

State of South Carolina  
**Office of Comptroller General**

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**RICHARD ECKSTROM**  
COMPTROLLER GENERAL

**NATHAN KAMINSKI, JR.**  
CHIEF OF STAFF

December 10, 2004

**To the Citizens, Governor and  
Members of the South  
Carolina General Assembly**

I am pleased to present to the citizens of South Carolina this Comprehensive Annual Financial Report for the State of South Carolina for the fiscal year ended June 30, 2004. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year.

Management is responsible for the accuracy of the data in this report as well as for the completeness and fairness of the presentation. To the best of our knowledge and belief, this information is accurate in all material respects and is reported in a manner that presents fairly the State's financial position and results of operations and provides disclosures that enable the reader to understand the State's financial condition. For the convenience of users, we have divided the report into three sections as follows:

- The Introductory Section, containing this letter of transmittal; the Certificate of Achievement for Excellence in Financial Reporting that we recently received for our report as of June 30, 2003; a list of State officials; and an organizational chart of State government.
- The Financial Section, including the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements, required supplementary information, other combining financial statements, and schedules.
- The Statistical Section, presenting comparative financial data and other non-financial data.

This letter of transmittal is designed to complement management's discussion and analysis that immediately follows the report of the independent auditors.

**PROFILE OF THE STATE OF SOUTH CAROLINA**

South Carolina stretches from the Atlantic Ocean to the Blue Ridge Mountains, containing 30,111 square miles. The coastal area, which is one of the leading recreation centers on the east coast, is the anchor of the State's thriving tourism industry. Since 1970, over 600,000 people have relocated to South Carolina to enjoy the State's growing economy or to retire here.

As shown in the organizational chart on page 15, State government is divided into three separate branches: legislative, executive, and judicial. State government provides a full range of services to South Carolina's citizens including educational, health, social/human, transportation, public safety, regulatory, and conservation/natural resources services. In addition, the State provides grants and loans to assist local governments, including school districts, within its borders.

South Carolina is primarily a manufacturing state. While the textile industry is still the major industrial employer in the State, the State's economy has undergone a gradual transition to other sectors. Since 1950, the State's economic base has diversified into other sectors such as trade, health care, services, and durable goods manufacturing.

## **BUDGETARY AND INTERNAL CONTROLS**

The Statewide Accounting and Reporting System (STARS) is the State's budgetary-basis operating accounting system. The STARS system processes cash and budgetary transactions and maintains records for all budgeted funds and some unbudgeted funds. The State's higher education institutions and most of the other enterprise entities maintain separate accrual-basis accounting systems.

The Comptroller General's Office maintains an automated annual financial reporting system as well as an automated interface between STARS and that system. The Comptroller General's Office uses this automated system and interface to prepare this report in accordance with generally accepted accounting principles (GAAP). State agencies that use STARS prepare year-end forms to identify amounts needed to adjust their budgetary-basis balances to comply with GAAP. The Comptroller General's Office then enters the data from these forms into its GAAP financial reporting system. Additional information entered into the GAAP financial reporting system is derived from the audited financial statements of certain entities and from other supplemental data provided by those entities.

South Carolina's annual Appropriation Act includes legally adopted budgets for the Budgetary General Fund and for Total Funds. For additional information, see the notes to the required supplementary information—budgetary. The initial budget appears in the annual Appropriation Act. After the budget year begins, the State Budget and Control Board may order spending cuts if revenue collections fail to reach predicted levels.

The State's internal controls, designed by the management of the State, provide reasonable assurance that the State will achieve the following objectives:

- Reliability of financial reporting,
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefits.

## **MAJOR INITIATIVES**

In addition to the State's 2004-2005 budget, the General Assembly completed several legislative initiatives during the year. State legislators continued their commitment to economic development and job creation through approval of several bills designed to promote economic growth within the State. The South Carolina Motion Picture Incentive Act provides financial incentives to the film industry for filming movies in the State. The South Carolina Small

Business Regulatory Flexibility Act established a procedure under the direction of the Department of Commerce (the Department) to review proposed agency regulations on an on-going basis and assess the costs that these proposed regulations impose on small businesses. When necessary, the Department can petition agencies to pursue less intrusive or less costly alternative methods of achieving the purpose of a proposed regulation.

The Fiscal Discipline Plan of 2004 requires the Comptroller General to report to the State Budget and Control Board (the Board) by August 31 each year the amount of budgetary General Fund revenues and expenditures recorded for the preceding fiscal year, and any resulting surplus or deficit for the budgetary General Fund. If the Comptroller General determines that annual expenditures exceeded revenues, the Board must meet within sixty days to deal with the operating deficit in the budgetary General Fund.

In addition, during the 2004 session, the General Assembly passed legislation that toughened the prosecution of those who use the Internet to exploit minors, and expanded the inmate DNA sampling program. Other legislative action strengthened laws dealing with parties who defraud secured creditors.

### **ECONOMIC CONDITION AND OUTLOOK**

Over the last three decades, South Carolina's economy has grown, and continues to grow, faster than much of the rest of the country. Since 1970, industry has made \$88 billion of capital investment within the State. Businesses have migrated here from all over the world to take advantage of the State's skilled labor force, competitive wages, lower-priced land, excellent port facilities, accessibility to markets, and in recent years, substantial tax incentives.

Recently passed economic development legislation has substantially increased the tax incentives available to over 800 companies locating in rural sections of the State. Several global companies have located corporate headquarters or multi-million-dollar manufacturing facilities within South Carolina. Companies such as BMW, Honda of America, Bridgestone/Firestone, Fuji, Michelin, and Roche have located corporate headquarters or have constructed multi-million dollar manufacturing facilities within the State. In addition to these projects, there have been many announcements of new plants or of expansions to existing facilities that will contribute to South Carolina's continued economic growth.

An impressive influx of people into South Carolina over the last three decades has generated tremendous economic growth in the State's coastal regions. These areas continue to distinguish themselves as leading tourist, recreation, and retirement centers relative to the entire United States East Coast. The growth along the coast has contributed significantly to the burgeoning economy of the State as a whole.

Since 1970, total South Carolina personal income has grown over eight-fold, ten percent faster than the growth in total United States personal income. During the 1970's, personal income grew at an average annual compound rate of 11.8 percent in South Carolina (compared to 10.7 percent nationwide). During the 1980's, the State's personal income grew 8.7 percent per year (compared to 7.8 percent nationwide). Even in the 1990's, when inflation was lower, personal income in South Carolina grew a healthy 5.9 percent per year (compared to 5.6 percent nationwide).

The State's employment conditions are improving. The most recent available employment data indicates average wages in the State increased 2.8 percent during 2003 as compared to 2002. Although the State has lost jobs in the textile and apparel industry in the last decade, its tourism industry has flourished. Employment gains in service-oriented industries,

such as tourism, have helped offset job losses in other sectors of the economy. See the management's discussion and analysis section of this report for additional information on the State's economy.

## **FIDUCIARY OPERATIONS**

State government's most significant fiduciary funds are the four retirement plans administered by the South Carolina Retirement Systems. Those plans include: the South Carolina Retirement System, the Police Officers' Retirement System, the Retirement System for Members of the General Assembly, and the Retirement System for Judges and Solicitors. The State has funded all four of those plans in accordance with at least the minimum recommendations of the consulting actuaries, both in the current period and in past periods. See Note 8, Retirement Plans, in the notes to the financial statements for more information.

## **CASH MANAGEMENT**

The State Treasurer is responsible for managing the State's cash and investments, except for certain component units included within the reporting entity that manage and invest their own funds. State law requires full collateralization of all bank balances managed by the State Treasurer. Some component units may have collateralization policies that differ from those of the State Treasurer.

Investment income includes appreciation and depreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, particularly in the case of temporary changes in the fair value of investments that the State intends to hold to maturity. For additional details, see Note 1f, Summary of Significant Accounting Policies, and Note 4, Deposits and Investments, in the notes to the financial statements.

## **RISK MANAGEMENT**

The State conducts various risk control programs to help minimize losses to which it is exposed. The health insurance program conducts extensive wellness education programs that promote development and maintenance of healthful lifestyles for covered employees. The State self-funds many types of general liability and property losses rather than purchasing insurance. For additional information on the State's risk management, see Note 10, Insurance Activities, in the notes to the financial statements.

## **AUDIT**

The State Auditor and KPMG LLP, an independent certified public accounting firm, jointly performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2004. The auditors have provided an unqualified opinion, the most favorable outcome of the audit process.

## **CERTIFICATE OF ACHIEVEMENT**

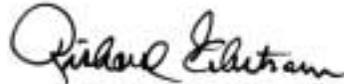
The Government Finance Officers Association of the United States and Canada (GFOA) recently awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of South Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. To receive a Certificate of Achievement, which is valid for one year only, a government must publish an easily readable and efficiently organized CAFR. The CAFR contents must conform to rigorous program standards, including generally accepted accounting

principles and applicable legal requirements. The State of South Carolina has received a Certificate of Achievement for each of the last sixteen years. This year, the State again plans to submit its CAFR to the GFOA's Certificate of Achievement program. We believe that our report for the fiscal year ended June 30, 2004, continues to meet the GFOA's stringent requirements to receive the Certificate of Achievement.

### **ACKNOWLEDGMENTS**

Production of this report was made possible only by the support of all State agencies and component units that supplied GAAP closing data on a timely basis. We extend special appreciation to Mr. Larry Pearce, Director of Publications and Printing at the University of South Carolina, for designing the report's attractive cover and to the National Park Service for providing the cover photograph. Dr. William C. Gillespie, Chief Economist for the State Board of Economic Advisors, provided much of the report's useful information on the State's economy.

Sincerely,



Richard Eckstrom  
Comptroller General