

SOUTH CAROLINA GOVERNOR'S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2011

State of South Carolina



Office of the State Auditor

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February 24, 2012

The Honorable Nikki R. Haley, 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, 2011, 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/sag

SOUTH CAROLINA GOVERNOR'S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2011

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SOUTH CAROLINA GOVERNOR’S OFFICE

AUDITED FINANCIAL STATEMENTS,
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AND SINGLE AUDIT SECTION

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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, 2011, 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 also 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, 2011 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, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2012, on our consideration of the Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Office taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose 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 basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Releach & Williamson, C.C.P.

January 31, 2012

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

June 30, 2011

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, 2011.

Financial Highlights

- The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by \$18,919,971. These funds will be used to meet the office's ongoing obligations.
- The Office's total net assets decreased by \$5,587,844 in comparison with the prior year.
- As of the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of \$16,490,487 a decrease of \$5,401,946 in comparison with the prior year.
- At the end of the current fiscal year, reserved fund balance for the general fund was \$1,612,028

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 South Carolina 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 16 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

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.

Condensed Statement of Net Assets

	June 30,	
	2010	2011
Assets		
Current assets	\$ 23,857,748	\$ 17,965,941
Capital assets, net of accumulated depreciation	3,694,521	3,474,757
Total Assets	<u>27,552,269</u>	<u>21,440,698</u>
Liabilities		
Current liabilities	2,609,839	2,073,977
Non-current liabilities	434,615	446,750
Total Liabilities	<u>3,044,454</u>	<u>2,520,727</u>
Total Net Assets	<u>\$ 24,507,815</u>	<u>\$ 18,919,971</u>

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,	
	2010	2011
Operating grants and contributions	\$ 136,372,612	\$ 106,294,254
Expenses	136,471,790	121,043,614
Net expense and change in net assets	(99,178)	(14,749,360)
State appropriations	10,766,600	9,116,117
Interest	6,713	45,399
Change in net assets	10,674,135	(5,587,844)
Net assets at beginning of year	13,833,680	24,507,815
Net assets at end of year	\$ 24,507,815	\$ 18,919,971

General Fund Budgeting Highlights

General Fund Appropriations were \$1,650,483 less in fiscal year 2011 than fiscal year 2010 due to harsh budget cuts and economic times. The South Carolina Governor's Office made it a priority to keep the focus on the critical programs, such as Veterans, Guardian Ad Litem, Continuum of Care, Victims Assistance, Office of Small Minority Business and Foster Care to ensure services for our most vulnerable citizens of this State remains viable.

Capital Assets and Debt Administration

The South Carolina Governor's Office investment in capital assets for its governmental activities as of June 30, 2011 amounts to \$3,474,757 (net of accumulated depreciation). This investment in capital assets includes vehicles, equipment and the Veterans Cemetery. See *Note 5* for additional information.

The South Carolina Governor's Office had total long-term debt in the amount of \$1,045,273, all of which was for accrued compensation absences. See *Note 10* for additional information.

Economic Outlook

Again the Agency lost State appropriations for the 2011 fiscal year. To help offset the loss of these funds, a mandatory furlough was implemented for all of OEPP employees. For the 2012 fiscal year and beyond OEPP is identifying and implementing efficiencies to achieve significant savings. Some of these items include sharing resources across programs, consolidating/reducing office space, evaluating the use of outside leases, expanding the use of existing technology, reducing duplication, reducing the number of fax lines, consolidating and merging positions, and streamlining paperwork processes.

The general economic forecast for the remainder of FY 2012 and into FY 2013 appears to be a better forecast than it's been in recent years. However; this Agency will not relax in our endeavor to continually look for and exploit a more efficient way of conducting business while serving our most vulnerable population that the South Carolina Governor's Office supports.

Because the current fiscal years have 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, 2011

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 17,128,679
Accounts receivable	2,301
Federal grant receivable	427,302
Due from the State General Fund	407,659
Total current assets	<u>17,965,941</u>
Noncurrent assets:	
Capital assets:	
Buildings, land improvements, and equipment	4,490,580
Less: accumulated depreciation	<u>(1,015,823)</u>
Total capital assets, net of depreciation	<u>3,474,757</u>
Total assets	<u>21,440,698</u>
Liabilities	
Current liabilities:	
Accounts payable	247,831
Accrued payroll and related liabilities	1,226,936
Accrued compensated absences	598,523
Deposits held for clients	687
Total current liabilities	<u>2,073,977</u>
Noncurrent liabilities:	
Accrued compensated absences	446,750
Total non-current liabilities	<u>446,750</u>
Total liabilities	<u>2,520,727</u>
Net Assets	
Invested in capital assets	3,474,757
Restricted - expendable	10,476,280
Unrestricted	4,968,934
Total net assets	<u>\$ 18,919,971</u>

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Functions/Programs:			
General government	\$ 8,216,954	\$ -	\$ (8,216,954)
Grants and programs	<u>112,826,660</u>	<u>106,294,254</u>	<u>(6,532,406)</u>
Total primary government	<u>\$ 121,043,614</u>	<u>\$ 106,294,254</u>	(14,749,360)
General revenue:			
State appropriations			9,116,117
Interest			<u>45,399</u>
Change in net assets			(5,587,844)
Net assets - beginning of year			<u>24,507,815</u>
Net assets - end of year			<u>\$ 18,919,971</u>

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

	General	Federal Grants and Programs	Continuum of Care	Guardian Ad Litem	Victims' Assistance	Other Governmental Funds	Totals
Assets and Other Debits							
Cash and cash equivalents	\$ 1,612,028	\$ -	\$ 1,513,468	\$ 3,058,752	\$ 9,212,079	\$ 1,732,352	\$ 17,128,679
Accounts receivable	-	-	-	-	-	2,301	2,301
Federal grant receivable	-	427,302	-	-	-	-	427,302
Due from the State General Fund	407,659	-	-	-	-	-	407,659
Total assets	\$ 2,019,687	\$ 427,302	\$ 1,513,468	\$ 3,058,752	\$ 9,212,079	\$ 1,734,653	\$ 17,965,941
Liabilities and Fund Equity							
Liabilities:							
Accounts payable	\$ -	\$ 246,861	\$ -	\$ -	\$ 970	\$ -	\$ 247,831
Accrued payroll and related liabilities	407,659	130,893	141,171	344,802	152,079	50,332	1,226,936
Deposits held for clients	-	-	188	-	-	499	687
Total liabilities	407,659	377,754	141,359	344,802	153,049	50,831	1,475,454
Fund equity:							
Fund balances:							
Restricted	-	49,548	-	583,027	9,059,030	765,838	10,457,443
Committed	-	-	-	2,130,923	-	-	2,130,923
Assigned	1,612,028	-	-	-	-	-	1,612,028
Unassigned	-	-	1,372,109	-	-	917,984	2,290,093
Total fund equity	1,612,028	49,548	1,372,109	2,713,950	9,059,030	1,683,822	16,490,487
Total liabilities and fund equity	\$ 2,019,687	\$ 427,302	\$ 1,513,468	\$ 3,058,752	\$ 9,212,079	\$ 1,734,653	\$ 17,965,941

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

-CONTINUED-

Reconciliation to the statement of net assets:

Total fund balances - governmental funds \$ 6,033,044

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	444,497
Accumulated depreciation	<u>(1,015,823)</u>

Total capital assets, net 3,474,757

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>(1,045,273)</u>
------------------------------	--------------------

Net assets of governmental activities \$ 8,462,528

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2011

	General	Federal Grants and Programs	Continuum of Care	Guardian Ad Litem	Victims' Assistance	Other Governmental Funds	Totals
Revenue							
State appropriations	\$ 9,116,117	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,116,117
Federal grants and programs	-	89,635,519	-	-	-	-	89,635,519
Other government grants and contributions	-	557,335	-	2,731,101	703	492,332	3,781,471
Interest	-	-	9	40,233	-	5,157	45,399
Medicaid reimbursements	-	-	2,387,082	-	-	634,335	3,021,417
Victim restitutions	-	-	-	-	9,305,945	-	9,305,945
Miscellaneous	-	3,257	-	53	-	463,695	467,005
Total revenue	9,116,117	90,196,111	2,387,091	2,771,387	9,306,648	1,595,519	115,372,873
Expenditures							
Federal grants and programs:							
Personal services	-	1,200,036	-	-	-	-	1,200,036
Employer contributions	-	423,773	-	-	-	-	423,773
Other operating	-	1,517,140	-	-	-	-	1,517,140
Claims and awards	-	5,149,944	-	-	-	-	5,149,944
Distributions to subrecipients	-	86,563,476	-	-	-	-	86,563,476
Finance and administration:							
Personal services	1,879,919	-	-	-	-	272,544	2,152,463
Employer contributions	556,278	-	-	-	-	44,967	601,245
Other operating	676,616	-	-	-	-	73,574	750,190
Distributions to subrecipients	-	-	-	-	-	70,693	70,693
Foster Care:							
Personal services	289,068	-	-	-	-	366,592	655,660
Employer contributions	97,411	-	-	-	-	117,905	215,316
Other operating	51,882	-	-	-	-	77,034	128,916
Continuum of Care:							
Personal services	891,471	-	1,294,405	-	-	-	2,185,876
Employer contributions	319,569	-	417,778	-	-	-	737,347
Other operating	378,804	-	292,368	-	-	-	671,172
Case Services	184,538	-	391,348	-	-	-	575,886

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

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

-CONTINUED-

	General	Federal Grants and Programs	Continuum of Care	Guardian Ad Litem	Victims' Assistance	Other Governmental Funds	Totals
Expenditures (Continued)							
Continuum of Care: (continued)							
Distributions to subrecipients	729,701	-	-	-	-	-	729,701
Guardian Ad Litem:							
Personal services	629,241	-	-	2,426,043	-	-	3,055,284
Employer contributions	197,688	-	-	778,353	-	-	976,041
Other operating	45,105	-	-	1,488,337	-	-	1,533,442
Claims and awards	-	-	-	539	-	-	539
Developmental Disabilities:							
Personal services	23,826	-	-	-	-	-	23,826
Employer contributions	7,021	-	-	-	-	-	7,021
Other operating	11,417	-	-	-	-	-	11,417
Ombudsman/Citizen Services:							
Personal services	67,612	-	-	-	-	94,010	161,622
Employer contributions	22,282	-	-	-	-	28,327	50,609
Other operating	3,218	-	-	-	-	13,833	17,051
Veterans Counseling	37,186	-	-	-	-	-	37,186
Victims Assistance:							
Personal services	-	-	-	-	1,333,549	-	1,333,549
Employer contributions	-	-	-	-	451,651	-	451,651
Other operating	-	-	-	-	1,409,704	-	1,409,704
Claims and awards	46,313	-	-	-	5,300,325	-	5,346,638
Distributions to sub-recipients	141,173	-	-	-	650,000	-	791,173
Veterans Affairs:							
Personal services	382,488	-	-	-	-	-	382,488
Employer contributions	112,419	-	-	-	-	-	112,419
Other operating	15,090	-	-	-	-	-	15,090
POW Commission	173	-	-	-	-	-	173
Veterans' Cemetery:							
Personal services	194,333	-	-	-	-	-	194,333
Employer contributions	79,868	-	-	-	-	-	79,868

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

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

	General	Federal Grants and Programs	Continuum of Care	Guardian Ad Litem	Victims' Assistance	Other Governmental Funds	Totals
Expenditures (Continued)							
Veterans' Cemetery: (continued)							
Other operating	72,816	-	-	-	-	16,025	88,841
Claims and awards	-	-	-	-	-	78,500	78,500
Children Affairs:							
Personal services	13,242	-	-	-	-	-	13,242
Employer contributions	3,920	-	-	-	-	-	3,920
Other operating	112	-	-	-	-	-	112
Small and Minority Business:							
Personal services	53,802	-	-	-	-	-	53,802
Employer contributions	19,963	-	-	-	-	-	19,963
Other operating	13,983	-	-	-	-	-	13,983
Donations							
Personal services	-	-	-	-	-	23,316	23,316
Employer contributions	-	-	-	-	-	7,578	7,578
Other operating	-	-	-	-	-	16,611	16,611
Economic Opportunity:							
Other operating	-	-	-	-	-	245	245
Distributions to subrecipients	-	-	-	-	-	51,853	51,853
Total expenditures	<u>8,249,548</u>	<u>94,854,369</u>	<u>2,395,899</u>	<u>4,693,272</u>	<u>9,145,229</u>	<u>1,353,607</u>	<u>120,691,924</u>
Excess (deficit) of revenue over (under) expenditures	<u>866,569</u>	<u>(4,658,258)</u>	<u>(8,808)</u>	<u>(1,921,885)</u>	<u>161,419</u>	<u>241,912</u>	<u>(5,319,051)</u>
Other Financing Uses							
Indirect costs remitted to the State							
General Fund	-	(82,895)	-	-	-	-	(82,895)
Total other financing uses	-	<u>(82,895)</u>	-	-	-	-	<u>(82,895)</u>
Excess (deficit) of revenue over (under) expenditures and other financing uses	866,569	(4,741,153)	(8,808)	(1,921,885)	161,419	241,912	(5,401,946)
Fund balances, beginning of year	745,459	4,790,701	1,380,917	4,635,835	8,897,611	1,441,910	21,892,433
Fund balances, end of year	<u>\$ 1,612,028</u>	<u>\$ 49,548</u>	<u>\$ 1,372,109</u>	<u>\$ 2,713,950</u>	<u>\$ 9,059,030</u>	<u>\$ 1,683,822</u>	<u>\$ 16,490,487</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	\$ (5,401,946)
--	----------------

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		5,971
Depreciation expense		(225,735)
		(219,764)
Excess of capital outlay over depreciation expense		(219,764)

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		33,866
Change in net assets of governmental activities		\$ (5,587,844)

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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. The Office of Executive Policy and Programs is divided into three divisions: Division of Administrative Services, Division of Children Services and Division of Constituent Services (see *Note 14*). 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 is 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 assigned 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 4, page 47*.

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.

Per Proviso 72.6 of the 2010-2011 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 Grant Receivable

Federal grant revenue receivable represents expenditures incurred through June 30, 2011, for federal programs/projects but not reimbursed until fiscal year 2012.

Accounts Receivable

Accounts receivable represents expenditures incurred through June 30, 2011, for General Fund or Special Revenue Fund programs/projects but not reimbursed until fiscal year 2012.

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.

The Office reports a portion of its net assets or fund balance in its government-wide and fund financial statements as restricted. Net assets or fund balance for governmental funds is reported as restricted when constraints placed on resource use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulation of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the State to assess, levy, charge, or otherwise mandate payments of resources (from resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable requirement is one that an outside party (such as citizens, public interest groups, or the judiciary) can compel the government to honor. At June 30, 2011, \$10,476,280 was reported as restricted net assets.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Net Assets/Fund Balances (Continued)

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

The Office reports other constraints in its fund balance in the governmental funds as committed or assigned. Fund balance is reported as committed if a state statute or constitutional provision constrains the use of resources of the state. Fund balance is reported as assigned if the fund balance is constrained by the government's intent to use the funds for a specific purpose. The Office reports amounts as assigned if constrained through appropriations actions of the legislature. Committed constraints can be removed only through similar action that created the constraint, either legislation amending or repealing the statute or ratification of a constitutional change by the electorate. The removal of constraints for assigned funds occurs through the budgetary process.

Unassigned fund balance – All other fund balances that do not meet the definition of “restricted,” “assigned,” or “committed”.

The Office's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balances are available. Within the unrestricted fund balance, committed resources would be first applied, when available, followed by assigned resources before unassigned resources are used.

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 \$82,895 in fiscal year 2011. The Office did not retain any indirect cost recoveries in fiscal year 2011.

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.

Adoption of New Accounting Standards

Effective for the fiscal year 2010-2011, the Office adopted Governmental Accounting Standards Board (GASB) Statement No. 54.

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. The Statement also modifies the guidance relating to the use of special revenue funds, capital project funds, and debt service funds for reporting. The beginning fund balance amounts were reclassified within the governmental funds with a net reporting effect of zero. See the Net Assets/Fund Balance note above for the different policies regarding classifications of funds balances and the flow assumptions in the use of constrained resources.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

2. State Appropriations

The 2010-2011 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 72A, 72B, and 72C, 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.

	<u>Mansion and Grounds</u>	<u>Executive Control of State</u>	<u>Office of Executive Policy and Programs</u>	<u>Totals</u>
Original appropriation	\$ 339,600	\$ 1,812,901	\$ 6,954,903	\$ 9,107,404
Transfers	133,071	(133,071)	-	-
Pay Increase	2,330	12,506	53,604	68,440
Revised appropriations - legal basis	475,001	1,692,336	7,008,507	9,175,844
Net adjustments to accrual basis:				
Personal services and employer contributions	2,424	(645)	(61,506)	(59,727)
Revenue from state appropriations	<u>\$ 477,425</u>	<u>\$ 1,691,691</u>	<u>\$ 6,947,001</u>	<u>\$ 9,116,117</u>
Revised appropriations	\$ 475,001	\$ 1,692,336	\$ 7,008,507	\$ 9,175,844
Brought-forward appropriations from fiscal year ended June 30, 2010:				
(a) Implementing federal programs- match	5,675	54,384	685,400	745,459
Legal basis appropriation available for 2011 expenditures	<u>\$ 480,676</u>	<u>\$ 1,746,720</u>	<u>\$ 7,693,907</u>	<u>\$ 9,921,303</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

2. State Appropriations (Continued)

	<u>Mansion and Grounds</u>	<u>Executive Control of State</u>	<u>Office of Executive Policy and Programs</u>	<u>Totals</u>
Approved carry forward of appropriated funds to fiscal year 2011				
(b) Implementing federal programs- match	\$ 530	\$ 9,149	\$ 1,602,349	\$ 1,612,028
Total carry forward accrual basis	<u>\$ 530</u>	<u>\$ 9,149</u>	<u>\$ 1,602,349</u>	<u>\$ 1,612,028</u>

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2010 for expenditures in fiscal year 2011 and to carry forward unspent appropriations from fiscal year 2011 to expenditure in fiscal year 2012. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

- (a) 2010 Appropriations Act, Proviso 72.1
- (b) 2011 Appropriations Act, Proviso 72.1

Annual fiscal year 2011 appropriations of \$1,612,028 for implementing federal programs approved for carry forward to fiscal year 2012 for expenditure for the same purposes. There were no remaining unspent appropriations authorized for carry forward to be reported as assigned 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 2011, total payments under this lease were \$419,021. 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 2011, total payments under this lease were \$210,388. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2012 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$488,420 in fiscal year 2011. These leases expire between fiscal years 2012 and 2015. 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 2012 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 2011, total payments were \$97,467, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2012 and subsequent years.

Future minimum lease payments required under noncancelable operating leases that have remaining lease terms of more than one year as of June 30, 2011, are:

<u>Year Ending June 30,</u>	
2012	\$ 269,389
2013	203,556
2014	37,693
2015	2,891
	<u>\$ 513,529</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, 2010	Additions	Deletions and Retirements	Balance June 30, 2011
Buildings and Improvements				
Office of Executive Policy and Programs	\$ 1,635,848	\$ -	\$ -	\$ 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	426,275	5,971	-	432,246
Executive Control of State	12,251	-	-	12,251
Total furniture and equipment	438,526	5,971	-	444,497
Accumulated depreciation:				
Office of Executive Policy and Programs	(783,284)	(224,010)	-	(1,007,294)
Executive Control of State	(6,804)	(1,725)	-	(8,529)
Total accumulated depreciation	(790,088)	(225,735)	-	(1,015,823)
Capital assets, net of accumulated depreciation	<u>\$ 3,694,521</u>	<u>\$ (219,764)</u>	<u>\$ -</u>	<u>\$ 3,474,757</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

6. Pension Plan

The Retirement Division (the "Division") maintains five 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 five 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, 2011, the employer contribution rate was 9.24 percent (before a surcharge to fund retiree health and dental insurance coverage). For the years ended June 30, 2010 and 2009, this rate was 9.24 percent. The Office's actual contributions to the SCRS for the years ended June 30, 2011, 2010 and 2009 were approximately \$1,261,229, \$1,159,024, and \$1,129,820, respectively, and equaled the required contributions (excluding the surcharge) in the percentages outlined above. Also, the Office paid employer group-life insurance contributions at the rate of .15 percent of compensation for the year ended June 30, 2011 and at the rate of .15 percent of compensation for each of the years ended June 30, 2010 and 2009.

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.

Optional Retirement Program

The State Optional Retirement Program (State ORP) was first established as the Optional Retirement Program for Higher Education in 1987. In its current form, the State ORP is an alternative to the defined benefit SCRS plan offered to certain state, public school and higher education employees of the State. The State ORP, which is administered by the South Carolina Retirement Systems, is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by investment providers. The State assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts issued by them. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24 percent plus the retiree surcharge of 3.9 percent from the employer in fiscal year 2011. Employees are eligible for group-life insurance benefits while participating in the State ORP. However, employees who participate in the State ORP are not eligible for postretirement group-life insurance benefits. For the fiscal year, total contribution requirements to the ORP were \$236,384.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

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.

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 Office's contribution to this trust fund for the fiscal years ended June 30, 2011 and 2010 were \$43,327 and \$45,202, respectively, which equaled the required contribution rates of 3.90 % and 3.90%, respectively. 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 \$3.22 and \$3.23, respectively, for the fiscal years ended June 30, 2011 and 2010.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

7. Post Employment and Other Employee Benefits (Continued)

By state law, the State is liable for the employer share of retiree premiums. Accordingly, an annual required contribution and related liability for the Office, 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.

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 Office. 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 Office recorded benefit expenses for these insurance benefits for active employees in the amount of \$1,188,430 for the year ended June 30, 2011.

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.

The Governor's Office made no contributions for the fiscal year ending June 30, 2011.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

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.

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 (Department of Employment and Workforce);
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.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

9. Risk Management (Continued)

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.

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, 2011, were as follows:

	Beginning Balance July 1, 2010	Increases	Decreases	Ending Balance June 30, 2011	Due Within One Year
Accrued compensated absences:					
Mansion and Grounds	\$ 18,093	\$ 335	\$ (436)	\$ 17,992	\$ 7,037
Executive Control of State	139,632	44,075	(134,921)	48,786	61,815
Office of Executive Policy and Programs	921,414	558,667	(501,586)	978,495	529,671
Total accrued compensated absences	<u>\$ 1,079,139</u>	<u>\$ 603,077</u>	<u>\$ (636,943)</u>	<u>\$ 1,045,273</u>	<u>\$ 598,523</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

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.

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

Agency	Goods or Services Purchased	Amount
The Citadel	Allocations to other schools	\$ 39,813
Comptroller General's Office	Unemployment compensation insurance	33,690
Department of Corrections	Office equipment	610
Department of Corrections	Supplies	2,329
Department of Corrections	Printing services	1,211
Department of Corrections	Professional services	246
Total Department of Corrections		4,396
Department of Health and Human Services	Allocations to other agencies	184,538
Department of Health and Human Services	Case services (other)	584,672
Total Department of Health and Human Services		769,210
Department of Mental Health	Allocations to other agencies	517,116
Department of Mental Health	Case services (other)	10,150
Department of Mental Health	Claims and awards	94,016
Department of Mental Health	Contributions	2,997
Total Department of Mental Health		624,279
SC Commission on Prosecution	Contributions	14,479
State Accident Fund	Workers compensation insurance	73,238
State Auditor's Office	Audit	1,583
State Board for Technical and Comprehensive Education	Other professional services	807,153

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

11. Transactions With State Entities (Continued)

Agency	Goods or Services Purchased	Amount
State Budget and Control Board	Contractual services	600
State Budget and Control Board	Contributions	127,934
State Budget and Control Board	Data processing	28,655
State Budget and Control Board	General repair	621
State Budget and Control Board	Insurance	58,005
State Budget and Control Board	Janitorial	37,119
State Budget and Control Board	Leased car	210,388
State Budget and Control Board	Motor vehicle repair	388
State Budget and Control Board	Postage and freight	3,573
State Budget and Control Board	Printing services	313
State Budget and Control Board	Registration fees	420
State Budget and Control Board	Rent	420,821
State Budget and Control Board	Retirement	70,721
State Budget and Control Board	Telephone services	33,270
State Budget and Control Board	Temporary services	4,184
State Budget and Control Board	Building renovations	2,426
State Budget and Control Board	Utilities	64,019
State Budget and Control Board	Allocations to other agencies	7,891
Total State Budget and Control Board		1,071,348
University of South Carolina	Allocations to other agencies	56,308
University of South Carolina	Miscellaneous	1,065
Total University of South Carolina		57,373
Various Other	Office supplies	71
Various Other	Printing services	326
Various Other	Registration fees	316
Various Other	Meals	22
Various Other	Rent - other	475
Various Other	Telephone services	234
Various Other	Contributions	327
Total Various Other		1,771
Total		\$ 3,498,333

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, 2011, the Office had no deposits with financial institutions. The Office had cash in the amount of \$17,128,679 held by the State Treasurer as of June 30, 2011.

All deposits are held by the State Treasurer and information on credit risk can be found in the Comprehensive Annual Financial Report of the State of South Carolina.

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	\$ -	\$ 17,128,679
Cash and cash equivalents	<u>17,128,679</u>	<u>-</u>
Total	<u>\$ 17,128,679</u>	<u>\$ 17,128,679</u>

13. Litigation and Contingencies

At June 30, 2011, 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 -

14. Program Classification

The following is how the Office of Executive Policy and Programs is structured as of fiscal year 2011.

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 -

15. Fund Balances/Deficits By Department

Fund equity is comprised by the following fund balances by department:

Continuum of Care:	
Case management Medicaid	\$ 492,909
Patient Fees	879,180
Client Trust Fund	20
Total Continuum of Care	1,372,109
Foster Care:	
Local review board	467,173
Victims' Assistance:	
Trust fund for claims	9,059,030
Economic Opportunity:	
Project share	90,081
General:	
General	1,612,028
Guardian Ad Litem:	
Operations	583,712
Contributions	(685)
Gloper Trust Fund	2,130,923
Total Guardian Ad-Litem	2,713,950
Ombudsman/Citizens Services:	
Operations	66,341
Mansion Donations:	
Donations	28,849
Operating	90,257
Total Mansion Donations	119,106

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

15. Reserved Fund Balances/Deficits (Continued)

Veterans' Affairs:	
Military Family Relief Fund	448,733
Veterans' State Cemetery Fund	198,175
Total Veterans' Affairs	646,908
Finance and Administration:	
Transition One Time Money	26,458
Increased Rehabilitation Collections	250,254
Vocational Rehabilitation Recovery Account	14,371
Miscellaneous Revenue	3,100
Lapse Revenue	30
Total Finance and Administration	294,213
Federal Grants and Programs:	
Ombudsman	(7,450)
Victims' assistance	39,670
Economic opportunity	167,363
Weatherization Stimulus	(39,686)
HHS	(110,349)
Total Federal Grants and Programs	49,548
Total fund balances	\$ 16,490,487

16. Subsequent events

Subsequent events were evaluated through January 31, 2012, which is the date the financial statements were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

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, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
	Expenditures:			
Executive Control of the State				
I. Administration				
Personal Services	\$ 1,307,435	\$ 1,165,432	\$ 1,165,432	\$ -
Other Operating Expenses	146,448	246,448	246,448	-
Total Administration	<u>1,453,883</u>	<u>1,411,880</u>	<u>1,411,880</u>	<u>-</u>
II. Employee Benefits				
Total Executive Control of the State	<u>1,870,642</u>	<u>1,737,570</u>	<u>1,737,570</u>	<u>-</u>
Office of Executive Policy and Programs				
I. Administrative Services				
Personal Services	695,229	545,298	545,298	-
Other Operating Expenses	58,224	188,440	188,440	-
Total Administrative Services	<u>753,453</u>	<u>733,738</u>	<u>733,738</u>	<u>-</u>
II. Children Services				
Personal Services	1,776,077	1,861,566	1,861,566	-
Other Operating Expenses	1,388,227	1,203,468	1,203,468	-
Allocations	-	184,538	184,538	-
Special Items:				
Children's Case Resolution System	4,054	-	-	-
Total Children Services	<u>3,168,358</u>	<u>3,249,572</u>	<u>3,249,572</u>	<u>-</u>
III. Constituents Services				
Personal Services	623,037	736,482	736,482	-
Other Operating Expenses	93,017	116,524	116,524	-
Special Items:				
Victims Rights	46,339	46,313	46,313	-
Victims Witness	141,173	141,173	141,173	-
POW Commission	2,080	173	173	-
Veteran's Counseling	65,279	37,186	37,186	-
Total Constituents Services	<u>970,925</u>	<u>1,077,851</u>	<u>1,077,851</u>	<u>-</u>
IV. Employee Benefits				
Total Office of Executive Policy and Programs	<u>1,198,801</u>	<u>1,030,396</u>	<u>1,030,396</u>	<u>-</u>
Total Office of Executive Policy and Programs	<u>6,091,537</u>	<u>6,091,557</u>	<u>6,091,557</u>	<u>-</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance from Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Mansion and Grounds				
I. Administration				
Personal Services	189,260	178,401	178,401	-
Other Operating Expenses	66,732	241,412	241,412	-
Total Administration	<u>255,992</u>	<u>419,813</u>	<u>419,813</u>	<u>-</u>
II. Employee Benefits	<u>91,083</u>	<u>60,333</u>	<u>60,333</u>	<u>-</u>
Total Mansion and Grounds	<u>347,075</u>	<u>480,146</u>	<u>480,146</u>	<u>-</u>
Total Expenditures	<u>\$ 8,309,254</u>	<u>\$ 8,309,273</u>	<u>\$ 8,309,273</u>	<u>\$ -</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Executive Control of State				
I. Administrative Services				
Personal Services	\$ 190,422	\$ 198,422	\$ 175,006	\$ 23,416
Other Operating Expenses	82,000	28,240	3,570	24,670
Total Administrative Services	<u>272,422</u>	<u>226,662</u>	<u>178,576</u>	<u>48,086</u>
II. Employee Benefits	<u>4,000</u>	<u>49,760</u>	<u>44,967</u>	<u>4,793</u>
Total Executive Control of State	<u>276,422</u>	<u>276,422</u>	<u>223,543</u>	<u>52,879</u>
Office of Executive Policy and Programs				
I. Administrative Services				
Other Operating Expenses	-	14,996	-	14,996
Allocation Other State Agencies	1,048,998	1,027,363	521,649	505,714
Total Administrative Services	<u>1,048,998</u>	<u>1,042,359</u>	<u>521,649</u>	<u>520,710</u>
II. Children Services				
Personal Services	7,203,388	7,138,648	4,205,327	2,933,321
Other Operating Expenses	6,852,559	6,812,318	2,287,579	4,524,739
Total Children Services	<u>14,055,947</u>	<u>13,950,966</u>	<u>6,492,906</u>	<u>7,458,060</u>
III. Constituents Services				
Personal Services	3,291,386	3,356,126	2,730,481	625,645
Other Operating Expenses	15,546,633	17,274,926	13,547,734	3,727,192
Distributions to Subdivisions:				
Allocation Municipalities - Restricted	60,000	60,000	-	60,000
Allocation School Districts	300,000	100,000	-	100,000
Allocation County - Restricted	650,000	650,000	650,000	-
Allocation Other State Agencies	626,500	426,500	-	426,500
Allocation Private Sector	-	35,269	21,525	13,744
Allocation Other Entities	90,365,577	89,048,895	86,243,201	2,805,694
Total Constituents Services	<u>110,840,096</u>	<u>110,951,716</u>	<u>103,192,941</u>	<u>7,758,775</u>
IV. Employee Benefits	<u>4,958,258</u>	<u>4,958,258</u>	<u>2,217,787</u>	<u>2,740,471</u>
Total Office of Executive Policy and Programs	<u>130,903,299</u>	<u>130,903,299</u>	<u>112,425,283</u>	<u>18,478,016</u>
Mansion and Grounds				
I. Administration				
Personal Services	-	24,160	24,106	54
Other Operating Expenses	275,000	242,340	16,611	225,729
Total Administration	<u>275,000</u>	<u>266,500</u>	<u>40,717</u>	<u>225,783</u>
II. Employee Benefits	<u>-</u>	<u>8,500</u>	<u>7,578</u>	<u>922</u>
Total Mansion and Grounds	<u>275,000</u>	<u>275,000</u>	<u>48,295</u>	<u>226,705</u>
Total Expenditures	<u>\$ 131,454,721</u>	<u>\$ 131,178,299</u>	<u>\$ 112,473,578</u>	<u>\$ 18,704,721</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

JUNE 30, 2011

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 2010-2011 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 food 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, 2011

	<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	\$ 530	\$ 9,149	\$ 1,602,349	\$ 1,612,028
Due from the State General Fund	20,891	134,985	251,783	407,659
Total assets	<u>\$ 21,421</u>	<u>\$ 144,134</u>	<u>\$ 1,854,132</u>	<u>\$ 2,019,687</u>
Liabilities and Fund Equity				
Liabilities:				
Accrued payroll and related liabilities	\$ 20,891	\$ 134,985	\$ 251,783	\$ 407,659
Total liabilities	<u>20,891</u>	<u>134,985</u>	<u>251,783</u>	<u>407,659</u>
Fund equity:				
Fund balances				
Assigned	530	9,149	1,602,349	1,612,028
Total fund equity	<u>530</u>	<u>9,149</u>	<u>1,602,349</u>	<u>1,612,028</u>
Total liabilities and fund equity	<u>\$ 21,421</u>	<u>\$ 144,134</u>	<u>\$ 1,854,132</u>	<u>\$ 2,019,687</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, 2011

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Revenues				
State appropriations	\$ 477,425	\$ 1,691,691	\$ 6,947,001	\$ 9,116,117
Total revenue	<u>477,425</u>	<u>1,691,691</u>	<u>6,947,001</u>	<u>9,116,117</u>
Expenditures				
Finance and Administration:				
Personal services	180,825	1,164,473	534,621	1,879,919
Employer contributions	60,333	325,690	170,255	556,278
Other operating	241,412	246,763	188,441	676,616
Foster Care:				
Personal services	-	-	289,068	289,068
Employer contributions	-	-	97,411	97,411
Other operating	-	-	51,882	51,882
Continuum of Care:				
Personal services	-	-	891,471	891,471
Employer contributions	-	-	319,569	319,569
Other operating	-	-	378,804	378,804
Case services	-	-	184,538	184,538
Distribution to subrecipients	-	-	729,701	729,701
Guardian Ad Litem:				
Personal services	-	-	629,241	629,241
Employer contributions	-	-	197,688	197,688
Other operating	-	-	45,105	45,105
Developmental Disabilities:				
Personal services	-	-	23,826	23,826
Employer contributions	-	-	7,021	7,021
Other operating	-	-	11,417	11,417
Ombudsman/Citizen Services:				
Personal services	-	-	67,612	67,612
Employer contributions	-	-	22,282	22,282
Other operating	-	-	3,218	3,218
Veterans Counseling	-	-	37,186	37,186

(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, 2011

-CONTINUED-

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Expenditures (Continued)				
Victims Assistance				
Claims and awards	-	-	46,313	46,313
Distributions to sub-recipients	-	-	141,173	141,173
Veterans Affairs:				
Personal services	-	-	382,488	382,488
Employer contributions	-	-	112,419	112,419
Other operating	-	-	15,090	15,090
POW Commission	-	-	173	173
Veteran's Cemetery				
Personal services	-	-	194,333	194,333
Employer contributions	-	-	79,868	79,868
Other operating	-	-	72,816	72,816
Children Affairs:				
Personal services	-	-	13,242	13,242
Employer contributions	-	-	3,920	3,920
Other operating	-	-	112	112
Small and Minority Business:				
Personal services	-	-	53,802	53,802
Employer contributions	-	-	19,963	19,963
Other operating	-	-	13,983	13,983
Total expenditures	<u>482,570</u>	<u>1,736,926</u>	<u>6,030,052</u>	<u>8,249,548</u>
Excess of revenue over (under) expenditures	(5,145)	(45,235)	916,949	866,569
Fund balances, beginning of year	<u>5,675</u>	<u>54,384</u>	<u>685,400</u>	<u>745,459</u>
Fund balances, end of year	<u>\$ 530</u>	<u>\$ 9,149</u>	<u>\$ 1,602,349</u>	<u>\$ 1,612,028</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS -
OTHER GOVERNMENTAL FUNDS

JUNE 30, 2011

	Finance and Administration	Foster Care	Ombudsman/ Citizen Services	Economic Opportunity	Veterans' Affairs	Mansion Donations	Total
Assets							
Cash and cash equivalents	\$ 292,411	\$ 507,210	\$ 74,772	\$ 90,081	\$ 646,908	\$ 120,970	\$ 1,732,352
Accounts receivable	2,301	-	-	-	-	-	2,301
Total assets	\$ 294,712	\$ 507,210	\$ 74,772	\$ 90,081	\$ 646,908	\$ 120,970	\$ 1,734,653
Liabilities and Fund Equity							
Liabilities:							
Accrued payroll and related liabilities	\$ -	\$ 40,037	\$ 8,431	\$ -	\$ -	\$ 1,864	\$ 50,332
Deposits held for clients	499	-	-	-	-	-	499
Total liabilities	499	40,037	8,431	-	-	1,864	50,831
Fund Equity:							
Fund balances:							
Restricted	-	-	-	90,081	646,908	28,849	765,838
Unassigned	294,213	467,173	66,341	-	-	90,257	917,984
Total fund equity	294,213	467,173	66,341	90,081	646,908	119,106	1,683,822
Total liabilities and fund equity	\$ 294,712	\$ 507,210	\$ 74,772	\$ 90,081	\$ 646,908	\$ 120,970	\$ 1,734,653

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, 2011

	<u>Finance and Administration</u>	<u>Foster Care</u>	<u>Ombudsman/ Citizen Services</u>	<u>Economic Opportunity</u>	<u>Veterans' Affairs</u>	<u>Mansion Donations</u>	<u>Total</u>
Revenue							
Other government grants and contributions	\$ 250,000	\$ -	\$ 173,000	\$ 20,000	\$ 49,332	\$ -	\$ 492,332
Interest	-	-	-	-	5,157	-	5,157
Medicaid reimbursements	-	634,335	-	-	-	-	634,335
Miscellaneous	252,637	-	-	-	73,200	137,858	463,695
Total revenue	<u>502,637</u>	<u>634,335</u>	<u>173,000</u>	<u>20,000</u>	<u>127,689</u>	<u>137,858</u>	<u>1,595,519</u>
Expenditures							
Administration:							
Personal services	272,544	366,592	94,010	-	-	23,316	756,462
Employer contributions	44,967	117,905	28,327	-	-	7,578	198,777
Other operating	73,574	77,034	13,833	245	16,025	16,611	197,322
Claims and awards	-	-	-	-	78,500	-	78,500
Distributions to subrecipients:							
Allocations to other state agencies	70,693	-	-	51,853	-	-	122,546
Total expenditures	<u>461,778</u>	<u>561,531</u>	<u>136,170</u>	<u>52,098</u>	<u>94,525</u>	<u>47,505</u>	<u>1,353,607</u>
Excess of revenue over (under) expenditures	40,859	72,804	36,830	(32,098)	33,164	90,353	241,912
Fund balances, beginning of year	253,354	394,369	29,511	122,179	613,744	28,753	1,441,910
Fund balances, end of year	<u>\$ 294,213</u>	<u>\$ 467,173</u>	<u>\$ 66,341</u>	<u>\$ 90,081</u>	<u>\$ 646,908</u>	<u>\$ 119,106</u>	<u>\$ 1,683,822</u>

SINGLE AUDIT SECTION

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Education		
Rehabilitation Services-Client Assistance Program	84.161	\$ 95,255
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons	81.042	974,190
Weatherization Assistance for Low Income Persons (ARRA)	81.042	21,433,332
U. S. Department of Justice		
Crime Victim Compensation	16.576	5,346,028
Recovery Act - State Victim Compensation Formula Grant Program	16.802	9,903
U. S. Department of Health and Human Services		
ARRA - Community Services Block Grant	93.710	3,232,934
Low Income Home Energy Assistance	93.568	45,430,168
Community Services Block Grant	93.569	9,305,643
Developmental Disabilities Basic Support and Advocacy Grants	93.630	551,333
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	521,649
U. S. Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	1,559,197
Homeless Prevention and Rapid Re-Housing Program	14.262	6,082,629
Grand Total		<u>\$ 94,542,261</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

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 cash 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	\$ 382,687
Community Services Block Grant	93.569	9,051,691
ARRA - Community Services Block Grant	93.710	3,219,304
Low Income Home Energy Assistance	93.568	44,977,198
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons (ARRA)	81.042	19,924,940
Weatherization Assistance for Low Income Persons	81.042	751,307
U. S. Department of Housing and Urban Development		
Homeless Prevention and Rapid Re-Housing Program	14.262	5,916,892
Emergency Shelter Grants Program	14.231	1,497,854
Total provided to subrecipients		<u>\$ 85,721,873</u>

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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, 2011, and have issued our report thereon dated January 31, 2012. 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

Management of the Office is responsible for establishing and maintaining effective 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Offices financial statements will not be prevented, or detected and corrected on a timely basis.

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

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 these specified parties.

DeLoach & Williamson, L.L.P.

January 31, 2012

DELOACH & WILLIAMSON, L.L.P.

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Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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 South Carolina Governor's Office (the "Office") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Office's major federal programs for the year ended June 30, 2011. The Office's major federal programs are identified in the summary of auditor's 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 Office's management. Our responsibility is to express an opinion on the Office's 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*. 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 Office's 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 of the Office's compliance with those requirements.

In our opinion, the Office complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Office is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Office's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Subsequent to the original issuance of this report, it was brought to the auditor's attention that an additional program should have been classified as a major program and tested in accordance with *OMB Circular A-133*. This additional program is the Weatherization Assistance Program for Low Income Persons (CFDA #81.042). Additionally, the ARRA - Community Service Block Grant (CFDA #93.710) was not listed as a major program in error. Both of these issues have been corrected and this report is being reissued as of October 15, 2012.

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 these specified parties.



January 31, 2012

October 15, 2012 for CFDA #93.710 and CFDA #81.042

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

JUNE 30, 2011

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 internal control over financial reporting 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. No significant deficiency relating to internal control over financial reporting 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*.
4. No instances of noncompliance material to the financial statements of the South Carolina Governor's Office were disclosed during the audit.
5. No material weaknesses relating to the audit of major federal awards are reported in the Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
6. No significant deficiencies relating to the audit of major federal awards are reported in Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
7. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
8. No audit findings are disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
9. Major federal programs:
 - 1) Low Income Home Energy Assistance CFDA # 93.568
 - 2) Homeless Prevention and Rapid Re-Housing Program CFDA # 14.262
 - 3) Community Service Block Grant Cluster:
 - Community Service Block Grant CFDA # 93.569
 - ARRA - Community Service Block Grant CFDA # 93.710
 - 4) Weatherization Assistance for Low Income Persons CFDA # 81.042
10. The threshold for distinguishing between Type A and Type B Programs was \$2,836,248.

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

Summary of Auditors' Results (continued):

11. South Carolina Governor's Office did not qualify to be a low risk auditee.

Financial Statement Findings:

No financial statement findings.

Federal Awards Findings and Questioned Costs:

No findings or questioned costs.

Status of Prior Year Findings:

The following finding from the prior year has been corrected during the current year.

2010-01 Trial Balance

In November 2009 the Governor's Office changed their accounting system to the South Carolina Enterprise Information System (SCEIS). This change converted their trial balance from a cash basis to an accrual basis system. This new system changed the way that Fixed Assets were recorded and added assets that had not previously been recorded as assets. These items were deemed to be "Low Value Assets." When we received the original trial balance in October 2010 the "Low Value Assets" did not net to zero as they should have. Management worked with the SCEIS team to correct this problem, and a final, corrected trial balance was not received until January 2011.

Generally Accepted Accounting Principles (GAAP) state that only items that are capitalized should be recorded as assets on your books and records. Additionally, the Comptroller General's Manual in Section 5 Page 59 states that "Short-lived assets and those costing small amounts are not capital assets." It further states on page 61 that "Assets on the books that do not meet the capitalization criteria must be removed from the books."

We recommend that management work with the SCEIS team to ensure that these "Low Value Assets" are removed from the system, and any other accounts that are associated with them are removed. We further recommend that management improve processes to ensure that a final trial balance is available for audit and review within sixty days of year-end.