensated absences payable | 1,630 | — | 60 |
| Other liabilities | (3,985) | — | (796) |
| **Net cash provided by (used in) operating activities** | **$ (637,931)** | **$ (131,431)** | **$ 51,522** |
| **Noncash capital, investing, and financing activities:** | | | |
| Acquisition of capital assets through: | | | |
| Assumption of liabilities | $ 86 | $ — | $ — |
| Donations | 3,292 | — | — |
| Disposal of capital assets | (271) | — | — |
| Assignment of Perkins Loans | 653 | — | — |
| Increase (decrease) in fair value of investments | 3,963 | — | (425) |
| Accrual of arbitrage income | — | — | — |
| Principal amount of bonds refunded | — | — | — |
| Long-term debt forgiven | 225 | — | — |
| Assumption of debt | 36 | — | — |
| **Total noncash capital, investing, and financing activities** | **$ 7,984** | **$ —** | **$ (425)** |

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

| FUNDS | | | | |
|---|---|---|---|---|
| Education Assistance Authority | Nonmajor Enterprise | Totals | INTERNAL SERVICE FUNDS |
| $ (1,460) | $ (6,906) | $ (27,422) | $ (17,349) |
| — | 594 | 594 | — |
| — | (15,152) | (15,152) | — |
| — | — | (6,952) | — |
| — | 41 | 68 | 64 |
| — | — | (898) | — |
| — | — | 577 | — |
| — | 4,133 | 4,147 | 4,634 |
| — | 780 | 780 | (389) |
| — | 1,245 | 1,245 | — |
| — | (9,888) | (23,794) | 246 |
| | | | |
| 28,566 | 4,950 | 42,397 | 456 |
| — | 4,169 | 4,208 | 329 |
| — | (28) | (28) | (81) |
| — | (576) | (576) | (112) |
| — | — | (375) | — |
| — | — | (177) | — |
| — | — | 904 | — |
| — | 29,274 | 29,274 | — |
| — | (6,712) | (6,712) | 54,326 |
| — | 8,155 | 5,822 | 250 |
| — | 210 | (760) | 24,449 |
| — | — | 2,490 | — |
| — | 27 | 195 | — |
| 23 | 1,151 | 2,864 | 384 |
| 566 | (206) | (4,421) | — |
| **$ (235,051)** | **$ 102,487** | **$ (850,404)** | **$ (11,874)** |
| | | | |
| $ — | $ — | $ 86 | $ — |
| — | — | 3,292 | — |
| — | — | (271) | — |
| — | — | 653 | — |
| — | 4,610 | 8,148 | (9,141) |
| 4,445 | — | 4,445 | — |
| 8,150 | — | 8,150 | — |
| — | — | 225 | 718 |
| — | — | 36 | — |
| **$ 12,595** | **$ 4,610** | **$ 24,764** | **$ (8,423)** |

# Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | Pension Trust | Investment Trust Local Government Investment Pool | Private-Purpose Trust | Agency |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 2,800,794 | $ 461,597 | $ 26,397 | $ 174,981 |
| Receivables, net: | | | | |
| Accounts | — | — | 30 | 7,950 |
| Contributions | 118,707 | — | — | — |
| Employer long-term | 2,017 | — | — | — |
| Accrued interest | 122,337 | 8,988 | 404 | 1,061 |
| Unsettled investment sales | 48,874 | — | 428 | — |
| Taxes | — | — | — | 3,012 |
| Total receivables | 291,935 | 8,988 | 862 | 12,023 |
| Due from other funds | 5,515 | — | — | 55,964 |
| Investments, at fair value: | | | | |
| United States government securities | 1,711,502 | — | — | — |
| United States government agencies and government-insured securities | 2,626,821 | 188,233 | — | — |
| Corporate bonds | 4,441,928 | 1,342,517 | — | — |
| Financial and other | 2,385,195 | 24,038 | 323,455 | 23,931 |
| Equities | 10,261,899 | — | — | — |
| Total investments | 21,427,345 | 1,554,788 | 323,455 | 23,931 |
| Securities held in lieu of surety bonds | — | — | — | 354,702 |
| Invested securities lending collateral | 3,700,507 | 1,029,576 | 2,683 | 29,717 |
| Capital assets, net | 3,933 | — | — | — |
| Other assets | 611 | — | 4,245 | — |
| **Total assets** | **28,230,640** | **3,054,949** | **357,642** | **651,318** |
| **LIABILITIES** | | | | |
| Accounts payable | 5,002 | — | 748 | 27,276 |
| Accounts payable–unsettled investment purchases | 50,203 | — | 251 | — |
| Due to other funds | 26,956 | — | — | — |
| Tax refunds payable | — | — | — | 139 |
| Intergovernmental payables | — | — | — | 2,680 |
| Deposits | — | — | — | 1,097 |
| Amounts held in custody for others | — | — | — | 590,409 |
| Deferred retirement benefits | 649,385 | — | — | — |
| Securities lending collateral | 3,700,507 | 1,029,576 | 2,683 | 29,717 |
| Other liabilities | 4,336 | — | — | — |
| **Total liabilities** | **4,436,389** | **1,029,576** | **3,682** | **651,318** |
| **NET ASSETS** | | | | |
| Held in trust for: | | | | |
| Pension benefits | 23,794,251 | — | — | — |
| External investment pool participants | — | 2,025,373 | — | — |
| Other purposes | — | — | 353,960 | — |
| **Total net assets** | **$ 23,794,251** | **$ 2,025,373** | **$ 353,960** | **$ —** |

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

# Statement of Changes in Fiduciary Net Assets

FIDUCIARY FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Pension Trust | Investment Trust Local Government Investment Pool | Private-Purpose Trust |
|---|---|---|---|
| **Additions:** | | | |
| Licenses, fees, and permits | $ — | $ — | $ 250 |
| Contributions: | | | |
| Employer | 614,724 | — | — |
| Employee | 473,688 | — | — |
| Deposits from pool participants | — | 5,133,836 | — |
| Tuition plan deposits | — | — | 151,706 |
| Total contributions | 1,088,412 | 5,133,836 | 151,706 |
| Investment income: | | | |
| Interest income and net appreciation in investments | 1,992,106 | 22,009 | 29,432 |
| Securities lending income | 57,141 | 10,095 | — |
| Total investment income | 2,049,247 | 32,104 | 29,432 |
| Less investment expense: | | | |
| Investment expense | 23,199 | — | — |
| Securites lending expense | 40,510 | 8,120 | — |
| Net investment income | 1,985,538 | 23,984 | 29,432 |
| Transfers between pension trust funds | 2,832 | — | — |
| Transfers in | 2,400 | — | — |
| **Total additions** | **3,079,182** | **5,157,820** | **181,388** |
| **Deductions:** | | | |
| Regular retirement benefits | 1,259,981 | — | — |
| Supplemental retirement benefits | 2,400 | — | — |
| Deferred retirement benefits | 300,294 | — | — |
| Refunds of retirement contributions to members | 78,423 | — | — |
| Group life insurance claims | 15,202 | — | — |
| Accidental death benefits | 1,072 | — | — |
| Withdrawals, pool participants | — | 5,199,763 | — |
| Distributions to pool participants | — | 30,606 | — |
| Depreciation | 119 | — | — |
| Administrative expense | 15,444 | 79 | 5,344 |
| Transfers between pension trust funds | 2,832 | — | — |
| Other expenses | — | — | 2,642 |
| **Total deductions** | **1,675,767** | **5,230,448** | **7,986** |
| **Change in net assets** | **1,403,415** | **(72,628)** | **173,402** |
| **Net assets at beginning of year** | **22,390,836** | **2,098,001** | **180,558** |
| **Net assets at end of year** | **$ 23,794,251** | **$ 2,025,373** | **$ 353,960** |

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

# Statement of Net Assets

## DISCRETELY PRESENTED COMPONENT UNITS

**June 30, 2004**
**(Expressed in Thousands)**

| | Public Service Authority | State Ports Authority | Connector 2000 Association, Inc. | Lottery Commission | Nonmajor Component Units | Totals |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 27,916 | $ 91,292 | $ 387 | $ 18,266 | $ 28,384 | $ 166,245 |
| Investments | 147,747 | — | 150 | — | 34,953 | 182,850 |
| Invested securities lending collateral | — | 18,849 | — | — | 181 | 19,030 |
| Receivables, net | | | | | | |
| Accounts | 117,885 | 17,885 | — | 46,667 | 521 | 182,958 |
| Contributions | — | — | — | — | 18,100 | 18,100 |
| Accrued interest | 2,902 | — | — | — | 498 | 3,400 |
| Inventories | 105,623 | 3,681 | 72 | 2,006 | — | 111,382 |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 187,557 | — | 1,496 | 402 | 4,808 | 194,263 |
| Investments | 12,993 | — | 747 | — | — | 13,740 |
| Prepaid items | 3,202 | 4,156 | 45 | — | 25 | 7,428 |
| Other current assets | 3,636 | 1,308 | — | 94 | — | 5,038 |
| Deferred charges | — | — | — | — | 1,415 | 1,415 |
| Total current assets | 609,461 | 137,171 | 2,897 | 67,435 | 88,885 | 905,849 |
| Long-term assets: | | | | | | |
| Receivables, net: | | | | | | |
| Accounts | — | — | — | — | 2,311 | 2,311 |
| Contributions | — | — | — | — | 29,710 | 29,710 |
| Investments | 49,766 | 5,804 | — | — | 464,491 | 520,061 |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 40,060 | — | — | — | — | 40,060 |
| Investments | 247,060 | — | 17,945 | — | 266 | 265,271 |
| Accounts receivable | — | — | 7 | — | — | 7 |
| Other | — | — | 510 | — | — | 510 |
| Other long-term assets | — | — | — | 5,127 | 12 | 5,139 |
| Deferred charges | 352,961 | 17,193 | 4,406 | — | — | 374,560 |
| Investment in joint venture | 9,096 | — | — | — | — | 9,096 |
| Non-depreciable capital assets | 609,055 | 210,070 | — | — | 8,971 | 828,096 |
| Depreciable capital assets, net | 2,315,360 | 214,712 | 178,531 | 12,236 | 568 | 2,721,407 |
| Total long-term assets | 3,623,358 | 447,779 | 201,399 | 17,363 | 506,329 | 4,796,228 |
| **Total assets** | **4,232,819** | **584,950** | **204,296** | **84,798** | **595,214** | **5,702,077** |

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

# Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

**June 30, 2004**

**(Expressed in Thousands)**

| | Public Service Authority | State Ports Authority | Connector 2000 Association, Inc. | Lottery Commission | Nonmajor Component Units | Totals |
|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ 104,600 | $ 6,372 | $ 48 | $ 3,957 | $ 1,036 | $ 116,013 |
| Accrued salaries and related expenses | 4,877 | 3,435 | — | 943 | 57 | 9,312 |
| Accrued interest payable | 65,862 | 3,124 | — | — | — | 68,986 |
| Retainages payable | — | 449 | — | — | — | 449 |
| Prizes payable | — | — | — | 47,497 | — | 47,497 |
| Intergovernmental payables | — | 32 | — | — | — | 32 |
| Policy claims | 2,228 | — | — | — | 35,000 | 37,228 |
| Due to primary government | — | — | — | 18,083 | 82,665 | 100,748 |
| Deferred revenues and deferred credits | — | — | 90 | 767 | 22,028 | 22,885 |
| Deposits | — | — | 9 | — | — | 9 |
| Securities lending collateral | — | 18,849 | — | — | 181 | 19,030 |
| Liabilities payable from restricted assets: | | | | | | |
| Accounts payable | — | — | 18 | — | — | 18 |
| Accrued interest payable | — | — | 1,766 | — | — | 1,766 |
| Notes payable | — | 4,174 | — | 1,233 | — | 5,407 |
| Revenue bonds payable | 71,270 | 2,905 | — | — | — | 74,175 |
| Capital leases payable | 2,761 | 38 | — | — | — | 2,799 |
| Commercial paper notes | 345,050 | — | — | — | — | 345,050 |
| Compensated absences payable | — | 2,032 | — | 117 | 58 | 2,207 |
| Other current liabilities | 30,250 | 2,932 | 45 | 62 | 362 | 33,651 |
| Total current liabilities | 626,898 | 44,342 | 1,976 | 72,659 | 141,387 | 887,262 |
| Long-term liabilities: | | | | | | |
| Retainages payable | 11,105 | — | — | — | — | 11,105 |
| Policy claims | — | — | — | — | 128,452 | 128,452 |
| Deferred revenues and deferred credits | 276,296 | — | — | — | — | 276,296 |
| Amounts held in custody for others | — | — | — | — | 2,157 | 2,157 |
| Notes payable | — | 3,320 | — | 2,217 | 300 | 5,837 |
| Revenue bonds payable | 2,141,790 | 140,515 | 253,041 | — | — | 2,535,346 |
| Capital leases payable | 18,754 | 94 | — | — | — | 18,848 |
| Compensated absences payable | 13,370 | — | — | 733 | 35 | 14,138 |
| Other long-term liabilities | 22,126 | 14,048 | — | — | 10,290 | 46,464 |
| Total long-term liabilities | 2,483,441 | 157,977 | 253,041 | 2,950 | 141,234 | 3,038,643 |
| **Total liabilities** | **3,110,339** | **202,319** | **255,017** | **75,609** | **282,621** | **3,925,905** |
| **NET ASSETS (DEFICITS)** | | | | | | |
| Invested in capital assets, net of related debt | 548,452 | 272,882 | (23,126) | 8,786 | 9,539 | 816,533 |
| Restricted: | | | | | | |
| Expendable: | | | | | | |
| Education | — | — | — | — | 138,487 | 138,487 |
| Capital projects | 202,111 | — | 800 | — | — | 202,911 |
| Debt service | 109,208 | 5,804 | — | — | — | 115,012 |
| Other | 52,550 | — | — | 403 | 2,215 | 55,168 |
| Nonexpendable, education | — | — | — | — | 267,410 | 267,410 |
| Unrestricted | 210,159 | 103,945 | (28,395) | — | (105,058) | 180,651 |
| **Total net assets (deficit)** | **$ 1,122,480** | **$ 382,631** | **$ (50,721)** | **$ 9,189** | **$ 312,593** | **$ 1,776,172** |

# Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| Public Service Authority | $ 999,224 | $ 1,049,044 | $ 8,542 | $ — |
| State Ports Authority | 106,419 | 116,817 | 977 | 3,216 |
| Connector 2000 Association, Inc. | 22,346 | 3,336 | 1,055 | — |
| Lottery Commission | 950,008 | 953,163 | 225 | — |
| Nonmajor component units | 104,397 | 34,022 | 116,545 | — |
| **Totals** | **$ 2,182,394** | **$ 2,156,382** | **$ 127,344** | **$ 3,216** |

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

| Net (Expense) Revenue | Net Assets (Deficit) Beginning of Year (Restated) | Net Assets (Deficit) End of Year |
|---|---|---|
| $ 58,362 | $ 1,064,118 | $ 1,122,480 |
| 14,591 | 368,040 | 382,631 |
| (17,955) | (32,766) | (50,721) |
| 3,380 | 5,809 | 9,189 |
| 46,170 | 266,423 | 312,593 |
| **$ 104,548** | **$ 1,671,624** | **$ 1,776,172** |

# Notes to the Financial Statements—Contents


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# Notes to the Financial Statements

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Scope of Reporting Entity

The South Carolina General Assembly (an elected legislative body) and several elected executives govern the State of South Carolina. The accompanying financial statements present the activities of the State of South Carolina's primary government and its component units.

Component units are legally separate organizations for which the State is financially accountable. Blended component units, although legally separate from the State, are part of the State's operations in substance. Accordingly, the State presents them as funds in its fund financial statements and as activities in its government-wide financial statements. In contrast, the State excludes its discretely presented component units from the fund financial statements included within its basic financial statements and it reports the discretely presented component units separately in its government-wide financial statements.

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

#### Primary Government

The State's primary government includes all constitutional offices, departments, agencies, commissions, and authorities unless otherwise noted below. Most of these have executives or boards appointed by the Governor, the General Assembly, or a combination thereof. These entities are financially accountable to, and fiscally dependent on, the State.

Although they operate somewhat autonomously, the entities listed below are included in the State's primary government because they lack full corporate powers.

Fiscal year ended June 30, 2004:
- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 2003:
- The Public Railways Division of the Department of Commerce

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

The State reports ten State-supported universities and sixteen area technical colleges within its Higher Education Fund, part of the primary government. Although the universities and colleges operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and the General Assembly appoint most of their boards and budget a significant portion of their funds.

The accompanying financial statements exclude the related foundations listed in Note 20 because the State does not significantly influence operations of the related foundations nor are the related foundations accountable to the State for fiscal matters.

#### Blended Component Units

Unless otherwise indicated below, the blended component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2004.

##### *Tobacco Settlement Revenue Management Authority*

The Tobacco Settlement Revenue Management Authority, a blended component unit accounted for as a governmental fund, commenced operations in August 2000. Its creation was in accordance with an act of the General Assembly that resulted from South Carolina's participation in a settlement (the Master Settlement Agreement or MSA) that arose out of litigation that a group of state governments brought against the tobacco industry. The legally separate Authority's primary purposes are (a) to receive all receipts due to South Carolina under the MSA after June 30, 2001, and (b) to issue the Authority's revenue bonds payable solely from, and secured solely by, those receipts. The Authority's governing board is composed of the Governor or his designee, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The State receives the funding from the bond issuances, except in the event that the Authority issues bonds expressly to refund its outstanding bonds.

##### *State Housing Corporation*

The State Housing Corporation, a blended component unit accounted for as an enterprise fund, was organized to lease, operate, manage, and contract for the construction of office facilities for the South Carolina State Housing Finance and Development Authority and for affordable housing facilities for members of the beneficiary classes of the Authority. The Corporation was dissolved during the fiscal year ended June 30, 2004, and the assets were used to partially repay a loan from the Authority. The Authority forgave the remaining loan balance.

# Notes to the Financial Statements

*Governor's School for the Arts Foundation, Inc.*

The State's internal service funds include the Governor's School for the Arts Foundation, Inc., a blended component unit. The Foundation exists solely to support the South Carolina Governor's School for the Arts and Humanities.

*Blended Component Units Associated with the Higher Education Fund*

The State's nonmajor enterprise funds include the following blended component units, all of which are associated with the Higher Education Fund, a major enterprise fund:

*The Citadel Trust, Inc.*, was formed for the purpose of investing funds in order to provide scholarship and other financial assistance or support to the Citadel.

The *University of South Carolina Trust (the Trust)* operates exclusively for the benefit of the University's School of Medicine to augment and aid education, research, and service in the field of health sciences. The financial information presented in the accompanying financial statements is for the Trust's fiscal year ended December 31, 2003.

The *Medical University Hospital Authority* (the Authority) was created to manage and operate the Medical University of South Carolina's hospitals and clinics. The legislation establishing the Authority requires that the members of the Medical University's Board of Trustees also constitute the Authority's Board of Trustees.

*University Medical Associates (UMA)* was established to promote and support educational, medical, scientific, and research purposes of the Medical University of South Carolina (MUSC). UMA promotes the recruitment and retention of superior faculty at MUSC. UMA is a blended component unit because it almost exclusively benefits MUSC even though UMA does not provide all of its services directly to MUSC.

The *Medical University Facilities Corporation* was established to obtain financing for the Medical University of South Carolina to purchase land, an office building, and a parking garage.

The *CHS Development Company* was established during fiscal year 2003-2004 to provide financing services for the Medical University of South Carolina by developing and leasing property.

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

*Obtaining More Information about Blended Component Units*

One may obtain complete financial statements for the above blended component units from the following administrative offices:

South Carolina Tobacco Settlement Management Revenue Authority
122 Wade Hampton Office Building
Capitol Complex
Columbia, South Carolina 29201

State Housing Corporation
c/o South Carolina State Housing Finance and Development Authority
300-C Outlet Pointe Boulevard
Columbia, South Carolina 29210

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

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

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

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

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

Medical University Facilities Corporation
c/o Medical University of South Carolina
Controller's Office
Suite 805
19 Hagood Avenue
Post Office Box 250817
Charleston, South Carolina 29425

CHS Development Company
c/o Medical University of South Carolina
Controller's Office
Suite 805
19 Hagood Avenue
Post Office Box 250817
Charleston, South Carolina 29425

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

## Discretely Presented Component Units

Unless otherwise indicated below, the discretely presented component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2004.

*Public Service Authority*

The State General Assembly created the South Carolina Public Service Authority (Santee Cooper), a public utility company, in 1934. The Authority's primary purpose is to provide electric power and wholesale water to the people of South Carolina. The Governor appoints the Authority's Board of Directors. The Governor has the ability to remove the appointed members at will. By law, the

# Notes to the Financial Statements

Authority must annually transfer to the State's General Fund any net earnings not necessary for prudent business operations. The financial information presented in the accompanying financial statements is for the Authority's fiscal year ended December 31, 2003.

*State Ports Authority*

The State General Assembly created the South Carolina State Ports Authority in 1942 to develop and improve the State's harbors and seaports. The State Ports Authority owns and operates seven ocean terminals that handle import and export cargo. The Governor appoints the members of the Authority's governing board. The Governor has the ability to remove the appointed members at will. The State's primary government has provided financial support to the Authority in the past, and State law grants the primary government access to the Authority's surplus net revenues.

*Connector 2000 Association, Inc.*

Connector 2000 Association, Inc., was created in 1996 to assist the Department of Transportation in financing, acquiring, constructing, and operating turnpikes and other transportation projects, primarily the project known as the Southern Connector in Greenville County. The Department of Transportation initially set the toll rates for the Southern Connector and has the right, but not the obligation, to revise the rates as long as they are within 90.0% to 120.0% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. The rates also must be in compliance with revenue covenants of the Association's financing agreements. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2003.

*Lottery Commission*

The South Carolina Lottery Commission commenced operations in July 2001 in accordance with an act of the General Assembly. The Commission, established to serve the State's citizens, is governed by a nine-member board with three members appointed by the Governor, three appointed by the President Pro Tempore of the Senate, and three appointed by the Speaker of the House of Representatives. State law requires that the Commission transfer its net proceeds to the State to support improvements and enhancements for educational purposes and programs.

*Other Discretely Presented Component Units*

The State considers the four discretely presented component units described above as its major component units. The State's government-wide financial statements also include the following non-major discretely presented component units:

*The Clemson Foundation (the Foundation)* is a non-profit, tax-exempt public charity that was established to raise and manage private gifts for the advancement and benefit of Clemson University. The Foundation is governed by an independent, forty-three member volunteer board of directors, with additional honorary and ex-officio directors as approved.

*The University of South Carolina Eduational Foundation (the Foundation)* is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. The Foundation establishes and implements long-range fund raising programs to assist in the expansion and improvement of the educational functions of the University. The Foundation is governed by a self-perpetuating board of directors consisting of at least twenty-four members, including four ex-officio directors.

*The South Carolina Medical Malpractice Liability Joint Underwriting Association (the Association)* was established to provide medical malpractice insurance on a self-supporting basis. The Association is governed by a board of thirteen directors, all of whom are appointed by the Governor. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2003.

*The South Carolina First Steps to School Readiness Board of Trustees* was established in 1999 as a non-profit, tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The corporation was created specifically to carry out the objectives of The South Carolina First Steps to School Readiness Act and to lessen the burdens on government by overseeing the South Carolina First Steps to School Readiness initiative for improving early childhood development. The corporation's governing board is composed of two classes of members, voting and nonvoting. The Board's voting members include the Governor, State Superintendent of Education, ten Governor appointees, four members appointed by the President Pro Tempore of the Senate, four members appointed by the Speaker of the House of Representatives, the Chairman of the Senate Education Committee, and the Chairman of the House Education and Public Works Committee.

*The Children's Trust Fund of South Carolina, Inc. (the Fund)*, is a non-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Fund's purpose is to stimulate innovative prevention and treatment programming to meet critical needs of South Carolina's children by awarding grants to private non-profit organizations. The Governor appoints the Board of Trustees' nine members. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Fund's fiscal year ended December 31, 2003.

*The Savannah Lakes Regional Loan Fund* (the Fund) was established in 1990. It maintained a revolving loan fund to promote economic development in the State's Savannah Lakes Region. The Fund's Board of Directors consisted of three members from each of two State agencies, the Department of Commerce and the Jobs—Economic Development Authority (JEDA). The State's primary government initially capitalized the fund. The primary government regularly provided gratis administrative services to the fund. The Fund was dissolved during the fiscal year ended June 30, 2004, and the assets of the Fund were transferred to the

# Notes to the Financial Statements

Savannah Valley Development of the South Carolina Department of Commerce.

*Obtaining More Information about Discretely Presented Component Units*

One may obtain complete financial statements for the discretely presented component units from the following administrative offices:

South Carolina Public Service Authority
(Santee Cooper)
One Riverwood Drive
Moncks Corner, South Carolina 29461

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

Connector 2000 Association, Inc.
Post Office Box 408
Piedmont, South Carolina 29673

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

Clemson University Foundation
110 Daniel Drive
Clemson, South Carolina 29634

University of South Carolina Educational Foundation
208 Osborne Building
University of South Carolina
Columbia, South Carolina 29208

The South Carolina Medical Malpractice Liability Joint Underwriting Association
c/o Marsh USA
Post Office Box 128
Greenville, South Carolina 29161

The Children's Trust Fund
1205 Pendleton Street, Suite 506
Columbia, South Carolina 29201

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

Fund financial statements for The First Steps to School Readiness Board of Trustees are included in the Supplementary Information section of the State's Comprehensive Annual Financial Report. This entity does not issue separate financial statements.

### Related Organizations

A related organization is one for which the primary government is accountable but not *financially accountable.* The South Carolina Reinsurance Facility, the Associated Auto Insurers Plan, regional housing authorities, and the Rural Crossroads Institute are related organizations because the State is not financially accountable for them despite the fact that the Governor appoints a voting majority of their governing boards. County boards of mental retardation and redevelopment authorities are related organizations if the Governor appoints a voting majority of the members.

### Jointly Governed Organizations

The Governor, in conjunction with officials of certain local governments, appoints the board members of two military facility redevelopment authorities. The State does not have an ongoing financial interest in these authorities. The Governor appoints one out of seven board members of the Charleston Naval Complex Redevelopment Authority and three out of nine board members of the Myrtle Beach Air Force Base Redevelopment Authority.

During the 2001-2002 fiscal year, the State joined the Atlantic Low-Level Radioactive Waste Compact, a voluntary association of states that, by federal law, is legally separate from each of the party states. South Carolina does not have an ongoing financial interest in the Compact.

**b. Basis of Presentation**

### Government-wide Financial Statements

The statement of net assets and the statement of activities report information about all activities of the primary government and its component units, except for fiduciary activities. These statements distinguish between the State's *governmental* and *business-type activities.* Taxes, federal revenues, and other nonexchange transactions primarily finance the governmental activities whereas fees charged to external parties finance, in whole or in part, the business-type activities. All of the State's governmental and internal service funds are reported in the government-wide financial statements as governmental activities and all of its enterprise funds are reported as business-type activities. (See the *Fund Financial Statements* subsection below for more information about fund types.)

*Statement of Activities and Eliminations*

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The State does not eliminate direct expenses and does not allocate indirect expenses to functions in the statement of activities. In the statement of activities, reimbursements under indirect cost plans for federal reimbursement purposes are reported as program revenues of the function that includes the reimbursed expenses.

Eliminations have been made to minimize the double-counting of internal activities. For example, the State eliminates payments the Department of Health and Human Services makes to the Department of Mental Health for providing Medicaid services because it reports both departments in its health and environment function. An exception to this general rule is that interfund services provided or used between functions have

# Notes to the Financial Statements

not been eliminated in the statement of activities because to do so would distort the net cost data for functional activities as reported in the total column of that statement. The State treats these internal payments as program revenues and treats interfund reimbursements in the statement of activities in the same manner as described below for fund financial statements. For example, when the Department of Health and Human Services purchases computer services from one of the State's higher education institutions, the health and environment governmental function reports an expense, and the higher education business-type activity reports program revenue (charges for services).

*Program revenues* include: (a) fees, fines, and charges paid by the recipients of goods, services, or privileges offered by the programs; (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and (c) investment earnings that are legally restricted for a specific program. The State classifies as *general revenues* all revenues that are not program revenues, including all taxes.

#### *Major Component Units*

The State's management designates the Public Service Authority, the State Ports Authority, the Connector 2000 Association, Inc., and the Lottery Commission as major component units. The nonmajor component units include aggregate totals of all remaining discretely presented component units. In determining which discretely presented component units to designate as major, the State considered each component unit's significance relative to the other discretely presented component units and the nature and significance of its relationship to the primary government.

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

### Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. The State presents separate statements for each fund category—governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds, with each displayed in a separate column. The State aggregates and reports as nonmajor funds all remaining governmental and enterprise funds.

The State eliminates material intrafund activity. It also treats interfund reimbursements (repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them) as reductions of expenditure/expense in the initial fund. For example, during the fiscal year ended June 30, 2004, the Department of Motor Vehicles (reported within the general government function) used office supplies and postage provided by the Department of Public Safety (reported within the administration of justice function). The Department of Public Safety initially recorded expenditures for the office supplies and postage in the General Fund. The Department of Motor Vehicles later reimbursed the Department of Public Safety with special revenue monies. That is, the Department of Motor Vehicles recorded special revenue fund expenditures while the Department of Public Safety reduced its General Fund expenditures by the same amount.

#### *Governmental Funds*

*Governmental funds* focus primarily on the sources, uses, and balances of current financial resources. The governmental fund category includes the General Fund, special revenue funds, the Capital Projects Fund, and permanent funds. The State reports the following major governmental funds:

*The General Fund* is the State's general operating fund. It accounts for resources that fund the services South Carolina's State government traditionally has provided to its citizens, except those required to be accounted for in another fund.

*The Departmental General Operating Fund* accounts for resources, other than General Fund resources, that State agencies may use for operating purposes. These resources include significant amounts of federal grant receipts.

*The Local Governmental Infrastructure Fund* accounts for grants, loans, and other financial assistance to local governments for infrastructure purposes. Certain motor fuel taxes, federal funds, and transfers from other funds are the fund's primary resources. This fund includes operations of the South Carolina Transportation Infrastructure Bank.

*The Department of Transportation Special Revenue Fund* accounts for the various gasoline taxes, fees, fines, and federal grant resources that the Department of Transportation uses in its general operations. Those operations include highway maintenance and repair as well as most of the Department's administrative activities.

*The State Tobacco Settlement Fund* accounts for revenues received from the General Fund and from the Tobacco Settlement Revenue Management Authority, a blended component unit and nonmajor governmental fund designated to receive and manage South Carolina's share of the multi-state legal settlement with the tobacco industry. Various healthcare and local government programs use these funds and the related interest.

The State aggregates other nonmajor governmental funds in a single column in its fund financial statements.

#### *Enterprise Funds*

*Enterprise funds* (which are reported as business-type activities in the government-wide financial statements) report activities that charge fees to external users for goods or services. The State reports the following major enterprise funds:

*The Higher Education Fund* accounts for the general operations of ten four-year higher education institutions and sixteen area technical colleges, all of which are part of the State's primary government.

*The Unemployment Compensation Fund* accounts for the State's unemployment compensation benefits. Revenues consist of

# Notes to the Financial Statements

assessments on employers to pay benefits to qualified unemployed persons.

*The Housing Authority Fund* facilitates medium-income and low-income housing opportunities by providing reasonable financing to the State's citizens. To provide such financing, the Fund issues bonds and notes and administers federal grants and contracts. Mortgage interest is a primary resource for the Fund.

*The Education Assistance Authority Fund* issues bonds to make loans to individuals to enable students to attend higher education institutions. Resources include interest charges, subsidies from the United States Department of Education, loan repayments, and investment earnings.

The State aggregates other nonmajor enterprise funds in a single column in its fund financial statements.

#### *Other Fund Types*

The State reports the following fund types in addition to governmental and enterprise funds:

*Internal service funds* account for various goods and services provided to other State departments or agencies (primarily to governmental funds), or to other governments, on a cost-reimbursement basis. Services provided by these funds include several risk management activities for which the State is the primary participant, including underwriting related to the following risks: public buildings and their contents, torts, medical malpractice, automobile use by public employees in the performance of their official duties, employee health and disability, and workers' compensation benefits. Other services include those relating to telecommunications, computer operations, office rental, janitorial, building maintenance, lease and repair of fleet vehicles, procurement, employee training, and management of public employee retirement systems. The internal service funds also sell goods produced with prison inmate labor. In addition, the internal service funds purchase selected supplies and equipment in bulk and sell these items to other State funds (primarily governmental funds) and to local governmental units. The State's internal service funds are considered to be governmental activities because they primarily serve governmental funds.

*Pension trust funds* account for the pension benefits of the South Carolina Retirement System, the Police Officers' Retirement System, the General Assembly Retirement System, the Judges' and Solicitors' Retirement System, and the National Guard Pension System.

The State's *investment trust fund* accounts for a local government investment pool that the State Treasurer operates.

*Private-purpose trust funds* include a tuition savings plan benefiting college students. Another private-purpose trust fund sets aside assets for site stabilization and closure of a nuclear waste site operated by a private company within the State's borders in the event that the company ceases operations or loses its license to operate. The private-purpose trust funds also include miscellaneous other trust agreements holding assets that benefit non-State parties.

*Agency funds* account for assets that the State holds as an agent. These assets include deposits of insurance companies in lieu of surety bonds; employee and employer payroll deductions and contributions for the short period of time between the issuance of payroll checks and payment to the recipients; and various other assets held for prisoners, patients of State institutions, and other external parties.

#### *Operating and Nonoperating Revenues and Expenses in Proprietary Fund Financial Statements*

Enterprise and internal service funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally are limited to items resulting from the provision of services and goods in connection with the fund's principal ongoing operations. The State generally classifies revenues and expenses as operating only if the related cash flows appear in the operating section on the statement of cash flows. Accordingly, grants and grant-like transactions are reportable as operating revenues only if they are essentially the same as contracts for services (i.e., exchange transactions) and they finance programs that the proprietary fund would not otherwise undertake (i.e., the activity of the grant is inherently part of the operations of the grantor). Conversely, the State classifies nonexchange transactions as nonoperating. This includes all grant revenues except those reportable as operating revenue as described above and those restricted by the grantor for use exclusively for capital purposes. The State reports as operating most expenses it pays from operating revenues but usually reports interest expense as nonoperating.

In accordance with the general policy stated in the preceding paragraph, the *Higher Education Fund's* principal operating revenues include tuition; student fees; student loans; scholarships and grants (including Pell grants) where the provider has identified the student recipients; sales of miscellaneous goods and services; and certain research grants that, in substance, are contracts for services rather than nonexchange revenues. However, the Higher Education Fund generally does not report as revenue third-party loan amounts that it receives and disburses. (In a third-party loan, a student or a student's parents secure(s) a student loan from a governmental fund or from another lender such as the federal government; the Higher Education Fund then receives funds from the lender and disburses the funds to the student or applies amounts to the student's account.)

For the *Unemployment Compensation Fund*, principal operating revenues include amounts received from covered employers and from federal agencies. The amounts received from federal agencies are classified as operating revenues because they are provided to the State primarily to provide unemployment benefits, although amounts not needed for that purpose may be used for other purposes. This fund's operating expenses consist primarily of unemployment compensation benefits paid. Interest income is classified as nonoperating revenue.

For the *Housing Authority Fund* and the *Education Assistance Authority Fund*, principal operating items include revenues and expenses associated with program loans that provide direct benefits to individuals.

# Notes to the Financial Statements

The principal ongoing operation of *The Citadel Trust, Inc.*, a nonmajor enterprise fund, is investing. Accordingly, the State reports its investment-related transactions as operating rather than nonoperating.

### Component Unit Financial Statements

The State presents a statement of net assets and a statement of activities for each of its major discretely presented component units and for the aggregate of its nonmajor discretely presented component units.

### Use of Private-Sector Accounting and Financial Reporting Principles

The government-wide and proprietary fund financial statements reflect the State's compliance with private-sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Goverments also may opt to follow private-sector guidance issued after November 30, 1989, for their business-type activities (enterprise funds) and for their discretely presented component units that follow enterprise fund accounting, subject to the same limitation. Only the Public Service Authority and the State Ports Authority, major discretely presented component units, have selected this option.

#### c. Measurement Focus and Basis of Accounting

A particular measurement focus determines *what* resources are measured. The State reports its government-wide, proprietary, and fiduciary fund financial statements using the *economic resources* measurement focus. Business enterprises use this same measurement focus. The State reports its governmental funds using the *current financial resources* measurement focus.

The basis of accounting determines *when* the State recognizes revenues and expenditures/expenses as well as the related assets and liabilities, regardless of measurement focus. Generally accepted accounting principles for governments require the use of the accrual and the modified accrual bases of accounting as described below.

### Accrual Basis

The State uses the accrual basis of accounting in reporting its government-wide financial statements, as well as its proprietary and fiduciary fund financial statements and its major component unit financial statements. Under the accrual basis, the State generally records revenues when earned and reasonably measurable and records expenses when a liability is incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, donations, fines, and penalties. On the accrual basis, the State recognizes income, sales, and similar taxes in the period when the underlying income or sales transactions occur. The State recognizes grants, donations, and similar items as revenue as soon as it meets all eligibility requirements. Fines and penalties are recognized in the period when an enforceable legal claim to the related assets has arisen. Pledges are recognized as receivables and revenues, net of estimated uncollectible amounts, if all eligibility requirements are met, the promise is verifiable, and the resources are measurable and probable of collection. Note 17b provides additional details regarding pledges that were not measurable at June 30, 2004.

### Modified Accrual Basis

The State uses the modified accrual basis of accounting to report its governmental funds. Under the modified accrual basis, revenues, net of estimated uncollectible amounts, are recognized in the fiscal year when they become susceptible to accrual—that is, as soon as they become both measurable and available to finance expenditures of the fiscal year. Deferred revenue is recorded for receivables that are measurable but not available at year-end.

Under the modified accrual basis, the State's governmental funds consider receivables collected within one year after year-end to be available and recognize them as revenues of the current year if measurable. Interest on investments is recorded as earned because it is deemed available when earned. Taxes, grants, donations, revenue resulting from the provision of material services and commodities, interest on investments, fines, and penalties associated with the current fiscal year are considered susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items in governmental funds are considered to be available only when the State receives the related cash.

Under the modified accrual basis, expenditures generally are recorded when a liability is incurred, as under accrual accounting. An exception, however, is that principal and interest on general long-term debt, claims and judgments, and compensated absences, are recognized as expenditures only to the extent they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures (rather than as assets) in governmental funds.

### Recognition of Specific Grant and Shared Revenue Transactions

The State's governmental funds do not report the receipt of food commodities as revenue and do not report the distribution of commodities as expenditures because there is no flow of *financial* resources in conjunction with these transactions. However, the State does record these receipts and distributions as revenues and expenses on the accrual basis of accounting.

The State recognizes the face value of food stamp benefits distributed as revenue and expenditures/expenses under both the accrual and modified accrual bases of accounting.

The State shares certain of its revenues with municipalities, counties, and districts within its

# Notes to the Financial Statements

borders, recognizing expenditure or expense when the recipient government has met all eligibility requirements.

### d. Cash and Cash Equivalents

The amounts shown in the accompanying financial statements as *cash and cash equivalents* represent petty cash, cash on deposit in banks, restricted cash and cash equivalents on deposit with external parties, and cash invested in various instruments as a part of the State's cash management pool, an internal investment pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

Most entities in the primary government and the discretely presented governmental component units participate in the cash management pool. Significant exceptions, however, are: retirement plans, the Local Government Investment Pool (an external investment pool), the Tobacco Settlement Revenue Management Authority (a blended component unit and a nonmajor governmental fund), the Housing Authority (a major enterprise fund), and certain activities of the Higher Education Fund (a major enterprise fund). Of the discretely presented component units, the State Ports Authority, the Lottery Commission, and the First Steps to School Readiness Board of Trustees participate in the pool. For activities excluded from the pool, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

### e. Cash Management Pool–Allocation of Interest

The State's cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. All earnings on that account, however, are recorded in the General Fund. In contrast, each special deposit account retains its own earnings.

### f. Investments

The State Treasurer is authorized by statute to invest all State funds. The State Treasurer's investment objectives are preservation of capital, maintenance of adequate liquidity, and obtaining the best yield possible within prescribed parameters. To meet those objectives, the State Treasurer uses various resources including an investment advisory service, electronic financial quotation and information services, various economic reports, and daily communication with brokers and financial institution investment officers.

To insure safety of principal, the State Treasurer's policy is to limit liquid investments (i.e., those with maturities not exceeding one year) to cash, repurchase agreements (when collateralized by United States Treasury, federal agency or other federally guaranteed obligations with a market value in excess of 100.0% of funds advanced), United States Treasury bills, federal agency discount notes, and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities (i.e., those rated at least A by two leading national rating services). In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

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

Substantially all of the State's investments are presented at fair value; securities are valued at the last reported sales price as provided by an independent pricing service. In contrast, however, the State has presented at historical cost the investment securities and other instruments that the Chief Insurance Commissioner holds for insurance companies in lieu of surety bonds. These securities are separately classified in the accompanying financial statements as *securities held in lieu of surety bonds.* These instruments are recorded in the State's agency funds and are not held for investment purposes.

The State sponsors the Local Government Investment Pool (LGIP), an external investment pool reported as an investment trust fund. The LGIP's complete financial statements may be obtained by writing to the following address:

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

### g. Receivables and Payables

The State records amounts receivable from parties outside the primary government net of allowances for uncollectible amounts and contractual adjustments. It estimates uncollectible amounts based on past collection experience. The State discloses the gross amounts of these receivables and the amounts of related allowances and adjustments, as well as any significant receivable balances not expected to be collected within one year, in Note 5. Further, the State disaggregates its receivable balances in Note 5 if any significant components thereof have been obscured in the financial statements by aggregation or if

# Notes to the Financial Statements

different components of receivables have significantly different liquidity characteristics.

The State presents balances outstanding at the end of the fiscal year that relate to lending/borrowing arrangements between funds as interfund receivables and payables and reports all other outstanding balances between funds as due to/from other funds. The government-wide statement of net assets displays internal balances that involve fiduciary funds as accounts receivable and accounts payable. The State reports as internal balances any residual balances outstanding between the governmental and business-type activities in the government-wide financial statements.

### h. Inventories

The State values its inventories at cost, predominantly using the first-in, first-out methodology for its proprietary funds and its business-type activities and predominantly using the average cost methodology for its other funds and activities and its discretely presented component units. The State records expenditures in governmental funds when it consumes inventory items rather than when it purchases them.

### i. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. The State records these payments as prepaid items in both the government-wide and fund financial statements.

### j. Capital Assets

The State reports its capital assets in the following categories in the applicable governmental or business-type activities in the government-wide financial statements: land and land improvements, infrastructure (i.e., highways and bridges), buildings and improvements, construction in progress, vehicles, machinery and equipment, works of art and historical treasures, and intangible assets.

Capital assets are valued at historical cost or at estimated historical cost if actual historical cost data are not available. Donated capital assets are recorded at estimated fair market value on the donation date. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized. Cumulative costs incurred on major capital assets under construction but not yet placed in service are capitalized and reported in the construction in progress account. Net interest incurred by a proprietary fund during the construction phase of a major capital asset is included as part of the capitalized value of such asset.

An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost as follows: more than $5 thousand for vehicles, machinery and equipment, and works of art and historical treasures; more than $100 thousand for buildings and improvements, depreciable land improvements, and intangible assets; and more than $500 thousand for roads and bridges. All land and non-depreciable land improvements are capitalized and reported, regardless of cost. Certain State agencies also capitalize those assets with a useful life between one and two years that meet the preceding dollar thresholds, and the Lottery Commission, a major discretely presented component unit, capitalizes all property and equipment purchases of $1 thousand or more.

Once the State or one of its discretely presented component units places a depreciable capital asset in service, depreciation is recorded using the straight-line method over the following estimated useful lives:

| Asset Category | Years |
|---|---|
| Land improvements | 3 - 60 |
| Infrastructure—highways | 75 |
| Infrastructure—bridges | 50 |
| Buildings and improvements | 5 - 55 |
| Vehicles | 3 - 20 |
| Machinery and equipment | 2 - 25 |
| Works of art; historical treasures | 10 - 25 |
| Intangible assets | 3 - 38 |

In addition, certain capitalized works of art and historical treasures are not depreciated because they are considered to be inexhaustible.

The State does not capitalize certain collections of works of art and historical treasures that are held for public use, are protected and preserved, and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These non-capitalized collections include portraits of political leaders, historical relics, antiques, fossils, and other South Carolina artifacts.

The State reports losses on disposals of capital assets as expenses of its General Government function and gains on such disposals as general revenues in the government-wide statement of activities.

The State reports the Southern Connector toll road as a capital asset of the Connector 2000 Association, Inc., the major discretely presented component unit that financed, constructed, and is responsible for maintaining and operating the toll road. Under an agreement between the Association and the State Department of Transportation (DOT), the DOT retains fee simple title to the road.

# Notes to the Financial Statements

### k. Deferred Charges

Deferred costs to be recovered from future revenues of the South Carolina Public Service Authority (a regulated utility reported as a major discretely presented component unit) are recorded as deferred charges. Deferred costs include unrealized gains and losses related to the Authority's gas hedging activities. The Authority's rates are based upon debt service and operating fund requirements. The Authority recognizes differences between debt principal maturities and straight-line depreciation as costs to be recovered from future revenue. The recovery of outstanding amounts recorded as costs to be recovered from future revenue will coincide with the repayment 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 was amortized as a component of fuel costs over the remaining life of the former contract. The balance was fully amortized as of December 31, 2003. Unamortized bond issuance costs are reported as deferred charges and are amortized as described in Note 1m.

The South Carolina Medical Malpractice Liability Joint Underwriting Association, a non-major discretely presented component unit, defers certain policy acquisition costs for new and renewal business. The Association amortizes these costs based on the related written and unearned premiums.

### l. Tax Refunds Payable

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

### m. Long-Term Obligations

The State records general long-term debt and other long-term obligations of the primary government's governmental funds in the governmental activities reported in its government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are recorded as liabilities in the appropriate funds.

The State defers and amortizes bond premiums and discounts, as well as issuance costs, over the life of the bonds predominantly using the effective interest method. For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is also deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The State reports bonds payable net of the applicable bond premium or discount and deferred amount on refunding. Unamortized issuance costs are reported as deferred charges.

### n. Compensated Absences

During their first ten years of service, most full-time permanent State employees annually earn 15 days of vacation leave and 15 days of sick leave. After ten years, most employees earn an additional 1.25 days of vacation leave for each year of service over ten until they reach the maximum of 30 days per year. Employees may carry forward up to 45 days of vacation leave and 180 days of sick leave from one calendar year to the next. Upon termination of employment, the State pays employees for accumulated vacation leave at the pay rate then in effect. Employees do not receive pay for accumulated sick leave when they terminate. However, at retirement, employees participating in the South Carolina Retirement System and the South Carolina Police Officers' Retirement System may receive additional service credit for up to 90 days of accumulated unused sick leave.

The government-wide and proprietary fund statements record an expense and a liability when employees earn compensated absence credits. Governmental fund financial statements record a liability for compensated absences payable at June 30 only if the liability has matured but has not yet been paid at that date (for example, as a result of employee resignations and retirements). The State does not record a liability for unpaid accumulated sick leave.

### o. Perkins Loan Liability

The Higher Education Fund, a major enterprise fund, records a liability related to the Perkins student loan program and certain other federal student loan programs to reflect the amount of capital contributions received to date from the federal government plus any other amounts that ultimately are refundable to the federal government under the programs. The State has recorded this liability as part of its other liabilities account.

### p. Restricted Net Assets

The State reports a portion of its net assets in its government-wide financial statements as restricted. In this context, *restricted* means that, as of June 30, 2004, this portion of net assets was restricted for a particular purpose either by external parties, by provisions of the State Constitution, or by enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the General Assembly. If the General Assembly subsequently removes restrictions from amounts reported as restricted net assets at June 30, 2004, the State reclassifies such amounts as *unrestricted* net assets when the change becomes effective.

# Notes to the Financial Statements

### q. Flow Assumption, Net Assets

The State's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

### r. Escheat Property

The State accounts for its escheat property in the General Fund, the fund to which the property ultimately escheats. To the extent it is probable that such property will be reclaimed and paid to claimants, the State records a liability and reduces revenue in the General Fund.

## NOTE 2: ACCOUNTING AND REPORTING CHANGES

### a. Tobacco Settlement Revenues

The State implemented the Governmental Accounting Standards Board's (GASB) Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, effective July 1, 2003. The Bulletin requires the State to recognize tobacco settlement revenues (TSR's) in the government-wide financial statements when the event giving rise to recognition (the domestic shipment of cigarettes) occurs by the tobacco manufacturers, and in the fund financial statements when the event occurs and the TSR payments become available.

As a result of adopting the Bulletin, the Tobacco Settlement Revenue Management Authority, a nonmajor governmental fund, accrued six months of estimated TSR payments as of July 1, 2003. This had the effect of increasing both the beginning net assets of governmental activities in the government-wide statements and the beginning fund balance of the nonmajor governmental funds by $36.885 million.

### b. Change in Reporting Entity: Discretely Presented Component Units

The State implemented the Governmental Accounting Standards Board's (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units*, effective July 1, 2003. This Statement provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government. Based on these criteria, the State now reports the Clemson University Foundation and the University of South Carolina Educational Foundation as nonmajor discretely presented component units.

For the fiscal year ended June 30, 2004, the change in reporting entity described above had the following effects on the financial statements of the State's other (i.e., nonmajor) discretely presented component units: increased net revenue by $65.823 million; increased net assets, beginning of year, by $386.309 million; and increased net assets, end of year, by $452.132 million.

## NOTE 3: DEFICITS OF INDIVIDUAL FUNDS AND NEGATIVE UNRESTRICTED NET ASSETS

### a. Deficits of Individual Funds

The accompanying fund financial statements display deficit fund balances and deficit net asset balances for individual major funds, if applicable. Other funds had the following deficit net asset balances (expressed in thousands) at June 30, 2004:

| | |
|---|---|
| **Nonmajor Enterprise Funds:** | |
| Patients' Compensation | $ 208,905 |
| Tuition Prepayment Program | 30,636 |
| CHS Development Company | 995 |
| Pharmaceutical Education and Development Foundation (PEDF) of the Medical University of South Carolina | 7,998 |
| **Internal Service Funds:** | |
| Employee Insurance Programs | 75,507 |
| State Accident Fund | 107,083 |
| Pension Administration | 351 |

### b. Negative Unrestricted Net Assets

The government-wide statement of net assets displays a $960.949 million deficit unrestricted net assets balance for governmental activities. This deficit is due, in large part, to bonds that the State has issued to finance projects of other governments or to finance its own non-capital repairs and maintenance projects.

The State disburses the proceeds of its general obligation school facilities bonds to local school districts. These districts capitalize and report in their own financial statements the school facilities that they construct with these proceeds. Therefore, the State reports these bonds but not the capital assets in unrestricted net assets.

The State disburses some of the proceeds of its general obligation capital improvement bonds to local governments for construction and redevelopment projects. In addition, the State uses some capital improvement bond proceeds for State repairs and maintenance projects. Accordingly, the State reports in unrestricted net assets the portion of capital improvement bonds payable that is associated with these local government and non-capital projects.

# Notes to the Financial Statements

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

| | |
|---|---|
| State school facilities bonds..... | $ 650,565 |
| Capital improvement bonds, non-capital purposes..... | 145,635 |
| Total | $ 796,200 |

A portion of the deficit unrestricted net assets balance is due to bonds issued by the Tobacco Settlement Revenue Management Authority Fund, a blended component unit accounted for as a non-major governmental fund. The Authority transferred a portion of the bond proceeds to the State Tobacco Settlement Fund, a major governmental fund. The bonds will be retired using future tobacco settlement revenues. The net assets balances of the State Tobacco Settlement Fund and the Tobacco Settlement Revenue Management Authority Fund produce a net deficit of $200.474 million in governmental activities.

## NOTE 4: DEPOSITS AND INVESTMENTS

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

The following display reconciles the details included within this note to the accompanying financial statements at June 30, 2004 (expressed in thousands):

| | State Treasurer's Deposits and Investments | Other | Total |
|---|---|---|---|
| **Primary Government** | | | |
| Deposits, carrying value..... | $ 239,075 | $ 281,294 | $ 520,369 |
| Investments, reported amount..... | 24,518,633 | 12,169,942 | 36,688,575 |
| Cash on hand..... | — | 9,555 | 9,555 |
| **Totals, primary government.....** | **$ 24,757,708** | **$ 12,460,791** | **$ 37,218,499** |
| **Component Units** | | | |
| Deposits, carrying value..... | $ 2,153 | $ 92,103 | $ 94,256 |
| Investments, reported amount..... | 165,796 | 1,141,468 | 1,307,264 |
| **Totals, component units.....** | **$ 167,949** | **$ 1,233,571** | **$ 1,401,520** |

| | Primary Government | | | |
|---|---|---|---|---|
| | Govern-ment-wide Statement of Net Assets | Fiduciary Funds Statement of Net Assets | Total | Component Units |
| **Current assets:** | | | | |
| Cash and cash equivalents..... | $ 3,482,208 | $ 3,463,769 | $ 6,945,977 | $ 166,245 |
| Less: Unemployment Com-pensation Fund deposits with United States Treasury..... | (370,328) | — | (370,328) | — |
| Investments..... | 58,199 | 23,329,519 | 23,387,718 | 182,850 |
| Securities held in lieu of surety bonds..... | — | 354,702 | 354,702 | — |
| Invested securities lending collateral..... | 507,993 | 4,762,483 | 5,270,476 | 19,030 |
| Restricted assets: | | | | |
| Cash and cash equivalents..... | 295,096 | — | 295,096 | 194,263 |
| Investments..... | 131,050 | — | 131,050 | 13,740 |
| **Long-term assets:** | | | | |
| Investments..... | 292,871 | — | 292,871 | 520,061 |
| Restricted assets: | | | | |
| Cash and cash equivalents..... | 846,569 | — | 846,569 | 40,060 |
| Investments..... | 64,368 | — | 64,368 | 265,271 |
| **Totals.....** | **$ 5,308,026** | **$ 31,910,473** | **$ 37,218,499** | **$ 1,401,520** |

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

### a. Deposits

Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. At June 30, 2004, the State's deposits (expressed in thousands) were as follows:

| | Category | | | Total Bank Balance | Carrying Amount |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | | |
| Primary government ..... | $ 558,180 | $ 60,503 | $ 239,626 | $ 858,309 | $ 520,369 |
| Discretely presented component units..... | $ 41,340 | $ 29,919 | $ 19,339 | $ 90,598 | $ 94,256 |

# Notes to the Financial Statements

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.

State law requires that a bank or savings and loan association receiving State funds deposited by the State Treasurer must secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss.

Certain State deposits with one bank, totaling $118.929 million, were not fully insured or collateralized at June 30, 2004. During the 2003-2004 fiscal year, the maximum level of State deposits that were not fully insured or collateralized by this bank was $369.016 million. Effective November 3, 2004, the State Treasurer signed an agreement with the financial institution requiring end of day balances be invested in overnight repurchase agreements. In addition, the State Treasurer signed an agreement with an independent third-part safekeeping agent to monitor the sufficiency of collateral maintained by the financial institution.

### b. Investments

Legally authorized investments vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper. According to State law, up to 40.0% of the Pension Trust Funds' investments may be in equities. Substantially all of the State's investments are presented at fair value. Securities are valued at the last reported sales price as provided by an independent pricing service. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest income earned.

The State has classified its investments into three risk categories. Category 1 includes investments that were insured or registered or for which the securities were held by a State entity or its agent in the entity's name. Category 1 also includes investments for which a State entity has safekeeping responsibilities but no equity or ownership interest or control. Category 2 includes uninsured and unregistered investments for which the securities were held by the counterparty's trust department or agent in a State entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a State entity's name. The State's investments by risk category (expressed in thousands) at June 30, 2004, were as follows:

# Notes to the Financial Statements

| Primary Government | Category 1 | Category 2 | Category 3 | Reported Amount | Fair Value |
|---|---|---|---|---|---|
| U.S. government securities | $ 2,867,922 | $ 392,212 | $ 2,523 | $ 3,262,657 | $ 3,262,657 |
| Corporate bonds | 7,018,383 | 15,917 | 102 | 7,034,402 | 7,034,402 |
| Municipal bonds | 454,716 | — | 23,463 | 478,179 | 478,179 |
| Equity securities | 9,021,019 | — | 21,434 | 9,042,453 | 9,042,453 |
| Repurchase agreements | 3,346,032 | 7,872 | 529 | 3,354,433 | 3,354,433 |
| Collateralized mortgage obligations | 377,352 | — | — | 377,352 | 377,352 |
| Asset-backed securities | 1,460,130 | — | — | 1,460,130 | 1,460,130 |
| Commercial paper | 624,566 | — | 8,894 | 633,460 | 633,460 |
| Securities lending program: | | | | | |
| Investments from cash collateral | | | | | |
| Corporate bonds | — | — | 3,653,467 | 3,653,467 | 3,653,467 |
| Negotiable certificates of deposit | — | — | 856,510 | 856,510 | 856,510 |
| Repurchase agreements | — | — | 564,908 | 564,908 | 564,908 |
| Asset backed securities | — | — | 150,946 | 150,946 | 150,946 |
| Non-cash collateral | | | | | |
| U.S. government securities | — | — | 191,884 | 191,884 | 191,884 |
| Other | 35,457 | 49,932 | 7,343 | 92,732 | 92,732 |
| Subtotals | | | | 31,153,513 | 31,153,513 |
| Not categorized: | | | | | |
| Mutual funds | | | | 343,327 | 343,327 |
| Securities lending program: | | | | | |
| U.S. government securities | | | | 3,629,326 | 3,629,326 |
| Corporate bonds | | | | 155,530 | 155,530 |
| Equity securities | | | | 1,406,879 | 1,406,879 |
| **Totals—primary government** | **$ 25,205,577** | **$ 465,933** | **$ 5,482,003** | **$ 36,688,575** | **$ 36,688,575** |

# Notes to the Financial Statements

| Discretely Presented Component Units | Category 1 | Category 2 | Category 3 | Reported Amount | Fair Value |
|---|---|---|---|---|---|
| U.S. government securities | $ 565,708 | $ — | $ 18,408 | $ 584,116 | $ 584,116 |
| Corporate bonds | — | — | 20,176 | 20,176 | 20,176 |
| Equity securities | — | — | 48,161 | 48,161 | 48,161 |
| Municipal bonds | — | — | 815 | 815 | 815 |
| Repurchase agreements | 117,600 | 18,692 | — | 136,292 | 136,292 |
| Securities lending program: | | | | | |
| Investments from cash collateral | | | | | |
| Corporate bonds | — | — | 82,898 | 82,898 | 82,898 |
| Other | 97 | 9,397 | 2,257 | 11,751 | 11,751 |
| Subtotals | | | | 884,209 | 884,209 |
| Not categorized: | | | | | |
| Securities lending program: | | | | | |
| U.S. government securities | | | | 180 | 180 |
| Investment in primary | | | | | |
| government's investment pool | | | | 82,718 | 82,718 |
| Mutual funds | | | | 340,157 | 340,157 |
| **Totals—discretely presented component units** | **$ 683,405** | **$ 28,089** | **$ 172,715** | **$ 1,307,264** | **$ 1,307,264** |

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

### c. Securities Lending Programs

By law, the State's primary government may lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions, with a simultaneous agreement to return the collateral for the same securities in the future. The State may lend United States Government securities, corporate bonds, other securities and equities for collateral in the form of cash or other securities. The contracts with the State's custodians require them to indemnify the State if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the State for income distributions by the securities' issuers while the securities are on loan.

The weighted average maturity of the State's collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2004. At June 30, 2004, 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, 2004, 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, 2004, 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, 2004, 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, 2004, the State recorded these investments of cash collateral as assets in the accompanying financial statements. Corresponding liability amounts also have been recorded because the State must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2004, the fair value of the State's securities on loan was $5.192 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: RECEIVABLES

Receivable balances are disaggregated by type according to their liquidity characteristics and are presented separately in the financial statements, net of applicable allowances. Allowances for uncollectible receivables (expressed in thousands) at June 30, 2004, for the primary government were as follows:

| | Governmental Activities | | | | |
|---|---|---|---|---|---|
| | Governmental Funds | | | | |
| Allowances for Uncollectibles | General | Departmental General Operating | Nonmajor Governmental Funds | Internal Service Funds | Total Governmental Activities |
| Income taxes receivable | $ 32,091 | $ — | $ — | $ — | $ 32,091 |
| Sales and other taxes receivable | 14,588 | 39 | 18,184 | — | 32,811 |
| Patient accounts receivable | 14,597 | 24,764 | — | — | 39,361 |
| Loans and notes receivable | 23 | 4 | 290 | — | 317 |
| Other receivables | 16 | 8,609 | 7 | 56 | 8,688 |
| **Total allowances for uncollectibles** | **$ 61,315** | **$ 33,416** | **$ 18,481** | **$ 56** | **$ 113,268** |

| | Business-type Activities (Enterprise Funds) | | | |
|---|---|---|---|---|
| Allowances for Uncollectibles | Higher Education | Unemployment Compensation Benefits | Nonmajor Enterprise Funds | Total Business-type Activities |
| Contributions receivable | $ 925 | $ — | $ — | $ 925 |
| Student accounts receivable | 5,124 | — | — | 5,124 |
| Patient accounts receivable | — | — | 78,849 | 78,849 |
| Loans and notes receivable | 471 | — | — | 471 |
| Loans and notes receivable—restricted | 189 | — | 379 | 568 |
| Assessments receivable | — | 5,259 | — | 5,259 |
| Other receivables | 275 | 1,570 | — | 1,845 |
| **Total allowances for uncollectibles** | **$ 6,984** | **$ 6,829** | **$ 79,228** | **$ 93,041** |

# Notes to the Financial Statements

The enterprise fund financial statements separately present long-term receivables (net receivable balances not expected to be collected within one year). Net receivables not expected to be collected within one year in governmental and internal service funds (expressed in thousands) at June 30, 2004, were as follows:

| | Governmental Activities | | | | | | |
|---|---|---|---|---|---|---|---|
| | Governmental Funds | | | | | | |
| Net Long-term Receivables | General | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue | Nonmajor Governmental Funds | Internal Service Funds | Total Governmental Activities |
| Accounts receivable | $ 344 | $ 18,180 | $ 56,220 | $ — | $ — | $ 152 | $ 74,896 |
| Income taxes receivable | 37,129 | — | — | — | — | — | 37,129 |
| Sales and other taxes receivable | 32,327 | 187 | — | — | 13,898 | — | 46,412 |
| Patient accounts receivable | 1,214 | 5,971 | — | — | — | — | 7,185 |
| Loans and notes receivable | 7 | 572 | 328,421 | 9,344 | 16,706 | — | 355,050 |
| Accounts receivable—restricted | — | — | 426,426 | — | — | — | 426,426 |
| **Total long-term receivables, net** | **$ 71,021** | **$ 24,910** | **$ 811,067** | **$ 9,344** | **$ 30,604** | **$ 152** | **$ 947,098** |

# Notes to the Financial Statements

## NOTE 6: DETAILS OF RESTRICTED ASSETS

The purposes and amounts of the State's restricted assets (including the major discretely presented component units) at June 30, 2004 (expressed in thousands) were as follows:

| Asset/Restricted For | Governmental Activities | Business-type Activities | Major Component Units |
|---|---|---|---|
| **Current:** | | | |
| **Cash and Cash Equivalents** | | | |
| Debt service | $ 51,110 | $ 86,049 | $ 123,901 |
| Capital projects | — | 62,660 | 65,053 |
| Student loan programs | — | 334 | — |
| Donor/sponsor specified | — | 12,742 | — |
| Endowments | — | 29 | — |
| Second Injury Fund claims | — | 81,266 | — |
| Other | — | 906 | 501 |
| **Total Cash and Cash Equivalents** | **$ 51,110** | **$ 243,986** | **$ 189,455** |
| **Investments** | | | |
| Debt service | $ 113,196 | $ 11,489 | $ 12,993 |
| Capital projects | — | — | 747 |
| Donor/sponsor specified | — | 6,300 | — |
| Endowments | — | 65 | — |
| **Total Investments** | **$ 113,196** | **$ 17,854** | **$ 13,740** |
| **Loans Receivable** | | | |
| Student loan programs | **$ —** | **$ 295** | **$ —** |
| **Other** | | | |
| Debt service | $ 66,330 | $ 283 | $ — |
| Donor/sponsor specified | — | 732 | — |
| Second Injury Fund claims | — | 1,083 | — |
| Other | — | 63 | — |
| **Total Other** | **$ 66,330** | **$ 2,161** | **$ —** |

| Asset/Restricted For | Governmental Activities | Business-type Activities | Major Component Units |
|---|---|---|---|
| **Noncurrent:** | | | |
| **Cash and Cash Equivalents** | | | |
| Debt service | $ 312,917 | $ 194,264 | $ 7,644 |
| Capital projects | 211,851 | 90,302 | 31,084 |
| Student loan programs | — | 7,618 | — |
| Endowments | — | 27,676 | — |
| Other | — | 1,941 | 1,332 |
| **Total Cash and Cash Equivalents** | **$ 524,768** | **$ 321,801** | **$ 40,060** |
| **Investments** | | | |
| Debt service | $ — | $ 25,170 | $ 100,018 |
| Capital projects | — | 2,032 | 106,028 |
| Student loan programs | — | 531 | — |
| Endowments | — | 36,635 | 58,959 |
| **Total Investments** | **$ —** | **$ 64,368** | **$ 265,005** |
| **Accounts Receivable** | | | |
| Debt service | **$ 426,426** | **$ —** | **$ 7** |
| **Loans Receivable** | | | |
| Debt service | $ — | $ 473,261 | $ — |
| Student loan programs | — | 49,226 | — |
| **Total Loans Receivable** | **$ —** | **$ 522,487** | **$ —** |
| **Other** | | | |
| Debt service | $ 5,718 | $ 5,312 | $ 509 |
| Capital projects | — | 405 | — |
| Donor/sponsor specified | — | 1,178 | — |
| Endowments | — | 369 | — |
| Other | — | 4 | 1 |
| **Total Other** | **$ 5,718** | **$ 7,268** | **$ 510** |

# Notes to the Financial Statements

## NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2004, for the primary government was as follows:

| | Beginning Balances July 1, 2003 | Increases | Decreases | Ending Balances June 30, 2004 |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 840,434 | $ 509,413 | $ (858) | $ 1,348,989 |
| Construction in progress | 3,258,002 | 358,995 | (290,349) | 3,326,648 |
| Works of art and historical treasures | 3,660 | — | — | 3,660 |
| *Total capital assets not being depreciated* | 4,102,096 | 868,408 | (291,207) | 4,679,297 |
| *Capital assets being depreciated:* | | | | |
| Depreciable land improvements | 52,022 | 1,098 | — | 53,120 |
| Infrastructure (road and bridge network) | 7,404,029 | 236,247 | (4,242) | 7,636,034 |
| Buildings and improvements | 1,371,225 | 50,229 | (231) | 1,421,223 |
| Vehicles | 536,242 | 19,557 | (18,575) | 537,224 |
| Machinery and equipment | 394,900 | 25,238 | (19,372) | 400,766 |
| Depreciable works of art and historical treasures | 8 | — | — | 8 |
| Intangibles | 39,056 | 2,569 | — | 41,625 |
| Total capital assets being depreciated, at historical cost | 9,797,482 | 334,938 | (42,420) | 10,090,000 |
| Less accumulated depreciation for: | | | | |
| Depreciable land improvements | (33,642) | (1,573) | — | (35,215) |
| Infrastructure (road and bridge network) | (1,756,332) | (107,665) | 3,767 | (1,860,230) |
| Buildings and improvements | (480,906) | (30,246) | 110 | (511,042) |
| Vehicles | (354,816) | (34,979) | 16,043 | (373,752) |
| Machinery and equipment | (282,720) | (25,230) | 17,826 | (290,124) |
| Depreciable works of art and historical treasures | (1) | — | — | (1) |
| Intangibles | (17,658) | (11,105) | — | (28,763) |
| Total accumulated depreciation | (2,926,075) | (210,798) | 37,746 | (3,099,127) |
| *Total capital assets being depreciated, net* | 6,871,407 | 124,140 | (4,674) | 6,990,873 |
| **Capital assets for governmental activities, net** | **$ 10,973,503** | **$ 992,548** | **$ (295,881)** | **$ 11,670,170** |

# Notes to the Financial Statements

| | Beginning Balances July 1, 2003 | Increases | Decreases | Ending Balances June 30, 2004 |
|---|---|---|---|---|
| **Business-type activities:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 163,978 | $ 4,372 | $ (1,881) | $ 166,469 |
| Construction in progress | 288,409 | 210,103 | (125,029) | 373,483 |
| Works of art and historical treasures | 16,809 | — | — | 16,809 |
| *Total capital assets not being depreciated* | 469,196 | 214,475 | (126,910) | 556,761 |
| *Capital assets being depreciated:* | | | | |
| Depreciable land improvements | 65,989 | 4,087 | — | 70,076 |
| Buildings and improvements | 2,723,614 | 147,331 | (2,621) | 2,868,324 |
| Vehicles | 37,183 | 3,664 | (2,103) | 38,744 |
| Machinery and equipment | 542,289 | 54,405 | (23,701) | 572,993 |
| Depreciable works of art and historical treasures | 6,967 | 21 | — | 6,988 |
| Intangibles | 14,867 | 1,463 | (1,406) | 14,924 |
| Total capital assets being depreciated, at historical cost | 3,390,909 | 210,971 | (29,831) | 3,572,049 |
| Less accumulated depreciation for: | | | | |
| Depreciable land improvements | (28,949) | (2,768) | — | (31,717) |
| Buildings and improvements | (1,013,824) | (81,783) | 1,728 | (1,093,879) |
| Vehicles | (28,084) | (2,022) | 1,937 | (28,169) |
| Machinery and equipment | (343,714) | (44,290) | 17,339 | (370,665) |
| Depreciable works of art and historical treasures | (4,747) | (137) | — | (4,884) |
| Intangibles | (9,831) | (1,747) | 1,348 | (10,230) |
| Total accumulated depreciation | (1,429,149) | (132,747) | 22,352 | (1,539,544) |
| *Total capital assets being depreciated, net* | 1,961,760 | 78,224 | (7,479) | 2,032,505 |
| **Capital assets for business-type activities, net** | **$ 2,430,956** | **$ 292,699** | **$ (134,389)** | **$ 2,589,266** |

# Notes to the Financial Statements

Capital asset activity (expressed in thousands) for the State's major discretely presented component units was as follows:

| | Beginning Balances January 1, 2003 | Increases | Decreases | Ending Balances December 31, 2003 |
|---|---|---|---|---|
| **Public Service Authority:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 93,203 | $ 9,819 | $ (7,136) | $ 95,886 |
| Construction in progress | 221,784 | 493,533 | (202,148) | 513,169 |
| *Total capital assets not being depreciated* | 314,987 | 503,352 | (209,284) | 609,055 |
| *Capital assets being depreciated:* | | | | |
| Buildings and improvements (utility plant) | 3,778,123 | 323,791 | (212,957) | 3,888,957 |
| Vehicles | 28,906 | 6,733 | (2,827) | 32,812 |
| Machinery and equipment | 18,651 | 2,905 | (1,819) | 19,737 |
| Intangibles | 40,360 | 2,280 | (1,834) | 40,806 |
| Total capital assets being depreciated, at historical cost | 3,866,040 | 335,709 | (219,437) | 3,982,312 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements (utility plant) | (1,515,296) | (137,576) | 46,056 | (1,606,816) |
| Vehicles | (14,576) | (3,680) | 646 | (17,610) |
| Machinery and equipment | (7,225) | (1,588) | 457 | (8,356) |
| Intangibles | (33,268) | (902) | — | (34,170) |
| Total accumulated depreciation | (1,570,365) | (143,746) | 47,159 | (1,666,952) |
| *Total capital assets being depreciated, net* | 2,295,675 | 191,963 | (172,278) | 2,315,360 |
| **Public Service Authority, net** | **$ 2,610,662** | **$ 695,315** | **$ (381,562)** | **$ 2,924,415** |

| | Beginning Balances January 1, 2003 | Increases | Decreases | Ending Balances December 31, 2003 |
|---|---|---|---|---|
| **Connector 2000 Association:** | | | | |
| *Capital assets being depreciated:* | | | | |
| Infrastructure (toll road) | $ 191,759 | $ 713 | $ — | $ 192,472 |
| Machinery and equipment | 440 | 108 | (1) | 547 |
| Total capital assets being depreciated, at historical cost | 192,199 | 821 | (1) | 193,019 |
| Less accumulated depreciation for: | | | | |
| Infrastructure (toll road) | (8,972) | (5,238) | — | (14,210) |
| Machinery and equipment | (176) | (103) | 1 | (278) |
| Total accumulated depreciation | (9,148) | (5,341) | 1 | (14,488) |
| *Total capital assets being depreciated, net* | 183,051 | (4,520) | — | 178,531 |
| **Connector 2000 Association, net** | **$ 183,051** | **$ (4,520)** | **$ —** | **$ 178,531** |

# Notes to the Financial Statements

| | Beginning Balances July 1, 2003 | Increases | Decreases | Ending Balances June 30, 2004 |
|---|---|---|---|---|
| **State Ports Authority:** | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land and improvements | $ 139,362 | $ 2,437 | $ (39) | $ 141,760 |
| Construction in progress | 53,589 | 13,346 | (1,855) | 65,080 |
| Intangibles | — | 3,230 | — | 3,230 |
| *Total capital assets not being depreciated* | 192,951 | 19,013 | (1,894) | 210,070 |
| *Capital assets being depreciated:* | | | | |
| Depreciable land improvements | 150,252 | 2,898 | — | 153,150 |
| Buildings and improvements | 247,590 | 5,837 | (3,882) | 249,545 |
| Machinery and equipment | 76,501 | 5,018 | (1,479) | 80,040 |
| Intangibles | — | 692 | — | 692 |
| Total capital assets being depreciated, at historical cost | 474,343 | 14,445 | (5,361) | 483,427 |
| Less accumulated depreciation for: | | | | |
| Depreciable land improvements | (86,079) | (6,301) | — | (92,380) |
| Buildings and improvements | (125,509) | (10,581) | 3,882 | (132,208) |
| Machinery and equipment | (38,757) | (6,583) | 1,288 | (44,052) |
| Intangibles | — | (75) | — | (75) |
| Total accumulated depreciation | (250,345) | (23,540) | 5,170 | (268,715) |
| *Total capital assets being depreciated, net* | 223,998 | (9,095) | (191) | 214,712 |
| **State Ports Authority, net** | **$ 416,949** | **$ 9,918** | **$ (2,085)** | **$ 424,782** |

| | Beginning Balances July 1, 2003 | Increases | Decreases | Ending Balances June 30, 2004 |
|---|---|---|---|---|
| **Lottery Commission:** | | | | |
| *Capital assets being depreciated:* | | | | |
| Buildings and improvements | $ 624 | $ 18 | $ — | $ 642 |
| Vehicles | 69 | — | — | 69 |
| Machinery and equipment | 19,271 | 576 | (11) | 19,836 |
| Total capital assets being depreciated, at historical cost | 19,964 | 594 | (11) | 20,547 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (142) | (128) | — | (270) |
| Vehicles | (26) | (23) | — | (49) |
| Machinery and equipment | (4,624) | (3,371) | 3 | (7,992) |
| Total accumulated depreciation | (4,792) | (3,522) | 3 | (8,311) |
| *Total capital assets being depreciated, net* | 15,172 | (2,928) | (8) | 12,236 |
| **Lottery Commission, net** | **$ 15,172** | **$ (2,928)** | **$ (8)** | **$ 12,236** |

# Notes to the Financial Statements

During the fiscal year ended June 30, 2004, depreciation expense was charged to functions of the primary government and its major discretely presented component units as follows (expressed in thousands):

| | Governmental Funds | Internal Service Funds | Total Governmental Activities |
|---|---|---|---|
| General government | $ 16,618 | $ 7,889 | $ 24,507 |
| Education | 18,996 | 1,312 | 20,308 |
| Health and environment | 14,615 | 1,051 | 15,666 |
| Social services | 719 | 1,526 | 2,245 |
| Administration of justice | 18,040 | 1,167 | 19,207 |
| Resources and economic development | 5,012 | 211 | 5,223 |
| Transportation | 123,642 | — | 123,642 |
| **Total depreciation expense, governmental activities** | **$ 197,642** | **$ 13,156** | **$ 210,798** |

| | Business-type Activities |
|---|---|
| Higher Education | $ 107,636 |
| Housing Authority | 35 |
| Education Assistance Authority | 76 |
| Other | 25,000 |
| **Total depreciation expense, business-type activities** | **$ 132,747** |

| | Major Component Units |
|---|---|
| Public Service Authority | $ 143,746 |
| State Ports Authority | 23,540 |
| Connector 2000 Association, Inc | 5,341 |
| South Carolina Lottery Commission | 3,522 |

At June 30, 2004, the primary government had outstanding construction commitments totaling $737.233 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled $52.601 million for significant permanent improvement projects that will not increase State assets. Projects that will not be capitalized as State assets upon completion include projects for replacements, repairs, and/or renovations to existing facilities. In addition, the primary government had outstanding commitments totaling $4.222 million at June 30, 2004, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: $363.828 million for the Public Service Authority at December 31, 2003, and $22.658 million for the State Ports Authority at June 30, 2004.

The total interest expense incurred by the State's enterprise and internal service funds during the current fiscal year was $83.147 million and $2.406 million, respectively. Of the amount incurred by the State's enterprise funds, $5.246 million was included as part of the cost of capital assets under construction, net of interest earnings.

The Public Service Authority, a major discretely presented component unit, incurred total interest costs of $155.516 million during its fiscal year ended December 31, 2003, none of which was included in the cost of capital assets under construction. The State Ports Authority, a major discretely presented component unit, incurred total interest costs of $6.465 million during its fiscal year ended June 30, 2004, of which $870 thousand was included as part of the cost of capital assets under construction.

In accordance with the provisions of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the State Ports Authority recorded an impairment charge of approximately $2.400 million related to certain buildings and equipment for the fiscal year ended June 30, 2004. The impairment charge is included in expenses on the statement of activities.

## NOTE 8: RETIREMENT PLANS

### a. Plan Descriptions

The South Carolina Retirement Systems (the System), a part of the State Budget and Control Board, administers four defined benefit retirement plans: the South Carolina Retirement System (SCRS), the South Carolina Police Officers' Retirement System (PORS), the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), and the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS). The System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for all four plans. The report may be obtained by writing to:

The South Carolina Retirement System
Fontaine Business Center
202 Arbor Lake Drive
Columbia, South Carolina 29223

SCRS, established by Section 9-1-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits employees of public schools, the State, and its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. Vested members who retire at age sixty-five or with twenty-eight

# Notes to the Financial Statements

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. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. An annual benefit is payable at age fifty-five for members who retire with a minimum of five years service. Vested members who retire with twenty-five years of service receive an annual benefit, payable monthly for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 2.14% of average final compensation times years of service.

GARS, established by Section 9-9-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits members of the South Carolina General Assembly. Membership is required as a condition of taking office as a member of the General Assembly, unless exempted by State law. Both the members of the General Assembly and the State must contribute. Benefits vest after eight years of service. Vested members who retire at age sixty or at any age with thirty years of service receive an annual benefit, payable monthly, for life. Effective January 1, 2003, a member at age seventy or with thirty years of service is eligible to retire and draw an annuity while continuing to serve in the General Assembly. The annual benefit amount is 4.82% of earnable compensation times years of service. Earnable compensation is defined as forty days' pay at the rate currently paid to members of the General Assembly plus $12 thousand.

JSRS, established by Section 9-8-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits the judges of the State's Supreme Court, Court of Appeals, circuit courts, family courts, and the State's circuit solicitors. Membership is required as a condition of taking office, unless exempted by State law. Both judges and the State must contribute. Benefits vest after ten years of service in a position as a judge and eight years in a position as a solicitor. Members may retire at age seventy with fifteen years of service, at age sixty-five with twenty years of service, at age sixty-five with four years in a JSRS position and twenty-five years other service with the State, twenty-five years service regardless of age for a judge or twenty-four years of service for a solicitor regardless of age. 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 (dollars expressed in thousands) at June 30, 2004, is as follows:

| | SCRS | PORS | GARS | JSRS |
|---|---|---|---|---|
| **State and school** | | | | |
| Number of employers | 98 | 5 | 1 | 1 |
| Annual covered payroll | $ 4,561,973 | $ 293,476 | $ 3,179 | $ 14,190 |
| Average number of contributing members | 140,987 | 10,038 | 170 | 128 |
| **Other participating employers** | | | | |
| Number of employers | 557 | 264 | — | — |
| Annual covered payroll | $ 1,423,356 | $ 485,007 | $ — | $ — |
| Average number of contributing members | 49,784 | 14,390 | — | — |

The plans provide retirement, death, and disability benefits to State employees; public school employees; and employees of counties, municipalities, and certain other State political subdivisions. Each plan is independent. Assets of each plan may be used only to benefit participants of that plan.

### b. Summary of Significant Accounting Policies—Basis of Accounting and Valuation of Investments

The financial statements of the previously-described plans are prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period in which the contributions are due. Retirement benefits and refund expenses are recognized when due and payable in accordance with the terms of each plan.

Note 4b specifies the method used to value pension trust fund investments.

### c. Funding Policies

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws prescribes requirements relating to membership, benefits, and employee/employer contributions for each plan. The following paragraphs summarize those requirements.

By law, employee contribution requirements for the fiscal year ended June 30, 2004, were as follows:

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

# Notes to the Financial Statements

Actuarially determined employer contribution rates for the four plans, expressed as percentages of compensation, for the fiscal year ended June 30, 2004, were as follows:

| Plan | Rate |
|---|---|
| SCRS | 7.70% |
| PORS | 10.70% |
| GARS | 85.90% |
| JSRS | 41.66% |

Under certain conditions, new employers entering the plans are allowed up to ten years to remit matching employer contributions resulting from their employees' purchase of prior service credits. Interest is assessed annually on the unpaid balance. The amounts outstanding at June 30, 2004, were $2.007 million for SCRS and $10 thousand for PORS.

### d. Annual Pension Cost

Annual pension cost (dollars expressed in thousands) and related actuarial data for the State's single-employer defined benefit pension plans were as follows:

| | GARS | JSRS |
|---|---|---|
| Annual pension cost | $2,731 | $6,078 |
| Employer contributions made | $2,731 | $6,078 |
| Actuarial valuation date | July 1, 2003 | July 1, 2003 |
| Actuarial cost method | Entry age | Entry age |
| Amortization method | Level percent, closed | Level percent, open |
| Remaining amortization period | 24 years | 27 years |
| Asset valuation method | 5 year smoothed market | 5 year smoothed market |
| Actuarial assumptions: | | |
| Investment rate of return | 7.25% | 7.25% |
| Projected salary increases | None | 3.25% |
| Assumed inflation rate | 3.00% | 3.00% |
| Assumed cost-of-living adjustments | None | 3.25% |

# Notes to the Financial Statements

**e. Trend Information**

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due.

For the cost-sharing multiple-employer defined benefit pension plans in which the State participates, the State's required contributions in dollars (expressed in thousands) and the percentages of those amounts contributed for the three latest available years were as follows. Also see Note 8f for funding status and progress.

| | Fiscal Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2004 | | June 30, 2003 | | June 30, 2002 | |
| | Required | % Contributed | Required | % Contributed | Required | % Contributed |
| SCRS–State: | | | | | | |
| Primary government..... | $ 172,258 | 100% | $ 176,152 | 100% | $ 181,217 | 100% |
| Component units..... | 9,852 | 100% | 9,595 | 100% | 9,089 | 100% |
| PORS–State: | | | | | | |
| Primary government..... | $ 33,220 | 100% | $ 34,566 | 100% | $ 39,495 | 100% |
| Component units..... | 40 | 100% | 30 | 100% | 25 | 100% |

# Notes to the Financial Statements

The following table presents (dollars expressed in thousands) the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the three latest available years for the State's single-employer defined benefit plans. Also see Note 8f for funding status and progress:

| Plan | Fiscal Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|
| GARS | 2002 | $ 2,627 | 100% | $ — |
| | 2003 | 2,577 | 100% | — |
| | 2004 | 2,731 | 100% | — |
| JSRS | 2002 | $ 5,993 | 100% | $ — |
| | 2003 | 6,014 | 100% | — |
| | 2004 | 6,078 | 100% | — |

### f. Funding Status and Progress (Unaudited)

The following schedule (dollars expressed in thousands) describes the funding progress for the SCRS and the PORS, cost-sharing multiple-employer defined benefit plans, for the three latest available years:

| Plan | Actuarial Valuation Date July 1 | Actuarial Value of Assets *(a)* | Actuarial 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)* |
|---|---|---|---|---|---|---|---|
| SCRS | 2001 | $ 18,486,773 | $ 21,162,147 | $ 2,675,374 | 87.4% | $ 6,017,537 | 44.5% |
| | 2002 | 19,298,174 | 22,446,574 | 3,148,400 | 86.0% | 6,147,712 | 51.2% |
| | 2003 | 20,197,936 | 24,398,931 | 4,200,995 | 82.8% | 6,240,768 | 67.3% |
| PORS | 2001 | $ 2,197,982 | $ 2,324,257 | $ 126,275 | 94.6% | $ 757,335 | 16.7% |
| | 2002 | 2,351,100 | 2,527,876 | 176,776 | 93.0% | 757,393 | 23.3% |
| | 2003 | 2,511,369 | 2,744,849 | 233,480 | 91.5% | 800,394 | 29.2% |

# Notes to the Financial Statements

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

| Plan | Actuarial Valuation Date July 1 | Actuarial Value of Assets *(a)* | Actuarial Accrued Liability (AAL) Entry Age *(b)* | Unfunded AAL (UAAL) *(b-a)* | Funded Ratio *(a/b)* | Covered Payroll *(c)* | UAAL as a Percentage of Covered Payroll *((b-a)/c)* |
|---|---|---|---|---|---|---|---|
| GARS | 2001 | $ 42,788 | $ 68,291 | $ 25,503 | 62.7% | $ 4,761 | 535.7% |
| | 2002 | 43,841 | 73,046 | 29,205 | 60.0% | 4,515 | 646.8% |
| | 2003 | 44,682 | 66,619 | 21,937 | 67.1% | 3,844 | 570.7% |
| JSRS | 2001 | $ 94,795 | $ 159,246 | $ 64,451 | 59.5% | $ 14,109 | 456.8% |
| | 2002 | 100,074 | 166,440 | 66,366 | 60.1% | 14,211 | 467.0% |
| | 2003 | 106,114 | 166,655 | 60,541 | 63.7% | 14,437 | 419.3% |

# Notes to the Financial Statements

Included among the measurements of long-term funding progress for defined benefit pension plans are whether a plan's funding ratio is increasing and whether a plan's unfunded liability (UAAL) as a percentage of covered payroll is decreasing. The tables above present the results of those measurements.

The State records the pension liability for cost of living adjustments (COLAs) in the SCRS and PORS only as COLAs are granted. Accordingly, because COLA benefits are not automatically guaranteed, the plans exclude from their actuarial accrued liability calculations and from their funding formulas the costs of providing future COLA benefits.

While the State Budget and Control Board is annually authorized under certain conditions to defer granting COLAs, the Board historically has granted COLAs, even in years when those conditions permitted a deferral. Plan actuaries have determined that the unfunded liabilities for SCRS and PORS would be significantly higher than amounts presented in the table above if the estimated costs of providing future COLA benefits were included in each plan's actuarial accrued liability calculation.

### g. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2004, for the four plans administered by the South Carolina Retirement Systems were as follows:

| | SCRS | PORS | GARS | JSRS | Totals |
|---|---|---|---|---|---|
| **Receivables:** | | | | | |
| Contributions | $ 105,278 | $ 13,099 | $ 45 | $ 285 | $ 118,707 |
| Employer long-term | 2,007 | 10 | — | — | 2,017 |
| Accrued interest | 108,379 | 12,853 | 281 | 700 | 122,213 |
| Unsettled investment sales | 43,356 | 5,195 | 99 | 224 | 48,874 |
| **Total receivables** | **$ 259,020** | **$ 31,157** | **$ 425** | **$ 1,209** | **$ 291,811** |
| **Due from other funds** | **$ 4,712** | **$ 713** | **$ 2** | **$ 88** | **$ 5,515** |
| **Investments and invested securities lending collateral:** | | | | | |
| United States government securities | $ 1,543,220 | $ 164,834 | $ 1,928 | $ 1,520 | $ 1,711,502 |
| United States government agencies and government-insured securities | 2,217,241 | 394,421 | 3,747 | 11,412 | 2,626,821 |
| Corporate bonds | 3,941,559 | 464,919 | 9,803 | 25,647 | 4,441,928 |
| Financial and other | 2,093,851 | 278,308 | 3,871 | 9,165 | 2,385,195 |
| Equities | 9,109,714 | 1,084,315 | 20,997 | 46,873 | 10,261,899 |
| Invested securities lending collateral | 3,272,155 | 407,560 | 5,979 | 13,055 | 3,698,749 |
| **Total investments** | **$ 22,177,740** | **$ 2,794,357** | **$ 46,325** | **$ 107,672** | **$ 25,126,094** |

# Notes to the Financial Statements

### h. Teacher and Employee Retention Incentive Program

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

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

A total of 12,593 members were participating in the TERI program at June 30, 2004. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2004, was as follows:

| | | |
|---|---|---|
| Beginning balance of TERI trust accounts | $ | 424,906 |
| Additions | | 300,294 |
| TERI distributions at termination | | (75,815) |
| Ending balance of TERI trust accounts | $ | 649,385 |

### i. National Guard Pension System

#### Plan Description

The National Guard Pension System (NGPS) is a single-employer defined benefit pension plan administered by the State Adjutant General's Office.

The NGPS, established by Section 25-1-3210 of the South Carolina Code of Laws, provides benefits to National Guard members who served in South Carolina prior to July 1, 1993. National Guard members are considered to be federal government employees. The federal government pays Guard members' drill pay and summer camp pay. In accordance with State law, the State's General Fund pays Guard members' salaries only if the Governor activates the National Guard for service to the State. The pension benefit that the State provides is intended only to supplement the retirement benefit that Guard members receive from the federal government. Members who retire at age sixty with twenty years of military service, including at least fifteen years of South Carolina National Guard duty, ten of which immediately precede retirement, and who have received an honorable discharge, are entitled to monthly pension benefits. The pension amount is equal to $50 per month for twenty years of creditable service with an additional $5 per month for each additional year of service, provided that the total pension shall not exceed $100 per month.

The following table shows the number of employees by type of membership as of June 30, 2004, the date of the latest biennial actuarial valuation:

| | NGPS |
|---|---|
| Retirees and beneficiaries receiving benefits | 2,535 |
| Terminated employees entitled to benefits but not yet receiving them | 2,974 |
| Active employees | 3,425 |
| Total participants | 8,934 |

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

#### Basis of Accounting

The financial statements of the NGPS are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due. Retirement benefits are recognized when due and payable in accordance with the terms of the plan.

#### Receivables and Investments

The assets of the NGPS consist of cash and cash equivalents, accrued interest receivable, and invested securities lending collateral. Note 4b specifies the method used to value pension trust fund investments.

#### Contributions and Reserves

The South Carolina Code of Laws prescribes requirements relating to NGPS membership, plan benefits, and employer contributions. The plan, which is administered by the Office of the State Adjutant General, requires no contributions from its members.

Article X, Section 16 of the State Constitution requires that all State-operated retirement plans (NGPS is a State-operated retirement plan) be funded on a sound actuarial basis. For plan years following 1996, NGPS has been annually funded in amounts that have been inadequate to comply with its minimum actuarial contribution requirements. Because of these uncorrected funding deficiencies, plan actuaries report that NGPS is not being operated in an actuarially sound manner.

At June 30, 2004, under the accrual basis of accounting the plan has $11.512 million of net assets for paying supplemental retirement benefits to its members. By comparison, plan actuaries have determined that the plan has $47.281 million in actuarial accrued liabilities at June 30, 2004. Additional information is provided in the following subsections of Note 8i.

# Notes to the Financial Statements

## Funding Policy and Annual Pension Cost

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

| | NGPS |
|---|---|
| Annual pension cost | $2,978 |
| Employer contributions made | $1,997 |
| Actuarial valuation date | June 30, 2004 |
| Actuarial cost method | Entry age |
| Amortization method | Level dollar, open |
| Remaining amortization period | 30 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% |
| Projected salary increases | Not applicable |
| Assumed inflation rate | 4.25% |
| Assumed cost-of-living adjustments | Not applicable |

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2004 (expressed in thousands):

| | NGPS |
|---|---|
| Actuarially required contribution (ARC) | $ 2,870 |
| Interest on the NPO | 532 |
| Adjustment to the ARC | (424) |
| Annual pension cost | 2,978 |
| Contributions made | 1,997 |
| Increase in NPO | 981 |
| NPO beginning of year | 7,151 |
| NPO end of year | $ 8,132 |

The State recognized $1.997 million of expenditures in the General Fund to pay a portion of the current fiscal years' actuarially determined contribution.

The following schedule (dollars expressed in thousands) describes the funding progress for the NGPS for each of the three most recent actuarial valuations:

| Biennial Actuarial Valuation Date June 30 | Actuarial Value of Assets *(a)* | Actuarial Accrued Liability (AAL) Entry Age *(b)* | Unfunded AAL (UAAL) *(b-a)* | Funded Ratio *(a/b)* | Covered Payroll *(c)* | UAAL as a Percentage of Covered Payroll *((b-a)/c)* |
|---|---|---|---|---|---|---|
| 2000 | $ 11,089 | $ 43,427 | $ 32,338 | 25.5% | $ 40,789 | 79.3% |
| 2002 | 12,608 | 44,678 | 32,070 | 28.2% | 45,711 | 70.2% |
| 2004 | 13,567 | 47,281 | 33,714 | 28.7% | 42,391 | 79.5% |

# Notes to the Financial Statements

## Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. The following table presents the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the latest three fiscal years for the plan (dollars expressed in thousands):

| Fiscal Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2002 | $ 3,060 | 73.7% | $ 6,525 |
| 2003 | 2,759 | 77.3% | 7,151 |
| 2004 | 2,796 | 71.4% | 8,132 |

## Financial Statements

The NGPS does not issue separate financial statements. Accordingly, the financial statements for the NGPS are presented below:

**Statement of Plan Net Assets**
**National Guard Pension System**
**June 30, 2004**
**(Expressed in Thousands)**

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 11,388 |
| Accrued interest receivable | 124 |
| Invested securities lending collateral | 1,758 |
| **Total assets** | **13,270** |
| **LIABILITIES** | |
| Securities lending collateral | 1,758 |
| **Total liabilities** | **1,758** |
| **NET ASSETS** | |
| **Held in trust for pension benefits** | **$ 11,512** |

**Statement of Changes in Plan Net Assets**
**National Guard Pension System**
**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | |
|---|---|
| **Additions:** | |
| Employer retirement contributions | $ 1,997 |
| Investment income | 429 |
| **Total additions** | **2,426** |
| **Deductions:** | |
| Regular retirement benefits | 2,376 |
| Administrative expense | 4 |
| **Total deductions** | **2,380** |
| **Net increase in plan net assets** | **46** |
| **Net assets held in trust for pension benefits:** | |
| **Beginning of year** | **11,466** |
| **End of year** | **$ 11,512** |

### j. Defined Contribution Plan

As an alternative to membership in SCRS, certain State and public school employees may elect to participate in State ORP. Participants in State ORP direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts that those providers issue. Accordingly, balances of the State ORP are not reported in the accompanying financial statements.

Under State law, contributions to the State ORP are at the same rates as for the SCRS (see Subsection c, Funding Policies). Covered payroll amounts as well as the amounts of actual employer and employee contributions to the State ORP are summarized in the following schedule (expressed in thousands) for the fiscal year ended June 30, 2004:

| | |
|---|---|
| Covered payroll | $ 386,470 |
| Employee contributions | 23,188 |
| Employer contributions | 19,323 |

# Notes to the Financial Statements

## NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State provides post-employment health and dental benefits to certain former State employees and to certain of their surviving dependents. Generally, retirees are eligible for the benefits if they have established at least ten years of retirement service credit, whereas other former employees are eligible only if they have established at least twenty years of retirement service credit. Benefits become effective when the former employee retires under a State retirement system. Currently, 26,351 retirees meet these eligibility requirements.

Eligible retirees choose among two health insurance plans and two Health Maintenance Organization (HMO) options, all of which are underwritten by the State. The two health insurance plans are the Economy Plan and the Standard Plan. In accordance with contractual provisions of these plans, participants must meet specified annual deductible requirements. The Standard Plan pays 80.0% of allowable claims in excess of deductibles, and the Economy Plan pays 75.0% of allowable claims in excess of deductibles. There are no annual deductible requirements for the HMO options. The Companion HMO pays 90.0% of allowable claims and the CIGNA HMO pays 80.0% of allowable claims, both after co-payments. Participants in the health insurance plans and the HMO options must pay co-payments for prescriptions. The State pays 100.0% of allowable claims after the participant has paid the specified annual out-of-pocket limit prescribed by each option. All options disallow claims in excess of specified annual and lifetime maximums. Participants entitled to receive Medicare benefits may, in some cases, receive reduced State health benefits, although total benefits (State plus Medicare) are equivalent to those received by retirees not entitled to Medicare.

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

The State finances all health plan options and the dental plan on a pay-as-you-go basis. During the fiscal year ended June 30, 2004, the State recognized expenses (net of participant contributions) of $103.685 million to provide health and dental benefits to State participants in post-employment status.

Effective January 1, 2005, the State health insurance plans will increase annual co-insurance maximums for non-network providers, increase prescription drug copayments, and revise coverage for elective surgeries.

## NOTE 10: INSURANCE ACTIVITIES

### a. Insurance Reserve Fund

The State generally does not purchase commercial insurance for the risks of losses for property damage, including theft of, damage to, and destruction of assets; automobile liability; tort liability; and medical professional liability. Instead, State management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its Insurance Reserve Fund (IRF), within the internal service funds. The IRF services claims for risk of loss to which the State is exposed, including the following: property insurance on government owned buildings, the contents of such buildings, equipment, and automobiles; automobile liability insurance on government owned vehicles and school buses; tort liability insurance for government premises and operations; and medical professional liability for hospitals. Although the State is the predominant participant in the IRF, county and municipal governments, school districts and special purpose political subdivisions also participate. The IRF allocates the cost of providing claims servicing and claims payment by charging each participant an actuarially determined "premium."

The IRF reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of the unpaid claims liability. The liability is reported net of receivables for salvage, subrogation, and reinsurance. The unpaid policy claims liability of $235.253 million at June 30, 2004, includes a provision for claims in the process of review and for claims incurred but not reported. The liability for claims incurred but not reported is an actuarial estimate based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. This process does not necessarily result in an exact amount. The IRF continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

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

| Fiscal Year Ended June 30 | Beginning-of Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---|---|---|---|---|
| 2003 | $ 185,004 | $ 51,752 | $ (29,872) | $ 206,884 |
| 2004 | 206,884 | 65,143 | (36,774) | 235,253 |

# 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. The IRF purchases reinsurance for catastrophic losses in the area of property insurance for losses above $2.000 million per location and $10.000 million per occurrence. Reinsurance permits partial recovery of losses from reinsurers; but the IRF, as direct insurer of the risks, remains primarily liable.

### b. Employee Insurance Programs Fund

State law established the Employee Insurance Programs Fund, part of the State's internal service funds, to provide health and dental insurance coverage for eligible employees and retirees of State agencies and school districts and to provide group life and long-term disability insurance coverage to eligible active State and public school employees. The State, the predominant participant, retains the risk of loss. Under the health insurance program, participants elect coverage through either a self-insured health maintenance organization (HMO) or another State self-insured plan. All dental, group life, and long-term disability coverages are provided through the State's self-insured plans. State funds and payroll deductions pay health and dental premiums for eligible State and public school employees. Agencies and school districts pay the employer share of premiums for retirees. Retirees directly pay their own share of premiums. Agencies and school districts pay the premiums for group life and long-term disability for their employees.

The Employee Insurance Programs Fund establishes claims liabilities when information before the issuance of the financial statements indicates that it is probable that the Fund has incurred a reasonably estimable liability at the date of the financial statements. The calculation of the unpaid claims liability includes amounts for allocated and unallocated claims adjustment expenses. The unpaid policy claims liability of $179.872 million at June 30, 2004, includes a provision for claims in the process of review and for claims incurred but not reported. The Fund actuarially estimates the liability for claims incurred but not reported based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, award trends, and estimates of health care trend changes (cost, utilization, and intensity of services). This process does not necessarily result in an exact amount. The Fund continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

Claim costs for long-term disability coverage are actuarially calculated using the one-year term cost method; the cost of coverage is the present value of all benefit payments that will be made on expected claims incurred during the year following the valuation date. Claim liabilities are equal to the present value, as of the valuation date, of all future payments to be made for disabilities and deaths up to that date. Actuarial assumptions include an interest rate of 6.25% for 2004, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2004, $26.654 million relates to group life and long-term disability insurance coverage and $3.440 million relates to the HMO self-insured managed care plan liability. The State does not discount its claims liabilities for health and dental insurance coverage to present value.

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

| Fiscal Year Ended June 30 | Beginning-of Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---|---|---|---|---|
| 2003 | $ 155,069 | $ 1,075,485 | $ (1,042,401) | $ 188,153 |
| 2004 | 188,153 | 1,143,209 | (1,151,490) | 179,872 |

### c. State Accident Fund

State law established the State Accident Fund (the Fund), an internal service fund, to provide workers' compensation insurance coverage to State entities. Although the State is the Fund's predominant participant, counties, municipalities, and other political subdivisions of the State may also elect to participate. The State assumes the full risk for workers' compensation claims.

The Fund investigates, adjusts, and pays workers' compensation claims as awarded by the Workers' Compensation Commission for job-related accidental injury, disease, or death to covered individuals. The Fund annually bills participating entities for estimated premiums based on the entity's estimated payroll. After the policy period ends, policyholders submit the details of the actual salaries paid. The Fund then adjusts the premium using the actual payroll data and a rating modifier based on claims experience.

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The claims liabilities include specific incremental claims adjustment expenses but not administrative expenses. The Fund deducts reasonably estimable amounts of salvage and subrogation and reinsurance recoverable, if any, on both settled and unsettled claims from the liability for unpaid claims. The Fund periodically recomputes claims liabilities using a variety of actuarial and statistical techniques to produce current estimates. The Fund charges or credits expense in the period when it adjusts claims liabilities. At June 30, 2004, the Fund's policy claims liability was $110.885 million. Policy claims in the financial statements include the liabilities for claims reported but not yet paid and for claims incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in legal doctrines, and damage awards, computation of the claims liability does not necessarily result in an exact amount.

# Notes to the Financial Statements

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 |
|---|---|---|---|---|
| 2003 | $ 68,321 | $ 58,808 | $ (50,280) | $ 76,849 |
| 2004 | 76,849 | 78,818 | (44,782) | 110,885 |

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of $600 thousand are covered up to limits of statutory liability; the Fund retains the risk for the first $600 thousand of loss. Reinsurance reduces the Fund's exposure to losses on insured events related to State-owned aircraft in excess of $1.000 million per occurrence up to a limit of $9.000 million. The Fund also purchased reinsurance covering losses from an Act of Terrorism up to $2.000 million per claimant for calendar year 2004. Reinsurance permits partial recovery of losses from reinsurers; but the Fund, as direct insurer of the risks, remains primarily liable.

### d. Patients' Compensation Fund and Medical Malpractice Liability Insurance Joint Underwriting Association

The South Carolina Medical Malpractice Patients' Compensation Fund (PCF) and the South Carolina Medical Malpractice Liability Insurance Joint Underwriting Association (JUA) were created by State law. The PCF is accounted for as a nonmajor enterprise fund, and the JUA is a nonmajor discretely presented component unit of the State. The State accounts for the PCF and the JUA as insurance enterprises because they primarily cover non-governmental entities. Accordingly, the PCF and JUA follow the guidance of FASB Statement 60, *Accounting and Reporting by Insurance Enterprises*, and collectively are referred to below as "the insurance enterprises."

The JUA is responsible for payment of that portion of any covered entity's medical malpractice claim, settlement, or judgment up to $200 thousand per incident or $600 thousand in the aggregate for one year. The PCF is responsible for payments exceeding these thresholds. In the event that the PCF incurs a liability exceeding $200 thousand to any person under a single occurrence, the PCF may ultimately pay the claim in full, but it generally may not pay more than $200 thousand per year on such claim (although the PCF's Board of Governors may authorize payments in excess of $200 thousand per year to avoid payment of interest).

Licensed health care providers include physicians and surgeons, directors, officers and trustees of hospitals, nurses, oral surgeons, dentists, pharmacists, chiropractors, hospitals, nursing homes, and any similar category of licensed health care providers. All providers licensed in South Carolina are eligible to participate upon remittance of the annual assessment fees.

The State actuarially establishes claims liabilities for the insurance enterprises based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. At June 30, 2004, the policy claims liabilities were $203.600 million for the PCF and $163.452 million for the JUA, and these amounts include a provision for claims reported but not settled and for claims incurred but not reported. Amounts for claims adjustment expenses, when applicable, have been included in the calculation of the unpaid claims liabilities of the insurance enterprises. The enterprises charge or credit expense, as appropriate, in the period when they adjust claims liabilities. The length of time for which claims costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as medical technology, changes in doctrines of legal liability, and damage awards, the process for computing claims liabilities does not necessarily result in an exact amount. The insurance enterprises and their actuaries recompute claims liabilities annually, using a variety of actuarial and statistical techniques, to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit because the insurance enterprises and their actuaries rely both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience.

### e. Second Injury Fund

The State accounts for the South Carolina Second Injury Fund, a nonmajor enterprise fund, as a public benefit program rather than an insurance program primarily because its participants—workers' compensation insurance carriers and self-insured employers—do not transfer their risk to the Fund. The Fund services claims in cases where an individual with a preexisting permanent physical impairment incurs a subsequent disability from injury or accident arising out of and in the course of employment. Participants of the Fund, rather than the State, are ultimately responsible for these liabilities.

The Fund collects and invests assessments received from its participants and pays claims on behalf of its participants to the extent that Fund resources are available to pay such claims. The Fund reports these activities in its statement of cash flows. In accordance with accounting principles used by claims processors, however, the Fund reports as revenue only that portion of assessments and interest earnings intended to cover the Fund's administrative costs, including capital costs. Likewise, the Fund records no claims expense, and it records claims liabilities only to the extent that Fund assets are available to pay such claims.

# Notes to the Financial Statements

### f. Discretely Presented Component Unit—Public Service Authority (Santee Cooper)

The Public Service Authority (Santee Cooper), a major discretely presented component unit with a fiscal year ended December 31, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions. The Authority purchases commercial insurance to cover these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Policies are subject to deductibles ranging from $5 thousand to $1.000 million with the exception of Rainey Generating Station, which carries an approximate $1.700 million deductible, and named storm losses, which carry deductibles from $1.000 million up to $15.000 million. In addition, a $1.400 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 year 2003.

The State reports all of the Authority's risk management activities within the Public Service Authority's accounts. The State reports the Authority's claims expenses and liabilities when it is probable that a loss has occurred and the amount of the loss is reasonably estimable.

At December 31, 2003, the policy claims liabilities were $2.228 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 |
|---|---|---|---|---|
| 2002 | $ 1,426 | $ 1,574 | $ (1,434) | $ 1,566 |
| 2003 | 1,566 | 2,167 | (1,505) | 2,228 |

## NOTE 11: LEASES

### a. Lease Commitments

The State leases land, office facilities, equipment, and other assets under both capital and operating leases. The present value of future minimum capital lease payments and total minimum annual lease payments for capital leases recorded in the government-wide statement of net assets at June 30, 2004 (expressed in thousands), follow for the primary government and for the State's major discretely presented component units, respectively:

| Fiscal Year Ending June 30 | Governmental Activities | Business-type Activities | Totals |
|---|---|---|---|
| 2005 | $ 1,250 | $ 11,785 | $ 13,035 |
| 2006 | 1,218 | 11,261 | 12,479 |
| 2007 | 1,161 | 10,322 | 11,483 |
| 2008 | 510 | 6,604 | 7,114 |
| 2009 | 131 | 3,311 | 3,442 |
| 2010 - 2014 | 60 | 14,313 | 14,373 |
| 2015 - 2019 | — | 13,105 | 13,105 |
| **Total minimum payments** | **4,330** | **70,701** | **75,031** |
| Less: interest and executory costs | (1,074) | (16,116) | (17,190) |
| **Present value of net minimum payments** | **$ 3,256** | **$ 54,585** | **$ 57,841** |

| Fiscal Year Ending December 31 | Public Service Authority |
|---|---|
| 2004 | $ 3,708 |
| 2005 | 3,603 |
| 2006 | 3,388 |
| 2007 | 3,335 |
| 2008 | 3,038 |
| 2009 - 2013 | 8,648 |
| 2014 - 2018 | 290 |
| **Total minimum payments** | **26,010** |
| Less: interest and executory costs | (4,495) |
| **Present value of net minimum payments** | **$ 21,515** |

| Fiscal Year Ending June 30 | State Ports Authority |
|---|---|
| 2005 | $ 46 |
| 2006 | 33 |
| 2007 | 33 |
| 2008 | 33 |
| 2009 | 6 |
| **Total minimum payments** | **151** |
| Less: interest and executory costs | (19) |
| **Present value of net minimum payments** | **$ 132** |

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2004, were as follows (expressed in thousands):

# Notes to the Financial Statements

| Assets Acquired Under Capital Leases | Primary Government: Governmental Activities | Primary Government: Business-type Activities | Primary Government: Totals | Component Units: Public Service Authority | Component Units: State Ports Authority |
|---|---|---|---|---|---|
| Land and non-depreciable improvements | $ — | $ 5,479 | $ 5,479 | $ — | $ — |
| Buildings and improvements | 6,540 | 54,019 | 60,559 | 90,900 | — |
| Machinery and equipment | 2,401 | 43,953 | 46,354 | — | 185 |
| Works of art and historical treasures | — | 1,130 | 1,130 | — | — |
| **Assets acquired under capital leases before accumulated amortization** | **8,941** | **104,581** | **113,522** | **90,900** | **185** |
| Less: accumulated amortization | (3,275) | (27,102) | (30,377) | (75,500) | (57) |
| **Assets acquired under capital leases, net** | **$ 5,666** | **$ 77,479** | **$ 83,145** | **$ 15,400** | **$ 128** |

For the primary government's fiscal year ended June 30, 2004, minimum rental payments under operating leases were $73.049 million and contingent rental payments were $8.639 million. The State's contingent rental payments are for copiers, with expense being determined on a cost-per-copy basis.

For the Public Service Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $6.100 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $1.063 million. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled $781 thousand.

At June 30, 2004, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) were as follows:

| Fiscal Year Ending June 30 | Primary Government | Component Unit Lottery Commission |
|---|---|---|
| 2005 | $ 35,318 | $ 717 |
| 2006 | 29,958 | 340 |
| 2007 | 23,890 | 66 |
| 2008 | 18,775 | 4 |
| 2009 | 12,958 | — |
| 2010 - 2014 | 30,547 | — |
| 2015 - 2019 | 11,802 | — |
| 2020 - 2024 | 4,569 | — |
| 2025 - 2029 | 244 | — |
| **Total minimum payments** | **$ 168,061** | **$ 1,127** |

At December 31, 2003, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) for the Public Service Authority, a major discretely presented component unit, were as follows:

| Fiscal Year Ending December 31 | Component Unit Public Service Authority |
|---|---|
| 2004 | $ 4,600 |
| 2005 | 4,600 |
| **Total minimum payments** | **$ 9,200** |

### b. Facilities Leased to Others

At June 30, 2004, the State Ports Authority, a major discretely presented component unit, had leased to non-State parties certain land and facilities having a cost of approximately $433.009 million and related accumulated depreciation of $137.641 million. Future minimum rental payments to be received at June 30, 2004, under these operating leases (expressed in thousands) were as follows:

| Fiscal Year Ending June 30 | Component Unit State Ports Authority |
|---|---|
| 2005 | $ 17,665 |
| 2006 | 2,899 |
| 2007 | 1,211 |
| 2008 | 961 |
| 2009 | 849 |
| 2010-2014 | 135 |
| 2015-2019 | 995 |
| 2020-2024 | 2,396 |
| 2025-2029 | — |
| 2030-2034 | — |
| 2035-2039 | 2,517 |
| **Total** | **$ 29,628** |

# Notes to the Financial Statements

## NOTE 12: BONDS AND NOTES 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, 2004, were:

| | |
|---|---|
| **Governmental Activities** | |
| Capital improvement bonds, 1.375% to 5.90% | $ 917,949 |
| State highway bonds, 2.00% to 6.50% | 609,939 |
| State school facilities bonds, 3.00% to 5.75% | 650,565 |
| Infrastructure Bank bonds, 3.00% to 5.00% | 60,333 |
| State economic development bonds, 2.75% to 5.00% | 27,475 |
| **Subtotal—governmental activities** | **2,266,261** |
| **Business-type Activities, Higher Education Fund** | |
| State institution bonds, 2.50% to 7.00% | 242,740 |
| **Total—general obligation bonds payable** | **$ 2,509,001** |

At June 30, 2004, $6.344 million of capital improvement bonds were authorized but unissued.

At June 30, 2004, future debt service requirements (expressed in thousands) for general obligation bonds were:

| | Governmental Activities | | Business-type Activities (Higher Education Fund) | |
|---|---|---|---|---|
| Year Ending June 30 | Principal | Interest | Principal | Interest |
| 2005 | $ 188,313 | $ 99,888 | $ 12,315 | $ 10,598 |
| 2006 | 181,389 | 92,478 | 12,910 | 10,022 |
| 2007 | 168,975 | 84,980 | 13,470 | 9,441 |
| 2008 | 175,430 | 77,621 | 13,375 | 8,861 |
| 2009 | 179,889 | 69,762 | 13,705 | 8,297 |
| 2010-2014 | 764,650 | 234,856 | 72,250 | 32,699 |
| 2015-2019 | 500,415 | 77,728 | 70,780 | 16,069 |
| 2020-2024 | 85,765 | 11,440 | 33,845 | 3,257 |
| 2025-2029 | 19,615 | 1,878 | — | — |
| **Total debt service requirements** | **2,264,441** | **$ 750,631** | **242,650** | **$ 99,244** |
| Unamortized premiums | 12,569 | | 90 | |
| Deferred amount on refunding | (10,749) | | — | |
| **Total principal outstanding** | **$ 2,266,261** | | **$ 242,740** | |

The Department of Transportation Special Revenue Fund, a major governmental fund, pays the debt service for the State highway bonds. The Local Government Infrastructure Fund, a major governmental fund, pays the debt service for the Infrastructure Bank bonds. The General Fund pays the debt service for the other general obligation bonds recorded for governmental activities. The Higher Education Fund, a major enterprise fund, pays the debt service for general obligation bonds recorded in that fund.

Rather than directly limiting the amount of outstanding general obligation debt, State law imposes a limitation on annual debt service expenditures. The legal annual debt service margin at June 30, 2004, was $23.012 million in total for all institution bonds, $23.162 million for highway bonds, $37.059 million for general obligation bonds excluding institution and highway bonds, and $22.378 million for economic development bonds.

### b. Limited Obligation Bonds

Limited obligation bonds are not backed by the full faith, credit, and taxing power of the State. Limited obligation bonds outstanding at June 30, 2004, which are reported in the internal service funds, totaled $23.304 million. Interest rates on these bonds ranged from 4.00% to 6.10%.

At June 30, 2004, there were no limited obligation bonds authorized but unissued.

The State issued limited obligation lease revenue bonds to finance the cost of capital facilities for use by certain State agencies. Pledges of lease rental payments that the agencies will pay from their governmental funds secure the bonds.

At June 30, 2004, future debt service requirements (expressed in thousands) for limited obligation bonds were:

| | Governmental Activities (Internal Service Funds) | |
|---|---|---|
| Year Ending June 30 | Principal | Interest |
| 2005 | $ 3,930 | $ 1,111 |
| 2006 | 4,120 | 924 |
| 2007 | 4,320 | 725 |
| 2008 | 1,640 | 542 |
| 2009 | 1,730 | 465 |
| 2010-2014 | 6,740 | 1,257 |
| 2015-2019 | 920 | 41 |
| **Total debt service requirements** | **23,400** | **$ 5,065** |
| Unamortized discounts | (96) | |
| **Total principal outstanding** | **$ 23,304** | |

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

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

Revenue debt is not backed by the full faith, credit, and taxing power of the State. Revenue, Tobacco Settlement Revenue Management Authority (Tobacco Authority), Infrastructure Bank, and other bonds and notes (expressed in thousands) outstanding at June 30, 2004, were:

# Notes to the Financial Statements

| | Bonds | Notes |
|---|---|---|
| **Primary Government:** | | |
| ***Governmental Activities:*** | | |
| Infrastructure Bank bonds, 3.00% to 6.00% | $ 1,725,514 | $ — |
| Tobacco Authority bonds, 6.00% to 7.67% | 845,630 | — |
| Educational Television Network note, 3.29% | — | 2,897 |
| Natural Resources Department note, 4.59% | — | 188 |
| Judicial Department note, 3.98% | — | 207 |
| Education Department note, 3.29% | — | 900 |
| Corrections Department note, 3.34% | — | 1,632 |
| Budget and Control Board internal service fund bond and notes, 3.00% to 5.00% | 24,802 | 3,060 |
| ***Totals—governmental activities*** | **2,595,946** | **8,884** |
| ***Business-type Activities:*** | | |
| Higher Education Fund bonds and notes, 2.00% to 8.5% | 324,722 | 34,401 |
| Housing Authority Fund bonds, 1.60% to 8.30% | 510,696 | — |
| Education Assistance Authority Fund bonds, 3.50% to 6.30% | 589,884 | — |
| Nonmajor enterprise funds: | | |
| Nonmajor enterprise fund bonds and notes, 1.54% to 8.00% | 117,526 | 78,325 |
| Direct note obligations, 5.82% to 6.82% | — | 94,550 |
| ***Totals—business-type activities*** | **1,542,828** | **207,276** |
| **Totals—primary government** | **$ 4,138,774** | **$ 216,160** |
| **Major Discretely Presented Component Units:** | | |
| Public Service Authority bonds, 3.00% to 7.42% | $ 2,213,060 | $ — |
| State Ports Authority bonds and notes, 1.35% to 6.20% | $ 143,420 | $ 7,494 |
| Connector 2000 Association, Inc. bonds, 5.25% to 6.30% | $ 253,041 | $ — |
| Lottery Commission notes, 8.00% | $ — | $ 3,450 |

During the prior fiscal year, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate swap agreement with a termination date of October 1, 2013 to reduce net interest costs on certain revenue bonds. Under this fixed-to-variable interest-rate swap, the Bank receives a fixed rate of 3.595% semi-annually while paying a variable rate monthly based on the TBMA Municipal SWAP Index. The notional amount for this agreement is $49.440 million. Through June 30, 2004, the Bank had interest income of $2.523 million and interest expense of $716 thousand attributable to the agreement. The June 30, 2004, mark to market value of this swap was a negative $240 thousand. The Bank is exposed to credit risk and market risk.

On October 1, 2003, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate exchange agreement with a termination date of October 1, 2031, to reduce net interest costs on certain revenue bonds. Under this variable-to-fixed interest rate exchange, the Bank pays a 3.825% fixed rate on a notional amount, having an amortization schedule equal to that of the revenue bonds. In return, the counterparties of the agreement pay the Bank a variable rate equal to 67.0% of the one-month London Interbank Offered Rate on such notional amount. For the fiscal year ended June 30, 2004, the Bank made variable bond interest payments of $1.905 million and fixed rate payments on the exchange agreement of $7.044 million. The Bank received variable swap payments on the exchange agreement of $1.406 million. The June 30, 2004, mark to market value of this swap was a negative $4.536 million.

University Medical Associates of the Medical University of South Carolina (UMA) is a blended component unit and nonmajor enterprise fund. UMA has issued several direct note obligations, select auction variable rate securities. In prior years, UMA entered into interest-rate swap agreements to modify interest rates on a portion of its Series 1994, and all of the 1999A and 1999B direct note obligations in an effort to convert its variable-rate debt to a fixed rate of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations. These agreements were required by the municipal bond insurance company MBIA, at a time when UMA was experiencing operating losses. The note obligations and related swap agreements mature on May 15, 2024, for the 1994 and 1999A portions and May 15, 2027, for the 1999B portion. The notional amounts as of June 30, 2004, are as follows: Series 1994 obligations—$9.300 million; Series 1999A obligations—$36.550 million; and Series 1999B obligations—$42.150 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of $10.700 million. Under the swap agreements, UMA pays the counterparty a fixed interest payment of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations, and receives a variable payment based upon the auction rate every thirty-five days. The variable rates in effect at June 30, 2004, were 1.37% for the 1994 obligations, 1.25% for the 1999A obligations, and 1.288% for the 1999B obligations. On May 1, 2000, these swap agreements were amended to mitigate adverse income tax consequences to the counterparty should certain triggering events occur in the future, resulting in a payment to UMA of $1.850 million for the remaining life of the agreements. UMA has recorded this amount in deferred revenue and is amortizing it as a reduction of interest expense over the terms of the related obligations on the straight-line method. For the fiscal year ended June 30, 2004, interest expense was reduced by amortization of approximately $77 thousand. Interest rates have declined since execution of the swap agreements resulting in the swaps having negative fair values of approximately $2.473 million on the 1994 obligations, $9.317 million on the 1999A obligations, and $7.314 million for the 1999B obligations as of June 30, 2004. The fair value was estimated using the zero-coupon method. UMA will be exposed to the risk of fluctuating interest rates of the variable-rate debt agreements if the swap agreements are terminated.

In the prior year, the Medical University Facilities Corporation, a blended component unit and nonmajor enterprise fund, entered into an interest-rate swap agreement to hedge its interest-rate exposure and establish a fixed-rate payment in connection with a $13.500 million loan. The swap agreement provides that the Corporation will pay the swap provider interest on a notional amount equal to the aggregate principal amount of the loan at a fixed rate of 3.37%, and the swap provider will pay the Corporation a variable rate of interest on such notional amount in an amount sufficient to pay the variable rate of interest on the loan. The notional amount at June 30, 2004, was $12.500 million, and the variable rate in effect at that date was 1.07%.

# Notes to the Financial Statements

The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal of the note is scheduled to be paid upon redemption or maturity. The loan and the related swap agreement mature on January 1, 2013. As of June 30, 2004, the swap had a fair value of $86 thousand. Termination of the agreement would subject the Corporation to the risk of fluctuating interest rates.

As of June 30, 2004, debt service requirements of the UMA and the Corporation variable rate debt and net swap payments (expressed in thousands), assuming current interest rates remain the same for their term, were as follows:

| Year Ending | Variable Rate Notes | | Interest Rate | |
|---|---|---|---|---|
| June 30 | Principal | Interest | Swaps, Net | Totals |
| 2005 | $ 2,750 | $ 1,254 | $ 4,720 | $ 8,724 |
| 2006 | 3,350 | 1,220 | 4,602 | 9,172 |
| 2007 | 3,445 | 1,179 | 4,461 | 9,085 |
| 2008 | 3,595 | 1,136 | 4,316 | 9,047 |
| 2009 | 4,045 | 1,092 | 4,161 | 9,298 |
| 2010 - 2014 | 23,415 | 4,655 | 18,002 | 46,072 |
| 2015 - 2019 | 19,600 | 3,311 | 12,986 | 35,897 |
| 2020 - 2024 | 31,300 | 1,788 | 6,910 | 39,998 |
| 2025 - 2029 | 9,000 | 220 | 777 | 9,997 |
| **Totals** | **$ 100,500** | **$ 15,855** | **$ 60,935** | **$ 177,290** |

Certain revenue bonds require the individual business-type activities to provide sufficient revenue to pay debt service and to fund all necessary expenses of the activities. The funds that receive the proceeds of revenue, Tobacco Authority, Infrastructure Bank, and other bonds and notes have pledged revenues for payment of debt service as follows:

**Primary Government:**

***Governmental Activities:***

- Infrastructure Bank bonds: Infrastructure Bank revenues recorded in the Local Government Infrastructure Fund, a major governmental fund
- Tobacco Authority bonds: tobacco settlement revenues recorded in the nonmajor governmental funds
- Corrections Department note: farm facility revenues
- Budget and Control Board bonds: loan repayments

***Business-type Activities:***

- Higher education bonds and notes: various specific higher education revenues
- State Housing Authority bonds: revenues of the Housing Authority Fund, a major enterprise fund
- Education Assistance Authority bonds: loan repayments and United States Commissioner of Education funds in the Education Assistance Authority Fund, a major enterprise fund

**Major Discretely Presented Component Units:**

- Public Service Authority bonds: Public Service Authority revenues
- State Ports Authority bonds: State Ports Authority revenues
- Connector 2000 Association, Inc., bonds: toll revenues
- Lottery Commission notes: lottery revenues

For its business-type activities, the State separately identifies amounts of pledged revenues available at June 30, 2004, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2004, future debt service requirements (expressed in thousands) for revenue, Tobacco Authority, Infrastructure Bank, and other bonds and notes of the primary government were as follows:

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | | Business-type Activities | |
| Year Ending June 30 | Principal | Interest | Principal | Interest |
| 2005 | $ 30,558 | $ 139,276 | $ 73,189 | $ 74,235 |
| 2006 | 37,662 | 137,599 | 82,871 | 73,072 |
| 2007 | 39,751 | 135,689 | 39,704 | 70,850 |
| 2008 | 48,403 | 133,561 | 74,755 | 68,275 |
| 2009 | 41,027 | 131,271 | 134,386 | 64,312 |
| 2010 - 2014 | 339,368 | 608,605 | 269,610 | 280,234 |
| 2015 - 2019 | 394,290 | 502,214 | 320,870 | 212,200 |
| 2020 - 2024 | 468,155 | 390,672 | 432,804 | 140,245 |
| 2025 - 2029 | 669,875 | 238,626 | 178,020 | 67,725 |
| 2030 - 2034 | 545,900 | 62,467 | 136,015 | 21,118 |
| 2035 - 2039 | — | — | 17,745 | 853 |
| **Total debt service requirements** | **2,614,989** | **$ 2,479,980** | **1,759,969** | **$ 1,073,119** |
| Unamortized premiums(discounts) | 16,948 | | (1,733) | |
| Deferred amount on refunding | (27,107) | | (8,132) | |
| **Total principal outstanding** | **$ 2,604,830** | | **$ 1,750,104** | |

The fiscal year for the Public Service Authority ends December 31 while the fiscal year for the State Ports Authority ends June 30. Both entities are major discretely presented component units. At December 31, 2003, the carrying value of the Public Service Authority's debt was $2.443 billion while the fair value was approximately $2.900 billion. At June 30, 2004, the carrying value of the State Ports Authority debt was $150.216 million while the fair value was approximately $143.829 million. The fair values were estimated using current rates available to the entities for similar borrowing arrangements and on the market rate of comparable traded debt.

At June 30, 2004, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

| | Major Component Units | | | |
|---|---|---|---|---|
| | Public Service Authority | | Connector 2000 Assoc. | |
| Year Ending December 31 | Principal | Interest | Principal | Interest |
| 2004 | $ 71,270 | $ 128,310 | $ — | $ 3,531 |
| 2005 | 76,825 | 123,009 | — | 3,531 |
| 2006 | 74,925 | 119,157 | — | 3,531 |
| 2007 | 70,990 | 115,208 | — | 3,531 |
| 2008 | 80,395 | 111,314 | 6,200 | 3,508 |
| 2009 - 2013 | 413,130 | 495,025 | 42,500 | 16,776 |
| 2014 - 2018 | 524,875 | 361,313 | 67,200 | 15,214 |
| 2019 - 2023 | 612,475 | 201,865 | 99,600 | 13,211 |
| 2024 - 2028 | 157,410 | 105,464 | 135,800 | 10,605 |
| 2029 - 2033 | 194,160 | 62,067 | 177,500 | 7,149 |
| 2034 - 2038 | 144,715 | 15,390 | 217,300 | 2,661 |
| **Total debt service requirements** | **2,421,170** | **$ 1,838,122** | **746,100** | **$ 83,248** |
| Unamortized premiums (discounts) | 44,740 | | (493,059) | |
| Deferred amount on refunding | (252,850) | | — | |
| **Total principal outstanding** | **$ 2,213,060** | | **$ 253,041** | |

# Notes to the Financial Statements

| | Major Component Units | | | |
|---|---|---|---|---|
| | State Ports Authority | | Lottery Commission | |
| Year Ending June 30 | Principal | Interest | Principal | Interest |
| 2005 | $ 7,079 | $ 6,553 | $ 1,233 | $ 232 |
| 2006 | 3,468 | 6,397 | 1,335 | 129 |
| 2007 | 3,600 | 6,257 | 882 | 25 |
| 2008 | 3,777 | 6,073 | — | — |
| 2009 | 3,860 | 5,882 | — | — |
| 2010 - 2014 | 22,320 | 26,185 | — | — |
| 2015 - 2019 | 26,845 | 19,939 | — | — |
| 2020 - 2024 | 34,535 | 12,249 | — | — |
| 2025 - 2029 | 44,600 | 2,407 | — | — |
| **Total debt service requirements** | **150,084** | **$ 91,942** | **3,450** | **$ 386** |
| Unamortized premium | 830 | | — | |
| **Total principal outstanding** | **$ 150,914** | | **$ 3,450** | |

Borrowing is essential to the continuation of programs associated with certain entities reported within the primary government's governmental activities. The primary government reported interest expense during the fiscal year ended June 30, 2004, in governmental functions for these entities as follows (expressed in thousands):

| | Amount |
|---|---|
| General government | $ 56,061 |
| Transportation | 118,580 |
| **Total allocated interest expense** | **$ 174,641** |

The amount shown above in the general government function relates to bonds that a blended component unit issued.

### d. Bond Anticipation Notes

At June 30, 2004, $44.310 million in short-term revenue bond anticipation notes were outstanding in the Higher Education Fund, a major enterprise fund. These notes are due on or before June 30, 2005.

### e. Defeased Bonds and Certificates of Participation

During September 2003, the State issued $156.560 million in general obligation State capital improvement refunding bonds with an average interest rate of 2.35%. Of the $156.560 million, $154.993 million was to refund $150.725 million of general obligation State capital improvement bonds with an average interest rate of 4.68% and $1.567 million was to fund an irrevocable escrow account for future debt service payments. The net proceeds of $156.360 million applicable to the refunding, including $1.723 million in premiums (after payment of $356 thousand in issuance costs), were used to purchase $154.046 million in United States government securities and deposit an additional $2.314 million in cash with the escrow agent. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5.635 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2008 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next six years by approximately $4.938 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $6.445 million.

During September 2003, the Infrastructure Bank, included in the Local Government Infrastructure major governmental fund, issued $368.300 million in Infrastructure Bank revenue refunding bonds to refund $338.115 million of Infrastructure Bank revenue bonds. The net proceeds of $364.378 million (after payment of $3.922 million in issuance costs), plus an additional $3.868 million in excess debt service reserve fund monies 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 $30.185 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2012 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next twenty-seven years by approximately $53.000 million and to obtain an economic gain of approximately $28.000 million.

During June 2004, Coastal Carolina University, included in the Higher Education major enterprise fund, issued $3.885 million in auxiliary facilities revenue bonds with an average interest rate of 4.09% to refund $3.780 million of auxiliary revenue bonds with an average interest rate of 6.50%. The net proceeds (after payment of $76 thousand for a redemptive premium and $29 thousand in accrued interest and issuance costs) were used to purchase United States government securities. The bonds were refunded to reduce total debt service payments by approximately $545 thousand and to obtain an economic gain of approximately $499 thousand.

During its fiscal year ended December 31, 2003, the Public Service Authority, a major discretely presented component unit, issued $335.030 million in refunding revenue bonds with an average interest rate of 4.926% to refund $352.135 million in revenue bonds with an average interest rate of 5.139%. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $57.064 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next twenty-eight years by approximately $42.600 million and to obtain an economic gain of approximately $17.700 million.

During July 2003, the Medical University Facilities Corporation, a blended component unit and nonmajor enterprise fund, used proceeds from a $13.500 million loan received in the prior year plus funds from the certificates of participation trusteed accounts to redeem the remaining $13.525 million in certificates of participation. As a result of the current refunding, the Corporation reduced total debt

# Notes to the Financial Statements

service payments by approximately $3.126 million and obtained an economic gain of approximately $1.345 million.

In addition, during prior years the State defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the State placed the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the State has not recorded the defeased bonds in the accompanying financial statements. At June 30, 2004, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

| | Governmental Activities | Business-type Activities | Totals—Primary Government |
|---|---|---|---|
| State highway bonds | $ 39,675 | $ — | $ 39,675 |
| Infratructure Bank bonds | 338,115 | — | 338,115 |
| Higher Education Fund bonds | — | 75,433 | 75,433 |
| **Totals** | **$ 377,790** | **$ 75,433** | **$ 453,223** |

In addition, at December 31, 2003, $12.345 million of bonds associated with the Public Service Authority, a major discretely presented component unit, were considered defeased.

### f. Arbitrage Rebate Payable

The Internal Revenue Code and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. The Local Government Infrastructure Fund (a major governmental fund), and the Education Assistance Authority Fund (a major enterprise fund) have incurred arbitrage rebate liabilities in connection with student loan and revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 2004, are reported as other liabilities of $123 thousand in the Local Government Infrastructure Fund, and as other liabilities payable from restricted assets of $12.068 million and other liabilities of $1.000 million in the Education Assistance Authority Fund.

### g. Conduit Debt

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

The Educational Facilities Authority, reported in the General Fund, issues bonds to assist nonprofit educational institutions that do not receive State appropriations in the acquisition, construction, and financing of facilities for educational programs. The bonds are payable solely from, and secured by, a lease agreement on the facilities between the Authority and the institution. When the bonds have been fully paid, the Authority conveys the title for the facility to the institution. At June 30, 2004, the outstanding balance of bonds issued was $184.386 million.

The Jobs-Economic Development Authority, a nonmajor governmental fund, issues industrial revenue bonds to develop and benefit business enterprises. The bonds are payable solely by revenues of the business enterprise and generally are secured by an irrevocable letter of credit. At June 30, 2004, the outstanding balance of bonds issued after June 30, 1995, was $2.655 billion. The original amount of bonds issued prior to that date is not available.

The Housing Authority Fund, a major enterprise fund, issues certain mortgage loan notes and housing revenue bonds for developers to construct moderate to low income housing projects. The bonds are payable solely from housing rental payments received by the developer and generally are secured by an irrevocable letter of credit or bond insurance. At June 30, 2004, the outstanding balance of bonds issued was $254.278 million.

### h. Resources Authority Debt

In prior years, the Resources Authority, reported in the General Fund, issued bonds and used the proceeds to purchase obligations of local governmental entities. The local governmental entities used the proceeds received from the Authority to fund water and sewer projects. Periodic principal and interest payments received from the local governmental entities are used by the Authority to retire its own debt. The debt issued by the Authority is not a debt of the State and is not recorded in the accompanying financial statements. The Authority's outstanding debt at June 30, 2004, was $3.920 million. Effective October 1994, the General Assembly enacted legislation that prohibits the Authority from issuing bonds except to refund bonds previously issued.

Beginning in fiscal year 1993-1994, one local governmental entity has been unable to meet its financial obligation under the terms of a $5.025 million revenue bond that the Authority purchased. In June 1990, when the local governmental entity issued its debt, it estimated that the related sewer project would be completed and operational by calendar year 1992. Revenue generated by the sewer system is pledged for debt retirement. The State paid a total of $ 3.827 million in the 1993-1994 through 2002-2003 fiscal years, and $420 thousand in the 2003-2004 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated $400 thousand in the 2004-2005 fiscal year for use, if needed, to offset the loss of revenues from the delinquent local entity.

### i. Commercial Paper Notes and Letters of Credit

Note 13 Changes in Liabilities, displays the activity of commercial paper notes and lines of credit during the fiscal year ended June 30, 2004, including beginning and ending balances (if any) as

# Notes to the Financial Statements

well as all draws and repayments. The Public Service Authority presents its outstanding amounts as commercial paper notes, but all other amounts outstanding on lines of credit at June 30, 2004, are reported as notes payable. Other relevant information regarding these accounts is provided below.

The Medical University Hospital Authority, a blended component unit and nonmajor enterprise fund, has an agreement with a commercial bank for working capital lines of credit totaling approximately $23.800 million. The University Medical Associates of the Medical University of South Carolina (UMA), a blended component unit and nonmajor enterprise fund, has a line of credit with a financial institution with a maximum borrowing limit of $13.500 million.

The Public Service Authority, a discretely presented component unit, has recorded a $345.050 million liability for commercial paper notes at its fiscal year ended December 31, 2003. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a $400.000 million revolving credit agreement to support the issuance of commercial paper.

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

### j. Subsequent Events

Since June 30, 2004, the State has issued bonds and notes as indicated in the table below (expressed in thousands).

***Primary Government***

| Description | Governmental Activities | Business-type Activities |
|---|---|---|
| Revenue bonds | $ 382,390 | $ 340,600 |
| Revenue notes | — | 36,500 |
| Totals | $ 382,390 | $ 377,100 |

***Component Units***

| Description | Revenue Bonds |
|---|---|
| Public Service Authority | $ 452,505 |

Of the total revenue bonds that the primary government issued, $153.450 million of the governmental activities bonds were to refund prior issues.

The State's primary government plans to issue $523.000 million in business-type activities revenue bonds and notes prior to December 31.

## NOTE 13: CHANGES IN LIABILITIES

### a. Long-Term Liabilities

Changes in major classes of long-term liabilities (expressed in thousands) for the fiscal year ended June 30, 2004, were:

# Notes to the Financial Statements

| | Balances at July 1, 2003 | Increases | Decreases | Balances at June 30, 2004 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Primary Government:** | | | | | |
| ***Governmental Activities*** | | | | | |
| Policy claims | $ 478,556 | $ 1,289,324 | $ (1,236,235) | $ 531,645 | $ 471,133 |
| Notes payable | $ 7,395 | $ 2,700 | $ (1,211) | $ 8,884 | $ 1,513 |
| General obligation bonds payable | $ 2,237,141 | $ 346,220 | $ (318,920) | $ 2,264,441 | $ 188,313 |
| Unamortized discounts and premiums | 10,068 | 2,833 | (332) | 12,569 | — |
| Deferred amount on refunding | (8,002) | (5,636) | 2,889 | (10,749) | — |
| Total general obligation bonds payable | $ 2,239,207 | $ 343,417 | $ (316,363) | $ 2,266,261 | $ 188,313 |
| Tobacco Authority bonds payable | $ 869,870 | $ — | $ (24,240) | $ 845,630 | $ — |
| Revenue bonds payable | $ 24,705 | $ — | $ (1,140) | $ 23,565 | $ 1,190 |
| Unamortized discounts and premiums | 1,329 | — | (92) | 1,237 | — |
| Total revenue bonds payable | $ 26,034 | $ — | $ (1,232) | $ 24,802 | $ 1,190 |
| Infrastructure Bank bonds payable | $ 1,457,485 | $ 643,735 | $ (364,310) | $ 1,736,910 | $ 27,855 |
| Unamortized discounts and premiums | 6,097 | 8,500 | 1,114 | 15,711 | — |
| Deferred amount on refunding | — | (30,131) | 3,024 | (27,107) | — |
| Total Infrastructure Bank bonds payable | $ 1,463,582 | $ 622,104 | $ (360,172) | $ 1,725,514 | $ 27,855 |
| Limited obligation bonds payable | $ 27,155 | $ — | $ (3,755) | $ 23,400 | $ 3,930 |
| Unamortized discounts and premiums | (115) | — | 19 | (96) | — |
| Total limited obligation bonds payable | $ 27,040 | $ — | $ (3,736) | $ 23,304 | $ 3,930 |
| Capital leases payable | $ 4,106 | $ — | $ (850) | $ 3,256 | $ 875 |
| Compensated absences payable | $ 189,581 | $ 106,437 | $ (101,827) | $ 194,191 | $ 120,552 |
| National Guard Pension System net pension obligation payable | $ 7,151 | $ 981 | $ — | $ 8,132 | $ — |
| Judgments and contingencies payable | $ 35,438 | $ 55,224 | $ (19,402) | $ 71,260 | $ 26,006 |
| Arbitrage payable | $ 611 | $ 123 | $ (611) | $ 123 | $ 2 |

The National Guard Pension System net pension obligation payable, judgments and contingencies payable, and arbitrage payable are included in *other liabilities* in the accompanying financial statements.

The governmental fund that pays an employee's salary also is responsible for liquidating the employee's related compensated absence liability. The General Fund is responsible for liquidating the National Guard Pension System liability. Historically, the State has paid most judgments related to governmental funds from its General Fund unless an identifiable amount was directly attributable to another specific fund.

# Notes to the Financial Statements

| | Balances at July 1, 2003 | Increases | Decreases | Balances at June 30, 2004 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Primary Government:** | | | | | |
| ***Business-type Activities*** | | | | | |
| Policy claims | $ 210,312 | $ 30,081 | $ (36,793) | $ 203,600 | $ 37,500 |
| Notes payable | $ 148,681 | $ 62,092 | $ (16,104) | $ 194,669 | $ 16,139 |
| Unamortized discounts and premiums | — | 106 | (3) | 103 | — |
| Deferred amount on refunding | (1,047) | — | 51 | (996) | — |
| Total notes payable | $ 147,634 | $ 62,198 | $ (16,056) | $ 193,776 | $ 16,139 |
| General obligation bonds payable | $ 208,965 | $ 45,500 | $ (11,815) | $ 242,650 | $ 12,315 |
| Unamortized discounts and premiums | 3 | 89 | (2) | 90 | — |
| Total general obligation bonds payable | $ 208,968 | $ 45,589 | $ (11,817) | $ 242,740 | $ 12,315 |
| Revenue bonds payable | $ 1,491,533 | $ 192,125 | $ (131,858) | $ 1,551,800 | $ 43,510 |
| Unamortized discounts and premiums | (3,345) | 827 | 682 | (1,836) | — |
| Deferred amount on refunding | (8,134) | (247) | 1,245 | (7,136) | — |
| Total revenue bonds payable | $ 1,480,054 | $ 192,705 | $ (129,931) | $ 1,542,828 | $ 43,510 |
| Certificates of participation payable | $ 13,525 | $ — | $ (13,525) | $ — | $ — |
| Capital leases payable | $ 65,445 | $ 822 | $ (11,682) | $ 54,585 | $ 8,951 |
| Compensated absences payable | $ 99,389 | $ 47,012 | $ (44,196) | $ 102,205 | $ 57,487 |
| Judgments and contingencies payable | $ 950 | $ — | $ (950) | $ — | $ — |
| Arbitrage payable | $ 18,039 | $ 2 | $ (4,973) | $ 13,068 | $ 293 |

| | Balances at January 1, 2003 | Increases | Decreases | Balances at December 31, 2003 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Major Component Units:** | | | | | |
| ***Public Service Authority*** | | | | | |
| Policy claims | $ 1,566 | $ 2,167 | $ (1,505) | $ 2,228 | $ 2,228 |
| Revenue bonds payable | $ 2,520,015 | $ 335,030 | $ (433,875) | $ 2,421,170 | $ 71,270 |
| Unamortized discounts and premiums | 15,958 | 23,073 | 5,709 | 44,740 | — |
| Deferred amount on refunding | (250,525) | (57,064) | 54,739 | (252,850) | — |
| Total revenue bonds payable | $ 2,285,448 | $ 301,039 | $ (373,427) | $ 2,213,060 | $ 71,270 |
| Capital leases payable | $ 24,278 | $ — | $ (2,763) | $ 21,515 | $ 2,761 |
| Compensated absences payable | $ 12,929 | $ 2,104 | $ (1,663) | $ 13,370 | $ — |
| ***Connector 2000 Association, Inc.*** | | | | | |
| Revenue bonds payable | $ 746,100 | $ — | $ — | $ 746,100 | $ — |
| Unamortized discounts and premiums | (503,923) | — | 10,864 | (493,059) | — |
| Total revenue bonds payable | $ 242,177 | $ — | $ 10,864 | $ 253,041 | $ — |

# Notes to the Financial Statements

| | Balances at July 1, 2003 | Increases | Decreases | Balances at June 30, 2004 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Major Component Units:** | | | | | |
| ***State Ports Authority*** | | | | | |
| Notes payable | $ 537 | $ 7,349 | $ (392) | $ 7,494 | $ 4,174 |
| Revenue bonds payable | $ 145,375 | $ — | $ (2,785) | $ 142,590 | $ 2,905 |
| Unamortized discounts and premiums | 876 | — | (46) | 830 | — |
| Total revenue bonds payable | $ 146,251 | $ — | $ (2,831) | $ 143,420 | $ 2,905 |
| Capital leases payable | $ 84 | $ 140 | $ (92) | $ 132 | $ 38 |
| Compensated absences payable | $ 2,124 | $ 2,032 | $ (2,124) | $ 2,032 | $ 2,032 |
| ***Lottery Commission*** | | | | | |
| Notes payable | $ 9,725 | $ — | $ (6,275) | $ 3,450 | $ 1,233 |
| Compensated absences payable | $ 784 | $ 474 | $ (408) | $ 850 | $ 117 |

# Notes to the Financial Statements

### b. Short-Term Debt

The State's Higher Education Fund sometimes issues Bond Anticipation Notes (BANS) in advance of issuing bonds. Short-term debt for the fiscal year ended June 30, 2004, included: BANS in the Higher Education Fund, a major enterprise fund; commercial paper notes in the Public Service Authority, a major discretely presented component unit; and letters of credit in the nonmajor enterprise funds. Short-term debt activity during the fiscal year (expressed in thousands) was as follows:

| | Balances at July 1, 2003 | Increases | Decreases | Balances at June 30, 2004 |
|---|---|---|---|---|
| **Primary Government:** | | | | |
| ***Business-type Activities*** | | | | |
| Revenue bond anticipation notes payable | $ 28,025 | $ 44,310 | $ (28,025) | $ 44,310 |
| Notes payable (letters of credit) | $ 15,500 | $ 13,500 | $ (15,500) | $ 13,500 |

| | Balances at January 1, 2003 | Increases | Decreases | Balances at December 31, 2003 |
|---|---|---|---|---|
| **Major Component Unit:** | | | | |
| ***Public Service Authority*** | | | | |
| Commercial paper notes | $ 303,177 | $ 121,447 | $ (79,574) | $ 345,050 |

# Notes to the Financial Statements

## NOTE 14: RESERVATIONS AND DESIGNATIONS OF FUND BALANCES IN GOVERNMENTAL FUNDS

Reserved components of fund balances represent amounts in governmental funds that are legally segregated or that the State cannot appropriate. Designated portions of unreserved fund balances reflect tentative plans for future use of available financial resources.

The unreserved component of fund balance equals the total fund balance less reserved amounts.

At June 30, 2004, the following amounts of fund balance in governmental funds (expressed in thousands) were reserved:

| | General | Departmental General Operating | Local Government Infrastructure | Department of Transportation Special Revenue | Nonmajor Governmental Funds | Governmental Funds |
|---|---|---|---|---|---|---|
| **Fund balances reserved for:** | | | | | | |
| General reserve fund | $ 25,155 | $ — | $ — | $ — | $ — | $ 25,155 |
| Interfund receivables | 4,282 | 400 | 261,235 | — | 1,676 | 267,593 |
| Appropriations to be carried forward | 54,696 | — | — | — | — | 54,696 |
| Endowments | — | — | — | — | 1,945 | 1,945 |
| Long-term loans and notes receivable | 7 | 572 | 328,420 | 9,344 | 16,416 | 354,759 |
| Debt requirements | — | — | 1,127,118 | 1,164 | 152,845 | 1,281,127 |
| School building aid | 6,465 | — | — | — | 1,855 | 8,320 |
| **Total reserved fund balances** | **$ 90,605** | **$ 972** | **$ 1,716,773** | **$ 10,508** | **$ 174,737** | **$ 1,993,595** |

# Notes to the Financial Statements

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

**a. Reserved**

### General Reserve Fund

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, 2004, the Reserve's balance was $25.155 million, $123.879 million below the full-funding amount. In accordance with the 2004-2005 Appropriation Act, the State added $50.000 million to the Reserve in July 2004. This brought the Reserve's balance to $75.155 million.

### Reserved for Interfund Receivables and Reserved for Long-Term Loans and Notes Receivable

Long-term loans and notes receivable and long-term interfund receivables are assets that do not represent expendable available resources. Governmental funds, therefore, reserve a corresponding portion of fund balance.

### Reserved for Appropriations to be Carried Forward

The General Fund does not use encumbrance accounting. It uses the reserve for appropriations to be carried forward, however, if the General Assembly has authorized the carry-forward of General Fund appropriations to the next fiscal year.

### Reserved for Endowments

This reserve recognizes restrictions on donated resources.

### Reserved for Debt Requirements

When financing agreements or bond indentures require a reservation, the State records an amount as reserved for debt requirements.

### Reserved for School Building Aid

If the State promises to pay a school district to build school buildings or to retire debt on such buildings, it records an amount as reserved for school building aid. The State has recorded such amounts, which are not available for appropriation, in its General Fund and its nonmajor governmental funds.

**b. Designated, Reported in Special Revenue Funds**

The total designated amount reported on the governmental funds balance sheet for nonmajor special revenue funds is designated for scholarships. The amount is for the Teacher Loan Program, reported within the nonmajor governmental funds. This program makes loans to students. The State cancels 20.0% to 33.0% of the loan for each year that the borrower teaches in a critical-need area. Borrowers who do not teach in such an area, however, must repay their loans.

**c. Designated, Reported in the Capital Projects Fund**

The total designated amount reported on the governmental funds balance sheet for the State's Capital Projects Fund, a nonmajor governmental fund, is designated for capital expenditures.

## NOTE 15: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2004 (expressed in thousands):

# Notes to the Financial Statements

| Description | Due From/To |
|---|---|
| Receivable fund: General | |
| Payable funds: | |
| Departmental General Operating | $ 34,804 |
| Unemployment Compensation | 9,692 |
| Other | 5,125 |
| Receivable fund: Departmental General Operating | |
| Payable funds: | |
| General | 32,619 |
| Internal service | 380 |
| Fiduciary | 13 |
| Other | 912 |
| Receivable fund: Local Government Infrastructure | |
| Payable funds: | |
| General | 4,408 |
| Department of Transportation Special Revenue | 7,212 |
| Receivable fund: Department of Transportation Special Revenue Fund | |
| Payable funds: | |
| General | 568 |
| Departmental General Operating | 395 |
| Local Government Infrastructure | 2,659 |
| Internal service | 251 |
| Other | 1 |
| Receivable fund: Higher Education | |
| Payable funds: | |
| General | 22,604 |
| Departmental General Operating | 4,198 |
| Department of Transportation Special Revenue | 25 |
| Other | 23,306 |
| Receivable funds: Internal Service | |
| Payable funds: | |
| General | 8,327 |
| Departmental General Operating | 3,135 |
| Department of Transportation Special Revenue | 39 |
| Higher Education | 271 |
| Housing Authority | 30 |
| Internal service | 257 |
| Fiduciary | 26,245 |
| Other | 675 |
| Receivable funds: Fiduciary | |
| Payable funds: | |
| General | 29,083 |
| Departmental General Operating | 13,640 |
| Local Government Infrastructure | 36 |
| Department of Transportation Special Revenue | 11,007 |
| Higher Education | 4,808 |
| Internal service | 1,446 |
| Fiduciary | 698 |
| Other | 761 |
| Receivable funds: Other | |
| Payable Funds: | |
| General | 3,867 |
| Departmental General Operating | 582 |
| Department of Transportation Special Revenue | 3 |
| Higher Education | 10,904 |
| Internal service | 14 |
| Other | 1,682 |
| **Total** | **$ 266,682** |

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30 for which payment was received/made after June 30.

| Description | Interfund Receivables Payables | Long-term Portion |
|---|---|---|
| Receivable fund: General | | |
| Payable funds: | | |
| Departmental General Operating | $ 1,630 | $ — |
| Higher Education | 831 | 723 |
| Internal service | 4,316 | 3,559 |
| Other | 290 | — |
| Receivable fund: Departmental General Operating | | |
| Payable funds: | | |
| Higher Education | 400 | 400 |
| Other | 180 | — |
| Receivable fund: Local Government Infrastructure | | |
| Payable funds: | | |
| Department of Transportation Special Revenue | 279,235 | 261,235 |
| Receivable fund: State Tobacco Settlement | | |
| Payable funds: Local Govt Infrastructure | 2,250 | — |
| Receivable funds: Internal Service | | |
| Payable funds: | | |
| Departmental General Operating | 3,000 | 3,000 |
| Local Government Infrastructure | 3,500 | 3,500 |
| Internal service | 933 | 847 |
| Other | 38,970 | 37,578 |
| Receivable funds: Other | | |
| Payable Funds: | | |
| Departmental General Operating | 286 | 221 |
| Higher Education | 20,252 | 20,157 |
| Internal service | 689 | 548 |
| Other | 96 | 96 |
| **Totals** | **$ 356,858** | **$ 331,864** |

The preceding interfund receivables and payables generally include loans for building improvements, economic development initiatives, and initial funding for new programs. Additional balances include the following:

- $279.235 million owed by the Department of Transportation Special Revenue Fund, a major governmental fund, to the Local Government Infrastructure Fund, a major governmental fund. The Department of Transportation has entered into various agreements to provide assistance for highway and transportation facilities projects being constructed by the Local Government Infrastructure Fund.
- $14.983 million owed by the nonmajor enterprise funds to the internal service funds. The nonmajor enterprise funds lent the money received to a county for infrastructure within a residential development.
- $23.565 million owed by the nonmajor governmental funds to the internal service funds. The nonmajor governmental funds borrowed the money to purchase and renovate new headquarters facilities for the State Department of Public Safety.
- $19.340 million owed by the Medical University of South Carolina reported within the Higher Education Fund, a major enterprise fund, to the nonmajor enterprise funds, in relation to an internal leasing arrangement.

# Notes to the Financial Statements

The following table summarizes interfund transfers during the fiscal year ended June 30, 2004 (expressed in thousands):

| Description/Fund(s) | Transfers From/To |
|---|---|
| Transfers from the General Fund | |
| Transfers to: | |
| Departmental General Operating | $ 73,200 |
| Local Government Infrastructure | 3,950 |
| Department of Transportation Special Revenue | 16 |
| Higher Education | 652,989 |
| Unemployment Compensation | 40 |
| Internal service | 727 |
| Fiduciary | 2,400 |
| Other | 163,861 |
| Transfers from Departmental General Operating | |
| Transfers to: | |
| General | 57,916 |
| Higher Education | 699 |
| Internal service | 1,074 |
| Other | 7,703 |
| Transfers from Local Government Infrastructure | |
| Transfers to: | |
| Departmental General Operating | 5 |
| Transfer from Department of Transportation Special Revenue | |
| Transfer to: | |
| General | 4,940 |
| Departmental General Operating | 40 |
| Transfers from State Tobacco Settlement | |
| Transfers to: | |
| Departmental General Operating | 5 |
| Transfers from Higher Education | |
| Transfers to: | |
| General | 902 |
| Departmental General Operating | 17,310 |
| Other | 114 |
| Transfer from Unemployment Compensation | |
| Transfer to General | 3,402 |
| Transfer from Housing Authority | |
| Transfer to Other | 29 |
| Transfers from Internal Service | |
| Transfers to: | |
| General | 11,596 |
| Departmental General Operating | 7,743 |
| Internal service | 2,230 |
| Other | 1,411 |
| Transfers from Fiduciary | |
| Transfers to: | |
| Fiduciary | 2,832 |
| Transfers from Other | |
| Transfers to: | |
| General | 171,692 |
| Departmental General Operating | 20,787 |
| Higher Education | 56,929 |
| Internal service | 1,571 |
| Other | 6,088 |
| **Total** | **$ 1,274,201** |

The State uses transfers to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move State grant monies from grantor funds to grantee funds, and (3) transfer bond proceeds from the capital projects fund to other funds authorized to execute the projects. The following is a description of significant (i.e., $5.000 million or more) transfers that occurred during the fiscal year ended June 30, 2004, that either (a) were non-routine or (b) were inconsistent with the normal activities of the fund making the transfer.

Proviso 73.2 of the 2003-2004 Appropriations Act redirected funds to the General Fund for operating expenditures of that fund. The following table summarizes these transfers during the fiscal year ended June 30, 2004 (expressed in thousands):

| Fund | Amount |
|---|---|
| Departmental General Operating | $ 149 |
| Unemployment Compensation | 2,400 |
| Internal service | 11,596 |
| Other | 12,096 |
| **Total** | **$ 26,241** |

## NOTE 16: REVENUES AND EXPENDITURES OR EXPENSES

### a. Proprietary Fund Revenues—Allowances and Discounts

In the financial statements, the State presents its revenues net of allowances for uncollectible accounts receivable and contractual adjustments. Note 5 reports these allowances.

*Scholarship allowances* in the Higher Education Fund represent the sum of differences between stated charges for goods and services provided to students and amounts billed to students and/or third parties making payments on behalf of students. For the fiscal year ended June 30, 2004, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

| | Scholarship Allowances |
|---|---|
| Charges for services | $ 249,188 |
| Operating revenues pledged for revenue bonds | 15,814 |
| Other operating revenues | 19,520 |
| **Total** | **$ 284,522** |

# Notes to the Financial Statements

For the fiscal year ended June 30, 2004, the State's nonmajor enterprise funds presented $160.682 million included in net charges for services and $578.827 million included in net operating revenues pledged for revenue bonds after reductions for the following applicable discounts and allowances (expressed in thousands):

| | Provision for Contractual and Other Adjustments | Provision for Uncollectible Accounts |
|---|---|---|
| Charges for services | $ 206,351 | $ 29,269 |
| Operating revenues pledged for revenue bonds | 372,779 | 50,598 |
| **Totals** | **$ 579,130** | **$ 79,867** |

### b. Extraordinary and Special Items

*Extraordinary items* generally are transactions or other events that are both unusual in nature and infrequent in occurrence. However, generally accepted accounting principles require that the State report any gains or losses on the early extinguishment of debt, other than refundings, in its proprietary funds as extraordinary even if they do not meet the preceding description. The State reports significant transactions or other events within the control of management that are *either* unusual in nature *or* infrequent in occurrence as *special items*.

#### Extraordinary Loss on Early Extinguishment of Debt

The State recorded the following extraordinary items in both its government-wide and fund financial statements for the fiscal year ended June 30, 2004.

The $209 thousand extraordinary loss on early extinguishment of debt in the Higher Education Fund, a major enterprise fund, resulted from the early redemption of bonds.

The $564 thousand extraordinary loss on early extinguishment of debt in the Housing Authority Fund, a major enterprise fund, resulted from the early redemption of bonds ($162 thousand from writing off unamortized discounts and $402 thousand from writing off unamortized bond issuance costs).

#### Special Item

The State recorded the following special item in the fund financial statements for the fiscal year ended June 30, 2004.

The $155 thousand special item (i.e., a gain) in the nonmajor enterprise funds resulted from the Patriots Point Development Authority's sale of a property easement to an electrical company.

## NOTE 17: DONOR-RESTRICTED ENDOWMENTS AND PLEDGES

### a. Donor-Restricted Endowments

The State's permanent funds (nonmajor governmental funds) and the Higher Education Fund, a major enterprise fund, maintain donor-restricted endowments. Net appreciation consists of realized and unrealized increases in the fair value of an endowment's assets over the historic dollar value of the assets.

At June 30, 2004, $6.200 million of the amount reported as *restricted net assets, expendable for education*, represented net appreciation on investments of donor-restricted endowments available for authorization for expenditure by governing boards of the higher education institutions. In addition, $165 thousand of the amount reported as *restricted net assets, expendable for other*, represented net appreciation on investments of donor-restricted endowments of permanent funds.

The South Carolina Uniform Management of Institutional Funds Act (Title 34, Chapter 6, of the South Carolina Code of Laws, which is referred to below as "the Act") permits an agency's/institution's governing board to authorize for expenditure all of an endowment's net appreciation, unless the applicable gift instrument indicates the donor's intention that net appreciation not be expended. The Act requires, however, that the authorized expenditure be limited to the uses and purposes for which the endowment was established and that the institution's governing board exercise ordinary business care and prudence in authorizing the expenditure of net appreciation.

Specific policies for authorizing and spending endowment investment income vary among the agencies and institutions that hold endowments. Generally, the governing boards establish these policies. Among those agencies/institutions that recorded investment income in donor-restricted endowments during the fiscal year ended June 30, 2004, the predominant policy was to authorize the spending of 4.75% to 6.00% of the fair value of total endowment assets annually.

### b. Pledges

The State's Higher Education Fund, a major enterprise fund, and related blended component units reported as nonmajor enterprise funds, recognize receivables and revenues for pledges or promises of cash or other assets from nongovernmental entities when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable of collection. The

# Notes to the Financial Statements

financial statements report these amounts as accounts receivable. However, various benefactors have established split interest agreements with The Citadel Trust, Inc., a nonmajor enterprise fund. Among these agreements are a charitable remainder uni-trust and a charitable remainder trust. The Citadel, a higher education institution reported in the Higher Education Fund, will receive a specified portion of the assets remaining under these agreements at the benefactors' deaths. The parties who manage the assets associated with these agreements are not included within the State of South Carolina's financial reporting entity. The State's financial statements do not report these trust assets because the ultimate amounts that the State will receive were not deemed to be measurable at June 30, 2004, and the eligibility requirements for the gifts have not been met.

## NOTE 18: SEGMENT INFORMATION

The Housing Authority provides low-cost housing to the State's citizens by issuing bonds/notes and by administering federal contracts and grants. The State issues various separate revenue bonds to finance activities within the Single Family Finance program of its Housing Authority Fund, a major enterprise fund. Covenants of the following revenue bonds within the Single Family Finance program require separate accounting and financial reporting: (a) Single Family, (b) Home Ownership, and (c) Mortgage Revenue. Investors in these bonds rely solely on the revenue generated by the individual activities for repayment. Accordingly, condensed financial statements (expressed in thousands) for these segments for the fiscal year ended June 30, 2004, are presented below:

**CONDENSED STATEMENT OF NET ASSETS**

| | Single Family | Home Ownership | Mortgage Revenue |
|---|---|---|---|
| Assets | | | |
| Current restricted assets | $ 9,060 | $ 586 | $ 18,395 |
| Other current assets | 12,132 | 707 | 27,927 |
| Noncurrent restricted assets | 209,279 | 20,567 | 397,032 |
| Other assets | 923 | 9 | 3,025 |
| Total assets | 231,394 | 21,869 | 446,379 |
| Liabilities | | | |
| Current liabilities payable from restricted assets | 9,060 | 586 | 18,395 |
| Noncurrent liabilities | 108,168 | 6,481 | 377,663 |
| Total liabilities | 117,228 | 7,067 | 396,058 |
| Net assets | | | |
| Restricted and expendable for: | | | |
| Debt service | 110,957 | 13,635 | 43,633 |
| Bond reserves | 3,209 | 1,167 | 6,688 |
| **Total net assets** | **$ 114,166** | **$ 14,802** | **$ 50,321** |

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

| | Single Family | Home Ownership | Mortgage Revenue |
|---|---|---|---|
| Operating revenues: | | | |
| Pledged revenues: | | | |
| Interest on loans | $ 8,283 | $ 1,471 | $ 20,686 |
| Income on deposit | 603 | (36) | 5,526 |
| Other revenues: | | | |
| Bond premium amortization | 38 | — | 17 |
| Total operating revenues | 8,924 | 1,435 | 26,229 |
| Operating expenses: | | | |
| Bond issuance cost amortization | 41 | 3 | 228 |
| Other operating expenses | 5,942 | 526 | 23,537 |
| Total operating expenses | 5,983 | 529 | 23,765 |
| Operating income | 2,941 | 906 | 2,464 |
| Loss on early extinguishment of debt (extraordinary item) | — | (25) | (422) |
| Transfers: | | | |
| Transfers in | — | — | 3,441 |
| Transfers out | (4,121) | (3,148) | — |
| Increase (decrease) in net assets | (1,180) | (2,267) | 5,483 |
| Beginning net assets | 115,346 | 17,069 | 44,838 |
| **Ending net assets** | **$ 114,166** | **$ 14,802** | **$ 50,321** |

**CONDENSED STATEMENT OF CASH FLOWS**

| | Single Family | Home Ownership | Mortgage Revenue |
|---|---|---|---|
| Net cash provided (used) by: | | | |
| Operating activities | $ 5,646 | $ 5,960 | $ 36,146 |
| Noncapital financing activities | (9,711) | (7,171) | (55,814) |
| Investing activities | 615 | 246 | 5,690 |
| Net decrease | (3,450) | (965) | (13,978) |
| Beginning cash and cash equivalents | 88,715 | 4,078 | 135,893 |
| **Ending cash and cash equivalents** | **$ 85,265** | **$ 3,113** | **$ 121,915** |

Because the above separately identifiable activities provide essentially similar services to the Authority's customers, they are not considered to be different activities for financial reporting purposes. Accordingly, all of the Housing Authority's activities are reported as a single fund and as a single business-type activity in the accompanying financial statements.

## NOTE 19: JOINT VENTURE AND JOINT OPERATION

### a. Joint Venture

In May 1997, the Public Service Authority (the Authority), a major discretely presented component unit, along with two unrelated publicly owned

# Notes to the Financial Statements

electric utilities formed a wholesale power marketing joint venture called The Energy Authority (TEA). Subsequently, three additional unrelated entities joined TEA. The Authority engages in gas hedging activities through TEA to reduce the cost of fuel inventories. The Authority now has a 21.0% ownership interest, which it records as an equity investment. TEA provides services to its member organizations, as well as to certain non-member organizations, and allocates transaction savings and operating expenses to its member organizations pursuant to a settlement agreement.

During its fiscal year ended December 31, 2003, the Authority received distributions of $32.172 million from TEA and recognized $34.377 million in reductions to power costs and increases in electric revenues.

The Authority has provided certain guarantees and has pledged certain collateral to support TEA's transactions. The Authority's Board of Directors has approved the use of up to $68.700 million to support TEA's activities. During its fiscal year ended December 31, 2003, the TEA gas trading account was closed and $15.611 million in funds was transferred to the Authority. Also during 2003, the Authority recorded $8.106 million in realized gains from natural gas hedging transactions. The Authority deferred $4.975 million in unrealized losses at December 31, 2003, as regulatory liabilities; it will recognize and recover these unrealized losses through its rates as the hedged power delivery occurs and it records fuel expense.

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

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

### b. Joint Operation

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

In accordance with regulatory accounting practices, the Authority reported capital assets of $487.000 million and expenses of $54.100 million, which represent its interest in this joint operation. The Summer Nuclear Station is not a separate legal entity and does not prepare separate financial statements.

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

In 2002, SCE&G commenced a re-racking project of the on-site spent fuel pool. The new pool storage capability will permit full core off-load through 2018. Further on-site storage, if required, will be accomplished through dry cask storage or other technology as it becomes available.

The Nuclear Regulatory Commission (NRC) requires a licensee of a nuclear reactor to provide minimum financial assurance of its ability to decommission its nuclear facilities. A site-specific decommissioning study completed in 2000 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as $143.400 million in 1999 dollars. The Authority accrues its share of the estimated decommissioning costs over the remaining life of the facility. These costs are being recovered through the Authority's rates.

To comply with the NRC regulations, the Authority established an external trust fund and has been making deposits into this fund since September 1990. In addition, the Authority established an internal decommissioning account. The Authority makes deposits into this fund in the amount necessary to fund the difference between the 2000 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled $107.700 million (adjusted to market) at December 31, 2003, 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, 2003, totaled $765 thousand. The Authority has deferred this amount and will recover it through rates as paid. These costs are included in deferred charges, and deferred revenues and deferred credits on the face of the accompanying financial statements.

The Price-Anderson Indemnification Act has established the maximum liability for public claims arising from any nuclear incident as $10.900 billion. Nuclear liability insurance of approximately $300.000 million per site would cover this amount, with potential retrospective assessments of up to $100.600 million per licensee for each nuclear incident occurring at any reactor in the United States (payable at a rate not to exceed $10.000 million per incident per year). Based on its one-third interest in the Summer Nuclear Station, the Authority would be responsible for a maximum assessment of $33.500 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.

# Notes to the Financial Statements

SCE&G and the Authority maintain, with Nuclear Electric Insurance Limited (NEIL), $500.000 million primary and $1.500 billion excess property and decontamination insurance to cover the costs of facility cleanup in the event of an accident. In addition to the premiums paid on the excess policy, SCE&G and the Authority also could be assessed a retroactive premium, not to exceed five times the annual premium, in the event of property damage to any nuclear generating facility covered by NEIL. Based on the current annual premium and the Authority's one-third interest, the Authority's maximum retroactive premium would be $3.100 million for the primary policy and $3.400 million for the excess policy.

SCE&G and the Authority also maintain accidental outage insurance to cover replacement power costs (within policy limits) associated with an insured property loss. This policy carries a potential retrospective assessment of $1.400 million.

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

## NOTE 20: RELATED PARTY TRANSACTIONS

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

During the fiscal year ended June 30, 2004, the Educational Television Endowment of South Carolina, Inc., disbursed $4.731 million on behalf of the Departmental General Operating Fund, a major governmental fund, for programs, development, advertising, and other costs.

The following organizations are related to the Higher Education Fund, a major enterprise fund: the University of South Carolina Development Foundation; the University of South Carolina Business Partnership Foundation; the University of South Carolina Research Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the Lancaster County Educational Foundation, Inc.; the Clemson University Research Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the Health Sciences Foundation of the Medical University of South Carolina; the Medical University of South Carolina Foundation for Research Development; the Coastal Educational Foundation, Inc.; the Coastal Carolina University Student Housing Foundation; the Horry County Higher Education Commission; the College of Charleston Foundation; the Winthrop University Foundation; the Winthrop University Real Estate Foundation; the Francis Marion University Foundation; the Francis Marion University Student Housing LLC; The Citadel Foundation; The Citadel Alumni Association; The Citadel's Brigadier Foundation; South Carolina State Educational Foundation; the Lander Foundation; Aiken Technical College Foundation, Inc.; Florence-Darlington Technical College Foundation; Horry-Georgetown Technical College Foundation; Greenville Tech Foundation, Inc.; Midlands Technical College Foundation; Orangeburg-Calhoun Technical College Foundation; Piedmont Technical College Foundation; Tri-County Technical College Foundation; Trident Technical College Foundation; and York Technical College Foundation. During the fiscal year ended June 30, 2004, the State entered into various transactions with these organizations. Approximate amounts within the State's Higher Education Fund that represent transactions with these related parties include: receivable from foundations–$9.259 million; donations of cash and other assets from foundations–$99.762 million; expenditures paid to foundations–$2.941 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations–$3.844 million.

The Education Assistance Authority Fund, a major enterprise fund, has designated the South Carolina Student Loan Corporation (SLC) as the entity to administer the enterprise fund's student loan program. During the fiscal year ended June 30, 2004, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC–$8.214 million; notes receivable from SLC–$523.549 million; program revenue from SLC–$21.541 million; reimbursements to SLC for administrative costs–$3.902 million; and payable to SLC–$28.808 million.

## NOTE 21: MAJOR DISCRETELY PRESENTED COMPONENT UNITS

### a. Significant Transactions of Major Component Units with the Primary Government

The Public Service Authority makes payments to the General Fund in lieu of taxes each year based on requirements under bond indentures. These payments totaled $10.486 million during the Authority's fiscal year ended December 31, 2003.

During the fiscal year ended June 30, 2002, the State Ports Authority resolved to contribute a total of $45.000 million over twenty-six years to the Local Government Infrastructure Fund, a major governmental fund, for the Cooper River Bridge project in Charleston. The Authority made a payment of $9.000 million during the fiscal year ended June 30, 2004.

The South Carolina Lottery for Education Act requires the Lottery Commission to transfer all proceeds from lottery ticket sales and other revenues net of expenses to the Education Lottery Fund, a nonmajor governmental fund. The Commission transferred $286.487 million during the fiscal year ended June 30, 2004; the Commission owed an additional $18.083 million to the Fund at June 30, 2004.

# Notes to the Financial Statements

### b. Concentrations of Credit Risk

The Public Service Authority and State Ports Authority have chosen to present their statements in accordance with applicable pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. Accordingly, these component units present disclosures regarding concentrations of credit risk.

#### Public Service Authority

Concentrations of credit risk with respect to the Public Service Authority's receivables are limited due to its large number of customers and their dispersion across different industries. The Authority maintains an allowance for uncollectible accounts based on the expected collectibility of all accounts receivable. The Authority's sales to its two major customers for its fiscal year ended December 31, 2003, were as follows (expressed in thousands):

| Customer | Revenue | % of Total Operating Revenue |
|---|---|---|
| Central Electric Power Cooperative, Inc..... | $ 511,000 | 49.5% |
| Alumax of South Carolina, Inc..... | 107,000 | 10.4% |

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

#### State Ports Authority

During the fiscal year ended June 30, 2004, two customers accounted for approximately 16.0% and 10.0% of the State Ports Authority's revenues. The Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Authority maintains reserves for potential credit losses.

## NOTE 22: CONTINGENCIES AND COMMITMENTS

### a. Litigation

#### Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2004, are several that challenge the legality of certain taxes. The challenged revenues include the sales tax on diabetic supplies and the use of certain income tax credits. In the event of unfavorable outcomes for these cases, the State does not expect the ultimate liability to exceed $65.000 million. Although State losses in these cases also could reduce future revenues, the preceding estimates do not include any impact on future revenues.

The South Carolina Retirement Systems are involved in two related lawsuits involving the calculation of retirement benefits. In 2001, two employees and an employer filed a putative class action lawsuit against the South Carolina Retirement Systems and the South Carolina Budget and Control Board. The suit alleged that the Retirement Systems wrongfully denied benefits to members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) due to misinterpretation of the definition of average final compensation. The plaintiffs allege that SCRS and PORS collected over $2.000 billion and $500.000 million, respectively, in excess contributions. Plaintiffs seek a declaratory judgment that a benefit was wrongfully denied and/or that excess contributions were collected and request that contributions be reduced in the future. Plaintiffs further seek a refund of over $2.000 billion to members and employers. Finally, plaintiffs seek to impose a constructive trust on monies overpaid by plaintiffs and/or wrongfully withheld by the Systems. The case is pending under the original jurisdiction of the Supreme Court of South Carolina. A trial was held in March 2003 before a special referee. In February 2004, the referee issued proposed findings and a recommendation that the plaintiffs' claims be dismissed. The plaintiffs filed exceptions to the recommendation and briefs have been submitted to the Supreme Court of South Carolina. In the second suit, in October 2002, four members of the Retirement Systems filed an action against the parties of the first suit alleging that certain facts were withheld from the plaintiffs and the court in an earlier case in which the Supreme Court of South Carolina had ruled against those plaintiffs. The plaintiffs are seeking to set aside the previous Supreme Court Order. If the plaintiffs were to prevail, damages would be similar to the other case.

Another lawsuit relating to the taxation of retirement benefits pending against the State challenges the State's law imposing income taxes upon benefits paid to retired government employees by the South Carolina Retirement Systems. The State Circuit Court granted the State's motion to dismiss. The State Supreme Court also dismissed the case and required the plaintiff to pursue the claim administratively. In April 2004, the Administrative Law Court denied the petitioner's refund claim. The matter is now on appeal at the Circuit Court. In the event of an unfavorable outcome, the State's liability for retroactive relief could exceed $581.000 million. The estimated unfavorable impact on future year revenues could be approximately $50.000 million to $60.000 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. In the event of unfavorable outcomes in all of the above matters, the State's estimated liability would be approximately $9.100 million.

While the State is uncertain as to the ultimate outcome of any of the above-described lawsuits, it believes its positions are meritorious and it is vigorously defending its position in each case.

# Notes to the Financial Statements

The State is involved in a number of cases in which the amounts of potential losses, if any, are not presently determinable. These cases include one contending that the funding of public education in South Carolina is inequitable and inadequate. The State moved to dismiss the case, and the Circuit Court granted that motion. The plaintiffs appealed, and the State Supreme Court affirmed part of the Circuit Court's order but remanded the case to the Circuit Court for further proceedings as to the issue of alleged inadequate educational opportunity. The Court denied the plaintiffs' request to add a damage claim. The trial is scheduled to end prior to December 31, 2004, with a trial court decision probably sometime in 2005. In a second unrelated case involving an Indian tribe and a school district, the State is a party added as an intervener or defendant. The Circuit Court previously entered an order favorable to the State on a Constitutional issue in the case, and in April 2004, issued a supplemental order on the issue of credit for certain taxes paid to the school district. The tribe moved for reconsideration of the supplemental order, but the Court denied that motion. The tribe has served a notice of appeal of orders in this case, but has not yet stated the issues to be raised on appeal. An unfavorable ruling as to an issue in the case pertaining to the State potentially could have a considerable financial impact on the State. In a third unrelated case, the plaintiffs allege that a State board's actions interfered with their businesses. The State has filed a motion for summary judgment. In the event the State loses this case, the loss amount may not be limited by the State Tort Claims Act and it may exceed the allowable reimbursement from the State's self-insurance fund.

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

Generally, liabilities recorded by the State's Insurance Reserve Fund (see Note 10a), an internal service fund, are sufficient to cover claims arising from alleged torts, up to the liability limits established by the South Carolina Tort Claims Act. Currently, except as described above, no tort claims are pending that are expected to result in any significant liability in excess of the provision for policy claims recorded by the Insurance Reserve Fund.

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

A group of customers of the Public Service Authority, a major discretely presented component unit and electric utility company, filed suit against the Authority seeking monetary damages arising out of a change in the Authority's "Good Cents" rate. The Authority denied the material allegations and opposed the request for class certification, but the court granted a class certification to the plaintiffs. Partial summary judgment was granted to the Authority. The parties subsequently settled the case and the court gave final approval to the settlement. The settlement terms have no material adverse effect on the Authority's financial position or operations.

The Authority is a party to, or has an indirect interest in, several lawsuits in which the amounts of potential losses, if any, are not presently determinable. The following paragraph discusses the most significant of these cases.

Landowners located along the Santee River contend that the Authority is liable for damage to their real estate because of flooding that has occurred since the U. S. Army Corps of Engineers completed its Cooper River Rediversion Project in 1985. A 1997 trial returned a jury verdict against the Authority on certain causes of action. The District Court has not set a separate trial on the case's damages phase. Due to the uncertainty involving the ultimate outcome of the lawsuit, the Authority has not recorded any liability in the accompanying financial statements.

#### b. Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority (the Authority), a blended component unit and nonmajor governmental fund established in 2001, is a public body and an instrumentality of the State. State law transferred to the Authority all of the State's rights and interests under the Master Settlement Agreement (the MSA) and the Consent Decree and Final Judgment between all participating states and the participating tobacco manufacturers. These rights include the State of South Carolina's share of all tobacco settlement revenues (TSRs) actually received after June 30, 2001, or to be received in the future under the MSA.

The Authority issued asset-backed term bonds in 2001. The payment of such bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors, including cigarette consumption and the continued financial capability of the original participating manufacturers. Such bonds are secured by, and payable solely from, TSRs and investment earnings pledged under the bond indenture and amounts established and held in accordance with the bond indenture. The term bonds are payable only from the Authority's assets. If the Authority has no assets, it will not pay any principal or interest on the bonds. The TSRs represent the Authority's only source of funds for payments on the bonds; the Authority has no taxing power.

Various parties have instituted litigation alleging, among other things, that the MSA violates certain provisions of federal and State laws. Certain of these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. In the event of an adverse court ruling, the Authority may not have adequate financial resources to make payment on the bonds.

#### c. Federal Grants

The State receives significant federal grant and entitlement revenues. Compliance audits of federal programs may identify disallowed expenditures.

# Notes to the Financial Statements

Disallowances by federal program officials as a result of these audits may become liabilities of the State. The State records a liability for pending disallowances if settlement is probable and the settlement amount is reasonably estimable. Otherwise, the liability is recorded only when the State and the federal government agree on reimbursement terms. Based on an analysis of historical data, however, the State believes that any such disallowance reimbursements relating to the fiscal year ended June 30, 2004, or earlier years will not have a material impact on the State's financial statements.

### d. Other Loan Guarantees

The South Carolina Education Assistance Authority, a major enterprise fund, guarantees student loans. At June 30, 2004, these loans totaled $1.903 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, 2004, was less than 1.0%.

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

### e. Purchase Commitments

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

At December 31, 2003, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling $576.607 million for coal. In addition, minimum obligations under purchased power contracts were approximately $80.600 million at December 31, 2003, with a remaining term of thirty-one years. 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, 2003, these commitments totaled approximately $54.200 million over the next eight years.

The Authority has entered into a service agreement in the approximate amount of $93.100 million. The agreement provides a service director, initial spare parts, parts and services for specified maintenance outages, remote monitoring and diagnostics of the turbine generators, and combustion tuning for the gas turbines. In exchange for reduced pricing and added features, the contract term was extended to 2025, but can be terminated in 2008.

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

At June 30, 2004, the Lottery Commission had a remaining commitment of $17.550 million under a service contract with a term that extends through September 2007. The contract provides, among other things, services and equipment to operate the on-line lottery.

### f. Commitments to Provide Grants and Other Financial Assistance

The South Carolina Transportation Infrastructure Bank, reported within the Local Government Infrastructure Fund (a major governmental fund), has agreements with various counties to provide financial assistance totaling $1.701 billion for certain highway and transportation facilities projects. At June 30, 2004, the remaining commitments for these agreements totaled $692.539 million.

At June 30, 2004, the Department of Commerce had outstanding commitments of $55.676 million to provide funds to local governmental entities from various State governmental funds. These commitments included grants for water and wastewater infrastructure projects, airport construction projects, and rural infrastructure projects.

At June 30, 2004, the Budget and Control Board had outstanding commitments of $84.415 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects.

The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of $7.635 million at June 30, 2004, for affordable housing projects and developments.

### g. Major Discretely Presented Component Unit—Regulatory Matters

The Public Service Authority (the Authority), a major discretely presented component unit and electric utility company, endeavors to ensure that its facilities comply with applicable environmental regulations and standards. Congress has promulgated comprehensive amendments to the Clean Air Act (the Act), including provisions that relate to acid precipitation as well as to sulfur dioxide and nitrogen oxide emissions.

In July 2000, the Authority received a request for information from the United States Environmental Protection Agency (EPA) pursuant to Section 114 of the Act. The Authority received an additional request for information from the EPA in December 2002. The requests were part of the EPA's ongoing enforcement initiative involving the power-generating sector, with particular emphasis on coal-fired units. In May 2003, the Authority received notice that the EPA and the State's

# Notes to the Financial Statements

Department of Health and Environmental Concern (DHEC) also were investigating an alleged violation of the Act involving the Authority's Cross Generating Station. The Authority responded to the requests for information, and in March 2004 the Authority, EPA, and DHEC agreed on the terms of a settlement regarding these issues. The settlement was approved by the U.S. District Court for South Carolina and a Consent Decree was entered in June 2004. The settlement involves the payment of a civil penalty, an agreement to perform certain environmentally beneficial projects, and the expenditure of capital costs of approximately $140.000 million to achieve emissions reductions over a period ending in the year 2013. These capital costs are expected to be offset largely by savings resulting from a reduced need to purchase emission credits.

In 2001, the Authority executed an agreement with other public electric utilities to investigate the development of a Regional Transmission Organization (RTO), currently referred to as SeTrans, in the Southeastern United States. In February 2003, the Authority provided written notice to the SeTrans sponsors of its withdrawal from the SeTrans development process. In December 2003, the remaining SeTrans sponsors announced their decision to suspend the SeTrans effort. Whether a new RTO development effort will occur in the Southeastern United States is unknown at this time. Any potential impact on the Authority of such a new effort is also unknown.

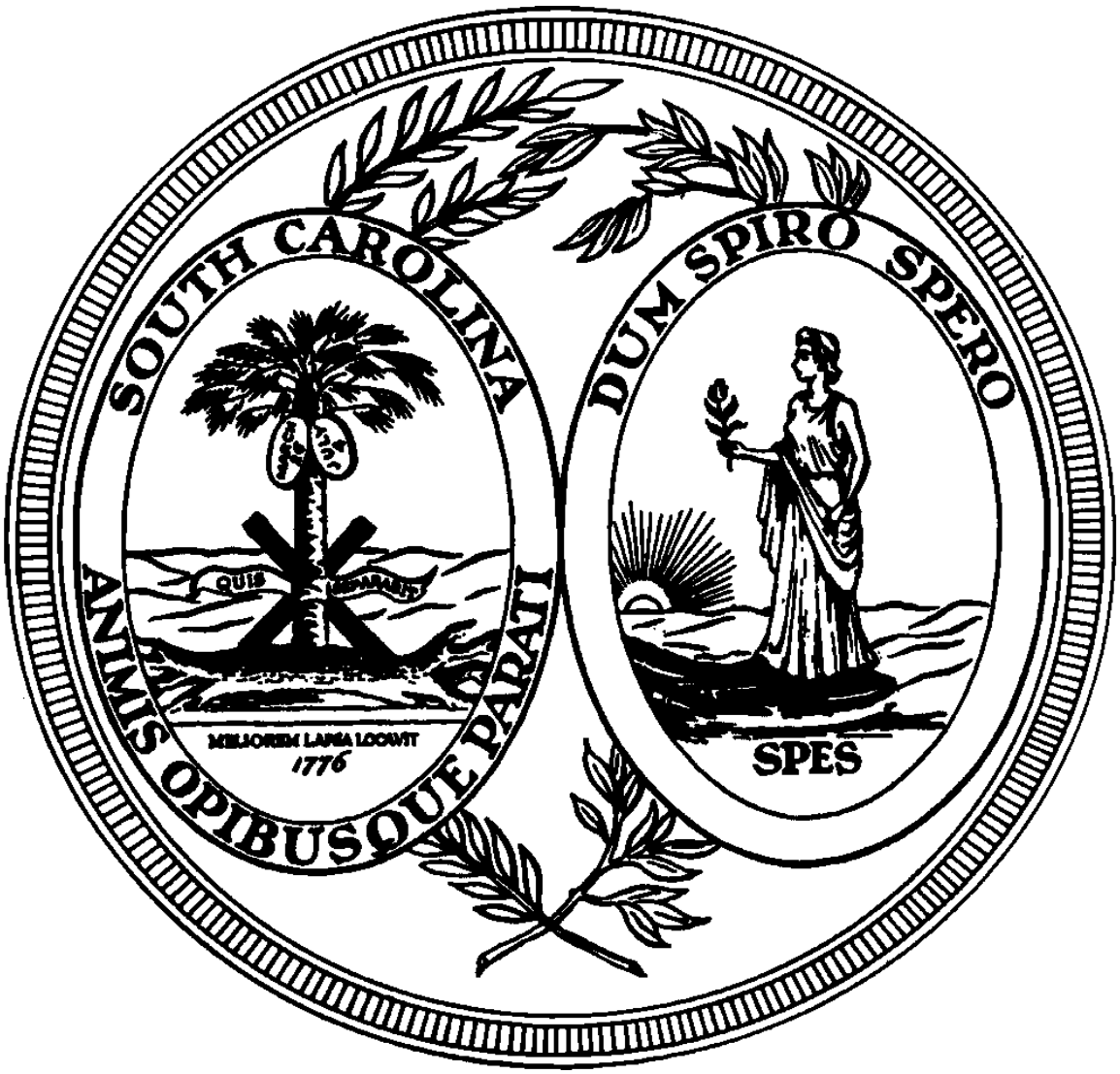
### h. Major Discretely Presented Component Unit—Deregulation of Electric Utilities

The Public Service Authority, a major discretely presented component unit, currently is a regulated electric utility. The electric industry is increasingly competitive due to regulatory changes and market developments. As utilities move to a deregulated environment where rates are based on market forces, there may be costs that cannot be recovered by charging the market rate. Some proposed deregulation measures allow for recovery of some portion of these costs, but the ultimate regulatory treatment of such costs cannot be predicted.

The Authority has developed and is implementing a long-term strategic plan designed to position it to compete effectively in the changing competitive environment. Although the Authority is preparing for a deregulated market, it cannot predict the effects of increased competition on its operations and financial condition.

### i. Major Discretely Presented Component Unit—Connector 2000 Association, Inc.

During its fiscal year ended December 31, 2001, the Connector 2000 Association, Inc., a major discretely presented component unit, opened the Southern Connector toll road to public traffic and began toll collections. Since commencing operations, the Southern Connector has experienced significantly lower traffic counts than those projected during the planning phase of the project. Because the Association pledged these toll collections for debt service payments on its toll road revenue bonds, the Association's debt service capability also is affected. The Association used a portion of its debt service reserve fund to help fund interest payments during its fiscal year ended December 31, 2003. Unless revenues increase sharply in the future, the Association will continue to draw monies from its debt service reserve funds to meet scheduled debt service payments.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# REQUIRED SUPPLEMENTARY INFORMATION—

## Other than Management's Discussion and Analysis

## (UNAUDITED)

# REQUIRED SUPPLEMENTARY INFORMATION
## Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)
BUDGETARY GENERAL FUND

**For the Fiscal Year Ended June 30, 2004**

**(Expressed in Thousands)**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance from Final Budget—Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **Revenues:** | | | | |
| **Regular sources** | | | | |
| Retail sales tax | $ 2,169,550 | $ 2,206,139 | $ 2,201,750 | $ (4,389) |
| Income tax, individual | 1,964,485 | 1,965,196 | 1,973,635 | 8,439 |
| Income tax, corporation | 107,372 | 123,693 | 149,278 | 25,585 |
| Total income and sales tax | 4,241,407 | 4,295,028 | 4,324,663 | 29,635 |
| Admissions tax | 35,616 | 32,000 | 31,967 | (33) |
| Aircraft tax | 2,600 | 3,215 | 7,276 | 4,061 |
| Alcoholic liquor tax | 47,283 | 51,402 | 52,357 | 955 |
| Bank tax | 29,552 | 19,000 | 18,164 | (836) |
| Beer and wine tax | 93,573 | 92,452 | 94,298 | 1,846 |
| Business license tax | 28,430 | 28,900 | 29,742 | 842 |
| Coin-operated device tax | 2,500 | 2,300 | 1,845 | (455) |
| Corporation license tax | 72,417 | 64,000 | 72,299 | 8,299 |
| Departmental revenue (primarily fees for services) | 61,185 | 56,000 | 54,584 | (1,416) |
| Documentary tax | 41,268 | 38,411 | 49,983 | 11,572 |
| Earned on investments | 15,000 | 15,000 | 15,679 | 679 |
| Electric power tax | 24,627 | 24,627 | 25,152 | 525 |
| Estate tax | 41,290 | 32,000 | 32,813 | 813 |
| Insurance tax | 119,219 | 124,619 | 129,163 | 4,544 |
| Motor transport fees | 15 | 15 | 7 | (8) |
| Motor vehicle licenses | 56,102 | 53,524 | 52,071 | (1,453) |
| Petroleum inspection tax | 8,178 | 8,178 | 8,265 | 87 |
| Private car lines tax | 3,793 | 3,200 | 2,687 | (513) |
| Public Service Authority | 12,345 | 10,652 | 11,173 | 521 |
| Retailers' license tax | 901 | 922 | 923 | 1 |
| Savings and loan association tax | 4,527 | 3,400 | 3,621 | 221 |
| Workers' compensation insurance tax | 11,813 | 12,419 | 12,865 | 446 |
| Total regular sources | 4,953,641 | 4,971,264 | 5,031,597 | 60,333 |
| **Miscellaneous sources** | | | | |
| Circuit and family court fines | 9,898 | 9,918 | 9,526 | (392) |
| Debt service reimbursement | 3,750 | 3,300 | 2,746 | (554) |
| Indirect cost recoveries | 22,893 | 22,893 | 22,567 | (326) |
| Mental health fees | 3,800 | 3,800 | 3,800 | — |
| Parole and probation supervision fees | 3,392 | 3,223 | 3,394 | 171 |
| Unclaimed property fund transfer | 6,600 | 6,600 | 6,600 | — |
| Nonrecurring revenue | 35,975 | 35,975 | 35,975 | — |
| Total miscellaneous sources | 86,308 | 85,709 | 84,608 | (1,101) |
| **Other unbudgeted revenues** | — | — | 74 | 74 |
| **Total revenues** | **5,039,949** | **5,056,973** | **5,116,279** | **59,306** |

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

BUDGETARY GENERAL FUND (Continued)

**For the Fiscal Year Ended June 30, 2004**

**(Expressed in Thousands)**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance from Final Budget—Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **Expenditures:** | | | | |
| Legislative | $ 27,440 | $ 27,453 | $ 24,791 | $ 2,662 |
| Judicial | 32,332 | 31,889 | 31,885 | 4 |
| Executive and administrative | 211,300 | 121,700 | 112,175 | 9,525 |
| Educational | 2,607,297 | 2,571,986 | 2,544,620 | 27,366 |
| Health | 993,704 | 983,788 | 983,385 | 403 |
| Social rehabilitation services | 101,728 | 101,942 | 98,389 | 3,553 |
| Correctional and public safety | 410,110 | 430,852 | 430,589 | 263 |
| Conservation, natural resources, and development | 129,573 | 128,236 | 125,336 | 2,900 |
| Regulatory | 71,255 | 70,625 | 69,443 | 1,182 |
| Transportation | 1 | 1 | 1 | — |
| Debt service | 220,504 | 220,504 | 209,528 | 10,976 |
| Miscellaneous | 230,553 | 234,512 | 234,477 | 35 |
| **Total expenditures** | **5,035,797** | **4,923,488** | **4,864,619** | **58,869** |
| **Net increase in fund balance—budgetary basis** | **4,152** | **133,485** | **251,660** | **118,175** |
| **Fund deficit at beginning of year—budgetary basis** | **(108,635)** | **(131,227)** | **(131,227)** | **—** |
| **Fund balance (deficit) at end of year—budgetary basis** | **$ (104,483)** | **$ 2,258** | **$ 120,433** | **$ 118,175** |

# REQUIRED SUPPLEMENTARY INFORMATION
## Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)
OTHER BUDGETED FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance from Final Budget—Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| **Revenues:** | | | | |
| Federal | $ 5,056,463 | $ 6,009,629 | $ 5,533,056 | $ (476,573) |
| Earmarked | 3,088,388 | 3,870,893 | 3,216,014 | (654,879) |
| Restricted | 2,193,339 | 2,543,231 | 2,540,647 | (2,584) |
| **Total revenues** | **10,338,190** | **12,423,753** | **11,289,717** | **(1,134,036)** |
| **Expenditures:** | | | | |
| Legislative | 4,263 | 7,844 | 5,327 | 2,517 |
| Judicial | 13,382 | 21,294 | 15,916 | 5,378 |
| Executive and administrative | 279,705 | 404,718 | 282,941 | 121,777 |
| Educational | 3,264,797 | 3,848,929 | 3,213,707 | 635,222 |
| Health | 4,145,759 | 4,856,358 | 4,549,791 | 306,567 |
| Social rehabilitation services | 894,345 | 996,916 | 944,997 | 51,919 |
| Correctional and public safety | 219,218 | 280,620 | 186,972 | 93,648 |
| Conservation, natural resources, and development | 214,061 | 314,532 | 211,019 | 103,513 |
| Regulatory | 207,909 | 352,902 | 292,096 | 60,806 |
| Transportation | 1,236,829 | 1,680,639 | 1,498,605 | 182,034 |
| Enterprise | — | 11 | 11 | — |
| **Total expenditures** | **10,480,268** | **12,764,763** | **11,201,382** | **1,563,381** |
| **Net increase (decrease) in fund balance—budgetary basis** | **(142,078)** | **(341,010)** | **88,335** | **429,345** |
| **Fund balance at beginning of year—budgetary basis** | **1,100,011** | **1,158,065** | **1,158,065** | **—** |
| **Fund balance at end of year—budgetary basis** | **$ 957,933** | **$ 817,055** | **$ 1,246,400** | **$ 429,345** |

# Notes to the Required Supplementary Information--Budgetary

## NOTE 1: BUDGETARY FUNDS AND PERSPECTIVE DIFFERENCES

### a. Budgetary Funds

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

*General Funds*. These funds are general operating funds. The resources in these funds are primarily taxes. The State expends General Funds to provide traditional State government services. The General Funds column in the Appropriation Act differs somewhat from the GAAP General Fund and is referred to within these notes and in the accompanying schedule as the *Budgetary General Fund*.

*Total Funds*. The Total Funds column in the Appropriation Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriation Act from the Total Funds column in the Appropriation Act are referred to within these notes and in the accompanying schedules as *Other Budgeted Funds*.

### b. Perspective Differences

*Perspective differences* exist when the structure of financial information for budgetary purposes differs from the fund structure that is defined by GAAP. Although there are some perspective differences between the Budgetary General Fund and the GAAP General Fund, those differences are *not* significant enough to prevent the State from preparing a budgetary comparison schedule for the Budgetary General Fund.

In contrast, however, there are *significant* perspective differences between the Other Budgeted Funds and the State's GAAP funds, including its major special revenue funds. These perspective differences are so significant that the State is unable to present separate budgetary comparison schedules for its major special revenue funds. Accordingly, the State instead has presented a budgetary comparison schedule for its Other Budgeted Funds in accordance with GASB Statement No. 41, *Budgetary Comparison Schedules—Perspective Differences*.

## NOTE 2: ORIGINAL AND FINAL BUDGETED AMOUNTS; BASIS OF PRESENTATION

### a. Budgetary General Fund

Each year, the General Assembly enacts an Appropriation Act that includes initial estimated revenue and appropriation figures for the Budgetary General Fund. The *original appropriations* presented in the accompanying schedule for the Budgetary General Fund include the amounts displayed in the Appropriation Act as well as any appropriations authorized to carry forward from the preceding fiscal year. *Original estimated revenues* in the accompanying schedule for the Budgetary General Fund include amounts displayed in Section 71 (*Revenue*) of the Appropriation Act and nonrecurring transfers from other funds that were legislatively required by various provisos within the Appropriation Act.

The accompanying schedule for the Budgetary General Fund presents a fund balance section whereas the budget document does not present fund balances; in other respects, however, the format of the accompanying schedule is substantively the same as for the legally enacted budget.

After the beginning of the fiscal year, departments and agencies may request transfers of appropriations among programs. No such transfer request, however, may exceed 20.0% of the program budget. In addition, the Budget and Control Board, composed of five key executive and legislative officials, has the authority to restrict transfers of appropriations between personal service and other operating accounts.

The Appropriation Act for the 2003-2004 fiscal year directs the Budget and Control Board to reduce the Budgetary General Fund's appropriations during the year if necessary to prevent a deficit. Likewise, the State Board of Economic Advisors may approve revisions of estimated revenues for the Budgetary General Fund during the year.

### b. Other Budgeted Funds

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

# Notes to the Required Supplementary Information--Budgetary

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds (or for Total Funds). However, Section 70 (*Recapitulation*) of the Appropriation Act includes net *source of funds* amounts (i.e., estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. The *original estimated revenue* amounts in the accompanying schedule for Other Budgeted Funds were obtained from the State Budget Office's breakdown of the source of funds amounts.

As operating conditions change, departments and agencies may request revisions of budgeted amounts in Other Budgeted Funds. Such changes require the Budget and Control Board's approval. Departments and agencies also may request revisions of estimated revenues and appropriations for permanent improvement projects. The Budget and Control Board and the Joint Bond Review Committee must approve and review those changes.

## NOTE 3: LEGAL LEVEL OF BUDGETARY CONTROL

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. The State's Appropriation Act for the 2003-2004 fiscal year has approximately 2,500 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

## NOTE 4: BASIS OF BUDGETING

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

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

(i) Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 16.

(ii) Certain revenues collected in advance are recorded as liabilities (deferred revenues) rather than as revenues.

(iii) The following taxes are recorded on the modified accrual basis in accordance with State law: admissions tax, alcoholic liquors tax, beer and wine tax, business license tax, documentary tax, electric power tax, gasoline and motor fuel taxes, and sales, use, and casual excise taxes.

(iv) Certain non-cash activity, such as food stamp benefits, is recorded as revenue and expenditure in the fiscal year in which the resources are distributed to the beneficiaries.

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

## NOTE 5: RECONCILIATION OF BUDGET TO GAAP REPORTING DIFFERENCES

The accompanying budgetary comparison schedules compare the State's legally adopted budget with actual data in accordance with the State's basis of budgeting. Budgetary accounting principles, however, differ significantly from GAAP accounting principles. These different accounting principles result in basis, perspective, and entity differences in the net increase in fund balance—budgetary basis. *Basis differences* arise because the basis of budgeting differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balances—governmental funds. *Perspective differences* result because the Appropriation Act's program-oriented structure differs from the fund structure required for GAAP. *Entity differences* arise because certain activity reported within the State's financial reporting entity for GAAP purposes is excluded from the Appropriation Act. These differences (expressed in thousands) for the fiscal year ended June 30, 2004, were as follows:

# Notes to the Required Supplementary Information--Budgetary

| *Budgetary funds* | *Budgetary General Fund* | *Other Budgeted Funds* | Major Special Revenue Funds | | | |
|---|---|---|---|---|---|---|
| **GAAP funds** | **General Fund** | **Not Applicable** | **Departmental General Operating** | **Local Government Infrastructure** | **Department of Transportation Special Revenue** | **State Tobacco Settlement** |
| Net increase in fund balance—budgetary basis | $ 251,660 | $ 88,335 | $ — | $ — | $ — | $ — |
| Perspective differences: | | | | | | |
| Other Budgeted Funds attributable to nonmajor governmental and other GAAP funds | | 34,220 | | | | |
| Other Budgeted Funds attributable to major governmental GAAP funds | | 122,555 | | | | |
| Other Budgeted Funds reclassified among the State's major governmental GAAP funds | 6,485 | (122,555) | 43,285 | (2,538) | (89,736) | 8,284 |
| Basis of accounting differences | (66,668) | — | 17,901 | 47,540 | (22,959) | 991 |
| Entity differences | (52,134) | — | (3,063) | 37,354 | — | (49,645) |
| Net increase (decrease) in fund balance—GAAP basis | $ 139,343 | $ — | $ 58,123 | $ 82,356 | $ (112,695) | $ (40,370) |

# REQUIRED SUPPLEMENTARY INFORMATION

## National Guard Pension System

SCHEDULE OF FUNDING PROGRESS

**(Dollars in Thousands)**

| Biennial Actuarial Valuation Date June 30 | Actuarial Valuation of Assets *(a)* | Actuarial Accrued Liability (AAL) Entry Age *(b)* | Unfunded AAL (UAAL) *(b-a)* | Funded Ratio *(a/b)* | Annual Covered Payroll *(c)* | UAAL As a Percentage of Covered Payroll *((b-a)/c)* |
|---|---|---|---|---|---|---|
| 2000 | $ 11,089 | $ 43,427 | $ 32,338 | 25.5% | $ 40,789 | 79.3% |
| 2002 | 12,608 | 44,678 | 32,070 | 28.2% | 45,711 | 70.2% |
| 2004 | 13,567 | 47,281 | 33,714 | 28.7% | 42,391 | 79.5% |

The unfunded actuarial accrued liability expressed as a percentage of covered payroll is a measure of the significance of the unfunded actuarial liability relative to the State's capacity to pay it. The funded ratio represents the assets expressed as a percentage of the actuarial accrued liability. The trend in those two ratios provides information about whether the financial strength of the plan is improving or deteriorating over time. An improvement is indicated when the funded ratio is increasing and the ratio of the unfunded actuarial liability to active covered payroll is decreasing. The State Adjutant General's Office administers the plan.

# REQUIRED SUPPLEMENTARY INFORMATION

## National Guard Pension System

SCHEDULE OF EMPLOYER CONTRIBUTIONS

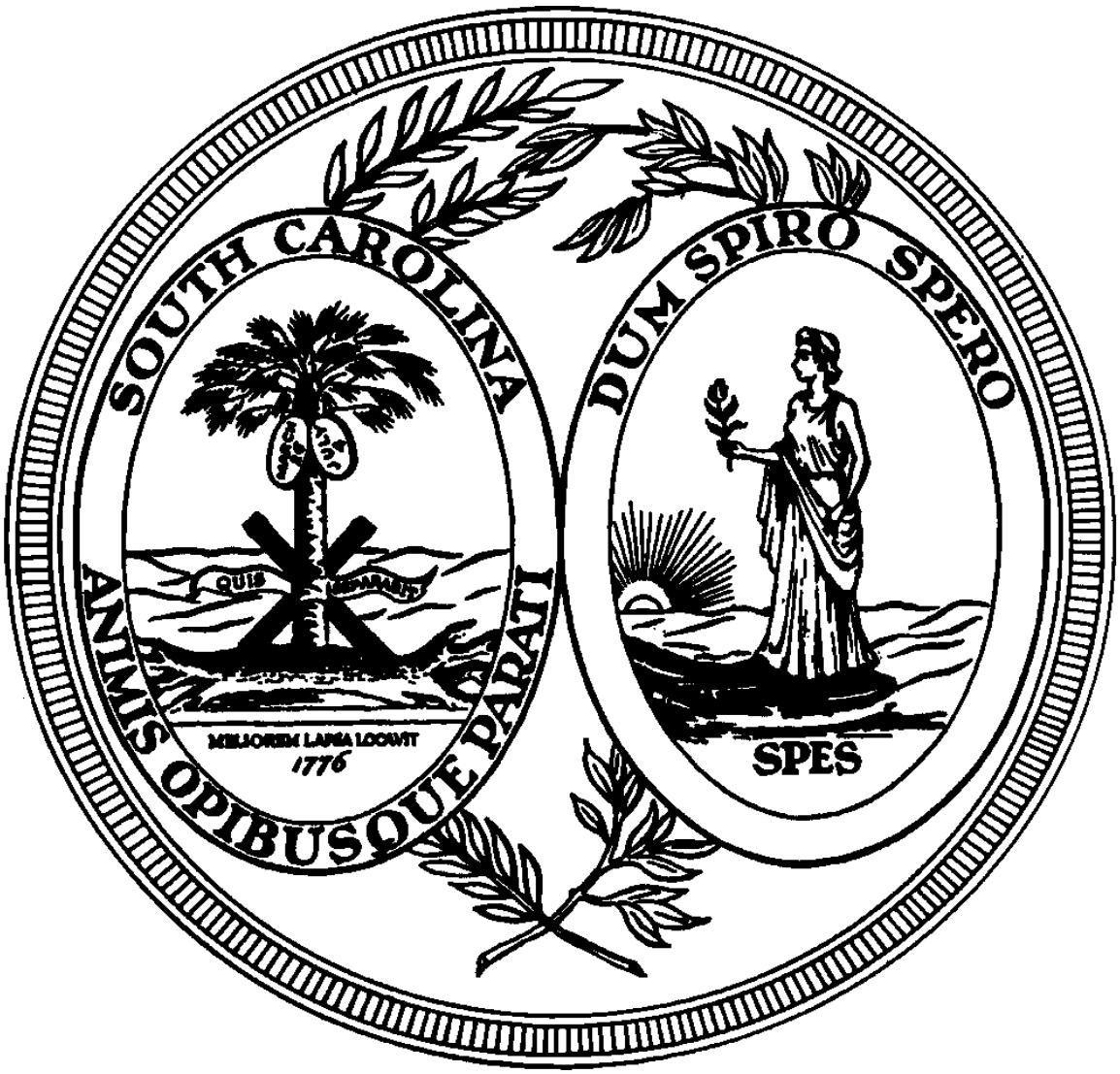
**(Dollars in Thousands)**

| Fiscal Year Ended June 30 | Employer Contributions: Annual Required Contribution | Employer Contributions: Percentage Contributed |
|---|---|---|
| 1999 | $ 3,200 | 78.1% |
| 2000 | 3,200 | 78.1% |
| 2001 | 2,996 | 82.6% |
| 2002 | 2,996 | 75.3% |
| 2003 | 2,870 | 74.3% |
| 2004 | 2,870 | 69.6% |

The schedule of employer contributions provides information about the required contributions of the State and the extent to which those contributions are being made. The schedule gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The State Adjutant General's Office administers the plan.

The information presented above was determined as part of the actuarial valuations. Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Actuarial valuation date | June 30, 2004 |
| Actuarial cost method | Entry age |
| Amortization method | Level dollar, open |
| Remaining amortization period | 30 years |
| Asset valuation method | 5 year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% |
| Projected salary increases | Not applicable |
| Assumed inflation rate | 4.25% |
| Assumed cost-of-living adjustments | Not applicable |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# SUPPLEMENTARY INFORMATION

# Governmental Funds

Governmental funds include the General Fund, several special revenue funds, a Capital Projects Fund, and two permanent funds. The State does not use debt service funds because it does not accumulate resources to pay future years' general long-term debt principal and interest; instead, the State finances such payments directly from the current year's resources.

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

- Combining Balance Sheet—Nonmajor Governmental Funds
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds
- General Reserve Fund Activity—Budgetary General Fund

Generally accepted accounting principles (GAAP) for governments require that a Comprehensive Annual Financial Report (CAFR) include budgetary comparison schedules for "individual nonmajor special revenue funds and other governmental funds of the primary government (including its blended component units)." Such schedules would be included as supplementary information in this subsection of the CAFR if they were applicable. The State of South Carolina, however, does not prepare separate budgets for its individual special revenue funds or for its other governmental funds. Accordingly, this subsection includes no budgetary comparison schedules. (Also see the budgetary comparison schedules within the Required Supplementary Information section of this report.)

Note 1b in the notes to the financial statements describes the State's major governmental funds. The paragraphs below describe all other individual governmental funds that the State uses.

### a. Nonmajor Special Revenue Funds

Special revenue funds account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes. The State uses the nonmajor special revenue funds described below:

*Education Improvement Act Fund.* This fund accounts for the special additional 1% sales tax levied to be used exclusively for improvements in elementary and secondary education, including academic loans for future teachers.

*Children's Education Endowment Fund.* This fund accounts for low-level radioactive waste fees collected from the Barnwell waste facility that are not required to be deposited to the General Fund or remitted to Barnwell County. These funds are to be used for public school facilities assistance and higher education scholarship grants.

*Waste Management Fund.* This fund accounts for fees collected from consumers, generators of solid and hazardous wastes, and owners and operators of solid waste and hazardous waste storage facilities. These fees must be used for the purposes set forth in the State's Solid Waste Policy and Management Act of 1991 and to cover the State's costs in governmental actions involving uncontrolled hazardous waste sites.

*Accommodations and Local Option Sales Tax Fund.* This fund accounts for: (1) a special additional 2% sales tax on the gross proceeds on the rental of transient accommodations and (2) a special 1% sales tax applicable in some localities within the State. The State allocates these revenues to counties and municipalities in accordance with State law.

*Medicaid Expansion Fund.* Resources of this fund include county assessments for indigent medical care and a tax on licensed hospitals. The fund was established to provide Medicaid coverage to persons formerly ineligible for such coverage and to provide additional State matching funds for Medicaid.

*Tobacco Settlement Revenue Management Authority Fund.* The Tobacco Settlement Revenue Management Authority was created to issue bonds that securitized future payments received under the multi-state legal settlement with the tobacco industry. The State transferred to the Authority, from its General Fund, all of its rights to the future tobacco settlement revenues. In return, the Authority transferred part of the bond proceeds to the State Tobacco Settlement Fund.

*Education Lottery Fund.* State law requires the Lottery Commission, a major discretely presented component unit, to transfer all proceeds from lottery ticket sales and other revenues net of expenses to the Education Lottery Fund. The Fund distributes these monies for education purposes and programs as stipulated in State law. These programs include tuition assistance, needs-based grants, and scholarships for the State's universities and technical colleges.

*Jobs–Economic Development Authority Fund.* The Jobs–Economic Development Authority acts in conjunction with other organizations in the promotion and advancement of industrial, commercial, agricultural, and recreational development in the State. The Authority's emphasis is on those areas of the State with the greatest economic need and those projects providing the greatest economic benefit.

*Public Telecommunications Fund.* The Public Telecommunications Fund of the State's Public Service Commission accounts for revenues collected from telephone companies within the State and redistributed to certain telephone companies in an effort to align prices and cost recovery with costs. This program also is intended to ensure basic telephone service at affordable rates is available to all citizens. Other revenues of the Fund include telephone customer surcharges for the 911 emergency system mandated by the FCC. These

# Governmental Funds

monies are collected from the telephone companies and distributed to local governments for their 911 emergency telephone systems.

*Other Special Revenue Funds*. These funds, aggregated for reporting purposes, account for various other revenues that must be used for specific purposes. These include operations of various employment services, water recreation, agricultural boards, forest renewal programs, certain housing programs, medical and dental scholarships, energy-related programs, and certain programs administered by the Department of Probation, Parole, and Pardon Services.

### b. Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). Capital outlays financed from general obligation bond proceeds are accounted for through the Capital Projects Fund.

### c. Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the State's programs—that is, for the benefit of the State or its citizenry.

*Bequests Fund*. Sometimes, private citizens make bequests of specific assets within their wills to the State. Typically, these gifts provide that the State may expend the earnings, but not the principal, to support certain State agencies or certain programs within a specific State agency. The Bequests Fund accounts for these funds.

*Wildlife Endowment Fund*. The Wildlife Endowment Fund accounts for funds received from private citizens as gifts and contributions, as well as fees for certain lifetime hunting and fishing licenses. The State may expend the earnings, but not the principal, in furthering the conservation of wildlife resources and the efficient operation of the State's Department of Natural Resources.

# Combining Balance Sheet

NONMAJOR GOVERNMENTAL FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | SPECIAL | | | | | |
|---|---|---|---|---|---|---|
| | Education Improvement Act | Children's Education Endowment | Waste Management | Accommodations and Local Option Sales Tax | Medicaid Expansion | Tobacco Settlement Revenue Management Authority |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | $ 82,622 | $ 41,277 | $ 98,837 | $ 50,138 | $ 11,572 | $ 251 |
| Investments | — | — | — | — | — | — |
| Invested securities lending collateral | 1,308 | 9,380 | 1,713 | 90 | 1,578 | — |
| Receivables, net: | | | | | | |
| Accounts | 697 | — | 286 | — | — | — |
| Accrued interest | 1,387 | 553 | 804 | — | 77 | — |
| Sales and other taxes | 64,376 | 22,458 | — | 32,838 | — | — |
| Loans and notes | 14,338 | — | — | — | — | — |
| Due from Federal government and other grantors | — | — | — | — | — | — |
| Due from other funds | 2,298 | — | — | 56 | — | — |
| Due from component units | — | — | — | — | — | — |
| Interfund receivables | — | — | — | — | — | — |
| Inventories | — | — | 25 | — | — | — |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | — | — | — | — | — | 1 |
| Investments | — | — | — | — | — | 113,196 |
| Other | — | — | — | — | — | 39,648 |
| **Total assets** | **$ 167,026** | **$ 73,668** | **$ 101,665** | **$ 83,122** | **$ 13,227** | **$ 153,096** |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| **Liabilities:** | | | | | | |
| Accounts payable | $ 2,474 | $ — | $ 2,989 | $ 1 | $ 28 | $ — |
| Accrued salaries and related expenditures | 613 | — | 214 | — | — | — |
| Retainages payable | — | — | — | — | — | — |
| Tax refunds payable | 471 | — | — | 337 | — | — |
| Intergovernmental payables | 43,421 | 483 | 678 | 78,111 | — | — |
| Due to other funds | 1,187 | — | 207 | 212 | 22 | — |
| Interfund payables | 350 | — | — | — | — | — |
| Deferred revenues | 7,551 | — | — | 4,371 | 2,490 | — |
| Securities lending collateral | 1,308 | 9,380 | 1,713 | 90 | 1,578 | — |
| Other liabilities | 29 | — | — | — | — | — |
| **Total liabilities** | **57,404** | **9,863** | **5,801** | **83,122** | **4,118** | **—** |
| **Fund balances:** | | | | | | |
| Reserved for: | | | | | | |
| Interfund receivables | — | — | — | — | — | — |
| Long-term loans and notes receivable | 5,581 | — | — | — | — | — |
| Debt requirements | — | — | — | — | — | 152,845 |
| School building aid | 1,855 | — | — | — | — | — |
| Endowments | — | — | — | — | — | — |
| Unreserved: | | | | | | |
| Designated for scholarships | 16,878 | — | — | — | — | — |
| Designated for capital expenditures | — | — | — | — | — | — |
| Undesignated | 85,308 | 63,805 | 95,864 | — | 9,109 | 251 |
| **Total fund balances** | **109,622** | **63,805** | **95,864** | **—** | **9,109** | **153,096** |
| **Total liabilities and fund balances** | **$ 167,026** | **$ 73,668** | **$ 101,665** | **$ 83,122** | **$ 13,227** | **$ 153,096** |

| REVENUE | | | | | | PERMANENT | | | |
|---|---|---|---|---|---|---|---|---|---|
| Education Lottery | Jobs–Economic Development Authority | Public Telecommunications | Other Special Revenue | Totals | CAPITAL PROJECTS | Bequests | Wildlife Endowment | Totals | TOTALS |
| $ 177,324 | $ 4,768 | $ 18,928 | $ 67,889 | $ 553,606 | $ 207,164 | $ 1,335 | $ 1,556 | $ 2,891 | $ 763,661 |
| — | 581 | — | — | 581 | — | — | — | — | 581 |
| 41,622 | — | 3,021 | 5,045 | 63,757 | 13,989 | 146 | 129 | 275 | 78,021 |
| | | | | | | | | | |
| 2 | 26 | 3,225 | 1,999 | 6,235 | — | — | — | — | 6,235 |
| 1,680 | 2 | 140 | 253 | 4,896 | 299 | 14 | 15 | 29 | 5,224 |
| — | — | — | 5,787 | 125,459 | 503 | — | — | — | 125,962 |
| — | 737 | — | 10,741 | 25,816 | — | — | — | — | 25,816 |
| | | | | | | | | | |
| — | — | — | — | — | 1,645 | — | — | — | 1,645 |
| — | — | 1,169 | 1,115 | 4,638 | 886 | — | — | — | 5,524 |
| 18,083 | — | — | — | 18,083 | — | — | — | — | 18,083 |
| — | — | — | 1,983 | 1,983 | — | — | — | — | 1,983 |
| — | — | — | — | 25 | — | — | — | — | 25 |
| | | | | | | | | | |
| — | — | — | — | 1 | — | — | — | — | 1 |
| — | — | — | — | 113,196 | — | — | — | — | 113,196 |
| — | — | — | — | 39,648 | — | — | — | — | 39,648 |
| **$ 238,711** | **$ 6,114** | **$ 26,483** | **$ 94,812** | **$ 957,924** | **$ 224,486** | **$ 1,495** | **$ 1,700** | **$ 3,195** | **$ 1,185,605** |
| | | | | | | | | | |
| $ 2,928 | $ 15 | $ 760 | $ 1,748 | $ 10,943 | $ 3,678 | $ — | $ — | $ — | $ 14,621 |
| | | | | | | | | | |
| 11 | 1 | — | 466 | 1,305 | 91 | — | — | — | 1,396 |
| — | — | — | — | — | 935 | — | — | — | 935 |
| — | — | — | 4 | 812 | — | — | — | — | 812 |
| 290 | 789 | 9,019 | 11,352 | 144,143 | — | — | — | — | 144,143 |
| 9,205 | — | 123 | 2,067 | 13,023 | 1,909 | — | 5 | 5 | 14,937 |
| 90 | — | — | 452 | 892 | 23,661 | — | — | — | 24,553 |
| — | — | — | 1,976 | 16,388 | 1,512 | — | — | — | 17,900 |
| 41,622 | — | 3,021 | 5,045 | 63,757 | 13,989 | 146 | 129 | 275 | 78,021 |
| — | — | — | 997 | 1,026 | — | — | — | — | 1,026 |
| **54,146** | **805** | **12,923** | **24,107** | **252,289** | **45,775** | **146** | **134** | **280** | **298,344** |
| | | | | | | | | | |
| — | — | — | 1,676 | 1,676 | — | — | — | — | 1,676 |
| — | 700 | — | 10,135 | 16,416 | — | — | — | — | 16,416 |
| — | — | — | — | 152,845 | — | — | — | — | 152,845 |
| — | — | — | — | 1,855 | — | — | — | — | 1,855 |
| — | — | — | — | — | — | 664 | 1,281 | 1,945 | 1,945 |
| | | | | | | | | | |
| — | — | — | — | 16,878 | — | — | — | — | 16,878 |
| — | — | — | — | — | 178,711 | — | — | — | 178,711 |
| 184,565 | 4,609 | 13,560 | 58,894 | 515,965 | — | 685 | 285 | 970 | 516,935 |
| **184,565** | **5,309** | **13,560** | **70,705** | **705,635** | **178,711** | **1,349** | **1,566** | **2,915** | **887,261** |
| **$ 238,711** | **$ 6,114** | **$ 26,483** | **$ 94,812** | **$ 957,924** | **$ 224,486** | **$ 1,495** | **$ 1,700** | **$ 3,195** | **$ 1,185,605** |

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

NONMAJOR GOVERNMENTAL FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | SPECIAL | | | | | |
|---|---|---|---|---|---|---|
| | Education Improvement Act | Children's Education Endowment | Waste Management | Accommodations and Local Option Sales Tax | Medicaid Expansion | Tobacco Settlement Revenue Management Authority |
| **Revenues:** | | | | | | |
| Taxes: | | | | | | |
| Retail sales and use | $ 544,064 | $ — | $ 1,608 | $ 252,828 | $ — | $ — |
| Other | — | 24,817 | — | — | 49,500 | — |
| Licenses, fees, and permits | 23 | — | 24,872 | — | — | — |
| Interest and other investment income | 2,058 | 1,624 | 1,343 | — | 260 | 5,075 |
| Federal | 2 | — | — | — | — | — |
| Local and private grants | — | — | — | — | — | — |
| Departmental services | — | — | 5,691 | — | — | — |
| Contributions | — | — | — | — | 7,594 | — |
| Fines and penalties | — | — | 352 | — | — | — |
| Tobacco legal settlement | — | — | — | — | — | 74,180 |
| Other | 1,840 | 79 | — | — | — | — |
| **Total revenues** | **547,987** | **26,520** | **33,866** | **252,828** | **57,354** | **79,255** |
| **Expenditures:** | | | | | | |
| Current: | | | | | | |
| General government | 1,457 | — | 1 | 39 | — | 160 |
| Education | 39,640 | 6,572 | — | — | — | — |
| Health and environment | 641 | — | 19,865 | — | 55,429 | — |
| Social services | 305 | — | — | — | — | — |
| Administration of justice | 1,369 | — | — | — | — | — |
| Resources and economic development | — | — | — | — | — | — |
| Capital outlay | — | — | — | — | — | — |
| Debt service: | | | | | | |
| Principal retirement | — | — | — | — | — | 24,240 |
| Interest and fiscal charges | — | — | — | — | — | 56,294 |
| Intergovernmental | 481,265 | 19,651 | 3,839 | 251,129 | — | — |
| **Total expenditures** | **524,677** | **26,223** | **23,705** | **251,168** | **55,429** | **80,694** |
| **Excess (deficiency) of revenues over (under) expenditures** | **23,310** | **297** | **10,161** | **1,660** | **1,925** | **(1,439)** |
| **Other financing sources (uses):** | | | | | | |
| Bonds issued | — | — | — | — | — | — |
| Premiums on bonds issued | — | — | — | — | — | — |
| Transfers in | 2,026 | 2,876 | — | 28 | — | — |
| Transfers out | (1,152) | (40) | (3,465) | (1,688) | — | (2) |
| **Total other financing sources (uses)** | **874** | **2,836** | **(3,465)** | **(1,660)** | **—** | **(2)** |
| **Net change in fund balances** | **24,184** | **3,133** | **6,696** | **—** | **1,925** | **(1,441)** |
| **Fund balances at beginning of year (restated)** | **85,438** | **60,672** | **89,168** | **—** | **7,184** | **154,537** |
| **Fund balances at end of year** | **$ 109,622** | **$ 63,805** | **$ 95,864** | **$ —** | **$ 9,109** | **$ 153,096** |

| REVENUE | | | | | | PERMANENT | | | |
|---|---|---|---|---|---|---|---|---|---|
| Education Lottery | Jobs–Economic Development Authority | Public Telecommunications | Other Special Revenue | Totals | CAPITAL PROJECTS | Bequests | Wildlife Endowment | Totals | TOTALS |
| $ — | $ — | $ — | $ — | $ 798,500 | $ — | $ — | $ — | $ — | $ 798,500 |
| — | — | — | 31,189 | 105,506 | 4,919 | — | — | — | 110,425 |
| — | — | 84,291 | 3,738 | 112,924 | — | — | 111 | 111 | 113,035 |
| 1,959 | 116 | 290 | 966 | 13,691 | (153) | 75 | 58 | 133 | 13,671 |
| — | — | — | 99 | 101 | 39,315 | — | — | — | 39,416 |
| — | — | — | — | — | 582 | — | — | — | 582 |
| — | 660 | 7,809 | 150 | 14,310 | 2,305 | — | — | — | 16,615 |
| 287,196 | — | — | 492 | 295,282 | 135 | — | — | — | 295,417 |
| — | — | — | 21,931 | 22,283 | — | — | — | — | 22,283 |
| — | — | — | — | 74,180 | — | — | — | — | 74,180 |
| 42 | — | — | 227 | 2,188 | 684 | — | — | — | 2,872 |
| **289,197** | **776** | **92,390** | **58,792** | **1,438,965** | **47,787** | **75** | **169** | **244** | **1,486,996** |
| | | | | | | | | | |
| 3,000 | — | 84,399 | 10,899 | 99,955 | — | — | — | — | 99,955 |
| 132,309 | — | — | — | 178,521 | — | 2 | — | 2 | 178,523 |
| 181 | — | — | 62 | 76,178 | — | — | — | — | 76,178 |
| 1 | — | — | 6,107 | 6,413 | — | — | — | — | 6,413 |
| — | — | — | 11,685 | 13,054 | — | — | — | — | 13,054 |
| — | 471 | — | 3,400 | 3,871 | — | — | — | — | 3,871 |
| — | — | — | — | — | 68,501 | — | — | — | 68,501 |
| | | | | | | | | | |
| — | 25 | — | — | 24,265 | — | — | — | — | 24,265 |
| — | 1 | — | 53 | 56,348 | 1,612 | — | — | — | 57,960 |
| 63,167 | — | 4,745 | 20,667 | 844,463 | — | — | — | — | 844,463 |
| **198,658** | **497** | **89,144** | **52,873** | **1,303,068** | **70,113** | **2** | **—** | **2** | **1,373,183** |
| | | | | | | | | | |
| **90,539** | **279** | **3,246** | **5,919** | **135,897** | **(22,326)** | **73** | **169** | **242** | **113,813** |
| | | | | | | | | | |
| — | — | — | — | — | 129,260 | — | — | — | 129,260 |
| — | — | — | — | — | 772 | — | — | — | 772 |
| 85 | 80 | — | 5,750 | 10,845 | 168,225 | — | — | — | 179,070 |
| (12,256) | — | (4,136) | (12,298) | (35,037) | (201,509) | — | — | — | (236,546) |
| **(12,171)** | **80** | **(4,136)** | **(6,548)** | **(24,192)** | **96,748** | **—** | **—** | **—** | **72,556** |
| **78,368** | **359** | **(890)** | **(629)** | **111,705** | **74,422** | **73** | **169** | **242** | **186,369** |
| **106,197** | **4,950** | **14,450** | **71,334** | **593,930** | **104,289** | **1,276** | **1,397** | **2,673** | **700,892** |
| **$ 184,565** | **$ 5,309** | **$ 13,560** | **$ 70,705** | **$ 705,635** | **$ 178,711** | **$ 1,349** | **$ 1,566** | **$ 2,915** | **$ 887,261** |

# General Reserve Fund Activity

BUDGETARY GENERAL FUND

**Last Ten Fiscal Years**

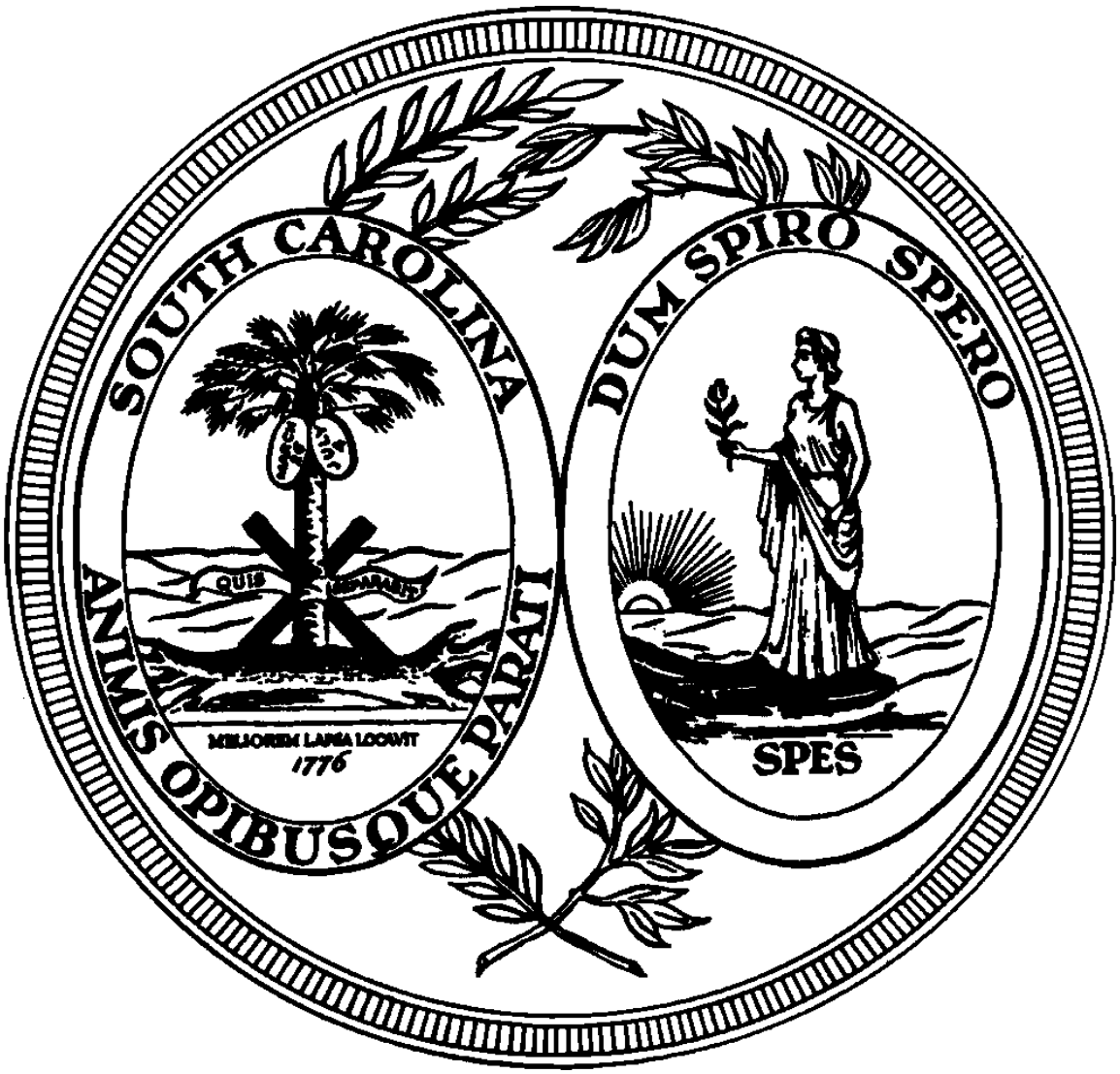
Article III, Section 36, of the South Carolina Constitution establishes requirements relating to the General Reserve Fund. The reserve primarily is designed to prevent Budgetary General Fund deficits. On November 4, 1988, a Constitutional amendment was passed, which permanently changed the funding requirement for the Reserve to three percent of the Budgetary General Fund revenue of the latest completed fiscal year.

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

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

| Fiscal Year Ended June 30 | Start-of-Year Balance | Deposits | Withdrawals | End-of-Year Balance | Full-Funding Amount[a] | Actual End-of-Year % Funded[b] |
|---|---|---|---|---|---|---|
| 1995 | $ 110,178 | $ 10,557 | $ — | $ 120,735 | $ 120,735 | 100% |
| 1996 | 120,735 | 6,271 | — | 127,006 | 127,006 | 100% |
| 1997 | 127,006 | 3,374 | — | 130,380 | 130,380 | 100% |
| 1998 | 130,380 | — | — | 130,380 | 137,650 | 95% |
| 1999 | 130,380 | 7,270 | — | 137,650 | 145,371 | 95% |
| 2000 | 137,650 | 7,721 | — | 145,371 | 147,916 | 98% |
| 2001 | 145,371 | 2,545 | (87,393) | 60,523 | 150,202 | 40% |
| 2002 | 60,523 | 2,286 | (62,809) | — | 152,410 | 0% |
| 2003 | — | 38,797 | (38,797) | — | 147,708 | 0% |
| 2004 | — | 74,455 | (49,300) | 25,155 | 149,034 | 17% |

[a]Equals 3% of the Budgetary General Fund revenues for the latest completed fiscal year.
[b]Equals (End-of-Year Balance/Full-Funding Amount) x 100.


SOUTH CAROLINA
ANIMIS OPIBUSQUE PARATI
DUM SPIRO SPERO
QUIS SEPARABIT
MELIOREM LAPSA LOCAVIT
1776
SPES

# Proprietary Funds

Proprietary funds include enterprise and internal service funds. This subsection of the Comprehensive Annual Financial Report provides the following supplementary information for the State's proprietary funds:

- Combining Statement of Net Assets—Nonmajor Enterprise Funds
- Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets—Nonmajor Enterprise Funds
- Combining Statement of Cash Flows—Nonmajor Enterprise Funds
- Combining Statement of Net Assets—Internal Service Funds
- Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets—Internal Service Funds
- Combining Statement of Cash Flows—Internal Service Funds

Note 1b in the notes to the financial statements describes the State's major enterprise funds. The paragraphs below describe all nonmajor enterprise funds and the internal service funds that the State uses.

### a. Nonmajor Enterprise Funds

The State uses enterprise funds to report activities for which it charges fees to external users for goods or services if *any* of the following situations applies:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
- Laws or regulations require that the activity's costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues.
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The State uses the nonmajor enterprise funds described below.

*Patients' Compensation Fund.* This fund provides medical malpractice insurance to any public or private health care provider within the State. This fund is reported as an insurance enterprise.

*Patriots Point Development Authority Fund.* The Patriots Point Development Authority is responsible for developing and operating the Patriots Point area near Charleston, including a naval museum. The Authority is supported by user fees.

*Second Injury Fund.* This fund serves as a claims processor for insurance carriers, self-insurers, and the State Accident Fund. The fund processes claims of employees with existing permanent physical impairment who are further injured in the course of their subsequent employment.

*The State Housing Corporation Fund.* The State Housing Corporation was organized to lease, operate, manage, and contract for the construction of office facilities for the South Carolina State Housing Finance and Development Authority and for affordable housing facilities for the members of the beneficiary classes of the Authority. The Corporation was dissolved during the fiscal year ended June 30, 2004.

*The Tuition Prepayment Program Fund.* This fund, previously known as the PACE program, allows contributors to make payments, under the terms of a tuition prepayment contract, to cover future undergraduate tuition expenses of a designated beneficiary at a South Carolina public higher education institution. Alternatively, the benefits of this contract can be applied toward the cost of tuition, up to the weighted average tuition at South Carolina public institutions, at any accredited college or university to which the designated beneficiary has been admitted.

*The Citadel Trust, Inc., Fund.* The Citadel Trust was formed for the purpose of investing funds in order to provide scholarship and other financial assistance or support to The Citadel, a higher education institution reported in the Higher Education Fund, a major enterprise fund.

*University of South Carolina Trust Fund (the Trust).* The Trust operates exclusively for the benefit of the University of South Carolina's School of Medicine to augment and aid education, research, and service in the field of health sciences. The University of South Carolina is a higher education institution reported in the Higher Education Fund, a major enterprise fund. The Trust's fiscal year ends December 31, and the accompanying supplementary information includes the Trust's financial information for the fiscal year ended December 31, 2003.

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

*University Medical Associates Fund (UMA).* UMA was established to promote and support educational, medical, scientific, and research purposes of the Medical University of South Carolina (MUSC), a higher education institution reported in the Higher Education Fund, a major enterprise fund. UMA promotes the recruitment and retention of superior faculty at MUSC.

# Proprietary Funds

*Medical University Facilities Corporation Fund (MUFC)*. MUFC was established to obtain financing for the Medical University of South Carolina to purchase land, an office building, and a parking garage.

*CHS Development Company Fund.* The Company was established to provide financing for the Medical University of South Carolina by developing and leasing property.

*Pharmaceutical Education and Development Foundation Fund (PEDF)*. PEDF promotes educational, research, clinical, and other facilities and programs of the Medical University of South Carolina's College of Pharmacy. The Medical University of South Carolina is a higher education institution reported in the Higher Education Fund, a major enterprise fund.

*Other Enterprise Funds*. Other enterprise activities of the State include: the Savannah Valley Development and the Public Railways Divisions of the South Carolina Department of Commerce, the Canteens Fund, operation of the Columbia Farmers' Market, and enterprise operations of the Adjutant General's Office.

### b. Internal Service Funds

The State uses the internal service funds described below to report activities that provide goods or services to other State funds, departments, agencies, component units, and/or to other governments, on a cost-reimbursement basis if the State is the predominant participant in the activity. If the State is *not* the predominant participant, it reports the activity as an enterprise fund.

*Insurance Reserve Fund.* This is a risk management/reinsurance fund. It underwrites insurance risks on public buildings and their contents and tort liability, medical malpractice, and automobile liability for public employees. State law limits the Fund's customers to certain governmental persons/entities within the State and certain associated parties.

*Employee Insurance Programs Fund*. This is a risk management fund that underwrites the group health, dental, life, accidental death and dismemberment, disability, and long-term care benefits provided to State and public school employees and retirees.

*State Accident Fund*. This is a risk management fund that provides workers' compensation benefits predominantly to State employees. Premiums are collected from State agencies.

*General Services Fund*. This fund accounts for various services provided to State and local governmental units for which user fees are charged. These services include telecommunication and computer services, rental of office buildings, janitorial services, building maintenance, and procurement services.

*Central Supplies and Equipment Fund*. This fund sells office supplies and equipment, food, and paper products to other governmental units. It also stores food and paper products for State agencies.

*Motor Pool Fund*. This fund provides daily and permanent lease assignments of vehicles to State agencies. It also maintains an inventory of automotive parts to provide maintenance of these vehicles.

*Pension Administration Fund*. This fund administers the public employee retirement systems. Revenues of the fund primarily consist of assessments charged to the pension trust funds.

*Prison Industries Fund*. This fund accounts for goods produced by inmate labor. These goods are sold primarily to State agencies.

*Governor's School for the Arts Foundation, Inc., Fund*. This fund collects and disburses funds for the support of programs, services, scholarships, operations, and capital needs of the South Carolina Governor's School for the Arts and Humanities. The Foundation is a blended component unit of that entity.

*Other Internal Service Funds*. These funds, aggregated for reporting purposes, account for other miscellaneous activities that meet the definition of internal service funds. Such activities include provision of training programs for State employees and work activity centers of the Vocational Rehabilitation Department.

# Combining Statement of Net Assets

NONMAJOR ENTERPRISE FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | Patients' Compensation | Patriots Point Development Authority | Second Injury | Tuition Prepayment Program | The Citadel Trust, Inc. |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 6,976 | $ 5,376 | $ 220 | $ 88,572 | $ 335 |
| Investments | — | — | — | — | 2,871 |
| Invested securities lending collateral | 1,353 | 1,082 | 18,985 | 17,444 | — |
| Receivables, net: | | | | | |
| Accounts | — | 201 | — | — | 4 |
| Contributions | — | — | — | — | 193 |
| Participants | — | — | — | 5,778 | — |
| Accrued interest | 30 | 17 | — | 369 | 210 |
| Patient accounts | — | — | — | — | — |
| Due from other funds | — | — | 6 | — | — |
| Inventories | — | 324 | — | — | — |
| Restricted assets: | | | | | |
| Cash and cash equivalents | — | — | 81,266 | — | 658 |
| Investments | — | — | — | — | 6,300 |
| Loans receivable | — | — | — | — | 91 |
| Other | — | — | 1,083 | — | 481 |
| Prepaid items | 71 | 40 | — | — | 10 |
| Other current assets | — | — | — | — | — |
| Total current assets | 8,430 | 7,040 | 101,560 | 112,163 | 11,153 |
| Long-term assets: | | | | | |
| Receivables, net: | | | | | |
| Contributions | — | — | — | — | 325 |
| Participants | — | — | — | 17,935 | — |
| Interfund receivables | — | — | — | — | — |
| Restricted assets: | | | | | |
| Cash and cash equivalents | — | — | — | — | 2,832 |
| Investments | — | — | — | — | 39,182 |
| Loans receivable | — | — | — | — | 248 |
| Other | — | — | — | — | 1,245 |
| Prepaid items | — | — | — | — | — |
| Other long-term assets | — | — | — | — | 28 |
| Deferred charges | — | — | — | — | — |
| Capital assets: | | | | | |
| Land and improvements | — | 6,045 | — | — | — |
| Buildings and improvements | — | 1,503 | — | — | — |
| Construction in progress | — | 2,393 | — | — | — |
| Vehicles | — | — | — | — | — |
| Machinery and equipment | — | 555 | 59 | — | — |
| Works of art and historical treasures | — | 6,987 | — | — | — |
| Intangible assets | — | — | — | — | — |
| Less: accumulated depreciation | — | (7,743) | (49) | — | — |
| Total capital assets, net | — | 9,740 | 10 | — | — |
| Total long-term assets | — | 9,740 | 10 | 17,935 | 43,860 |
| **Total assets** | **8,430** | **16,780** | **101,570** | **130,098** | **55,013** |

| University of South Carolina Trust | Medical University Hospital Authority | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Pharmaceutical Education and Development Foundation | Other Enterprise | Totals |
|---|---|---|---|---|---|---|---|
| $ 1,977 | $ 16,497 | $ 43,659 | $ — | $ — | $ 1 | $ 18,261 | $ 181,874 |
| 4,854 | — | 9,183 | — | — | — | — | 16,908 |
| — | — | — | — | — | — | 857 | 39,721 |
| | | | | | | | |
| 2,919 | 10,048 | 55 | — | — | — | 1,157 | 14,384 |
| — | — | — | — | — | — | — | 193 |
| — | — | — | — | — | — | — | 5,778 |
| — | — | — | 7 | 36 | — | 4 | 673 |
| 2,499 | 88,192 | 21,869 | — | — | — | — | 112,560 |
| — | — | 9,086 | 2,278 | — | — | 158 | 11,528 |
| — | 10,000 | — | — | — | — | 3,684 | 14,008 |
| | | | | | | | |
| — | 256 | — | 54 | 8,306 | — | 3,256 | 93,796 |
| — | — | — | 316 | 11,173 | — | — | 17,789 |
| — | — | — | — | — | — | — | 91 |
| — | — | — | — | — | — | 311 | 1,875 |
| — | 9,492 | 630 | — | 152 | 5 | 12 | 10,412 |
| — | — | 909 | 64 | 59 | — | — | 1,032 |
| 12,249 | 134,485 | 85,391 | 2,719 | 19,726 | 6 | 27,700 | 522,622 |
| | | | | | | | |
| | | | | | | | |
| — | — | — | — | — | — | — | 325 |
| — | — | — | — | — | — | — | 17,935 |
| — | — | — | 19,340 | — | — | — | 19,340 |
| | | | | | | | |
| — | 11,497 | 1,917 | 1,350 | 2,570 | — | — | 20,166 |
| — | 5,803 | 14,605 | 213 | — | — | — | 59,803 |
| — | — | — | — | — | — | 14,983 | 15,231 |
| — | — | 88 | — | — | — | — | 1,333 |
| — | — | 11,996 | — | 2,897 | — | — | 14,893 |
| — | 646 | 8,299 | — | — | — | 296 | 9,269 |
| — | — | — | 539 | 1,125 | — | — | 1,664 |
| | | | | | | | |
| — | 3,923 | — | — | — | — | 18,373 | 28,341 |
| 16,205 | 206,870 | 59,048 | — | — | — | 8,217 | 291,843 |
| — | 53,407 | 1,036 | — | 7,994 | — | 56 | 64,886 |
| — | 1,673 | — | — | — | — | 686 | 2,359 |
| 5,403 | 152,107 | 8,879 | — | — | — | 3,501 | 170,504 |
| — | — | — | — | — | — | — | 6,987 |
| — | — | 3,197 | — | — | — | 2,300 | 5,497 |
| (7,065) | (189,186) | (23,001) | — | — | — | (8,207) | (235,251) |
| 14,543 | 228,794 | 49,159 | — | 7,994 | — | 24,926 | 335,166 |
| 14,543 | 246,740 | 86,064 | 21,442 | 14,586 | — | 40,205 | 495,125 |
| **26,792** | **381,225** | **171,455** | **24,161** | **34,312** | **6** | **67,905** | **1,017,747** |

**Continued on Next Page**

# Combining Statement of Net Assets

NONMAJOR ENTERPRISE FUNDS (Continued)

**June 30, 2004**
**(Expressed in Thousands)**

| | Patients' Compensation | Patriots Point Development Authority | Second Injury | Tuition Prepayment Program | The Citadel Trust, Inc. |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 20 | $ 644 | $ 3 | $ 11 | $ — |
| Accrued salaries and related expenses | 21 | 237 | 94 | — | 9 |
| Accrued interest payable | — | — | — | — | — |
| Retainages payable | — | — | — | — | — |
| Tuition benefits payable | — | — | — | 6,456 | — |
| Policy claims | 37,500 | — | — | — | — |
| Due to other funds | 1 | 49 | 290 | — | — |
| Deferred revenues | 12,325 | 602 | — | — | — |
| Securities lending collateral | 1,353 | 1,082 | 18,985 | 17,444 | — |
| Liabilities payable from restricted assets: | | | | | |
| Accounts payable | — | — | — | — | — |
| Accrued interest payable | — | — | — | — | — |
| Other | — | — | 82,069 | — | — |
| Notes payable | — | — | — | — | — |
| Revenue bonds payable | — | — | — | — | — |
| Capital leases payable | — | — | — | — | — |
| Compensated absences payable | 13 | 275 | 88 | — | — |
| Other current liabilities | — | — | — | — | 815 |
| Total current liabilities | 51,233 | 2,889 | 101,529 | 23,911 | 824 |
| Long-term liabilities: | | | | | |
| Tuition benefits payable | — | — | — | 136,823 | — |
| Policy claims | 166,100 | — | — | — | — |
| Interfund payables | — | — | — | — | — |
| Notes payable | — | — | — | — | — |
| Revenue bonds payable | — | — | — | — | — |
| Capital leases payable | — | — | — | — | — |
| Compensated absences payable | 2 | — | 31 | — | — |
| Other long-term liabilities | — | — | — | — | 23 |
| Total long-term liabilities | 166,102 | — | 31 | 136,823 | 23 |
| **Total liabilities** | **217,335** | **2,889** | **101,560** | **160,734** | **847** |
| **NET ASSETS (DEFICITS)** | | | | | |
| Invested in capital assets, net of related debt | — | 9,740 | 10 | — | — |
| Restricted: | | | | | |
| Expendable: | | | | | |
| Education | — | — | — | — | 24,079 |
| Capital projects | — | — | — | — | 2,621 |
| Debt service | — | — | — | — | — |
| Nonexpendable: | | | | | |
| Education | — | — | — | — | 21,626 |
| Unrestricted | (208,905) | 4,151 | — | (30,636) | 5,840 |
| **Total net assets (deficits)** | **$ (208,905)** | **$ 13,891** | **$ 10** | **$ (30,636)** | **$ 54,166** |

| University of South Carolina Trust | Medical University Hospital Authority | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Pharmaceutical Education and Development Foundation | Other Enterprise | Totals |
|---|---|---|---|---|---|---|---|
| $ 3,175 | $ 23,991 | $ 1,475 | $ — | $ 919 | $ 8,004 | $ 1,349 | $ 39,591 |
| 86 | 14,422 | 5,676 | — | — | — | 281 | 20,826 |
| — | 2,609 | 211 | 227 | 734 | — | — | 3,781 |
| — | 256 | — | — | 427 | — | — | 683 |
| — | — | — | — | — | — | — | 6,456 |
| — | — | — | — | — | — | — | 37,500 |
| — | 16,437 | — | — | 137 | — | 611 | 17,525 |
| — | — | — | — | — | — | 33 | 12,960 |
| — | — | — | — | — | — | 857 | 39,721 |
| | | | | | | | |
| — | — | — | — | — | — | 30 | 30 |
| — | — | — | — | — | — | 500 | 500 |
| — | — | — | — | — | — | 62 | 82,131 |
| — | 509 | 23,190 | 1,000 | — | — | — | 24,699 |
| 420 | — | — | 513 | — | — | — | 933 |
| 14 | 5,771 | 331 | — | — | — | — | 6,116 |
| 706 | 12,937 | 1,384 | — | — | — | 341 | 15,744 |
| — | 74 | 956 | — | — | — | — | 1,845 |
| 4,401 | 77,006 | 33,223 | 1,740 | 2,217 | 8,004 | 4,064 | 311,041 |
| | | | | | | | |
| — | — | — | — | — | — | — | 136,823 |
| — | — | — | — | — | — | — | 166,100 |
| — | — | — | — | — | — | 14,983 | 14,983 |
| — | 11,883 | 91,703 | 11,500 | 33,090 | — | — | 148,176 |
| 8,920 | 97,845 | — | 9,828 | — | — | — | 116,593 |
| 29 | 14,327 | 250 | — | — | — | — | 14,606 |
| — | — | 922 | — | — | — | 119 | 1,074 |
| 717 | — | 1,529 | — | — | — | — | 2,269 |
| 9,666 | 124,055 | 94,404 | 21,328 | 33,090 | — | 15,102 | 600,624 |
| **14,067** | **201,061** | **127,627** | **23,068** | **35,307** | **8,004** | **19,166** | **911,665** |
| | | | | | | | |
| 5,160 | 98,459 | (519) | — | — | — | 24,926 | 137,776 |
| | | | | | | | |
| — | — | — | — | — | — | — | 24,079 |
| — | 8,408 | — | — | — | — | — | 11,029 |
| — | 9,148 | 9,081 | 1,093 | — | — | 2,976 | 22,298 |
| | | | | | | | |
| — | — | — | — | — | — | — | 21,626 |
| 7,565 | 64,149 | 35,266 | — | (995) | (7,998) | 20,837 | (110,726) |
| **$ 12,725** | **$ 180,164** | **$ 43,828** | **$ 1,093** | **$ (995)** | **$ (7,998)** | **$ 48,739** | **$ 106,082** |

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

NONMAJOR ENTERPRISE FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Patients' Compensation | Patriots Point Development Authority | Second Injury | State Housing Corporation | Tuition Prepayment Program | The Citadel Trust, Inc. |
|---|---|---|---|---|---|---|
| **Operating revenues:** | | | | | | |
| Charges for services | $ 40,291 | $ 7,359 | $ 1,583 | $ — | $ 2 | $ — |
| Contributions | — | — | — | — | 13,661 | — |
| Interest and other investment income | — | — | — | 35 | 3,708 | — |
| Operating revenues pledged for revenue bonds | — | — | — | — | — | — |
| Other operating revenues | — | — | — | — | — | 6,380 |
| **Total operating revenues** | **40,291** | **7,359** | **1,583** | **35** | **17,371** | **6,380** |
| **Operating expenses:** | | | | | | |
| General operations and administration | 921 | 6,485 | 1,551 | 30 | — | 111 |
| Benefits and claims | 29,812 | — | — | — | — | — |
| Tuition plan disbursements | — | — | — | — | 30,609 | — |
| Interest | — | — | — | 18 | — | — |
| Depreciation and amortization | — | 285 | 3 | — | — | — |
| Other operating expenses | — | 206 | 32 | — | — | — |
| **Total operating expenses** | **30,733** | **6,976** | **1,586** | **48** | **30,609** | **111** |
| **Operating income (loss)** | **9,558** | **383** | **(3)** | **(13)** | **(13,238)** | **6,269** |
| **Nonoperating revenues (expenses):** | | | | | | |
| Interest income | 51 | 246 | — | — | 346 | — |
| Contributions | — | 31 | — | — | — | 1,404 |
| Local/private grants and contracts | — | — | — | — | — | 65 |
| Interest expense | — | — | — | — | — | — |
| Other nonoperating revenues (expenses) | — | — | — | — | (11) | (3) |
| **Total nonoperating revenues (expenses)** | **51** | **277** | **—** | **—** | **335** | **1,466** |
| **Income (loss) before other revenues, expenses, losses, and transfers** | **9,609** | **660** | **(3)** | **(13)** | **(12,903)** | **7,735** |
| Local/private capital grants and contracts | — | — | — | — | — | 2,480 |
| Additions to endowments | — | — | — | — | — | 503 |
| Special items | — | 155 | — | — | — | — |
| Transfers in | — | — | — | 29 | — | — |
| Transfers out | — | — | — | — | (318) | (3,761) |
| **Change in net assets** | **9,609** | **815** | **(3)** | **16** | **(13,221)** | **6,957** |
| **Net assets (deficits) at beginning of year** | **(218,514)** | **13,076** | **13** | **(16)** | **(17,415)** | **47,209** |
| **Net assets (deficits) at end of year** | **$ (208,905)** | **$ 13,891** | **$ 10** | **$ —** | **$ (30,636)** | **$ 54,166** |

| University of South Carolina Trust | Medical University Hospital Authority | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Pharmaceutical Education and Development Foundation | Other Enterprise | Totals |
|---|---|---|---|---|---|---|---|
| $ 21,062 | $ — | $ 169,228 | $ — | $ — | $ — | $ 27,482 | $ 267,007 |
| — | — | — | — | — | — | 511 | 14,172 |
| — | — | — | — | — | — | — | 3,743 |
| — | 578,827 | — | 1,363 | 187 | — | — | 580,377 |
| 14,013 | 9,568 | 4,320 | — | — | — | 276 | 34,557 |
| **35,075** | **588,395** | **173,548** | **1,363** | **187** | **—** | **28,269** | **899,856** |
| | | | | | | | |
| 34,051 | 545,711 | 136,730 | 1,498 | 1,055 | 510 | 18,973 | 747,626 |
| — | — | — | — | — | — | — | 29,812 |
| — | — | — | — | — | — | — | 30,609 |
| — | — | — | — | — | — | — | 18 |
| 876 | 19,524 | 3,645 | 64 | 127 | — | 666 | 25,190 |
| — | — | — | — | — | — | — | 238 |
| **34,927** | **565,235** | **140,375** | **1,562** | **1,182** | **510** | **19,639** | **833,493** |
| **148** | **23,160** | **33,173** | **(199)** | **(995)** | **(510)** | **8,630** | **66,363** |
| | | | | | | | |
| 855 | 216 | 394 | — | — | 2 | 1,449 | 3,559 |
| — | — | — | — | — | — | — | 1,435 |
| — | — | — | — | — | — | — | 65 |
| (448) | (6,681) | (5,968) | — | — | — | (1,223) | (14,320) |
| — | — | 4,556 | — | — | — | (641) | 3,901 |
| **407** | **(6,465)** | **(1,018)** | **—** | **—** | **2** | **(415)** | **(5,360)** |
| | | | | | | | |
| **555** | **16,695** | **32,155** | **(199)** | **(995)** | **(508)** | **8,215** | **61,003** |
| — | — | — | — | — | — | — | 2,480 |
| — | — | — | — | — | — | — | 503 |
| — | — | — | — | — | — | — | 155 |
| — | — | — | — | — | — | 107 | 136 |
| — | (553) | (15,741) | (41) | — | — | (107) | (20,521) |
| **555** | **16,142** | **16,414** | **(240)** | **(995)** | **(508)** | **8,215** | **43,756** |
| **12,170** | **164,022** | **27,414** | **1,333** | **—** | **(7,490)** | **40,524** | **62,326** |
| **$ 12,725** | **$ 180,164** | **$ 43,828** | **$ 1,093** | **$ (995)** | **$ (7,998)** | **$ 48,739** | **$ 106,082** |

# Combining Statement of Cash Flows

NONMAJOR ENTERPRISE FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Patients' Compensation | Patriots Point Development Authority | Second Injury | State Housing Corporation | Tuition Prepayment Program |
|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | |
| Receipts from customers, patients, and third-party payers.... | $ 40,786 | $ 4,764 | $ — | $ — | $ 2 |
| Assessments received..... | — | — | 129,003 | — | — |
| Tuition plan contributions received..... | — | — | — | — | 14,255 |
| Other operating cash receipts..... | — | 2,625 | — | — | — |
| Claims and benefits paid..... | (36,792) | — | (124,327) | — | — |
| Payments to suppliers for goods and services..... | — | (2,527) | — | (12) | — |
| Payments to employees..... | — | (3,259) | — | — | — |
| Internal activity - payments to other funds..... | — | — | — | — | — |
| Other operating cash payments..... | (926) | (459) | (1,577) | — | (1,335) |
| **Net cash provided by (used in) operating activities.....** | **3,068** | **1,144** | **3,099** | **(12)** | **12,922** |
| **Cash flows from noncapital financing activities:** | | | | | |
| Principal payments made to other funds..... | — | — | — | — | — |
| Interest payments made to other funds..... | — | — | — | — | — |
| Proceeds from issuance of noncapital debt..... | — | — | — | — | — |
| Principal paid on noncapital debt..... | — | — | — | — | — |
| Interest payments on noncapital debt..... | — | — | — | — | — |
| Payment of bond issuance costs..... | — | — | — | — | — |
| Gifts and grants for other than capital purposes..... | — | — | — | — | — |
| Other cash receipts ..... | — | — | — | — | — |
| Transfers in..... | — | — | — | 29 | — |
| Transfers out ..... | — | — | — | — | (318) |
| **Net cash provided by (used in) noncapital financing activities.....** | **—** | **—** | **—** | **29** | **(318)** |
| **Cash flows from capital and related financing activities:** | | | | | |
| Acquisition of capital assets..... | — | (2,329) | — | — | — |
| Principal payments on notes payable..... | — | — | — | — | — |
| Proceeds from issuance of capital debt..... | — | — | — | — | — |
| Principal paid on capital debt and lease..... | — | — | — | (4,941) | — |
| Interest payments on capital debt..... | — | — | — | — | — |
| Payment of agent and broker fees..... | — | — | — | — | — |
| Proceeds from sale or disposal of capital assets..... | — | 155 | — | — | — |
| Capital grants and gifts received..... | — | — | — | — | — |
| **Net cash provided by (used in) capital and related financing activities.....** | **—** | **(2,174)** | **—** | **(4,941)** | **—** |
| **Cash flows from investing activities:** | | | | | |
| Proceeds from sales and maturities of investments..... | — | — | — | — | — |
| Purchase of investments ..... | — | — | — | — | — |
| Interest and dividends on investments..... | 87 | 250 | 3,246 | 34 | 4,164 |
| Collection of escrow payments from borrower..... | — | — | — | — | — |
| **Net cash provided by (used in) investing activities.....** | **87** | **250** | **3,246** | **34** | **4,164** |
| **Net increase (decrease) in cash and cash equivalents.....** | **3,155** | **(780)** | **6,345** | **(4,890)** | **16,768** |
| **Cash and cash equivalents at beginning of year (restated)...** | **3,821** | **6,156** | **75,141** | **4,890** | **71,804** |
| **Cash and cash equivalents at end of year.....** | **$ 6,976** | **$ 5,376** | **$ 81,486** | **$ —** | **$ 88,572** |

| The Citadel Trust, Inc. | University of South Carolina Trust | Medical University Hospital Authority | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Pharmaceutical Education and Development Foundation | Other Enterprise | Totals |
|---|---|---|---|---|---|---|---|---|
| $ — | $ 20,941 | $ 509,401 | $ 171,138 | $ — | $ — | $ — | $ 23,870 | $ 770,902 |
| — | — | — | — | — | — | — | — | 129,003 |
| — | — | — | — | — | — | — | — | 14,255 |
| — | 13,532 | 10,790 | 5,092 | — | — | 39 | 2,061 | 34,139 |
| — | — | — | — | — | — | — | — | (161,119) |
| (66) | (12,746) | (193,755) | (50,669) | — | (3,309) | (367) | (15,190) | (278,641) |
| (46) | (20,920) | (238,646) | (81,418) | — | — | — | (4,144) | (348,433) |
| — | — | (52,946) | — | — | — | — | — | (52,946) |
| — | — | — | (126) | — | — | — | (250) | (4,673) |
| **(112)** | **807** | **34,844** | **44,017** | **—** | **(3,309)** | **(328)** | **6,347** | **102,487** |
| — | — | — | — | — | — | — | (510) | (510) |
| — | — | — | — | — | — | — | (1,239) | (1,239) |
| — | — | — | 20,500 | — | — | — | — | 20,500 |
| — | — | — | (24,498) | (15,003) | — | — | — | (39,501) |
| — | — | — | (2,893) | (2,005) | — | — | — | (4,898) |
| — | — | — | (64) | (10) | — | — | — | (74) |
| 1,936 | — | — | — | — | — | — | — | 1,936 |
| 377 | — | — | — | — | — | — | — | 377 |
| — | — | — | — | — | — | — | 107 | 136 |
| (3,761) | — | (553) | (15,741) | (41) | — | — | (107) | (20,521) |
| **(1,448)** | **—** | **(553)** | **(22,696)** | **(17,059)** | **—** | **—** | **(1,749)** | **(43,794)** |
| — | (609) | (31,960) | (2,221) | — | (6,511) | — | (268) | (43,898) |
| — | — | — | — | — | — | — | (18) | (18) |
| — | — | — | — | — | 33,169 | — | — | 33,169 |
| — | (496) | (8,557) | (1,892) | — | — | — | — | (15,886) |
| — | (447) | (5,768) | (3,171) | — | (233) | — | (1) | (9,620) |
| — | — | — | (72) | — | (1,219) | — | — | (1,291) |
| — | — | 67 | 1 | — | — | — | 54 | 277 |
| 2,481 | — | — | — | — | — | — | — | 2,481 |
| **2,481** | **(1,552)** | **(46,218)** | **(7,355)** | **—** | **25,206** | **—** | **(233)** | **(34,786)** |
| 41,699 | 2,358 | 678 | 9,127 | 2,528 | — | — | — | 56,390 |
| (41,735) | (2,306) | — | (23,307) | (1,159) | (11,172) | — | — | (79,679) |
| 790 | 88 | 902 | 755 | 1,363 | 151 | 2 | 540 | 12,372 |
| — | — | — | — | — | — | — | 1,681 | 1,681 |
| **754** | **140** | **1,580** | **(13,425)** | **2,732** | **(11,021)** | **2** | **2,221** | **(9,236)** |
| **1,675** | **(605)** | **(10,347)** | **541** | **(14,327)** | **10,876** | **(326)** | **6,586** | **14,671** |
| **2,150** | **2,582** | **38,597** | **45,035** | **15,731** | **—** | **327** | **14,931** | **281,165** |
| **$ 3,825** | **$ 1,977** | **$ 28,250** | **$ 45,576** | **$ 1,404** | **$ 10,876** | **$ 1** | **$ 21,517** | **$ 295,836** |

**Continued on Next Page**

# Combining Statement of Cash Flows

NONMAJOR ENTERPRISE FUNDS (Continued)

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Patients' Compensation | Patriots Point Development Authority | Second Injury | State Housing Corporation | Tuition Prepayment Program |
|---|---|---|---|---|---|
| **Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:** | | | | | |
| Operating income (loss) | $ 9,558 | $ 383 | $ (3) | $ (13) | $ (13,238) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | — | 285 | 3 | — | — |
| Realized gains and losses on investments | — | — | — | — | — |
| Interest payments reclassified as noncapital financing activities | — | — | — | — | — |
| Interest and dividends on investments and interfund loans | — | — | — | (35) | (3,708) |
| Amounts received for payment of claims | — | — | 127,438 | — | — |
| Payment of claims | — | — | (124,327) | — | — |
| Other nonoperating revenues | — | 31 | — | — | — |
| Other nonoperating expenses | — | — | — | — | — |
| Other | — | — | (2) | (8) | — |
| **Change in assets—decreases (increases):** | | | | | |
| Accounts receivable, net | — | 14 | — | — | — |
| Receivable from participants, net | — | — | — | — | 594 |
| Patient accounts receivable, net | — | — | — | — | — |
| Accrued interest | — | — | — | — | — |
| Due from other funds | — | — | (6) | — | — |
| Inventories | — | (6) | — | — | — |
| Interfund receivables | — | — | — | — | — |
| Other assets | (11) | 26 | (18) | 68 | — |
| **Change in liabilities—increases (decreases):** | | | | | |
| Accounts payable | 3 | 389 | 1 | — | — |
| Accrued salaries and related expenses | 4 | (12) | (1) | — | — |
| Accrued interest payable | — | — | — | (24) | — |
| Retainages payable | — | — | — | — | — |
| Tuition benefits payable | — | — | — | — | 29,274 |
| Policy claims | (6,712) | — | — | — | — |
| Due to other funds | 1 | 35 | — | — | — |
| Deferred revenues | 225 | (15) | — | — | — |
| Liabilities payable from restricted assets | — | — | — | — | — |
| Compensated absences payable | — | 14 | 14 | — | — |
| Other liabilities | — | — | — | — | — |
| **Net cash provided by (used in) operating activities** | **$ 3,068** | **$ 1,144** | **$ 3,099** | **$ (12)** | **$ 12,922** |
| **Noncash capital, investing, and financing activities:** | | | | | |
| Increase (decrease) in fair value of investments | $ — | $ — | $ — | $ — | $ — |

| The Citadel Trust, Inc. | University of South Carolina Trust | Medical University Hospital Authority | University Medical Associates | Medical University Facilities Corporation | CHS Development Company | Pharmaceutical Education and Development Foundation | Other Enterprise | Totals |
|---|---|---|---|---|---|---|---|---|
| $ 6,269 | $ 148 | $ 23,160 | $ 33,173 | $ (199) | $ (995) | $ (510) | $ 8,630 | $ 66,363 |
| | | | | | | | | |
| — | 876 | 19,524 | 3,645 | 64 | 127 | — | 666 | 25,190 |
| (5,557) | — | — | — | — | — | — | — | (5,557) |
| | | | | | | | | |
| — | — | — | — | 1,498 | 886 | — | — | 2,384 |
| (824) | — | — | — | (1,363) | (187) | — | — | (6,117) |
| — | — | — | — | — | — | — | — | 127,438 |
| — | — | — | — | — | — | — | — | (124,327) |
| — | — | — | 4,943 | — | — | — | 1,045 | 6,019 |
| — | — | — | (138) | — | — | — | (973) | (1,111) |
| — | (140) | 600 | 93 | — | — | — | (3,599) | (3,056) |
| | | | | | | | | |
| — | (480) | (6,794) | (32) | — | — | — | 386 | (6,906) |
| — | — | — | — | — | — | — | — | 594 |
| — | (121) | (11,647) | (3,384) | — | — | — | — | (15,152) |
| — | — | — | — | — | — | — | 41 | 41 |
| — | — | 835 | 3,315 | — | — | — | (11) | 4,133 |
| — | — | 820 | — | — | — | — | (34) | 780 |
| — | — | — | 1,245 | — | — | — | — | 1,245 |
| — | — | (6,878) | 50 | — | (3,140) | (5) | 20 | (9,888) |
| | | | | | | | | |
| — | 643 | 4,176 | (127) | — | — | 187 | (322) | 4,950 |
| — | 53 | 2,165 | 1,892 | — | — | — | 68 | 4,169 |
| — | — | (4) | — | — | — | — | — | (28) |
| — | — | (576) | — | — | — | — | — | (576) |
| — | — | — | — | — | — | — | — | 29,274 |
| — | — | — | — | — | — | — | — | (6,712) |
| — | — | 8,518 | (835) | — | — | — | 436 | 8,155 |
| — | — | — | — | — | — | — | — | 210 |
| — | — | — | — | — | — | — | 27 | 27 |
| — | 33 | 946 | 177 | — | — | — | (33) | 1,151 |
| — | (205) | (1) | — | — | — | — | — | (206) |
| **$ (112)** | **$ 807** | **$ 34,844** | **$ 44,017** | **$ —** | **$ (3,309)** | **$ (328)** | **$ 6,347** | **$ 102,487** |
| | | | | | | | | |
| $ 3,907 | $ 1,026 | $ — | $ (340) | $ — | $ 17 | $ — | $ — | $ 4,610 |

# Combining Statement of Net Assets

INTERNAL SERVICE FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | Insurance Reserve | Employee Insurance Programs | State Accident Fund | General Services | Central Supplies and Equipment |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 23,323 | $ 57,000 | $ 6,006 | $ 29,106 | $ 328 |
| Invested securities lending collateral | 50,578 | 13,427 | 1,037 | 451 | — |
| Receivables, net: | | | | | |
| Accounts | 15,092 | 4,894 | 71,200 | 444 | — |
| Accrued interest | 3,416 | 258 | 113 | 24 | — |
| Due from other funds | 812 | 26,516 | 1,556 | 6,934 | 660 |
| Due from component units | — | — | — | 1 | — |
| Inventories | — | — | — | 1,272 | 1,614 |
| Prepaid items | 10,574 | — | 583 | — | — |
| Total current assets | 103,795 | 102,095 | 80,495 | 38,232 | 2,602 |
| Long-term assets: | | | | | |
| Investments | 239,594 | 19,443 | 868 | — | — |
| Accounts receivable, net | — | — | 152 | — | — |
| Interfund receivables | 21,383 | — | — | 23,565 | — |
| Deferred charges | — | — | — | 161 | — |
| Capital assets: | | | | | |
| Land and improvements | — | — | — | 7,702 | — |
| Buildings and improvements | — | — | — | 179,464 | — |
| Construction in progress | — | — | — | 964 | — |
| Vehicles | — | — | — | 1,600 | 29 |
| Machinery and equipment | 384 | 174 | 670 | 49,951 | 7 |
| Intangible assets | — | — | 8,152 | 891 | — |
| Less: accumulated depreciation | (288) | (123) | (7,863) | (110,169) | (14) |
| Total capital assets, net | 96 | 51 | 959 | 130,403 | 22 |
| Total long-term assets | 261,073 | 19,494 | 1,979 | 154,129 | 22 |
| **Total assets** | **364,868** | **121,589** | **82,474** | **192,361** | **2,624** |

| Motor Pool | Pension Adminis-tration | Prison Industries | Governor's School for the Arts Foundation, Inc. | Other Internal Service | Totals |
|---|---|---|---|---|---|
| $ 8,736 | $ 1,290 | $ 2,026 | $ 1,570 | $ 194 | $ 129,579 |
| — | 316 | — | — | — | 65,809 |
| | | | | | |
| 504 | — | 2,219 | 373 | — | 94,726 |
| — | 25 | — | — | — | 3,836 |
| 1,818 | 111 | 538 | — | 34 | 38,979 |
| — | — | — | — | — | 1 |
| 12 | — | 4,252 | — | — | 7,150 |
| — | — | — | — | — | 11,157 |
| 11,070 | 1,742 | 9,035 | 1,943 | 228 | 351,237 |
| | | | | | |
| — | — | — | 354 | — | 260,259 |
| — | — | — | — | — | 152 |
| 1,455 | — | — | — | — | 46,403 |
| — | — | — | — | — | 161 |
| | | | | | |
| 929 | — | — | — | — | 8,631 |
| 527 | — | 6,510 | — | — | 186,501 |
| — | — | — | — | — | 964 |
| 41,221 | — | 1,180 | — | — | 44,030 |
| 31 | 2,222 | 6,453 | — | — | 59,892 |
| — | 343 | — | — | — | 9,386 |
| (31,830) | (1,708) | (6,983) | — | — | (158,978) |
| 10,878 | 857 | 7,160 | — | — | 150,426 |
| 12,333 | 857 | 7,160 | 354 | — | 457,401 |
| **23,403** | **2,599** | **16,195** | **2,297** | **228** | **808,638** |

**Continued on Next Page**

# Combining Statement of Net Assets

INTERNAL SERVICE FUNDS (Continued)

**June 30, 2004**
**(Expressed in Thousands)**

| | Insurance Reserve | Employee Insurance Programs | State Accident Fund | General Services | Central Supplies and Equipment |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 832 | $ 378 | $ 690 | $ 2,925 | $ 588 |
| Accrued salaries and related expenses | 235 | 309 | 317 | 1,530 | — |
| Accrued interest payable | — | — | — | 854 | — |
| Retainages payable | — | — | — | 27 | — |
| Policy claims | 235,253 | 179,872 | 53,208 | — | — |
| Due to other funds | 6 | 143 | 7 | 1,262 | 5 |
| Deferred revenues | 44,332 | 2,567 | 72,275 | — | — |
| Securities lending collateral | 50,578 | 13,427 | 1,037 | 451 | — |
| Notes payable | — | — | — | 113 | — |
| Revenue bonds payable | — | — | — | 1,190 | — |
| Limited obligation bonds payable | — | — | — | 3,930 | — |
| Capital leases payable | — | — | — | 448 | — |
| Compensated absences payable | 32 | 17 | 261 | 1,915 | — |
| Other current liabilities | — | — | 4,051 | — | — |
| Total current liabilities | 331,268 | 196,713 | 131,846 | 14,645 | 593 |
| Long-term liabilities: | | | | | |
| Policy claims | — | — | 57,677 | — | — |
| Interfund payables | — | — | — | 5,938 | — |
| Revenue bonds payable | — | — | — | 23,612 | — |
| Limited obligation bonds payable | — | — | — | 19,374 | — |
| Capital leases payable | — | — | — | 1,230 | — |
| Compensated absences payable | 275 | 383 | 34 | 1,174 | — |
| Total long-term liabilities | 275 | 383 | 57,711 | 51,328 | — |
| **Total liabilities** | **331,543** | **197,096** | **189,557** | **65,973** | **593** |
| **NET ASSETS (DEFICITS)** | | | | | |
| Invested in capital assets, net of related debt | 96 | 51 | 959 | 105,422 | 23 |
| Restricted: | | | | | |
| Expendable: | | | | | |
| Loan programs | 20,000 | — | — | — | — |
| Insurance programs | 13,229 | — | — | — | — |
| Nonexpendable: | | | | | |
| Education | — | — | — | — | — |
| Unrestricted | — | (75,558) | (108,042) | 20,966 | 2,008 |
| **Total net assets (deficits)** | **$ 33,325** | **$ (75,507)** | **$ (107,083)** | **$ 126,388** | **$ 2,031** |

| Motor Pool | Pension Adminis-tration | Prison Industries | Governor's School for the Arts Foundation, Inc. | Other Internal Service | Totals |
|---|---|---|---|---|---|
| $ 728 | $ 630 | $ 241 | $ — | $ 2 | $ 7,014 |
| 71 | 557 | 777 | — | 14 | 3,810 |
| — | — | — | — | — | 854 |
| — | — | — | — | — | 27 |
| — | — | — | — | — | 468,333 |
| 95 | 431 | 392 | — | 7 | 2,348 |
| — | — | — | — | — | 119,174 |
| — | 316 | — | — | — | 65,809 |
| — | — | — | — | — | 113 |
| — | — | — | — | — | 1,190 |
| — | — | — | — | — | 3,930 |
| — | — | 131 | — | — | 579 |
| 80 | 630 | 366 | — | 22 | 3,323 |
| — | — | — | — | — | 4,051 |
| 974 | 2,564 | 1,907 | — | 45 | 680,555 |
| | | | | | |
| — | — | — | — | — | 57,677 |
| — | — | — | — | — | 5,938 |
| — | — | — | — | — | 23,612 |
| — | — | — | — | — | 19,374 |
| — | — | 584 | — | — | 1,814 |
| 49 | 386 | 225 | — | 13 | 2,539 |
| 49 | 386 | 809 | — | 13 | 110,954 |
| **1,023** | **2,950** | **2,716** | **—** | **58** | **791,509** |
| | | | | | |
| 10,877 | 857 | 6,445 | — | — | 124,730 |
| | | | | | |
| — | — | — | — | — | 20,000 |
| — | — | — | — | — | 13,229 |
| | | | | | |
| — | — | — | 354 | — | 354 |
| 11,503 | (1,208) | 7,034 | 1,943 | 170 | (141,184) |
| **$ 22,380** | **$ (351)** | **$ 13,479** | **$ 2,297** | **$ 170** | **$ 17,129** |

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

INTERNAL SERVICE FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Insurance Reserve | Employee Insurance Programs | State Accident Fund | General Services | Central Supplies and Equipment |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Charges for services | $ 56,169 | $ 1,231,007 | $ 67,689 | $ 77,429 | $ 8,992 |
| Contributions | — | — | — | — | — |
| Interest and other investment income | — | — | — | 1,613 | — |
| Other operating revenues | — | 14,688 | — | — | — |
| **Total operating revenues** | **56,169** | **1,245,695** | **67,689** | **79,042** | **8,992** |
| **Operating expenses:** | | | | | |
| General operations and administration | 51,033 | 102,239 | 5,103 | 72,686 | 8,846 |
| Benefits and claims | 65,143 | 1,143,209 | 88,729 | — | — |
| Depreciation and amortization | 44 | 16 | 1,630 | 6,466 | 5 |
| Other operating expenses | — | — | 3,639 | 444 | — |
| **Total operating expenses** | **116,220** | **1,245,464** | **99,101** | **79,596** | **8,851** |
| **Operating income (loss)** | **(60,051)** | **231** | **(31,412)** | **(554)** | **141** |
| **Nonoperating revenues (expenses):** | | | | | |
| Interest income | 5,656 | 4,538 | 49 | 109 | — |
| Federal grants and contracts | — | — | — | 512 | — |
| Interest expense | — | — | — | (2,406) | — |
| Other nonoperating revenues (expenses) | (4) | — | 60 | 1,483 | (15) |
| **Total nonoperating revenues (expenses)** | **5,652** | **4,538** | **109** | **(302)** | **(15)** |
| **Income (loss) before other revenues and transfers** | **(54,399)** | **4,769** | **(31,303)** | **(856)** | **126** |
| Capital contributions | — | — | — | 434 | — |
| Transfers in | 5 | — | — | 5,276 | — |
| Transfers out | (375) | (361) | (11,586) | (4,687) | — |
| **Change in net assets** | **(54,769)** | **4,408** | **(42,889)** | **167** | **126** |
| **Net assets (deficits) at beginning of year** | **88,094** | **(79,915)** | **(64,194)** | **126,221** | **1,905** |
| **Net assets (deficits) at end of year** | **$ 33,325** | **$ (75,507)** | **$ (107,083)** | **$ 126,388** | **$ 2,031** |

| Motor Pool | Pension Adminis-tration | Prison Industries | Governor's School for the Arts Foundation, Inc. | Other Internal Service | Totals |
|---|---|---|---|---|---|
| $ 15,897 | $ 16,135 | $ 20,939 | $ — | $ 272 | $ 1,494,529 |
| — | — | — | 613 | — | 613 |
| — | — | — | 58 | — | 1,671 |
| — | — | — | 27 | — | 14,715 |
| **15,897** | **16,135** | **20,939** | **698** | **272** | **1,511,528** |
| 10,115 | 16,052 | 20,660 | 631 | 333 | 287,698 |
| — | — | — | — | — | 1,297,081 |
| 4,233 | 311 | 526 | — | — | 13,231 |
| 1 | 95 | 3 | — | 2 | 4,184 |
| **14,349** | **16,458** | **21,189** | **631** | **335** | **1,602,194** |
| **1,548** | **(323)** | **(250)** | **67** | **(63)** | **(90,666)** |
| — | 85 | — | — | — | 10,437 |
| — | — | — | — | — | 512 |
| — | — | — | — | — | (2,406) |
| 430 | (65) | 699 | — | — | 2,588 |
| **430** | **20** | **699** | **—** | **—** | **11,131** |
| **1,978** | **(303)** | **449** | **67** | **(63)** | **(79,535)** |
| 3,201 | — | — | — | — | 3,635 |
| 311 | 3 | 7 | — | — | 5,602 |
| (5,816) | (151) | — | — | (4) | (22,980) |
| **(326)** | **(451)** | **456** | **67** | **(67)** | **(93,278)** |
| **22,706** | **100** | **13,023** | **2,230** | **237** | **110,407** |
| **$ 22,380** | **$ (351)** | **$ 13,479** | **$ 2,297** | **$ 170** | **$ 17,129** |

# Combining Statement of Cash Flows

INTERNAL SERVICE FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Insurance Reserve | Employee Insurance Programs | State Accident Fund | General Services |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Receipts from customers | $ 41,402 | $ 997,160 | $ 16,471 | $ — |
| Internal activity–payments from other funds | 28,786 | 231,066 | 63,559 | 78,821 |
| Other operating cash receipts | — | 14,326 | — | — |
| Claims paid | (43,074) | (1,160,820) | (57,788) | — |
| Payments to suppliers for goods and services | (41,640) | (89,098) | (5,660) | (40,657) |
| Payments to employees | (2,881) | (3,766) | (3,907) | (29,937) |
| Internal activity–payments to other funds | (531) | — | (9,972) | (1,202) |
| Other operating cash payments | — | — | (1) | — |
| **Net cash provided by (used in) operating activities** | **(17,938)** | **(11,132)** | **2,702** | **7,025** |
| **Cash flows from noncapital financing activities:** | | | | |
| Principal payments received from other funds | 1,053 | — | — | — |
| Principal payments made to other funds | — | — | — | — |
| Receipt of interest from other funds | 1,293 | — | — | — |
| Loans received from other funds | — | — | — | 528 |
| Loans made to other funds | — | — | — | — |
| Transfers in | 5 | — | — | 5,276 |
| Transfers out | (375) | (361) | (11,586) | (4,687) |
| **Net cash provided by (used in) noncapital financing activities** | **1,976** | **(361)** | **(11,586)** | **1,117** |
| **Cash flows from capital and related financing activities:** | | | | |
| Acquisition of capital assets | (18) | — | (19) | (3,664) |
| Principal payments received from other funds | — | — | — | 1,140 |
| Loans made to other funds | — | — | — | (2,348) |
| Principal payments on notes payable | — | — | — | (108) |
| Principal payments on limited obligation bonds | — | — | — | (3,755) |
| Principal paid on capital debt and lease | — | — | — | (419) |
| Interest payments on capital debt | — | — | — | (2,406) |
| Proceeds from sale or disposal of capital assets | — | — | — | — |
| **Net cash used in capital and related financing activities** | **(18)** | **—** | **(19)** | **(11,560)** |
| **Cash flows from investing activities:** | | | | |
| Proceeds from sales and maturities of investments | 87,165 | 6,292 | — | — |
| Purchase of investments | (144,073) | (3,861) | — | — |
| Interest on investments | 12,513 | 5,278 | 145 | 109 |
| **Net cash provided by (used in) investing activities** | **(44,395)** | **7,709** | **145** | **109** |
| **Net increase (decrease) in cash and cash equivalents** | **(60,375)** | **(3,784)** | **(8,758)** | **(3,309)** |
| **Cash and cash equivalents at beginning of year** | **83,698** | **60,784** | **14,764** | **32,415** |
| **Cash and cash equivalents at end of year** | **$ 23,323** | **$ 57,000** | **$ 6,006** | **$ 29,106** |

| Central Supplies and Equipment | Motor Pool | Pension Adminis-tration | Prison Industries | Governor's School for the Arts Foundation, Inc. | Other Internal Service | Totals |
|---|---|---|---|---|---|---|
| $ — | $ — | $ — | $ 20,938 | $ 726 | $ 274 | $ 1,076,971 |
| 8,992 | 16,407 | 16,140 | — | — | — | 443,771 |
| — | 249 | 3 | 829 | — | — | 15,407 |
| — | — | — | — | — | — | (1,261,682) |
| (8,803) | (8,322) | (3,770) | (8,305) | (145) | (21) | (206,421) |
| — | (1,497) | (9,325) | (12,183) | (486) | (284) | (64,266) |
| — | (456) | (2,453) | (887) | — | (7) | (15,508) |
| (15) | — | — | (130) | — | — | (146) |
| **174** | **6,381** | **595** | **262** | **95** | **(38)** | **(11,874)** |
| — | 45 | — | — | — | — | 1,098 |
| (700) | — | — | — | — | — | (700) |
| — | — | — | — | — | — | 1,293 |
| — | — | — | — | — | — | 528 |
| — | (1,000) | — | — | — | — | (1,000) |
| — | 311 | 3 | 7 | — | — | 5,602 |
| — | (5,816) | (151) | — | — | (4) | (22,980) |
| **(700)** | **(6,460)** | **(148)** | **7** | **—** | **(4)** | **(16,159)** |
| — | (532) | (133) | (782) | — | — | (5,148) |
| — | — | — | — | — | — | 1,140 |
| — | — | — | — | — | — | (2,348) |
| — | — | — | — | — | — | (108) |
| — | — | — | — | — | — | (3,755) |
| — | — | — | (130) | — | — | (549) |
| — | — | — | — | — | — | (2,406) |
| — | 181 | — | — | — | — | 181 |
| **—** | **(351)** | **(133)** | **(912)** | **—** | **—** | **(12,993)** |
| — | — | — | — | — | — | 93,457 |
| — | — | — | — | (1) | — | (147,935) |
| — | — | 85 | — | — | — | 18,130 |
| **—** | **—** | **85** | **—** | **(1)** | **—** | **(36,348)** |
| **(526)** | **(430)** | **399** | **(643)** | **94** | **(42)** | **(77,374)** |
| **854** | **9,166** | **891** | **2,669** | **1,476** | **236** | **206,953** |
| **$ 328** | **$ 8,736** | **$ 1,290** | **$ 2,026** | **$ 1,570** | **$ 194** | **$ 129,579** |

**Continued on Next Page**

# Combining Statement of Cash Flows

INTERNAL SERVICE FUNDS (Continued)

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Insurance Reserve | Employee Insurance Programs | State Accident Fund | General Services |
|---|---|---|---|---|
| **Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:** | | | | |
| Operating income (loss) | $ (60,051) | $ 231 | $ (31,412) | $ (554) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 44 | 16 | 1,630 | 6,466 |
| Other nonoperating revenues | — | 4 | — | — |
| Other nonoperating expenses | — | — | — | — |
| Other | (2,799) | 4 | — | 30 |
| **Change in assets—decreases (increases):** | | | | |
| Accounts receivable, net | (2,548) | (1,625) | (12,388) | (225) |
| Accrued interest | — | — | — | 59 |
| Due from other funds | — | 1,919 | 8 | 2,326 |
| Inventories | — | — | — | (84) |
| Other assets | 544 | — | (298) | — |
| **Change in liabilities—increases (decreases):** | | | | |
| Accounts payable | 420 | 289 | 830 | (1,179) |
| Accrued salaries and related expenses | — | — | — | 69 |
| Accrued interest payable | — | — | — | (81) |
| Retainages payable | — | — | — | (112) |
| Policy claims | 28,369 | (8,281) | 34,238 | — |
| Due to other funds | — | — | — | 55 |
| Deferred revenues | 18,036 | (3,723) | 10,136 | — |
| Compensated absences payable | 47 | 34 | (42) | 255 |
| **Net cash provided by (used in) operating activities** | **$ (17,938)** | **$ (11,132)** | **$ 2,702** | **$ 7,025** |
| **Noncash capital, investing, and financing activities:** | | | | |
| Decrease in fair value of investments | $ (8,316) | $ (825) | $ — | $ — |
| Long-term debt forgiven | — | — | — | 718 |
| **Total noncash capital, investing, and financing activities** | **$ (8,316)** | **$ (825)** | **$ —** | **$ 718** |

| Central Supplies and Equipment | Motor Pool | Pension Adminis-tration | Prison Industries | Governor's School for the Arts Foundation, Inc. | Other Internal Service | Totals |
|---|---|---|---|---|---|---|
| $ 141 | $ 1,548 | $ (323) | $ (250) | $ 67 | $ (63) | $ (90,666) |
| | | | | | | |
| 5 | 4,233 | 311 | 526 | — | — | 13,231 |
| — | 249 | — | 829 | — | — | 1,082 |
| — | — | — | (130) | — | — | (130) |
| (14) | 180 | 3 | (2) | — | — | (2,598) |
| | | | | | | |
| — | (179) | — | (413) | 28 | 1 | (17,349) |
| — | — | 5 | — | — | — | 64 |
| (103) | 509 | (1) | (44) | — | 20 | 4,634 |
| 16 | 2 | — | (323) | — | — | (389) |
| — | — | — | — | — | — | 246 |
| | | | | | | |
| 147 | (177) | 396 | (272) | — | 2 | 456 |
| — | — | 52 | 211 | — | (3) | 329 |
| — | — | — | — | — | — | (81) |
| — | — | — | — | — | — | (112) |
| — | — | — | — | — | — | 54,326 |
| (18) | 18 | 76 | 120 | — | (1) | 250 |
| — | — | — | — | — | — | 24,449 |
| — | (2) | 76 | 10 | — | 6 | 384 |
| **$ 174** | **$ 6,381** | **$ 595** | **$ 262** | **$ 95** | **$ (38)** | **$ (11,874)** |
| | | | | | | |
| $ — | $ — | $ — | $ — | $ — | $ — | $ (9,141) |
| — | — | — | — | — | — | 718 |
| | | | | | | |
| **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ (8,423)** |

# Fiduciary Funds

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

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

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

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

### a. Pension Trust Funds

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

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

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

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

*National Guard Pension System*. The State administers this single-employer pension system that provides a supplemental retirement benefit to members of the South Carolina National Guard. The State is a nonemployer contributor to the system.

### b. Private-Purpose Trust Funds

*College Savings Plan Fund*. The Future Scholar 529 College Savings Plan (the Plan), accounted for in this fund, provides participant families a tax-advantaged method of saving for future college costs. A primary objective of both the financial advisor program and the direct program within the Plan is to provide families with flexibility and professional investment management in meeting their college savings objectives.

*Other Private-Purpose Trust Funds*. This fund accounts for monies the State has received as trustee under various trust arrangements that specify how the principal and interest earnings must be used. In each case, all of the principal and income benefit individuals, private organizations, or governments outside the State reporting entity; none of the monies may be used for State purposes. The purposes to which the resources of these funds are dedicated include scholarships, the operation of the equestrian center and activities at the Springdale Race Course (for the exclusive benefit of the Carolina Cup Racing Association, Inc., a private nonprofit corporation), and the decommissioning of a low-level radioactive waste disposal facility on behalf of Chem-Nuclear Systems, Inc., a for-profit corporation.

### c. Agency Funds

*Insurance Company Deposits Fund*. This fund accounts for deposits which are required to be made by insurance companies in lieu of surety bonds.

*Payroll Clearing Fund*. This fund accounts for employee deductions and contributions for the short period of time between the issuance of payroll checks and payment to the proper recipient.

*Other Agency Funds*. Balances in these funds, aggregated for presentation purposes, represent amounts held for prisoners and patients of State institutions, cash bonds, miscellaneous clearing accounts, and other deposits.

# Combining Statement of Plan Net Assets

PENSION TRUST FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | South Carolina Retirement System | Police Officers' Retirement System | General Assembly Retirement System | Judges' and Solicitors' Retirement System | National Guard Pension System | Totals |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | $ 2,516,500 | $ 251,741 | $ 4,661 | $ 16,504 | $ 11,388 | $ 2,800,794 |
| Receivables: | | | | | | |
| Contributions | 105,278 | 13,099 | 45 | 285 | — | 118,707 |
| Employer long-term | 2,007 | 10 | — | — | — | 2,017 |
| Accrued interest | 108,379 | 12,853 | 281 | 700 | 124 | 122,337 |
| Unsettled investment sales | 43,356 | 5,195 | 99 | 224 | — | 48,874 |
| Total receivables | 259,020 | 31,157 | 425 | 1,209 | 124 | 291,935 |
| Due from other funds | 4,712 | 713 | 2 | 88 | — | 5,515 |
| Investments, at fair value: | | | | | | |
| United States government securities | 1,543,220 | 164,834 | 1,928 | 1,520 | — | 1,711,502 |
| United States government agencies and government-insured securities | 2,217,241 | 394,421 | 3,747 | 11,412 | — | 2,626,821 |
| Corporate bonds | 3,941,559 | 464,919 | 9,803 | 25,647 | — | 4,441,928 |
| Financial and other | 2,093,851 | 278,308 | 3,871 | 9,165 | — | 2,385,195 |
| Equities | 9,109,714 | 1,084,315 | 20,997 | 46,873 | — | 10,261,899 |
| Total investments | 18,905,585 | 2,386,797 | 40,346 | 94,617 | — | 21,427,345 |
| Invested securities lending collateral | 3,272,155 | 407,560 | 5,979 | 13,055 | 1,758 | 3,700,507 |
| Capital assets, net | 3,544 | 362 | 10 | 17 | — | 3,933 |
| Other assets | 540 | 67 | 1 | 3 | — | 611 |
| **Total assets** | **24,962,056** | **3,078,397** | **51,424** | **125,493** | **13,270** | **28,230,640** |
| **LIABILITIES** | | | | | | |
| Accounts payable | 4,438 | 531 | 10 | 23 | — | 5,002 |
| Accounts payable–unsettled investment purchases | 44,569 | 5,303 | 102 | 229 | — | 50,203 |
| Due to other funds | 26,381 | 499 | 76 | — | — | 26,956 |
| Deferred retirement benefits | 649,385 | — | — | — | — | 649,385 |
| Securities lending collateral | 3,272,155 | 407,560 | 5,979 | 13,055 | 1,758 | 3,700,507 |
| Other liabilities | 3,729 | 606 | 1 | — | — | 4,336 |
| **Total liabilities** | **4,000,657** | **414,499** | **6,168** | **13,307** | **1,758** | **4,436,389** |
| **NET ASSETS** | | | | | | |
| **Held in trust for pension benefits** | **$ 20,961,399** | **$ 2,663,898** | **$ 45,256** | **$ 112,186** | **$ 11,512** | **$ 23,794,251** |

# Combining Statement of Changes in Plan Net Assets

PENSION TRUST FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | South Carolina Retirement System | Police Officers' Retirement System | General Assembly Retirement System | Judges' and Solicitors' Retirement System | National Guard Pension System | Totals |
|---|---|---|---|---|---|---|
| **Additions:** | | | | | | |
| Retirement contributions: | | | | | | |
| Employer | $ 515,996 | $ 87,922 | $ 2,731 | $ 6,078 | $ 1,997 | $ 614,724 |
| Employee | 414,898 | 56,602 | 513 | 1,675 | — | 473,688 |
| Total retirement contributions | 930,894 | 144,524 | 3,244 | 7,753 | 1,997 | 1,088,412 |
| Interest income and net appreciation in investments | 1,765,324 | 213,078 | 4,044 | 9,231 | 429 | 1,992,106 |
| Investment expense | 20,620 | 2,428 | 47 | 104 | — | 23,199 |
| Net income from investing activities | 1,744,704 | 210,650 | 3,997 | 9,127 | 429 | 1,968,907 |
| Securities lending income | 50,989 | 5,818 | 110 | 224 | — | 57,141 |
| Securities lending expense | 36,007 | 4,267 | 76 | 160 | — | 40,510 |
| Net income from securities lending activities | 14,982 | 1,551 | 34 | 64 | — | 16,631 |
| Total net investment income | 1,759,686 | 212,201 | 4,031 | 9,191 | 429 | 1,985,538 |
| Transfers between pension trust funds | 69 | 2,545 | — | 218 | — | 2,832 |
| Transfers in | 2,328 | 72 | — | — | — | 2,400 |
| **Total additions** | **2,692,977** | **359,342** | **7,275** | **17,162** | **2,426** | **3,079,182** |
| **Deductions:** | | | | | | |
| Regular retirement benefits | 1,103,336 | 140,317 | 5,347 | 8,605 | 2,376 | 1,259,981 |
| Supplemental retirement benefits | 2,328 | 72 | — | — | — | 2,400 |
| Deferred retirement benefits | 300,294 | — | — | — | — | 300,294 |
| Refunds of retirement contributions to members | 66,505 | 11,918 | — | — | — | 78,423 |
| Group life insurance claims | 13,515 | 1,555 | 8 | 124 | — | 15,202 |
| Accidental death benefits | — | 1,072 | — | — | — | 1,072 |
| Depreciation | 107 | 11 | 1 | — | — | 119 |
| Administrative expense | 13,641 | 1,697 | 30 | 72 | 4 | 15,444 |
| Transfers between pension trust funds | 2,677 | 24 | 131 | — | — | 2,832 |
| **Total deductions** | **1,502,403** | **156,666** | **5,517** | **8,801** | **2,380** | **1,675,767** |
| **Change in net assets** | **1,190,574** | **202,676** | **1,758** | **8,361** | **46** | **1,403,415** |
| **Net assets at beginning of year** | **19,770,825** | **2,461,222** | **43,498** | **103,825** | **11,466** | **22,390,836** |
| **Net assets at end of year** | **$ 20,961,399** | **$ 2,663,898** | **$ 45,256** | **$ 112,186** | **$ 11,512** | **$ 23,794,251** |

# Combining Statement of Fiduciary Net Assets

PRIVATE-PURPOSE TRUST FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | College Savings Plan | Other Private-Purpose Trust | Totals |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ — | $ 26,397 | $ 26,397 |
| Receivables, net: | | | |
| Accounts | — | 30 | 30 |
| Accrued interest | 125 | 279 | 404 |
| Unsettled investment sales | 428 | — | 428 |
| Investments | 323,455 | — | 323,455 |
| Invested securities lending collateral | — | 2,683 | 2,683 |
| Other assets | — | 4,245 | 4,245 |
| **Total assets** | **324,008** | **33,634** | **357,642** |
| **LIABILITIES** | | | |
| Accounts payable | 723 | 25 | 748 |
| Accounts payable–unsettled investment purchases | 251 | — | 251 |
| Securities lending collateral | — | 2,683 | 2,683 |
| **Total liabilities** | **974** | **2,708** | **3,682** |
| **NET ASSETS** | | | |
| **Held in trust for other purposes** | **$ 323,034** | **$ 30,926** | **$ 353,960** |

# Combining Statement of Changes in Fiduciary Net Assets

PRIVATE-PURPOSE TRUST FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | College Savings Plan | Other Private-Purpose Trust | Totals |
|---|---|---|---|
| **Additions:** | | | |
| Licenses, fees, and permits | $ — | $ 250 | $ 250 |
| Tuition plan deposits | 151,706 | — | 151,706 |
| Interest income | 28,446 | 986 | 29,432 |
| **Total additions** | **180,152** | **1,236** | **181,388** |
| **Deductions:** | | | |
| Administrative expense | 2,256 | 3,088 | 5,344 |
| Other expenses | — | 2,642 | 2,642 |
| **Total deductions** | **2,256** | **5,730** | **7,986** |
| **Change in net assets** | **177,896** | **(4,494)** | **173,402** |
| **Net assets at beginning of year** | **145,138** | **35,420** | **180,558** |
| **Net assets at end of year** | **$ 323,034** | **$ 30,926** | **$ 353,960** |

# Combining Statement of Assets and Liabilities

AGENCY FUNDS

**June 30, 2004**
**(Expressed in Thousands)**

| | Insurance Company Deposits | Payroll Clearing | Other Agency | Totals |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ — | $ 10,347 | $ 164,634 | $ 174,981 |
| Receivables, net: | | | | |
| Accounts | — | 24 | 7,926 | 7,950 |
| Accrued interest | — | — | 1,061 | 1,061 |
| Taxes | — | — | 3,012 | 3,012 |
| Due from other funds | — | 44,956 | 11,008 | 55,964 |
| Investments | — | — | 23,931 | 23,931 |
| Securities held in lieu of surety bonds | 354,537 | — | 165 | 354,702 |
| Invested securities lending collateral | — | — | 29,717 | 29,717 |
| **Total assets** | **$ 354,537** | **$ 55,327** | **$ 241,454** | **$ 651,318** |
| **LIABILITIES** | | | | |
| Accounts payable | $ — | $ 10,519 | $ 16,757 | $ 27,276 |
| Tax refunds payable | — | — | 139 | 139 |
| Intergovernmental payables | — | — | 2,680 | 2,680 |
| Deposits | — | — | 1,097 | 1,097 |
| Amounts held in custody for others | 354,537 | 44,808 | 191,064 | 590,409 |
| Securities lending collateral | — | — | 29,717 | 29,717 |
| **Total liabilities** | **$ 354,537** | **$ 55,327** | **$ 241,454** | **$ 651,318** |

# Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

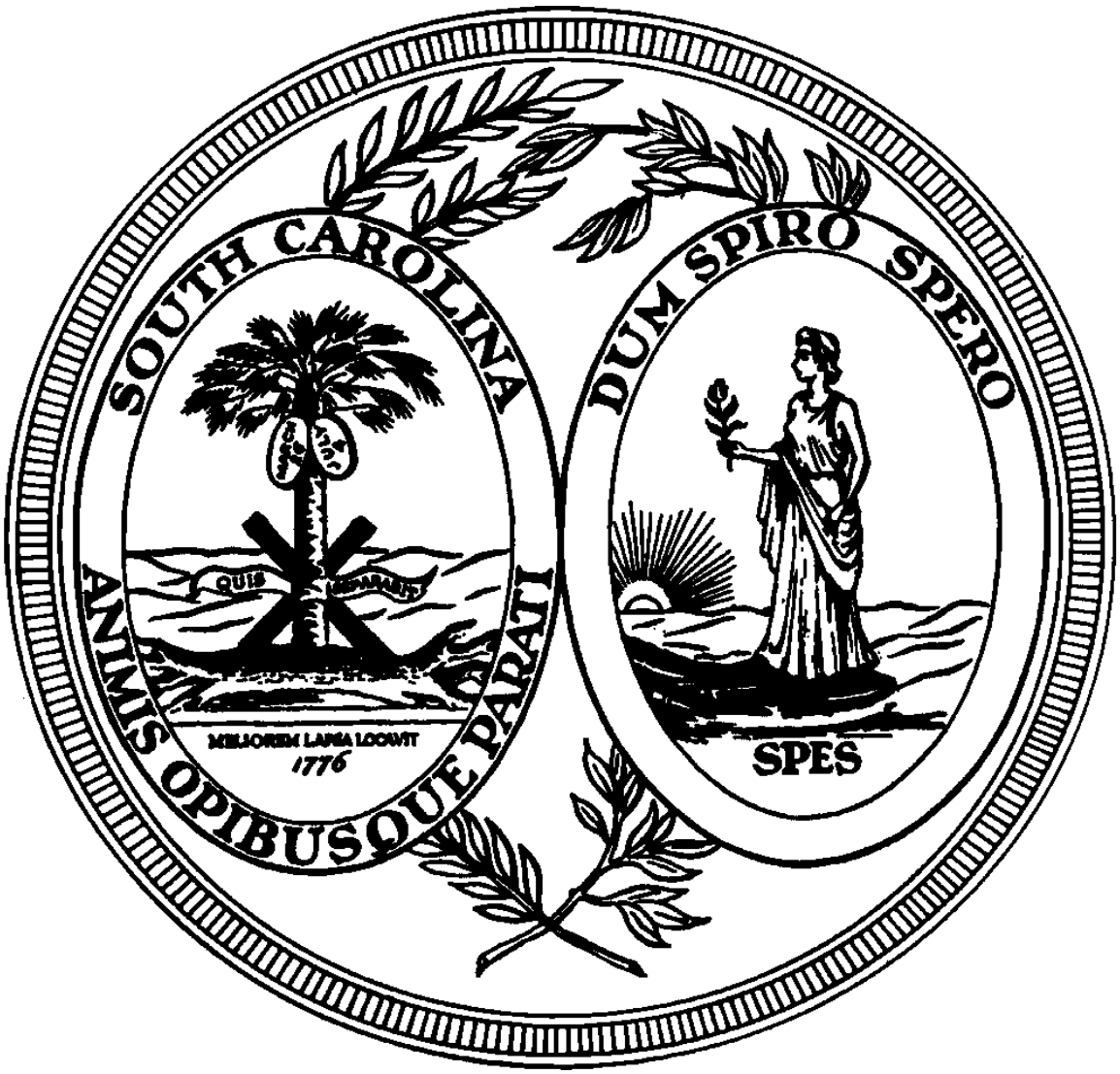
| | Balance July 1, 2003 | Additions | Deductions | Balance June 30, 2004 |
|---|---|---|---|---|
| **INSURANCE COMPANY DEPOSITS** | | | | |
| **Assets:** | | | | |
| Cash and cash equivalents | $ — | $ 70,224 | $ 70,224 | $ — |
| Securities held in lieu of surety bonds | 334,528 | 45,117 | 25,108 | 354,537 |
| **Total assets** | **$ 334,528** | **$ 115,341** | **$ 95,332** | **$ 354,537** |
| **Liabilities:** | | | | |
| Amounts held in custody for others | $ 334,528 | $ 45,117 | $ 25,108 | $ 354,537 |
| **Total liabilities** | **$ 334,528** | **$ 45,117** | **$ 25,108** | **$ 354,537** |
| **PAYROLL CLEARING** | | | | |
| **Assets:** | | | | |
| Cash and cash equivalents | $ 10,849 | $ 1,010,475 | $ 1,010,977 | $ 10,347 |
| Accounts receivable | 26 | 24 | 26 | 24 |
| Due from other funds | 47,420 | 44,956 | 47,420 | 44,956 |
| **Total assets** | **$ 58,295** | **$ 1,055,455** | **$ 1,058,423** | **$ 55,327** |
| **Liabilities:** | | | | |
| Accounts payable | $ 10,939 | $ 10,519 | $ 10,939 | $ 10,519 |
| Due to other funds | — | 10,811 | 10,811 | — |
| Amounts held in custody for others | 47,356 | 849,488 | 852,036 | 44,808 |
| **Total liabilities** | **$ 58,295** | **$ 870,818** | **$ 873,786** | **$ 55,327** |

# Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS (Continued)

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Balance July 1, 2003 | Additions | Deductions | Balance June 30, 2004 |
|---|---|---|---|---|
| **OTHER AGENCY** | | | | |
| **Assets:** | | | | |
| Cash and cash equivalents | $ 159,723 | $ 2,066,901 | $ 2,061,990 | $ 164,634 |
| Accounts receivable | 12,388 | 50,945 | 55,407 | 7,926 |
| Accrued interest receivable | 1,215 | 1,061 | 1,215 | 1,061 |
| Taxes receivable | 3,045 | 3,012 | 3,045 | 3,012 |
| Due from other funds | 10,282 | 11,008 | 10,282 | 11,008 |
| Investments | 14,444 | 9,757 | 270 | 23,931 |
| Securities held in lieu of surety bonds | 165 | — | — | 165 |
| Invested securities lending collateral | 25,748 | 29,717 | 25,748 | 29,717 |
| **Total assets** | **$ 227,010** | **$ 2,172,401** | **$ 2,157,957** | **$ 241,454** |
| **Liabilities:** | | | | |
| Accounts payable | $ 17,828 | $ 21,336 | $ 22,407 | $ 16,757 |
| Due to other funds | — | 192 | 192 | — |
| Tax refunds payable | 481 | 139 | 481 | 139 |
| Intergovernmental payables | 5,901 | 2,680 | 5,901 | 2,680 |
| Deposits | 744 | 1,097 | 744 | 1,097 |
| Amounts held in custody for others | 176,308 | 1,633,700 | 1,618,944 | 191,064 |
| Securities lending collateral | 25,748 | 29,717 | 25,748 | 29,717 |
| **Total liabilities** | **$ 227,010** | **$ 1,688,861** | **$ 1,674,417** | **$ 241,454** |
| **TOTALS--ALL AGENCY FUNDS** | | | | |
| **Assets:** | | | | |
| Cash and cash equivalents | $ 170,572 | $ 3,147,600 | $ 3,143,191 | $ 174,981 |
| Accounts receivable | 12,414 | 50,969 | 55,433 | 7,950 |
| Accrued interest receivable | 1,215 | 1,061 | 1,215 | 1,061 |
| Taxes receivable | 3,045 | 3,012 | 3,045 | 3,012 |
| Due from other funds | 57,702 | 55,964 | 57,702 | 55,964 |
| Investments | 14,444 | 9,757 | 270 | 23,931 |
| Securities held in lieu of surety bonds | 334,693 | 45,117 | 25,108 | 354,702 |
| Invested securities lending collateral | 25,748 | 29,717 | 25,748 | 29,717 |
| **Total assets** | **$ 619,833** | **$ 3,343,197** | **$ 3,311,712** | **$ 651,318** |
| **Liabilities:** | | | | |
| Accounts payable | $ 28,767 | $ 31,855 | $ 33,346 | $ 27,276 |
| Due to other funds | — | 11,003 | 11,003 | — |
| Tax refunds payable | 481 | 139 | 481 | 139 |
| Intergovernmental payables | 5,901 | 2,680 | 5,901 | 2,680 |
| Deposits | 744 | 1,097 | 744 | 1,097 |
| Amounts held in custody for others | 558,192 | 2,528,305 | 2,496,088 | 590,409 |
| Securities lending collateral | 25,748 | 29,717 | 25,748 | 29,717 |
| **Total liabilities** | **$ 619,833** | **$ 2,604,796** | **$ 2,573,311** | **$ 651,318** |


SOUTH CAROLINA
ANIMIS OPIBUSQUE PARATI
DUM SPIRO SPERO
QUIS SEPARABIT
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# Discretely Presented Component Units

Note 1a in the notes to the financial statements explains the relationship of component units to the primary government and the differences between blended component units and discretely presented component units. Note 1b in the notes to the financial statements explains that the State has designated four of its discretely presented component units as major component units. Government-wide financial statements for each of the four major component units are included in the basic financial statements (immediately preceding the notes to the financial statements).

This subsection of the Comprehensive Annual Financial Report provides the following supplementary information for the State's nonmajor discretely presented component units:

- Combining Statement of Net Assets—Nonmajor Discretely Presented Component Units
- Combining Statement of Activities—Nonmajor Discretely Presented Component Units
- Balance Sheet—First Steps to School Readiness Board of Trustees
- Statement of Revenues, Expenditures, and Changes in Fund Balances—First Steps to School Readiness Board of Trustees

### a. Nonmajor Discretely Presented Component Units

The paragraphs below describe the State's nonmajor discretely presented component units:

*The Clemson University Foundation* is a non-profit, tax-exempt public charity that was established to raise and manage private gifts for the advancement and benefit of Clemson University.

*The University of South Carolina Educational Foundation (the Foundation)* is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. The Foundation establishes and implements long-range fund raising programs to assist in the expansion and improvement of the educational functions of the University.

*The South Carolina Medical Malpractice Liability Joint Underwriting Association (the Association*) was established to provide medical malpractice insurance on a self supporting basis. The financial information presented in the accompanying supplemental information is for the Association's fiscal year ended December 31, 2003.

*The South Carolina First Steps to School Readiness Board of Trustees (First Steps)* was established in 1999 as a non-profit, tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The corporation was created specifically to carry out the objectives of The South Carolina First Steps to School Readiness Act and to lessen the burdens on government by overseeing the South Carolina First Steps to School Readiness initiative for improving early childhood development.

*The Children's Trust Fund of South Carolina, Inc. (the Fund)* is a non-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Fund's purpose is to stimulate innovative prevention and treatment programming to meet critical needs of South Carolina's children by awarding grants to private non-profit organizations. The financial information presented in the accompanying supplemental information is for the Fund's fiscal year ended December 31, 2003.

*The Savannah Lakes Regional Loan Fund (the Fund)* was established in 1990. It maintained a revolving loan fund to promote economic development in the State's Savannah Lakes Region. The Fund was dissolved during the fiscal year ended June 30, 2004, and the assets of the Fund were transferred to the Savannah Valley Development of the South Carolina Department of Commerce.

### b. First Steps to School Readiness Board of Trustees (First Steps)

The State presents fund financial statements for First Steps, a nonmajor discretely presented component unit, because that organization does not issue separately audited financial statements of its own. First Steps uses accounting principles that apply to special revenue funds. As such, it uses the current financial resources measurement focus and the modified accrual basis of accounting.

# Combining Statement of Net Assets

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

**June 30, 2004**
**(Expressed in Thousands)**

| | Clemson University Foundation | University of South Carolina Educational Foundation | Medical Malpractice Joint Underwriting Association |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 3,768 | $ 15,055 | $ 7,616 |
| Investments | — | 205 | 34,095 |
| Invested securities lending collateral | — | — | — |
| Receivables, net: | | | |
| Accounts | 221 | 170 | 130 |
| Contributions | 7,510 | 10,590 | — |
| Accrued interest | — | 16 | 443 |
| Restricted assets: | | | |
| Cash and cash equivalents | 4,808 | — | — |
| Prepaid items | — | 25 | — |
| Deferred charges | — | — | 1,415 |
| Total current assets | 16,307 | 26,061 | 43,699 |
| Long-term assets: | | | |
| Receivables, net: | | | |
| Accounts | 2,135 | 176 | — |
| Contributions | 16,120 | 13,590 | — |
| Investments | 256,654 | 207,819 | — |
| Restricted assets: | | | |
| Investments | — | 266 | — |
| Other long-term assets | 12 | — | — |
| Non-depreciable capital assets | 8,971 | — | — |
| Depreciable capital assets, net | 489 | 72 | — |
| Total long-term assets | 284,381 | 221,923 | — |
| **Total assets** | **300,688** | **247,984** | **43,699** |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 228 | 586 | 141 |
| Accrued salaries and related expenses | 5 | 4 | — |
| Policy claims | — | — | 35,000 |
| Due to primary government | 55,521 | 27,093 | — |
| Deferred revenues and deferred credits | 67 | — | 21,961 |
| Securities lending collateral | — | — | — |
| Compensated absences payable | — | — | — |
| Other current liabilities | — | 362 | — |
| Total current liabilities | 55,821 | 28,045 | 57,102 |
| Long-term liabilities: | | | |
| Policy claims | — | — | 128,452 |
| Amounts held in custody for others | 2,084 | — | 73 |
| Notes payable | — | 300 | — |
| Compensated absences payable | — | — | — |
| Other long-term liabilities | 7,789 | 2,501 | — |
| Total long-term liabilities | 9,873 | 2,801 | 128,525 |
| **Total liabilities** | **65,694** | **30,846** | **185,627** |
| **NET ASSETS (DEFICIT)** | | | |
| Invested in capital assets, net of related debt | 9,460 | 72 | — |
| Restricted, expendable: | | | |
| Education | 65,491 | 71,460 | — |
| Other | — | — | 1,961 |
| Restricted, nonexpendable, education | 143,045 | 124,365 | — |
| Unrestricted | 16,998 | 21,241 | (143,889) |
| **Total net assets (deficit)** | **$ 234,994** | **$ 217,138** | **$ (141,928)** |

| First Steps to School Readiness Board of Trustees | Children's Trust Fund of S.C., Inc. | Totals |
|---|---|---|
| $ 1,770 | $ 175 | $ 28,384 |
| — | 653 | 34,953 |
| 181 | — | 181 |
| | | |
| — | — | 521 |
| — | — | 18,100 |
| 39 | — | 498 |
| | | |
| — | — | 4,808 |
| — | — | 25 |
| — | — | 1,415 |
| 1,990 | 828 | 88,885 |
| | | |
| | | |
| — | — | 2,311 |
| — | — | 29,710 |
| — | 18 | 464,491 |
| | | |
| — | — | 266 |
| — | — | 12 |
| — | — | 8,971 |
| 7 | — | 568 |
| 7 | 18 | 506,329 |
| **1,997** | **846** | **595,214** |
| | | |
| | | |
| 81 | — | 1,036 |
| 48 | — | 57 |
| — | — | 35,000 |
| 51 | — | 82,665 |
| — | — | 22,028 |
| 181 | — | 181 |
| 58 | — | 58 |
| — | — | 362 |
| 419 | — | 141,387 |
| | | |
| — | — | 128,452 |
| — | — | 2,157 |
| — | — | 300 |
| 35 | — | 35 |
| — | — | 10,290 |
| 35 | — | 141,234 |
| **454** | **—** | **282,621** |
| | | |
| 7 | — | 9,539 |
| | | |
| 1,536 | — | 138,487 |
| — | 254 | 2,215 |
| — | — | 267,410 |
| — | 592 | (105,058) |
| **$ 1,543** | **$ 846** | **$ 312,593** |

# Combining Statement of Activities

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue |
|---|---|---|---|---|
| Clemson University Foundation | $ 13,104 | $ — | $ 52,392 | $ 39,288 |
| University of South Carolina Educational Foundation | 17,097 | — | 43,632 | 26,535 |
| Medical Malpractice Joint Underwriting Association | 54,249 | 34,022 | 970 | (19,257) |
| First Steps to School Readiness Board of Trustees | 19,352 | — | 19,360 | 8 |
| Children's Trust Fund of S.C., Inc | 80 | — | 189 | 109 |
| Savannah Lakes Regional Loan Fund | 515 | — | 2 | (513) |
| **Totals** | **$ 104,397** | **$ 34,022** | **$ 116,545** | **$ 46,170** |

| Net Assets (Deficit) Beginning of Year (Restated) | Net Assets (Deficit) End of Year |
|---|---|
| $ 195,706 | $ 234,994 |
| 190,603 | 217,138 |
| (122,671) | (141,928) |
| 1,535 | 1,543 |
| 737 | 846 |
| 513 | — |
| **$ 266,423** | **$ 312,593** |

# Balance Sheet

FIRST STEPS TO SCHOOL READINESS
BOARD OF TRUSTEES

**June 30, 2004**
**(Expressed in Thousands)**

| | | |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 1,770 |
| Invested securities lending collateral | | 180 |
| Accrued interest receivable | | 39 |
| **Total assets** | **$** | **1,989** |
| **LIABILITIES AND FUND BALANCE** | | |
| **Liabilities:** | | |
| Accounts payable | $ | 81 |
| Accrued salaries and related expenditures | | 48 |
| Due to primary government | | 51 |
| Securities lending collateral | | 180 |
| **Total liabilities** | | **360** |
| **Fund Balance:** | | |
| **Unreserved, undesignated** | | **1,629** |
| **Total liabilities and fund balance** | **$** | **1,989** |

## Reconciliation of the First Steps Balance Sheet to the Combining Statement of Net Assets Nonmajor Discretely Presented Component Units

| | | | |
|---|---|---|---|
| **Total fund balance - First Steps** | | **$** | **1,629** |
| Amounts reported for First Steps in the Combining Statement of Net Assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the Balance Sheet. These assets consist of: | | | |
| Capital assets | $ 45 | | |
| Accumulated depreciation | (38) | | |
| Total capital assets | | | 7 |
| Compensated absences payable are not due and payable in the current period and therefore are not reported in the Balance Sheet | | | (93) |
| **Net assets of First Steps** | | **$** | **1,543** |

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

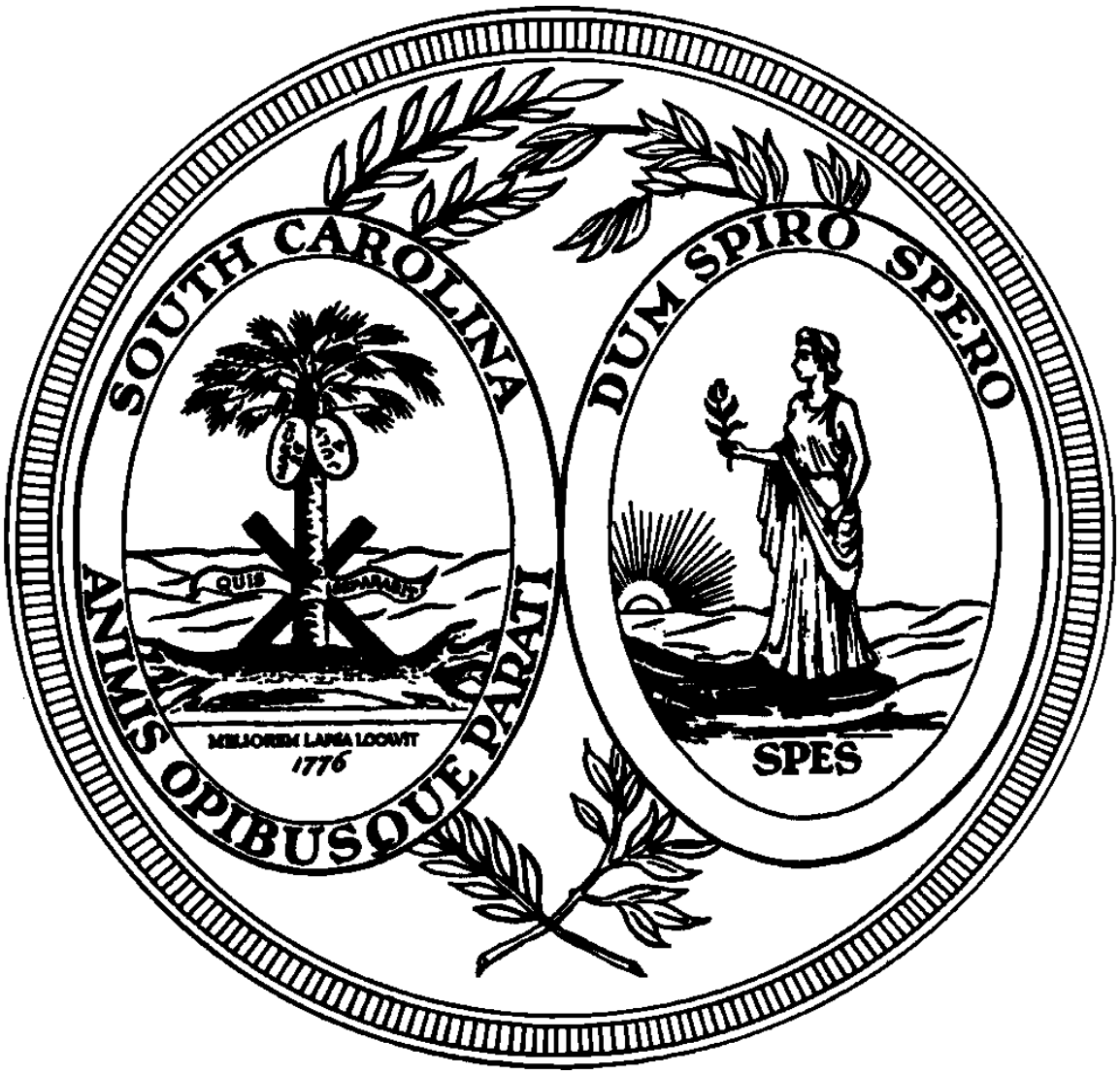
FIRST STEPS TO SCHOOL READINESS
BOARD OF TRUSTEES

**For the Fiscal Year Ended June 30, 2004**
**(Expressed in Thousands)**

| | | |
|---|---|---|
| **Revenues:** | | |
| Interest and other investment income | $ | 269 |
| State operating grants and contracts | | 18,355 |
| Contributions | | 736 |
| **Total revenues** | | **19,360** |
| **Expenditures:** | | |
| Current: | | |
| Education | | 1,878 |
| Intergovernmental | | 17,489 |
| **Total expenditures** | | **19,367** |
| **Deficiency of revenues under expenditures** | | **(7)** |
| **Fund balance at beginning of year** | | **1,636** |
| **Fund balance at end of year** | **$** | **1,629** |

## Reconciliation of the First Steps Statement of Revenues, Expenditures, and Changes in Fund Balance to the Combining Statement of Activities Nonmajor Discretely Presented Component Units

| | | |
|---|---|---|
| **Net change in fund balance - First Steps** | **$** | **(7)** |
| Amounts reported for First Steps in the Combining Statement of Activities are different because: | | |
| Capital outlays are reported as expenditures in the governmental fund. However, in the Combining Statement of Activities the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period these amounts are: | | |
| Capital outlay | | 9 |
| Depreciation expense | | (5) |
| Compensated absences expenses reported in the Combining Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. | | |
| Decrease in compensated absences payable | | 11 |
| **Change in net assets of First Steps** | **$** | **8** |


SOUTH CAROLINA
ANIMIS OPIBUSQUE PARATI
DUM SPIRO SPERO
QUIS SEPARABIT
MELIOREM LAPSA LOCAVIT
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# *Statistical Section (Unaudited)*

This section presents certain economic and social data and financial trends over a ten-year period.

# Expenditures by Function

GENERAL GOVERNMENTAL FUND TYPES[a]

**Last Ten Fiscal Years**
**(Expressed in Thousands)**

| Function | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| General government[b] | $ 352,015 | $ 330,519 | $ 351,156 | $ 352,065 |
| Education | 322,219 | 379,984 | 326,103 | 318,558 |
| Health and environment | 2,320,642 | 2,946,457 | 3,032,995 | 3,121,887 |
| Social services | 697,958 | 709,747 | 700,442 | 662,912 |
| Administration of justice | 457,008 | 488,425 | 543,456 | 592,556 |
| Resources and economic development | 139,635 | 155,302 | 150,131 | 160,242 |
| Transportation | 203,837 | 218,366 | 230,384 | 281,021 |
| Capital outlay | 385,698 | 398,776 | 436,798 | 396,801 |
| Debt service: | | | | |
| Principal retirement | 88,765 | 82,997 | 97,728 | 110,076 |
| Interest and fiscal charges | 48,796 | 50,574 | 53,493 | 51,132 |
| Intergovernmental | 2,358,823 | 2,636,440 | 2,805,584 | 3,032,018 |
| **Total expenditures** | **$ 7,375,396** | **$ 8,397,587** | **$ 8,728,270** | **$ 9,079,268** |

[a] General governmental fund types include the General Fund and special revenue funds.

[b] Until July 1, 2001, the State Infrastructure Bank (the Bank) was reported as part of the general government function. Since July 1, 2001, the Bank has been reported as part of the transportation function. Prior years were not restated for this change.

**For the Fiscal Year Ended June 30**

| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| $ 355,558 | $ 422,935 | $ 488,865 | $ 491,678 | $ 475,705 | $ 533,227 |
| 355,927 | 403,453 | 443,540 | 485,131 | 632,904 | 652,100 |
| 3,443,809 | 3,600,808 | 4,200,086 | 4,218,410 | 4,512,620 | 4,931,105 |
| 648,689 | 674,353 | 720,602 | 803,304 | 844,927 | 874,703 |
| 632,872 | 694,845 | 716,462 | 644,270 | 644,896 | 574,404 |
| 159,546 | 180,403 | 198,351 | 180,011 | 162,794 | 154,066 |
| 303,824 | 518,584 | 324,207 | 435,384 | 559,466 | 614,220 |
| 453,708 | 527,769 | 589,107 | 535,512 | 443,343 | 463,321 |
| | | | | | |
| 90,786 | 107,621 | 139,977 | 185,031 | 231,533 | 220,265 |
| 55,193 | 81,632 | 102,435 | 226,568 | 236,281 | 237,941 |
| 3,262,640 | 3,874,298 | 4,132,596 | 4,530,261 | 4,469,022 | 4,594,739 |
| **$ 9,762,552** | **$ 11,086,701** | **$ 12,056,228** | **$ 12,735,560** | **$ 13,213,491** | **$ 13,850,091** |

# Revenues by Source

GENERAL GOVERNMENTAL FUND TYPES[a]

**Last Ten Fiscal Years**
**(Expressed in Thousands)**

| Sources | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| Taxes: | | | | |
| Individual income | $ 1,646,375 | $ 1,809,287 | $ 1,927,600 | $ 2,103,799 |
| Retail sales and use | 1,892,801 | 2,034,484 | 2,141,864 | 2,304,004 |
| Other | 1,059,846 | 1,149,342 | 1,163,889 | 1,190,605 |
| Licenses, fees, and permits | 255,570 | 243,502 | 258,960 | 281,242 |
| Interest and other investment income | 82,412 | 98,728 | 113,199 | 130,155 |
| Federal, local, and private grants | 2,787,132 | 2,907,661 | 3,087,312 | 3,213,004 |
| Departmental services | 215,485 | 535,117 | 533,395 | 540,047 |
| Contributions | 89,797 | 106,606 | 115,739 | 155,137 |
| Fines and penalties | 54,881 | 55,340 | 58,170 | 61,744 |
| Tobacco legal settlement | — | — | — | — |
| Other | 59,716 | 73,639 | 70,424 | 81,067 |
| **Total revenues** | **$ 8,144,015** | **$ 9,013,706** | **$ 9,470,552** | **$ 10,060,804** |

[a] General governmental fund types include the General Fund and special revenue funds.

**For the Fiscal Year Ended June 30**

| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| $ 2,282,509 | $ 2,453,465 | $ 2,492,877 | $ 2,340,840 | $ 2,287,989 | $ 2,408,756 |
| 2,521,264 | 2,676,686 | 2,705,207 | 2,771,191 | 2,817,138 | 2,996,073 |
| 1,274,366 | 1,227,671 | 1,241,362 | 1,241,065 | 1,288,592 | 1,368,549 |
| 290,530 | 306,067 | 309,017 | 269,917 | 390,291 | 415,334 |
| | | | | | |
| 122,002 | 154,753 | 243,201 | 195,225 | 156,740 | 75,369 |
| 3,445,858 | 3,708,958 | 4,172,450 | 4,573,972 | 5,009,147 | 5,629,214 |
| 539,863 | 539,549 | 563,667 | 637,718 | 699,157 | 665,947 |
| 192,852 | 251,335 | 159,357 | 178,228 | 327,692 | 534,320 |
| 69,862 | 69,017 | 74,959 | 82,878 | 81,532 | 105,601 |
| — | 96,274 | 73,747 | 88,291 | 86,313 | 74,180 |
| 80,220 | 83,650 | 100,569 | 120,275 | 123,423 | 86,112 |
| **$ 10,819,326** | **$ 11,567,425** | **$ 12,136,413** | **$ 12,499,600** | **$ 13,268,014** | **$ 14,359,455** |

# Income and Sales Tax Rates

**Last Ten Fiscal Years**

| Fiscal Year Ended June 30 | Individual Income Tax | Corporate Income Tax | Retail Sales Tax[a] |
|---|---|---|---|
| 1995 | 2.50 - 7% | 5% | 5% |
| 1996 | 2.50 - 7% | 5% | 5% |
| 1997 | 2.50 - 7% | 5% | 5% |
| 1998 | 2.50 - 7% | 5% | 5% |
| 1999 | 2.50 - 7% | 5% | 5% |
| 2000 | 2.50 - 7% | 5% | 5% |
| 2001 | 2.50 - 7% | 5% | 5% |
| 2002 | 2.50 - 7% | 5% | 5% |
| 2003 | 2.50 - 7% | 5% | 5% |
| 2004 | 2.50 - 7% | 5% | 5% |

[a] Excludes the 2% accommodations tax and the local option sales tax; includes the 4% retail sales tax and 1% Education Improvement Act sales tax.

Source: Department of Revenue.

# Net General Obligation Bonds and Notes Per Capita

**Last Ten Fiscal Years**

| Fiscal Year Ended June 30 | Population[a] (Thousands) | Gross Bonded Debt[b] (Thousands) | Debt Payable From Higher Education Fund (Thousands) | Net General Bonded Debt[c] (Thousands) | Net General Bonded Debt Per Capita |
|---|---|---|---|---|---|
| 1995 | 3,749 | $ 898,047 | $ 44,345 | $ 853,702 | $ 227.71 |
| 1996 | 3,796 | 1,007,394 | 41,900 | 965,494 | 254.35 |
| 1997 | 3,860 | 1,052,173 | 85,365 | 966,808 | 250.47 |
| 1998 | 3,919 | 1,036,642 | 84,465 | 952,177 | 242.96 |
| 1999 | 3,975 | 1,218,872 | 78,305 | 1,140,567 | 286.94 |
| 2000 | 4,024 | 1,493,551 | 99,945 | 1,393,606 | 346.32 |
| 2001 | 4,060 | 2,151,806 | 96,310 | 2,055,496 | 506.28 |
| 2002 | 4,104 | 2,348,630 | 142,635 | 2,205,995 | 537.52 |
| 2003 | 4,147 | 2,448,175 | 208,968 | 2,239,207 | 539.96 |
| 2004 | 4,177 | 2,509,001 | 242,740 | 2,266,261 | 542.56 |

[a] Source: Office of Research and Statistics, State Budget and Control Board. Population statistic for 2004 is projected.

[b] Includes general obligation bonds payable and general obligation bond anticipation notes reported as governmental activities or in the Higher Education Fund; also includes general obligation notes payable reported as governmental activities.

[c] Net general bonded debt is the gross general bonded debt less the general obligation debt payable not expected to be repaid through general governmental resources (e.g., the debt payable from the Higher Education Fund).

Note: Assessed value data is not presented because the State of South Carolina does not receive property tax revenue.

# Computation of Legal Debt Margin

**June 30, 2004**
**(Expressed in Thousands)**

Section 59-107-90 of the South Carolina Code of Laws states that the maximum amount of annual debt service on institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year.

Section 57-11-240 of the South Carolina Code of Laws and Article X, Section 13 of the South Carolina Constitution state that highway bonds may be issued if such bonds are additionally secured by a pledge of revenues designated by the General Assembly for State highway purposes from taxes or licenses imposed for using the public highways of the State. The maximum annual debt service on all highway bonds shall not exceed fifteen percent of the proceeds received from the designated revenues for the fiscal year next preceding.

Section 11-41-50 of the South Carolina Code of Laws states that the issuance of general obligation bonds of the State must be limited so that the maximum annual debt service on all general obligation bonds of the State (excluding highway bonds, State institution bonds, tax anticipation notes, and bond anticipation notes) may not exceed five and one-half percent of the general revenues of the State for the fiscal year next preceding (excluding revenues which are authorized to be pledged for state highway bonds and state institution bonds).

Futhermore, Section 11-41-60 states that the maximum annual debt service on economic development bonds may not exceed one-half of one percent of the general revenues of the State for the fiscal year next preceding (excluding revenues which are authorized to be pledged for state highway bonds and state institution bonds).

## INSTITUTION BONDS

| Institution | Prior Year Revenues | 90% Computation | Maximum Debt Service | Margin |
|---|---|---|---|---|
| The Citadel | $ 559 | $ 503 | $ 460 | $ 43 |
| Clemson University | 6,876 | 6,188 | 4,800 | 1,388 |
| Coastal Carolina University | 864 | 778 | 696 | 82 |
| College of Charleston | 4,195 | 3,776 | 573 | 3,203 |
| Lander University | 11,968 | 10,771 | 788 | 9,983 |
| Medical University of South Carolina | 11,539 | 10,385 | 5,776 | 4,609 |
| South Carolina State University | 678 | 610 | 318 | 292 |
| University of South Carolina | 10,010 | 9,009 | 7,054 | 1,955 |
| Winthrop University | 1,554 | 1,399 | 1,318 | 81 |
| Central Carolina Technical College | 848 | 763 | 202 | 561 |
| Midlands Technical College | 1,132 | 1,019 | 827 | 192 |
| Tri-County Technical College | 1,509 | 1,358 | 735 | 623 |
| **Totals** | **$ 51,732** | **$ 46,559** | **$ 23,547** | **$ 23,012** |

## HIGHWAY BONDS

| | |
|---|---|
| 2002-2003 Budgetary General Fund revenues pledged for highway bonds | $ 52,636 |
| 2002-2003 other revenues pledged for highway bonds | 504,524 |
| 2002-2003 revenues pledged for highway bonds | 557,160 |
| 15% of 2002-2003 revenues pledged for highway bonds | 83,574 |
| Less: maximum annual debt service for highway bonds [a] | 60,412 |
| **Legal debt service margin at June 30, 2004--highway bonds** | **$ 23,162** |

[a] As of June 30, 2004, the maximum annual debt service will occur in the fiscal year ending June 30, 2009.

**Continued on Next Page**

# Computation of Legal Debt Margin (Continued)

**June 30, 2004**
**(Expressed in Thousands)**

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

| | | |
|---|---|---|
| 2002-2003 Budgetary General Fund revenues | $ | 4,967,801 |
| Less: 2002-2003 Budgetary General Fund revenues pledged for highway bonds [a] | | 52,636 |
| 2002-2003 net Budgetary General Fund revenues | | 4,915,165 |
| 5.5% of 2002-2003 net Budgetary General Fund revenues | | 270,334 |
| Less: maximum annual debt service for general obligation bonds excluding institution and highway bonds and bond anticipation notes [b] | | 233,275 |
| **Legal debt service margin at June 30, 2004--general obligation bonds excluding institution and highway bonds and bond anticipation notes** | **$** | **37,059** |

[a] For the fiscal year ended June 30, 2004, there were no net Budgetary General Fund revenues pledged for State institution bonds.

[b] As of June 30, 2004, the maximum annual debt service will occur in the fiscal year ending June 30, 2005.

## ECONOMIC DEVELOPMENT BONDS

| | | |
|---|---|---|
| 2002-2003 Budgetary General Fund revenues | $ | 4,967,801 |
| Less: 2002-2003 Budgetary General Fund revenues pledged for highway bonds [c] | | 52,636 |
| 2002-2003 net Budgetary General Fund revenues | | 4,915,165 |
| 0.5% of 2002-2003 net Budgetary General Fund revenues | | 24,576 |
| Less: maximum annual debt service for economic development bonds [d] | | 2,198 |
| **Legal debt service margin at June 30, 2004--economic development bonds** | **$** | **22,378** |

[c] For the fiscal year ended June 30, 2004, there were no net Budgetary General Fund revenues pledged for State institution bonds.

[d] As of June 30, 2004, the maximum annual debt service will occur in the fiscal year ending June 30, 2006.

# Revenue Bond Coverage—Enterprise Funds[a]

**Last Ten Fiscal Years**
**(Dollars in Thousands)**

| Fiscal Year Ended June 30 | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|---|---|---|---|---|---|
| | | Principal | Interest | Total | |
| **The Citadel—1997 Revenue Bonds** | | | | | |
| 1998 | $ 3,080 | $ 735 | $ 609 | $ 1,344 | 2.29 |
| 1999 | 3,767 | 870 | 1,182 | 2,052 | 1.84 |
| 2000 | 3,734 | 905 | 1,138 | 2,043 | 1.83 |
| 2001 | 3,979 | 955 | 1,094 | 2,049 | 1.94 |
| 2002 | 4,343 | 990 | 1,048 | 2,038 | 2.13 |
| 2003 | 4,901 | 1,040 | 1,000 | 2,040 | 2.40 |
| 2004 | 5,025 | 1,080 | 949 | 2,029 | 2.48 |
| **The Citadel—2003 Athletic Facilities Revenue Refunding Bonds** | | | | | |
| 2004 | $ 2,823 | $ 154 | $ 133 | $ 287 | 9.84 |
| **Clemson University—1998 Plant Improvement Bonds** | | | | | |
| 1999 | $ 1,160 | $ 390 | $ 428 | $ 818 | 1.42 |
| 2000 | 1,114 | 485 | 354 | 839 | 1.33 |
| 2001 | 1,204 | 515 | 324 | 839 | 1.44 |
| 2002 | 1,177 | 570 | 292 | 862 | 1.37 |
| 2003 | 1,002 | 590 | 266 | 856 | 1.17 |
| 2004 | 1,003 | 615 | 242 | 857 | 1.17 |
| **Clemson University—2001 Athletic Facilities Revenue Bonds** | | | | | |
| 2002 | $ 3,360 | $ 1,025 | $ 823 | $ 1,848 | 1.82 |
| 2003 | 4,299 | 985 | 871 | 1,856 | 2.32 |
| 2004 | 3,726 | 1,040 | 1,105 | 2,145 | 1.74 |
| **Clemson University—1998 Revenue Bonds** | | | | | |
| 1998 | $ 7,392 | $ 1,395 | $ 467 | $ 1,862 | 3.97 |
| 1999 | 6,848 | 2,325 | 1,339 | 3,664 | 1.87 |
| 2000 | 8,437 | 2,340 | 1,235 | 3,575 | 2.36 |
| 2001 | 9,116 | 2,340 | 2,398 | 4,738 | 1.92 |
| 2002 | 10,760 | 2,445 | 2,290 | 4,735 | 2.27 |
| 2003 | 12,141 | 2,435 | 2,157 | 4,592 | 2.64 |
| 2004 | 11,865 | 2,555 | 3,048 | 5,603 | 2.12 |
| **Coastal Carolina University—1999 Revenue Refunding and Improvement Bonds** | | | | | |
| 2000 | $ 2,875 | $ 320 | $ 1,573 | $ 1,893 | 1.52 |
| 2001 | 3,127 | 635 | 1,554 | 2,189 | 1.43 |
| 2002 | 3,352 | 675 | 1,520 | 2,195 | 1.53 |
| 2003 | 3,159 | 710 | 1,485 | 2,195 | 1.44 |
| 2004 | 2,832 | 640 | 1,445 | 2,085 | 1.36 |

[a] All of the bonds described in this schedule are accounted for in the Higher Education Fund, a major enterprise fund.

| Fiscal Year Ended June 30 | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|---|---|---|---|---|---|
| | | Principal | Interest | Total | |
| **College of Charleston—Higher Education Facilities Revenue Bonds** | | | | | |
| 1995 | $ 2,302 | $ 625 | $ 1,076 | $ 1,701 | 1.35 |
| 1996 | 2,081 | 655 | 1,048 | 1,703 | 1.22 |
| 1997 | 2,414 | 685 | 1,015 | 1,700 | 1.42 |
| 1998 | 2,211 | 715 | 982 | 1,697 | 1.30 |
| 1999 | 2,814 | 750 | 954 | 1,704 | 1.65 |
| 2000 | 2,363 | 785 | 907 | 1,692 | 1.40 |
| 2001 | 2,425 | 825 | 865 | 1,690 | 1.43 |
| 2002 | 1,830 | 865 | 822 | 1,687 | 1.08 |
| 2003 | 2,996 | 580 | 1,976 | 2,556 | 1.17 |
| 2004 | 5,798 | 2,050 | 2,692 | 4,742 | 1.22 |
| **Lander University—2002 Higher Education Facilities Revenue Bonds** | | | | | |
| 2003 | $ 1,352 | $ 165 | $ 94 | $ 259 | 5.22 |
| 2004 | 1,394 | 170 | 86 | 256 | 5.45 |
| **South Carolina State University—1991 Student Revenue Bonds** | | | | | |
| 1995 | $ 379 | $ 125 | $ 290 | $ 415 | 0.91 |
| 1996 | 517 | 170 | 284 | 454 | 1.14 |
| 1997 | (106) | 175 | 276 | 451 | (0.24) |
| 1998 | (553) | 185 | 266 | 451 | (1.23) |
| 1999 | 111 | 195 | 256 | 451 | 0.25 |
| 2000 | 289 | 205 | 246 | 451 | 0.64 |
| 2001 | 248 | 220 | 234 | 454 | 0.55 |
| 2002 | 459 | 230 | 222 | 452 | 1.02 |
| 2003 | 890 | 245 | 209 | 454 | 1.96 |
| 2004 | 1,043 | 260 | 194 | 454 | 2.30 |
| **Spartanburg Technical College—1999 Special Student Fee Capital Improvement Bonds** | | | | | |
| 2000 | $ 326 | $ 213 | $ 85 | $ 298 | 1.09 |
| 2001 | 332 | 153 | 145 | 298 | 1.11 |
| 2002 | 389 | 160 | 138 | 298 | 1.31 |
| 2003 | 377 | 168 | 130 | 298 | 1.27 |
| 2004 | 365 | 177 | 121 | 298 | 1.22 |
| **Spartanburg Technical College—2001 Special Fee Capital Improvement Bonds** | | | | | |
| 2002 | $ 370 | $ 129 | $ 115 | $ 244 | 1.52 |
| 2003 | 312 | 127 | 117 | 244 | 1.28 |
| 2004 | 287 | 133 | 111 | 244 | 1.18 |
| **University of South Carolina Aiken Campus—1999 Auxiliary Revenue Bonds** | | | | | |
| 2000 | $ 407 | $ 160 | $ 247 | $ 407 | 1.00 |
| 2001 | 386 | 165 | 221 | 386 | 1.00 |
| 2002 | 389 | 175 | 214 | 389 | 1.00 |
| 2003 | 387 | 180 | 207 | 387 | 1.00 |
| 2004 | 389 | 190 | 199 | 389 | 1.00 |

**Continued on Next Page**

# Revenue Bond Coverage—Enterprise Funds[a] (Continued)

**Last Ten Fiscal Years**
**(Dollars in Thousands)**

| Fiscal Year Ended June 30 | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|---|---|---|---|---|---|
| | | Principal | Interest | Total | |
| **University of South Carolina Columbia Campus—1995 Parking Facilities Revenue Bonds** | | | | | |
| 1996 | $ 237 | $ — | $ 237 | $ 237 | 1.00 |
| 1997 | 1,054 | 580 | 474 | 1,054 | 1.00 |
| 1998 | 1,051 | 605 | 446 | 1,051 | 1.00 |
| 1999 | 1,032 | 615 | 417 | 1,032 | 1.00 |
| 2000 | 1,033 | 645 | 388 | 1,033 | 1.00 |
| 2001 | 1,007 | 650 | 357 | 1,007 | 1.00 |
| 2002 | 987 | 660 | 327 | 987 | 1.00 |
| 2003 | 630 | 335 | 295 | 630 | 1.00 |
| 2004 | 629 | 350 | 279 | 629 | 1.00 |
| **University of South Carolina Columbia Campus—1996 Auxiliary Revenue Bonds** | | | | | |
| 1997 | $ 1,099 | $ — | $ 1,099 | $ 1,099 | 1.00 |
| 1998 | 1,781 | 315 | 1,466 | 1,781 | 1.00 |
| 1999 | 1,779 | 335 | 1,444 | 1,779 | 1.00 |
| 2000 | 1,786 | 365 | 1,421 | 1,786 | 1.00 |
| 2001 | 1,787 | 390 | 1,397 | 1,787 | 1.00 |
| 2002 | 1,790 | 420 | 1,370 | 1,790 | 1.00 |
| 2003 | 1,791 | 450 | 1,341 | 1,791 | 1.00 |
| 2004 | 1,796 | 485 | 1,311 | 1,796 | 1.00 |
| **University of South Carolina Columbia Campus—2000 Auxiliary Revenue Bonds** | | | | | |
| 2001 | $ 1,449 | $ 270 | $ 1,179 | $ 1,449 | 1.00 |
| 2002 | 1,470 | 305 | 1,165 | 1,470 | 1.00 |
| 2003 | 1,469 | 320 | 1,149 | 1,469 | 1.00 |
| 2004 | 1,473 | 340 | 1,133 | 1,473 | 1.00 |
| **University of South Carolina Columbia Campus—2002 Athletic Facilities Revenue Bonds** | | | | | |
| 2003 | $ (202) | $ — | $ 1,223 | $ 1,223 | (0.17) |
| 2004 | 414 | 340 | 1,048 | 1,388 | 0.30 |
| **University of South Carolina Columbia Campus—2003 Parking Facilities Revenue Bonds** | | | | | |
| 2004 | $ 399 | $ 235 | $ 178 | $ 413 | 0.97 |
| **University of South Carolina Spartanburg Campus—1997 Auxiliary Revenue Bonds** | | | | | |
| 1998 | $ 414 | $ 130 | $ 284 | $ 414 | 1.00 |
| 1999 | 372 | 135 | 237 | 372 | 1.00 |
| 2000 | 375 | 145 | 230 | 375 | 1.00 |
| 2001 | 372 | 150 | 222 | 372 | 1.00 |
| 2002 | 374 | 160 | 214 | 374 | 1.00 |
| 2003 | 376 | 170 | 206 | 376 | 1.00 |
| 2004 | 372 | 175 | 197 | 372 | 1.00 |

[a] All of the bonds described in this schedule are accounted for in the Higher Education Fund, a major enterprise fund.

| Fiscal Year Ended June 30 | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage Ratio |
|---|---|---|---|---|---|
| | | Principal | Interest | Total | |
| **Winthrop University—1997 Auxiliary Facilities Revenue Bonds** | | | | | |
| 1998 | $ 182 | $ 60 | $ 29 | $ 89 | 2.04 |
| 1999 | 213 | 48 | 40 | 88 | 2.42 |
| 2000 | 242 | 51 | 38 | 89 | 2.72 |
| 2001 | 267 | 54 | 35 | 89 | 3.00 |
| 2002 | 266 | 58 | 31 | 89 | 2.99 |
| 2003 | 280 | 61 | 27 | 88 | 3.18 |
| 2004 | 286 | 60 | 24 | 84 | 3.40 |
| **Winthrop University—2001 Athletic Facilities Revenue Bonds** | | | | | |
| 2002 | $ 458 | $ 120 | $ 67 | $ 187 | 2.45 |
| 2003 | 486 | 120 | 105 | 225 | 2.16 |
| 2004 | 501 | 120 | 99 | 219 | 2.29 |
| **Winthrop University—2002 Higher Education Facilities Revenue Bonds** | | | | | |
| 2003 | $ 603 | $ 340 | $ 210 | $ 550 | 1.10 |
| 2004 | 657 | 335 | 213 | 548 | 1.20 |

# Ratio of Annual Debt Service Expenditures for General Obligation Debt to Total General Governmental Expenditures[a]

**Last Ten Fiscal Years**
**(Dollars in Thousands)**

| Fiscal Year Ended June 30 | Principal | Interest | Total Debt Service | General Governmental Expenditures | Ratio of Debt Service to General Governmental Expenditures |
|---|---|---|---|---|---|
| 1995 | $ 88,765 | $ 48,796 | $ 137,561 | $ 7,375,396 | 1.87% |
| 1996 | 82,997 | 50,574 | 133,571 | 8,397,587 | 1.59% |
| 1997 | 97,728 | 53,493 | 151,221 | 8,728,270 | 1.73% |
| 1998 | 110,076 | 51,132 | 161,208 | 9,079,268 | 1.78% |
| 1999 | 90,786 | 55,193 | 145,979 | 9,762,552 | 1.50% |
| 2000 | 107,621 | 81,632 | 189,253 | 11,086,701 | 1.71% |
| 2001 | 139,977 | 102,435 | 242,412 | 12,056,228 | 2.01% |
| 2002 | 185,031 | 226,568 | 411,599 | 12,735,560 | 3.23% |
| 2003 | 231,533 | 236,281 | 467,814 | 13,200,996 | 3.54% |
| 2004 | 220,265 | 237,941 | 458,206 | 13,850,091 | 3.31% |

[a] General governmental expenditures include the General Fund and special revenue funds.

# Property Value, Construction, and Bank Deposits

**Last Ten Years**

**(Dollars in Millions)**

| | Nonresidential Construction | Residential Construction[a] | | | Property Value[b] | |
|---|---|---|---|---|---|---|
| Year | Thousands of Square Feet at December 31 | Number of Units at December 31 | Value at December 31 | Bank Deposits at December 31 | Nonresidential at June 30 | Residential at June 30 |
| 1993 | 15,840 | 21,186 | $ 1,662 | $ 31,005 | $ 43,084 | $ 50,963 |
| 1994 | 20,369 | 23,670 | 1,898 | 30,475 | 44,204 | 54,118 |
| 1995 | 22,345 | 22,400 | 1,826 | 33,035 | 45,334 | 57,987 |
| 1996 | 25,816 | 28,281 | 2,402 | 30,032 | 46,864 | 60,977 |
| 1997 | 31,397 | 27,984 | 2,430 | 23,515 | 48,409 | 63,905 |
| 1998 | 23,763 | 31,070 | 2,821 | 24,729 | 51,294 | 70,109 |
| 1999 | 26,181 | 32,894 | 3,261 | 25,921 | 57,699 | 77,131 |
| 2000 | 23,396 | 30,777 | 3,278 | 27,443 | 61,943 | 81,611 |
| 2001 | 26,424 | 27,975 | 3,183 | 29,269 | 72,803 | 92,494 |
| 2002 | 24,896 | 30,969 | 3,811 | 31,459 | 75,351 | 99,423 |
| 2003 | 23,611 | 37,079 | 4,491 | 34,283 | [d] | [d] |
| 2004 | [c] | [c] | [c] | [c] | [d] | [d] |

[a] The residential construction statistics exclude mobile home permits.

[b] Property taxes do not represent a source of revenue for the State.

[c] Not yet available.

[d] Due to legislation requiring that tax assessments be based on the prior year's property value, neither the 2003 nor 2004 information is yet available.

Sources: Board of Economic Advisors, State Budget and Control Board; Department of Revenue; University of South Carolina, Moore School of Business, Division of Research.

# Demographic Statistics

**Last Ten Years**

| Year | Population[a] at June 30 | Per Capita Income[a] Year Ended December 31 | Median Age[a] (Years) at June 30 | School Enrollment[b] at June 30 | Unemployment Rate[c] at December 31 |
|---|---|---|---|---|---|
| 1994 | 3,705,397 | $ 18,072 | 33.3 | 692,515 | 5.2% |
| 1995 | 3,748,582 | 19,473 | 33.7 | 701,140 | 5.5% |
| 1996 | 3,796,200 | 20,403 | 34.1 | 699,058 | 5.8% |
| 1997 | 3,859,696 | 20,998 | 34.5 | 708,751 | 3.6% |
| 1998 | 3,919,235 | 22,115 | 35.0 | 718,969 | 4.2% |
| 1999 | 3,974,682 | 23,075 | 35.4 | 720,855 | 4.4% |
| 2000 | 4,023,725 | 24,426 | 35.4 | 716,721 | 4.1% |
| 2001 | 4,059,818 | 25,067 | 35.7 | 714,427 | 5.9% |
| 2002 | 4,103,770 | 25,502 | 36.0 | 723,313 | 6.2% |
| 2003 | 4,147,152 | 26,132 | 36.3 | 725,638 | 6.1% |
| 2004 | 4,177,230 | [d] | 36.6 | 729,541 | [d] |

[a] Source: Office of Research and Statistics, State Budget and Control Board. Population statistic for 2004 is projected.

[b] Source: South Carolina Department of Education.

[c] Source: South Carolina Employment Security Commission.

[d] Not yet available.

# Largest Manufacturing Companies[a]

**December 31, 2003**

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

[a]Based on number of employees. This list includes all companies with 1,600 or more employees.

Source: South Carolina Department of Commerce

# Miscellaneous Statistics

**December 31, 2003 (Except as Noted)**

| | |
|---|---|
| Date of ratification--U. S. Constitution | 1788[a] |
| Form of government | Legislative-Executive-Judicial |
| Miles of State highways | 66,231[b] |
| Land area (square miles) | 30,111[c] |
| State police protection: | |
| Police and sheriff agencies | 297[d] |
| Total number of sworn officers | 9,238[d] |
| Higher education (universities, colleges, and technical education centers): | |
| Number of campuses | 60[e] |
| Number of students | 183,413[e] |
| Recreation: | |
| Number of State parks and historical sites | 53[f] |
| Area of State parks | 81,168 acres[f] |
| Area of State forests | 89,300 acres[g] |
| State employees--all funds (at June 30, 2004) | 60,618[h] |

Sources:

[a]2004 Legislative Manual

[b]Department of Transportation

[c]Office of Research and Statistics, State Budget and Control Board

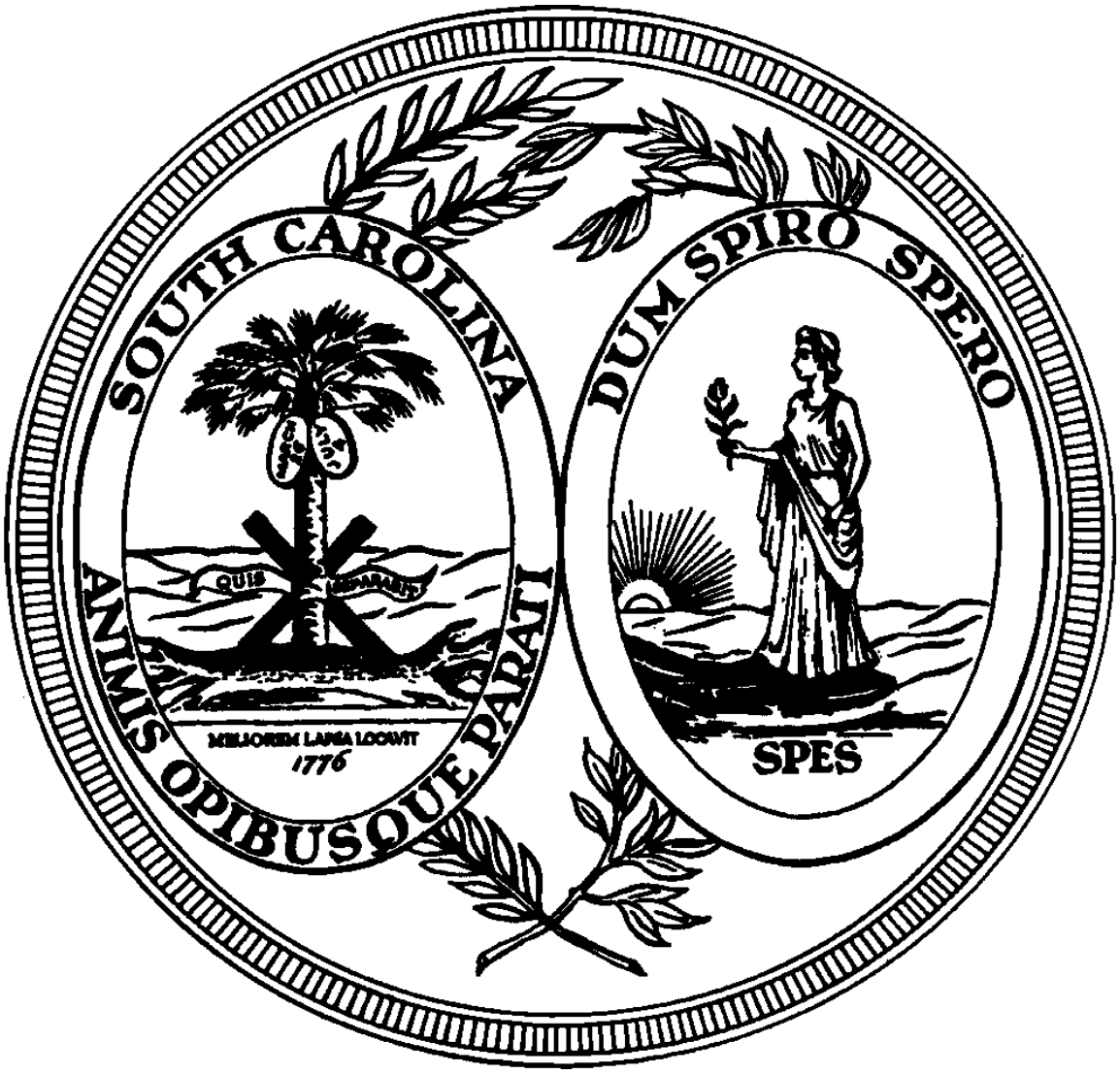
[d]State Law Enforcement Division

[e]Commission on Higher Education

[f]Department of Parks, Recreation, and Tourism

[g]Forestry Commission

[h]Office of State Budget, State Budget and Control Board

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## STATE OF SOUTH CAROLINA

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