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

Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2009. 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 142 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 149 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 143 through 149 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, 2009
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change 2008-2009
	2009	2008	2009	2008	2009	2008	
Assets							
Current and other assets.....	\$ 7,989,303	\$ 8,904,987	\$ 5,096,939	\$ 5,352,432	\$ 13,086,242	\$ 14,257,419	(8.2%)
Capital assets.....	13,922,853	13,712,137	4,232,108	3,977,559	18,154,961	17,689,696	2.6%
Total assets.....	21,912,156	22,617,124	9,329,047	9,329,991	31,241,203	31,947,115	(2.2%)
Liabilities							
Long-term liabilities.....	4,300,763	4,492,716	4,328,934	3,980,021	8,629,697	8,472,737	1.9%
Other liabilities.....	4,206,275	4,473,616	1,039,052	1,001,889	5,245,327	5,475,505	(4.2%)
Total liabilities.....	8,507,038	8,966,332	5,367,986	4,981,910	13,875,024	13,948,242	(0.5%)
Net Assets							
Invested in capital assets, net of debt.....	10,215,747	10,007,523	2,429,521	2,315,357	12,645,268	12,322,880	2.6%
Restricted.....	3,351,317	3,597,084	1,131,810	1,386,458	4,483,127	4,983,542	(10.0%)
Unrestricted.....	(161,946)	46,185	399,730	646,266	237,784	692,451	(65.7%)
Total net assets.....	\$ 13,405,118	\$ 13,650,792	\$ 3,961,061	\$ 4,348,081	\$ 17,366,179	\$ 17,998,873	(3.5%)

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 2008-2009 accounting year, the State's net assets totaled \$17.366 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 balance of \$237.784 million at June 30, 2009. This represents a decline of \$454.667 million over the prior year. Some of this decline resulted from a \$208.131 million decrease in the unrestricted net assets reported for the State's *governmental activities*, which reported a \$161.946 million deficit in unrestricted net assets for the current fiscal year versus a \$46.185 million balance in the prior year. The decline was attributable to revenue collections not keeping pace with spending during the year; see section "Budgetary General Fund Highlights" on page 28 for further detail.

The State's *business-type activities* reported a \$399.730 million unrestricted net asset balance. This resulted from net positive balances of \$899.632 million associated with higher education and certain other business-type activities. However, that positive balance was partially offset by a \$314.978 million accumulated deficit in the State-run unemployment compensation fund, a \$142.926 million accumulated deficit in the State-run medical malpractice insurance program, and a \$41.998 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, 2009
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change 2008-2009
	2009	2008	2009	2008	2009	2008	
Revenues							
Program revenues:							
Charges for services.....	\$ 2,118,417	\$ 2,160,768	\$ 4,635,700	\$ 3,961,748	\$ 6,754,117	\$ 6,122,516	10.3%
Operating grants and contributions.....	7,045,052	6,313,817	413,697	443,057	7,458,749	6,756,874	10.4%
Capital grants and contributions.....	382,979	333,255	52,809	47,226	435,788	380,481	14.5%
General revenues:							
Individual income tax.....	2,805,998	3,341,265	—	—	2,805,998	3,341,265	(16.0%)
Retail sales and use tax.....	3,908,318	4,236,156	—	—	3,908,318	4,236,156	(7.7%)
Other taxes.....	1,682,300	1,838,101	—	—	1,682,300	1,838,101	(8.5%)
Unrestricted grants and contributions.....	23,896	19,279	—	—	23,896	19,279	23.9%
Unrestricted investment income.....	86,639	156,974	—	—	86,639	156,974	(44.8%)
Tobacco legal settlement.....	95,115	83,494	—	—	95,115	83,494	13.9%
Other.....	301,321	57,256	—	—	301,321	57,256	426.3%
Total revenues.....	18,450,035	18,540,365	5,102,206	4,452,031	23,552,241	22,992,396	2.4%
Expenses							
Governmental activities:							
General government.....	4,350,906	4,531,636	—	—	4,350,906	4,531,636	(4.0%)
Education.....	4,109,666	4,401,108	—	—	4,109,666	4,401,108	(6.6%)
Health and environment.....	5,825,749	5,209,149	—	—	5,825,749	5,209,149	11.8%
Social services.....	1,533,666	1,300,347	—	—	1,533,666	1,300,347	17.9%
Administration of justice.....	774,533	789,071	—	—	774,533	789,071	(1.8%)
Resources and economic development.....	376,263	411,582	—	—	376,263	411,582	(8.6%)
Transportation.....	940,226	941,924	—	—	940,226	941,924	(0.2%)
Other.....	98,728	102,825	—	—	98,728	102,825	(4.0%)
Business-type activities:							
Higher education.....	—	—	3,396,191	3,405,491	3,396,191	3,405,491	(0.3%)
Higher education institution support ^a	—	—	1,200,456	1,121,483	1,200,456	1,121,483	7.0%
Unemployment compensation benefits.....	—	—	1,332,402	449,775	1,332,402	449,775	196.2%
Financing of housing facilities.....	—	—	180,555	174,152	180,555	174,152	3.7%
Medical malpractice insurance.....	—	—	(6,724)	13,259	(6,724)	13,259	(150.7%)
Financing of student loans.....	—	—	52,699	77,249	52,699	77,249	(31.8%)
Tuition prepayment program.....	—	—	10,598	(5,844)	10,598	(5,844)	(281.3%)
Other.....	—	—	40,955	37,139	40,955	37,139	10.3%
Total expenses.....	18,009,737	17,687,642	6,207,132	5,272,704	24,216,869	22,960,346	5.5%
Excess (deficiency) before additions to endowments, special items, and transfers.....	440,298	852,723	(1,104,926)	(820,673)	(664,628)	32,050	(2,173.7%)
Additions to endowments.....	—	—	31,934	19,118	31,934	19,118	67.0%
Special items.....	—	5,611	—	—	—	5,611	(100.0%)
Net transfers.....	(685,972)	(1,015,273)	685,972	1,015,273	—	—	—
Increase (decrease) in net assets.....	(245,674)	(156,939)	(387,020)	213,718	(632,694)	56,779	(1,214.3%)
Net assets, beginning of year	13,650,792	13,807,731	4,348,081	4,134,363	17,998,873	17,942,094	0.3%
Net assets, end of year.....	\$ 13,405,118	\$ 13,650,792	\$ 3,961,061	\$ 4,348,081	\$ 17,366,179	\$ 17,998,873	(3.5%)

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

Changes in Net Assets

The State's total net assets decreased \$632.694 million (3.5%) 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 decreased by \$245.674 million (1.8%). Revenue decreased from last year by \$90.330 million (0.5%), which is the net of a decrease of \$828.938 million (8.6%) in general revenue offset by an increase of \$738.608 million (8.4%) 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 \$322.095 million (1.8%) for the fiscal year ended June 30, 2009. These expenses were mostly associated with services provided for health and environment, education, general government, social services, and transportation. *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, 2009, the State used \$8.904 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 \$685.972 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 2008-2009 fiscal year:

- Operating grants and contributions increased by \$731.235 million (11.6%). The increase was primarily due to the improved funding of public health and social services programs. However, public health and social service expenditures also increased \$849.919 million (13.1%).
- General tax revenues decreased \$1.019 billion (10.8%) from last year. Individual income tax revenues took a significant downturn (16.0%) along with decreases in sales/use tax revenues (7.7%) and corporate income/other taxes revenues (8.5%). Tax collections were down during FY09 due to the national recession that stalled consumer spending and created an upturn in unemployment.
- General government and education expenses decreased \$472.172 million (5.3%) due in part to multiple budgetary spending reductions that were mandated during FY09.

Exhibit 3
**Sources of Revenues Supporting Governmental Activities
 For the Fiscal Year Ended June 30, 2009**

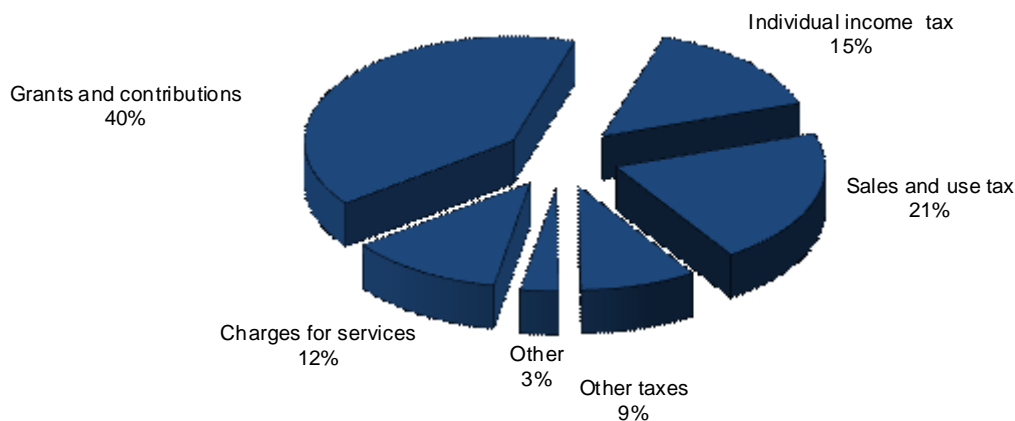
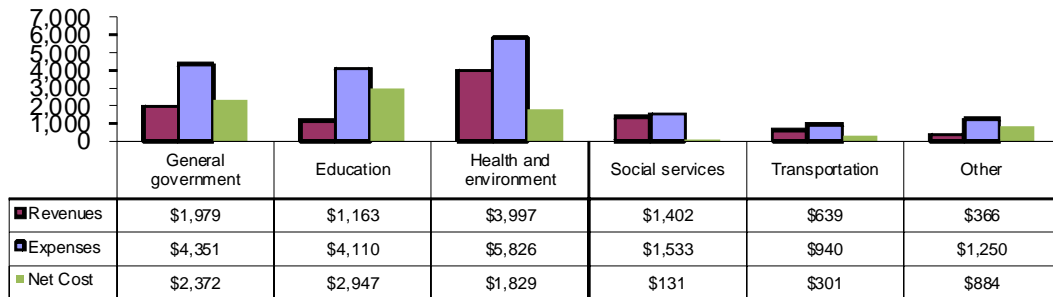


Exhibit 4

**Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2009
(In Millions)**



Business-type Activities

Net assets of the State’s business-type activities decreased \$387.020 million (8.9%).

Revenues from business-type activities included charges for services (90.9%) and grants and contributions, including federal aid (9.1%). Expenses from business-type activities were mostly to provide higher education services and support (74.1%), unemployment compensation benefits (21.5%), and financing of housing facilities (2.9%).

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 \$685.972 million for the year ended June 30, 2009, 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 \$882.627 million during the 2008-2009 fiscal year. This increase resulted primarily from a rise in the State’s rate of unemployment.

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, 2009.

Exhibit 5
Governmental Fund Balances
As of June 30, 2009
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	State Tobacco Settlement	Nonmajor Governmental Funds	Total Governmental Funds
Reserved.....	\$ 231,201	\$ 11,996	\$ 1,965,384	\$ 16,335	\$ —	\$ 131,262	\$ 2,356,178
Unreserved, designated.....	—	—	—	—	—	263,244	263,244
Unreserved, undesignated.....	(125,972)	551,543	(271,957)	(140,044)	54,425	598,945	666,940
Totals.....	\$ 105,229	\$ 563,539	\$ 1,693,427	\$ (123,709)	\$ 54,425	\$ 993,451	\$ 3,286,362
Change from prior year.....	\$ (226,567)	\$ (192,860)	\$ 37,177	\$ (84,657)	\$ 5,334	\$ (155,956)	\$ (617,529)
Percentage change.....	(68.3%)	(25.5%)	2.2%	(216.8%)	10.9%	(13.6%)	(15.8%)

At June 30, 2009, total ending fund balance for the State's governmental funds was \$3.286 billion, which represents a decrease of \$617.529 million (15.8%) from the prior year. Nearly one-third of this total (28.0%) 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 2008-2009 accounting year, the total fund balance of the General Fund decreased \$226.567 million (68.3%) from last year. Overall, revenues were \$1.287 billion (17.1%) less than the previous year, the largest portion of the decline being individual income taxes, which decreased \$533.331 million (15.9%). Sales and use taxes also declined by \$209.824 (8.5%) from prior year. The reduction in revenues was partially offset by an overall decrease in expenditures of \$1.546 billion (22.8%) over the prior year. Expenditures decreased because of mandated spending reductions ordered throughout the year by State officials while monitoring the downturn in revenue collections.

The *Departmental General Operating Fund* accounts for resources, other than General Fund resources, that State agencies may use for operating purposes. These resources include significant amounts of federal grant receipts. During the 2008-2009 accounting year, the total fund balance decreased \$192.860 million (25.5%) from last year. Overall, revenues were \$1.187 billion (18.7%) more than the previous year due mostly to a 13.4% increase in Federal grant revenue; however, expenditures also increased \$1.636 billion (26.1%) due in large part to increased spending in education and social services.

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 \$84.657 million (216.8%) during 2008-2009 leaving a negative fund balance of \$123.709 million at the end of the fiscal year. The negative fund balance occurred primarily because of the increase in federal project payouts (21.9%) over the previous year and an increase in debt service expenditures (25.9%).

Proprietary Funds

Exhibit 6 shows the components of net assets for the State’s various proprietary funds at June 30, 2009.

Exhibit 6
Proprietary Fund Net Assets
As of June 30, 2009
(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).....	\$ 2,291,273	\$ —	\$ 568	\$ 70,482	\$ 160	\$ 67,038	\$ 2,429,521	\$ 96,313
Restricted, expendable.....	468,733	—	261,491	82,587	144,669	23,405	980,885	297,823
Restricted, nonexpendable.....	124,501	—	—	—	—	26,424	150,925	—
Unrestricted.....	576,514	(314,978)	45,499	88,282	1,227	3,651	400,195	(24,072)
Totals.....	\$ 3,461,021	\$ (314,978)	\$ 307,558	\$ 241,351	\$ 146,056	\$ 120,518	\$ 3,961,526	\$ 370,064
Change from prior year.....	\$ 152,757	\$ (577,477)	\$ 7,668	\$ 3,498	\$ 1,227	\$ 27,993	\$ (384,334)	\$ (42,815)
Percentage change.....	4.6%	(220.0%)	2.6%	1.5%	0.8%	30.3%	(8.8%)	(10.4%)

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 *Unemployment Compensation Benefits Fund*, a major enterprise fund, decreased by \$577.477 million (220.0%) primarily due to the increasing unemployment rate and the increased amount of unemployment benefits the Fund paid out, without a corresponding increase in assessment revenue. As discussed in Note 22h on page 141, as a result of this situation, the Fund used up its cash resources and was required to obtain advances from the Federal Unemployment Fund of \$344.881 million during fiscal year 2008-2009. Management plans to continue to borrow from the Federal government to fund its deficits for the foreseeable future.

The net assets of the State’s *nonmajor enterprise funds* increased by \$27.993 million (30.3%). This increase was due in part to reduced benefits and claims paid out of the *Patients’ Compensation Fund* offset by the decrease in contributions revenue and the increase in the accrual for tuition benefits payable from the *Tuition Prepayment Program Fund*.

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.

The net assets of the State’s *internal service funds* decreased by \$42.815 million (10.4%) due in part to *Employee Insurance Programs* annually contributing Plan reserves to the *South Carolina Retiree Health Insurance Trust Fund*. For more information on other post-employment benefit trust funds, see Note 9 on page 108 of the financial statements.

Budgetary General Fund Highlights

Original estimated revenues for the 2008–2009 accounting year were \$6.749 billion. The Board of Economic Advisors (BEA) revised downward its original revenue estimate during the course of the year by a total of \$1.075 billion. The revisions resulted from the BEA’s review of tax revenue collections and declining economic conditions as the year progressed. Also, Legislation was adopted that implemented mid-year targeted agency cuts in the amount of \$487.906 million coupled with two Budget and Control Board agency reductions of 7% and 2% amounting to \$485.371 million. Actual revenues at June 30, 2009, were \$129.774 million (2.34%) under the BEA’s final revised revenue estimate and were \$1.205 billion less than the BEA’s original estimate. Actual revenues also declined from prior year revenue collections by \$848.221 million (13.23%). Individual income and sales taxes, the fund’s primary revenue sources, were less than originally forecasted because of unfavorable economic conditions.

Actual expenditures were \$203.742 million greater than actual revenues because State official revenue collection projections were increased over FY08 collections based on the expectation of a steadily improving economy.

Based on the above results of operations, 2008-2009 ended with a budgetary deficit. After funding the deficit by drawing down the entire General and Capital Reserve funds, the State ended the year with an accumulated budgetary general fund balance of \$120.512 million, comprised of an unreserved/undesignated deficit of \$98.217 million and \$218.729 million in carried-forward appropriations.

See the *Required Supplementary Information* section on pages 143 through 149 of this report for a detailed budgetary comparison schedule.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2008-2009 accounting year, the State had \$18.155 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$465.265 million, or 2.6%, 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	
	2009	2008	2009	2008	2009	2008
Land and improvements.....	\$ 1,760,180	\$ 1,703,402	\$ 381,073	\$ 364,032	\$ 2,141,253	\$ 2,067,434
Infrastructure.....	7,736,057	6,726,093	—	—	7,736,057	6,726,093
Buildings and improvements.....	978,840	989,685	3,055,738	2,769,120	4,034,578	3,758,805
Vehicles.....	204,166	235,764	15,981	16,287	220,147	252,051
Machinery and equipment.....	138,857	140,006	341,281	358,576	480,138	498,582
Works of art and historical treasures.....	5,400	3,968	27,509	25,484	32,909	29,452
Construction in progress.....	3,097,878	3,911,874	406,196	440,784	3,504,074	4,352,658
Intangible assets.....	1,475	1,345	4,330	3,276	5,805	4,621
Total.....	\$ 13,922,853	\$ 13,712,137	\$ 4,232,108	\$ 3,977,559	\$ 18,154,961	\$ 17,689,696

Due to a deteriorating budget caused by the recession, there has been a reduction in growth of capital asset investment as opposed to the same period last year which grew \$757.278 million (4.5%) over FY2007. Construction in progress has been reduced as capital infrastructure and building projects were completed and funding was eliminated through budgetary deficits. After upgrading the Department of Education and the Budget and Control Board vehicle fleets during the prior year, those fleets were reduced this year along with several state law enforcement agencies due to general aging and irreparability. The Department of Parks, Recreation, and Tourism purchased additional exhibits for public enjoyment that are reflected as increases to historical treasures. Intangible assets increased from last fiscal year primarily because The Citadel installed an administrative software system.

See Note 7 in the notes to the financial statements on page 98 of this report for additional information on the State's capital assets.

Long-term Debt

At June 30, 2009, the State had \$7.888 billion in bonds and notes outstanding—a decrease of \$217.326 million, or 2.7%, 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	2008	2009	2008	2009	2008	2008-2009
Backed by the State:							
General obligation bonds.....	\$ 1,857,510	\$ 2,016,952	\$ 354,252	\$ 351,481	\$ 2,211,762	\$ 2,368,433	(6.6%)
Bond anticipation notes.....	—	—	30,000	30,000	30,000	30,000	0.0%
Backed by specific revenues:							
Revenue bonds and notes.....	71,802	58,960	3,245,263	3,269,650	3,317,065	3,328,610	(0.3%)
Infrastructure Bank bonds.....	2,091,864	2,125,640	—	—	2,091,864	2,125,640	(1.6%)
Tobacco Authority bonds.....	176,180	242,891	—	—	176,180	242,891	(27.5%)
Limited obligation bonds.....	7,629	9,352	—	—	7,629	9,352	(18.4%)
Bond anticipation notes.....	—	—	53,100	—	53,100	—	100.0%
Total.....	\$ 4,204,985	\$ 4,453,795	\$ 3,682,615	\$ 3,651,131	\$ 7,887,600	\$ 8,104,926	(2.7%)

The reduction in debt reported in governmental activities resulted primarily from principal payments on all categories of general obligation bonds, net of the issuance of \$70.585 million in Research University Infrastructure Bonds. Also, Turbo Redemptions of \$52.725 million on Tobacco Authority bonds contributed to the reduction in revenue bonds payable for governmental activities. New debt reported in business-type activities resulted mainly from the issuance of revenue bond anticipation notes by the College of Charleston and the University of South Carolina of \$33.500 million and \$19.600 million, respectively.

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, 2009, 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, 2009, 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: \$37.988 million for institution bonds (*Institution bonds* are general obligation bonds that benefit the State’s Higher Education Fund.), \$33.959 million for highway bonds, \$184.012 million for general obligation bonds (excluding institution and highway bonds), \$10.612 million for economic development bonds, and \$10.822 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements on page 115 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, 2009, the General Reserve Fund, sometimes called the *rainy day account*, was depleted. The remaining FY09 balance of \$95.123 million was drawn to cover a portion of the 2008-2009 Budgetary General Fund deficit. The 2009-2010 Appropriations Act passed by the General Assembly appropriated \$63.924 million to fund the rainy day account; however, that is far below the actual full funding requirement of \$199.755 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.

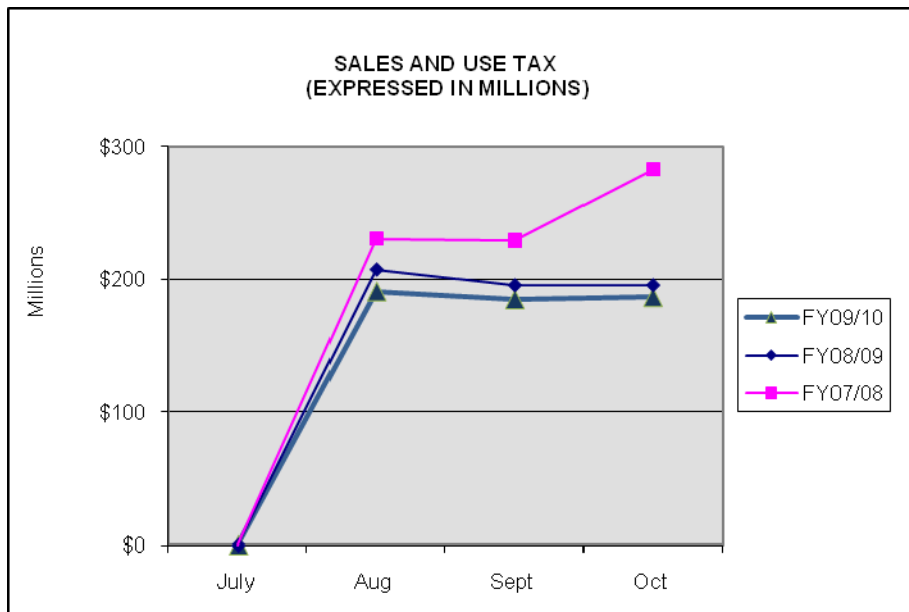
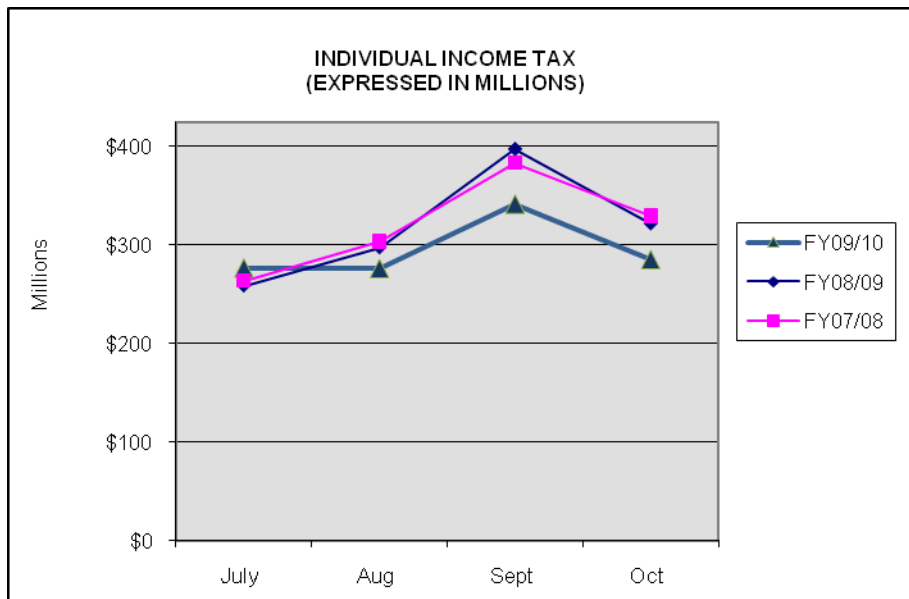
Budgetary General Fund for the 2009-2010 Accounting Year

For fiscal year 2009-2010, estimated General Fund revenue published in the 2009-2010 Appropriation Act was \$5.714 billion or \$169.850 million more than 2008–2009 actual revenue collections. Subsequently, the Board of Economic

Advisors (BEA) has reduced its revenue estimate by \$336.899 million (5.89%) causing the Budget and Control Board to take action through an agency-wide General Fund cut of \$228.561 million (4.00%). Furthermore, the BEA has reduced their revenue estimate through a second reduction of \$122.382 million (2.13%) on November 10, 2009. Additional revisions and actual budgetary reductions could be subsequently adopted based on continued monitoring of revenue collections and economic conditions. The Budget and Control Board is expected to discuss the recent reduction by the BEA at its meeting scheduled for December 15, 2009.

Economic Conditions

As South Carolina continues to struggle through the national recession, the Budgetary General Fund revenues for the first four months of FY 2009-2010 were \$1.934 billion, which is \$191.322 million (9.00%) lower than the same period for FY 2008-2009. Currently, individual income taxes are significantly down \$95.614 million (7.50%), compared to a lesser decrease of \$6.579 million (.50%) between FY 2008-2009 and FY 2007-2008. Sales taxes have also decreased \$36.137 million (6.00%) from 2008-2009 due to unfavorable economic conditions and consumer tax relief legislation. During FY 2007-2008, sales taxes included collections from the now legislatively-eliminated unprepared grocery food tax.



Federal Tax Incentives and Stimulus Measures

The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law on February 17, 2009 and will have a large impact on all of the states. South Carolina could receive up to \$8.0 billion in stimulus funds under ARRA over two fiscal years. The economic stimulus measures provided by the ARRA include investment in the areas of community and economic development, infrastructure, human services, transportation, and workforce development. Some of the stimulus funds administered by the South Carolina Department of Commerce include \$10.3 million for community development activities, \$10.4 million for increased training of individuals for high-demand occupations, and \$24.7 million to create summer employment opportunities for people under twenty-four years old.

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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