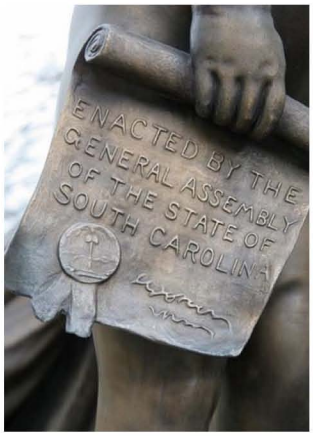
State of South Carolina

Popular Annual Financial Report
For the Year Ended June 30, 2007



Richard Eckstrom, CPA
Comptroller General

A Message from the Comptroller

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COMPTROLLER GENERAL

NATHAN KAMINSKI, JR., Esq.
CHIEF OF STAFF

January 25, 2008

It is my pleasure to present the first Popular Annual Financial Report ("PAFR") for the State of South Carolina for the fiscal year ending June 30, 2007. We intend for this 18 page report simply to present a "30,000 foot" top-down view of State government's finances. The State's 246 page Comprehensive Annual Financial Report, available from my office, provides a much more detailed analysis.

The State of South Carolina has much to offer, including an abundance of recreation and leisure venues, diverse economic activity, and significant entrepreneurial and business opportunities. However, South Carolina faces considerable fiscal challenges that will require the State's leaders to find innovative and effective solutions in order to effectively respond to future challenges. A well-planned, collaborative effort will help the State reverse patterns of unsustainable spending, rising debt levels, and structural budgetary imbalances.

While total State revenue (primary government) has increased 3.9 percent from fiscal year 2005-2006 to fiscal year 2006-2007, total State spending (primary government) increased 6.3 percent. Revenue estimates have become less cautious, spending growth has become unsustainably robust, and capital borrowing has become too commonplace.

Meanwhile, State debt has continued to grow over the years to nearly $8.6 billion at June 30, 2007, compared to $6.6 billion at June 30, 2003. This increase in State borrowing has resulted in an increase in debt service costs. Furthermore, the State's retirement system and its retiree health insurance plan are short-funded by at least $20 billion. Continual excessive spending, and unresolved funding shortfalls in the State's retirement benefit plans, likely contributed to the downgrade of the State's AAA credit rating by one of the national credit rating agencies.

These challenges present opportunities for reform that could bring lasting change for generations to come. I will continue to urge State leaders to work together to produce comprehensive and effective solutions to restore the State's fiscal strength and integrity and to achieve the highest standards of accountability and transparency in government, in order to restore and strengthen the public's trust in government.

Sincerely,

Richard Eckstrom, CPA

State Economy

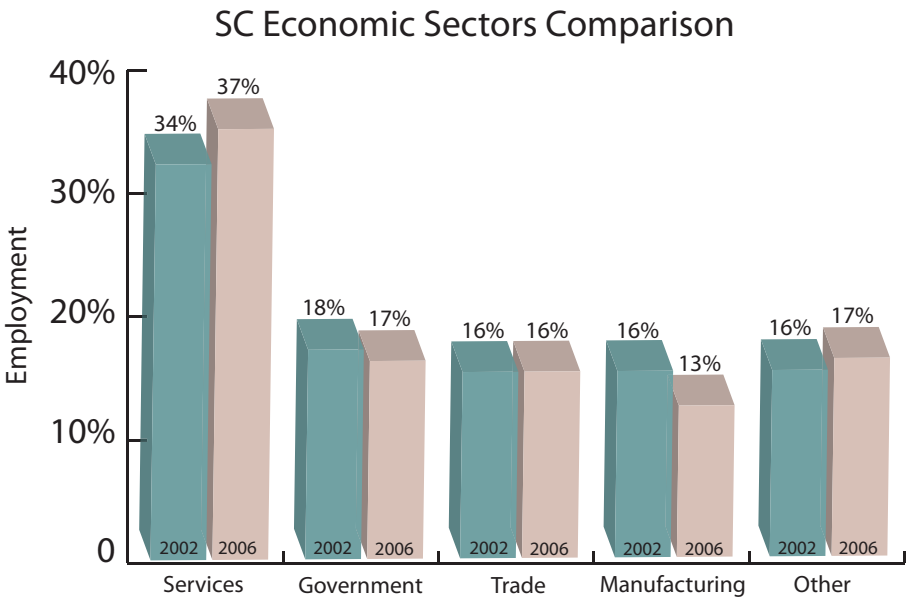
South Carolina historically has been a diverse manufacturing state; however, the State's economic base has undergone a gradual transition to other sectors such as trade, health care, services, and durable goods manufacturing. Businesses have migrated here from all over the world to take advantage of the State's available labor force, competitive wages, lower-priced land, excellent port facilities, accessibility to markets, and in recent years, substantial tax incentives.

Overall, South Carolina continues to post moderate job growth with total employment up 33,100 jobs over the last twelve months, a gain of 2%. Although manufacturing still plays a big role in the State's economy, South Carolina's economic base is becoming more diversified. Employment in the State's manufacturing sector has been declining and now represents about 14%, down from 16% five years ago. Manufacturing of non-durable goods related primarily to the textile and apparel industry has seen the greatest decline over the past five years. Partially offsetting these declines was growth in the manufacturing of other goods, such as the production of transportation equipment, fabricated metals, and chemicals. The State's strongest employment gains have been in the service sector which has risen from 34% of total employment five years ago to 37% today. This sector, fueled by tourism, education, and the healthcare industry, has contributed to a more diversified overall employment base and improved average income levels for the State's workforce.

Calendar year 2006 was a significant year for capital investment and new jobs in South Carolina. Total capital investment was $2.99 billion and 14,420 jobs were created in 2006. When you add Duke Energy's new nuclear power plant project in Cherokee County, those numbers soar to $6.99 billion and 15,220 jobs.

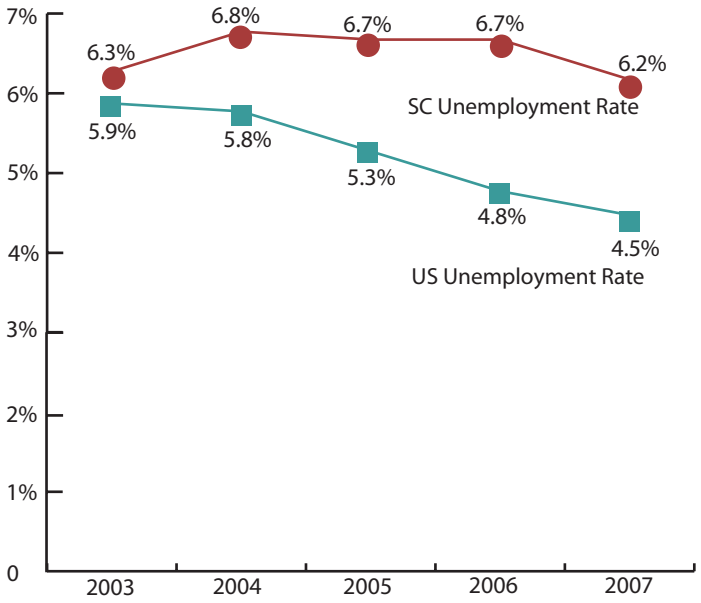
The State's rural communities continued to benefit from recruiting efforts by the Department of Commerce, with approximately 28% of new jobs and investment announced in our rural counties. With 23% of the State's workforce residing in rural South Carolina, the state made significant headway in bringing jobs and investment to these areas of the State.

There were many significant business openings and expansions in 2006. Vought Aircraft and Global Aeronautica opened fuselage manufacturing and assembly plants for the Boeing 787 Dreamliner in North Charleston; Mohawk opened its new Oak River North mill in Marlboro County; BMW celebrated its one millionth vehicle made in South Carolina; Kimberly Clark announced an expansion that now makes its Aiken facility the company's largest manufacturing plant in the United States; and Grant Forest Products opened its Fairfax mill.



State Economy

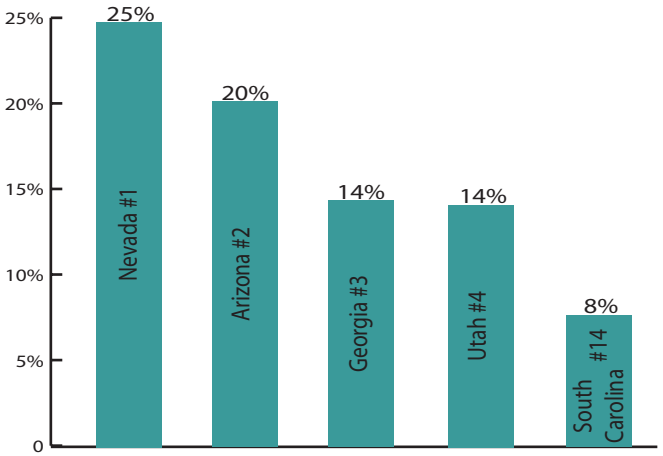
Unemployment Rate



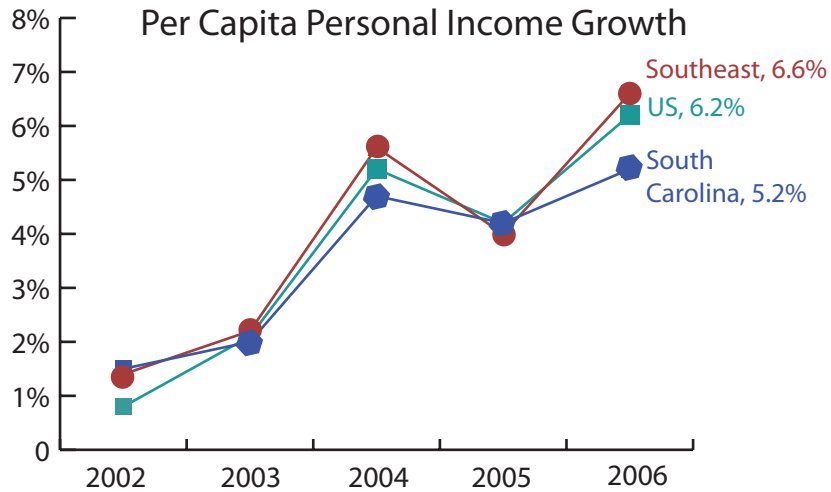
The State's unemployment rate is higher than the national average, because South Carolina has continued to experience growth in its labor force. As the State's economy has continued to generate jobs, the jobless rate fell from 6.7% for fiscal year 2006 to 6.2% for fiscal year 2007. The unemployment rate has not decreased more substantially because the size of the labor force has been growing at approximately the same pace as total employment.

South Carolina's population at July 1, 2006, was 4.3 million. The State's rate of population growth is presently the fourteenth fastest in the nation. The population is predicted to reach 5.6 million by 2035. From 2000 to 2006, the net increase in South Carolina's population was 309,433, of which 40,168 was due to international migration.

Population Growth Rankings in 2006



Per Capita Personal Income Growth



South Carolina's per capita income for calendar year 2006 (latest year available) increased to $29,688, up 5.2% over calendar year 2005. Although the 2006 increase was below the national (6.2%) and southeastern states (6.6%) growth rates, it ranked as the highest per capita personal income growth rate for the South Carolina in the last five years.

Financial Highlights

Government-wide Financials

The State of South Carolina's government-wide financial statements present a long-term view of the State's finances as a whole, using accrual basis accounting – the same accounting methods that most businesses use. The government-wide statements present three different kinds of activities:

Governmental activities: Most of the State's basic services are included here, such as general government, education, health and environment, social services, administration of justice, and transportation. Taxes (primarily income and sales taxes) and federal grants finance most of these services.

Business-type activities: These activities usually recover all, or a significant portion, of the costs of their services or goods by charging fees to customers. Higher education (State-supported colleges and universities), unemployment compensation benefits, financing of housing facilities, and financing of student loans are the most significant of South Carolina's business-type activities.

Component units: Although component units are legally separate from the State, the State's elected officials are financially accountable for them. The Public Service Authority (Santee-Cooper, an electric utility company), the State Ports Authority, the Connector 2000 Association, Inc. (which operates the Southern Connector, a toll road), and the Lottery Commission are the State's major component units.

To simplify the financial information provided below, component unit information is not included. You can obtain financial information for these component units from the State's Comprehensive Annual Financial Report (CAFR) which can be obtained on the Comptroller General's website at www.cg.sc.gov.

Government-wide Net Assets - Primary Government
As of June 30
(Expressed in Millions)

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Assets				
Current and other assets	$ 9,771	$ 8,874	$ 5,241	$ 4,876
Capital assets	13,393	13,048	3,539	3,175
Total assets	**23,164**	**21,922**	**8,780**	**8,051**
Liabilities				
Current liabilities	4,123	3,837	887	905
Long-term liabilities	5,233	5,179	3,759	3,477
Total liabilities	**9,356**	**9,016**	**4,646**	**4,382**
Net Assets				
Invested in capital assets, net of debt	9,706	9,372	2,134	1,973
Restricted	3,498	3,089	1,406	1,253
Unrestricted	604	445	594	443
Total net assets	**$ 13,808**	**$ 12,906**	**$ 4,134**	**$ 3,669**

The most significant changes (increases and decreases) in net assets occurred within current and other assets of governmental activites:

- $146.3 million increase in accumulation of Insurance Reserve Fund and Tobacco Settlement Revenue Management Authority Fund.
- $315.8 million increase in Securities Lending Investments controlled by State Treasurer.
- $211.1 million decrease in dollars from Federal Government due to a changed funding mechanism for Medicaid program.

Financial Highlights

The most significant changes in revenues and expenses for governmental and business-type activities (these combined activites are defined as the State "primary government") during the 2006-2007 fiscal year were:

- Individual income taxes and sales taxes increased by a combined $383.3 million (5.7%). The increase in individual income tax revenue corresponds to the growth in South Carolina's per capita income. Sales tax revenue increased as capital investment and new job creation continued to bring increased business and spending to the State.
- General government expenses increased $783.5 million (29.6%) due in part to restoration of trust funds from unobligated General Fund revenues and increased spending in insurance-related internal service funds.
- Expenses for education increased $1.6 billion (66.3%) because of spending for new early childhood programs for at-risk students, school bus replacement, and increased funding over prior year levels for various other educational programs.

Schedule of Revenues, Expenses, and Changes in Net Assets
Primary Government
For the fiscal year ended June 30, 2007
(dollars in millions)

	Expenses	Program Revenues	Net (Expenses) Revenues
Governmental activities:			
General government	$ 3,434	$ 1,951	$ (1,483)
Education	4,079	1,097	(2,982)
Health and environment	4,897	3,289	(1,608)
Social services	1,152	1,013	(139)
Transportation	1,019	716	(303)
Administration of justice	742	159	(583)
Resources and economic development	372	199	(173)
Unallocated interest expense	109	—	(109)
Total expenses and program revenues	**$ 15,804**	**$ 8,424**	**(7,380)**
General revenues:			
Taxes:			
Individual income			3,349
Retail sales and use			3,804
Other			1,788
Total taxes			8,941
Other revenues			292
Transfers to business-type activities			(951)
Total general revenues and transfers			**8,282**
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES			**$ 902**
Business-type activities:			
Higher education	$ 3,120	$ 2,498	$ (622)
Higher education institution support	966	1,059	93
Unemployment compensation benefits	390	358	(32)
Financing of housing facilities	158	173	15
Other	131	191	60
Total expenses and program revenues	**$ 4,765**	**$ 4,279**	**(486)**
Transfers from governmental activities			951
CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES			**$ 465**

Capital Assets

At the end of the 2006 2007 fiscal year, the State had $16.9 billion invested in capital assets. This represented a net increase (including additions and deductions) of $710.0 million, or 4.0%, over the previous fiscal year.

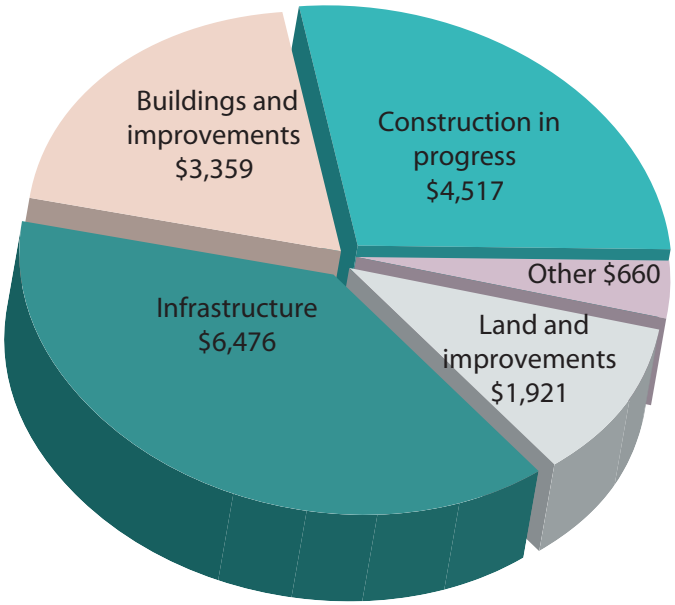
The State's investment in land and improvements increased significantly, primarily because of the public colleges and universities expanding their campus facilities. The University of South Carolina improved land sites for several major building projects that are expected to be completed in 2008, including two additional parking garages, and Tri-County Technical College established a new campus that required site, parking lot, and infrastructure development.

State vehicles increased significantly due to the Department of Education increasing its bus fleet by $46.2 million.

As in prior years, machinery and equipment increased significantly due, in large part, to acquisitions by public universities. Clemson University, The Medical University of South Carolina, and the University of South Carolina all made significant investments in computing, testing, medical, scientific, and laboratory equipment and equipping newly-established facilities.

Intangible assets decreased from last fiscal year primarily because amortization of existing intangible assets exceeded new investments in intangible assets.

Primary Government Capital Assets
Net of Depreciation as of June 30, 2007
(expressed in millions)

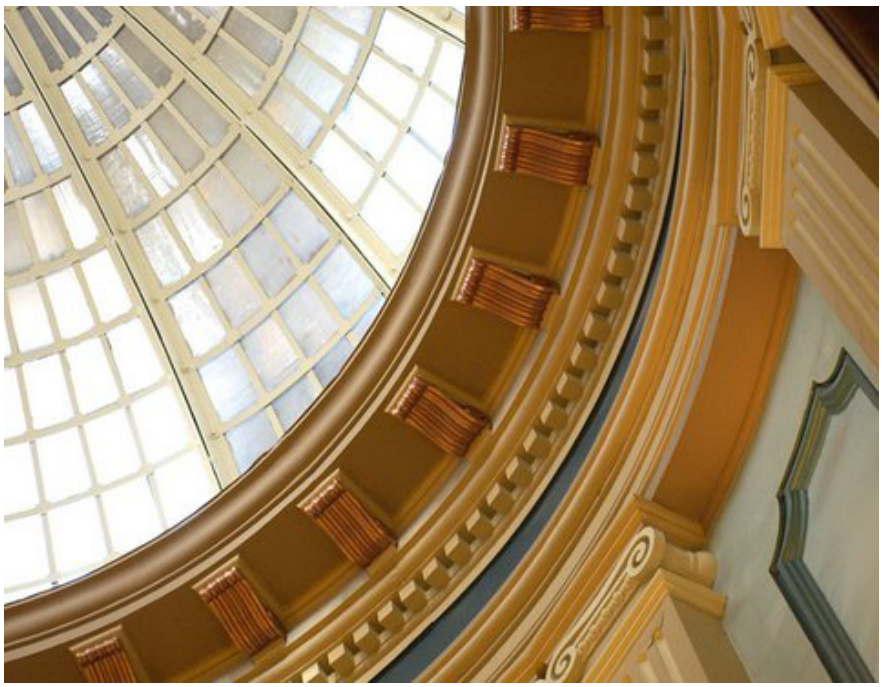


Significant Increases in Capital Assets

- **Fleet Vehicles – 828**
- **School buses – 486**
- **Higher education buildings – 18**

Long-term Debt

South Carolina issues various types of general obligation debt including capital improvement bonds, highway bonds, school facilities bonds, higher education institution facilities bonds, and economic development bonds. General obligation bonds are backed by the full faith, credit, and taxing power of the State. Additionally, South Carolina issues revenue bonds, which are not backed by the full faith, credit, and taxing power of the State. Instead, the State pledges certain revenue streams for repaying this type of tdebt.



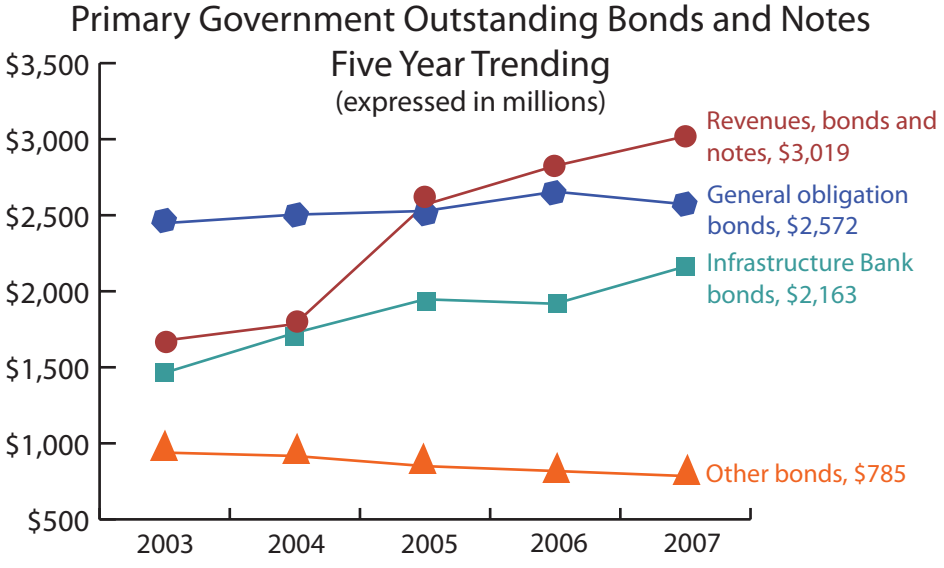
At June 30, 2007, the State had $8.5 billion in total bonds and notes outstanding—an increase of $322.4 million, or 3.9%, over last year. Expressed in relation to the State's population, the share of the State's general obligation debt per capita at June 30, 2007 was $583.

New debt related to governmental activities resulted primarily from the issuance of revenue bonds by the South Carolina Transportation Infrastructure Bank. The Bank issued $388.4 million in revenue bonds, including bonds to advance refund $98.9 million in existing higher rate debt. Also, the Department of Natural Resources issued $20.3 million in Heritage Trust Revenue Bonds.

New debt related to business-type activities resulted mainly from the issuance of revenue bonds by various enterprise funds (funds that charge fees to external customers.) The Housing Authority issued $83.5 million in bonds for housing programs, the Education Assistance Authority issued $172.7 million in bonds to provide financing for student loans, and the Medical University of South Carolina issued $38.0 million in revenue bonds for new facilities.

National bond rating services assign ratings to bonds that the State backs with its own taxing authority (general obligation bonds). Fitch Ratings has rated these bonds as "AAA" and Moody's Investors Service has rated them as "Aaa", the highest ratings that these services assign. Standard & Poor's has rated these same bonds as "AA+."

To limit the overall amount of general obligation debt that can be issued, the State limits by law the amount of annual payments that it can make for principal and interest on general obligation debt. At June 30, 2007, the State had not reached its legal debt limits.



State General Obligation Debt per capita:

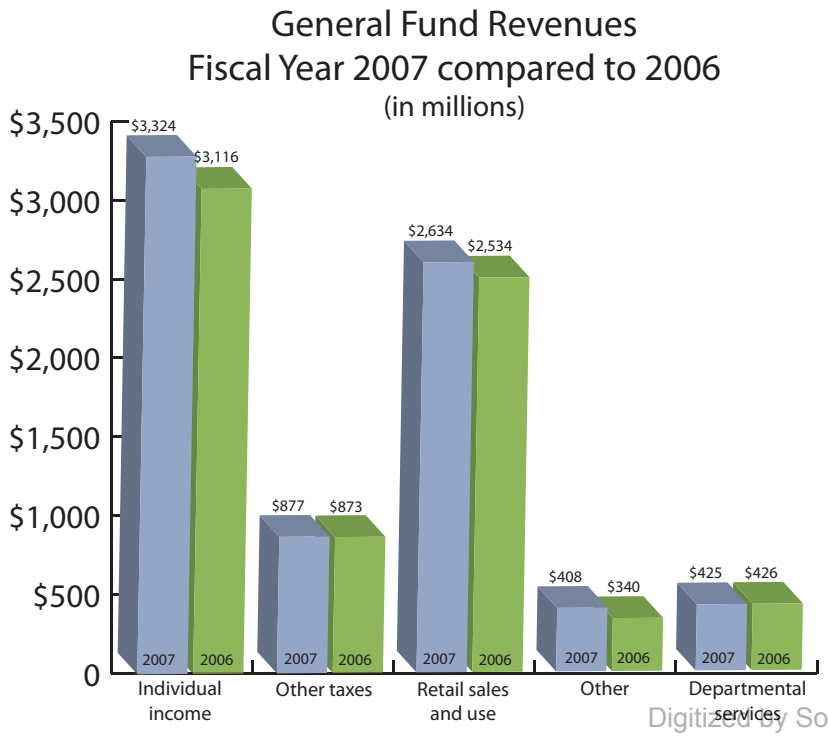
2007 – $583
2003 – $591

General Fund Highlights

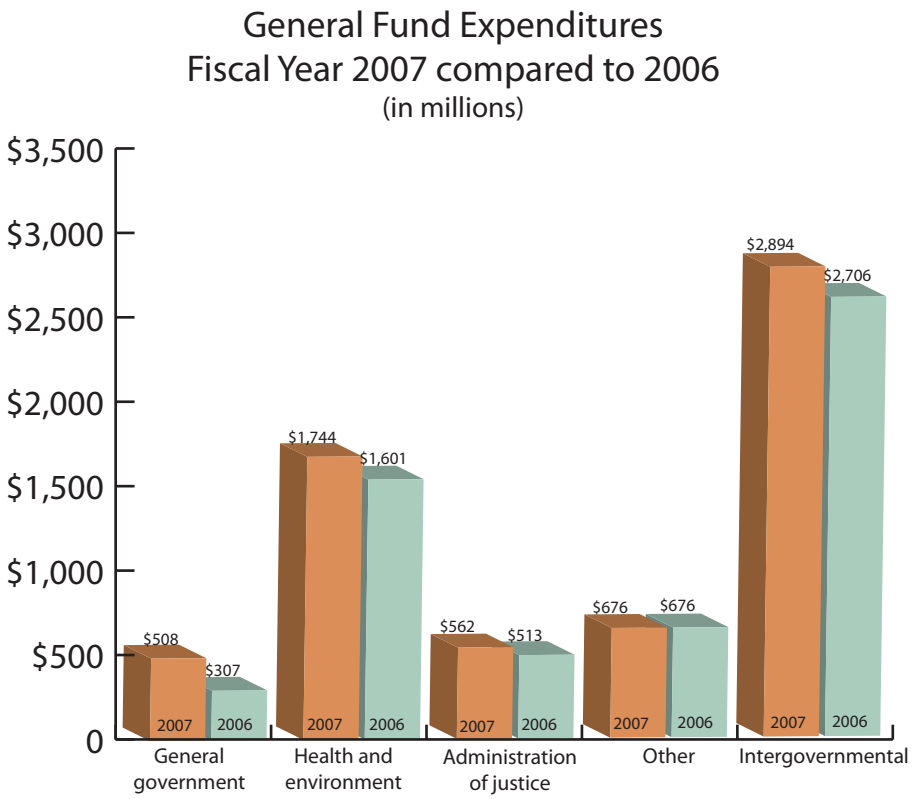
The State's primary operating fund (or set of accounts) is called the General Fund. This fund includes resources that pay for the services that the State traditionally provides to its citizens. These resources, such as taxes, are accounted for in the General Fund unless State law requires them to be accounted for in another fund.

During the 2006 – 2007 fiscal year, the net balance of the General Fund decreased $20.9 million (1.9%) from last year. While the information presented below reveals a significant increase in General Fund revenues, the information on the next page reveals a more significant increase in General Fund expenditures.

- ↑ Individual income taxes increased $207.8 million (6.7%);
- ↑ Sales and use taxes increased $100.0 million (3.9%);
- ↑ Corporate and other taxes increased $3.9 million (0.5%).
- ↑ Interest earnings increased $66.6 million (106.0%)



General Fund Highlights



The most significant expenditure increases were attributable to:

- General government, up $200.9 million (65.5%)
- Health and environment, up $143.4 million (9.0%)
- Operating transfers out of the General Fund increased $290.5 million (31.9%). This increase was attributable in part to legislation that distributed increased tax revenues to certain State agencies.

The "Rainy Day Account"

At June 30, 2007, the General Reserve Fund, sometimes called the "rainy day account," contained $167.7 million that can be drawn upon for contingencies. The State's Constitution requires restoration of the reserve to a level defined by formula within three years after a withdrawal. State law defines full funding for the reserve as 3% of the Budgetary General Fund's revenues for the latest completed fiscal year.

Operating Indicators

Significant Operating Indicators By Selected Function

	2006	2007
General government		
Individual income tax returns processed	2,172,409	2,273,202
Corporate income tax returns processed	155,228	164,855
Department of Motor Vehicles transactions	13,474,463	13,331,078
Education		
Public school enrollment	694,155	698,290
Average operating miles per school bus	15,685	16,000
Health and environment		
Medicaid eligible participants	932,708	902,308
Women, Infant and Children (WIC) program participants	107,413	112,467
Community mental health center clients	89,480	87,641
Social services		
Average food stamp households served per month	225,456	231,053
Child Protective Services investigations	16,898	18,168
Transportation		
Miles of surface repair	163,829	167,551
Miles of roadway inspections	313,530	332,559
Administration of justice		
Adult prison average daily population	22,964	23,437
Juvenile facility average daily population	1,043	985
Resources and economic development		
Department of Commerce capital investment projects	$2.66 billion	$2.99 billion
Higher education and higher education institution support		
Total headcount enrollment	174,686	176,415
Degrees awarded	25,622	26,063
Unemployment compensation benefits		
Initial claims	299,975	304,464
Financing of housing facilities		
Mortgage loans managed	13,504	15,815
Families receiving rental assistance	20,872	20,129

Largest County

- Land Area – Horry: 1,133 square miles
- Population – Greenville: 407,383 people

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Smallest County

- Land Area – McCormick: 360 square miles
- Population – McCormick: 10,108 people

Department of Transportation

The Department of Transportation (SCDOT) is charged with the responsibility of systematic planning, design, construction, maintenance, and operation of the state highway system and coordinating mass transit services. SCDOT operates and maintains 41,500 miles of roads and bridges, which ranks as the fourth largest state-owned highway system in the nation according to the Federal Highway Administration. Recently, the agency has emphasized the importance of system maintenance and preservation, safety, and environmental stewardship.

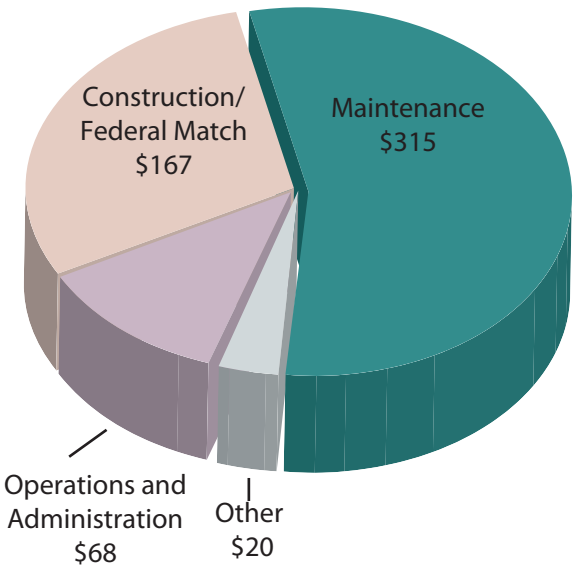
State Funding

The primary source of funding for SCDOT is the state motor fuel user fee. The state motor fuel user fee accounts for approximately 95% of the state's funding sources available to SCDOT. The motor fuel user fee is used primarily to fund maintenance, program administration, mass transit, and to match federal-aid highway funds. The accompanying chart shows the available state funds for fiscal year 2007 and the categories in which they were budgeted.

Road and Highway Maintenance and Preservation

According to the Federal Highway Administration, SCDOT is responsible for maintaining one of the largest state highway systems in the nation, and does so at the lowest funding per mile of any state. SCDOT expends $7,297 per mile on maintenance, which is well below the national average of $19,615 per mile. SCDOT's maintenance budget for 2007 was $315.0 million.

Budgeted State Funds
$569.3 Million
Fiscal Year 2007
(in millions)



Some of the most notable projects completed during fiscal year 2007 were as follows:

- Grace Memorial/ Pearman Bridges Demolition over Cooper River in Charleston County in the amount of $59.6 million.
- I-585 widening in Spartanburg County in the amount of $34.7 million.
- I-85/BMW/Brockman McClimon Interchanges in Spartanburg County in the amount of $31.9 million.
- US 521 widening in Clarendon County in the amount of $23.8 million
- SC 38 widening in Dillon County in the amount of $23.0 million.

Additional information regarding SCDOT is available on its website at www.dot.state.sc.us

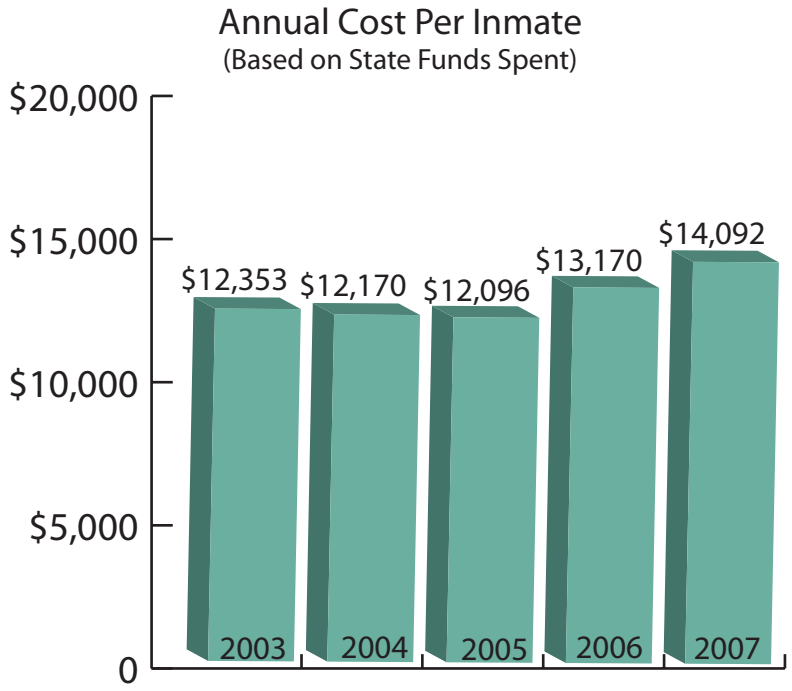
Department of Corrections

The Department of Corrections has twenty-eight institutions categorized into four distinct security levels: high security, medium security, minimum security and community-based pre-release/work centers. The architectural design of the institution, type of housing, operational procedures, and the level of security staffing determine an institution's security level. Inmates are assigned to institutions according to their specific security, programming, medical, educational, and work requirements.

The South Carolina prison system leads the nation in effectiveness and efficiency. Fewer dollars are expended while achieving outcomes that are among the best in the nation. South Carolina Department of Corrections (SCDC) per inmate cost was ranked 50th (lowest in the nation) while its staffing per inmate ratio ranked 48th (one of the highest ratios in the nation). South Carolina's three year inmate return rate of 33% is slightly better than the national average of 33.8%. Prisons remain safe with low assault rates and increased contraband control. In fiscal year 2007, SCDC admitted 13,906 inmates and released 13,499 inmates. Its 28 prisons and 5,806 employees secured and provided program services to an average daily population of 23,437 inmates.

South Carolina's incarceration rate is ranked 8th in the nation.

DOC Performance Measures	South Carolina FY 2007	Average based on Corrections Yearbook
3-year Return Rate after Release	33%	34%
Daily Cost per Inmate	$45.02	$62.22
Daily Food Cost per Inmate	$1.32	$3.32
Daily Healthcare Cost per Inmate	$7.19	$8.03
Inmate to Correctional Officer Ratio	9.1	5.8



Major Achievements – Fiscal Year 2007

- **Recognized as an Exemplary Correctional System in the Nation**
  Because of its exemplary cost effectiveness, SCDC was chosen as a training ground for prison officials from Iraq and Afghanistan. The prison systems in both countries are confronted with a similar situation of having to maintain secure prisons on a shoestring budget.

- **Received "Hero of the Taxpayer Award"**
  The South Carolina Association of Taxpayers gave SCDC its "Hero of the Taxpayer Award", naming it the Agency of the Year for 2006. SCDC is the first state agency ever to receive such recognition.

- **Completed a Decade of Secure and Safe Prison Operations at Lower Costs**
  While its processing doubled and average daily count increased by 13% over the last decade, SCDC lost 13% of its staff due to budget limitations. State appropriations per inmate are currently down 20% below fiscal year 1998 inflation-adjusted levels.

State Parks

Our parks feature natural and cultural resources of such exceptional caliber they warrant special protection. They provide opportunities for recreation in a natural setting and facilities to serve the neighboring community or region. Our parks offer impressive opportunities for visitors to experience without compromising the integrity of our resources. South Carolina has 53 state parks and historical sites, which protect 81,705 acres of land that stretches from the Blue Ridge Mountains to the coast. South Carolina's scenic parks provide opportunities for hiking, boating, golfing, mountain biking, horseback riding, fishing, kayaking, canoeing, and camping. Numerous historic parks bring America's history to life. Over 50% of South Carolina residents visited a South Carolina state park during 2007. It is projected that the South Carolina Park Service will reach its three year goal of generating $5 million of additional revenue for re-investment. Through statewide efficiencies, the Park Service for the first time in history generated over $20 million in revenues in fiscal year 2006-2007, up 11.9% over fiscal year 2005-2006. Despite the rising costs of many fixed operational costs, expenses increased only 5.8% to $26.4 million, leaving over $2 million dollars for re-investment into state parks in fiscal year 2007-2008.

Lake Russell on the Savannah River is known for its great fishing and quiet setting, and Calhoun Falls State Recreation Area provides the campsites, pier and boat ramps to accommodate visitors.

Self-sufficiency is defined as the percentage of the total Park System budget derived from park-generated revenue. The Park Service's target is 78% self-sufficiency. At year end fiscal year 2006-2007, the Park Service was 77% self-sufficient (national average 42%).

Cabin rentals increased 31% from fiscal year 2006 to fiscal year 2007.

Location of SC Parks

Education

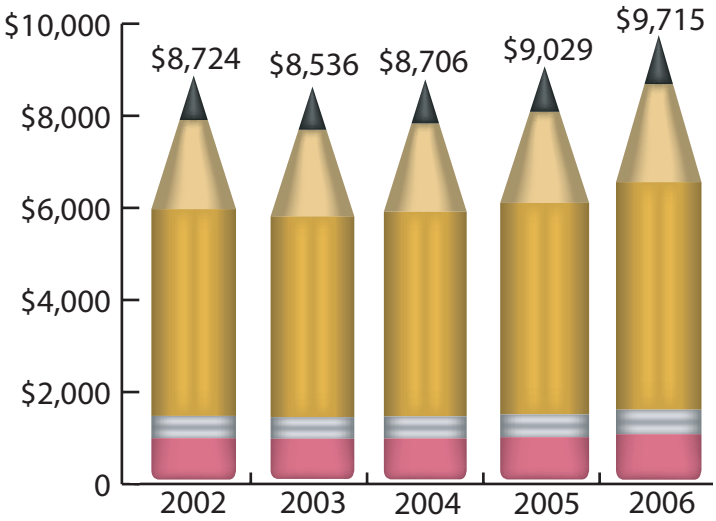
South Carolina enrolled 698,290 students in grades K-12 in 1,145 schools during 2007. The student population is comprised of 51.2% males and 48.8% females. Minority students represent 46.1% of this population.

South Carolina's education system has struggled to be nationally competitive. Students SAT scores remain below the national average, although they have improved over the past eight years. South Carolina's average composite SAT score in 2007 was 984 compared to the national average of 1017. In 1999 South Carolina's average score was 954 compared to the national average of 1016. South Carolina's high school graduation rate has declined over the past couple of years. The graduation rate was 73.9% in 2006, down from 77.3% in 2004. South Carolina's average teacher salary trails the national average by $6,200 annually. However, the number of teachers earning certification by the National Board for Professional Teaching Standards has increased significantly from 34 in 1999 to 5,077 in 2007.

The State's Education Oversight Committee is committed to improving the performance of schools and students. South Carolina currently has one of the five fastest improving systems in the country as measured by National Assessment of Education Progress. The State's accountability system has been ranked No. 1 in a national ranking for standards, assessment, and accountability because it demonstrates South Carolina's commitment to improving student achievement. South Carolina's school report cards are available on the Department of Education's website at www.ed.sc.gov.

During fiscal year 2006-2007, South Carolina implemented the Child Development Education Pilot Program, a two-year pilot program providing full-day four-year-old kindergarten programs for at-risk children in 37 districts. The State provided support for 3,241 children to participate in this program last year.

Per-Pupil Expenditures
(Local, State and Federal)



School with the Largest Enrollment: Summerville High School (3,231)

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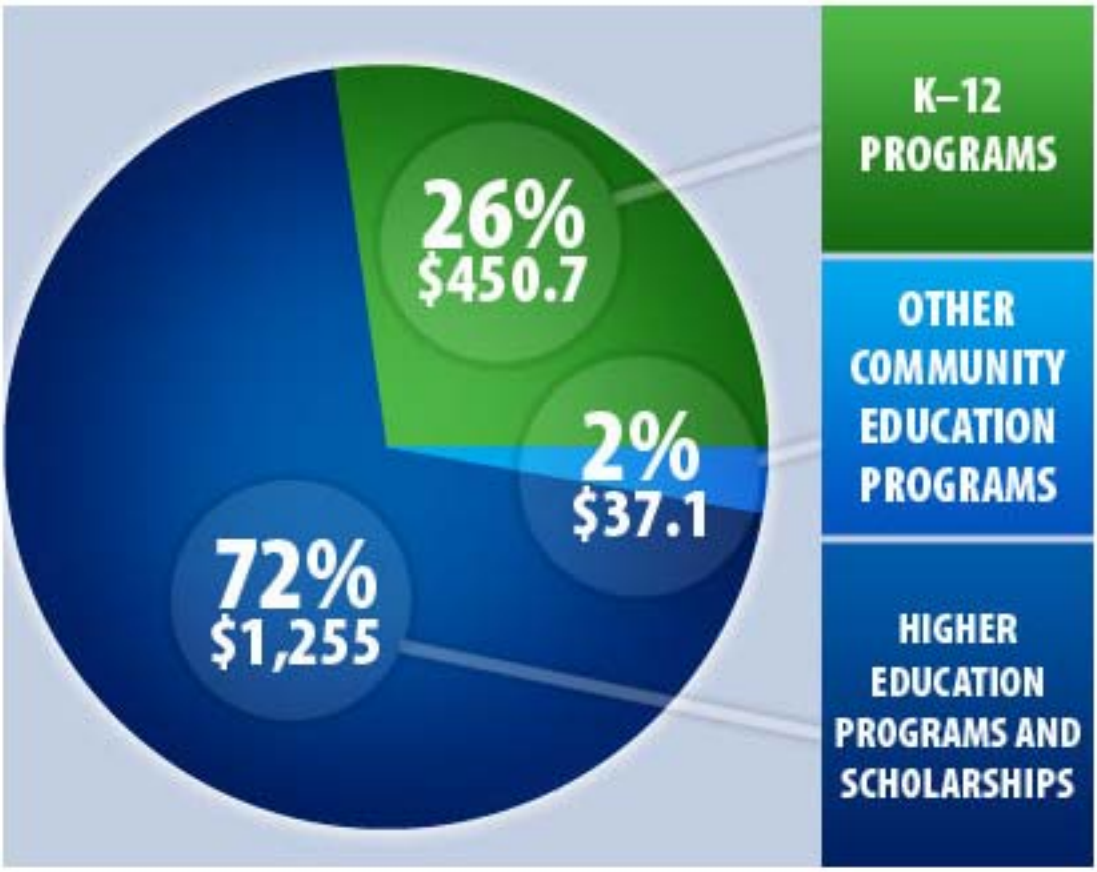
School with the Smallest Enrollment: Daufuskie Elementary School (14)

Education Lottery

South Carolina Education Lottery's (SCEL) mission is to enhance educational funding in South Carolina by offering games of chance to adults. When a lottery ticket is sold, approximately 59.5% is paid as prizes to winners. By statute, 7.0% is earned by the retailer as a commission. Additionally, 4.8% pays for operating costs which include advertising and promoting product sales. The residual portion, 28.7%, is transferred to the State's Education Lottery Account which for the most part is spent on student scholarships for higher education.

The following graph illustrates the lottery dollars spent to date on education. Dollar figures (in millions) reflect the period January 7, 2002 (inception) through August 28, 2007. These funds are transferred to the State General Fund where they are approved for spending by the General Assembly.



- $260.1 million for K-5 programs
- $103.6 million for Education Accountability Act Resource Programs
- $61.6 million for school buses
- $25.4 million for other K-12 programs

- $19.9 million for ETV
- $13.7 million for county libraries
- $2.0 million for gambling addition services
- $1.5 million for other programs

- $929.0 million for Scholarships
- $180.0 million for Endowed Chairs program
- $83.7 million for technology
- $62.2 million for other higher education programs

More than $33.7 million was withheld in S.C. income tax from lottery winnings from January 2002 through August 2007.

Fiscal Year 2006-2007 Highlights

• SCEL sales totaled $988 million, the second-best year in its history.
• SCEL transferred more than $273.0 million for educational programs, bringing total contributions to the Education Lottery Account since its first sale in 2002 to more than $1.5 billion.
• Although SCEL has the authority to spend 8% in administrative overhead (excluding retailer commissions), overhead has been successfully limited to 4.6% of sales, resulting in additional revenue for education.

Sources and Acknowledgements

This report presents financial information using accounting principles generally accepted in the United States of America (GAAP). GAAP financial information is presented in a standardized manner that is comparable to that of other governmental entities. This report includes selected financial information for major funds, including the State's General Fund. It does not contain information for all funds, activities or component units as reported in the State's Comprehensive Annual Financial Report (CAFR). However, most of the information contained in this report is derived from the CAFR, produced by the Comptroller General's Office and independently audited. A more detailed and complete presentation of the State's GAAP financial information is presented in the CAFR.

The following sources were used to compile this report: South Carolina state agencies, US Census Bureau, and US Bureau of Labor Statistics. Photographs by SciWay.net, SouthCarolinaParks.com.

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