

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2010

SOUTH CAROLINA GOVERNOR'S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2010

State of South Carolina



Office of the State Auditor

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

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

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

March 7, 2011

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, 2010, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/cwc

SOUTH CAROLINA GOVERNOR'S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2010

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SOUTH CAROLINA GOVERNOR’S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

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DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying basic financial statements of the South Carolina Governor's Office (the "Office") as of and for the year ended June 30, 2010, 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, 2010 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, 2010, 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 February 24, 2011, 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. Such information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "DeLoach & Williamson, C.C.P.".

February 24, 2011

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

June 30, 2010

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, 2010.

Financial Highlights

- The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by \$24,507,815. These funds will be used to meet the office's ongoing obligations.
- The Office's total net assets increased by \$10,674,135.
- As of the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of \$21,892,433, an increase of \$10,927,028 in comparison with the prior year.
- At the end of the current fiscal year, reserved fund balance for the general fund was \$745,459

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Condensed Statement of Net Assets

	Years Ended June 30,	
	2010	2009
Assets		
Current assets	\$ 23,857,748	\$ 14,075,189
Capital assets, net of accumulated depreciation	3,694,521	3,923,015
Total Assets	27,552,269	17,998,204
Liabilities		
Current liabilities	2,609,839	3,833,954
Non-current liabilities	434,615	330,570
Total Liabilities	3,044,454	4,164,524
Net Assets		
Invested in capital assets	3,694,521	3,923,015
Unrestricted	20,813,294	9,910,665
Total Net Assets	\$ 24,507,815	\$ 13,833,680

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	2009
Operating grants and contributions	\$ 136,372,612	\$ 83,530,755
Expenses	136,471,790	97,695,257
Net expense and change in net assets	(99,178)	(14,164,502)
State appropriations	10,766,600	11,768,513
Interest	6,713	5,904
Change in net assets	10,674,135	(2,390,085)
Net assets at beginning of year	13,833,680	16,223,765
Net assets at end of year	\$ 24,507,815	\$ 13,833,680

General Fund Budgeting Highlights

General Fund Appropriations were \$1,001,913 less in fiscal year 2010 than fiscal year 2009 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, 2010 amounts to \$3,694,521 (net of accumulated depreciation). This investment in capital assets includes vehicles, equipment and the Veterans Cemetery.

The South Carolina Governor’s Office had total long-term debt in the amount of \$1,079,139, all of which was for accrued compensation absences.

Economic Outlook

The Office has taken significant reductions in state appropriations since July 1, 2010. The general economic forecast for the remainder of FY 2011 and into FY 2012 is bleak. Any further budgetary cuts will have a material impact on the Office and will undoubtedly impact core services to the vulnerable populations that the South Carolina Governor's Office supports.

Because the current fiscal year has been challenging, we will continue to closely monitor the Office'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, 2010

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 17,367,636
Accounts receivable	494,809
Federal grant receivable	5,527,917
Due from the State General Fund	467,386
Total current assets	23,857,748
Noncurrent assets:	
Capital assets:	
Buildings, land improvements, and equipment	4,484,609
Less: accumulated depreciation	(790,088)
Total capital assets, net of depreciation	3,694,521
Total assets	27,552,269
Liabilities	
Current liabilities:	
Accounts payable	720,361
Accrued payroll and related liabilities	1,242,286
Accrued compensated absences	644,524
Deposits held for clients	2,668
Total current liabilities	2,609,839
Noncurrent liabilities:	
Accrued compensated absences	434,615
Total non-current liabilities	434,615
Total liabilities	3,044,454
Net Assets	
Invested in capital assets	3,694,521
Unrestricted	20,813,294
Total net assets	\$ 24,507,815

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs:			
General government	\$ 10,368,584	\$ -	\$ (10,368,584)
Grants and programs	126,103,206	136,372,612	10,269,406
Total primary government	\$ 136,471,790	\$ 136,372,612	(99,178)
General revenue:			
State appropriations			10,766,600
Interest			6,713
Change in net assets			10,674,135
Net assets - beginning of year			13,833,680
Net assets - end of year			\$ 24,507,815

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

	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	\$ 745,459	\$ -	\$ 1,553,053	\$ 4,625,205	\$ 9,050,567	\$ 1,393,352	\$ 17,367,636
Accounts receivable	-	-	4,533	286,360	-	203,916	
Federal grant receivable	-	5,527,917	-	-	-	-	5,527,917
Due from the State General Fund		-	-	-	-	-	494,809
Total assets	<u>\$ 1,212,845</u>	<u>\$ 5,527,917</u>	<u>\$ 1,557,586</u>	<u>\$ 4,911,565</u>	<u>\$ 9,050,567</u>	<u>\$ 1,597,268</u>	<u>\$ 23,857,748</u>
	467,386						467,386
Liabilities and Fund Equity							
Liabilities:							
Accounts payable	\$ -	\$ 578,790	\$ 40,087	\$ -	\$ 11,406	\$ 90,078	\$ 720,361
Accrued payroll and related liabilities		155,946	136,394	275,730	141,550	65,280	1,242,286
Deposits held for clients	-	2,480	188	-	-	-	2,668
Total liabilities	<u>467,386</u>	<u>737,216</u>	<u>176,669</u>	<u>275,730</u>	<u>152,956</u>	<u>155,358</u>	<u>1,965,315</u>
Fund equity:	467,386						
Fund balances:							
Reserved for various restricted purposes	-	4,790,701	1,380,917	4,635,835	8,897,611	1,441,910	21,146,974
Reserved for restricted purposes to be carried forward	745,459	-	-	-	-	-	
Total fund equity	<u>745,459</u>	<u>4,790,701</u>	<u>1,380,917</u>	<u>4,635,835</u>	<u>8,897,611</u>	<u>1,441,910</u>	<u>21,892,433</u>
Total liabilities and fund equity	<u>\$ 1,212,845</u>	<u>\$ 5,527,917</u>	<u>\$ 1,557,586</u>	<u>\$ 4,911,565</u>	<u>\$ 9,050,567</u>	<u>\$ 1,597,268</u>	<u>\$ 23,857,748</u>
	745,459						745,459

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

-CONTINUED-

Reconciliation to the statement of net assets:

Total fund balances - governmental funds \$ 21,892,433

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	438,526
Accumulated depreciation	<u>(790,088)</u>

Total capital assets, net 3,694,521

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>(1,079,139)</u>
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Net assets of governmental activities \$ 24,507,815

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2010

	General	Federal Grants and Programs	Continuum of Care	Guardian Ad Litem	Victims' Assistance	Other Governmental Funds	Totals
Revenue							
State appropriations	\$ 10,766,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,766,600
Federal grants and programs	-	112,688,366	-	-	3,480	-	112,715,141
Other government grants and contributions	-	111,463	-	22,800	-	650,490	8,092,642
Interest	-	-	(2)	-	-	6,715	6,713
Medicaid reimbursements	-	-	4,009,647	-	-	495	837,013
Victim restitutions	-	-	-	-	10,048,644	-	10,048,644
Miscellaneous	-	(5,020)	-	711	-	657,188	669,524
Total revenue	<u>10,766,600</u>	<u>112,794,809</u>	<u>4,026,290</u>	<u>7,354,200</u>	<u>10,052,124</u>	<u>2,151,901</u>	<u>147,145,924</u>
Expenditures							
			16,645				
Federal grants and programs:							
Personal services	-	1,451,854	-	-	-	-	1,451,854
Employer contributions	-	376,219	-	-	-	-	376,219
Other operating	-	2,684,716	-	-	-	-	2,684,716
Claims and awards	-	4,471,570	-	-	-	-	4,471,570
Distributions to subrecipients	-	98,927,514	-	-	-	-	98,927,514
Finance and administration:							
Personal services	1,803,956	-	-	-	-	130,990	1,934,946
Employer contributions	609,122	-	-	-	-	2,023	611,145
Other operating	350,736	-	-	-	-	127,296	478,032
Distributions to subrecipients	-	-	-	-	-	208,849	208,849
Foster Care:							
Personal services	398,665	-	-	-	-	440,782	839,447
Employer contributions	111,161	-	-	-	-	151,370	262,531
Other operating	-	-	-	-	-	75,846	148,070
Continuum of Care:							
Personal services	72,224	1,275,412	-	1,407,477	-	-	2,682,889
Employer contributions	-	355,627	-	403,714	-	-	759,341

(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)							
Other operating	238,105	-	830,064	-	-	-	1,068,169
Case Services	1,605,858	-	399,788	-	-	-	2,005,646
Distributions to subrecipients	644,223	-	-	-	-	-	644,223
Guardian Ad Litem:							
Personal services	910,306	-	-	1,782,257	-	-	2,692,563
Employer contributions	253,824	-	-	561,395	-	-	815,219
Other operating	-	-	-	1,133,965	-	-	1,191,835
Developmental Disabilities:							
Personal services	57,870	-	-	-	-	-	38,980
Employer contributions	-	-	-	-	-	-	10,869
Other operating	38,980	8,028	-	-	-	-	8,028
Ombudsman/Citizen Services:							
Personal services	10,869	194,924	-	-	-	124,945	319,869
Employer contributions	-	-	-	-	-	43,323	97,674
Other operating	182,664	-	-	-	-	20,036	202,700
Veterans Counseling							
Personal services	54,351	6,341	-	-	-	-	6,341
Victims Assistance:							
Personal services	38	-	-	-	1,288,567	-	1,288,605
Employer contributions	11	-	-	-	362,926	-	362,937
Other operating	-	-	-	-	349,320	-	363,682
Claims and awards	-	-	-	-	6,842,390	-	6,842,390
Distributions to subdivisions	14,362	-	-	-	823,000	-	823,000
Veterans Affairs:							
Personal services	480,990	-	-	-	-	-	480,990
Employer contributions	134,116	-	-	-	-	-	134,116
Other operating	-	-	-	-	-	-	12,607
POW Commission	423	-	-	-	-	-	423
Veterans' Cemetary:							
Personal services	12,607	217,801	-	-	-	-	217,801

(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' Cemetary: (continued)							
Employer contributions		-	-	-	-	-	60,730
Other operating		-	-	-	-	12,581	59,355
Claims and awards	60,730	-	-	-	-	35,697	35,697
Children Affairs:	46,774						
Personal services		-	-	-	-	-	43,332
Employer contributions		-	-	-	-	-	12,082
Other operating	43,332	583	-	-	-	-	583
Small and Minority Business:	12,082						
Personal services		-	-	-	-	-	84,170
Employer contributions		-	-	-	-	-	23,469
Other operating	84,170	-	-	-	-	-	20,813
Donations	23,469						
Personal services	20,813	-	-	-	-	8,569	8,569
Employer contributions		-	-	-	-	1,193	1,193
Other operating		-	-	-	-	200,647	200,647
Economic Opportunity:							
Distributions to subrecipients	-	-	-	-	-	112,388	112,388
Total expenditures	10,335,547	107,911,873	3,041,043	3,477,617	9,666,203	1,696,535	136,128,818
Excess of revenue over expenditures	431,053	4,882,936	985,247	3,876,583	385,921	455,366	11,017,106
Other Financing Uses							
Indirect costs remitted to the State							
General Fund	-	(90,078)	-	-	-	-	(90,078)
Total other financing uses	-	(90,078)	-	-	-	-	(90,078)
Excess (deficit) of revenue over (under) expenditures and other financing uses	431,053	4,792,858	985,247	3,876,583	385,921	455,366	10,927,028
Fund balances (deficits), beginning of year	314,406	(2,157)	395,670	759,252	8,511,690	986,544	10,965,405
Fund balances (deficits), end of year	\$ 745,459	\$ 4,790,701	\$ 1,380,917	\$ 4,635,835	\$ 8,897,611	\$ 1,441,910	\$ 21,892,433

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	\$ 10,927,028
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Amounts reported for governmental activities in the statement of activities are different because:

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

In the current period, these amounts are:

Additions to capital assets	
Depreciation expense	(228,494)
Excess of capital outlay over depreciation expense	(228,494)

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	(24,399)
Change in net assets of governmental activities	\$ 10,674,135

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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. Additionally, see Note 16 for a description of certain funds that were initially accepted by the Governor of South Carolina but actually received by other Divisions within the State of South Carolina Government.

The primary responsibility and services of the divisions of the Governor's Office are as follows: The Mansion and Grounds division is responsible for the household operations of the Governor's mansion. The Executive Control of State serves as a liaison office between the governor and other state agencies and public and private entities. These two divisions are funded solely by State General Fund appropriations. The Office of Executive Policy and Programs is responsible for administering various federal and state grant programs. The services include planning, grant financial records, program evaluation and program audit. The Office of Executive Policy and Programs also provides direct program services to the citizens of South Carolina. This area is funded by federal and state grants, state appropriations, and program service revenues and other sources. Under the Office of Executive Policy and Programs, they are divided into three divisions: Division of Administrative Services, Division of Children Services and Division of Constituent Services (see Note 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 reserved fund balance.

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Budget Policy (continued)

The State maintains budgetary control at the line-item level of expenditure within each program of each department or agency. All general fund expenditures are budgeted. The Governor's Office processes its disbursement vouchers through a central budgetary accounting system maintained by the Comptroller General's Office. Disbursement vouchers can only be processed if there is enough cash and appropriations exist. The level of legal control is reported in a publication of the State Comptroller General's Office titled *A Detailed Report of Appropriations and Expenditures*. Transfers of funds may be approved by the State Budget and Control Board (the "Board") under its authority.

Per Proviso 72.6 of the 2009-2010 Appropriations Act, all other provisions of the law not withstanding, the Office of Executive Policy and Programs section, the Executive Control of State section, and Mansion and Grounds section, shall be treated as a single budget section for the purpose of transfers and budget reconciliation.

Cash and Cash Equivalents

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

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (continued)

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

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

Federal Revenue Receivable

Federal grant revenue receivable represents expenditures incurred through June 30, 2010, for federal programs/projects but not reimbursed until fiscal year 2011.

Accounts Receivable

Accounts receivable represents expenditures incurred through June 30, 2010, for Special Revenue Fund programs/projects but not reimbursed until fiscal year 2011.

Capital Assets

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

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

Net Assets/Fund Balances

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

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

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

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Net Assets/Fund Balances (continued)

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

Interfund Transactions-Fund Financial Statements

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

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

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 \$90,078 in fiscal year 2010. The Office did not retain any indirect cost recoveries in fiscal year 2010.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

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.

2. State Appropriations

The 2009-2010 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.

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Original appropriation	\$ 413,904	\$ 2,209,558	\$ 8,447,143	\$ 11,070,605
Transfers	58,903	(58,903)	850,100	850,100
Appropriation reduction	(36,571)	(195,224)	(821,451)	(1,053,246)
Revised appropriations - legal basis	436,236	1,955,431	8,475,792	10,867,459
Net adjustments to accrual basis:				
Personal services and employer contributions	(3,851)	(9,512)	(87,496)	(100,859)
Revenue from state appropriations	<u>\$ 432,385</u>	<u>\$ 1,945,919</u>	<u>\$ 8,388,296</u>	<u>\$ 10,766,600</u>
Revised appropriations	\$ 436,236	\$ 1,955,431	\$ 8,475,792	\$ 10,867,459
Brought-forward appropriations from fiscal year ended June 30, 2009:				
(a) Implementing federal programs-match	-	-	501,755	501,755
Legal basis appropriation available for 2010 expenditures	<u>\$ 436,236</u>	<u>\$ 1,955,431</u>	<u>\$ 8,977,547</u>	<u>\$ 11,369,214</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

2. State Appropriations (Continued)

	Mansion and Grounds	Executive Control of State	Executive Policy and Programs	Totals
Approved carry forward of appropriated funds to fiscal year 2010				
(b) Implementing federal programs- match	\$ 5,675	\$ 54,384	\$ 685,400	\$ 745,459
Total carry forward accrual basis	\$ 5,675	\$ 54,384	\$ 685,400	\$ 745,459

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2009 for expenditures in fiscal year 2010 and to carry forward unspent appropriations from fiscal year 2010 to expenditure in fiscal year 2011. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

- (a) 2009 Appropriations Act, Proviso 72.1
- (b) 2010 Appropriations Act, Proviso 72.1

Annual fiscal year 2010 appropriations of \$745,459 for implementing federal programs approved for carry forward to fiscal year 2011 for expenditure for the same purposes. There were no remaining unspent appropriations authorized for carry forward to be reported as unreserved, designated fund balance of the Office's General Fund.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

3. Operating Leases

The Governor's Office rents office and parking space on a year-to-year basis from the State Budget and Control Board-Office of General Services. During fiscal year 2010, total payments under this lease were \$449,680. 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 2010, total payments under this lease were \$232,370. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2011 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$463,076 in fiscal year 2010. These leases expire between fiscal years 2010 and 2014. 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 2011 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 2010, total payments were \$18,866, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2011 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, 2010, are:

<u>Year Ending June 30,</u>	
2011	\$ 30,288
2012	35,688
2013	29,501
2014	6,293
	<u>\$ 101,770</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, 2009	Additions	Deletions and Retirements	Balance June 30, 2010
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	-	-	426,275
Executive Control of State	12,251	-	-	12,251
Total furniture and equipment	438,526	-	-	438,526
Accumulated depreciation:				
Office of Executive Policy and Programs	(556,515)	(221,322)	-	(777,837)
Executive Control of State	(5,079)	(7,172)	-	(12,251)
Total accumulated depreciation	(561,594)	(228,494)	-	(790,088)
Capital assets, net of accumulated depreciation	<u>\$ 3,923,015</u>	<u>\$(228,494)</u>	<u>\$ -</u>	<u>\$ 3,694,521</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, 2010 and 2009, the employer contribution rate was 9.24 percent (before a surcharge to fund retiree health and dental insurance coverage). For the year ended June 30, 2008, this rate was 9.06 percent. The Fund's actual contributions to the SCRS for the years ended June 30, 2010, 2009 and 2008 were approximately \$1,159,024, \$1,129,820 and \$1,041,346 respectively and equaled the required contributions (excluding the surcharge) in the percentages outlined above. Also, the Fund paid employer group-life insurance contributions at the rate of .15 percent of compensation for each of the years ended June 30, 2010, 2009 and 2008.

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 3.50 percent from the employer in fiscal year 2010. 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 \$268,602.

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, 2010 and 2009 were \$45,202 and \$90,837, respectively, which equaled the required contribution rates of 3.90% and 3.50%, 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 \$3.23 for the fiscal years ended June 30, 2010 and 2009.

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 Fund, as employer, is not included in the accompanying financial statements.

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

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 \$1,116,684 for the year ended June 30, 2010.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

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, 2010.

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

9. Risk Management (Continued)

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

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

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

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

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

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.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

10. Changes In Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2010, were as follows:

	Beginning Balance July 1, 2009	Increases	Decreases	Ending Balance June 30, 2010	Due Within One Year
Accrued compensated absences:					
Mansion and Grounds	\$ 14,302	\$ 17,456	\$ (13,665)	\$ 18,093	\$ 11,135
Executive Control of State	143,553	29,368	(33,289)	139,632	49,335
Office of Executive Policy and Programs	896,885	617,615	(593,086)	921,414	584,054
Total accrued compensated absences	<u>\$ 1,054,740</u>	<u>\$ 664,439</u>	<u>\$ (640,040)</u>	<u>\$ 1,079,139</u>	<u>\$ 644,524</u>

11. Transactions With State Entities

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

11. Transactions With State Entities (Continued)

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

Agency	Goods or Services Purchased	Amount
The Citadel	Allocations to other schools	\$ 26,023
Clemson University	Registration fees	15
Comptroller General's Office	Employment Contributions	791,108
Department of Corrections	Office equipment	610
Department of Corrections	Supplies	161
Department of Corrections	Printing services	20,644
Total Department of Corrections		21,415
Department of Health and Human Services	Registration fees	10
Department of Health and Human Services	Case services (other)	768,852
Total Department of Health and Human Services		768,862
Department of Mental Health	Allocations to other agencies	1,124,790
Department of Mental Health	Case services (other)	11,045
Department of Mental Health	Claims and awards	95,158
Total Department of Mental Health		1,230,993
Department of Social Services	Miscellaneous	424
Medical University of South Carolina	Claims and awards	4,500
SC Commission on Prosecution	Contributions	14,479
State Accident Fund	Workers compensation insurance	76,418
State Auditor's Office	Audit	1,597
State Treasurer's Office	Health insurance premium savings	644,223
State Board for Technical and Comprehensive Education	Other professional services	1,853,223

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	199
State Budget and Control Board	Contributions	249,093
State Budget and Control Board	Data processing	14,193
State Budget and Control Board	Fees and fines	3,117
State Budget and Control Board	General repair	1,107
State Budget and Control Board	Insurance	1,250,544
State Budget and Control Board	Janitorial	12,805
State Budget and Control Board	Leased car	231,759
State Budget and Control Board	Motor vehicle repair	743
State Budget and Control Board	Office supplies	1,170
State Budget and Control Board	Postage and freight	3,267
State Budget and Control Board	Printing services	29,481
State Budget and Control Board	Registration fees	510
State Budget and Control Board	Rent	449,680
State Budget and Control Board	Retirement	3,890
State Budget and Control Board	Telephone services	33,991
State Budget and Control Board	Temporary services	13,578
State Budget and Control Board	Training	860
Total State Budget and Control Board		2,299,987
University of South Carolina	Allocations to other agencies	57,164
University of South Carolina	Miscellaneous	2,546
Total University of South Carolina		59,710
Various Other	Office supplies	27
Various Other	Printing services	425
Various Other	Registration fees	25
Various Other	Promotional	140
Various Other	Rent - other	200
Various Other	Telephone services	396
Total Various Other		1,213
Total		\$ 7,794,190

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, 2010, the Office had no deposits with financial institutions. The Office had cash in the amount of \$17,367,636 held by the State Treasurer as of June 30, 2010.

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	\$ -	\$ 17,367,636
Cash and cash equivalents	17,367,636	-
Total	<u>\$ 17,367,636</u>	<u>\$ 17,367,636</u>

13. Litigation and Contingencies

At June 30, 2010, 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 2010.

<u>Division of Administrative Services</u>	<u>Division of Children Services</u>	<u>Division of Constituent Services</u>
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. Reserved Fund Balances/Deficits

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

Continuum of Care:	
Case management Medicaid	\$ 888,210
Patient Fees	492,696
Client Trust Fund	<u>11</u>
Total Continuum of Care	<u>1,380,917</u>
Foster Care:	
Local review board	<u>394,369</u>
Victims' Assistance:	
Trust fund for claims	<u>8,897,611</u>
Economic Opportunity:	
Project share	<u>122,179</u>
Guardian Ad Litem:	
Operations	4,638,687
Contributions	<u>(2,852)</u>
Total Guardian Ad-Litem	<u>4,635,835</u>
Ombudsman/Citizen Services:	
Operations	<u>29,511</u>
Mansion and Cemetary Donations	
Donations	1,716
Operating	<u>27,037</u>
Total Mansion and Cemetary Donations	<u>28,753</u>
Veterans' Affairs:	
Military Family Relief Fund	472,744
Veterans' State Cemetary Fund	<u>141,000</u>
Total Veterans' Affairs	<u>613,744</u>
Finance and Administration:	
Miscellaneous Revenue	3,100
Increase Enforcement Collections	<u>250,254</u>
Total Finance and Administration	<u>253,354</u>
Federal Grants and Program:	
Ombudsman	(7,641)
Victims assistance	(67,686)
Economic opportunity	<u>4,866,028</u>
Total Federal Grants and Programs	<u>4,790,701</u>
Total reserved fund balance	<u><u>\$ 21,146,974</u></u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

15. Reserved Fund Balances/Deficits (Continued)

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

16. Federal Funds not included in the Financial Statements

During 2009/2010, the State became eligible to receive certain stimulus funds under the following programs:

- State Stabilization Fund (SFSF) - Education State Grants, Recovery Act – CFDA No. 84.394
- State Stabilization Fund (SFSF) - Government Services, Recovery Act – CFDA No. 84.397

As Chief Executive of the State, the Governor is identified as the prime recipient on the federal award document.

Although these funds were awarded to the Governor, the State Treasurer's Office and other State Agencies received these funds and have monitored the use of these funds.

The Office has not included these funds in these financial statements. As such any questions about the use of these funds should be directed to the State Treasurer's Office.

17. Subsequent events

Subsequent events were evaluated through February 24, 2011, 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, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Executive Control of the State				
I. Administration				
Personal Service	\$ 1,676,078	\$ 1,343,398	\$ 1,343,398	\$ -
Other Operating Expenses	103,449	184,928	184,928	-
Total Administration	<u>1,779,527</u>	<u>1,528,326</u>	<u>1,528,326</u>	<u>-</u>
II. Employee Benefits				
	430,031	372,721	372,721	-
Total Executive Control of the State	<u>2,209,558</u>	<u>1,901,047</u>	<u>1,901,047</u>	<u>-</u>
Office of Executive Policy and Programs				
I. Administrative Services				
Personal Service	900,139	621,758	621,758	-
Other Operating Expenses	58,244	80,871	80,871	-
Special Items:				
Implementing Federal Programs	-	85,457	85,457	-
National Governor's Association	50,003	-	-	-
Southern Governors Association	7,110	-	-	-
Total Administrative Services	<u>1,015,496</u>	<u>788,086</u>	<u>788,086</u>	<u>-</u>
II. Children Services				
Personal Service	2,725,160	2,432,715	2,432,715	-
Other Operating Expenses	449,500	368,781	368,781	-
Case Services	1,548,488	1,605,858	1,605,858	-
Allocations	-	644,223	644,223	-
Special Items:				
Children's Case Resolution System	19,202	-	-	-
Total Children Services	<u>4,742,350</u>	<u>5,051,577</u>	<u>5,051,577</u>	<u>-</u>
III. Constituents Services				
Personal Service	986,871	941,439	941,439	-
Other Operating Expenses	124,078	104,789	104,789	-
Employee Benefits				
Special Items:				
Victims Rights	81,497	66,188	66,188	-
Victims Witness	162,727	156,153	156,153	-
POW Commission	2,167	423	423	-
Veteran's Counseling	68,027	6,341	6,341	-
Total Constituents Services	<u>1,425,367</u>	<u>1,275,333</u>	<u>1,275,333</u>	<u>-</u>
IV. Employee Benefits				
	1,263,930	1,177,151	1,177,151	-
Total Office of Executive Policy and Programs	<u>8,447,143</u>	<u>8,292,147</u>	<u>8,292,147</u>	<u>-</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2010

	<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 Service	246,853	210,334	210,334	-
Other Operating Expenses	73,781	144,738	144,738	-
Total Administration	<u>320,634</u>	<u>355,072</u>	<u>355,072</u>	-
II. Employee Benefits	<u>93,270</u>	<u>75,490</u>	<u>75,490</u>	-
Total Mansion and Grounds	<u>413,904</u>	<u>430,562</u>	<u>430,562</u>	-
Total Expenditures	<u>\$ 11,070,605</u>	<u>\$ 10,623,756</u>	<u>\$ 10,623,756</u>	<u>\$ -</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Office of Executive Policy and Programs				
I. Administrative Services				
Distributions to Subdivisions	\$ -	\$ 100,000	\$ 100,000	\$ -
Allocation Other State Agencies	1,048,998	1,124,998	1,124,790	208
Total Administrative Services	<u>1,048,998</u>	<u>1,224,998</u>	<u>1,224,790</u>	<u>208</u>
II. Children Services				
Personal Service	4,271,505	4,304,567	3,491,649	812,918
Other Operating Expenses	1,887,630	2,070,206	1,686,491	383,715
Case Services	2,400,000	2,395,000	752,892	1,642,108
Distributions to Subdivisions	-	59,350	-	59,350
Total Children Services	<u>8,559,135</u>	<u>8,829,123</u>	<u>5,931,032</u>	<u>2,898,091</u>
III. Constituents Services				
Personal Service	2,729,006	3,333,640	2,770,963	562,677
Other Operating Expenses	13,962,879	19,132,587	14,502,651	4,629,936
Case Services	550,000	554,300	47,783	506,517
Distributions to Subdivisions:				
Allocation Municipalities - Restricted	60,000	60,000	-	60,000
Allocation School Districts	300,000	300,000	54,709	245,291
Allocation County - Restricted	650,000	650,000	650,000	-
Allocation Other State Agencies	626,500	626,500	173,000	453,500
Allocation Private Sector	-	140,000	140,000	-
Allocation Other Entities	33,003,750	100,997,988	97,620,050	3,377,938
Total Constituents Services	<u>51,882,135</u>	<u>125,795,015</u>	<u>115,959,156</u>	<u>9,835,859</u>
IV. Employee Benefits	<u>2,274,172</u>	<u>2,494,661</u>	<u>1,898,947</u>	<u>595,714</u>
Total Office of Executive Policy and Programs	<u>63,764,440</u>	<u>138,343,797</u>	<u>125,013,925</u>	<u>13,329,872</u>
Mansion and Grounds				
I. Administration				
Personel Services	-	22,467	5,915	16,552
Other Operating Expenses	275,000	251,340	200,554	50,786
Total Administration	<u>275,000</u>	<u>273,807</u>	<u>206,469</u>	<u>67,338</u>
II. Employee Benefits	<u>-</u>	<u>1,193</u>	<u>1,193</u>	<u>-</u>
Total Mansion and Grounds	<u>275,000</u>	<u>275,000</u>	<u>207,662</u>	<u>67,338</u>
Total Expenditures	<u>\$ 64,039,440</u>	<u>\$ 138,618,797</u>	<u>\$ 125,221,587</u>	<u>\$ 13,397,210</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

JUNE 30, 2010

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 2009-2010 fiscal year has approximately 3,000 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

(CONTINUED)

Note 3. Basis of Budgeting:

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

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

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

Note 4. Reconciliation of Budget to GAAP Reporting Differences:

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

OTHER FINANCIAL INFORMATION

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET -
GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION
JUNE 30, 2010

	<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	\$ 5,675	\$ 54,384	\$ 685,400	\$ 745,459
Due from the State General Fund	18,467	135,630	313,289	467,386
Total assets	<u>\$ 24,142</u>	<u>\$ 190,014</u>	<u>\$ 998,689</u>	<u>\$ 1,212,845</u>
Liabilities and Fund Equity				
Liabilities:				
Accrued payroll and related liabilities	\$ 18,467	\$ 135,630	\$ 313,289	\$ 467,386
Total liabilities	<u>18,467</u>	<u>135,630</u>	<u>313,289</u>	<u>467,386</u>
Fund equity:				
Fund balances (deficit) Reserved for restricted purposes to be carried forward	5,675	54,384	685,400	745,459
Total fund equity	<u>5,675</u>	<u>54,384</u>	<u>685,400</u>	<u>745,459</u>
Total liabilities and fund equity	<u>\$ 24,142</u>	<u>\$ 190,014</u>	<u>\$ 998,689</u>	<u>\$ 1,212,845</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, 2010

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Revenues				
State appropriations	\$ 432,385	\$ 1,945,919	\$ 8,388,296	\$ 10,766,600
Total revenue	432,385	1,945,919	8,388,296	10,766,600
Expenditures				
Finance and Administration:				
Personal services	206,482	1,333,675	263,799	1,803,956
Employer contributions	75,490	372,721	160,911	609,122
Other operating	144,738	120,072	469	265,279
Finance and Administration Special Items:				
Implementing Federal Programs	-	-	85,457	85,457
Foster Care:				
Personal services	-	-	398,665	398,665
Employer contributions	-	-	111,161	111,161
Other operating	-	-	72,224	72,224
Continuum of Care:				
Personal services	-	-	1,275,412	1,275,412
Employer contributions	-	-	355,627	355,627
Other operating	-	-	238,105	238,105
Case services	-	-	1,605,858	1,605,858
Distribution to subrecipients	-	-	644,223	644,223
Guardian Ad Litem:				
Personal services	-	-	910,306	910,306
Employer contributions	-	-	253,824	253,824
Other operating	-	-	57,870	57,870
Developmental Disabilities:				
Personal services	-	-	38,980	38,980
Employer contributions	-	-	10,869	10,869
Other operating	-	-	8,028	8,028
Ombudsman/Citizen Services:				
Personal services	-	-	194,924	194,924
Employer contributions	-	-	54,351	54,351
Other operating	-	-	182,664	182,664
Veterans Counseling	-	-	6,341	6,341

(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, 2010

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Expenditures (Continued)				
Victims Assistance				
Personal services	-	-	38	38
Employer contributions	-	-	11	11
Other operating	-	-	14,362	14,362
Veterans Affairs:				
Personal services	-	-	480,990	480,990
Employer contributions	-	-	134,116	134,116
Other operating	-	-	12,607	12,607
POW Commission	-	-	423	423
Veteran's Cemetary				
Personal services	-	-	217,801	217,801
Employer contributions	-	-	60,730	60,730
Other operating	-	-	46,774	46,774
Children Affairs:				
Personal services	-	-	43,332	43,332
Employer contributions	-	-	12,082	12,082
Other operating	-	-	583	583
Small and Minority Business:				
Personal services	-	-	84,170	84,170
Employer contributions	-	-	23,469	23,469
Other operating	-	-	20,813	20,813
Total expenditures	<u>426,710</u>	<u>1,826,468</u>	<u>8,082,369</u>	<u>10,335,547</u>
Excess of revenue over (under) expenditures	5,675	119,451	305,927	431,053
Fund balances, beginning of year	-	(65,067)	379,473	314,406
Fund balances, end of year	<u>\$ 5,675</u>	<u>\$ 54,384</u>	<u>\$ 685,400</u>	<u>\$ 745,459</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS -
OTHER GOVERNMENTAL FUNDS

JUNE 30, 2010

	Finance and Administration	Foster Care	Ombudsman/ Citizen Services	Economic Opportunity	Veterans' Affairs	Mansion and Cemetary Donations	Total
Assets							
Cash and cash equivalents	\$ 343,432	\$ 240,057	\$ 42,533	\$ 122,179	\$ 613,744	\$ 31,407	\$ 1,393,352
Accounts receivable	-	203,916	-	-	-	-	203,916
Total assets	\$ 343,432	\$ 443,973	\$ 42,533	\$ 122,179	\$ 613,744	\$ 31,407	\$ 1,597,268
Liabilities and Fund Equity							
Liabilities:							
Accounts payable	\$ 90,078	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90,078
Accrued payroll and related liabilities	-	49,604	13,022	-	-	2,654	65,280
Total liabilities	90,078	49,604	13,022	-	-	2,654	155,358
Fund balances	253,354	394,369	29,511	122,179	613,744	28,753	1,441,910
Total liabilities and fund equity	\$ 343,432	\$ 443,973	\$ 42,533	\$ 122,179	\$ 613,744	\$ 31,407	\$ 1,597,268

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, 2010

	Finance and Administration	Foster Care	Ombudsman/ Citizen Services	Economic Opportunity	Veterans' Affairs	Mansion and Cemetary Donations	Total
Revenue							
Federal grants and programs	\$ -	\$ -	\$ -	\$ -	\$ 495	\$ -	\$ 495
Other government grants and contributions	-	-	196,000	199,500	254,990	-	650,490
Interest	-	-	-	-	6,715	-	6,715
Medicaid reimbursements	-	837,013	-	-	-	-	837,013
Miscellaneous	507,928	-	-	-	63,600	85,660	657,188
Total revenue	<u>507,928</u>	<u>837,013</u>	<u>196,000</u>	<u>199,500</u>	<u>325,800</u>	<u>85,660</u>	<u>2,151,901</u>
Expenditures							
Administration:							
Personal services	130,990	440,782	124,945	-	-	8,569	705,286
Employer contributions	2,023	151,370	43,323	-	-	1,193	197,909
Other operating	127,296	75,846	20,036	-	12,581	200,647	436,406
Claims and awards	-	-	-	-	35,697	-	35,697
Distributions to subrecipients:							
Allocations to other state agencies	208,849	-	-	112,388	-	-	321,237
Total expenditures	<u>469,158</u>	<u>667,998</u>	<u>188,304</u>	<u>112,388</u>	<u>48,278</u>	<u>210,409</u>	<u>1,696,535</u>
Excess of revenue over (under) expenditures	38,770	169,015	7,696	87,112	277,522	(124,749)	455,366
Fund balances, beginning of year	214,584	225,354	21,815	35,067	336,222	153,502	986,544
Fund balances, end of year	<u>\$ 253,354</u>	<u>\$ 394,369</u>	<u>\$ 29,511</u>	<u>\$ 122,179</u>	<u>\$ 613,744</u>	<u>\$ 28,753</u>	<u>\$ 1,441,910</u>

SINGLE AUDIT SECTION

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Education		
Rehabilitation Services-Client Assistance Program	84.161	\$ 131,143
U. S. Department of Energy		
*Weatherization Assistance for Low Income Persons	81.042	968,395
*Weatherization Assistance for Low Income Persons (ARRA)	81.042	18,831,759
U. S. Department of Justice		
*Crime Victim Compensation	16.576	3,544,655
*Recovery Act - State Victim Compensation Formula Grant Program	16.802	1,143,406
Crime Victim Assistance	16.575	35,274
U. S. Department of Health and Human Services		
*ARRA - Community Services Block Grant	93.710	14,016,018
Low Income Home Energy Assistance	93.568	56,407,125
Community Services Block Grant	93.569	10,601,262
Developmental Disabilities Basic Support and Advocacy Grants	93.630	835,252
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1,124,790
U. S. Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	1,425,720
Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	2,696,178
U.S. Department of Veteran's Affairs		
State Cemetary Grants	64.203	495
Grand Total		<u>\$ 111,761,472</u>

The accompanying notes are an integral part of this schedule.

**Denotes major program*

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

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.

Additionally, the Governor of the State of South Carolina is identified as the prime recipient on the grant award documents for the State Stabilization Fund (SFSF) – Education State Grants, Recovery Act – CFDA No. 84.394 and the State Stabilization Fund (SFSF) – Government Services, Recovery Act – CFDA No. 84.397. These funds are not included in these financial statements of the Governor's Office because they were received, distributed, and administered by other State of South Carolina Agencies.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

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	\$ 517,390
Community Services Block Grant	93.569	10,164,918
ARRA - Community Services Block Grant	93.710	9,960,075
Low Income Home Energy Assistance	93.568	55,891,182
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1,124,790
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons (ARRA)	81.042	16,431,198
Weatherization Assistance for Low Income Persons	81.042	742,747
U. S. Department of Housing and Urban Development		
Homeless Prevention and Rapid Re-Housing Program Techical Assistance	14.262	2,590,074
Emergency Shelter Grants Program	14.231	1,350,079
Total provided to subrecipients		<u>\$ 98,772,453</u>

DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

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

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

We have audited the financial statements of the South Carolina Governor's Office (the "Office") as of and for the year ended June 30, 2010, and have issued our report thereon dated February 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be a significant deficiency.

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 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. We consider the deficiency described in the accompanying schedule of findings and question costs to be a material weakness. (2010-01).

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*.

The Office's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Office's responses and, accordingly, we express no opinion on it.

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

Rebeck & Williamson, L.L.P.

February 24, 2011

DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

Independent Auditors' Report on Compliance With Requirements 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 Office's major federal programs for the year ended June 30, 2010. 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, 2010.

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.

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

Rebecca E. Williamson, C.C.P.

February 24, 2011

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

JUNE 30, 2010

Summary of Auditors' Results:

1. The auditors' report expresses an unqualified opinion on the financial statements of the South Carolina Governor's Office.
2. One material weaknesses (**2010-01**) relating to internal control over financial reporting was 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 is 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 is 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) Crime Victim Compensation – CFDA # 16.576
 - 2) Weatherization Assistance – CFDA # 81.042
 - 3) Recovery Act – State Victim Compensation Formula Grant Program – CFDA # 16.802
 - 4) ARRA – Community Service Block Grant – CFDA # 93.710
10. The threshold for distinguishing between Type A and Type B Programs was \$3,352,844.

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

(CONTINUED)

Summary of Auditors' Results (continued):

11. South Carolina Governor's Office qualified to be a low risk auditee.
12. During 2009/2010, the State became eligible to receive certain stimulus funds under the following programs:
 - State Stabilization Fund (SFSF) - Education State Grants, Recovery Act – CFDA No. 84.394
 - State Stabilization Fund (SFSF) - Government Services, Recovery Act – CFDA No. 84.397

As Chief Executive of the State, the Governor is identified as the prime recipient on the federal award document.

Although these funds were awarded to the Governor, the State Treasurer's Office and other State Agencies received these funds and have monitored the use of these funds.

The Office has not included these funds in these financial statements. As such any questions about the use of these funds should be directed to the State Treasurer's Office.

Financial Statement Findings:

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 trial 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 assts 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."

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

(CONTINUED)

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.

Federal Awards Findings and Questioned Costs:

No findings or questioned costs.

Status of Prior Year Findings:

None were reported.



State of South Carolina
Office of the Governor

NIKKI R. HALEY
GOVERNOR

OFFICE OF EXECUTIVE
POLICY AND PROGRAMS

February 24, 2011

Mr. Rich H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, S.C. 29201

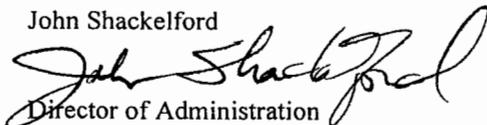
Dear Mr. Gilbert:

The Office of Executive Policy and Programs (OEPP) have strong principles regarding transparency in the financial management of governmental funds. As evidenced in our final audit report, OEPP has very effective standards and organizational practices in place that ensure integrity of the management of state and federal funds. In respect to the audit finding of material weakness related to internal control over financial reporting, some explanation is warranted in order to provide some awareness of circumstances beyond the structure of OEPP.

The critical issue at hand concerning recording the addition of "Low Value Assets" to the trial balance was attempted to be resolved when first identified by OEPP. The Asset Manager of SCEIS was notified by OEPP and our organization was informed it would be cleared by the end of the year. However, this did not occur due to the issue with the Asset Module. Deloach & Williamson contacted SCEIS directly to address the issue of "Low Value Assets" appearing on the Trial Balance for 2010. Deloach & Williamson was informed that "Low Value Assets" should be on the Trial Balance. OEPP continued to attempt to resolve the issue directly with SCEIS and it was discovered that initially the Comptroller General's Office had agreed to have "Low Value Assets" on the Trial Balance but after many calls from auditors, they decided the "Low Value Assets" did not belong on the Trial Balance because it put SCEIS in direct conflict with the GAAP Closing packages. A representative from SCEIS agreed to remove the "Low Value Assets" from the Trial Balance in 11/2010 but it did not actually occur until late 12/10. This delay prevented OEPP from providing a corrected Trial Balance in a timely manner to Deloach & Williamson which occurred in 1/2011. Hence, SCEIS zeroed the "Low Value Assets" but it did not remove it from our Trial Balance which resulted in an audit finding. The inability to correct and/or remove that part of our books is an issue that all state government agencies are faced with as they utilize the SCEIS system.

SCEIS has informed OEPP that the Asset Module has been corrected so this will not have any adverse impact on future financial statements. We will continue to monitor this throughout the fiscal year to ensure this is a fully implemented resolution.

John Shackelford


Director of Administration
Office of Executive Policy and Programs