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**MANAGEMENT'S DISCUSSION  
AND ANALYSIS—  
Required Supplementary Information  
(Unaudited)**

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## 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, 2010. Please read it together with the Comptroller's *Letter of Transmittal* at the front of this report and also the financial statements that 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 annual 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 presented on pages 34 through 39 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, the comparison of net assets to liabilities may indicate whether the State's financial health 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 causes 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, the format of this statement is quite different from the format of a business's profit and loss statement. The statement of activities helps to show how much it costs the State to provide various services. It also helps to show the extent to which each government function covers its own costs through user fees, charges, or grants. The *net revenues (expenses)* column on the far right of this statement on page 38 shows how much a particular function relies on taxes and other general revenues as opposed to program revenues to finance its programs.

The government-wide statements present 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 transportation. 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, and financing of housing facilities 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 on page 71).

#### 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.

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 provided to outside customers (*enterprise funds*) or other State agencies and other governments (*internal service funds*). Proprietary funds use the *accrual basis of accounting* like businesses use. 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 and other post-employment benefit plans. The State also is responsible for other assets that, because of a trust agreement, it is to use only for trust beneficiaries such as an investment pool operated on behalf of local governments. 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 identifies the State's major component units under the *Component units* subheading. More detailed financial statements which include 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 68 through 146 are necessary to fully understand the financial statements.

### **Required Supplementary Information**

This section addresses budgetary matters and provides 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 on page 153 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 required supplementary information is on pages 147 through 153 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*  
Government-wide Net Assets  
As of June 30, 2010  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2009-2010
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009	
<b>Assets</b>							
Current and other assets.....	\$ 8,061,151	\$ 7,989,303	\$ 5,480,890	\$ 5,105,500	\$ 13,542,041	\$ 13,094,803	3.4%
Capital assets.....	14,212,229	13,983,125	4,401,142	4,232,108	18,613,371	18,215,233	2.2%
<b>Total assets.....</b>	<b>22,273,380</b>	<b>21,972,428</b>	<b>9,882,032</b>	<b>9,337,608</b>	<b>32,155,412</b>	<b>31,310,036</b>	<b>2.7%</b>
<b>Liabilities</b>							
Long-term liabilities.....	4,292,318	4,300,763	4,791,991	4,329,882	9,084,309	8,630,645	5.3%
Other liabilities.....	4,190,761	4,206,275	1,002,462	1,055,415	5,193,223	5,261,690	(1.3%)
<b>Total liabilities.....</b>	<b>8,483,079</b>	<b>8,507,038</b>	<b>5,794,453</b>	<b>5,385,297</b>	<b>14,277,532</b>	<b>13,892,335</b>	<b>2.8%</b>
<b>Net Assets</b>							
Invested in capital assets, net of debt.....	10,966,666	10,276,019	2,539,652	2,429,521	13,506,318	12,705,540	6.3%
Restricted.....	3,195,396	3,351,317	1,225,352	1,123,060	4,420,748	4,474,377	(1.2%)
Unrestricted.....	(371,761)	(161,946)	322,575	399,730	(49,186)	237,784	(120.7%)
<b>Total net assets.....</b>	<b>\$ 13,790,301</b>	<b>\$ 13,465,390</b>	<b>\$ 4,087,579</b>	<b>\$ 3,952,311</b>	<b>\$ 17,877,880</b>	<b>\$ 17,417,701</b>	<b>2.6%</b>

## Net Assets

As we noted earlier, the comparison of net assets to liabilities may serve, over time, as a useful indicator of the State's financial strength. At the end of the 2009-2010 accounting year, the State's net assets totaled \$17.878 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 repay the related debt because it needs the assets for its operations; so it must find other resources to repay 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 without restrictions—reported a deficit of \$49.186 million at June 30, 2010. This represents a decline of \$286.970 million over the prior year. Some of this decline resulted from a \$209.815 million decrease in the unrestricted net assets reported for the State's *governmental activities*, which reported a \$371.761 million deficit in unrestricted net assets for the current fiscal year versus a \$161.946 million deficit in the prior year. The decline was attributable to decreased revenues in the current fiscal year; see section "Budgetary General Fund Highlights" on page 28 for further detail.

The State's *business-type activities* reported a \$322.575 million unrestricted net asset balance. This resulted from net positive balances of \$1.212 billion associated with higher education and certain other business-type activities. However, that positive balance was partially offset by a \$759.548 million accumulated deficit in the State-run unemployment compensation fund, a \$121.926 million accumulated deficit in the State-run medical malpractice insurance program, and an \$8.320 million accumulated deficit in the State-run college tuition prepayment program.

Exhibit 2  
**Government-wide Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2010**  
*(Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009	
<b>Revenues</b>							
Program revenues:							
Charges for services.....	\$ 2,356,804	\$ 2,118,417	\$ 5,421,089	\$ 4,635,700	\$ 7,777,893	\$ 6,754,117	15.2%
Operating grants and contributions.....	8,274,731	7,045,052	1,042,850	409,628	9,317,581	7,454,680	25.0%
Capital grants and contributions.....	570,743	382,979	100,884	52,809	671,627	435,788	54.1%
General revenues:							
Individual income tax.....	2,659,728	2,805,998	—	—	2,659,728	2,805,998	(5.2%)
Retail sales and use tax.....	3,855,095	3,908,318	—	—	3,855,095	3,908,318	(1.4%)
Other taxes.....	1,616,347	1,682,300	—	—	1,616,347	1,682,300	(3.9%)
Unrestricted grants and contributions.....	205,965	23,896	—	—	205,965	23,896	761.9%
Unrestricted investment income.....	41,555	86,639	—	—	41,555	86,639	(52.0%)
Tobacco legal settlement.....	68,709	95,115	—	—	68,709	95,115	(27.8%)
Other.....	433,166	301,321	—	—	433,166	301,321	43.8%
<b>Total revenues.....</b>	<b>20,082,843</b>	<b>18,450,035</b>	<b>6,564,823</b>	<b>5,098,137</b>	<b>26,647,666</b>	<b>23,548,172</b>	<b>13.2%</b>
<b>Expenses</b>							
Governmental activities:							
General government.....	4,475,571	4,331,740	—	—	4,475,571	4,331,740	3.3%
Education.....	4,400,125	4,109,666	—	—	4,400,125	4,109,666	7.1%
Health and environment.....	6,007,179	5,825,749	—	—	6,007,179	5,825,749	3.1%
Social services.....	1,847,028	1,533,666	—	—	1,847,028	1,533,666	20.4%
Administration of justice.....	760,379	774,533	—	—	760,379	774,533	(1.8%)
Resources and economic development.....	351,882	372,073	—	—	351,882	372,073	(5.4%)
Transportation.....	1,179,611	940,226	—	—	1,179,611	940,226	25.5%
Other.....	81,838	98,728	—	—	81,838	98,728	(17.1%)
Business-type activities:							
Higher education.....	—	—	3,520,564	3,396,191	3,520,564	3,396,191	3.7%
Higher education institution support <sup>a</sup> .....	—	—	1,252,222	1,200,456	1,252,222	1,200,456	4.3%
Unemployment compensation benefits.....	—	—	2,026,866	1,332,402	2,026,866	1,332,402	52.1%
Financing of housing facilities.....	—	—	238,191	180,555	238,191	180,555	31.9%
Medical malpractice insurance.....	—	—	2,324	(6,724)	2,324	(6,724)	(134.6%)
Financing of student loans.....	—	—	36,694	52,699	36,694	52,699	(30.4%)
Tuition prepayment program.....	—	—	910	10,598	910	10,598	(91.4%)
Other.....	—	—	36,583	40,955	36,583	40,955	(10.7%)
<b>Total expenses.....</b>	<b>19,103,613</b>	<b>17,986,381</b>	<b>7,114,354</b>	<b>6,207,132</b>	<b>26,217,967</b>	<b>24,193,513</b>	<b>8.4%</b>
<b>Excess (deficiency) before additions to endowments and transfers.....</b>	<b>979,230</b>	<b>463,654</b>	<b>(549,531)</b>	<b>(1,108,995)</b>	<b>429,699</b>	<b>(645,341)</b>	<b>(166.6%)</b>
Additions to endowments.....	—	—	30,480	31,934	30,480	31,934	(4.6%)
Net transfers.....	(653,389)	(685,972)	653,389	685,972	—	—	—
<b>Increase (decrease) in net assets.....</b>	<b>325,841</b>	<b>(222,318)</b>	<b>134,338</b>	<b>(391,089)</b>	<b>460,179</b>	<b>(613,407)</b>	<b>(175.0%)</b>
<b>Net assets, beginning of year.....</b>	<b>13,465,390</b>	<b>13,687,708</b>	<b>3,952,311</b>	<b>4,343,400</b>	<b>17,417,701</b>	<b>18,031,108</b>	<b>(3.4%)</b>
<b>Restatement of beginning net assets <sup>b</sup>.....</b>	<b>(930)</b>	<b>—</b>	<b>930</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net assets, end of year.....</b>	<b>\$ 13,790,301</b>	<b>\$ 13,465,390</b>	<b>\$ 4,087,579</b>	<b>\$ 3,952,311</b>	<b>\$ 17,877,880</b>	<b>\$ 17,417,701</b>	<b>2.6%</b>

<sup>a</sup> The higher education institution support activity represents certain associations, foundations, and authorities created for the benefit of the State's higher education institutions.  
<sup>b</sup> Restatement due to change in reporting entity. See Note 2, Accounting and Reporting Changes, on page 81 of the financial statements.

**Changes in Net Assets**

The State's total net assets increased \$460.179 million (2.6%) over the prior year's net assets as a result of its governmental activities and its business-type activities.

**Governmental Activities**

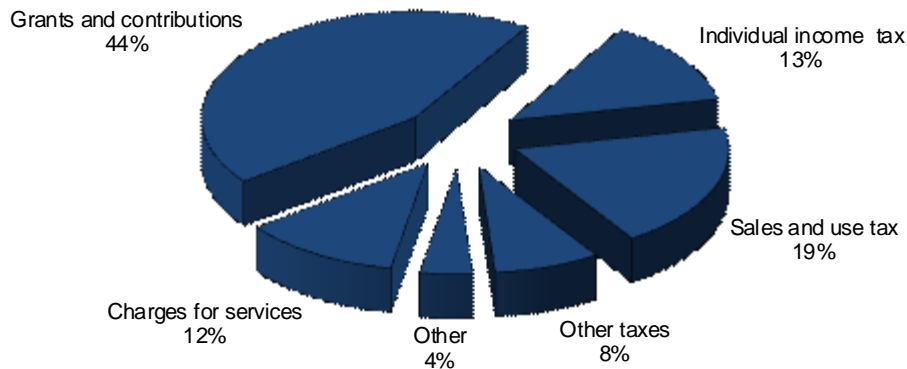
Net assets of the State's governmental activities increased by \$325.841 million (2.4%). Revenue increased from last year by \$1.633 billion (8.8%), which is the net of a decrease of \$23.022 million (0.3%) in general revenue offset by an increase of \$1.656 billion (17.3%) in program revenue. Revenues that support governmental activities are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the comparative sources of revenues that support governmental activities.

Expenses associated with governmental activities increased by \$1.117 billion (6.2%) for the fiscal year ended June 30, 2010. These expenses were mostly associated with services provided for health and environment, education, general government, transportation, 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. For the fiscal year ended June 30, 2010, the State used \$8.881 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 \$653.389 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.

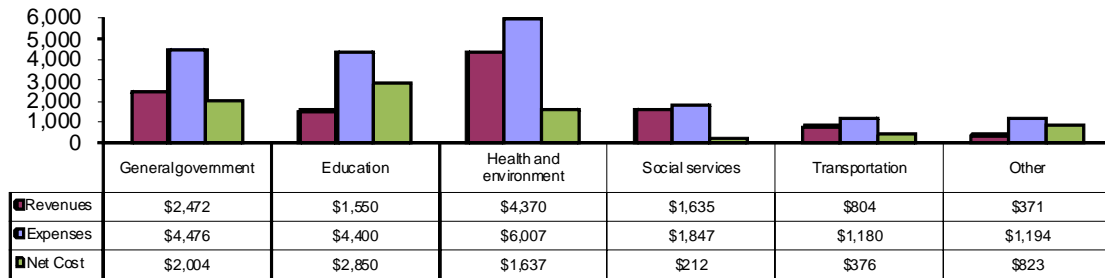
The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2009-2010 fiscal year:

- Operating grants and contributions increased by \$1.230 billion (17.5%). The increase was primarily due to the improved funding of education and public health programs through Stimulus funds.
- General tax revenues decreased \$265.446 million (3.2%) from last year. Individual income tax revenues declined 5.2%, sales/use tax revenues declined 1.4%, and corporate income/other taxes revenues declined 3.9%. Tax collections were down during fiscal year 2009-2010 due to the national recession; however, the decline was not as drastic as the decline that occurred from fiscal year 2007-2008 to fiscal year 2008-2009.
- General government and education expenses increased \$434.290 million (5.1%) compared to a decline of 5.4% during the previous fiscal year, due in part to the transfer of two agency divisions that were reclassified between the “Resources and economic development” and “General Government” expenditure functions. Education expenses increased due to additional funding available through grants and additional depreciation expense due to reevaluating depreciable lives on buses.

*Exhibit 3*  
**Sources of Revenues Supporting Governmental Activities**  
**For the Fiscal Year Ended June 30, 2010**



*Exhibit 4*  
**Governmental Activities - Net Cost of Services**  
**For the Fiscal Year Ended June 30, 2010**  
**(In Millions)**



**Business-type Activities**

Net assets of the State’s business-type activities increased \$134.338 million (3.4%).

Revenues from business-type activities included charges for services (82.6%) and grants and contributions, including federal aid (17.4%). Expenses from business-type activities were mostly to provide higher education services and support (67.1%), unemployment compensation benefits (28.5%), and financing of housing facilities (3.3%).

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. However, the Higher Education Fund receives substantial resources (primarily transfers of annual appropriations) from the State’s governmental activities. Essentially, net transfers to the Higher Education Fund, which totaled \$653.389 million for the year ended June 30, 2010, represent the cost of educational services that taxes and other general revenues of governmental activities support.

Expenses for the payment of unemployment compensation benefits increased \$694.464 million during the 2009-2010 fiscal year. This increase resulted primarily from a rise in the State’s rate of unemployment and the increased length of time over which benefits are paid to an individual.

**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, 2010.

*Exhibit 5*  
**Governmental Fund Balances**  
**As of June 30, 2010**  
*(Expressed in Thousands)*

	<b>General Fund</b>	<b>Departmental General Operating</b>	<b>Local Government Infrastructure</b>	<b>Department of Transportation Special Revenue</b>	<b>State Tobacco Settlement</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
Reserved.....	\$ 184,645	\$ 15,748	\$ 1,981,573	\$ 15,738	\$ —	\$ 154,194	\$ 2,351,898
Unreserved, designated.....	—	—	—	—	—	376,152	376,152
Unreserved, undesignated.....	(36,290)	581,290	(224,300)	(212,412)	44,582	524,647	677,517
<b>Totals.....</b>	<b>\$ 148,355</b>	<b>\$ 597,038</b>	<b>\$ 1,757,273</b>	<b>\$ (196,674)</b>	<b>\$ 44,582</b>	<b>\$ 1,054,993</b>	<b>\$ 3,405,567</b>
<b>Change from prior year.....</b>	<b>\$ 43,126</b>	<b>\$ 33,499</b>	<b>\$ 63,846</b>	<b>\$ (72,965)</b>	<b>\$ (9,843)</b>	<b>\$ 62,486</b>	<b>\$ 120,149</b>
<b>Percentage change.....</b>	<b>41.0%</b>	<b>5.9%</b>	<b>3.8%</b>	<b>(59.0%)</b>	<b>(18.1%)</b>	<b>6.3%</b>	<b>3.7%</b>

At June 30, 2010, total ending fund balance for the State's governmental funds was \$3.406 billion, which represents an increase of \$120.149 million (3.7%) from the prior year. Nearly one-third of this total (30.9%) consists of *unreserved* fund balance—the amount available for spending in the coming year. The remaining fund balance is *reserved* and is *not* available for future appropriation because it is accessible only for specific purposes. The following paragraphs discuss the activities of the General Fund and other 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 2009-2010 accounting year, the total fund balance of the General Fund increased \$43.126 million (41.0%) from last year. Overall, revenues were \$320.339 million (5.1%) less than the previous year, the largest portion of the decline being individual income taxes, which decreased \$168.493 million (6.0%). Sales and use taxes and other taxes also declined by \$49.449 million (2.2%) and \$68.420 million (8.9%), respectively, from prior year. The reduction in revenues was more than offset by an overall decrease in expenditures of \$444.490 million (8.5%) and net transfers out of \$145.542 million (11.9%) over the prior year. Expenditures and transfers out decreased because of mandated spending reductions ordered by State officials.

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 maintenance, regulation, and construction of public highways and bridges. The fund balance decreased \$72.965 million (59.0%) during 2009-2010 leaving a negative fund balance of \$196.674 million at the end of the fiscal year. The decrease in fund balance that occurred during the current fiscal year was a result of several factors. One factor was that despite increased Federal revenue \$204.070 million (42.0%), over prior year; transportation expenditures increased \$240.944 million (36.8%), over prior year, a net of negative \$36.874 million. Another factor is that DOT issued refunding bonds including premiums of \$335.902 million in the current fiscal year, while retiring principal of \$359.250 million, a net of negative \$23.348 million.



**Proprietary Funds**

Exhibit 6 shows the components of net assets for the State’s various proprietary funds at June 30, 2010.

Exhibit 6  
**Proprietary Fund Net Assets**  
**As of June 30, 2010**  
 (Expressed in Thousands)

Fund Net Assets	Enterprise Funds							Internal Service Funds
	Higher Education	Unemployment Compensation	Housing Authority	Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Total Enterprise	
Invested in capital assets (net of related debt).....	\$ 2,389,446	\$ —	\$ 882	\$ 78,737	\$ 91	\$ 70,496	\$ 2,539,652	\$ 92,233
Restricted, expendable.....	591,106	—	270,567	89,269	63,778	25,437	1,040,157	285,069
Restricted, nonexpendable.....	153,628	—	—	—	—	31,567	185,195	—
Unrestricted.....	752,506	(759,548)	44,382	128,409	80,436	89,794	335,979	(10,758)
<b>Totals.....</b>	<b>\$ 3,886,686</b>	<b>\$ (759,548)</b>	<b>\$ 315,831</b>	<b>\$ 296,415</b>	<b>\$ 144,305</b>	<b>\$ 217,294</b>	<b>\$ 4,100,983</b>	<b>\$ 366,544</b>
<b>Change from prior year.....</b>	<b>\$ 425,665</b>	<b>\$ (444,570)</b>	<b>\$ 8,273</b>	<b>\$ 63,814</b>	<b>\$ (1,751)</b>	<b>\$ 95,846</b>	<b>\$ 147,277</b>	<b>\$ (3,520)</b>
<b>Percentage change.....</b>	<b>12.3%</b>	<b>141.1%</b>	<b>2.7%</b>	<b>27.4%</b>	<b>(1.2%)</b>	<b>78.9%</b>	<b>3.7%</b>	<b>(1.0%)</b>

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 net assets of the *Unemployment Compensation Benefits Fund*, a major enterprise fund, decreased by \$444.570 million (141.1%) over the prior year. As discussed in Note 22h on page 146, due to the increasing unemployment rate and resulting increased amount of unemployment benefits the Fund paid out, along with the increased length of time over which the benefits are paid out, the Fund was required to obtain advances from the Federal Unemployment Fund, the balance of which is \$886.662 million at June 30, 2010. Management plans to continue to borrow from the Federal government to fund its deficits for the foreseeable future.

The *Medical University Hospital Authority*, a major enterprise fund, reported an increase in net assets of \$63.814 million (27.4%) over the prior year. Revenue from charges for services exceeded operating expenditures by \$124.534 million in fiscal year 2009-2010, whereas in fiscal year 2008-2009, charges for services exceeded operating expenditures by only \$61.125 million, resulting in a larger increase in net assets during the current year than in the prior year.

The net assets of the State’s *nonmajor enterprise funds* increased by \$95.846 million (78.9%). This increase was due in part to positive operating results for the *Patients’ Compensation Fund*, increased investment income and decreased tuition plan disbursements in the *Tuition Prepayment Program Fund*, and increased charges for services for *University Medical Associates*.

South Carolina’s *internal service funds* provide certain services (including maintenance, insurance, printing, information technology, 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**

Original estimated revenues for the 2009–2010 accounting year were \$5.552 billion. Because of continual review of tax revenue collections and uncertain economic conditions, the Board of Economic Advisors (BEA) revised downward the revenue estimate during the course of the year to a total of \$5.033 billion. In addition, the Budget and Control Board took action by mandating agency appropriation reductions of 4.04% and 5.00% amounting overall to \$438.680 million and prohibited any reductions of the Capital Reserve Fund of \$127.848 million. Actual revenues at June 30, 2010, were \$209.142 million (4.2%) over the BEA’s adjusted revenue estimate but still had declined compared to the prior year revenue

collections by \$302.277 million (5.5%). Individual income and sales tax collections, the fund’s primary revenue sources, ended the year favorably over the adjusted estimate by \$133.725 million and \$53.796 million, respectively.

Actual expenditures were \$125.655 million less than actual revenues because of the actions of the Budget and Control Board, including \$40.245 million of unbudgeted spending through “open-ended” appropriations.

Based on the above results of operations, fiscal year 2009-2010 ended with a budgetary surplus. After funding the prior year deficit of \$98.217 million and replenishing the General Reserve Fund by \$46.959 million, the State ended the year with an accumulated budgetary general fund balance of \$246.167 million, comprised of an unreserved/undesignated surplus of \$71.001 million, general reserve of \$110.883 million, and \$64.283 million in carried-forward appropriations.

See the *Required Supplementary Information* section on pages 147 through 153 of this report for a detailed budgetary comparison schedule.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of the 2009-2010 accounting year, the State had \$18.613 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$398.138 million, or 2.2%, over the previous accounting year (see *Exhibit 7*).

*Exhibit 7*  
**Capital Assets, Net of Depreciation**  
 As of June 30 for the Years Indicated  
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2009-2010
	2010	Restated	2010	2009	2010	Restated	
		2009				2009	
Land and improvements.....	\$ 1,789,136	\$ 1,760,180	\$ 385,555	\$ 381,073	\$ 2,174,691	\$ 2,141,253	1.6%
Infrastructure.....	7,981,897	7,736,057	—	—	7,981,897	7,736,057	3.2%
Buildings and improvements.....	968,567	995,602	3,365,444	3,055,738	4,334,011	4,051,340	7.0%
Vehicles.....	123,716	204,166	15,779	15,981	139,495	220,147	(36.6%)
Machinery and equipment.....	123,599	138,857	347,004	341,281	470,603	480,138	(2.0%)
Works of art and historical treasures.....	5,340	5,400	38,639	27,509	43,979	32,909	33.6%
Construction in progress.....	3,156,544	3,141,388	238,346	406,196	3,394,890	3,547,584	(4.3%)
Intangible assets.....	63,430	1,475	10,375	4,330	73,805	5,805	1171.4%
<b>Total.....</b>	<b>\$ 14,212,229</b>	<b>\$ 13,983,125</b>	<b>\$ 4,401,142</b>	<b>\$ 4,232,108</b>	<b>\$ 18,613,371</b>	<b>\$ 18,215,233</b>	<b>2.2%</b>

Growth in capital asset investment continues to struggle as funding has been limited to agency appropriations without use of the Capital Reserve Fund. The Capital Reserve Fund has been used to continue to offset operating deficits. During the prior year, growth decreased to \$525.537 million (2.97%) as opposed to the same period in fiscal year 2007-2008, which grew \$757.278 million (4.5%). During the current year, vehicle fleets have continued to decrease due to general aging and irreparability, and book values have decreased due to depreciation. The Patriot’s Point Development Authority continues to invest in maintaining their exhibits which are reflected as increases to historical treasures. The Budget and Control Board capitalized the new statewide accounting system amounting to approximately \$63.557 million. This system should provide more accountability and consistency among the State’s agencies.

See Note 7 in the notes to the financial statements on page 100 of this report for additional information on the State’s capital assets.

**Long-term Debt**

At June 30, 2010, the State had \$7.827 billion in bonds and notes outstanding—a decrease of \$60.715 million, or 0.8%, over last year (see *Exhibit 8*).

*Exhibit 8*  
**Outstanding Bonds and Notes**  
**As of June 30 for the Years Indicated**  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2009-2010
	2010	2009	2010	2009	2010	2009	
Backed by the State:							
General obligation bonds.....	\$ 1,950,048	\$ 1,857,510	\$ 387,464	\$ 354,252	\$ 2,337,512	\$ 2,211,762	5.7%
Bond anticipation notes.....	—	—	30,000	30,000	30,000	30,000	0.0%
Backed by specific revenues:							
Revenue bonds and notes.....	94,195	71,802	3,135,445	3,245,263	3,229,640	3,317,065	(2.6%)
Infrastructure Bank bonds.....	2,051,545	2,091,864	—	—	2,051,545	2,091,864	(1.9%)
Tobacco Authority bonds.....	120,653	176,180	—	—	120,653	176,180	(31.5%)
Limited obligation bonds.....	6,435	7,629	—	—	6,435	7,629	(15.7%)
Bond anticipation notes.....	—	—	51,100	53,100	51,100	53,100	(3.8%)
<b>Total.....</b>	<b>\$ 4,222,876</b>	<b>\$ 4,204,985</b>	<b>\$ 3,604,009</b>	<b>\$ 3,682,615</b>	<b>\$ 7,826,885</b>	<b>\$ 7,887,600</b>	<b>(0.8%)</b>

The increase in debt reported in governmental activities resulted from the issuance of general obligation bonds including \$220.000 million in Economic Development bonds, \$50.000 million in Air Carrier Hub Terminal Facilities bonds, and \$299.860 million in Highway bonds. Also, the issuance of Infrastructure Bank revenue bonds of \$88.590 million and a master lease note of \$22.100 million to finance the State’s new enterprise information system, net of principal payments on all categories of bonds and notes, resulted in the net increase in debt for governmental activities.

New debt reported in business-type activities included the issuance of \$54.000 million in general obligation state institution bonds by Coastal Carolina University. The issuance of new revenue bonds and notes was less than principal payments, resulting in an overall decrease in that category for business-type activities. The Education Assistance Authority issued \$85.000 million in new bonds and paid off \$201.350 million in bonds. The Housing Authority issued \$120.000 million in new bonds and paid off \$65.075 million in bonds and a \$22.000 million note payable. In the State’s Higher Education fund, the University of South Carolina and Francis Marion University issued \$28.510 million and \$8.500 million in revenue bonds, respectively; however, bond and note principal payments totaling \$76.353 million for the Higher Education fund exceeded the new debt issued.

Three bond rating services assign ratings to bonds that the State backs with its own taxing authority (*general obligation bonds*). Fitch Ratings rated these bonds as “AAA” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2010, the highest ratings that these services assign. Standard & Poor’s rated these bonds as “AA+” during the same period.

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, 2010, 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: \$44.136 million for institution bonds (*Institution bonds* are general obligation bonds that benefit the State’s Higher Education Fund.), \$32.385 million for highway bonds, \$132.182 million for general obligation bonds (excluding institution and highway bonds), \$2.990 million for economic development bonds, and \$6.626 million for research university infrastructure bonds. During the fiscal year ended June 30, 2010, the State issued \$170.000 million of economic development bonds which are not subject to the limitation on maximum annual debt service.

See Note 12 in the notes to the financial statements on page 118 of this report for additional information about the State’s long-term debt.

**Economic Factors and Next Year’s Budget**

**The “Rainy Day Account”**

At June 30, 2010, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$110.883 million which was comprised of \$63.924 million appropriated by the 2009-2010 Appropriations Act and \$46.959 million from the

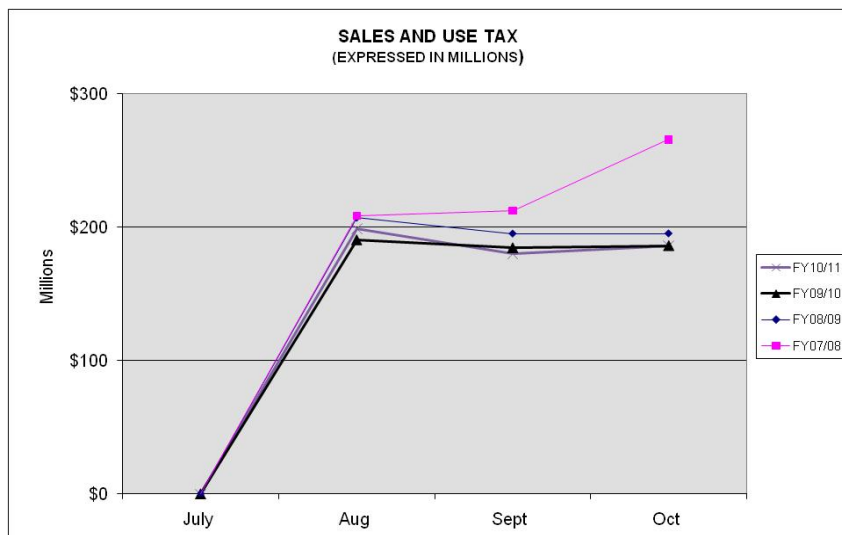
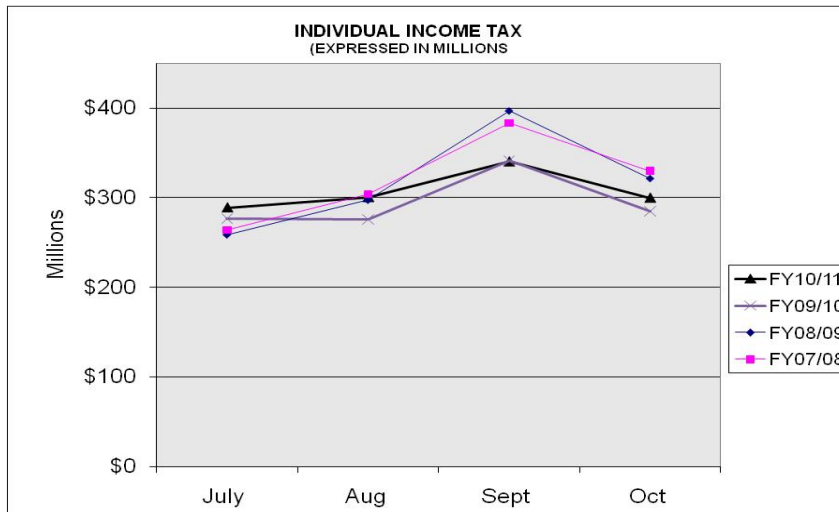
fiscal year 2009-2010 budgetary General Fund surplus. The balance is below the actual full funding requirement of \$191.772 million. The State’s Constitution requires restoration of the reserve to full funding within three fiscal years after a withdrawal. State law defines full funding for the reserve as 3% of the Budgetary General Fund’s revenues for the latest completed accounting year.

**Budgetary General Fund for the 2010-2011 Accounting Year**

For fiscal year 2010-2011, estimated General Fund revenue published in the 2010-2011 Appropriations Act was \$5.170 billion, or \$71.382 million, less than fiscal year 2009–2010 actual revenue collections. The estimate could be subsequently revised based on continued monitoring of revenue collections and economic conditions.

**Economic Conditions**

Budgetary General Fund revenues for the first four months of fiscal year 2010-2011 were \$2.028 billion, an increase of \$109.245 million (5.7%) over the same period for fiscal year 2009-2010. Although favorable in comparison to the prior year, the same collections are behind \$235.167 million (10.39%) from fiscal year 2007-2008. Currently, total individual income taxes collected have increased \$58.111 million (5.0%) over the prior year but continue to lag behind fiscal year 2007-2008 by 4.0%. Sales taxes have also increased \$7.810 million (1.4%) from fiscal year 2009-2010 but continue to lag behind fiscal year 2007-2008 by 17.66%. During fiscal year 2007-2008, sales taxes included \$55.310 million in collections from the now legislatively-eliminated unprepared grocery food tax; this amount was deducted from the comparison computation percentages above and the graphs below to provide consistency.



**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 any questions concerning information in this report to:

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Columbia, South Carolina 29201