

**SOUTH CAROLINA GOVERNOR'S OFFICE**

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

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**YEAR ENDED JUNE 30, 2009**

SOUTH CAROLINA GOVERNOR'S OFFICE

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AUDITED FINANCIAL STATEMENTS,  
OTHER FINANCIAL INFORMATION  
AND SINGLE AUDIT SECTION

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YEAR ENDED JUNE 30, 2009

# *State of South Carolina*



## *Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
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March 5, 2010

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

This report on the audit of the basic financial statements of the South Carolina Governor's Office and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2009, 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

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AUDITED FINANCIAL STATEMENTS,  
OTHER FINANCIAL INFORMATION  
AND SINGLE AUDIT SECTION

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YEAR ENDED JUNE 30, 2009

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# DELOACH & WILLIAMSON, L.L.P.

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### REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying basic financial statements of the South Carolina Governor's Office (the "Office") as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in *Note 1*, the accompanying financial statements of the South Carolina Governor's Office reporting entity are intended to present the financial position and the results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of those divisions of the Office that comprise the South Carolina Governor's Office reporting entity. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2009 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, 2009, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with Government Auditing Standards, we have also issued our report-dated February 22, 2010, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

*Rebecca E. Williamson, C.C.P.*

February 22, 2010

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

June 30, 2009

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, 2009.

**Financial Highlights**

- The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by \$13,833,680. These funds will be used to meet the office's ongoing obligations.
- The Office's total net assets were decreased by \$2,390,085.
- As of the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of \$10,965,405, a decrease of \$2,168,848 in comparison with the prior year.
- At the end of the current fiscal year, reserved fund balance for the general fund was \$314,406.

**Overview of the Financial Statements**

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

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

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

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



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

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

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

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

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 to 43 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 44 to 48.

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 49 to 53 of this report.

### **Government Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the South Carolina Governor's Office, assets exceeded liabilities by \$13,833,680 at the close of the most recent fiscal year.

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

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

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

### Condensed Statement of Net Assets

	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
		<b>(As Restated)</b>
<b>Assets</b>		
Current assets	\$ 14,075,189	\$ 16,962,706
Capital assets, net of accumulated depreciation	3,923,015	4,136,674
<b>Total Assets</b>	<u>17,998,204</u>	<u>21,099,380</u>
<b>Liabilities</b>		
Current liabilities	3,833,954	4,485,651
Non-current liabilities	330,570	389,964
<b>Total Liabilities</b>	<u>4,164,524</u>	<u>4,875,615</u>
<b>Net Assets</b>		
Invested in capital assets	3,923,015	4,136,674
Unrestricted	9,910,665	12,087,091
<b>Total Net Assets</b>	<u><u>\$ 13,833,680</u></u>	<u><u>\$ 16,223,765</u></u>

The Office started the year with less appropriated funds and was required to take additional cuts through out the year. Consequently, divisions within the Governor's Office had to use carry forward funds of \$2.1 million from previous years to cover expenditures incurred over revenue received during the year.

Capital assets decreased as a result of the reclassification of the veteran cemetery construction in progress to specific assets in late fiscal 2008. This, coupled with the related depreciation expense resulted in the overall decrease in capital assets.

These two items are primary reasons for the decreases in current assets and net assets for fiscal year 2009.

### 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

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
		<b>(As Restated)</b>
Operating grants and contributions	\$ 83,530,755	\$ 60,498,943
Expenses	97,695,257	73,290,152
Net expense and change in net assets	(14,164,502)	(12,791,209)
State appropriations	11,768,513	14,100,462
Interest	5,904	5,296
Transfers	-	144,286
Change in net assets	(2,390,085)	1,458,835
Net assets at beginning of year	16,223,765	14,764,930
Net assets at end of year	<u>\$ 13,833,680</u>	<u>\$ 16,223,765</u>

In fiscal year 2009, the Governor's Office received substantial increases in federal funds in the OEO division, Medicaid stimulus funds in the Continuum of Care division and earmarked funds in the Guardian ad Litem program. These increases in revenue had corresponding increases in expenses, as these funds were used in the designated programs to help some of our most vulnerable citizens.

The Governor's Office also took an additional 21.8% reduction in state appropriations during the 2009 fiscal year. Because of this reduction, divisions with carry forward funds had to use \$2.1 million of these funds to cover expenditures incurred over revenue received during the year.

**General Fund Budgeting Highlights**

General Fund Appropriations were \$2,331,949 less in fiscal year 2009 than fiscal year 2008 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, 2009 amounts to \$3,923,015 (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 \$1,054,740, all of which was for accrued compensation absences.

**Economic Outlook**

The Agency has taken significant reductions in state appropriations since July 1, 2009. The general economic forecast for the remainder of FY 2010 and into FY 2011 is bleak. Any further budgetary cuts will have a material impact on the Agency 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 Agency's financial condition.

**Requests for Information**

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

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF NET ASSETS

JUNE 30, 2009

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 12,601,683
Accounts receivable	287,889
Federal grant receivable	617,372
Due from the State General Fund	568,245
Total current assets	<u>14,075,189</u>
Noncurrent assets:	
Capital assets:	
Buildings, Land Improvements, and Equipment	4,484,609
Less accumulated depreciation	<u>(561,594)</u>
Total capital assets, net of depreciation	<u>3,923,015</u>
Total assets	<u>17,998,204</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	1,799,427
Accrued payroll and related liabilities	1,014,836
Accrued compensated absences	724,170
Deposits held for clients	271,722
Due to the State General Fund	23,799
Total current liabilities	<u>3,833,954</u>
Noncurrent liabilities:	
Accrued compensated absences	<u>330,570</u>
Total non-current liabilities	<u>330,570</u>
Total liabilities	<u>4,164,524</u>
<b>Net Assets</b>	
Invested in capital assets	3,923,015
Unrestricted	<u>9,910,665</u>
Total net assets	<u><u>\$ 13,833,680</u></u>

*See accompanying notes.*

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b>Functions/Programs:</b>			
General government	\$ 13,343,947	\$ -	\$ (13,343,947)
Grants and programs	<u>84,351,310</u>	<u>83,530,755</u>	<u>(820,555)</u>
Total primary government	<u>\$ 97,695,257</u>	<u>\$ 83,530,755</u>	(14,164,502)
General revenue:			
State appropriations			11,768,513
Interest			<u>5,904</u>
Change in net assets			(2,390,085)
Net assets - beginning of year, as restated			<u>16,223,765</u>
Net assets - end of year			<u>\$ 13,833,680</u>

*See accompanying notes.*

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

	General	Federal Grants and Programs	Continuum of Care	Guardian Ad Litem	Victims' Assistance	Other Governmental Funds	Totals
<b>Assets and Other Debits</b>							
Cash and cash equivalents	\$ 603,591	\$ -	\$ 1,021,638	\$ 690,119	\$ 8,979,680	\$ 1,306,655	\$ 12,601,683
Accounts receivable	-	-	38,615	224,281	-	24,993	287,889
Federal grant receivable	-	535,353	-	-	-	82,019	617,372
Due from the State General Fund	568,245	-	-	-	-	-	568,245
Total assets	<u>\$ 1,171,836</u>	<u>\$ 535,353</u>	<u>\$ 1,060,253</u>	<u>\$ 914,400</u>	<u>\$ 8,979,680</u>	<u>\$ 1,413,667</u>	<u>\$ 14,075,189</u>
<b>Liabilities and Fund Equity</b>							
Liabilities:							
Accounts payable	\$ 265,386	\$ 535,240	\$ 528,605	\$ 16,347	\$ 356,120	\$ 97,729	\$ 1,799,427
Accrued payroll and related liabilities	568,245	-	135,803	138,801	111,833	60,154	1,014,836
Deposits held for clients	-	2,270	175	-	37	269,240	271,722
Due to the State General Fund	23,799	-	-	-	-	-	23,799
Total liabilities	<u>857,430</u>	<u>537,510</u>	<u>664,583</u>	<u>155,148</u>	<u>467,990</u>	<u>427,123</u>	<u>3,109,784</u>
Fund equity:							
Fund balances:							
Reserved for various restricted purposes	-	(2,157)	395,670	759,252	8,511,690	986,544	10,650,999
Reserved for restricted purposes to be carried forward	314,406	-	-	-	-	-	314,406
Total fund equity (deficit)	<u>314,406</u>	<u>(2,157)</u>	<u>395,670</u>	<u>759,252</u>	<u>8,511,690</u>	<u>986,544</u>	<u>10,965,405</u>
Total liabilities and fund equity	<u>\$ 1,171,836</u>	<u>\$ 535,353</u>	<u>\$ 1,060,253</u>	<u>\$ 914,400</u>	<u>\$ 8,979,680</u>	<u>\$ 1,413,667</u>	<u>\$ 14,075,189</u>

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

-CONTINUED-

Reconciliation to the statement of net assets:

Total fund balances - governmental funds	\$	10,965,405
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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>(561,594)</u>

Total capital assets, net	3,923,015
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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>(1,054,740)</u>
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Net assets of governmental activities	\$	<u><u>13,833,680</u></u>
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*See accompanying notes.*



SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Federal Grants and Programs</u>	<u>Continuum of Care</u>	<u>Guardian Ad Litem</u>	<u>Victims' Assistance</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>Revenue</b>							
State appropriations	\$ 11,768,513	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,768,513
Federal grants and programs	-	61,574,614	-	-	-	186,537	61,761,151
Other government grants and contributions	-	45,370	3,009,689	2,875,703	16,160	1,269,836	7,216,758
Interest	-	-	6	-	-	5,898	5,904
Medicaid reimbursements	-	2,429	2,267,533	1,080	1,158	896,790	3,168,990
Victim restitutions	-	-	-	-	10,346,337	-	10,346,337
Miscellaneous	-	1,035	416,600	125,000	421,221	73,662	1,037,518
Total revenue	<u>11,768,513</u>	<u>61,623,448</u>	<u>5,693,828</u>	<u>3,001,783</u>	<u>10,784,876</u>	<u>2,432,723</u>	<u>95,305,171</u>
<b>Expenditures</b>							
Federal grants and programs:							
Personal services	-	992,783	-	-	-	-	992,783
Employer contributions	-	310,179	-	-	-	-	310,179
Other operating	-	494,606	-	-	-	-	494,606
Claims and awards	-	3,109,145	-	-	-	-	3,109,145
Distributions to subrecipients	-	56,493,786	-	-	-	-	56,493,786
Finance and administration:							
Personal services	2,969,222	-	-	-	-	-	2,969,222
Employer contributions	809,182	-	-	-	-	-	809,182
Other operating	1,062,158	-	-	-	-	158,563	1,220,721
Continuum of Care:							
Personal services	1,540,996	-	1,227,466	-	-	-	2,768,462
Employer contributions	455,555	-	348,440	-	-	-	803,995
Other operating	436,385	-	2,959,382	-	-	-	3,395,767
Case Services	1,906,773	-	1,699,691	-	-	-	3,606,464

(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
<b>Expenditures (Continued)</b>							
Foster Care:							
Personal services	441,486	-	-	-	-	455,910	897,396
Employer contributions	130,514	-	-	-	-	135,771	266,285
Other operating	97,374	-	-	-	-	162,092	259,466
Guardian Ad Litem:							
Personal services	951,109	-	-	1,467,173	-	-	2,418,282
Employer contributions	281,171	-	-	426,243	-	-	707,414
Other operating	120,672	-	-	1,063,638	-	-	1,184,310
Developmental Disabilities:							
Personal services	36,354	-	-	-	-	-	36,354
Employer contributions	10,747	-	-	-	-	-	10,747
Other operating	9,683	-	-	-	-	-	9,683
Ombudsman/Citizen Services:							
Personal services	140,801	-	-	-	-	115,027	255,828
Employer contributions	41,624	-	-	-	-	37,571	79,195
Other operating	6,370	-	-	-	-	18,771	25,141
Victims Assistance:							
Personal services	-	-	-	-	1,140,105	-	1,140,105
Employer contributions	-	-	-	-	346,842	-	346,842
Other operating	18,717	-	-	-	331,014	-	349,731
Claims and awards	-	-	-	-	8,714,633	-	8,714,633
Distributions to subdivisions	-	-	-	-	823,000	-	823,000
Victims Assistance-Ombudsman	22,110	-	-	-	-	-	22,110
Victims Rights	82,925	-	-	-	-	-	82,925
Victims Witness	162,727	-	-	-	-	-	162,727
Veterans Counseling	23,693	-	-	-	-	-	23,693

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
<b>Expenditures (Continued)</b>							
Veterans Affairs:							
Personal services	596,536	-	-	-	-	-	596,536
Employer contributions	176,350	-	-	-	-	-	176,350
Other operating	31,714	-	-	-	-	-	31,714
POW Commission	743	-	-	-	-	-	743
Veterans' Cemetary							
Personal services	210,643	-	-	-	-	-	210,643
Employer contributions	62,271	-	-	-	-	-	62,271
Other operating	92,035	-	-	-	-	83,159	175,194
Case services	-	-	-	-	-	19,000	19,000
Distributions to subrecipients	-	-	-	-	-	103,378	103,378
State Veterans' Cemetary	14	-	-	-	-	-	14
Children Affairs:							
Personal services	43,601	-	-	-	-	-	43,601
Employer contributions	12,890	-	-	-	-	-	12,890
Other operating	1,033	-	-	-	-	-	1,033
Case services	5,630	-	-	-	-	-	5,630
Small and Minority Business:							
Personal services	82,305	-	-	-	-	-	82,305
Employer contributions	24,331	-	-	-	-	-	24,331
Other operating	20,279	-	-	-	-	-	20,279
Donations							
Other operating	-	-	-	-	-	105,669	105,669
Distributions to subrecipients	-	-	-	-	-	32,790	32,790
Economic Opportunity:							
Distributions to subrecipients	-	-	-	-	-	875,134	875,134
Total expenditures	13,118,723	61,400,499	6,234,979	2,957,054	11,355,594	2,302,835	97,369,684
Excess of revenue over expenditures	(1,350,210)	222,949	(541,151)	44,729	(570,718)	129,888	(2,064,513)

SOUTH CAROLINA GOVERNOR'S OFFICE

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

	<u>General</u>	<u>Federal Grants and Programs</u>	<u>Continuum of Care</u>	<u>Guardian Ad Litem</u>	<u>Victims' Assistance</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>Expenditures (Continued)</b>							
<b>Other Financing Uses</b>							
Indirect costs remitted to the State							
General Fund	(3,988)	(100,347)	-	-	-	-	(104,335)
Total other financing uses	(3,988)	(100,347)	-	-	-	-	(104,335)
Excess (deficit) of revenue over (under)							
expenditures and other financing uses	(1,354,198)	122,602	(541,151)	44,729	(570,718)	129,888	(2,168,848)
Fund balances (deficits), beginning of year	1,668,604	(124,759)	936,821	714,523	9,082,408	856,656	13,134,253
Fund balances (deficits), end of year	<u>\$ 314,406</u>	<u>\$ (2,157)</u>	<u>\$ 395,670</u>	<u>\$ 759,252</u>	<u>\$ 8,511,690</u>	<u>\$ 986,544</u>	<u>\$ 10,965,405</u>

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

Reconciliation to the statement of activities:

Net change in fund balances-total governmental funds	\$ (2,168,848)
--	----------------

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

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

Additions to capital assets	
Furniture and Equipment additions	72,113
Depreciation expense	(250,084)
Loss on disposal of assets	(35,688)
	(35,688)
Excess of capital outlay over depreciation expense	(213,659)

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	(7,578)
Change in net assets of governmental activities	\$ (2,390,085)

*See accompanying notes.*

# SOUTH CAROLINA GOVERNOR'S OFFICE

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### 1. Summary of Significant Accounting Policies

#### Reporting Entity

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

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

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

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

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

(CONTINUED)

## SOUTH CAROLINA GOVERNOR'S OFFICE

### NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

#### **1. Summary of Significant Accounting Policies (Continued)**

##### Reporting Entity (Continued)

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

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

##### Government-Wide and Fund Financial Statements

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

## SOUTH CAROLINA GOVERNOR'S OFFICE

### NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

#### 1. Summary of Significant Accounting Policies (Continued)

##### Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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 2008-2009 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, 2009, for federal programs/projects but not reimbursed until fiscal year 2010.

Accounts Receivable

Accounts receivable represents expenditures incurred through June 30, 2009, for Special Revenue Fund programs/projects but not reimbursed until fiscal year 2010.

Capital Assets

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

**1. Summary of Significant Accounting Policies (Continued)**

Compensated Absences

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

Net Assets/Fund Balances

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

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

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

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

**1. Summary of Significant Accounting Policies (Continued)**

Net Assets/Fund Balances (Continued)

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

Interfund Transactions-Fund Financial Statements

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

**1. Summary of Significant Accounting Policies (Continued)**

Indirect Cost Recoveries

The receipt of indirect cost recoveries has been included in the Special Revenue Fund as federal revenue and payment of these recoveries to the State's General Fund is recorded as other financing uses. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants, which the Office may retain. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. State law requires the Governor's Office to remit non-exempt recoveries to the State's General Fund. The State of South Carolina General Fund receives indirect cost reimbursements from Blue Cross/Blue Shield for the Infant Mortality Program and from federal granting agencies based on a predetermined percentage of the personnel costs of the Governor's Office. The Office remitted cost reimbursements amounted to \$104,335 in fiscal year 2009. The Office did not retain any indirect cost recoveries in fiscal year 2009.

Estimates

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

**2. State Appropriations**

The 2008-2009 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.

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Executive Policy and Programs</b>	<b>Totals</b>
Original appropriation	\$ 679,433	\$ 2,806,619	\$ 10,779,447	\$ 14,265,499
Transfers	-	60,000	(60,000)	-
Base Pay Increase	2,952	20,822	56,576	80,350
Appropriation reduction	(148,494)	(615,276)	(2,358,013)	(3,121,783)
Lapsed funds	(14,289)	(644)	(8,865)	(23,798)
Revised appropriations - legal basis	519,602	2,271,521	8,409,145	11,200,268
Net adjustments to accrual basis:				
Personal services and employer contributions	22,317	145,143	400,785	568,245
Revenue from state appropriations	<u>\$ 541,919</u>	<u>\$ 2,416,664</u>	<u>\$ 8,809,930</u>	<u>\$ 11,768,513</u>
Revised appropriations	\$ 519,602	\$ 2,271,521	\$ 8,409,145	\$ 11,200,268
Brought-forward appropriations from fiscal year ended June 30, 2008:				
(a) Implementing federal programs-match	-	-	1,593,604	1,593,604
Legal basis appropriation available for 2009 expenditures	<u>\$ 519,602</u>	<u>\$ 2,271,521</u>	<u>\$ 10,002,749</u>	<u>\$ 12,793,872</u>



SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

**2. State Appropriations (Continued)**

	<u>Mansion and Grounds</u>	<u>Executive Control of State</u>	<u>Executive Policy and Programs</u>	<u>Totals</u>
Approved carry forward of appropriated funds to fiscal year 2008				
(b) Implementing federal programs- match	\$ -	\$ -	\$ 501,755	\$ 501,755
Less general fund accounts payable	-	(65,066)	(122,283)	(187,349)
Total carry forward accrual basis	<u>\$ -</u>	<u>\$ (65,066)</u>	<u>\$ 379,472</u>	<u>\$ 314,406</u>

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2008 for expenditures in fiscal year 2009 and to carry forward unspent appropriations from fiscal year 2009 to expenditure in fiscal year 2010. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

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

(b) 2009 Appropriations Act, Proviso 72.1

Annual fiscal year 2009 appropriations of \$501,755 for implementing federal programs approved for carry forward to fiscal year 2010 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 2009, total payments under this lease were \$436,449. 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 2009, total payments under this lease were \$218,020. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2010 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$464,255 in fiscal year 2009. 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 2010 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 2009, total payments were \$77,776, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2010 and subsequent years. These leases expire during fiscal year 2010 and do not contain renewal options or escalation clauses. When these leases expire, they will be replaced with similar leases for equipment.

Future minimum lease payments required under noncancelable operating leases that have remaining lease terms of more than one year as of June 30, 2009, are:

<u>Year Ending June 30,</u>	
2010	\$ 395,479
2011	271,027
2012	138,025
2013	120,118
2014	12,385
	<u>\$ 937,034</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, 2008 (As Restated)	Additions	Deletions and Retirements	Transfer to Other Entities	Balance June 30, 2009
Buildings & 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	416,526	72,113	(19,539)	(42,825)	426,275
Executive Control of State	12,251	-	-	-	12,251
Total furniture and equipment	428,777	72,113	(19,539)	(42,825)	438,526
Accumulated depreciation:					
Office of Executive Policy and Programs	(335,146)	(248,046)	19,539	7,138	(556,515)
Executive Control of State	(3,042)	(2,037)	-	-	(5,079)
Total accumulated depreciation	(338,188)	(250,083)	19,539	7,138	(561,594)
Capital assets, net of accumulated depreciation	\$ 4,136,672	\$(177,970)	\$ -	\$(35,687)	\$ 3,923,015

The beginning capital asset balances were restated for the correction of an error. See *Note 17* for more information.

## 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](http://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, 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, 2007, this rate was 8.05 percent and 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, 2009, 2008 and 2007 were approximately \$1,129,820, \$1,041,346 and \$993,776 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, 2009, 2008 and 2007.

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.

#### **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.

## SOUTH CAROLINA GOVERNOR'S OFFICE

### NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

#### **7. Post Employment and Other Employee Benefits (Continued)**

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires the post-employment benefits be funded through annually established employer's contribution rates, also known as the pension surcharge. Funding for the employer's payment of the surcharge is provided through General Appropriations from the State and other sources. Effective May 1, 2008 through Act 195, the State established the South Carolina Retiree Health Insurance Trust Fund and the Long-Term Disability Insurance Trust Fund for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and employee long-term disability benefits. The Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding may include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Fund's contribution to this trust fund for the fiscal years ended June 30, 2009 and 2008 were approximately \$90,837 and \$35,466, respectively, which equaled the required contribution rates of 3.50% and 3.42%, 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, 2009 and 2008.

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

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

#### *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 \$1,065,314 for the year ended June 30, 2009.

## 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, 2009.

#### **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, 2009, were as follows:

	Beginning Balance July 1, 2008	Increases	Decreases	Ending Balance June 30, 2009	Due Within One Year
Accrued compensated absences:					
Mansion and Grounds	\$ 26,167	\$ 3,180	\$ (15,045)	\$ 14,302	\$ 12,293
Executive Control of					
State	138,145	124,518	(119,110)	143,553	91,539
Office of Executive					
Policy and Programs	882,850	1,193,986	(1,179,951)	896,885	620,338
Total accrued compensated absences	<u>\$ 1,047,162</u>	<u>\$ 1,321,684</u>	<u>\$ (1,314,106)</u>	<u>\$ 1,054,740</u>	<u>\$ 724,170</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
Clemson University	Registration fees	\$ 60
Clemson University	Office supplies	45
Total Clemson University		105
Department of Corrections	Office equipment	3,000
Department of Corrections	Printing services	1,060
Total Department of Corrections		4,060
Department of Health and Human Services	Meals	14
Department of Health and Human Services	Registration fees	56
Department of Health and Human Services	Medicaid	658
Department of Health and Human Services	Case services (other)	1,810,366
Total Department of Health and Human Services		1,811,094
Department of Mental Health	Allocations to other agencies	979,561
Department of Mental Health	Case services (other)	14,398
Department of Mental Health	Claims and awards	108,122
Total Department of Mental Health		1,102,081
Department of Social Services	Fees and fines	120
Department of Social Services	Contractual services	5,630
Total Department of Social Services		5,750
Medical University of South Carolina	Claims and awards	85,645
Medical University of South Carolina	Allocations to other agencies	5,000
Total Medical University of South Carolina		90,645
School for the Deaf and Blind	Allocations to other agencies	5,036
State Accident Fund	Workers compensation insurance	99,741
State Law Enforcement Division	Janitorial	121,957
State Treasurer's Office	Health insurance premium savings	88,850
State Board for Technical and Comprehensive Education	Miscellaneous	40,545
Department of Natural Resources	Janitorial	132,666

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	Allocations to other agencies	137,308
State Budget and Control Board	Contractual services	241,569
State Budget and Control Board	Data processing	290,179
State Budget and Control Board	Fees and fines	200
State Budget and Control Board	General repair	1,233
State Budget and Control Board	Insurance	1,249,916
State Budget and Control Board	Janitorial	81
State Budget and Control Board	Leased car	218,020
State Budget and Control Board	Motor vehicle repair	4,610
State Budget and Control Board	Photocopy	1,343
State Budget and Control Board	Postage and freight	3,676
State Budget and Control Board	Printing services	31,631
State Budget and Control Board	Registration fees	315
State Budget and Control Board	Rent	436,449
State Budget and Control Board	Retirement	9,502
State Budget and Control Board	Telephone services	34,362
State Budget and Control Board	Temporary services	20,641
State Budget and Control Board	Utilities	3,716
Total State Budget and Control Board		<u>2,684,751</u>
University of South Carolina	Contractual services	20,471
University of South Carolina	Miscellaneous	150
Total University of South Carolina		<u>20,621</u>
Various Other	Community assessment plan	6,817
Various Other	Meals	155
Various Other	Office supplies	415
Various Other	Printing services	133
Various Other	Registration fees	312
Various Other	Promotional	1,200
Various Other	Rent - other	200
Various Other	Telephone services	299
Total Various Other		<u>9,531</u>
Total		<u><u>\$ 6,217,433</u></u>

During the past year the Office transferred two vehicles to the State Motor Pool. The historical cost of the assets transferred was \$42,825 with the accumulated depreciation on these assets valued at \$7,138. These amounts are included under Transfers to Other Entities in *Note 5*.

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, 2009, the Office had no deposits with financial institutions. The Office had cash in the amount of \$12,601,683 held by the State Treasurer as of June 30, 2009.

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	\$ -	\$ 12,601,683
Cash and cash equivalents	12,601,683	-
Total	<u>\$ 12,601,683</u>	<u>\$ 12,601,683</u>

**13. Due to State General Fund**

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

**14. Litigation and Contingencies**

At June 30, 2009, the Governor's Office was involved in a number of legal proceedings (predominately civil suits) and claims with various parties, which arose in the normal course of business.

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

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

**15. Program Classification**

The following is how the Office of Executive Policy and Programs is structured as of fiscal year 2009.

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

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

**16. Reserved Fund Balances/Deficits**

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

Continuum of Care:	
Case management Medicaid	\$ 379,042
Patient Fees	16,614
Client Trust Fund	14
Total Continuum of Care	<u>395,670</u>
Foster Care:	
Local review board	<u>225,354</u>
Victims' Assistance:	
Trust fund for claims	<u>8,511,690</u>
Economic Opportunity:	
Project share	<u>35,067</u>
Guardian Ad Litem:	
Operations	761,396
Contributions	(2,144)
Total Guardian Ad-Litem	<u>759,252</u>
Ombudsman/Citizen Services:	
Operations	<u>21,815</u>
Mansion and Cemetary Donations	
Donations	675
Operating	<u>152,827</u>
Total Mansion and Cemetary Donations	<u>153,502</u>
Veterans' Affairs:	
Military Family Relief Fund	258,822
Veterans' State Cemetary Fund	<u>77,400</u>
Total Veterans' Affairs	<u>336,222</u>
Finance and Administration:	
Miscellaneous Revenue	3,100
Increase Enforcement Collections	272,005
Tobacco Community Trust	(79,485)
Agency Set-Aside	<u>18,964</u>
Total Finance and Administration	<u>214,584</u>
Federal Grants and Program:	
Dual employment	(2,270)
Victims assistance	45
Economic opportunity	<u>68</u>
Total Federal Grants and Programs	<u>(2,157)</u>
Total reserved fund balance	<u><u>\$ 10,650,999</u></u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

**16. Reserved Fund Balances/Deficits (Continued)**

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

**17. Restatement of Net Assets**

During the current year management discovered an error in the Veteran's Cemetery assets depreciation. These assets were not depreciated in accordance with the current state policy as described in *Note 1*.

Consequently, beginning net assets were restated as follows:

2008 Ending Net Assets	\$ 16,376,101
Change in accumulated depreciation	(152,336)
2008 Ending Net Assets, as restated	<u>\$ 16,223,765</u>



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, 2009

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance from Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Expenditures:				
Executive Control of the State				
I. Administration				
Personal Service	\$ 1,833,504	\$ 1,566,951	\$ 1,566,951	\$ -
Other Operating Expenses	514,264	263,485	263,485	-
Total Administration	2,347,768	1,830,436	1,830,436	-
II. Employee Benefits	458,851	441,730	441,086	644
Total Executive Control of the State	2,806,619	2,272,166	2,271,522	644
Office of Executive Policy & Programs				
I. Administrative Services				
Personal Service	836,159	868,891	868,891	-
Other Operating Expenses	322,388	439,115	437,714	1,401
Special Items:				
Implementing Federal Programs	44,283	13,893	13,893	-
National Governor's Association	50,003	50,003	50,003	-
Southern Governors Association	7,110	7,110	-	7,110
Mining Council	-	-	-	-
Total Administrative Services	1,259,943	1,379,012	1,370,501	8,511
II. Children Services				
Personal Service	3,251,603	2,739,279	2,739,229	50
Other Operating Expenses	694,873	655,466	655,464	2
Case Services	1,954,112	1,795,432	1,795,432	-
Special Items:				
Children's Case Resolution System	35,102	5,630	5,630	-
Protection and Advocacy	290,489	-	-	-
Total Children Services	6,226,179	5,195,807	5,195,755	52
III. Constituents Services				
Personal Service	1,275,097	981,384	981,384	-
Other Operating Expenses	185,493	182,556	182,547	9
Employee Benefits	-	(3,748)	(3,748)	-
Special Items:				
Victims Rights	95,788	83,160	82,925	235
Victims Witness	176,589	162,727	162,727	-
POW Commission	3,826	743	743	-
Veteran's Counseling	73,125	23,751	23,693	58
Aid to other State agencies	51,517	-	-	-
Total Constituents Services	1,861,435	1,430,573	1,430,271	302
IV. Employee Benefits	1,431,890	1,482,345	1,482,345	-
V. State Veteran's Cemetary	-	14	14	-

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2009

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance from Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
VI. Victims' Assistance - Ombudsman	-	22,110	22,110	-
Total Office of Executive Policy & Programs	10,779,447	9,509,861	9,500,996	8,865
Mansion and Grounds				
I. Administration				
Personal Service	283,943	266,344	264,351	1,993
Other Operating Expenses	295,703	174,277	174,277	-
Total Administration	579,646	440,621	438,628	1,993
II. Employee Benefits	99,787	93,270	80,974	12,296
Total Mansion and Grounds	679,433	533,891	519,602	14,289
Total Expenditures	\$ 14,265,499	\$ 12,315,918	\$ 12,292,120	\$ 23,798

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2009

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance from Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Expenditures:				
Executive Control of the State				
I. Administration				
Other Operating Expenses	\$ -	\$ 42,016	\$ 21,751	\$ 20,265
Total Administration	-	42,016	21,751	20,265
Total Executive Control of the State	-	42,016	21,751	20,265
Office of Executive Policy & Programs				
I. Administrative Services				
Other Operating Expenses	-	143,302	143,302	-
Distributions to Subdivisions	-	100,000	100,000	-
Allocation Other State Agencies	1,048,354	1,048,354	979,561	68,793
Total Administrative Services	1,048,354	1,291,656	1,222,863	68,793
II. Children Services				
Personal Service	3,974,490	4,011,353	3,080,450	930,903
Other Operating Expenses	1,674,383	1,780,278	1,486,655	293,623
Case Services	1,900,000	2,455,100	1,698,881	756,219
Total Children Services	7,548,873	8,246,731	6,265,986	1,980,745
III. Constituents Services				
Personal Service	2,758,485	2,604,485	2,262,563	341,922
Other Operating Expenses	12,773,433	13,446,651	12,620,095	826,556
Case Services	425,000	425,000	19,000	406,000
Distributions to Subdivisions:				
Allocation Municipalities - Restricted	60,000	60,000	130,058	(70,058)
Allocation School Districts	300,000	300,000	5,000	295,000
Allocation County - Restricted	650,000	650,000	650,000	-
Allocation Other State Agencies	570,500	788,000	645,332	142,668
Allocation Other Entities	32,355,912	98,515,936	55,885,346	42,630,590
Total Constituents Services	49,893,330	116,790,072	72,217,394	44,572,678
IV. Employee Benefits	2,214,858	2,207,449	1,605,046	602,403
Total Office of Executive Policy and Programs	60,705,415	128,535,908	81,311,289	47,224,619
Mansion and Grounds				
I. Administration				
Personel Services	-	-	-	-
Other Operating Expenses	20,000	105,669	105,669	-
Allocation Other State Agencies	-	150,000	32,790	117,210
Total Administration	20,000	255,669	138,459	117,210
Total Mansion and Grounds	20,000	255,669	138,459	117,210
Total Expenditures	\$ 60,725,415	\$ 128,833,593	\$ 81,471,499	\$ 47,362,094

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

JUNE 30, 2009

**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 2008-2009 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, 2009

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 28,631	\$ 30,558	\$ 544,402	\$ 603,591
Due from the State General Fund	22,317	145,143	400,785	568,245
Total assets	<u>\$ 50,948</u>	<u>\$ 175,701</u>	<u>\$ 945,187</u>	<u>\$ 1,171,836</u>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ 14,342	\$ 94,980	\$ 156,064	\$ 265,386
Accrued payroll and related liabilities	22,317	145,143	400,785	568,245
Due to the State General Fund	14,289	644	8,866	23,799
Total liabilities	<u>50,948</u>	<u>240,767</u>	<u>565,715</u>	<u>857,430</u>
Fund equity:				
Fund balances (deficit)				
Unrestricted	-	(65,066)	-	(65,066)
Reserved for restricted purposes to be carried forward	-	-	379,472	379,472
Total fund equity	<u>-</u>	<u>(65,066)</u>	<u>379,472</u>	<u>314,406</u>
Total liabilities and fund equity	<u>\$ 50,948</u>	<u>\$ 175,701</u>	<u>\$ 945,187</u>	<u>\$ 1,171,836</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, 2009

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Revenues</b>				
State appropriations	\$ 541,919	\$ 2,416,664	\$ 8,809,930	\$ 11,768,513
Total revenue	<u>541,919</u>	<u>2,416,664</u>	<u>8,809,930</u>	<u>11,768,513</u>
<b>Expenditures</b>				
Finance and Administration:				
Personal services	286,668	1,712,094	970,460	2,969,222
Employer contributions	80,974	441,086	287,122	809,182
Other operating	174,277	328,551	499,422	1,002,250
Finance and Administration Special Items:				
Implementing Federal Programs	-	-	13,893	13,893
National Governor's Association	-	-	50,003	50,003
Continuum of Care:				
Personal services	-	-	1,540,996	1,540,996
Employer contributions	-	-	455,555	455,555
Other operating	-	-	436,385	436,385
Case services	-	-	1,906,773	1,906,773
Foster Care:				
Personal services	-	-	441,486	441,486
Employer contributions	-	-	130,514	130,514
Other operating	-	-	97,374	97,374
Guardian Ad Litem:				
Personal services	-	-	951,109	951,109
Employer contributions	-	-	281,171	281,171
Other operating	-	-	120,672	120,672
Developmental Disabilities:				
Personal services	-	-	36,354	36,354
Employer contributions	-	-	10,747	10,747
Other operating	-	-	9,683	9,683
Ombudsman/Citizen Services:				
Personal services	-	-	140,801	140,801
Employer contributions	-	-	41,624	41,624
Other operating	-	-	6,370	6,370
Victims Assistance-other operating	-	-	18,717	18,717
Victims Assistance-Ombudsman	-	-	22,110	22,110
Victims Rights	-	-	82,925	82,925

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2008

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Expenditures (Continued)</b>				
Victims Witness	-	-	162,727	162,727
Veterans Counseling	-	-	23,693	23,693
Veterans Affairs:				
Personal services	-	-	596,536	596,536
Employer contributions	-	-	176,350	176,350
Other operating	-	-	31,714	31,714
POW Commission	-	-	743	743
Veteran's Cemetary				
Personal services	-	-	210,643	210,643
Employer contributions	-	-	62,271	62,271
Other operating	-	-	92,035	92,035
State Veterans Cemetary	-	-	14	14
Children Affairs:				
Personal services	-	-	43,601	43,601
Employer contributions	-	-	12,890	12,890
Other operating	-	-	1,033	1,033
Children's Case Resolution			5,630	5,630
Small and Minority Business:				
Personal services	-	-	82,305	82,305
Employer contributions	-	-	24,331	24,331
Other operating	-	-	20,279	20,279
Total expenditures	541,919	2,481,731	10,099,061	13,122,711
Excess of revenue over (under) expenditures	-	(65,067)	(1,289,131)	(1,354,198)
Fund balances, beginning of year	-	-	1,668,604	1,668,604
Fund balances, end of year	\$ -	\$ (65,067)	\$ 379,473	\$ 314,406

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS -  
OTHER GOVERNMENTAL FUNDS

JUNE 30, 2009

	<b><u>Finance and Administration</u></b>	<b><u>Foster Care</u></b>	<b><u>Ombudsman/ Citizen Services</u></b>	<b><u>Economic Opportunity</u></b>	<b><u>Veterans Affairs</u></b>	<b><u>Mansion and Cemetary Donations</u></b>	<b><u>Total</u></b>
<b>Assets</b>							
Cash and cash equivalents	\$ 253,354	\$ 279,034	\$ 35,064	\$ 35,067	\$ 459,680	\$ 244,456	\$ 1,306,655
Accounts receivable	21,751	-	-	-	3,242	-	24,993
Federal grant receivable	-	-	-	-	82,019	-	82,019
Total assets	<u>\$ 275,105</u>	<u>\$ 279,034</u>	<u>\$ 35,064</u>	<u>\$ 35,067</u>	<u>\$ 544,941</u>	<u>\$ 244,456</u>	<u>\$ 1,413,667</u>
<b>Liabilities and Fund Equity</b>							
Liabilities:							
Accounts payable	\$ -	\$ 5,423	\$ 1,352	\$ -	\$ -	\$ 90,954	\$ 97,729
Accrued payroll and related liabilities	-	48,257	11,897	-	-	-	60,154
Deposits held for clients	60,521	-	-	-	208,719	-	269,240
Total liabilities	<u>60,521</u>	<u>53,680</u>	<u>13,249</u>	<u>-</u>	<u>208,719</u>	<u>90,954</u>	<u>427,123</u>
Fund balances	<u>214,584</u>	<u>225,354</u>	<u>21,815</u>	<u>35,067</u>	<u>336,222</u>	<u>153,502</u>	<u>986,544</u>
Total liabilities and fund equity	<u>\$ 275,105</u>	<u>\$ 279,034</u>	<u>\$ 35,064</u>	<u>\$ 35,067</u>	<u>\$ 544,941</u>	<u>\$ 244,456</u>	<u>\$ 1,413,667</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

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

YEAR ENDED JUNE 30, 2009

	Finance and Administration	Foster Care	Ombudsman/ Citizen Services	Economic Opportunity	Veterans Affairs	Mansion and Cemetary Donations	Total
<b>Revenue</b>							
Federal grants and programs	\$ -	\$ -	\$ -	\$ -	\$ 186,537	\$ -	\$ 186,537
Other government grants and contributions	-	-	193,000	784,900	-	291,936	1,269,836
Interest	-	-	-	-	5,898	-	5,898
Medicaid reimbursements	254	896,536	-	-	-	-	896,790
Miscellaneous	13,937	-	-	-	59,700	25	73,662
Total revenue	14,191	896,536	193,000	784,900	252,135	291,961	2,432,723
<b>Expenditures</b>							
Administration:							
Personal services	-	455,910	115,027	-	-	-	570,937
Employer contributions	-	135,771	37,571	-	-	-	173,342
Other operating	158,563	162,092	18,771	-	83,159	105,669	528,254
Case services	-	-	-	-	19,000	-	19,000
Distributions to subrecipients:							
Allocations to other state agencies	-	-	-	875,134	103,378	32,790	1,011,302
Total expenditures	158,563	753,773	171,369	875,134	205,537	138,459	2,302,835
Excess of revenue over (under) expenditures	(144,372)	142,763	21,631	(90,234)	46,598	153,502	129,888
Fund balances, beginning of year	358,956	82,591	184	125,301	289,624	-	856,656
Fund balances, end of year	\$ 214,584	\$ 225,354	\$ 21,815	\$ 35,067	\$ 336,222	\$ 153,502	\$ 986,544

## **SINGLE AUDIT SECTION**

SOUTH CAROLINA GOVERNOR'S OFFICE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2009

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
<b>U. S. Department of Education</b>		
Rehabilitation Services-Client Assistance Program	84.161	\$ 141,539
<b>U. S. Department of Energy</b>		
*Weatherization Assistance for Low Income Persons	81.042	3,980,372
*Weatherization Assistance for Low Income Persons (ARRA)	81.042	42,869
<b>U. S. Department of Justice</b>		
Crime Victim Compensation	16.576	3,254,312
<b>U. S. Department of Health and Human Services</b>		
*Low Income Home Energy Assistance	93.568	40,342,170
Community Services Block Grant	93.569	10,272,114
Developmental Disabilities Basic Support and Advocacy Grants	93.630	804,803
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	979,561
<b>U. S. Department of Housing and Urban Development</b>		
Emergency Shelter Grants Program	14.231	1,502,617
<b>U.S. Department of Veteran's Affairs</b>		
State Cemetary Grants	64.203	186,537
<b>Pass through from:</b>		
<b>S.C. Department of Commerce</b>		
Workforce Investment Act Adult Program	17.258	305,725
Grand Total		<u>\$ 61,812,619</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, 2009

**Note 1. Basis of Presentation:**

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

**Note 2. Subrecipients:**

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

Federal Grantor/ Program Title	Federal CFDA Number	Amount Provided to Subrecipients
<b>U. S. Department of Health and Human Services</b>		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	\$ 504,013
Community Services Block Grant	93.569	9,698,714
Low Income Home Energy Assistance	93.568	39,822,350
<b>U. S. Department of Justice</b>		
Crime Victim Compensation	16.576	823,000
<b>U. S. Department of Energy</b>		
Weatherization Assistance for Low Income Persons	81.042	3,741,340
<b>S.C. Department of Commerce</b>		
Workforce Investment Act - Adult Program	17.258	305,725
<b>U. S. Department of Housing and Urban Development</b>		
Emergency Shelter Grants Program	14.231	1,442,084
Total provided to subrecipients		<u>\$ 56,337,226</u>

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

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

We have audited the financial statements of the South Carolina Governor's Office (the "Office") as of and for the year ended June 30, 2009, and have issued our report thereon dated February 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

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

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



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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be a material weakness.

#### Compliance and Other Matters

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

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

*Rebecca E. Williamson, C.C.P.*

February 22, 2010

# DELOACH & WILLIAMSON, L.L.P.

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

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

#### Compliance

We have audited the compliance of the South Carolina Governor's Office (the "Office") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The South Carolina Governor's Office's major programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the South Carolina Governor's Office management. Our responsibility is to express an opinion on the South Carolina Governor's Office compliance based on our audit.

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

In our opinion, the South Carolina Governor's Office complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

#### Internal Control Over Compliance

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

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

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

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

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

*Rebecca E. Williamson, C.C.P.*

February 22, 2010

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

JUNE 30, 2009

**Summary of Auditors' Results:**

1. The auditors' report expresses an unqualified opinion on the financial statements of the South Carolina Governor's Office.
2. No material weaknesses relating to internal control over financial reporting are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No significant deficiency relating to internal control over financial reporting are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
4. No instances of noncompliance material to the financial statements of the South Carolina Governor's Office were disclosed during the audit.
5. No material weaknesses relating to the audit of major federal awards is reported in the Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Controls over Compliance in Accordance with OMB Circular A-133.
6. No significant deficiencies relating to the audit of major federal awards is reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
7. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
8. No audit findings are disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133
9. Major federal programs:
  - 1) Low Income Home Energy Assistance – CFDA # 93.568
  - 2) Weatherization Assistance – CFDA # 81.042
10. The threshold for distinguishing between Type A and Type B Programs was \$1,854,379.
11. South Carolina Governor's Office qualified to be a low risk auditee.

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

**Financial Statement Findings:**

None were reported

**Federal Awards Findings and Questioned Costs:**

No findings or questioned costs.

**Status of Prior Year Findings:**

Finding 2008-1 from the prior year as reported below was corrected during the current year.

**Capital Asset Accounting and Reporting**

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

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

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

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