

State of South Carolina  
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COMPTROLLER GENERAL

**JAMES M. HOLLY**  
CHIEF OF STAFF

December 17, 2010

**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, 2010. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year. 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 received for our report as of June 30, 2009; a list of State officials; and an organizational chart of State government.
- The Financial Section, including the report of the independent auditors, 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.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that was established for this purpose. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor and Clifton Gunderson 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, 2010. The auditors have issued an unqualified opinion, the most favorable outcome of the audit process.

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 GOVERNMENT**

South Carolina extends from the Atlantic Ocean westward to the Blue Ridge Mountains, containing over 30,000 square miles. Fortieth in geographic area among the fifty states, South Carolina ranks twenty-fourth in population with approximately 4.5 million citizens. The State's rate of population growth is presently the tenth fastest in the nation.

As shown in the organizational chart on page 15, State government is divided into three separate branches: legislative, executive, and judicial. The State's citizens elect the legislative and executive branch officials. The General Assembly elects certain members of the judicial branch, including the Supreme Court. The principal State officials currently in office are listed on page 14.

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.

Certain legally separate entities are included in these financial statements because they function, in essence, as part of State government. The Governor appoints the governing boards for the Public Service Authority, a public utility company, and the State Ports Authority. The Connector 2000 Association, Inc. contracts with the State's Department of Transportation to operate a toll road project. The Lottery Commission transfers its net proceeds to the State for educational programs. Other entities benefit and support institutions of higher education, provide medical malpractice insurance, and address medical and educational needs of South Carolina's children. Additional information on these legally separate entities can be found in the notes to the financial statements.

South Carolina's annual Appropriations Act includes legally adopted budgets for the Budgetary General Fund and for Total Funds. The initial budget appears in the annual Appropriations Act. After the budget year begins, the State Budget and Control Board, comprised of five key executive and legislative officials, may order spending cuts if revenue collections fail to reach predicted levels. Departments and agencies may request transfers of appropriations among programs if the transfer request does not exceed 20% of the program budget. The Budget and Control Board has the authority to approve additional transfers of appropriations between personal service and other operating expense accounts. For additional information, see the notes to the required supplementary information - budgetary.

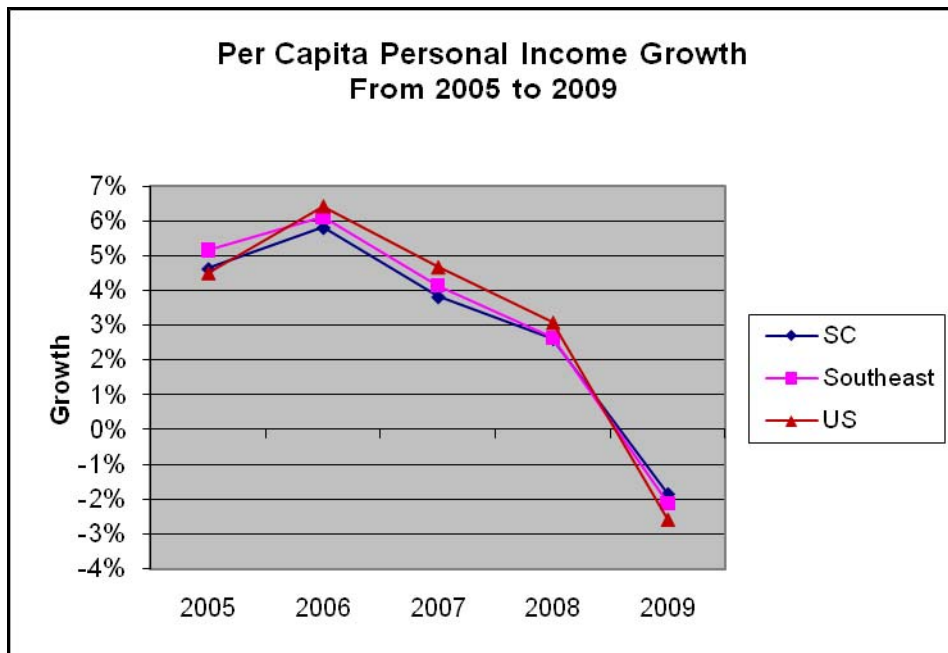
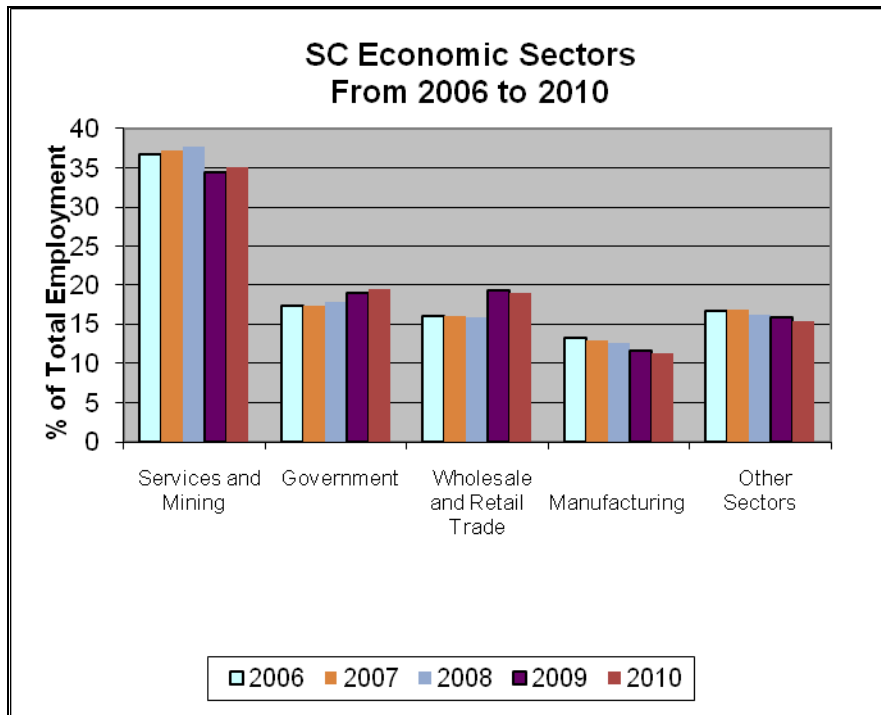
## **STATE ECONOMY**

South Carolina has a diverse economic base, including manufacturing, trade, healthcare, services, and leisure/hospitality. 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, and accessibility to markets, and in recent years, substantial tax incentives.

During the fiscal year 2010, South Carolina gained 14,100 jobs over the same period in 2009; however, the State has yet to recover from the tremendous overall 92,700 job loss that occurred in 2009. Despite a 23.0% increase in real estate closings and a 9.1% increase in residential building permits, construction job losses remain at 10.0% while foreclosures are up 38.9% over the prior year. Manufacturing job losses have improved slightly to 1.88% as opposed to 12.2% a year ago. The strongest boost in job gains was the Federal government sector that experienced a 17.0% increase and administrative support/waste management sector that experienced a 12.13% increase over the prior year.

The State's September 2010 unemployment rate of 11.0% has improved 0.7% over the prior year; however, it continues to be higher than the national unemployment rate of 9.6%. Out of 46

counties in South Carolina, only Aiken, Beaufort, Charleston, Dorchester, Lexington, Edgefield, and Saluda counties were below the national unemployment rate.



South Carolina's per capita income for 2009 decreased to \$32,338, or 1.8% below 2008. The decrease was consistent with the decreases experienced per capita nationally, (2.6%), and by the southeast region (2.1%).

Despite continued difficult economic times, the South Carolina Department of Commerce was involved in recruiting 18,000 new jobs during calendar year 2009, including the decision by The Boeing Co. to locate a final assembly site in North Charleston which will provide 3,800 jobs and \$750.0 million in new capital investment to the State. Of all the 2009 projects recruited, 28.0% of the jobs and 30.0% of the projects went to rural areas of the State where only 21.8% of the State's labor force resides.

### **LONG-TERM FINANCIAL PLANNING**

State law requires agencies receiving 1% or more of the total annual General Fund appropriations to provide an estimate of their general fund expenditures for the next three fiscal years. The State Budget Office combines these expenditure estimates with long-term revenue estimates made by the State's Board of Economic Advisors (BEA) to create a three-year financial plan. The three-year financial plan assists the State in strategically assessing its future financial commitments. The plan is updated annually and provided to the State's Budget and Control Board, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate during the second quarter of each fiscal year.

Principal financial challenges facing state government include anticipated future spending increases for Medicaid, health and social services benefits, State retirement and health benefits (including post employment benefits), and elementary and secondary education.

The State's long-term financial management practices include a five-year capital improvement plan, which requires funding to be in place before beginning construction on any capital improvement projects.

### **RELEVANT FINANCIAL POLICIES**

The State's legislature is required to adopt a balanced budget annually based on revenue projections provided by the BEA. State law requires the BEA to meet at least quarterly to review how actual revenue collections compare with its earlier projections and to adjust its projections if necessary. If the BEA reduces revenue projections significantly once the budget year begins, the State's Budget and Control Board (Board) is responsible for taking appropriate action to keep the State's budget in balance. If the Board anticipates a year-end operating deficit as a result of the BEA reducing its revenue projections, it must first reduce amounts set-aside in the Annual Appropriations Act for the 2% Capital Reserve Fund. If the anticipated deficit is greater than the 2% Capital Reserve Fund, then the Board must reduce most agency appropriations evenly across-the-board. The State also is required to maintain a 3% General Reserve Fund that can be used only for eliminating a year-end operating deficit. If the State's budgetary General Fund subsequently experiences a year-end operating deficit even after applying all the actions described above, the Board is required to meet within sixty days of August 31 to adopt a plan to eliminate the deficit and restore a balanced budget.

Legislation also exists directing that in closing the books each year the Comptroller General shall suspend, to the extent necessary, any budgetary surplus appropriations in a general or supplemental act or Capital Reserve Fund appropriations, if the State's Generally Accepted Accounting Principles-basis General Fund reports a negative unreserved fund balance.

Budgetary General Fund revenues continued to be erratic during this fiscal year. Actual revenues were \$310.106 below revenue projections used to generate the FY10 General Fund budget. In response to the decline, the Budget and Control Board ordered two mid-year agency spending cuts and drawing down the Capital Reserve Fund. As a result of these actions and the continued

monitoring of revenue collections, the State ended the year with a positive General Fund balance of \$246.167 million comprising of the FY10 surplus of \$71.001 million, legislatively-approved agency carryover appropriations of \$64.283 million, and the General Reserve Fund balance of \$110.883 million.

### **MAJOR INITIATIVES**

#### **Finance and Budgeting**

Due to the economic downturn and the continued use of the General Reserve Fund and the Capital Reserve Fund to finance year-end deficits, the Legislature proposed and the general electorate passed a state constitutional amendment in the November 2, 2010, election to increase the funding requirement of the General Reserve Fund and revise the use of the Capital Reserve Fund. The amendment provides for the amount required to be held in the General Reserve Fund to be increased gradually from three percent to five percent of state general fund revenue in the latest completed fiscal year. The amendment also revises the use of the Capital Reserve Fund so that it can be used more effectively for replenishing revenue shortfalls.

The Legislature also adopted legislation revising the procedures for handling state revenue shortfalls that currently authorizes the Board to implement across-the-board budget cuts in situations when revenue collection falls below four percent of forecasts. The Board is now authorized to act when revenue collection falls two percent below the forecasts. The legislation also authorizes reductions in the third quarter of the fiscal year in addition to the first and second quarters and shortens the time period in which the board is required to take action to avoid a year-end deficit from fifteen days to seven days. The legislation also provides for automatic budget cuts by requiring the Director of the Office of State Budget to reduce general fund appropriations uniformly by the requisite amount if the Budget and Control Board does not take timely and appropriate action.

The State's cigarette tax was legislatively increased from seven cents to fifty cents per cigarette pack, devoting the majority of the revenue generated to a newly created Medicaid Reserve Fund and authorizing cancer research, smoking prevention and cessation, and agricultural assistance.

#### **Economic Development and Employment**

The Legislature approved the "South Carolina Economic Development Competitiveness Act of 2010" in order to implement numerous private sector recommendations for fostering an economic development climate in the state that attracts global business and industry investment. Notably, the legislation revises provisions for fee in lieu of property taxes agreements so as to reduce the minimum investment requirement for a business and increase the number of years a fee is available. Under the legislation, manufacturers are eligible for a reassessment of their property in a way that will decrease their tax burden. The legislation modernizes and brings greater uniformity to the state's jobs tax credits, investment tax credits, revitalization agreements, and numerous other economic development incentives.

The Department of Employment and Workforce was established as a cabinet level agency to perform workforce development functions and replace the Employment Security Commission in the administration of unemployment compensation. In addition, the legislation transferred to the Department the Workforce Investment Act Program previously assigned to the Department of Commerce.

The Legislature approved remedies for the insolvency of the Unemployment Insurance Trust Fund that is used to provide unemployment compensation. The legislation revises the contributions that the state's employers are required to make to the trust fund in order to satisfy new solvency targets. Administrative changes were approved to provide, among other things, that individuals are ineligible for jobless benefits if they have been dismissed for certain types of misconduct.

## Education

The Legislature authorized South Carolina to join the Interstate Compact on Educational Opportunity for Military Children. The purpose of the compact is to remove barriers to educational success imposed on children of military families because of frequent moves and deployment of their parents by enhancing the transfer of education records and improving coordination among member states so that varying attendance requirements and methods of scheduling, sequencing, grading, course content and assessment will not place children of military families at a disadvantage when they must relocate.

## AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of South Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. This was the twenty-second consecutive year that the State of South Carolina has achieved this recognition. In order to be awarded a Certificate of Achievement, a government must publish a timely, easily readable, and efficiently organized CAFR. The CAFR must comply with both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Production of the CAFR was made possible only by the support of all State agencies and component units that supplied financial data to our office on a timely basis. We extend special appreciation to Mr. Larry Pearce, Director of Publications and Printing at the University of South Carolina, for providing the CAFR's attractive cover.

Sincerely,



Richard Eckstrom, CPA  
Comptroller General