
**MANAGEMENT'S DISCUSSION
AND ANALYSIS—
Required Supplementary Information
(Unaudited)**

Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2011. Please read it together with the Comptroller's *Letter of Transmittal* at the front of this report and also the financial statements that follow this section.

Overview of the Financial Statements

This discussion and analysis provides an introduction to the State of South Carolina's basic financial statements, which include the following parts: (1) *government-wide financial statements*, (2) *fund financial statements*, (3) *component unit financial statements*, and (4) *notes to the financial statements*. This annual report also contains certain *required supplementary information* and other *supplementary information* to aid in understanding the operations of the State.

Government-wide Financial Statements

The government-wide statements present a long-term view of the State's finances *as a whole*, using *accrual-basis accounting*—the same accounting basis that most businesses use. The basic government-wide financial statements are presented on pages 34 through 39 of this report.

There are two government-wide financial statements:

Statement of net assets: This statement presents information on *all* of the State's assets and liabilities, both short-term (*current*) and long-term (*non-current*). In addition, the statement reports the difference between assets and liabilities as *net assets*. Over time, the comparison of net assets to liabilities may indicate whether the State's financial health is strengthening or weakening. However, the statement of net assets does not tell the whole story. To assess the State's overall financial health, other factors need to be considered such as the State's economy and the condition of its *capital assets* such as its buildings and infrastructure (roads and bridges).

Statement of activities: This statement presents information showing how the State's overall net assets changed during the year. The State reports a change in its net assets as soon as an underlying event occurs that causes a change. The statement of activities accounts for all current-year revenues and expenses, regardless of when the State received or paid cash. Although governments compile the statement of activities using accounting methods similar to businesses, the format of this statement is quite different from the format of a business's profit and loss statement. The statement of activities helps to show how much it costs the State to provide various services. It also indicates the extent to which each government function covers its own costs through user fees, charges, or grants. The *net revenues (expenses)* column on the far right of this statement on page 38 shows how much a particular function relies on taxes and other general revenues as opposed to program revenues to support its programs.

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 provide resources to support 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, and financing of housing facilities 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. Some financial information for these component units is included in this report. Complete financial statements for these component units can also be obtained from their respective administrative offices (see Note 1a of the notes to the financial statements on page 71).

Fund Financial Statements

The fund financial statements on pages 40 through 63 of this report provide detailed information about the State's most significant funds—not the State as a whole. Funds are accounting designations that the State uses to track specific funding sources and spending for particular purposes. South Carolina, like other governments, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The State reports three types of *funds*:

Governmental funds: The State reports most of its basic services in governmental funds. Governmental funds account for activities that the State reports as *governmental activities* in its government-wide statements. These funds focus on *short-term* inflows and outflows of expendable resources. The balances remaining at the end of the year help determine whether a fund has more or less financial resources available to spend in the near future. Because the governmental fund statements lack the additional long-term focus of the government-wide statements, a reconciliation that explains the relationship (or differences) between the two kinds of statements is provided. By comparing the two kinds of statements and examining the reconciliation, a better understanding of the long-term impact of the State's near-term funding decisions is available.

The basic governmental fund statements are on pages 40 through 47 of this report.

Proprietary funds: Proprietary funds charge customers for the services they provide—whether they are provided to outside customers (*enterprise funds*) or other State agencies and other governments (*internal service funds*). Proprietary funds use the *accrual basis of accounting* like businesses use. The State reports all of its enterprise funds (proprietary funds providing services to outside customers) as *business-type activities* in the government-wide statements. However, because our internal service fund operations primarily benefit other State agencies or other governments, these proprietary funds are included as *governmental activities* in the government-wide financial statements.

The basic proprietary fund statements are on pages 48 through 61 of this report.

Fiduciary funds: The State is the trustee, or *fiduciary*, for its employees' retirement and other post-employment benefit plans. The State also is responsible for other assets that, because of a trust agreement, it is to use only for trust beneficiaries such as an investment pool operated on behalf of local governments. We *exclude* these activities from the State's government-wide financial statements because the State is not to use these assets to benefit its operations. The State has an obligation to ensure that the net assets it reports in fiduciary funds are used for the intended purposes.

The basic fiduciary fund statements are on pages 62 and 63 of this report.

Component Unit Financial Statements

The *Government-wide Financial Statements* section on the preceding page identifies the State's major component units under the *Component units* subheading. More detailed financial statements which include these component units are on pages 64 through 67 of this report.

Notes to the Financial Statements

Immediately following the financial statements are *notes* that provide additional and pertinent information to the financial statement amounts. The notes on pages 68 through 144 are necessary to fully understand the financial statements.

Required Supplementary Information

This section addresses budgetary matters and provides certain *required* reporting information that supplements the basic financial statements. Included in this section is a schedule that compares the State's legally adopted General Fund budget with actual revenues collected and expenditures paid for the year. Note 5 on page 151 to the required supplementary information is a reconciliation that provides and explains differences between the changes in fund balance of certain funds when presented on the budgetary-basis and the changes in fund balance of these funds when presented on the GAAP-basis as reported in the governmental fund statements. This required supplementary information is on pages 146 through 151 of this report.

Government-wide Financial Analysis

Exhibits 1 and 2 summarize the State's overall financial position and results of operations for the past two years based on information included in the government-wide financial statements.

Exhibit 1
Government-wide Net Assets
As of June 30, 2011
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2010-2011
	2011	(Restated) 2010	2011	2010	2011	(Restated) 2010	
Assets							
Current and other assets.....	\$ 8,149,913	\$ 8,068,502	\$ 5,248,061	\$ 5,480,890	\$ 13,397,974	\$ 13,549,392	(1.1%)
Capital assets.....	14,578,201	14,212,229	4,530,494	4,401,142	19,108,695	18,613,371	2.7%
Total assets.....	22,728,114	22,280,731	9,778,555	9,882,032	32,506,669	32,162,763	1.1%
Liabilities							
Long-term liabilities.....	4,233,363	4,292,318	3,893,249	4,791,991	8,126,612	9,084,309	(10.5%)
Other liabilities.....	3,695,466	4,190,761	1,105,583	1,002,462	4,801,049	5,193,223	(7.6%)
Total liabilities.....	7,928,829	8,483,079	4,998,832	5,794,453	12,927,661	14,277,532	(9.5%)
Net Assets							
Invested in capital assets, net of debt.....	10,766,855	10,966,666	2,628,292	2,539,652	13,395,147	13,506,318	(0.8%)
Restricted.....	3,273,224	3,202,747	1,443,470	1,225,352	4,716,694	4,428,099	6.5%
Unrestricted.....	759,206	(371,761)	707,961	322,575	1,467,167	(49,186)	(3082.9%)
Total net assets.....	\$ 14,799,285	\$ 13,797,652	\$ 4,779,723	\$ 4,087,579	\$ 19,579,008	\$ 17,885,231	9.5%

Net Assets

As we noted earlier, the comparison of net assets to liabilities may serve, over time, as a useful indicator of the State's financial strength. At the end of the 2010-2011 accounting year, the State's net assets totaled \$19.579 billion.

The largest portion of the State's net assets reflects its *investment in capital assets* (for example, buildings, roads, and bridges), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, they are *not* available for future spending. Further, the State cannot sell the capital assets themselves to repay the related debt because it needs the assets for its operations; so it must find other resources to repay the debt.

Restricted net assets generally are available for future spending but are subject to external restrictions, such as bond covenants, federal government grant restrictions, or restrictions imposed by enabling State legislation or through State constitutional provisions. The State's largest restricted balances include capital improvement bond proceeds (restricted for various capital projects) and loan program funds (restricted primarily for local government water and sewer projects).

Unrestricted net assets—resources available for future spending without restrictions—reported a balance of \$1.467 billion at June 30, 2011. This represents an increase of \$1.516 billion over the prior year. Some of this increase resulted from a \$1.131 billion increase in the unrestricted net assets reported for the State's *governmental activities*, which reported \$759.206 million in unrestricted net assets for the current fiscal year versus a \$371.761 million deficit in the prior year. The improvement from a deficit is attributable to a change in accounting principles, as discussed in Note 2 and increased revenues in the current fiscal year; see section "Budgetary General Fund Highlights" on page 29 for further detail.

The State's *business-type activities* reported a \$707.961 million unrestricted net asset balance. This resulted from net positive balances of \$1.399 billion associated with higher education and certain other business-type activities. However, that positive balance was partially offset by a \$583.425 million accumulated deficit in the State-run unemployment compensation fund, a \$106.173 million accumulated deficit in the State-run medical malpractice insurance program, and a \$1.157 million accumulated deficit in the State-run college tuition prepayment program.

Exhibit 2
Government-wide Changes in Net Assets
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change
	2011	2010	2011	2010	2011	2010	2010-2011
Revenues							
Program revenues:							
Charges for services.....	\$ 2,463,209	\$ 2,356,804	\$ 6,375,802	\$ 5,421,089	\$ 8,839,011	\$ 7,777,893	13.6%
Operating grants and contributions.....	8,118,411	8,274,731	1,115,603	1,042,850	9,234,014	9,317,581	(0.9%)
Capital grants and contributions.....	615,292	570,743	96,366	100,884	711,658	671,627	6.0%
General revenues:							
Individual income tax.....	2,880,504	2,659,728	—	—	2,880,504	2,659,728	8.3%
Retail sales and use tax.....	3,969,218	3,855,095	—	—	3,969,218	3,855,095	3.0%
Other taxes.....	1,835,036	1,616,347	—	—	1,835,036	1,616,347	13.5%
Unrestricted grants and contributions.....	223,959	205,965	—	—	223,959	205,965	8.7%
Unrestricted investment income.....	15,097	41,555	—	—	15,097	41,555	(63.7%)
Tobacco legal settlement.....	69,808	68,709	—	—	69,808	68,709	1.6%
Other.....	571,998	433,166	—	—	571,998	433,166	32.1%
Total revenues.....	20,762,532	20,082,843	7,587,771	6,564,823	28,350,303	26,647,666	6.4%
Expenses							
Governmental activities:							
General government.....	4,462,454	4,475,571	—	—	4,462,454	4,475,571	(0.3%)
Education.....	4,004,703	4,400,125	—	—	4,004,703	4,400,125	(9.0%)
Health and environment.....	6,584,487	6,007,179	—	—	6,584,487	6,007,179	9.6%
Social services.....	1,900,026	1,847,028	—	—	1,900,026	1,847,028	2.9%
Administration of justice.....	746,462	760,379	—	—	746,462	760,379	(1.8%)
Resources and economic development.....	221,075	351,882	—	—	221,075	351,882	(37.2%)
Transportation.....	1,203,952	1,179,611	—	—	1,203,952	1,179,611	2.1%
Other.....	90,848	81,838	—	—	90,848	81,838	11.0%
Business-type activities:							
Higher education.....	—	—	3,684,769	3,520,564	3,684,769	3,520,564	4.7%
Higher education institution support ^a	—	—	1,321,213	1,252,222	1,321,213	1,252,222	5.5%
Unemployment compensation benefits.....	—	—	2,171,063	2,026,866	2,171,063	2,026,866	7.1%
Financing of housing facilities.....	—	—	272,880	238,191	272,880	238,191	14.6%
Medical malpractice insurance.....	—	—	2,591	2,324	2,591	2,324	11.5%
Financing of student loans.....	—	—	21,847	36,694	21,847	36,694	(40.5%)
Tuition prepayment program.....	—	—	4,750	910	4,750	910	422.0%
Other.....	—	—	35,540	36,583	35,540	36,583	(2.9%)
Total expenses.....	19,214,007	19,103,613	7,514,653	7,114,354	26,728,660	26,217,967	1.9%
Excess (deficiency) before additions to endowments and transfers.....	1,548,525	979,230	73,118	(549,531)	1,621,643	429,699	277.4%
Gain on early retirement of debt.....	—	—	35,189	—	35,189	—	—
Additions to endowments.....	—	—	36,945	30,480	36,945	30,480	21.2%
Net transfers.....	(546,892)	(653,389)	546,892	653,389	—	—	—
Increase (decrease) in net assets.....	1,001,633	325,841	692,144	134,338	1,693,777	460,179	268.1%
Net assets, beginning of year.....	13,790,301	13,465,390	4,087,579	3,952,311	17,877,880	17,417,701	2.6%
Restatement of beginning net assets ^b.....	7,351	(930)	—	930	7,351	—	—
Net assets, end of year.....	\$ 14,799,285	\$ 13,790,301	\$ 4,779,723	\$ 4,087,579	\$ 19,579,008	\$ 17,877,880	9.5%

^a The higher education institution support activity represents certain associations, foundations, and authorities created for the benefit of the State's higher education institutions.

^b 2011 restatement due to correction of an error. See Note 2, Accounting and Reporting Changes, on page 82 of the financial statements. In 2010, the restatement was a result of a change in reporting entity.

Changes in Net Assets

The State's total net assets increased \$1.694 billion or 9.5% over the prior year's net assets as a result of its governmental activities and its business-type activities.

Governmental Activities

Net assets of the State's governmental activities increased by \$1.002 billion or 7.3%. Revenue increased from last year by \$679.689 million or 3.4%, which is an increase of \$685.055 million or 7.7% in general revenue and a decrease of \$5.366 million or 0.1% in program revenue. Revenues that support governmental activities are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the comparative sources of revenues that support governmental activities.

Expenses associated with governmental activities increased by \$110.394 million or 0.1% for the fiscal year ended June 30, 2011. These expenses were mostly associated with services provided for health and environment, education, general government, transportation, and social services. *Exhibit 4* compares the cost of these services with their *program revenues*—revenues derived directly from the program itself or from parties outside the State’s taxpayers or citizenry. The difference between the two represents the *net cost* of these services that taxes and other general revenues financed. For the fiscal year ended June 30, 2011, the State used \$16.751 billion in tax and other general revenues to offset the net cost of all services that the State’s governmental activities provided. Governmental activities reported \$546.892 million in net transfers to the State’s business-type activities, most of which represents support provided to the State’s public colleges and universities.

The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2010-2011 fiscal year:

- Operating grants and contributions decreased by \$156.320 million or 1.9%. The decrease was primarily due to reductions in the amount available for education and public health programs through Federal Stimulus program funds.
- General tax revenues increased \$553.588 million or 6.8% from last year. Individual income tax revenues increased 8.3%, retail sales and use tax revenues increased 3.0%, and other taxes revenues increased 13.5%. Tax collections increased during fiscal year 2010-2011 due to increased enforcement and improvements in the national economy.
- General government expenses decreased \$13.117 million or 0.3%, which is attributable to budgetary constraints mandated by the State Legislature.
- Education expenses decreased \$395.587 million or 9.0% from last year. The decrease can be attributed to budgetary constraints mandate by the State Legislature and decreases in the expiration of temporary Federal Stimulus program support.
- Health and environmental expenses increased \$577.308 or 9.6% can be attributable to an increase in revenue from charges for services that is driven by demand for services.

Exhibit 3
Sources of Revenues Supporting Governmental Activities
For the Fiscal Year Ended June 30, 2011

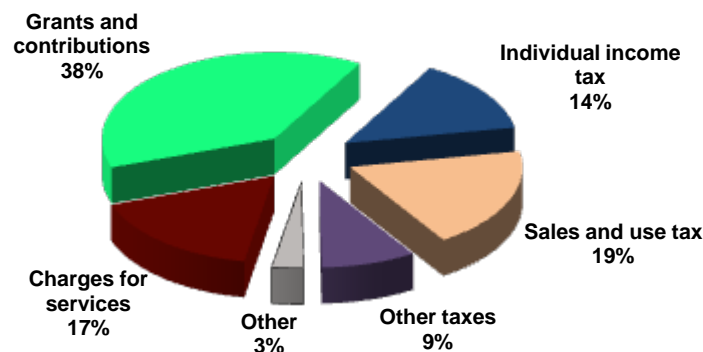
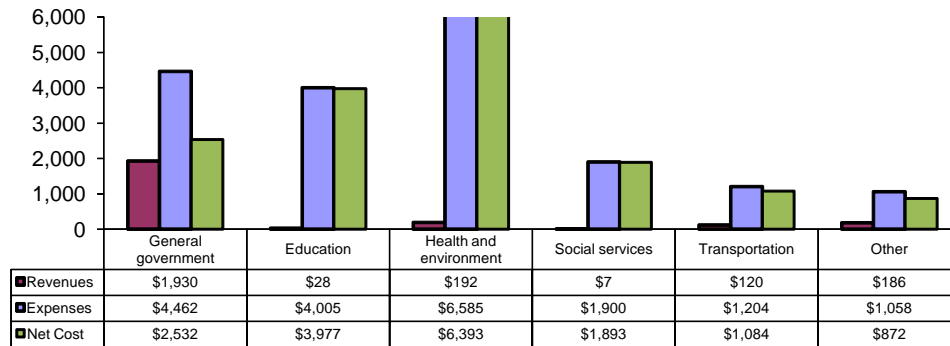


Exhibit 4
Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2011
(In Millions)



Business-type Activities

Net assets of the State’s business-type activities increased \$692.144 million or 16.9%.

Revenues from business-type activities included charges for services of 84.0% and grants and contributions, including federal aid of 16.0%. Expenses from business-type activities were mostly to provide higher education services and support of 66.6%, unemployment compensation benefits of 28.9%, and financing of housing facilities of 3.6%.

Most business-type activities are self-supporting. Tuition and student fees, research and other grants (both private and governmental), and other charges primarily pay for the services that the Higher Education Fund provides. However, the Higher Education Fund receives substantial resources (primarily transfers of annual appropriations) from the State’s governmental activities. The \$546.892 reported as net transfers in *Exhibit 2* consists primarily of the appropriations and other transfers to the Higher Education Fund, which totaled \$615.015 million for the year ended June 30, 2011, and represent the cost of educational services that taxes and other general revenues of governmental activities support.

Expenses for the payment of unemployment compensation benefits increased \$144.197 million during the 2010-2011 fiscal year. This increase resulted from continued high unemployment rates in the state. The expenses did not increase at the same rate experienced in the 2009-2010 fiscal year as some economic improvement was experienced with declines in the fourth quarter of the fiscal year in applications for unemployment benefits.

Financial Analysis of the State's Funds

The State of South Carolina uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. Within the fund financial statements, the focus is on reporting major funds.

Governmental Funds

Exhibit 5 shows the components of fund balance for the State's various governmental funds as of June 30, 2011.

Exhibit 5
Governmental Fund Balances
 As of June 30, 2011
 (Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	State Tobacco Settlement	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable.....	\$ 86,993	\$ 5,900	\$ 737,676	\$ 13,643	\$ —	\$ 32,986	\$ 877,198
Restricted.....	1,077	86,044	1,803,505	10,000	22,804	375,011	2,298,441
Committed.....	582,085	89,985	—	36,612	—	623	709,305
Assigned.....	349,619	—	—	—	—	104,298	453,917
Unassigned.....	478,756	(1,356)	(633,988)	(321,035)	—	(43,723)	(521,346)
Totals.....	\$ 1,498,530	\$ 180,573	\$ 1,907,193	\$ (260,780)	\$ 22,804	\$ 469,195	\$ 3,817,515
Change from prior year.....	\$ 375,766	\$ 69,476	\$ 257,300	\$ (71,457)	\$ (8,063)	\$ (218,425)	\$ 404,597
Percentage change.....	33.5%	62.5%	15.6%	(37.7%)	(26.1%)	(31.8%)	11.9%

At June 30, 2011, total ending fund balance for the State's governmental funds was \$3.818 billion, which represents an increase of \$404.597 million or 11.9% from the prior year. Included in this total is a deficit in *unrestricted, unassigned* fund balance of \$688.055 million. The General Fund reports \$312.431 million as unrestricted, unassigned and available with no constraints for spending in the coming year. Approximately 60.0% of the total fund balance for governmental funds are *restricted* by external parties or enabling legislation which includes creation through state law or constitutional provision. The remaining fund balance is *non-spendable, committed, or assigned* and is *not* available for future appropriation because it is not in a spendable form or is accessible only for specific purposes. The following paragraphs discuss the activities of the governmental funds with significant changes in fund balance:

The *General Fund* is the State's operating fund. This fund includes resources, such as taxes, that pay for the services that the State traditionally has provided to its citizens. Activity is accounted for in the General Fund unless constraints established by State law or external parties require them to be accounted for in another fund. During the 2010-2011 accounting year, the total fund balance of the General Fund increased \$375.766 million or 33.5% from the prior year, as restated for the effects of implementation of new accounting principles as discussed in Note 2. Overall, revenues were greater than the previous year by \$2.963 billion, 50.1%, primarily as a result of the accounting principle change. Increases in the current fiscal year were experienced in individual income taxes of \$243.247 million, 9.2%, sales and use taxes of \$1.144 billion, 52.0%, and other taxes of \$469.685 million, 67.0%, from prior year. The increase in expenditures of \$3.138 billion, 65.6%, is below the increase in revenue indicating a continued controlling of costs and spending reductions mandated by State officials.

The *Departmental Program Services* is a major special revenue fund in which agencies account for primarily restricted resources used to fund program services. These resources supplement payment of the services that the State traditionally has provided to its citizens providing expansion when possible. During the 2010-2011 accounting year, the total fund balance increased by \$69.476 million or 62.5% from the prior year, as restated for the effects of implementation of new accounting principles as discussed in Note 2. Changes in the activity reported in this fund as a result of the new accounting principle implemented resulted in the large increase expressed as a percentage of the prior year balance. The primary source of revenue for the fund is Federal which accounts for 95.1% of the total revenue reported.

State of South Carolina

The *Department of Transportation (DOT) Special Revenue Fund* accounts for various gasoline taxes, fees, fines, and federal grant resources. The DOT uses these resources to pay for its general operations, which include maintenance, regulation, and construction of public highways and bridges. The fund balance decreased \$71.457 million or 37.7% during 2010-2011 leaving a deficit fund balance of \$260.780 million at the end of the fiscal year. The decrease in fund balance was caused by a reduction in anticipated funding from the Federal government, with only a 5.1% increase over the prior year compared with a 42.0% increase in 2009-2010 over its prior year, and continued increases in the costs of operation, repairs and maintenance, and capital improvements.

Proprietary Funds

Exhibit 6 shows the components of net assets for the State's various proprietary funds at June 30, 2011.

Exhibit 6
Proprietary Fund Net Assets
As of June 30, 2011
(Expressed in Thousands)

Fund Net Assets	Enterprise Funds							Internal Service Funds
	Higher Education	Unemployment Compensation	Housing Authority	Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Total Enterprise	
Invested in capital assets (net of related debt).....	\$ 2,449,361	\$ —	\$ 880	\$ 78,732	\$ 98	\$ 99,221	\$ 2,628,292	\$ 87,618
Restricted, expendable.....	750,998	—	283,970	92,972	58,789	28,406	1,215,135	405,486
Restricted, nonexpendable.....	189,610	—	—	—	—	38,725	228,335	—
Unrestricted.....	887,237	(583,425)	44,184	148,505	80,628	133,129	710,258	3,665
Totals.....	\$ 4,277,206	\$ (583,425)	\$ 329,034	\$ 320,209	\$ 139,515	\$ 299,481	\$ 4,782,020	\$ 496,769
Change from prior year.....	\$ 390,520	\$ 176,123	\$ 13,203	\$ 23,794	\$ (4,790)	\$ 82,187	\$ 681,037	\$ 130,225
Percentage change.....	10.0%	23.2%	4.2%	8.0%	(3.3%)	37.8%	16.6%	35.5%

The State has two kinds of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are reported as business-type activities in the government-wide financial statements. Enterprise funds sell goods or services primarily to parties outside of State government.

The net assets of the *Unemployment Compensation Benefits Fund*, a major enterprise fund, increased by \$176.123 million or 23.2% over the prior year. As discussed in Note 22h on page 144, due to the increasing unemployment rate and resulting increased amount of unemployment benefits the Fund paid out, along with the increased length of time over which the benefits are paid out, the Fund was required to obtain advances from the Federal Unemployment Fund, the balance of which is \$967.068 million at June 30, 2011. Management has the option to borrow additional funds from the Federal government if necessary to fund its deficits. Additional information on the Advances and plans for repayment are included in Note 12i and j.

The net assets of the State's *nonmajor enterprise funds* increased by \$82.187 million or 37.8%. This increase was due in part to positive operating results for the *Patients' Compensation Fund*, increased charges for services coupled with controlled costs in the *University of South Carolina Trust*, and increased charges for services for *University Medical Associates*.

South Carolina's *internal service funds* provide certain services (including maintenance, insurance, printing, information technology, and motor pool services) and some goods (such as office supplies) primarily to other State funds but sometimes to local governments as well. The increase in net assets of \$130.225 million or 35.5% over the prior year resulted from increases in charges for services in the Employee Insurance Programs and improved cost containment in the State Accident Fund. Management's actions were in response to rising healthcare costs and the potential for future operating deficits. The objective of an internal service fund is to charge its customers for the costs of the services or goods that it provides. Because internal service funds primarily benefit State government, South Carolina reports them as governmental activities in the government-wide financial statements.

Budgetary General Fund Highlights

Original estimated revenues for the 2010–2011 accounting year were \$5.121 billion. Because of continual review of tax revenue collections and improvements in economic conditions, the Board of Economic Advisors (BEA) revised the revenue estimate during the course of the year to a total of \$5.507 billion. Actual revenues at June 30, 2011, were \$125.766 million or 2.3% over the BEA’s adjusted revenue estimate which was also represented an increase in collections over the prior year of \$390.931 million or 7.5%. Individual income and sales tax collections, the fund’s primary revenue sources, ended the year favorably over the adjusted estimate by \$117.422 million and \$16.194 million, respectively.

Actual expenditures were \$465.575 million less than actual revenues because revenue collections exceeded the expectations of the BEA, to which the expenditure budget is balanced, primarily in the fourth quarter of the fiscal year. In addition, \$228.126 million of unbudgeted spending was allowed through “open-ended” appropriations.

Based on the above results of operations, fiscal year 2010-2011 ended with a budgetary surplus. After replenishing the General Reserve Fund, Capital Reserve Fund, and Contingency Reserve Fund by \$55.442 million, \$107.683 million, and \$71.001 million, respectively, the State ended the year with an accumulated budgetary general fund balance of \$711.742 million, comprised of a general reserve of \$166.325 million, capital reserve of \$107.683 million, contingency reserve of \$71.001 million, \$70.597 million in carried-forward appropriations and an unassigned surplus of \$296.136 million.

See the *Required Supplementary Information* section on pages 145 through 151 of this report for a detailed budgetary comparison schedule.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2010-2011 accounting year, the State had \$19.109 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$495.324 million, or 2.7%, over the previous accounting year (see *Exhibit 7*).

Exhibit 7
Capital Assets, Net of Depreciation
As of June 30 for the Years Indicated
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2010-2011
	2011	2010	2011	2010	2011	2010	
Land and improvements.....	\$ 1,889,729	\$ 1,789,136	\$ 407,376	\$ 385,555	\$ 2,297,105	\$ 2,174,691	5.6%
Infrastructure.....	8,310,547	7,981,897	—	—	8,310,547	7,981,897	4.1%
Buildings and improvements.....	1,208,840	968,567	3,362,656	3,365,444	4,571,496	4,334,011	5.5%
Vehicles.....	89,197	123,716	16,394	15,779	105,591	139,495	(24.3%)
Machinery and equipment.....	112,916	123,599	330,748	347,004	443,664	470,603	(5.7%)
Works of art and historical treasures.....	5,294	5,340	38,340	38,639	43,634	43,979	(0.8%)
Construction in progress.....	2,896,402	3,156,544	365,557	238,346	3,261,959	3,394,890	(3.9%)
Intangible assets.....	65,276	63,430	9,423	10,375	74,699	73,805	1.2%
Total.....	\$ 14,578,201	\$ 14,212,229	\$ 4,530,494	\$ 4,401,142	\$ 19,108,695	\$ 18,613,371	2.7%

Growth in capital asset investment continues to struggle as funding has been limited to agency appropriations without the use of the Capital Reserve Fund. The Capital Reserve Fund has been used in prior years to offset operating deficits. The growth of 2.7% is an increase over the prior year growth of 2.2% or \$398.138 million but remains below the growth realized in the 2009 fiscal year of 3.0% or \$525.537 million, which was compared with a 4.5% growth in the 2008 fiscal year. During the current year, vehicle fleets have continued to decrease due to general aging and irreparability, as reflected in the net book value through depreciation.

See Note 7 in the notes to the financial statements on page 97 of this report for additional information on the State’s capital assets.

Debt Outstanding

At June 30, 2011, the State had \$6.852 billion in bonds and notes outstanding—a decrease of \$975.026 million, or 12.5%, over last year (see *Exhibit 8*).

Exhibit 8
Outstanding Bonds and Notes
As of June 30 for the Years Indicated
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2010-2011
	2011	2010	2011	2010	2011	2010	
Backed by the State:							
General obligation bonds.....	\$ 1,756,397	\$ 1,950,048	\$ 484,500	\$ 387,464	\$ 2,240,897	\$ 2,337,512	(4.1%)
Bond anticipation notes.....	—	—	30,000	30,000	30,000	30,000	0.0%
Backed by specific revenues:							
Revenue bonds and notes.....	80,572	94,195	2,262,796	3,135,445	2,343,368	3,229,640	(27.4%)
Infrastructure Bank bonds.....	2,135,772	2,051,545	—	—	2,135,772	2,051,545	4.1%
Tobacco Authority bonds.....	63,161	120,653	—	—	63,161	120,653	(47.7%)
Limited obligation bonds.....	5,161	6,435	—	—	5,161	6,435	(19.8%)
Bond anticipation notes.....	—	—	33,500	51,100	33,500	51,100	(34.4%)
Total.....	\$ 4,041,063	\$ 4,222,876	\$ 2,810,796	\$ 3,604,009	\$ 6,851,859	\$ 7,826,885	(12.5%)

The repayment of principal on outstanding debt exceeded the issuance of debt resulting in a decrease in debt outstanding for governmental activities of \$181.813 million. Activity in the debt reported by the governmental activities included issuance of general obligation bonds in the amount of \$123.590 million of capital improvement bonds and \$192.275 million of state school facilities bonds and revenue bonds issued by the Infrastructure Bank in the amount of \$563.830 million for highway improvements. Of the proceeds from the revenue bond issuances, \$360.250 million was used to restructure for redemption an earlier bond issuance in accordance with its provisions.

New debt reported in business-type activities included the issuance of general obligation state institution bonds by Clemson University, the Medical University of South Carolina, the University of South Carolina, and Midlands Technical College in the amounts of \$62.370 million, \$18.950 million, \$44.040 million, and \$15.000 million, respectively. The issuance of new revenue bonds and notes was less than principal payments, resulting in an overall decrease in that category for business-type activities. The Citadel, University of South Carolina, and Winthrop University, institutions within the Higher Education Fund issued new revenue bonds of \$13.535 million, \$78.695 million, and \$5.200 million, respectively. Adding to the increase was \$56.000 million in revenue bonds issued by the Housing Authority, a major enterprise fund.

Three bond rating services assign ratings to bonds that the State backs with its own taxing authority (*general obligation bonds*). Fitch Ratings rated these bonds as “AAA” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2011, the highest rating that these services assign. The State’s bond rating from Standard & Poor’s was “AA+” during the same period.

The State limits the amount of annual payments for principal and interest on general obligation bonds and notes rather than directly limiting the amount of those bonds and notes that the State may have outstanding. At June 30, 2011, the State legally could issue additional bonds as long as the new debt would not increase the State’s annual principal and interest payments by more than the following amounts: \$41.721 million for institution bonds (*Institution bonds* are general obligation bonds that benefit the State’s Higher Education Fund.), \$34.898 million for highway bonds, \$130.334 million for general obligation bonds (excluding institution and highway bonds), \$1.493 million for economic development bonds, and \$5.328 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements on page 115 of this report for additional information about the State’s long-term debt.

Economic Factors and Next Year’s Budget

The “Rainy Day Account”

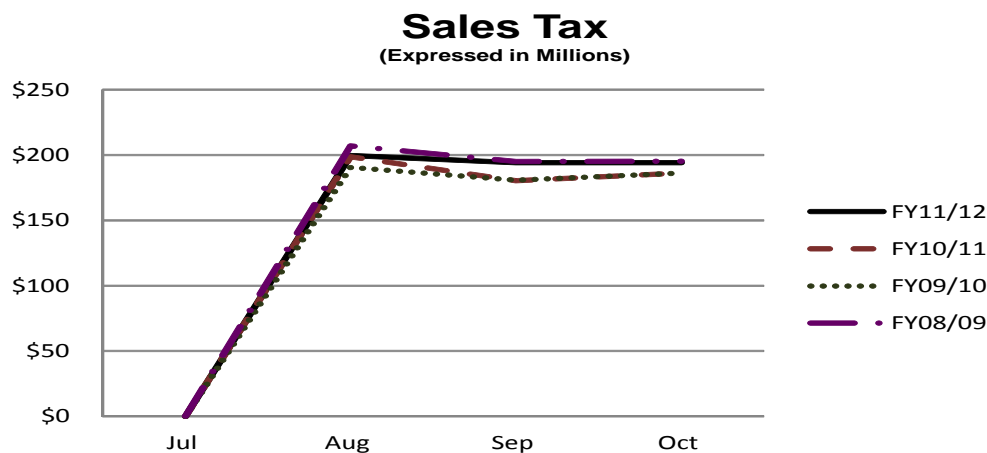
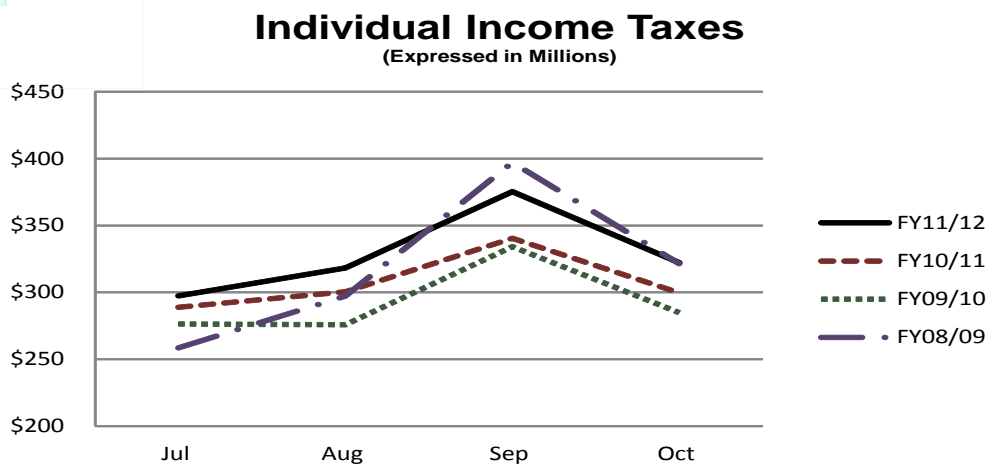
At June 30, 2011, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$166.325 million which increased from the prior year by \$55.442 million appropriated by the 2010-2011 Appropriations Act. The balance is fully funded in accordance with the State’s Constitution. The State’s Constitution requires restoration of the reserve to full funding within three fiscal years after a withdrawal. State law defines full funding for the reserve as 3.0% of the Budgetary General Fund’s revenues for the fiscal year 2010-2011. This requirement has been increased to 5.0% with funding in increments of one-half of one percent annually beginning in fiscal year 2011-2012.

Budgetary General Fund for the 2011-2012 Accounting Year

For fiscal year 2011-2012, estimated General Fund revenue published in the 2011-2012 Appropriations Act was \$5.476 billion, or \$157.165 million less than fiscal year 2010–2011 actual revenue collections. The State’s Board of Economic Advisors subsequently increased its estimate by \$273.700 million.

Economic Conditions

Budgetary General Fund revenues for the first four months of fiscal year 2011-2012 were \$2.119 billion, an increase of \$90.494 million or 4.5% over the same period for fiscal year 2010-2011. Although favorable in comparison to the prior year, the same collections are below the \$235.167 million difference in fiscal year 2007-2008, prior to the most recent recession. Currently, total individual income taxes collected have increased \$83.646 million or 6.8% over the prior year which is comparable to the collections in fiscal year 2008-2009. Sales taxes have also increased \$22.775 million or 4.0% from fiscal year 2010-2011 bringing the experiences in line with those of the prior three years.



Requests for Information

The primary purpose of this financial report is to provide South Carolina's citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Please address any questions concerning information in this report to:

Office of the Comptroller General
ATTN: Deputy Comptroller General
1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201