

SOUTH CAROLINA GOVERNOR'S OFFICE

**AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION**

YEAR ENDED JUNE 30, 2008

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

February 17, 2009

The Honorable Mark Sanford, Governor
South Carolina Governor's Office
State House
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina Governor's Office and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2008, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

SOUTH CAROLINA GOVERNOR'S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

Report of Independent Auditors	1
Management's Discussion and Analysis (Required Supplementary Information) (Unaudited)	3
Basic Financial Statements	
Statement of Net Assets	8
Statement of Activities.....	9
Balance Sheet - Governmental Funds.....	10
Statement of Revenue, Expenditures and Changes in Fund Balances	
Governmental Funds.....	12
Notes to Financial Statements.....	17
Required Supplementary Information – Other Than Management's Discussion and Analysis (Unaudited)	
Budgetary Comparison Schedule - Expenditures (Non-GAAP Budgetary Basis - Unaudited) - Budgetary General Fund.....	44
Budgetary Comparison Schedule - Expenditures (Non-GAAP Budgetary Basis - Unaudited) - Other Budgeted Funds	46
Notes to the Required Supplementary Information - Budgetary	47
Other Financial Information	
Balance Sheet - Governmental Funds - General Fund by Division.....	49
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds - General Fund by Division.....	50
Combining Balance Sheet - Nonmajor Governmental Funds - Other Governmental Funds	52
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds - Other Governmental Funds.....	53

SOUTH CAROLINA GOVERNOR’S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

- CONTINUED -

Single Audit Section

Schedule of Expenditures of Federal Awards..... 54
Notes to the Schedule of Expenditures of Federal Awards 55
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards* 56
Independent Auditors’ Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control over Compliance in Accordance with
OMB Circular A-133 58
Schedule of Findings and Questioned Costs..... 60

DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

REPORT OF INDEPENDENT AUDITORS

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited the accompanying basic financial statements of the South Carolina Governor's Office (the "Office") as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in *Note 1*, the accompanying financial statements of the South Carolina Governor's Office reporting entity are intended to present the financial position and the results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of those divisions of the Office that comprise the South Carolina Governor's Office reporting entity. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2008 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Governor's Office as of June 30, 2008, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Office taken as a whole. The other financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report-dated February 4, 2009, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Releach & Williamson, L.L.P.

February 4, 2009

South Carolina Governor's Office
Management's Discussion and Analysis

June 30, 2008

As management of the South Carolina Governor's Office (the "Office" or "Agency"), we offer readers of the Office's financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by \$16,376,101. These funds will be used to meet the office's ongoing obligations.
- The Office's total net assets increased by \$1,611,171.
- As of the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of \$13,134,253, an increase of \$1,912,119 in comparison with the prior year.
- At the end of the current fiscal year, reserved fund balance for the general fund was \$1,668,604.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Office's basic financial statements. The Office's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Office's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Governor's Office is improving or deteriorating.

The statement of activities presents information showing how the Office's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned by unused vacation leave).

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The South Carolina Governor's Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Office's are classified as governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The SC Legislature adopts a budget for all state agencies, including the Governor's Office. A budgetary comparison schedule has been provided for the general fund and other budgeted funds to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 to 42 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the South Carolina Governor's Office compliance with its adopted budget. Required supplementary information can be found on pages 43 to 47.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 48 to 52 of this report.

Government Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the South Carolina Governor's Office, assets exceeded liabilities by \$16,376,101 at the close of the most recent fiscal year.

By far the largest portion of the Office's assets represents cash and cash equivalents.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the agency. They are also able to determine how much the agency owes vendors. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the agency.

Net assets are divided into two categories. The first category, invested in capital assets, net of debt, provides the agency equity in equipment owned by the agency. The second category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the agency.

Condensed Statement of Net Assets

	June 30,	
	2007	2008
Assets		
Current assets	\$ 14,851,357	\$ 16,962,706
Capital assets, net of accumulated depreciation	4,563,212	4,289,010
Total Assets	19,414,569	21,251,716
Liabilities		
Current liabilities	4,256,266	4,485,651
Non-current liabilities	393,373	389,964
Total Liabilities	4,649,639	4,875,615
Net Assets		
Invested in capital assets	4,563,212	4,289,010
Unrestricted	10,201,718	12,087,091
Total Net Assets	\$ 14,764,930	\$ 16,376,101

Statement of Activities

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Activities. The purpose of the statement is to present the revenues received by the agency, and the expenses paid by the agency, and any other revenue, expenses, gains, and losses received or spent by the agency.

The statement of Activities is prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

At the end of the current fiscal year, the Office is able to report a positive balance in net assets. The same situation held true for the prior fiscal year.

Condensed Statement of Activities

	Years Ended June 30,	
	2007	2008
Operating grants and contributions	\$ 52,693,949	\$ 60,498,943
Expenses	64,841,367	73,137,816
Net expense and change in net assets	(12,147,418)	(12,638,873)
State appropriations	12,981,338	14,100,462
Interest		5,296
Transfers	4,466,765	144,286
Change in net assets	5,300,685	1,611,171
Net assets at beginning of year	9,464,245	14,764,930
Net assets at end of year	\$ 14,764,930	\$ 16,376,101

The Statement of Activities reflects an increase in the net assets for the year.

General Fund Budgeting Highlights

General Fund Appropriations were \$1,119,124 more in fiscal year 2008 than fiscal year 2007. Due to increases in services provided to the citizens of the State, the South Carolina Governor’s Office requested additional appropriations. This additional appropriation was used to further serve the children and service veterans of the State.

Capital Assets and Debt Administration

The South Carolina Governor’s Office investment in capital assets for its governmental activities as of June 30, 2008 amounts to \$4,289,010 (net of accumulated depreciation). This investment in capital assets includes vehicles, equipment and the Veterans Cemetery.

The South Carolina Governor’s Office had total long-term debt in the amount of \$1,047,162, all of which was for accrued compensation absences.

Economic Outlook

The Agency has taken significant reductions in state appropriations since July 1, 2008. The general economic forecast for the remainder of FY 2009 and into FY 2010 is reportedly bleak. Any further budgetary cuts will likely have a material impact on the Agency during the fiscal year that started July 1, 2008.

Because the current fiscal year has been challenging, we will continue to closely monitor the Agency's financial condition.

Requests for Information

This financial report is designed to provide a general overview of the Office's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the South Carolina Governor's Office, Director of Administrative Services, Post Office Box 12267, Columbia, South Carolina 29211.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 15,853,408
Accounts receivable	277,109
Federal grant receivable	161,345
Due from the State General Fund	670,844
Total current assets	16,962,706
Noncurrent assets:	
Capital assets:	
Buildings, Land Improvements, and Equipment	4,499,425
Less accumulated depreciation	(210,415)
Total capital assets, net of depreciation	4,289,010
Total assets	21,251,716
Liabilities	
Current liabilities:	
Accounts payable	1,259,205
Accrued payroll and related liabilities	1,166,317
Accrued compensated absences	657,198
Deposits held for clients	489,357
Due to the State General Fund	913,574
Total current liabilities	4,485,651
Noncurrent liabilities:	
Accrued compensated absences	389,964
Total non-current liabilities	389,964
Total liabilities	4,875,615
Net Assets	
Invested in capital assets	4,289,010
Unrestricted	12,087,091
Total net assets	\$ 16,376,101

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Functions/Programs:			
General government	\$ 14,411,530	\$ -	\$ (14,411,530)
Grants and programs	<u>58,726,286</u>	<u>60,498,943</u>	<u>1,772,657</u>
Total primary government	<u>\$ 73,137,816</u>	<u>\$ 60,498,943</u>	(12,638,873)
General revenue:			
State appropriations			14,100,462
Interest			5,296
Transfers from other state entities			<u>144,286</u>
Change in net assets			1,611,171
Net assets - beginning of year			<u>14,764,930</u>
Net assets - end of year			<u>\$ 16,376,101</u>

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	General	Federal Grants and Programs	Finance and Adminstration	Continuum of Care	Guardian Ad Litem	Victims' Assistance	Other Governmental Funds	Totals
Assets and Other Debits								
Cash and cash equivalents	\$ 2,856,679	\$ (64,294)	\$ 702,495	\$ 1,592,694	\$ 581,011	\$ 9,458,861	\$ 725,962	\$ 15,853,408
Accounts receivable	-	-	-	-	274,722	-	2,387	277,109
Federal grant receivable	-	158,173	-	-	-	-	3,172	161,345
Due from the State General Fund	670,844	-	-	-	-	-	-	670,844
Total assets	\$ 3,527,523	\$ 93,879	\$ 702,495	\$ 1,592,694	\$ 855,733	\$ 9,458,861	\$ 731,521	\$ 16,962,706
Liabilities and Fund Equity								
Liabilities:								
Accounts payable	\$ 274,501	\$ 91,133	\$ 20,463	\$ 549,080	\$ 31,709	\$ 270,517	\$ 21,802	\$ 1,259,205
Accrued payroll and related liabilities	670,844	125,235	-	106,627	109,501	105,899	48,211	1,166,317
Deposits held for clients	-	2,270	323,076	166	-	37	163,808	489,357
Due to the State General Fund	913,574	-	-	-	-	-	-	913,574
Total liabilities	1,858,919	218,638	343,539	655,873	141,210	376,453	233,821	3,828,453
Fund equity:								
Fund balances:								
Reserved for various restricted purposes	-	(124,759)	358,956	936,821	714,523	9,082,408	497,700	11,465,649
Reserved for restricted purposes to be carried forward	1,668,604	-	-	-	-	-	-	1,668,604
Total fund equity (deficit)	1,668,604	(124,759)	358,956	936,821	714,523	9,082,408	497,700	13,134,253
Total liabilities and fund equity	\$ 3,527,523	\$ 93,879	\$ 702,495	\$ 1,592,694	\$ 855,733	\$ 9,458,861	\$ 731,521	\$ 16,962,706

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

-CONTINUED-

Reconciliation to the statement of net assets:

Total fund balances - governmental funds \$ 13,134,253

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. These assets consist of:

Buildings and improvements	1,635,848
Depreciable land improvements	2,410,235
Furniture and equipment	453,342
Accumulated depreciation	<u>(210,415)</u>

Total capital assets, net 4,289,010

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

Accrued compensated absences	<u>(1,047,162)</u>
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Net assets of governmental activities \$ 16,376,101

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	General	Federal Grants and Programs	Finance and Adminstration	Continuum of Care	Guardian Ad Litem	Victims' Assistance	Other Governmental Funds	Totals
Revenue								
State appropriations	\$ 14,100,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,100,462
Federal grants and programs	-	40,766,059	-	-	85,010	-	948,888	41,799,957
Other government grants and contributions	-	3,401	-	3	2,353,944	87,693	496,697	2,941,738
Interest	-	-	-	-	-	-	5,296	5,296
Medicaid reimbursements	-	-	-	2,566,569	-	2,652	658,069	3,227,290
Victim restitutions	-	-	-	-	-	11,452,383	-	11,452,383
Miscellaneous	-	-	-	400,000	360,000	295,434	22,141	1,077,575
Total revenue	14,100,462	40,769,460	-	2,966,572	2,798,954	11,838,162	2,131,091	74,604,701
Expenditures								
Federal grants and programs:								
Personal services	-	1,119,515	-	-	-	-	-	1,119,515
Employer contributions	-	303,817	-	-	-	-	-	303,817
Other operating	-	234,875	-	-	-	-	-	234,875
Claims and awards	-	3,933,734	-	-	-	-	-	3,933,734
Distributions to subrecipients	-	35,138,514	-	-	-	-	-	35,138,514
Finance and administration:								
Personal services	3,050,662	-	531,261	-	-	-	-	3,581,923
Employer contributions	790,909	-	2,155	-	-	-	-	793,064
Other operating	851,356	-	(358,817)	-	-	-	-	492,539
Continuum of Care:								
Personal services	1,697,973	-	-	1,028,128	-	-	-	2,726,101
Employer contributions	486,363	-	-	297,452	-	-	-	783,815
Other operating	486,480	-	-	224,580	-	-	-	711,060
Case Services	1,659,158	-	-	1,621,899	-	-	-	3,281,057

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
-CONTINUED-

	<u>General</u>	<u>Federal Grants and Programs</u>	<u>Finance and Administration</u>	<u>Continuum of Care</u>	<u>Guardian Ad Litem</u>	<u>Victims' Assistance</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Expenditures (Continued)								
Economic Opportunity:								
Distributions to subrecipients	-	-	-	-	-	-	293,657	293,657
Total expenditures	13,966,297	40,730,455	174,599	3,172,059	2,405,369	10,077,921	2,067,483	72,594,183
Excess of revenue over expenditures	134,165	39,005	(174,599)	(205,487)	393,585	1,760,241	63,608	2,010,518
Other Financing Uses								
Recoveries of indirect costs	-	(98,399)	-	-	-	-	-	(98,399)
Total other financing uses	-	(98,399)	-	-	-	-	-	(98,399)
Excess (deficit) of revenue over (under) expenditures and other financing uses	134,165	(59,394)	(174,599)	(205,487)	393,585	1,760,241	63,608	1,912,119
Fund balances (deficits), beginning of year	1,534,439	(65,365)	533,555	1,142,308	320,938	7,322,167	434,092	11,222,134
Fund balances (deficits), end of year	<u>\$ 1,668,604</u>	<u>\$ (124,759)</u>	<u>\$ 358,956</u>	<u>\$ 936,821</u>	<u>\$ 714,523</u>	<u>\$ 9,082,408</u>	<u>\$ 497,700</u>	<u>\$ 13,134,253</u>

SOUTH CAROLINA GOVERNOR'S OFFICE
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
-CONTINUED-

Reconciliation to the statement of activities:

Net change in fund balances-total governmental funds	\$ 1,912,119
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Additions to capital assets	
Furniture and Equipment additions	229,250
Transfer of Veteran's Cemetary additions to buildings and improvements from the Budget and Control Board to the SC Governor's Office	144,286
Depreciation expense	(110,070)
Write-off of assets previously capitalized as Construction in Process	(537,668)

Excess of capital outlay over depreciation expense	(274,202)
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Some items reported in the statement of activities do not require the uses of current financial resources and therefore, are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences	(26,746)
Change in net assets of governmental activities	\$ 1,611,171

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

1. Summary of Significant Accounting Policies

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The South Carolina Governor's Office (herein referred to as the "Governor's Office" and the "Office") is part of the primary government of the State of South Carolina, and its funds are reported in the State's Comprehensive Annual Financial Report. Generally, all state agencies are included in the State's reporting entity. These entities are financially and fiscally dependent on the State.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Governor's Office (a primary entity).

A primary entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) *and* (1) it is able to impose its will on that organization *or* (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all of the following powers:

- (1) Determine its budget without another government having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally dependent on the primary government/entity which holds one or more of those powers. Based on these criteria, the Governor's Office has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Governor's Office.

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

The Governor of South Carolina is elected by the general public and administers, has jurisdiction over, and is responsible for the management of the Governor's Office. The Governor's Office is an agency of the State of South Carolina and was established under code section 1-30-110 of the Code of Laws of South Carolina. The laws of the state and the policies and procedures specified by the State for state agencies are applicable to the activities of the Governor's Office. The Governor's Office is composed of four divisions: Mansion and Grounds, Executive Control of State, Office of Executive Policy and Programs, and the State Law Enforcement Division (S.L.E.D.). The S.L.E.D. division is not included in the reporting entity as the State Auditor's Office reports on it separately. Also, the Governor's mansion, buildings, and content assets are not included in this report, as they are owned by a separate commission.

The primary responsibility and services of the divisions of the Governor's Office are as follows: The Mansion and Grounds division is responsible for the household operations of the Governor's mansion. The Executive Control of State serves as a liaison office between the governor and other state agencies and public and private entities. These two divisions are funded solely by State General Fund appropriations. The Office of Executive Policy and Programs is responsible for administering various federal and state grant programs. The services include planning, grant financial records, program evaluation and program audit. The Office of Executive Policy and Programs also provides direct program services to the citizens of South Carolina. This area is funded by federal and state grants, state appropriations, and program service revenues and other sources. Under the Office of Executive Policy and Programs, they are divided into three divisions: Division of Administrative Services, Division of Children Services and Division of Constituent Services (see *Note 15*). Each of these divisions is made of offices, which provide the services mentioned above. The governor appoints directors of the state cabinet agencies. These agencies are not included in the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Governor's Office uses only one fund category, governmental, within which it maintains two fund types, general and special revenue. Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (Special Revenue Funds). Assets are assigned to the various governmental funds according to the purposes for which they may or must be used and current liabilities are assigned to the fund from which they are to be paid. The difference between the assets and the liabilities is the fund balance.

The government reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial transactions funded from State General Fund appropriations of the three divisions of the Governor's Office (Mansion and Grounds, Executive Control of State and Office of Executive Policy and Programs). Separate programs have been established for each department of the Governor's Office that receives State appropriations.

Special Revenue Fund - Special Revenue Funds (also referred to as "Other Funds") are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Separate programs/funds have been established for federal grants and federal programs and for each department of the Governor's Office that administers restricted proceeds. In the current year, these funds have been broken out by department. The Federal Fund is used to account for the proceeds from the United States government.

The other special revenue funds are used to account for all other restricted revenue. Monies received include Education Improvement Act (EIA) allocations and Medicaid funds for the Continuum of Care, victim restitution fees for the State Office of Victim Assistance programs used for claims and awards, revenue received from individual donors, awards and grants and federal programs. Other expenditures include allocations of non-State General Fund monies to various sub-recipients under various federal and other programs, administrative costs of the Governor's Office, direct program services, and claims and awards paid under various federal grants and federal programs.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Budget Policy

The Governor's Office is granted an annual appropriation for operating purposes by the General Assembly. The Appropriations Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds.

The Total Funds column includes all budgeted resources, including the State General Fund as well as most federal and department-generated sources. A revenue budget is not adopted for individual budgetary units.

The accompanying required supplementary information includes a budgetary comparison schedule of expenditures. The Budgetary General Fund category on that schedule corresponds to the General Funds column in the Appropriations Act and the Other Budgeted Funds category represents the difference between the Total Funds and General Funds columns in the Appropriations Act.

The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate state government for the current fiscal year. Any unexpended State General Fund appropriations lapse to the General Fund of the State on July 31 unless specific authorization is given to carry over the funds to the ensuing fiscal year. Appropriations carried forward for a specific purpose are reported as reserved fund balance. Proviso 72.29 of the 2007-2008 Appropriations Act authorized departments and agencies to carry forward unspent State General Fund appropriations (excluding those for which it has separate carry forward authority) up to ten percent of its original General Fund budget. This carry forward is shown as a designated fund balance.

During the fiscal year closeout period through July, departments and agencies may continue to charge vendor, interagency, and interfund payments applicable to the current year to this fiscal year's appropriation.

State law does not precisely define the budgetary process of accounting. The budget is prepared mostly on the cash basis with several exceptions. Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 20. State law does not require the use of encumbrance accounting. Because the legally prescribed budgetary basis differs materially from GAAP, actual amounts in the accompanying budgetary comparison statements are presented on the budgetary basis. An explanation of the differences between the budgetary basis and GAAP basis is presented in *Note 2*.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Budget Policy (Continued)

The state maintains budgetary control at the line-item level of expenditure within each program of each department or agency. All general fund expenditures are budgeted. The Governor's Office processes its disbursement vouchers through a central budgetary accounting system maintained by the Comptroller General's Office. Disbursement vouchers can only be processed if there is enough cash and appropriations exist. The level of legal control is reported in a publication of the State Comptroller General's Office titled *A Detailed Report of Appropriations and Expenditures*. Transfers of funds may be approved by the State Budget and Control Board (the "Board") under its authority or by the agency as set forth in Appropriation Act Proviso 72.10 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses of the Board and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

Per Proviso 56DD.15 of the 2007-2008 Appropriations Act, all other provisions of the law not withstanding, the Office of Executive Policy and Programs section, the Executive Control of State section, and Mansion and Grounds section, shall be treated as a single budget section for the purpose of transfers and budget reconciliation.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represents cash on deposit with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the Office, participate in the State's internal cash management pool.

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having a maturity of three months or less at the time of purchase.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Office records and reports its monies in the general deposit account at cost. The Office reports its monies in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the agency's special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings at the stated rate, gains/losses, and unrealized gains/losses arising from changes in the fair value of investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are accrued and allocated at year-end based on percentage ownership in the pool.

For credit risk information pertaining to the cash management pool, see the deposits disclosures in *Note 12*.

Federal Revenue Receivable

Federal grant revenue receivable represents expenditures incurred through June 30, 2008, for federal programs/projects but not reimbursed until fiscal year 2009.

Accounts Receivable

Accounts receivable represents expenditures incurred through June 30, 2008, for Special Revenue Fund programs/projects but not reimbursed until fiscal year 2009.

Capital Assets

Capital assets are recorded at cost if purchased. Capital assets contributed by other State agencies or funds are recorded at the Governor's Office's original acquisition cost less accumulated depreciation from the purchase date. Assets donated by other parties are valued at fair market value at the date of gift. The capitalization dollar threshold limit for capital assets is \$5,000, and software is \$100,000. The Office has three classes of capital assets, furniture and equipment, which is depreciated on a straight-line basis over the estimated useful lives of 3-12 years, buildings and improvements and depreciable land improvements, which are depreciated on a straight-line basis over the estimated useful lives of 5-40 years.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Compensated absences are recorded as short and long-term liabilities account group. Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end up to 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum amount, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Governor's Office calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded. Changes in compensated absences are shown in *Note 10*.

Net Assets/Fund Balances

Net assets are classified and presented in three components in the government-wide financial statements:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted – All other assets that do not meet the definition of “restricted” or “invested in capital assets”.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Net Assets/Fund Balances (Continued)

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the balance be segregated for a specific future use or (2) identify the portion of the net assets that is not appropriable for future discretionary expenditures. Designations of unreserved fund balances are established to identify tentative managerial plans or unrestricted State General Fund financial resources authorized for carry-forward. Such plans are subject to change and may never be legally authorized or result in expenditure. The unreserved component of fund balances is computed as total net assets less reserved amounts. The undesignated fund balances are unreserved fund balances, which have not been designated by management.

Interfund Transactions-Fund Financial Statements

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursement to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Amounts owed for reimbursement at the end of the year are recorded as a liability in the reimbursing fund and a receivable in the fund to be reimbursed. The interfund receivable or payable is liquidated as soon as funds are available from the applicable funding source.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers in the period the transfer is authorized. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Indirect Cost Recoveries

The receipt of indirect cost recoveries has been included in the Special Revenue Fund as federal revenue and payment of these recoveries to the State's General Fund is recorded as other financing uses. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants, which the Office may retain. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. State law requires the Governor's Office to remit non-exempt recoveries to the State's General Fund. The State of South Carolina General Fund receives indirect cost reimbursements from Blue Cross/Blue Shield for the Infant Mortality Program and from federal granting agencies based on a predetermined percentage of the personnel costs of the Governor's Office. The Office remitted cost reimbursements amounted to \$98,399 in fiscal year 2008. The Office did not retain any indirect cost recoveries in fiscal year 2008.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

2. State Appropriations

The 2007-2008 original appropriations are the base budget amounts for the Mansion and Grounds, the Executive Control of State, and the Office of Executive Policy and Program budgetary units and are presented in the General Funds column of Sections 56D, 56A, and 56C, respectively, of Part IA of the Appropriations Act. The following are reconciliations of adjusted appropriations to the appropriations revenue and General Fund legal basis budget amounts on the Combined Statement of Revenue, Expenditures and Changes in Fund Balances- All Governmental Fund Types and the Combined Statement of Expenditures - Budget and Actual - All Budgeted Funds.

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Original appropriation	\$ 437,218	\$ 2,419,318	\$ 10,405,998	\$ 13,262,534
Supplement	-	-	163,000	163,000
Transfers	-	(230,000)	844,680	614,680
Base Pay Increase (Part IV of 2008 Appropriations Act):	13,288	76,418	213,272	302,978
Lapsed funds	(42,060)	(239,179)	(632,335)	(913,574)
Revised appropriations - legal basis	408,446	2,026,557	10,994,615	13,429,618
Net adjustments to accrual basis:				
Personal services and employer contributions	27,303	154,639	488,902	670,844
Revenue from state appropriations	<u>\$ 435,749</u>	<u>\$ 2,181,196</u>	<u>\$ 11,483,517</u>	<u>\$ 14,100,462</u>
Revised appropriations	\$ 408,446	\$ 2,026,557	\$ 10,994,615	\$ 13,429,618
Brought-forward appropriations from fiscal year ended June 30, 2007:				
(a) Implementing federal programs- match	41,658	216,665	1,280,575	1,538,898
Legal basis appropriation available for 2008 expenditures	<u>\$ 450,104</u>	<u>\$ 2,243,222</u>	<u>\$ 12,275,190</u>	<u>\$ 14,968,516</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

2. State Appropriations (Continued)

	Mansion and Grounds	Executive Control of State	Executive Policy and Programs	Totals
Approved carry forward of appropriated funds to fiscal year 2007				
(b) Implementing federal programs- match	\$ -	\$ -	\$ 1,593,604	\$ 1,593,604
Less general fund accounts payable	-	(25,955)	(248,546)	(274,501)
Total carry forward accrual basis	\$ -	\$ (25,955)	\$ 1,345,058	\$ 1,319,103

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2007 for expenditures in fiscal year 2008 and to carry forward unspent appropriations from fiscal year 2008 to expenditure in fiscal year 2009. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

- (a) 2007 Appropriations Act, Proviso 56DD.1
- (b) 2008 Appropriations Act, Proviso 56DD.1

Annual fiscal year 2008 appropriations of \$1,593,604 for implementing federal programs approved for carry forward to fiscal year 2008 for expenditure for the same purposes. There were no remaining unspent appropriations authorized for carry forward to be reported as unreserved, designated fund balance of the Office's General Fund.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

3. Operating Leases

The Governor's Office rents office and parking space on a year-to-year basis from the State Budget and Control Board-Office of General Services. During fiscal year 2008, total payments under this lease were \$436,074. The Governor's Office leases automobiles from the State Budget and Control Board-State Fleet Management on a year-to-year basis. During fiscal year 2008, total payments under this lease were \$150,123. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2009 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$437,560 in fiscal year 2008. These leases expire between 2008 and 2013. Some leases contain renewal options and scheduled rent increases. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2009 and subsequent years. When these leases expire, they will be replaced with similar leases for like real property.

The Governor's Office also has noncancelable operating leases for various copying and data processing equipment. During fiscal year 2008, total payments were \$74,471, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2009 and subsequent years. These leases expire between 2009 and 2010 and do not contain renewal options or escalation clauses. When these leases expire, they will be replaced with similar leases for equipment.

Future minimum lease payments required under noncancelable operating leases that have remaining lease terms of more than one year as of June 30, 2008, are:

<u>Year Ending June 30,</u>	
2009	\$ 172,733
2010	126,944
2011	114,222
2012	37,051
2013	18,550
	<u>\$ 469,500</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

4. Due From State General Fund

Accrued payroll and related liabilities represents personal services and employer contribution expenditures accrued at June 30, but paid in July. By State law, these accruals are paid from funds appropriated for the next fiscal year.

The amount receivable for accrued payroll and fringe benefits represents amounts due from the State General Fund to fund the Office's general fund personal services and employer contribution costs accrued at June 30, but paid in July for employees paid from State General Fund appropriations. See *Note 2* for detail of the net revenue adjustment by division.

5. Changes In Capital Assets

A summary of changes in capital assets follows:

	Balance July 1, 2007	Additions	Deletions and Retirements	Transfers	Balance June 30, 2008
Construction in process:					
Office of Executive Policy and Programs	\$ 4,466,765	\$ -	\$ -	\$ (4,466,765)	\$ -
Buildings & Improvements					
Office of Executive Policy and Programs	-	144,286	-	1,491,562	1,635,848
Depreciable land improvements					
Office of Executive Policy and Programs	-	-	-	2,410,235	2,410,235
Furniture and equipment:					
Office of Executive Policy and Programs	213,483	216,999	(16,691)	27,300	441,091
Executive Control of State	-	12,251	-	-	12,251
Total furniture and equipment	213,483	229,250	(16,691)	27,300	453,342
Accumulated depreciation:					
Office of Executive Policy and Programs	(117,036)	(108,119)	16,691	-	(208,464)
Executive Control of State	-	(1,951)	-	-	(1,951)
Total accumulated depreciation	(117,036)	(110,070)	16,691	-	(210,415)
Capital assets, net of accumulated depreciation	\$ 4,563,212	\$ 263,466	\$ -	\$ (537,668)	\$ 4,289,010

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

6. Pension Plan

The Retirement Division (the "Division") maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy is publicly available on the South Carolina Retirement Systems website at www.retirement.sc.gov. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina. The South Carolina Retirement System also administers the State Optional Retirement Program (ORP) which is a defined contribution plan.

The majority of employees of the Office are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees. The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The SCRS assumes no liability for State ORP benefits, as they are the liability of the investment providers. New employees have the option of choosing the State Optional Retirement Program.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years earned service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

6. Pension Plan (Continued)

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. TERI participants with an effective TERI date prior to July 1, 2005 do not make employee contributions to SCRS. TERI participants with an effective TERI date on or after July 1, 2005 make employee contributions to SCRS. All TERI participants do not earn service credit and are eligible to receive group life insurance benefits and are not eligible for disability retirement benefits.

Beginning July 1, 2006, employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. For the year ended June 30, 2008, the employer contribution rate was 9.06 percent (before a surcharge to fund retiree health and dental insurance coverage). For the year ended June 30, 2006, this rate was 7.55 percent and for the year ended June 30, 2007, this rate was 8.05 percent. The Fund's actual contributions to the SCRS for the years ended June 30, 2008, 2007 and 2006 were approximately \$1,041,346, \$993,776 and \$834,887 respectively and equaled the required contributions (excluding the surcharge) in the percentages outlined above. Also, the Fund paid employer group-life insurance contributions at the rate of .15 percent of compensation for each of the years ended June 30, 2008, 2007 and 2006.

The amounts paid by the Office for pension and group-life benefits are reported as employer contribution expenditures within the applicable administrative expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

6. Pension Plan (Continued)

The System does not make separate measurements of assets and pension benefit obligations for individual employers. Accordingly, information regarding the excess, if any, applicable to the Governor's Office of the actuarially computed value of vested benefits over the total of the applicable pension fund and any balance sheet accruals, less any pension prepayments or deferred charges, is not available. By State law, the Governor's Office's liability under the retirement plan is limited to the amounts contributed during the year. Accordingly, the Governor's Office recognized no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

The required retirement contribution rates increased by 0.26% as of July 1, 2008.

7. Post Employment and Other Employee Benefits

Post Employment Benefits

The State provides post employment health and dental benefits to retired employees and their covered dependents through a plan which has been determined to be a cost-sharing multiple-employer defined benefit post employment healthcare plan by the Comptroller General's Office of the State of South Carolina. The State Budget and Control Board (SBCB) is the Trustee and the plan is administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board. A retiree's eligibility for the health and dental benefits is based on his hire date and years of earned retirement service credit. Generally, ten years of service credit with the SC Retirement System is required for full funding of employees enrolled in the system prior to May 2, 2008. For all others who may become enrolled, eligibility requires fifteen years of service for partial funding and twenty-five years for full funding.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

7. Post Employment and Other Employee Benefits (Continued)

In addition the State provides long-term disability benefits to active employees through the Long-Term Disability Plan which has been determined to be a cost sharing multiple-employer plan by the Comptroller General's Office of the State of South Carolina. The State Budget and Control Board is the Trustee and the plan is administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Benefits under this plan are provided to the employee upon approval of the disability by the South Carolina Retirement System.

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires the post-employment benefits be funded through annually established employer's contribution rates, also known as the pension surcharge. Funding for the employer's payment of the surcharge is provided through General Appropriations from the State and other sources. Effective May 1, 2008 through Act 195, the State established the South Carolina Retiree Health Insurance Trust Fund and the Long-Term Disability Insurance Trust Fund for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and employee long-term disability benefits. The Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding may include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Fund's actual contribution to this trust fund for the fiscal year ended June 30, 2008 was \$35,466, which equaled the required contribution rate of 3.42% as discussed in *Note 6*. The Long-Term Disability Insurance Trust Fund is funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee contributed to the trust was \$3.23 for the fiscal year ended June 30, 2008.

By state law, the State is liable for the employer share of retiree premiums. Accordingly, an annual required contribution and related liability for the Fund, as employer, is not included in the accompanying financial statements.

Audited financial statements of the trust funds may be obtained by written request to Employee Insurance Program, SC Budget and Control Board, 1201 Main Street, Suite 360, Columbia, South Carolina 29201.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

7. Post Employment and Other Employee Benefits (Continued)

Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to all permanent full-time and certain permanent part-time employees of the Fund. These benefits are provided on a reimbursement basis by the employer agency based on rates established at the beginning of the service period by the Employee Insurance Program within the SC Budget and Control Board.

The Fund recorded benefit expenses for these insurance benefits for active employees in the amount of \$1,064,606 for the year ended June 30, 2008.

8. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Governor's Office have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

This Fund made no contributions for the fiscal year ending June 30, 2008.

9. Risk Management

The Governor's Office is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settled claims have not exceeded this coverage in any of the past three years. The Governor's Office pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

9. Risk Management (Continued)

Several state funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Governor's Office pays premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Building contents and equipment;
3. Motor vehicles;
4. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property, equipment, and auto liability. The IRF's rates are determined actuarially.

The Governor's Office obtains coverage up to \$50,000 through a commercial insurer for employee fidelity bond insurance for certain administrative employees of the Office of Executive Policy and Programs for losses arising from theft or misappropriation. The Governor's Office self-insures itself above this amount because it feels the likelihood of loss is remote. The Governor's Office has not purchased business interruption insurance because management believes the risk of a material loss is a remote likelihood.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

9. Risk Management (Continued)

The Governor's Office has recorded insurance premium expenditures in the applicable expenditure categories. There is no evidence of asset impairment or other information to indicate that a loss expenditures and liability should be recorded at fiscal year end for uninsured losses. Therefore, no loss accrual had been recorded.

10. Changes In Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2008, were as follows:

	Beginning Balance July 1, 2007	Increases	Decreases	Ending Balance June 30, 2008	Due Within One Year
Accrued compensated absences:					
Mansion and Grounds	\$ 20,036	\$ 17,565	\$ (11,434)	\$ 26,167	\$ 12,151
Executive Control of State	128,444	80,172	(70,471)	138,145	90,177
Office of Executive Policy and Programs	871,936	1,066,230	(1,055,316)	882,850	554,870
Total accrued compensated absences	<u>\$ 1,020,416</u>	<u>\$ 1,163,967</u>	<u>\$ (1,137,221)</u>	<u>\$ 1,047,162</u>	<u>\$ 657,198</u>

11. Transactions With State Entities

The Governor's Office has significant transactions with various State of South Carolina state agencies.

Services received at no cost from state agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking functions from the State Treasurer; legal services from the Attorney General; interagency mail services from the State Budget and Control Board; and record storage from the Department of Archives and History. The Governor's Office also leases space, equipment and autos from state agencies. See *Note 3* for further disclosure. Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

11. Transactions With State Entities (Continued)

In addition to the above services received at no cost, the Governor's Office pays for the following services with State agencies:

<u>Agency</u>	<u>Goods or Services Purchased</u>	<u>Amount</u>
Clemson University	Claims and Awards	\$ 175
Clemson University	Rent	290
Total Clemson University		<u>465</u>
Department of Corrections	Office Equipment	9,350
Department of Corrections	Printing Services	8,937
Total Department of Corrections		<u>18,287</u>
Department of Disabilities and Special Needs	Aid to Other Agencies	54,176
Department of Disabilities and Special Needs	Contractual Services	4,630
Total Department of Disabilities and Special Needs		<u>58,806</u>
Department of Health and Human Services	Case Services (other)	<u>1,709,159</u>
Department of Mental Health	Allocations to Other Agencies	676,835
Department of Mental Health	Case Services (other)	9,423
Department of Mental Health	Claims and Awards	89,272
Total Department of Mental Health		<u>775,530</u>
Department of Social Services	Contractual Services	<u>5,772</u>
Educational Television	Telecommunications Services	<u>105</u>
Medical University of South Carolina	Claims and Awards	72,816
Medical University of South Carolina	Printing Services	2,574
Medical University of South Carolina	Registration Fees	1,192
Total Medical University of South Carolina		<u>76,582</u>
School for the Deaf and Blind	Allocations to Other Agencies	<u>19,328</u>
State Accident Fund	Workers Compensation Insurance	<u>97,302</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

11. Transactions With State Entities (Continued)

In addition to the above services received at no cost, the Governor's Office pays for the following services with State agencies: (continued)

<u>Agency</u>	<u>Goods or Services Purchased</u>	<u>Amount</u>
State Budget and Control Board	Aid to Other Agencies	2,913
State Budget and Control Board	Allocations to Other Agencies	617,603
State Budget and Control Board	Contractual Services	12,801
State Budget and Control Board	Data Processing	55,043
State Budget and Control Board	Equipment Repair	361
State Budget and Control Board	General Repair	2,775
State Budget and Control Board	Insurance	1,038,089
State Budget and Control Board	Meals	166,104
State Budget and Control Board	Microfilm	282
State Budget and Control Board	Motor Vehicle Passenger	1,598
State Budget and Control Board	Photocopy	2,609
State Budget and Control Board	Postage and Freight	3,206
State Budget and Control Board	Printing Services	41,135
State Budget and Control Board	Registration Fees	1,184
State Budget and Control Board	Rent	615,093
State Budget and Control Board	Telephone Services	87,192
State Budget and Control Board	Temporary Services	35,096
State Budget and Control Board	Utilities	1,168
Total State Budget and Control Board		2,684,252
University of South Carolina	Contractual Services	2,500
University of South Carolina	Registration Fees	1,929
Total University of South Carolina		4,429
Various Other	Fees and Fines	268
Various Other	Meals	588
Various Other	Office Supplies	524
Various Other	Printing Services	331
Various Other	Registration Fees	584
Various Other	Telephone Services	1,443
Total Various Other		3,738
Total		\$ 5,453,755

Over the past few years the Governor's Office has granted money to the South Carolina Budget and Control Board to construct a Veteran's Cemetary. The South Carolina Budget and Control Board contracted to construct the Cemetary. During the prior fiscal year it was decided by the South Carolina Budget and Control Board to transfer the Veteran's Cemetary back to the Governor's Office. During the current year additional expenses of \$144,286 were transferred to the Governor's Office and are recorded as buildings and improvements.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

12. Cash Deposits

All cash deposits with financial institutions are required to be insured or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. At June 30, 2008, the Office had no deposits with financial institutions. The Office had cash in the amount of \$15,853,408 held by the State Treasurer as of June 30, 2008.

The following schedule reconciles deposits within the footnotes to the financial statement amounts:

	<u>Financial Statements</u>	<u>Footnotes</u>
Deposits with State Treasurer's Office	\$ -	\$ 15,853,408
Cash and cash equivalents	15,853,408	-
Total	<u>\$ 15,853,408</u>	<u>\$ 15,853,408</u>

13. Due to State General Fund

These funds represent amounts that were transferred back to the General Fund after year-end because they were not used and subsequently lapsed.

14. Litigation and Contingencies

At June 30, 2008, the Governor's Office was involved in a number of legal proceedings (predominately civil suits) and claims with various parties, which arose in the normal course of business.

Although any litigation has an element of uncertainty, it is management's opinion that the outcome of litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Office. No provision has been made in these financial statements for losses, if any, which might result from litigation pending, threatened or the combination thereof because there is no evidence to indicate that a loss expenditure and liability should be recorded at year end.

The South Carolina Governor's Office has received grant revenue from several federal agencies. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that refunds, if any, will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

15. Program Classification

The following is how the Office of Executive Policy and Programs is structured as of fiscal year 2008.

Division of Administrative Services	Division of Children Services	Division of Constituent Services
Office of Finance and Administration	Office of Continuum of Care Office of Foster Care Office of Guardian Ad Litem Office of Education Office of Health Services	Office of Veterans' Affairs Office of Commission on Women Office of Ombudsman/Citizen Services Office of Developmental Disabilities Council Office of Victims' Assistance Office of Economic Opportunity Office of Intergovernmental Affairs Office of Small and Minority Business

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

16. Reserved Fund Balances/Deficits

The reserve for various restricted purposes in the special revenue fund is composed of the following reserved balances by department:

Continuum of Care:	
Case management Medicaid	\$ 925,301
Patient Fees	11,513
Client Trust Fund	<u>7</u>
Total Continuum of Care	<u>936,821</u>
Foster Care:	
Local review board	<u>82,591</u>
Victims' Assistance:	
Trust fund for claims	<u>9,082,408</u>
Economic Opportunity:	
Project share	<u>125,301</u>
Guardian Ad Litem:	
Operations	714,212
Contributions	<u>311</u>
Total Guardian Ad-Litem	<u>714,523</u>
Ombudsman/Citizen Services:	
Operations	<u>184</u>
Veterans' Affairs:	
Military Family Relief Fund	271,924
Veterans' State Cemetary Fund	<u>17,700</u>
Total Veterans' Affairs	<u>289,624</u>
Finance and Administration:	
Miscellaneous Revenue	3,100
Increase Enforcement Collections	336,892
Agency Set-Aside	<u>18,964</u>
Total Finance and Administration	<u>358,956</u>
Federal Program:	
Dual employment	(39,057)
Ombudsman	(6,890)
Health and Human Services	(16,795)
Victims assistance	(5,851)
Economic opportunity	<u>(56,166)</u>
Total federal programs	<u>(124,759)</u>
Total reserved fund balance	<u><u>\$ 11,465,649</u></u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

16. Reserved Fund Balances/Deficits (Continued)

The deficit in the Federal Programs Department is caused due to differences in the timing of expenditures and the notice of grant awards.

REQUIRED SUPPLEMENTARY INFORMATION
(OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS)
(UNAUDITED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
BUDGETARY GENERAL FUND

YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Executive Control of the State				
I. Administration				
Personal Service	\$ 1,840,393	\$ 1,562,485	\$ 1,562,485	\$ -
Other Operating Expenses	144,463	263,773	263,773	-
Total Administration	<u>1,984,856</u>	<u>1,826,258</u>	<u>1,826,258</u>	<u>-</u>
II. Carryforward Appropriations	-	239,179	-	239,179
III. Employee Benefits	<u>434,462</u>	<u>416,964</u>	<u>416,964</u>	<u>-</u>
Total Executive Control of the State	<u>2,419,318</u>	<u>2,482,401</u>	<u>2,243,222</u>	<u>239,179</u>
Office of Executive Policy & Programs				
I. Administrative Services				
Personal Service	770,300	880,896	880,896	-
Other Operating Expenses	393,533	446,025	446,025	-
Special Items:				
Implementing Federal Programs	44,283	36,397	36,397	-
National Governor's Association	50,003	50,003	50,003	-
Southern Growth Policies	26,312	26,312	26,312	-
Southern States Energy Board	31,372	31,372	31,372	-
Poet Laureate	-	2,731	2,731	-
Appalachian Regional Commission	36,000	36,000	36,000	-
Southern Governors Association	7,110	7,110	7,110	-
Mining Council	-	974	974	-
Total Administrative Services	<u>1,358,913</u>	<u>1,517,820</u>	<u>1,517,820</u>	<u>-</u>
II. Children Services				
Personal Service	3,304,338	3,050,277	3,050,277	-
Other Operating Expenses	721,665	806,017	806,017	-
Case Services	1,388,010	1,659,158	1,659,158	-
Special Items:				
Children's Case Resolution System	97,541	4,630	4,630	-
Protection and Advocacy	297,938	297,938	297,938	-
Total Children Services	<u>5,809,492</u>	<u>5,818,020</u>	<u>5,818,020</u>	<u>-</u>
III. Constituents Services				
Personal Service	1,257,015	1,017,490	1,017,490	-
Other Operating Expenses	179,969	284,075	284,075	-
Employee Benefits	-	23,344	23,344	-
Special Items:				
Victims Rights	98,244	98,166	98,166	-
Victims Witness	181,117	181,117	181,117	-
POW Commission	3,924	1,184	1,184	-
Veteran's Counseling	75,000	28,998	28,998	-
Distributions to Subdivisions	54,176	54,176	54,176	-
Total Constituents Services	<u>1,849,445</u>	<u>1,688,550</u>	<u>1,688,550</u>	<u>-</u>

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
BUDGETARY GENERAL FUND

YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
IV. Carryforward Appropriations	-	632,335	-	632,335
V. Employee Benefits	1,388,148	1,517,984	1,517,984	-
VI. State Veteran's Cemetery	-	14,986	14,986	-
VII. Children's Trust Fund	-	100,000	100,000	-
VIII. Victims' Assistance - Ombudsman	-	24,226	24,226	-
Total Office of Executive Policy & Programs	<u>10,405,998</u>	<u>11,313,921</u>	<u>10,681,586</u>	<u>632,335</u>
Mansion and Grounds				
I. Administration				
Personal Service	282,742	296,726	296,726	-
Other Operating Expenses	<u>56,936</u>	<u>68,594</u>	<u>68,594</u>	<u>-</u>
Total Administration	<u>339,678</u>	<u>365,320</u>	<u>365,320</u>	<u>-</u>
II. Carryforward Appropriations	-	42,060	-	42,060
III. Employee Benefits	<u>97,540</u>	<u>84,784</u>	<u>84,784</u>	<u>-</u>
Total Mansion and Grounds	<u>437,218</u>	<u>492,164</u>	<u>450,104</u>	<u>42,060</u>
Total Expenditures	<u>\$ 13,262,534</u>	<u>\$ 14,288,486</u>	<u>\$ 13,374,912</u>	<u>\$ 913,574</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
OTHER BUDGETED FUNDS

YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance from Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures:				
Executive Control of the State				
I. Administration				
Other Operating Expenses	\$ -	\$ 42,016	\$ 20,265	\$ 21,751
Total Administration	<u>-</u>	<u>42,016</u>	<u>20,265</u>	<u>21,751</u>
Total Executive Control of the State	<u>-</u>	<u>42,016</u>	<u>20,265</u>	<u>21,751</u>
Office of Executive Policy & Programs				
I. Administrative Services				
Other Operating Expenses	-	58,540	691	57,849
Special Items:				
National Governors Association	-	56,597	56,597	-
Total Administrative Services	<u>-</u>	<u>115,137</u>	<u>57,288</u>	<u>57,849</u>
II. Children Services				
Personal Service	2,771,139	3,540,355	2,505,468	1,034,887
Other Operating Expenses	1,918,837	1,818,421	1,264,509	553,912
Case Services	1,900,000	1,900,000	1,621,731	278,269
Total Children Services	<u>6,589,976</u>	<u>7,258,776</u>	<u>5,391,708</u>	<u>1,867,068</u>
III. Constituents Services				
Personal Service	1,310,740	1,310,740	1,080,051	230,689
Other Operating Expenses	7,362,336	8,698,123	7,989,445	708,678
Case Services	275,000	275,000	2,000	273,000
Distributions to Subdivisions:				
Allocation County - Restricted	650,000	650,000	650,000	-
Allocation Other State Agencies	139,479	139,479	125,000	14,479
Allocation Other Entities	650,000	650,000	293,657	356,343
Total Constituents Services	<u>10,387,555</u>	<u>11,723,342</u>	<u>10,140,153</u>	<u>1,583,189</u>
IV. Employee Benefits	<u>1,268,573</u>	<u>1,405,023</u>	<u>1,083,039</u>	<u>321,984</u>
Total Office of Executive Policy and Programs	<u>18,246,104</u>	<u>20,502,278</u>	<u>16,672,188</u>	<u>3,830,090</u>
Mansion and Grounds				
I. Administration				
Personel Services	-	10,622	10,622	-
Other Operating Expenses	-	524	524	-
Total Administration	<u>-</u>	<u>11,146</u>	<u>11,146</u>	<u>-</u>
II. Employee Benefits				
Total Mansion and Grounds	<u>-</u>	<u>2,155</u>	<u>2,155</u>	<u>-</u>
Total Mansion and Grounds	<u>-</u>	<u>13,301</u>	<u>13,301</u>	<u>-</u>
Total Expenditures	<u>\$ 18,246,104</u>	<u>\$ 20,557,595</u>	<u>\$ 16,705,754</u>	<u>\$ 3,851,841</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

JUNE 30, 2008

Note 1. Budgetary Funds:

South Carolina's Annual Appropriations Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds. These funds are general operating funds. The resources in these funds are primarily taxes. The State expends General Funds to provide traditional State government services. The General Funds column in the Appropriations Act differs somewhat from the GAAP General Fund and is referred to within these notes and in the accompanying schedule as the *Budgetary General Fund*.

Total Funds. The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred to within these notes and in the accompanying schedules as *Other Budgeted Funds*.

Note 2. Legal Level of Budgetary Control:

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. The State's Appropriations Act for the 2007-2008 fiscal year has approximately 3,000 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

(CONTINUED)

Note 3. Basis of Budgeting:

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended Appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is required.

State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- (i) Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 20.
- (ii) Certain revenues collected in advance are recorded as liabilities (deferred revenues) rather than as revenues.
- (iii) The following taxes are recorded on the modified accrual basis in accordance with State law: admissions tax, alcoholic liquors tax, beer and wine tax, business license tax, documentary tax, electric power tax, and retail sales taxes.
- (iv) Certain non-cash activity, such as fool stamp benefits, is recorded as revenue and expenditure in the fiscal year in which the resources are distributed to the beneficiaries.
- (v) All other revenues are recorded only when the State receives the related cash.

Note 4. Reconciliation of Budget to GAAP Reporting Differences:

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassifications from financial statement fund types to budgetary fund categories, reversals of payroll accruals and the related fringe benefits, and removals of unbudgeted accounts and funds, if any. Acquisitions of fixed assets by donation are unbudgeted and capital lease and installment purchase transactions are budgeted in the year of payment.

OTHER FINANCIAL INFORMATION

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET -
GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION

JUNE 30, 2008

	<u>Mansion and Grounds</u>	<u>Executive Control of State</u>	<u>Office of Executive Policy and Programs</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 42,060	\$ 265,134	\$ 2,549,485	\$ 2,856,679
Due from the State General Fund	27,303	154,639	488,902	670,844
Total assets	<u>\$ 69,363</u>	<u>\$ 419,773</u>	<u>\$ 3,038,387</u>	<u>\$ 3,527,523</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ 25,955	\$ 248,546	\$ 274,501
Accrued payroll and other liabilities	27,303	154,639	488,902	670,844
Due to the State General Fund	42,060	239,179	632,335	913,574
Total liabilities	<u>69,363</u>	<u>419,773</u>	<u>1,369,783</u>	<u>1,858,919</u>
Fund equity:				
Fund balances				
Reserved for restricted purposes to be carried forward	-	-	1,668,604	1,668,604
Total fund equity	<u>-</u>	<u>-</u>	<u>1,668,604</u>	<u>1,668,604</u>
Total liabilities and fund equity	<u>\$ 69,363</u>	<u>\$ 419,773</u>	<u>\$ 3,038,387</u>	<u>\$ 3,527,523</u>

SOUTH CAROLINA GOVERNOR'S OFFICE
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION

YEAR ENDED JUNE 30, 2008

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Revenues				
State appropriations	\$ 435,749	\$ 2,181,196	\$ 11,483,517	\$ 14,100,462
Total revenue	435,749	2,181,196	11,483,517	14,100,462
Expenditures				
Finance and Administration:				
Personal services	324,029	1,717,124	1,009,509	3,050,662
Employer contributions	84,784	416,964	289,161	790,909
Other operating	68,594	263,773	328,090	660,457
Finance and Administration Special Items:				
Implementing Federal Programs	-	-	36,397	36,397
National Governor's Association	-	-	50,003	50,003
Southern Growth Policies	-	-	26,312	26,312
Southern States	-	-	31,372	31,372
Poet Laureate	-	-	2,731	2,731
Appalachian Region	-	-	36,000	36,000
Southern Governors	-	-	7,110	7,110
Mining council	-	-	974	974
Continuum of Care:				
Personal services	-	-	1,697,973	1,697,973
Employer contributions	-	-	486,363	486,363
Other operating	-	-	486,480	486,480
Case services	-	-	1,659,158	1,659,158
Foster Care:				
Personal services	-	-	459,726	459,726
Employer contributions	-	-	131,683	131,683
Other operating	-	-	136,589	136,589
SC Protection and Advocacy	-	-	297,938	297,938
Guardian Ad Litem:				
Personal services	-	-	1,147,990	1,147,990
Employer contributions	-	-	328,827	328,827
Other operating	-	-	176,066	176,066
Developmental Disabilities:				
Personal services	-	-	44,638	44,638
Employer contributions	-	-	12,786	12,786
Other operating	-	-	11,811	11,811
Aid to other state agencies	-	-	54,176	54,176

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION

YEAR ENDED JUNE 30, 2008

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Expenditures (Continued)				
Ombudsman/Citizen Services:				
Personal services	-	-	141,438	141,438
Employer contributions	-	-	40,513	40,513
Other operating	-	-	7,346	7,346
Victims Assistance	-	-	41,892	41,892
Victims Assistance-Ombudsman	-	-	24,226	24,226
Victims Rights	-	-	98,166	98,166
Victims Witness	-	-	181,117	181,117
Veterans' Counseling	-	-	28,997	28,997
Veterans' Affairs:				
Personal services	-	-	673,543	673,543
Employer contributions	-	-	192,928	192,928
Other operating	-	-	46,718	46,718
POW Commission	-	-	1,183	1,183
Veteran's Cemetary				
Personal services	-	-	176,518	176,518
Employer contributions	-	-	23,344	23,344
Other operating	-	-	111,803	111,803
State Veteran's Cemetary	-	-	14,986	14,986
Children's Trust Fund	-	-	100,000	100,000
Children Affairs:				
Personal services	-	-	43,613	43,613
Employer contributions	-	-	12,492	12,492
Other operating	-	-	6,882	6,882
Children's Case Resolution	-	-	4,630	4,630
Small and Minority Business:				
Personal services	-	-	80,445	80,445
Employer contributions	-	-	23,042	23,042
Other operating	-	-	50,461	50,461
Commission on Women				
Personal services	-	-	653	653
Employer contributions	-	-	187	187
Other operating	-	-	14,043	14,043
Total expenditures	<u>477,407</u>	<u>2,397,861</u>	<u>11,091,029</u>	<u>13,966,297</u>
Excess of revenue over (under) expenditures	(41,658)	(216,665)	392,488	134,165
Fund balances, beginning of year	<u>41,658</u>	<u>216,665</u>	<u>1,276,116</u>	<u>1,534,439</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,668,604</u>	<u>\$ 1,668,604</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS -
OTHER GOVERNMENTAL FUNDS

JUNE 30, 2008

	Foster Care	Ombudsman/ Citizen Services	Economic Opportunity	Veterans Affairs	Total
Assets					
Cash and cash equivalents	\$ 137,713	\$ 11,903	\$ 125,301	\$ 451,045	\$ 725,962
Accounts receivable	-	-	-	2,387	2,387
Federal grant receivable	-	-	-	3,172	3,172
Total assets	<u>\$ 137,713</u>	<u>\$ 11,903</u>	<u>\$ 125,301</u>	<u>\$ 456,604</u>	<u>\$ 31,521</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 18,488	\$ 142	\$ -	\$ 3,172	\$ 21,802
Accrued payroll and related liabilities	36,634	11,577	-	-	48,211
Deposits held for clients	-	-	-	163,808	163,808
Total liabilities	<u>55,122</u>	<u>11,719</u>	<u>-</u>	<u>166,980</u>	<u>233,821</u>
Fund balances	<u>82,591</u>	<u>184</u>	<u>125,301</u>	<u>289,624</u>	<u>497,700</u>
Total liabilities and fund equity	<u>\$ 137,713</u>	<u>\$ 11,903</u>	<u>\$ 125,301</u>	<u>\$ 456,604</u>	<u>\$ 731,521</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS -
OTHER GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	Foster Care	Ombudsman/ Citizen Services	Economic Opportunity	Veterans Affairs	Total
Revenue					
Federal grants and programs	\$ -	\$ -	\$ -	\$ 948,888	\$ 948,888
Other government grants and contributions	-	125,000	371,587	110	496,697
Interest	-	-	-	5,296	5,296
Medicaid reimbursements	658,069	-	-	-	658,069
Miscellaneous	-	-	-	22,141	22,141
Total revenue	658,069	125,000	371,587	976,435	2,131,091
Expenditures					
Administration:					
Personal services	417,327	93,755	-	-	511,082
Employer contributions	124,453	32,418	-	-	156,871
Other operating	168,244	12,131	-	294,895	475,270
Case services	-	-	-	13,000	13,000
Distributions to subrecipients:					
Allocations to other state agencies	-	-	293,657	617,603	911,260
Total expenditures	710,024	138,304	293,657	925,498	2,067,483
Excess of revenue over (under) expenditures	(51,955)	(13,304)	77,930	50,937	63,608
Fund balances, beginning of year	134,546	13,488	47,371	238,687	434,092
Fund balances, end of year	\$ 82,591	\$ 184	\$ 125,301	\$ 289,624	\$ 497,700

SINGLE AUDIT SECTION

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Education		
Rehabilitation Services-Client Assistance Program	84.161	\$ 126,741
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons	81.042	1,689,223
U. S. Department of Justice		
Crime Victim Compensation	16.576	4,082,813
Crime Victim Assistance - Discretionary Gifts	16.582	20,527
U. S. Department of Health and Human Services		
*Low Income Home Energy Assistance	93.568	19,932,885
*Community Services Block Grant	93.569	11,889,195
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,014,486
U. S. Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	1,401,181
U.S. Department of Veteran's Affairs		
State Cemetary Grants	64.203	912,499
Pass through from:		
S.C. Department of Social Services		
Foster Care-Title IV-E	93.658	670,550
Guardian Ad Litem	16.676	85,010
Fostercare	93.645	110,361
Grand Total		<u>\$ 41,935,471</u>

The accompanying notes are an integral part of this schedule.

**Denotes major program*

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

Note 1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant and federal program activity of South Carolina Governor's Office (the "Office") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Note 2. Subrecipients:

Of the federal expenditures presented in the schedule, the South Carolina Governor's Office provided federal awards to subrecipients as follows:

Federal Grantor/ Program Title	Federal CFDA Number	Amount Provided to Subrecipients
U. S. Department of Health and Human Services		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	\$ 737,144
Community Services Block Grant	93.569	11,456,428
Low Income Home Energy Assistance	93.568	19,472,665
U. S. Department of Justice		
Crime Victim Compensation	16.576	775,000
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons	81.042	1,367,651
U. S. Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	<u>1,326,402</u>
Total provided to subrecipients		<u>\$ 35,135,290</u>

DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited the financial statements of the South Carolina Governor's Office (the "Office") as of and for the year ended June 30, 2008, and have issued our report thereon dated February 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Office's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Office's financial statements that is more than inconsequential will not be prevented or detected by the Office's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Office's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. This finding is labeled as 2008-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, management of the Governor's Office, Office of the State Auditor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



February 4, 2009

DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

Compliance

We have audited the compliance of the South Carolina Governor's Office (the "Office") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The South Carolina Governor's Office's major programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the South Carolina Governor's Office management. Our responsibility is to express an opinion on the South Carolina Governor's Office compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the South Carolina Governor's Office compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the South Carolina Governor's Office's compliance with those requirements.

In our opinion, the South Carolina Governor's Office complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the South Carolina Governor's Office is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the South Carolina Governor's Office's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A control deficiency in the Office's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Office's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Office's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Office's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Governor, management of the Governor's Office, Office of the State Auditor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

DeLoach & Williamson, L.L.P.

February 4, 2009

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2008

Summary of Auditors' Results:

1. The auditors' report expresses an unqualified opinion on the financial statements of the South Carolina Governor's Office.
2. No material weaknesses relating to the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. One significant deficiency relating to the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. See item **2008-01** below.
4. No instances of noncompliance material to the financial statements of the South Carolina Governor's Office were disclosed during the audit.
5. No significant deficiencies relating to the audit of major federal awards is reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
6. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
7. The audit did not disclose a finding that the auditor is required to report under Section 510(a) of OMB Circular A-133
8. Major federal programs:
 - 1) Low Income Home Energy Assistance – CFDA # 93.568
 - 2) Community Services Block Grant – CFDA # 93.569
9. The threshold for distinguishing between Type A and Type B Programs was \$1,258,064.
10. South Carolina Governor's Office qualified to be a low risk auditee.

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

Financial Statement Findings:

2008-1

Capital Asset Accounting and Reporting

During the audit, we noted the following conditions relating to capital assets:

- The Governor's Office (The "Office") Capital Assets closing package contains information used by the State of South Carolina to prepare the State's Comprehensive Annual Financial Report. At June 30, 2008, the Office reported in its closing package, all assets relating to the Veteran's Cemetery as Construction in Process even though the Cemetery was in use as of June 30, 2008.
- The amount reported as total capital assets was overstated by approximately \$400,000 for duplication of items reported in the prior year and also contained items that, once completed, did not meet the threshold for capitalization. The total amount of these overstatements approximated \$940,000.

As a result, the amounts reported in the State CAFR were not properly classified and were overstated.

We recommend that the Office exercise more care and control over the amounts reported in its closing packages to prevent future errors from occurring.

Federal Awards Findings and Questioned Costs:

No findings or questioned costs.

Status of Prior Year Findings:

No findings or questioned costs were reported in the prior year.