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NEWS RELEASE

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STATE TAKES IN IMPRESSIVE \$300 MILLION SURPLUS

Fiscal Challenges Continue to Confront State Government

According to year-end financial results released by Comptroller General Richard Eckstrom, the State finished its fiscal year on an upswing. The State's fiscal year ended June 30, 2005, with a robust operating surplus of \$300 million.

The following revenue sources contributed to the FY05 surplus:

- Sales taxes- up \$116 million or 5.3% over FY04.
- Individual income taxes- up \$242 million or 12.2% over FY04.
- Corporate income taxes- up \$37 million or 24.8% over FY04.

State revenues from all sources in FY05 were up \$475 million or 9.3% over FY04, and up \$409 million or 8.0% over amounts that had been anticipated and appropriated (i.e., authorized for spending) for the year. The 9.3% increase in FY05 total revenues compares to increases of 3.0% in FY04 and 0.9% in FY03. The State experienced sluggish revenues during 2000-2002.

During 2000-2002, State officials engaged in significant deficit spending. That unconstitutional spending depleted the State's fund balances and reserve accounts, created negative net worth, and contributed in no small part to Standard & Poor's recent downgrade of the State's AAA credit rating.

"After the damage caused by massive overspending in 2000-2002, I heartily commend the General Assembly and the State Budget & Control Board for becoming more careful in managing the State's limited financial resources. But everyone involved could still afford to be a little more frugal with taxpayers' money," said Eckstrom. "This surplus comes at an extremely critical time as we labor to rebuild the State's eroded financial footings."

The Budget Bill adopted during the past legislative session mandates that the first \$78 million of the FY05 operating surplus be transferred to the State's "Rainy Day" Fund. Once this transfer is made on September 1, 2005, the "Rainy Day" Fund will be fully restored -- for the first time since 1997 -- to the amount required by the State Constitution. (Note: The Capital Reserve Fund also will be fully funded on September 1 for the first time since 2000.)

Highlights of other areas benefiting from the surplus are:

- Higher Education- \$14.4 million, including \$2.3 million for SC State University.
- Department of Education- \$10.3 million, including \$9 million for school buses and bus fuel.
- Technical Colleges- \$6.8 million for campus expansions and deferred maintenance.
- Department of Commerce- \$6.5 million for economic development projects and grants.
- Beach Renourishment- \$5 million.
- Rural Hospital Grants- \$3 million.
- SC National Guard- \$1.4 million, including \$1.2 million for the NG Pension Fund.
- City of Florence Downtown Redevelopment- \$1 million
- Morris Island Lighthouse Project- \$.5 million.

In addition to these amounts, which were appropriated in June 2005 by the General Assembly subject to the availability of FY05 surplus revenues, the General Assembly appropriated \$144.3 million of FY05 surplus to be carried forward and used to fund a portion of the FY06 base budget. Furthermore, when the General Assembly reconvenes in January 2006, it will have an additional \$13.1 million of FY05 surplus revenues for supplemental appropriations.

Correcting the Effect of Prior Errors

When the State faced economic downturns and budget problems in three previous fiscal years-- 1991, 1993, and 2001--former office holders improperly included a total of \$104.9 million of "additional revenues" in the State's operating budget by "picking up an extra month" (i.e., 13 months) of certain taxes and fees in one or the other of those years. Former State officials made those ill-advised decisions in their fruitless attempts to protect the State's AAA credit rating.

As a result, since 1991 the State's budgetary records used by the General Assembly have been artificially inflated. Ironically, this condition has produced chronic *deficit* fund balances in the State's audited financial statements since that time.

Because this practice creates chronic *deficit* fund balances for the State, it has been one of the many underlying causes of the loss of the State's AAA credit rating in 1993-- and again in 2005. Furthermore, unless the prior years' accounting errors were corrected, the damage they caused would have seriously hindered the State in recovering its AAA rating.

Accordingly, the Comptroller General has directed his staff to correct for the effect of those prior years' errors in connection with closing the books for the fiscal year ended June 30, 2005. As a result, this correction properly reduces the State's budgetary fund balance to \$533.4 million at June 30, 2005. **This correction in no way affects any previous appropriations made by the General Assembly, neither in the FY05-06 Appropriation Act nor in the FY05 Supplemental Appropriation Bill.**

This correction is underwritten entirely by \$104.9 million of **additional FY05 surplus revenues** that were received during FY05 -- yet will **not** be recognized as budgetary surplus in the State's FY05 budgetary accounts. Because this amount of revenue previously had been improperly recognized and spent by the State in 1991, 1993, and 2002, it would have been improper to **again recognize and spend** this \$104.9 million in FY05.

In the face of major corporate accounting scandals that have resulted in prosecutions, convictions, and prison sentences for senior executives, it is imperative that State officials and their staffs constantly adhere to the highest standards of integrity, accounting, and financial reporting. To practice anything less than the highest standards would invite increasingly bolder attempts to improperly manipulate financial results. Furthermore, the State would cause serious credibility problems with its bondholders, credit rating agencies, vendors, taxpayers, other governmental entities, and the general public if State officials practiced or condoned accounting irregularities.

All accounting practices should stringently avoid any questionable or manipulative tactics. The accounting function should be used to reliably "keep score." It should **never** be used to create additional points for the scoreboard.

The recent horde of entities that have been involved in "creative accounting" scandals -- including Enron, WorldCom, HealthSouth, Lucent Technologies, Qwest, AIG, and others -- provides solemn examples of why entities should **never** manipulate their books. All office holders and political leaders need to clearly understand the grave consequences of using improper accounting tactics to misstate accounts and give misleading impressions of financial conditions.

Recent federal legislation has firmly established that the CEOs and directors of public companies are *personally* responsible for any accounting improprieties committed by their companies. This legislation also requires that these corporate officials must monitor for and create a control environment to prevent such practices.

While this federal legislation applies only to private-sector entities, similar initiatives are expected soon to include governmental and other public-sector entities as well. With or without specific federal legislation, State leaders should **never** tolerate creative or manipulative accounting tactics.

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State of South Carolina
BUDGETARY HIGHLIGHTS

BUDGETARY GENERAL FUND

Fiscal Year Ended June 30, 2005

FACTORS THAT PRODUCED THE FISCAL YEAR SURPLUS:

| | | |
|---|----|----------------------|
| Actual Revenues Over Estimates Used in Appropriation Act..... | \$ | 409,179,056 |
| Appropriation Act Veto Sustained by General Assembly in May 2004..... | | 56,662 |
| Agency Appropriations that Lapsed at Year-End..... | | 546,096 |
| "Open-Ended" Appropriations ^a | | (4,975,463) |
| Correction of Prior Years' Accounting Errors ^b | | <u>(104,934,400)</u> |
| NET BUDGETARY SURPLUS AVAILABLE FOR DISTRIBUTION..... | | 299,871,951 |

DISTRIBUTION OF SURPLUS:

| | | |
|---|-----------|--------------------------|
| Supplementally Appropriated (is not available until September 1, 2005)..... | | <u>(286,777,347)</u> |
| SURPLUS AVAILABLE FOR APPROPRIATION..... | \$ | <u>13,094,604</u> |

^a *Open-ended appropriations, primarily aid to local governments, occur when the General Assembly mandates that items be fully funded yet fails to budget sufficient amounts to fund them completely. In these instances in which original appropriations are based on estimates that are insufficient, appropriations are increased to allow for the additional expenditures.*

^b *These represent corrections necessitated by improper budgetary revenue recognition in FY91, FY93, and FY02.*

BUDGETARY GENERAL FUND
Changes in Budgetary Fund Balance
 Fiscal Year Ended June 30, 2005

| | Reserved | | | | | Total |
|--|----------------------|----------------------|----------------------|-----------------------|----------------------|-----------------------|
| | Appropriations | | | Unreserved | | |
| | General Reserve | Carried Forward | Capital Reserve | Designated | Undesignated | |
| Revenues..... | \$ — | \$ — | \$ — | \$ — | \$ 5,591,060,631 | \$ 5,591,060,631 |
| Expenditures..... | — | — | — | — | (5,073,195,360) | (5,073,195,360) |
| Transfer to General Reserve per Act..... | 50,000,000 | — | — | — | (50,000,000) | — |
| Transfer to Capital Reserve per Act..... | — | — | 99,356,026 | — | (99,356,026) | — |
| Appropriations: | | | | | | |
| Brought Forward From Last Year ^a | — | (54,696,272) | — | — | 54,696,272 | — |
| Carried Forward to Next Year ^b | — | 58,982,965 | — | — | (58,982,965) | — |
| FY04 Surplus Supplementally Appropriated (was not available until September 1, 2004)..... | — | — | — | (40,583,799) | 40,583,799 | — |
| Correction of Prior Years' Accounting Errors ^c | — | — | — | — | (104,934,400) | (104,934,400) |
| Net Current Year Changes..... | 50,000,000 | 4,286,693 | 99,356,026 | (40,583,799) | 299,871,951 | 412,930,871 |
| Fund Balance—July 1, 2004..... | 25,154,528 | 54,696,272 | — | 40,583,799 | — | 120,434,599 |
| FY05 Surplus Supplementally Appropriated (is not available until September 1, 2005)..... | — | — | — | 286,777,347 | (286,777,347) | — |
| Fund Balance—June 30, 2005..... | <u>\$ 75,154,528</u> | <u>\$ 58,982,965</u> | <u>\$ 99,356,026</u> | <u>\$ 286,777,347</u> | <u>\$ 13,094,604</u> | <u>\$ 533,365,470</u> |

^a These represent current year expenditures that did not require current year budget appropriations.

^b These represent current year budget appropriations that will not be expended until next year.

^c These represent corrections necessitated by improper budgetary revenue recognition in FY91, FY93, and FY02.

BUDGETARY GENERAL FUND
Revenue Analysis
 Fiscal Year Ended June 30, 2005

| | Actual Revenue | Over (Under) Estimates Used in Appropriation Act | | Increase (Decrease) from 2004 Actual | |
|--|-------------------------|---|-------------|---|-------------|
| | | Amount | % | Amount | % |
| Sales Tax..... | \$ 2,318,474,848 | \$ 68,857,257 | 3.1% | \$ 116,725,214 | 5.3% |
| Individual Income Tax..... | 2,215,376,042 | 236,012,137 | 11.9% | 241,740,620 | 12.2% |
| Corporation Income Tax..... | 186,268,596 | 66,052,927 | 54.9% | 36,990,275 | 24.8% |
| Beer, Wine, Liquor Taxes..... | 149,434,839 | 2,743,135 | 1.9% | 2,779,316 | 1.9% |
| Insurance Tax..... | 147,598,668 | 598,668 | 0.4% | 18,435,394 | 14.3% |
| Nonrecurring Revenue ^a | 90,275,080 | (1,987,298) | (2.2%) | 54,300,083 | 150.9% |
| Corporation License Tax..... | 74,499,924 | 11,899,924 | 19.0% | 2,201,008 | 3.0% |
| Motor Vehicle License Fees..... | 57,626,280 | (2,986,139) | (4.9%) | 5,555,624 | 10.7% |
| Documentary (Deed Stamp) Tax..... | 50,493,957 | 20,302,736 | 67.2% | 510,909 | 1.0% |
| Departmental Revenue ^b | 50,457,812 | (5,512,988) | (9.8%) | (4,126,029) | (7.6%) |
| Bank and Savings & Loan Taxes..... | 31,602,975 | 9,202,975 | 41.1% | 9,818,035 | 45.1% |
| Business License (Tobacco) Tax..... | 29,610,107 | 998,674 | 3.5% | (131,893) | (0.4%) |
| Admissions Tax..... | 27,285,893 | (5,034,107) | (15.6%) | (4,680,780) | (14.6%) |
| Earned on Investments..... | 26,074,492 | 10,074,492 | 63.0% | 10,395,497 | 66.3% |
| Electric Power Tax..... | 25,490,375 | 124,709 | 0.5% | 338,131 | 1.3% |
| Estate Tax..... | 19,134,731 | (155,269) | (0.8%) | (13,678,334) | (41.7%) |
| Indirect Cost Recoveries..... | 18,052,819 | (4,840,592) | (21.1%) | (4,514,610) | (20.0%) |
| Workers' Comp Insurance Tax..... | 14,217,534 | 1,488,172 | 11.7% | 1,352,760 | 10.5% |
| Public Service Authority (Excess Earnings) | 12,423,210 | 1,558,509 | 14.3% | 1,250,147 | 11.2% |
| Circuit and Family Court Fines..... | 9,527,384 | (668,267) | (6.6%) | 1,700 | 0.0% |
| All Other Sources..... | 37,135,065 | 449,401 | 1.2% | (482,239) | (1.3%) |
| Total Revenues..... | \$ 5,591,060,631 | \$ 409,179,056 | 8.0% | \$ 474,780,828 | 9.3% |

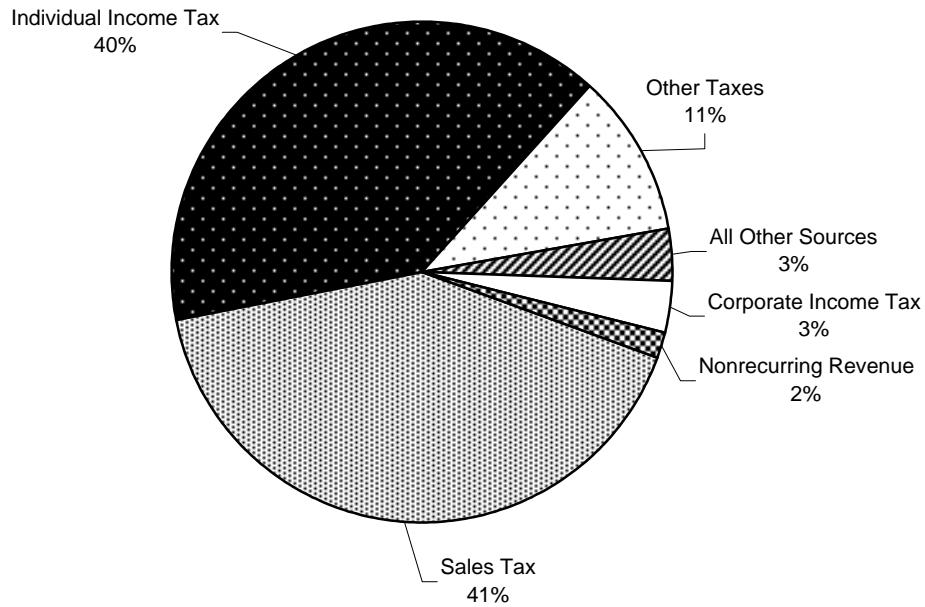
^a Nonrecurring revenue consists of various one-time revenues and transfers from other funds. For FY05, the major sources were federal funds received under the Federal Tax Relief Act of 2004 and a one-time contribution from the State's Public Service Authority (Santee Cooper). For FY04, the major sources were one-time transfers of resources from various agencies' other funds.

^b Departmental revenue consists mostly of revenues charged by agencies for goods and services.

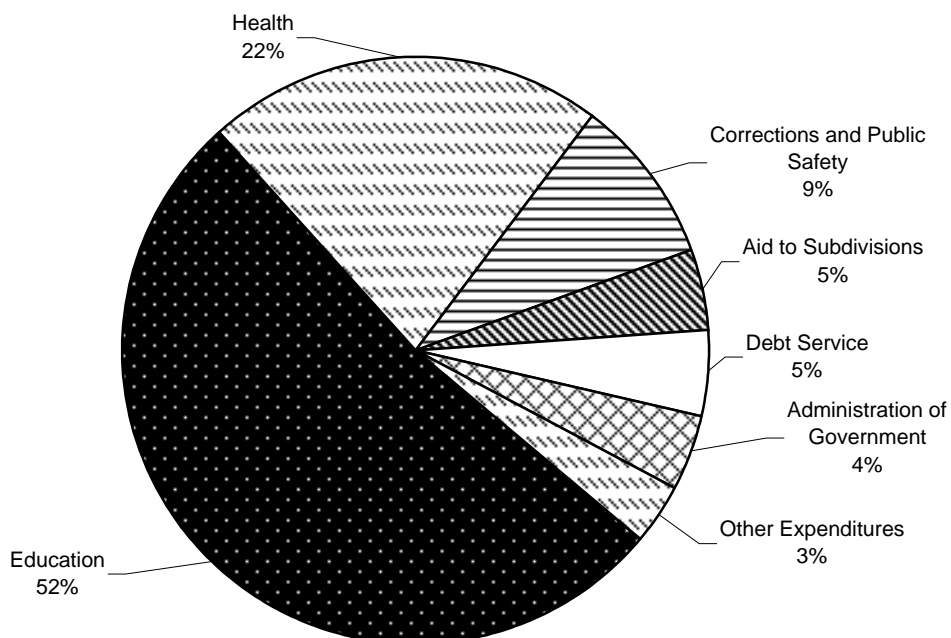
**BUDGETARY GENERAL FUND
Appropriations and Expenditures
Fiscal Year Ended June 30, 2005**

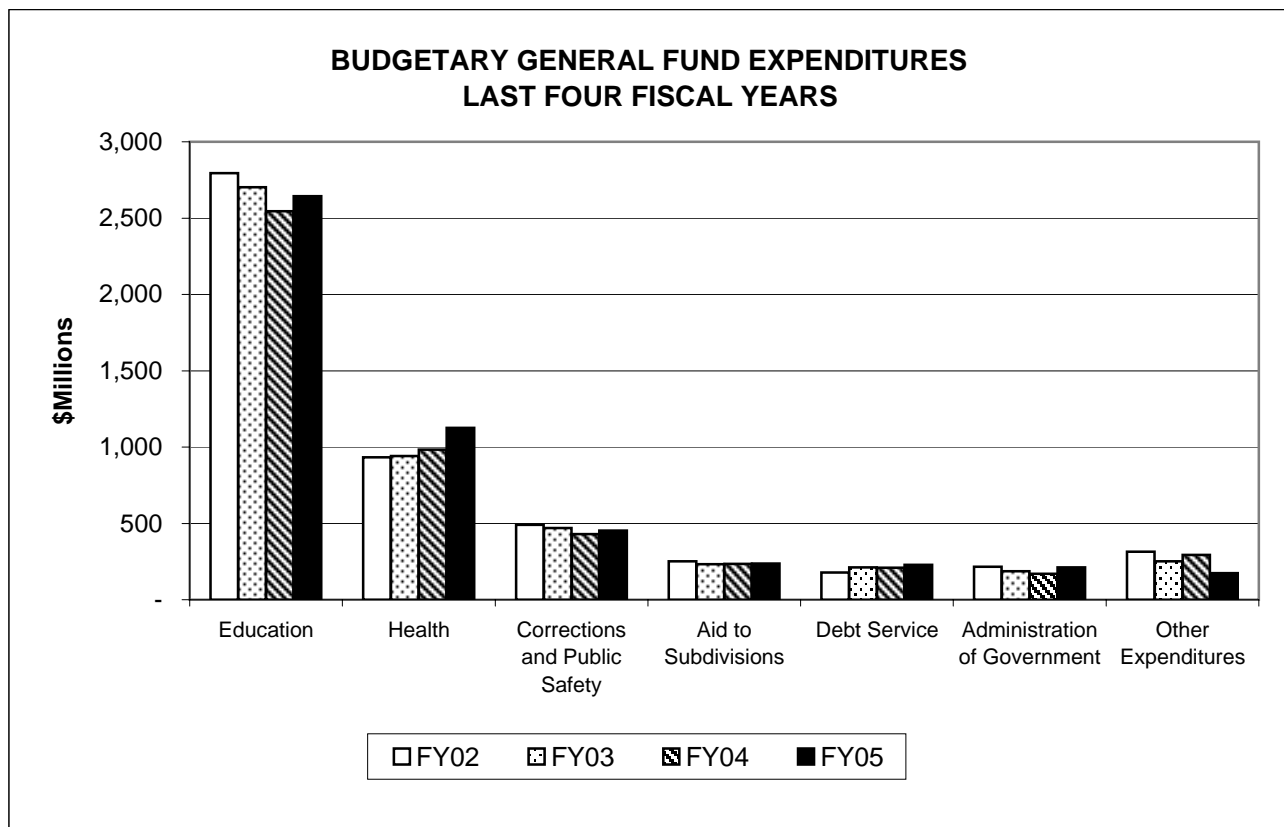
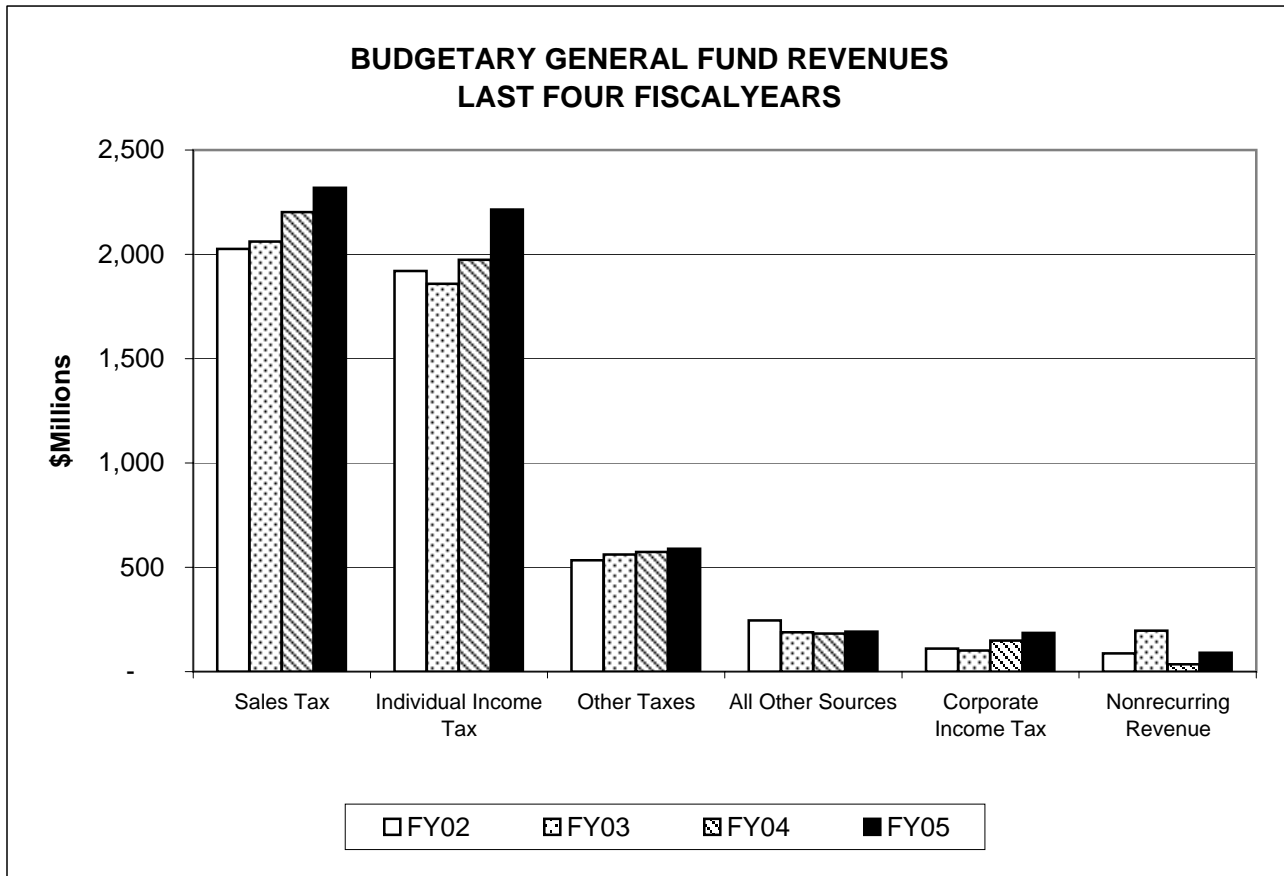
| Expenditures by Function | Final Appropriations | Disposition of Final Appropriations | | |
|--|-----------------------------|--|---|-------------------|
| | | Actual Expenditures | Appropriations Carried Forward to FY06 | Lapsed |
| Education..... | \$ 1,841,807,987 | \$ 1,835,093,229 | \$ 6,714,758 | \$ — |
| Higher Education..... | 761,322,249 | 746,472,242 | 14,850,007 | — |
| Health and Human Services..... | 721,536,888 | 721,536,888 | — | — |
| Corrections..... | 279,069,513 | 277,070,340 | 1,999,173 | — |
| Aid to Local Government..... | 236,367,660 | 236,367,660 | — | — |
| Debt Service..... | 234,775,509 | 229,280,417 | 5,495,092 | — |
| Mental Health..... | 162,761,742 | 162,760,929 | 813 | — |
| Disabilities and Special Needs..... | 133,125,512 | 133,125,500 | 12 | — |
| Health and Environmental Control..... | 102,487,188 | 102,119,182 | 368,006 | — |
| Social Services..... | 82,607,797 | 80,122,157 | 2,485,640 | — |
| Juvenile Justice..... | 68,530,132 | 68,530,132 | — | — |
| Public Safety..... | 58,838,139 | 58,209,520 | 628,619 | — |
| Budget and Control Board..... | 41,596,258 | 35,269,041 | 6,327,217 | — |
| Revenue..... | 39,558,453 | 35,617,673 | 3,855,804 | 84,976 |
| Governor's Office..... | 39,336,592 | 38,482,927 | 853,665 | — |
| Parks, Recreation and Tourism..... | 37,123,302 | 36,716,401 | 26,901 | 380,000 |
| Judicial Department..... | 32,685,996 | 32,650,207 | 35,789 | — |
| Motor Vehicles..... | 19,942,547 | 19,942,547 | — | — |
| Natural Resources..... | 18,798,808 | 18,794,657 | 4,151 | — |
| Educational Television Commission..... | 18,711,702 | 16,723,466 | 1,988,236 | — |
| Probation, Parole, and Pardon..... | 16,975,020 | 16,974,640 | 380 | — |
| Commerce..... | 12,986,516 | 10,099,774 | 2,886,742 | — |
| House of Representatives..... | 12,807,053 | 11,228,475 | 1,578,578 | — |
| Forestry Commission..... | 12,530,619 | 12,261,266 | 269,353 | — |
| School for the Deaf and Blind..... | 11,863,014 | 11,863,014 | — | — |
| Vocational Rehabilitation..... | 11,524,900 | 11,510,413 | 14,487 | — |
| The Senate..... | 11,439,772 | 8,523,646 | 2,916,126 | — |
| Adjutant General..... | 10,812,320 | 8,615,196 | 2,197,124 | — |
| Prosecution Coordination Commission..... | 8,255,577 | 8,141,815 | 113,762 | — |
| State Library..... | 8,229,806 | 8,172,320 | 57,486 | — |
| Alcohol and Other Drug Abuse Services..... | 7,198,932 | 7,128,044 | 70,888 | — |
| Legislative Support Agencies..... | 5,930,995 | 5,359,403 | 571,592 | — |
| Attorney General..... | 5,899,441 | 5,899,441 | — | — |
| Agriculture..... | 4,580,160 | 4,580,160 | — | — |
| Labor, Licensing and Regulation..... | 4,497,101 | 3,723,209 | 773,892 | — |
| Museum Commission..... | 4,181,692 | 4,181,692 | — | — |
| State Treasurer..... | 4,173,874 | 3,996,232 | 177,642 | — |
| Comptroller General..... | 4,085,733 | 3,883,993 | 201,740 | — |
| Lieutenant Governor..... | 4,008,189 | 3,644,602 | 363,587 | — |
| John De La Howe School..... | 3,861,327 | 3,773,266 | 88,061 | — |
| Insurance..... | 3,656,676 | 3,604,348 | 52,328 | — |
| Commission on Indigent Defense..... | 3,586,869 | 3,573,293 | 13,576 | — |
| Archives and History..... | 3,257,736 | 3,257,736 | — | — |
| Arts Commission..... | 3,076,621 | 3,076,621 | — | — |
| Election Commission..... | 3,008,887 | 2,671,300 | 337,587 | — |
| Workers' Compensation Commission..... | 2,857,121 | 2,856,893 | 228 | — |
| Wil Lou Gray Opportunity School..... | 2,599,708 | 2,467,587 | 132,121 | — |
| Commission for the Blind..... | 2,548,322 | 2,226,045 | 241,157 | 81,120 |
| Ports Authority..... | 2,399,999 | 2,364,921 | 35,078 | — |
| Consumer Affairs..... | 1,650,028 | 1,644,452 | 5,576 | — |
| Human Affairs Commission..... | 1,515,049 | 1,406,063 | 108,986 | — |
| Administrative Law Judges..... | 1,440,887 | 1,383,066 | 57,821 | — |
| Legislative Audit Council..... | 1,011,223 | 972,377 | 38,846 | — |
| Secretary of State..... | 900,837 | 900,837 | — | — |
| Commission on Appellate Defense..... | 898,586 | 898,586 | — | — |
| State Ethics Commission..... | 364,588 | 364,588 | — | — |
| Sea Grant Consortium..... | 364,353 | 346,700 | 17,653 | — |
| Commission for Minority Affairs..... | 339,503 | 318,144 | 21,359 | — |
| Employment Security Commission..... | 130,724 | 130,724 | — | — |
| Procurement Review Panel..... | 117,555 | 112,229 | 5,326 | — |
| Transportation..... | 100,990 | 100,990 | — | — |
| Jobs-Economic Development Authority..... | 72,144 | 72,144 | — | — |
| Total | \$ 5,132,724,421 | \$ 5,073,195,360 | \$ 58,982,965 | \$ 546,096 |

BUDGETARY GENERAL FUND REVENUES
Where the Money Came From
Fiscal Year 2005



BUDGETARY GENERAL FUND EXPENDITURES
Where the Money Got Spent
Fiscal Year 2005



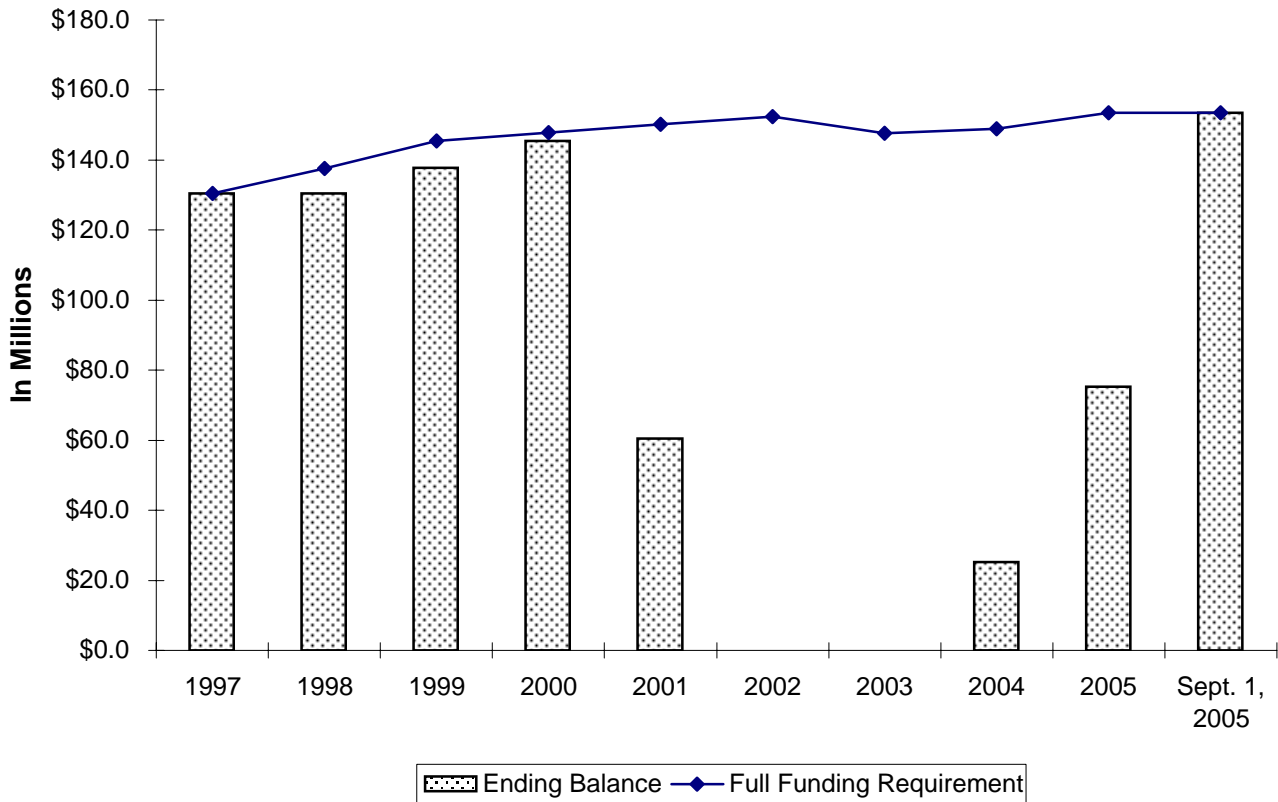


General Reserve

BUDGETARY GENERAL FUND
For Fiscal Years Ended June 30 as Indicated

| Year | Beginning Balance | Net Additions (Reductions) | Ending Balance | Full Funding Requirement | Over/(Under) Funded |
|------|-------------------|----------------------------|----------------|--------------------------|---------------------|
| 1997 | \$ 127,006,196 | \$ 3,373,537 | \$ 130,379,733 | \$ 130,379,733 | \$ - |
| 1998 | 130,379,733 | - | 130,379,733 | 137,649,483 | (7,269,750) |
| 1999 | 130,379,733 | 7,269,750 | 137,649,483 | 145,371,047 | (7,721,564) |
| 2000 | 137,649,483 | 7,721,564 | 145,371,047 | 147,916,397 | (2,545,350) |
| 2001 | 145,371,047 | (84,847,657) | 60,523,390 | 150,202,108 | (89,678,718) |
| 2002 | 60,523,390 | (60,523,390) | - | 152,409,712 | (152,409,712) |
| 2003 | - | - | - | 147,707,970 | (147,707,970) |
| 2004 | - | 25,154,528 | 25,154,528 | 149,034,038 | (123,879,510) |
| 2005 | 25,154,528 | 50,000,000 | 75,154,528 | 153,488,394 | (78,333,866) |
| 2006 | 75,154,528 | 78,333,866 * | | | |

* September 1, 2005 contribution mandated by FY06 Appropriation Act.



Capital Reserve

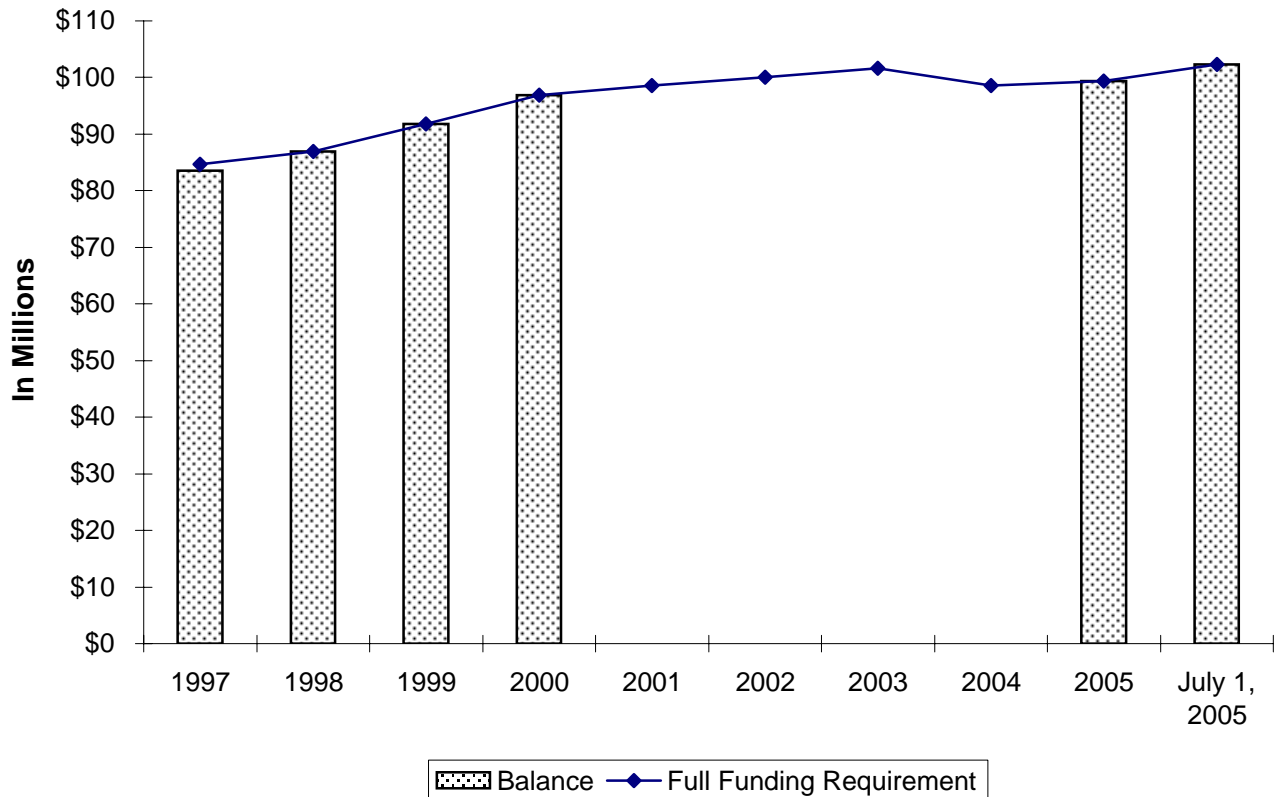
BUDGETARY GENERAL FUND

For the Fiscal Years Ended June 30 as Indicated

| Year | Beginning Balance | Original Appropriations | Appropriation Reductions | Transfer to Agencies | Ending Balance | Full Funding Requirement |
|------|-------------------|-------------------------|--------------------------|----------------------|----------------|--------------------------|
| 1997 | \$ 80,489,858 | \$ 84,670,797 | \$ (1,104,000) | \$ (80,489,858) | \$ 83,566,797 | \$ 84,670,797 |
| 1998 | 83,566,797 | 86,919,822 | - | (83,566,797) | 86,919,822 | 86,919,822 |
| 1999 | 86,919,822 | 91,766,322 | - | (86,919,822) | 91,766,322 | 91,766,322 |
| 2000 | 91,766,322 | 96,914,031 | - | (91,766,322) | 96,914,031 | 96,914,031 |
| 2001 | 96,914,031 | 98,610,931 | (98,610,931) | (96,914,031) | - | 98,610,931 |
| 2002 | - | 100,134,739 | (100,134,739) | - | - | 100,134,739 |
| 2003 | - | 101,606,475 | (101,606,475) | - | - | 101,606,475 |
| 2004 | - | 98,599,197 | (98,599,197) | - | - | 98,599,197 |
| 2005 | - | 99,356,026 | - | - | 99,356,026 | 99,356,026 |
| 2006 | 99,356,026 | 102,325,596 * | | (99,356,026) ** | | |

* July 1, 2005 contribution mandated by FY06 Appropriation Act.

** Amount to be transferred to agencies on September 1, 2005.



Improper Budgetary Tax Accruals in Prior Years

CUMULATIVE OVERSTATEMENT IMPACT ON BUDGETARY GENERAL FUND

For the Fiscal Years Indicated

| | | <u>Improper Revenue Accrual</u> |
|------|-----------------------|-------------------------------------|
| FY91 | Sales Tax | \$ 83,161,428 |
| FY93 | Business License Tax | 2,223,083 |
| | Alcoholic Liquors Tax | 4,314,323 |
| | Beer and Wine Tax | 6,500,809 |
| | Soft Drinks Tax | 2,297,645 |
| | Electric Power Tax | 1,483,169 |
| | Admissions Tax | 1,656,784 |
| | | <u>18,475,813</u> |
| FY02 | Documentary Tax | <u>3,297,159</u> |
| | Total | <u>\$ 104,934,400</u> |