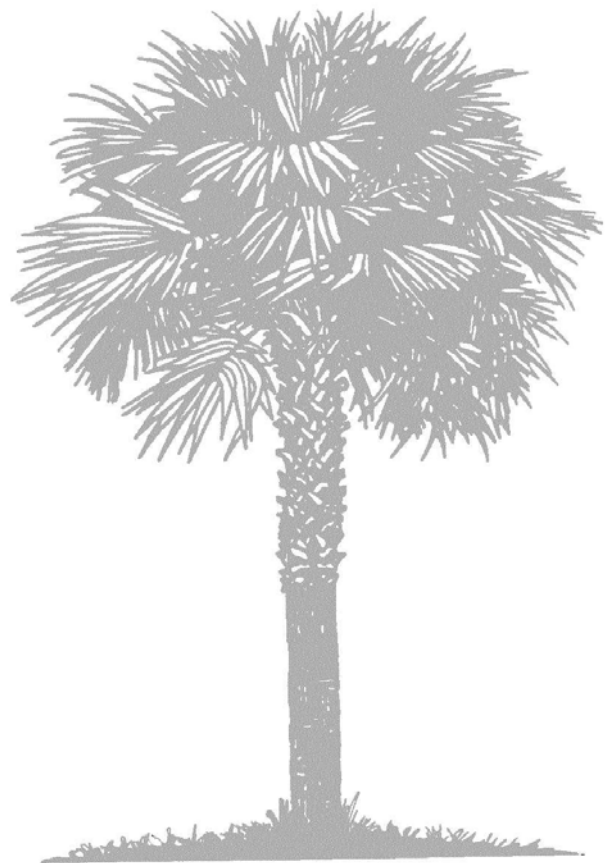
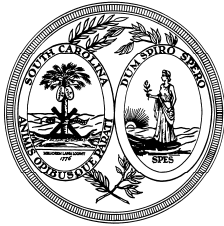

Introductory Section



Letter of Transmittal
Certificate of Achievement
Principal State Officials
Organizational Chart



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JAMES M. HOLLY
CHIEF OF STAFF

June 7, 2013

**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, 2012. 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, 2011 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 CliftonLarsonAllen 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, 2012. 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 fourteenth 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

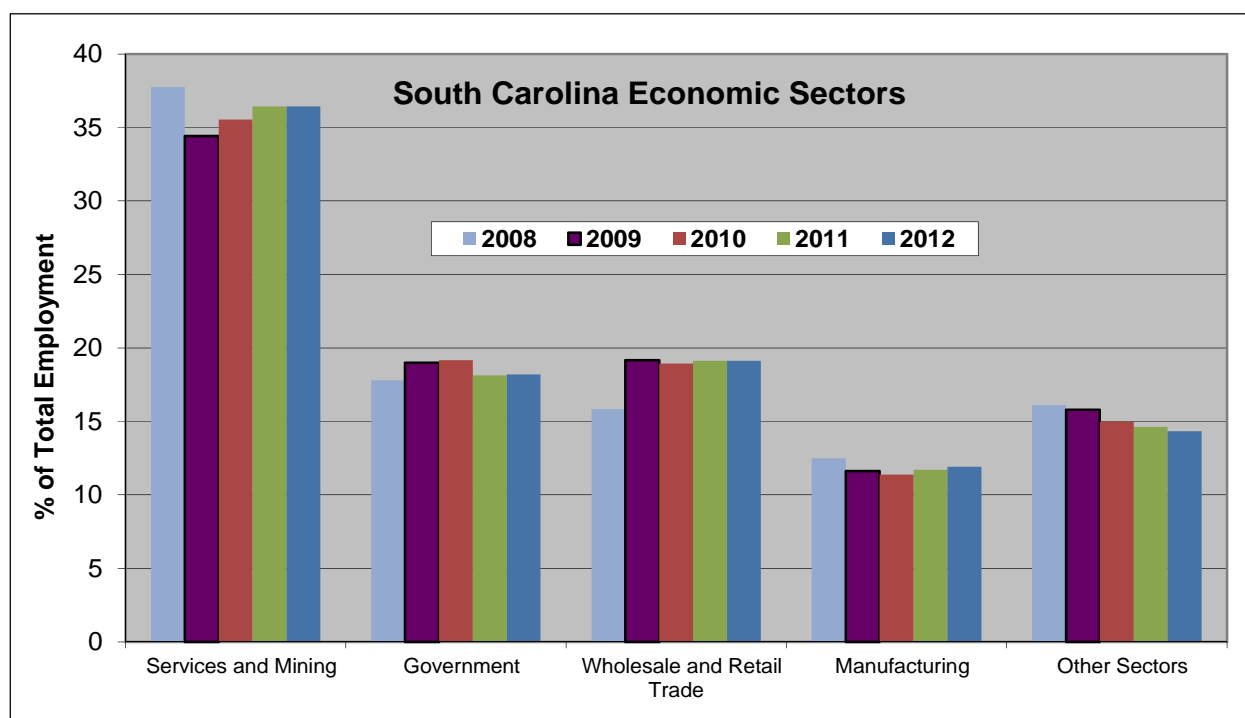
South Carolina has a diverse economic base, including manufacturing, trade, healthcare, services, and leisure/hospitality. Businesses have migrated here from all over the world to take advantage of the State's skilled labor force, competitive wages, lower-priced land, excellent port facilities and accessibility to markets, and, in recent years, substantial tax incentives.

Businesses continue to choose South Carolina as a place to locate or expand, and the State of South Carolina is committed to working with employers to meet their workforce needs.

In the last year, total non-farm employment saw an overall increase of 22,800 jobs. The strong Manufacturing sector grew 7,400 from June 2011 to June 2012, and Professional and Business Services also reported a large gain over the year (+7,200), with the Employment Services subsector adding 6,700 of that increase. In addition, large over-the-year gains were posted in Trade, Transportation, and Utilities (+5,800) and Education and Health Services (+3,400), mostly in Healthcare and Social Assistance. In the last year, both Construction and Financial Activities employment has dropped 1,200.

South Carolina's seasonally adjusted unemployment rate decreased to 9.4% in June 2012, well below the June 2011 rate of 10.5%. Nationally, the unemployment rate for June 2012 was 8.2%.

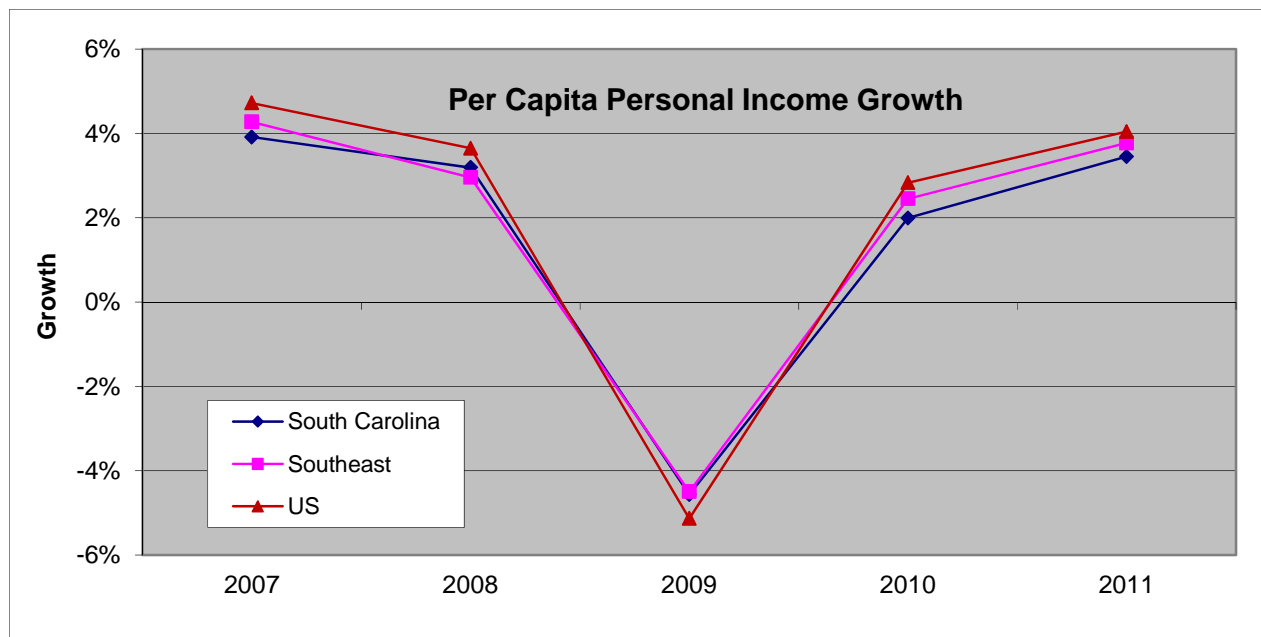
The weekly average number of initial claimants for Unemployment Insurance (UI) in South Carolina rose nearly 11.0% in June 2012, the third consecutive month of increased activity. June's initial UI claimant activity was approximately 9.0% lower than UI claimant activity one year ago.



Although the June 2012 building permit activity was higher than June 2010 and 2009, the month-to-month decline drove the South Carolina Leading Index, SCLI, down 0.13 points to 100.52 in June. June also saw an 11.0% increase in initial claims for Unemployment Insurance compared to the previous month, which also pushed the SCLI lower. Positive indicators for June include an increase in the average manufacturing workweek, up 0.5% to 41.8 hours, and improvements in the stock market. Because the SCLI is still above the 100 mark, June marks seven consecutive months of positive economic outlook for the state's economy. Meanwhile, the Conference Board's national Leading Economic Index declined 0.3% and is below the 100 mark at 95.6.

The number of homes sold in the state was up nearly 12.0% in June compared to one year ago. Likewise, the median sales price of South Carolina homes was up nearly 2.0% from this time last year.

The median South Carolina home sales price in June was \$158,000, 1.9% higher than this time last year. The year-over-year comparison of the number of homes sold is also up, with 11.6% more homes sold in June 2012 compared to June 2011. Foreclosure activity was up through June with 29.3% more foreclosure filings compared to a year ago.



LONG-TERM FINANCIAL PLANNING

State law requires agencies receiving 1.0% 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 reduce most agency appropriations evenly across-the-board. The State also is required to maintain a 3.5% 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. Beginning with 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%. The State is also required to fund a 2% Capital Reserve Fund that can be used only for capital appropriations. 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 fiscal year with a positive General Fund balance of \$956.356 million (*adjusted for fiscal year 2011-12 post-closing budgetary activity*) comprised of the unassigned surplus of \$379.538 million, legislatively approved agency carryover appropriations of \$166.180 million, the Contingency Reserve of \$122.334 million, the Capital Reserve of \$104.838 million, and the General Reserve Fund of \$183.466 million. The \$379.538 million surplus was subsequently reduced to zero to support the supplemental appropriations authorized for fiscal year 2012-13 in accordance with Proviso 90.20.

MAJOR INITIATIVES

State Retirement Systems

This year the General Assembly approved comprehensive retirement systems revisions as a means of securing long term financial health for South Carolina's employee pension plans. The legislation makes revisions to the South Carolina Retirement System (SCRS), which serves public school teachers and most state government employees, and the Police Officers Retirement System (PORS) by establishing eligibility criteria that require new employees to work longer in order to retire with full benefits. Existing employees retain their eligibility criteria for full retirement. The legislation increases the employee contribution rate by one percent for both SCRS and PORS, corresponding to a one percent increase in the employer contribution rate recently approved by the Budget and Control Board. The legislation eliminates the current provisions for awarding cost of living adjustments (COLAs) to SCRS retirees that tie COLAs to inflation and instead establishes benefit adjustment provisions that award SCRS and PORS retirees a guaranteed 1% annual increase in benefits up to a cap of \$500. The legislation phases out the Teacher and Employee Retention Incentive (TERI) Program so that it is eliminated by July 1, 2018. New restrictions are placed on those who retire under SCRS or PORS and return to work in state government or in another position covered by the pension plans. Beginning in 2013, such employees would be subject to a yearly earning limitation of ten thousand dollars. Once this cap is exceeded, retirement allowances would be discontinued for the remainder of the year. Anti-spiking measures are applied to new employees to prevent eleventh hour raises and other steps taken at the end of service from distorting pension benefits. The legislation creates the Public Employee Benefit Authority to assume responsibility for the day-to-day administration and operation of the state's pension systems, the Employee Insurance Programs, and the Deferred Compensation Programs. PEBA is to be governed by an eleven-member board of directors composed of gubernatorial and legislative appointees, four of which are representative members participating in the pension systems as either active state employees or retirees and seven of which are unaffiliated with the retirement systems and must have expertise in such areas as accounting and financial management of pension or insurance plans. The legislation also revises the General Assembly Retirement System by increasing the employee contribution rate by one percent and closing the system to newly-elected legislators beginning in 2012.

State Inspector General

The General Assembly approved legislation creating the office of the State Inspector General to address allegations of fraud, waste, abuse, mismanagement, misconduct, violations of law and wrongdoing in state agencies. The office is authorized to investigate any authority, board, branch, commission, committee, department, division, or other instrumentality of the executive branch of state government. The State Inspector General is appointed by the Governor with the advice and consent of the Senate for a term of four years.

The State Budget

Lawmakers approved a \$6.700 billion state government budget for fiscal year 2012-2013. The budget provides small business tax relief by initiating a gradual reduction of the tax rate for income derived from pass-through trade and business arrangements, such as sole proprietorships, partnerships, and "S" corporations. The first of three \$20 million installments is included in order to reduce this income tax rate from 5% to 3% over the course of three years. Also, \$77 million is devoted towards paying off the unemployment insurance loan that the state had to obtain from the federal government when South Carolina's jobless benefit fund became insolvent. This State Unemployment Tax Authority (SUTA) debt funding is provided to reduce the unemployment insurance taxes that all the state's businesses pay for their employees, amounting to an average savings of 12.3% or \$51.11 for each worker. The Harbor Deepening Reserve Fund is created within the State Ports Authority and \$300 million is provided to cover the full cost of deepening the Charleston Harbor so that South Carolina can remain competitive in maritime shipping with a port capable of accommodating the larger vessels that will pass through the newly-expanded Panama Canal.

An additional \$30 million is included for the state's counties and municipalities through the Local Government Fund. An additional \$152 million in Education Finance Act funding is included for K-12 education, allowing for an increase in the Base Student Cost to \$2,012 per student. An additional \$48 million is included in the Education Improvement Act salary supplement to guarantee a 2% state-funded pay raise for all teachers. Full funding is provided for the LIFE, HOPE, and Palmetto Fellows higher education scholarship programs. Over \$19 million is devoted to worker training through the Ready SC Program at the state's technical colleges. An additional \$15 million is provided for the Deal Closing Fund that the Department of Commerce uses to recruit new business to the state. The budget legislation also provides that this economic development fund is to receive \$10 million from South Carolina's share of the multi-state mortgage settlement reached with the nation's major lending institutions.

The budget provides for the full funding of the General Reserve Fund and the Capital Reserve Fund, the financial reserve accounts that the state draws upon to cope with budget shortfalls. \$549 million goes to the state's residential property tax relief fund. Funding is provided for additional Circuit Court and Family Court judges to cope with increased caseloads.

Full funding is provided for the Medicaid program's Maintenance of Effort which allows the program to continue to offer services at the current level. Full funding is provided for Medicaid express lane eligibility for children to allow the state's health insurance program for low-income residents to accommodate the inclusion of around 70,000 children who already qualify for participation in the program, but had not yet been enrolled. The Department of Health and Environmental Control is provided \$1 million for the AIDS Drug Assistance Program, \$1 million for child immunizations, \$1.8 million for community health centers, an additional \$800,000 for local health departments, and \$500,000 for the Rural Physician Program. Funding is increased by \$8 million for the destination-specific tourism advertising program at the Department of Parks, Recreation, and Tourism. The Department of Agriculture received \$2 million for the marketing and branding of South Carolina produce.

Election Process

The General Assembly approved a joint resolution that proposes to amend the South Carolina Constitution to provide for the joint election of the Governor and Lieutenant Governor beginning with the general election of 2018. Under the revised system, a gubernatorial candidate would select a running mate for the post of Lieutenant Governor in a manner comparable to the selection of the President and Vice President at the federal level. The legislation eliminates the Lieutenant Governor's legislative duties. Under this legislation, the Senate would every four years elect a President from among its members to preside over the Senate and perform other duties as provided by law. The legislation revises how vacancies in the office of Lieutenant Governor are filled. Under this legislation, the Governor would appoint, with the advice and

consent of the Senate, a successor to fulfill an unexpired term. The proposed amendments to the South Carolina Constitution will be submitted to the state's voters at the next general election.

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, 2011. This was the twenty-fourth 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,

A handwritten signature in black ink, appearing to read "Richard Eckstrom".

Richard Eckstrom, CPA
Comptroller General