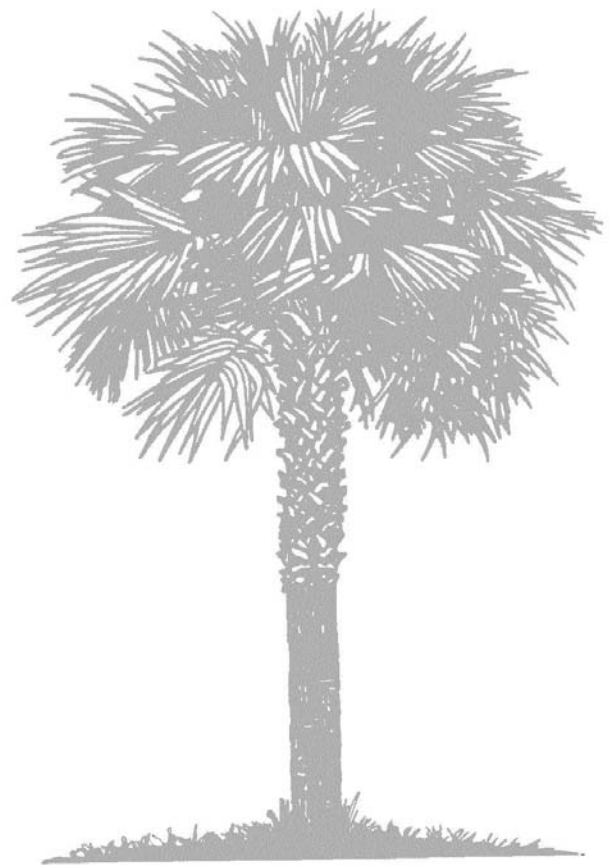
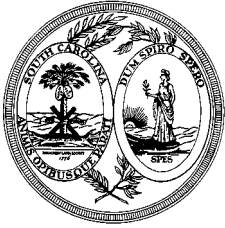

Introductory Section



Letter of Transmittal
Certificate of Achievement
Principal State Officials
Organizational Chart



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JAMES M. HOLLY
CHIEF OF STAFF

December 8, 2011

**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, 2011. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year. Its presentation is designed for conformity with the Governmental Accounting Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program from which the June 30, 2010 report received the Award of Excellence.

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, 2011. 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 4.6 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 funds, 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.

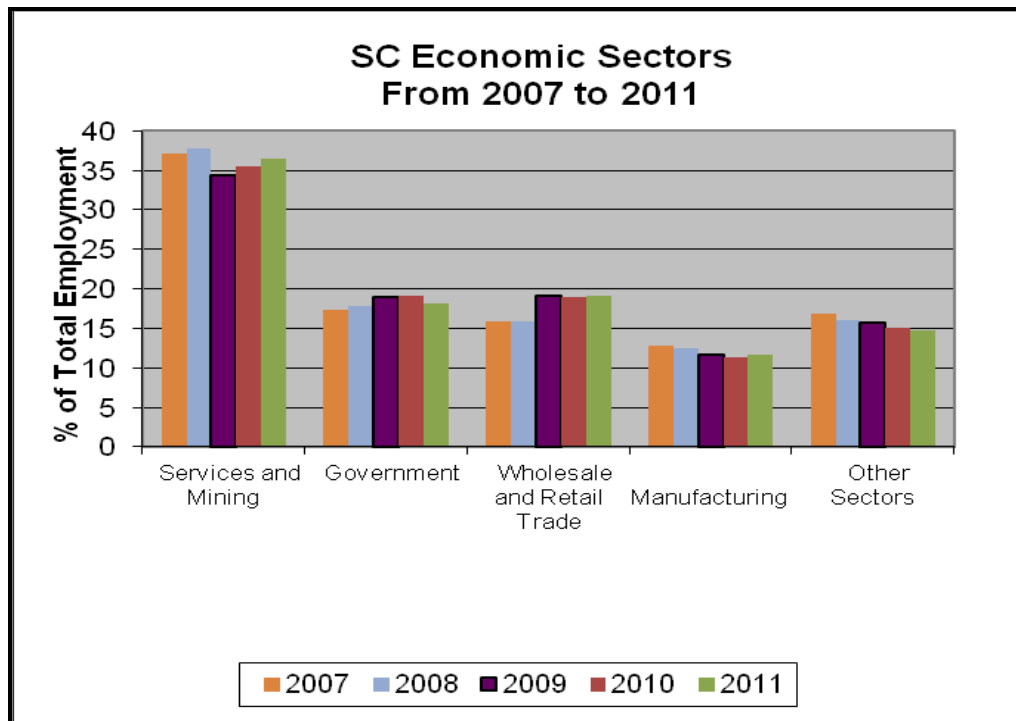
South Carolina’s annual Appropriations Act includes legally adopted budgets for the Budgetary General Fund and for Total Funds. The initial budget appears in the annual Appropriations Act. After the budget year begins, the State Budget and Control Board, comprised of five key executive and legislative 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.

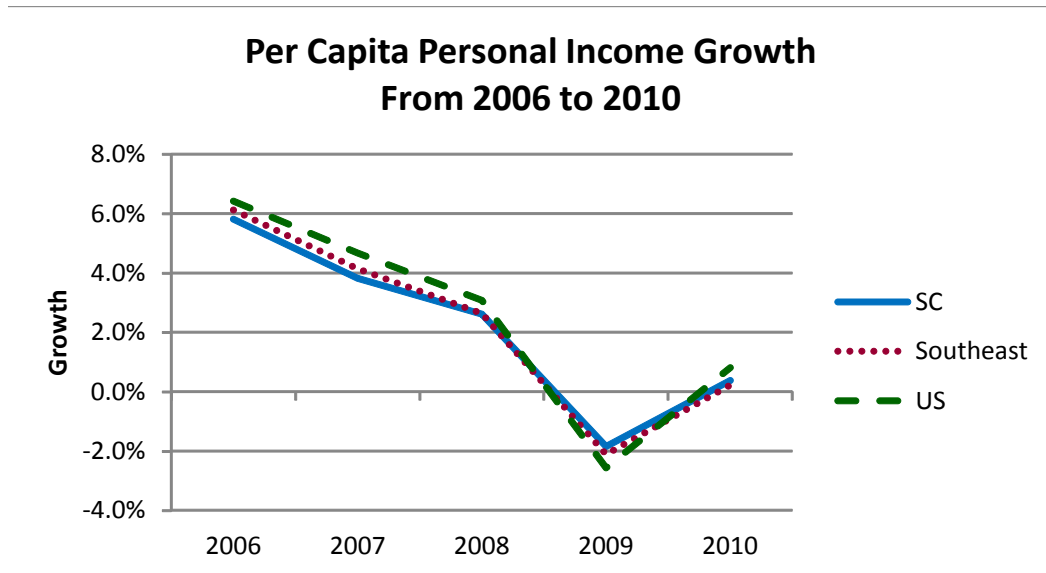
STATE ECONOMY

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 2011, South Carolina gained 13,500 jobs over the same period in 2010; however, the State has yet to recover from the tremendous overall 92,700 job loss that occurred in 2009. Real estate closings were down 11.1% coupled with a construction job loss of 3.0% and an 8.0% decrease in building permits compared to 2010. Despite the downturn in real estate, foreclosures are down 12.8% over last year. Manufacturing jobs gained 3.7% as opposed to being down 12.8% last year. The strongest boost in jobs was in the professional and business services sector that gained 8,900 jobs, an increase of 4.14% over last year.

The State’s June 2011 unemployment rate of 10.5% improved 0.2% over the prior year. However, it continues to be higher than the national unemployment rate of 9.2%. Out of 46 counties in South Carolina, only Lexington County was below the national unemployment rate.





South Carolina’s per capita income for the 2010 calendar year increased to \$32,460, or 0.4% above 2009. The increase was consistent with the increases experienced nationally, 2.8%, and by the southeast region’s per capita results, 2.4%.

Despite continued difficult economic times, the South Carolina Department of Commerce was involved in recruiting 20,453 new jobs and \$4.1 billion in capital investment during calendar year 2010. Of all the 2010 projects recruited, 20.1% of the jobs went to rural areas of the State where only 22.0% 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, 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 that 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 release for budgetary use 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. For the fiscal year ending June 30, 2012,

the amount required to be held in the General Reserve Fund will gradually increase 0.5% every year until the fund reaches 5%. Also, the 2% Capital Reserve Fund will no longer be available to offset anticipated deficits. The foregoing percentages are multiplied against the General Fund revenue for the latest completed fiscal year.

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 unrestricted, unassigned fund balance.

The State ended the with a positive General Fund balance of \$711.742 million comprised of the unassigned surplus of \$296.136 million, legislatively approved agency carryover appropriations of \$70.597 million, the Contingency Reserve of \$71.001 million, the Capital Reserve of \$107.683 million, and the General Reserve Fund of \$166.325 million. The surplus was then reduced \$173.804 million that was held for appropriation until after September 1, 2011 resulting in remaining unassigned surplus of \$122.332 million. Although an unassigned surplus is a positive development, the Legislature must continue to recommit to the State's historically conservative budgeting practices.

MAJOR INITIATIVES

Finance and Budgeting

The Legislature approved new higher education financial transparency measures that require each public institution of higher learning to maintain a transaction register featuring a complete record of all funds expended, from whatever source for whatever purpose. The register must be prominently posted on the institution's internet website and made available for public viewing and downloading.

The Legislature approved the "Spending Accountability Act of 2011" which establishes new requirements for it to take roll call votes in the consideration of legislation that records the name and votes of legislators in the journals of the Senate and House of Representatives. The legislation provides for the Annual General Appropriation Bill to be considered section-by-section with a recorded roll-call vote required for the adoption of each section by the legislative body.

Economic Development and Employment

The Legislature approved legislation relating to the order fulfillment center proposed for Lexington County by online retailer Amazon that establishes a temporary exemption from the collection and remitting state sales and use taxes for a distribution facility meeting the criteria that include minimum job creation and capital investment requirements. The exemption extends until January 1, 2016, unless the distribution facility fails to meet conditions such as maintaining the required number of full-time jobs with comprehensive health plan benefits or unless Congress enacts new federal legislation regarding the collection of state sales taxes. The legislation includes requirements for notifying South Carolina purchasers that they may owe use taxes on items bought online.

Lawmakers passed a bill revising the provision of the South Carolina Real Property Valuation reform Act of 2006 that requires the assessed value of real property to be determined for tax purposes at the time property is sold or undergoes another assessable transfer of interest. The legislation revises point-of-sale reassessment for commercial property, second homes, and all other parcels subject to the six percent property tax assessment ratio by providing a new tax exemption to offset dramatic fluctuations in tax liability.

The Legislature approved a joint resolution designating the South Carolina Jobs-Economic Development Authority to coordinate the State Small Business Credit Initiative with the Federal Small Business Jobs Act of 2010. This act provides direct financial support to the State for use in programs designed to increase access to credit for small businesses.

Election Process

As a result of the population shifts recorded in the 2010 U.S. Census, a new congressional district was created through a redistricting plan established by the Legislature. Redistricting is required every ten years to reflect population changes reflected in the latest U.S. Census. The new district is the seventh congressional district that is centered in Horry County and runs along the North Carolina border and will add a seventh member of the U.S. House of Representatives from the State of South Carolina.

The Legislature approved legislation establishing a photograph identification requirement for voting. The legislation requires voters to verify their identity at time of voting by producing a valid and current photographic identification. The State Election Commission must establish a voter education program about the new provisions.

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, 2010. This was the twenty-third consecutive year that the State of South Carolina 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 the University of South Carolina for providing the attractive cover for this year's CAFR.

Sincerely,



Richard Eckstrom, CPA
Comptroller General

