
**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, 2012. Please read it in conjunction with the Comptroller's *Letter of Transmittal* at the front of this report and 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 for 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 74).

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 as *business-type activities* in the government-wide statements. However, because the 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. These activities are *excluded* 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 145 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 153 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 147 through 153 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, 2012
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percent Change
	2012	2011 (as restated)	2012	2011 (as restated)	2012	2011 (as restated)	2011-2012
Assets							
Current and other assets.....	\$ 8,789,843	\$ 8,217,530	\$ 5,242,390	\$ 5,214,224	\$ 14,032,233	\$ 13,431,754	4.5%
Capital assets.....	14,847,194	14,723,111	4,711,069	4,530,494	19,558,263	19,253,605	1.6%
Total assets.....	23,637,037	22,940,641	9,953,459	9,744,718	33,590,496	32,685,359	2.8%
Liabilities							
Long-term liabilities.....	3,891,594	4,233,363	3,762,339	3,893,249	7,653,933	8,126,612	(5.8%)
Other liabilities.....	3,575,176	3,695,466	1,035,255	1,105,583	4,610,431	4,801,049	(4.0%)
Total liabilities.....	7,466,770	7,928,829	4,797,594	4,998,832	12,264,364	12,927,661	(5.1%)
Net Assets							
Invested in capital assets, net of debt..	11,251,603	10,911,765	2,742,733	2,628,292	13,994,336	13,540,057	3.4%
Restricted.....	3,158,419	3,328,016	1,438,402	1,423,426	4,596,821	4,751,442	(3.3%)
Unrestricted.....	1,760,245	772,031	974,730	694,168	2,734,975	1,466,199	86.5%
Total net assets.....	\$ 16,170,267	\$ 15,011,812	\$ 5,155,865	\$ 4,745,886	\$ 21,326,132	\$ 19,757,698	7.9%

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 2011-2012 accounting year, the State's net assets totaled \$21.326 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 \$2.735 billion at June 30, 2012. This represents an increase of \$1.269 billion over the prior year. Some of this increase resulted from a \$988.214 million increase in the unrestricted net assets reported for the State's *governmental activities*.

The State's *business-type activities* reported a \$974.730 million unrestricted net asset balance. This resulted from net positive balances of \$1.554 billion associated with higher education and certain other business-type activities. However, that positive balance was partially offset by a \$427.341 million accumulated deficit in the State-run unemployment compensation fund, a \$98.810 million accumulated deficit in the State-run medical malpractice insurance program, and a \$34.318 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, 2012
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change
	2012	2011	2012	2011	2012	2011	2011-2012
Revenues							
Program revenues:							
Charges for services.....	\$ 2,624,381	\$ 2,463,209	\$ 4,638,311	\$ 4,621,652	\$ 7,262,692	\$ 7,084,861	2.5%
Operating grants and contributions.....	7,366,197	8,118,411	1,553,432	2,869,753	8,919,629	10,988,164	(18.8%)
Capital grants and contributions.....	646,148	615,292	84,654	96,366	730,802	711,658	2.7%
General revenues:							
Individual income tax.....	3,101,861	2,880,504	—	—	3,101,861	2,880,504	7.7%
Retail sales and use tax.....	4,148,010	3,969,218	—	—	4,148,010	3,969,218	4.5%
Other taxes.....	2,000,124	1,835,036	—	—	2,000,124	1,835,036	9.0%
Unrestricted grants and contributions.....	93,970	223,959	—	—	93,970	223,959	(58.0%)
Unrestricted investment income.....	77,729	15,097	6,953	—	84,682	15,097	460.9%
Tobacco legal settlement.....	74,122	69,808	—	—	74,122	69,808	6.2%
Other.....	509,742	571,998	62	—	509,804	571,998	(10.9%)
Total revenues.....	20,642,284	20,762,532	6,283,412	7,587,771	26,925,696	28,350,303	(5.0%)
Expenses							
Governmental activities:							
General government.....	4,685,050	4,462,454	—	—	4,685,050	4,462,454	5.0%
Education.....	4,163,313	4,004,703	—	—	4,163,313	4,004,703	4.0%
Health and environment.....	5,778,883	6,584,487	—	—	5,778,883	6,584,487	(12.2%)
Social services.....	2,066,923	1,900,026	—	—	2,066,923	1,900,026	8.8%
Administration of justice.....	658,925	746,462	—	—	658,925	746,462	(11.7%)
Resources and economic development.....	207,810	221,075	—	—	207,810	221,075	(6.0%)
Transportation.....	1,194,222	1,203,952	—	—	1,194,222	1,203,952	(0.8%)
Other.....	87,929	90,848	—	—	87,929	90,848	(3.2%)
Business-type activities:							
Higher education.....	—	—	3,844,159	3,684,769	3,844,159	3,684,769	4.3%
Higher education institution support ^a	—	—	1,359,870	1,321,213	1,359,870	1,321,213	2.9%
Unemployment compensation benefits.....	—	—	1,066,105	2,171,063	1,066,105	2,171,063	(50.9%)
Financing of housing facilities.....	—	—	197,555	272,880	197,555	272,880	(27.6%)
Medical malpractice insurance.....	—	—	9,705	2,591	9,705	2,591	274.6%
Financing of student loans.....	—	—	15,336	21,847	15,336	21,847	(29.8%)
Tuition prepayment program.....	—	—	737	4,750	737	4,750	(84.5%)
Other.....	—	—	41,030	35,540	41,030	35,540	15.4%
Total expenses.....	18,843,055	19,214,007	6,534,497	7,514,653	25,377,552	26,728,660	(5.1%)
Excess (deficiency) before additions to endowments and transfers.....	1,799,229	1,548,525	(251,085)	73,118	1,548,144	1,621,643	(4.5%)
Additions to endowments.....	—	—	20,171	36,945	20,171	36,945	(45.4%)
Gain on early retirement of debt.....	—	—	119	35,189	119	35,189	(99.7%)
Net transfers.....	(640,774)	(546,892)	640,774	546,892	—	—	—
Increase (decrease) in net assets.....	1,158,455	1,001,633	409,979	692,144	1,568,434	1,693,777	(7.4%)
Net assets, beginning of year.....	14,799,285	13,790,301	4,779,723	4,087,579	19,579,008	17,877,880	9.5%
Restatement of beginning net assets ^b.....	212,527	7,351	(33,837)	—	178,690	7,351	
Net assets, end of year.....	\$ 16,170,267	\$ 14,799,285	\$ 5,155,865	\$ 4,779,723	\$ 21,326,132	\$ 19,579,008	8.9%

^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 2012 restatement due to correction of an error. See Note 2, Accounting and Reporting Changes, on page 81 of the financial statements.

Changes in Net Assets

The State's total net assets increased \$1.568 billion or 7.9% over the prior year's net assets as a result of its governmental activities and its business-type activities. The overall improvement in the financial position of the State was experienced through an increase in current and other assets and a decrease in long-term debt. The State has taken advantage of lower interest rates to reduce long-term debt through refunding and early retirement. The use of refunding transactions has allowed a better position in the current and other assets as of June 30, 2012.

Governmental Activities

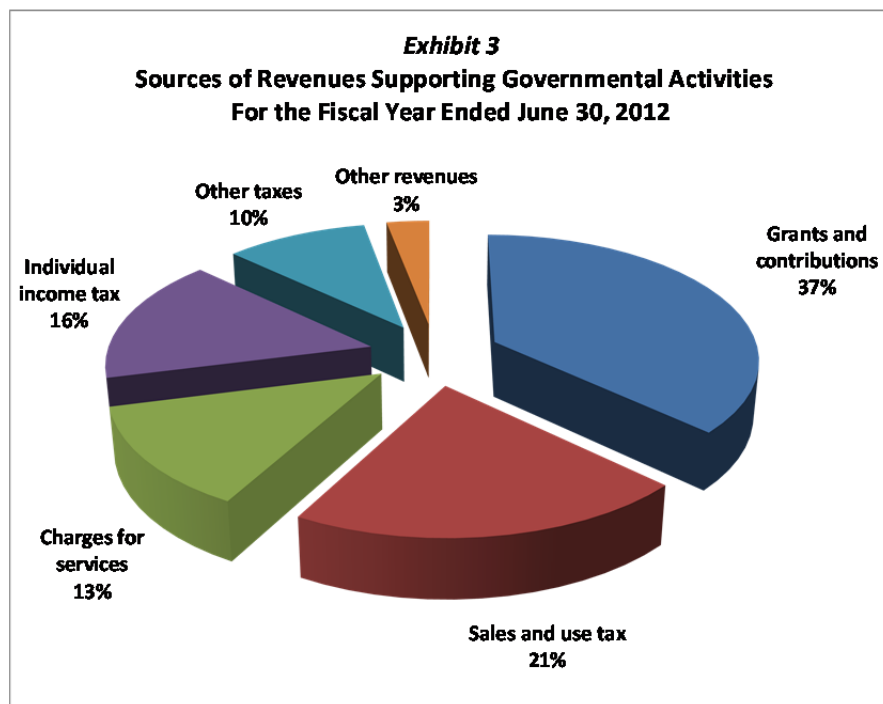
Net assets of the State's governmental activities increased by \$1.158 billion or 7.7%. Revenue decreased from last year by \$120.248 million or .6%, which is an increase of \$439.938 million or 4.6% in general revenue and a decrease of \$560.186 million or 5.0% in program revenue. Revenues that support 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.

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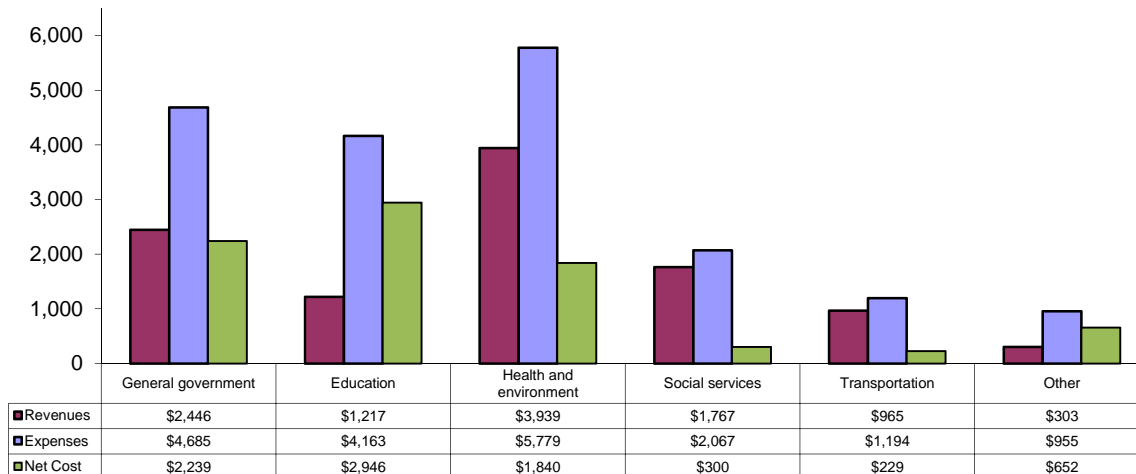
Expenses associated with governmental activities decreased by \$370 million or 1.9% for the fiscal year ended June 30, 2012. These expenses were mostly associated with services provided for health and environment, education, general government, transportation, and social services. *Exhibit 4* compares 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, 2012, the State used \$8.206 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 \$640.774 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 2011-2012 fiscal year:

- Program revenues were \$10.637 billion, a decrease of \$560.186 million, or 5.0%. The decrease was primarily due to reductions in the amount available for public health programs through Federal Stimulus program funds.
- Individual income tax revenues increased \$221.357 million or 7.7%, retail sales and use tax revenues increased by \$178.792 million or 4.50%, and other taxes revenues increased by \$165.088 million or 9.0%. Tax collections increased during fiscal year 2011-2012 due to increased enforcement and improvements in the state and national economies.
- General government expenses increased \$222.596 million or 5.0%, which is attributable to improvements in the state’s economy, availability of budgetary appropriations, and increased demand for government services.
- Education expenses increased \$158.610 million or 4.0% from last year. The increase is primarily the result of general increases in the costs of providing public education. Secondly, additional appropriations were available from improved economic conditions.
- Health and environmental expenses decreased \$805.604 million or 12.2% resulting from a decline in Federal Stimulus program funds.
- Social Services expenses increased by \$166.897 million, or 8.8% due to an increase in demand for services.



**For the Fiscal Year Ended June 30, 2012
(In Millions)**



Business-type Activities

Net assets of the State's business-type activities increased \$409.979 million or 8.6%.

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 \$640.774 million reported as net transfers in Exhibit 2 consists primarily of the appropriations and other transfers to the Higher Education Fund, which totaled \$582.723 million for the year ended June 30, 2012, and represent the cost of educational services supported with taxes and other general revenues of governmental activities.

Expenses for the payment of unemployment compensation benefits decreased \$1.105 billion during the 2011-2012 fiscal year. This decrease resulted from declining unemployment rates in the state.

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, 2012.

Exhibit 5
Governmental Fund Balances
As of June 30, 2012
(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.....	\$ 67,842	\$ 9,029	\$ 745,212	\$ 9,422	\$ —	\$ 32,098	\$ 863,603
Restricted.....	1,335	210,651	1,535,332	10,000	21,791	552,523	2,331,632
Committed.....	384,252	4,764	—	140,794	—	55	529,865
Assigned.....	495,878	—	—	—	—	132,045	627,923
Unassigned.....	944,742	(15,654)	(329,463)	(290,769)	—	(54)	308,802
Totals.....	\$ 1,894,049	\$ 208,790	\$ 1,951,081	\$ (130,553)	\$ 21,791	\$ 716,667	\$ 4,661,825
Change from prior year.....	\$ 350,368	\$ 23,996	\$ 34,278	\$ 130,227	\$ 1,718	\$ 236,223	\$ 776,810
Percentage change.....	22.7%	13.0%	1.8%	(49.9%)	8.6%	49.2%	20.0%

At June 30, 2012, total ending fund balance for the State's governmental funds was \$4.662 billion, which represents an increase of \$776.810 million or 20.0% from the prior year. Included in this total is a deficit in *unrestricted, unassigned* fund balance of \$635.940 million. The General Fund reports \$944.742 million as unrestricted, unassigned and available with no constraints for spending in the coming year. Approximately 50.0% 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.

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The majority of 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 *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. Increases in the current fiscal year were experienced in individual income taxes of \$215.205 million, 7.5%, sales and use taxes of \$146.711 million, 4.4%, and other taxes of \$31.313 million, 2.7%, from prior year. The increase in expenditures of \$474.284 million, 6.0%, is below the increase in revenue indicating a continued controlling of costs and spending reductions previously 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 provide a supplement for the payment of the services that the State traditionally has provided to its citizens thus expanding services when possible. During the 2011-2012 fiscal year, the total fund balance increased by \$23.996 million or 13.0% from the prior year. The primary source of revenue for the fund is Federal which accounts for \$6.681 billion or 90.2% of the total revenue reported.

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 increased \$130.225 million or 49.9% during 2011-2012 leaving a deficit fund balance of \$130.555 million at the end of the fiscal year. The increase in fund balance was caused by improvement in tax collections and an increase in funding from the Federal government.

Proprietary Funds

Exhibit 6 shows the components of net assets for the State's various proprietary funds at June 30, 2012.

Exhibit 6
Proprietary Fund Net Assets
As of June 30, 2012
(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).....	\$ 2,519,835	\$ —	\$ 639	\$ 92,402	\$ 40	\$ 129,817	\$ 2,742,733	\$ 83,783
Restricted, expendable.....	723,566	—	295,816	87,401	60,454	28,219	1,195,456	382,506
Restricted, nonexpendable.....	204,438	—	—	—	—	38,508	242,946	—
Unrestricted.....	1,059,734	(427,341)	42,528	147,778	80,894	89,410	993,003	18,154
Totals.....	\$ 4,507,573	\$ (427,341)	\$ 338,983	\$ 327,581	\$ 141,388	\$ 285,954	\$ 5,174,138	\$ 484,443
 Change from prior year.....	 \$ 230,367	 \$ 155,618	 \$ 9,949	 \$ 7,372	 \$ 1,873	 \$ 20,776	 \$ 425,955	 \$ (12,443)
Percentage change.....	5.4%	26.7%	3.0%	2.3%	1.3%	7.8%	9.0%	(2.5%)

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 \$155.618 million or 26.7% over the prior year. As discussed in Note 22g 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 \$782.188 million at June 30, 2012. Increased tax collections, coupled with decreases in the number of individuals eligible for and claiming State unemployment insurance benefits and changes in the relevant state laws have resulted in the improved net asset position and enabled the Fund to operate without obtaining additional advances from the Federal government since April of 2011. Additional information on the advances and plans for repayment are included in Note 12i.

The net assets of the State's *nonmajor enterprise funds* increased by \$20.776 million or 7.8%. 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*.

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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 decrease in net assets of \$12.443 million or 2.5% over the prior year resulted from increases in claims expense in Insurance Reserve Fund and Employee Insurance Programs and a decrease in charges for services in the State Accident Fund. 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 2011–2012 accounting year were \$5.476 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 \$5.886 billion. Actual revenues at June 30, 2012, were \$28.541 million or 0.5% under the BEA's adjusted revenue estimate which also represented an increase in collections over the prior year of \$224.969 million or 4.0%. Individual income and sales tax collections, the fund's primary revenue sources, ended the year under the adjusted estimate by \$36.368 million and \$13.307 million, respectively.

Actual expenditures were \$341.297 million less than actual revenues because economic conditions improved during the year allowing revenue estimations to be increased after the passing of the balanced budget. In addition, \$5.812 million of unbudgeted spending was allowed through "open-ended" appropriations.

Based on the above results of operations, fiscal year 2011-2012 ended with a budgetary surplus. The State ended the year with a budgetary General Fund balance of \$1.053 billion (\$956.356 million after consideration of fiscal year 2011-12 post-closing budgetary activity).

See the *Required Supplementary Information* section on pages 148 through 153 of this report for a detailed budgetary comparison schedule.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2011-2012 accounting year, the State had \$19.558 billion invested in capital assets. This represented a net increase (including additions and deductions) of \$304.658 million or 1.6%, 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
	2011				2011		2011-2012
	2012	(as restated)	2012	2011	2012	(as restated)	
Land and improvements.....	\$ 1,910,870	\$ 1,889,729	\$ 437,253	\$ 407,376	\$ 2,348,123	\$ 2,297,105	2.2%
Infrastructure.....	9,194,881	8,455,457	—	—	9,194,881	8,455,457	8.7%
Buildings and improvements.....	1,172,558	1,208,840	3,528,717	3,362,656	4,701,275	4,571,496	2.8%
Vehicles.....	80,842	89,197	18,024	16,394	98,866	105,591	(6.4%)
Machinery and equipment.....	105,463	112,916	318,733	330,748	424,196	443,664	(4.4%)
Works of art and historical treasures.....	5,238	5,294	37,932	38,340	43,170	43,634	(1.1%)
Construction in progress.....	2,318,758	2,896,402	358,980	365,557	2,677,738	3,261,959	(17.9%)
Intangible assets.....	58,584	65,276	11,430	9,423	70,014	74,699	(6.3%)
Total.....	\$ 14,847,194	\$ 14,723,111	\$ 4,711,069	\$ 4,530,494	\$ 19,558,263	\$ 19,253,605	1.6%

Growth in capital asset investment occurred in the buildings and improvements primarily through replacement of aging structures and the expansion of campus facilities for the public colleges and universities. 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. In addition, machinery and equipment replacements have utilized improvements in technology to reduce the costs below the capitalization threshold.

See Note 7 in the notes to the financial statements on page 98 of this report for additional information on the State's capital assets.

State of South Carolina

Debt Outstanding

At June 30, 2012, the State had \$6.459 billion in bonds and notes outstanding—a decrease of \$392.835 million, or a 5.7% decline from 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
	2012	2011	2012	2011	2012	2011	2011-2012
Backed by the State:							
General obligation bonds.....	\$ 1,571,957	\$ 1,756,397	\$ 461,607	\$ 484,500	\$ 2,033,564	\$ 2,240,897	(9.3%)
Bond anticipation notes.....	—	—	28,000	30,000	28,000	30,000	(6.7%)
Backed by specific revenues:							
Revenue bonds and notes.....	68,854	80,572	2,250,476	2,262,796	2,319,330	2,343,368	(1.0%)
Infrastructure Bank bonds.....	2,074,308	2,135,772	—	—	2,074,308	2,135,772	(2.9%)
Tobacco Authority bonds.....	—	63,161	—	—	—	63,161	(100.0%)
Limited obligation bonds.....	3,822	5,161	—	—	3,822	5,161	(25.9%)
Bond anticipation notes.....	—	—	—	33,500	—	33,500	(100.0%)
Total.....	\$ 3,718,941	\$ 4,041,063	\$ 2,740,083	\$ 2,810,796	\$ 6,459,024	\$ 6,851,859	(5.7%)

The reduction of principal on outstanding debt exceeded the issuance of debt resulting in a decrease in debt outstanding for governmental activities of \$322.122 million. Activity in the debt reported by the governmental activities included issuance of general obligation bonds in the amount of \$46.875 million of capital improvement bonds, \$29.860 million of state school facilities bonds, \$27.220 million of economic development bonds, and \$28.745 million of state infrastructure bonds. Also, the Infrastructure Bank issued revenue bonds in the amount of \$265.965 million. All of the proceeds from issuances of debt by governmental activities were used to refund earlier bond issues.

For business-type activities, the issuance of bonds and notes was less than principal reductions, resulting in an overall decrease in debt of \$70.713 million. New debt reported in business-type activities included the issuance of general obligation state institution bonds by Clemson University, the University of South Carolina, Winthrop University, and the Medical University of South Carolina in the amounts of \$21.135 million, \$21.475 million, \$13.140 million, and \$12.645 million, respectively. Of the general obligation debt issued by business-type activities, \$68.395 million was used to refund earlier bond issues. Clemson University, the University of South Carolina, College of Charleston, Coastal Carolina University, and Greenville Technical College, institutions within the Higher Education Fund, issued new revenue bonds of \$33.535 million, \$109.985 million, \$59.375 million, \$6.147 million, and \$13.385 million, respectively. Of the revenue bonds issued by the Higher Education Fund, \$141.287 million was used to refund earlier bond issues. In addition, the Housing Authority issued \$34.000 million in Homeownership revenue bonds.

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, 2012, 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, 2012, 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: \$43.425 million for institution bonds (*Institution bonds* are general obligation bonds that benefit the State’s Higher Education Fund.), \$37.135 million for highway bonds, \$156.686 million for general obligation bonds (excluding institution and highway bonds), \$3.568 million for economic development bonds, and \$7.465 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements on page 116 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, 2012, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$183.466 million which increased from the prior year by \$17.141 million appropriated by the 2011-2012 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. For the fiscal year 2011-2012, State law defines full funding for the reserve as 3.5% of the Budgetary General Fund's revenues of the prior fiscal year. This requirement increases in increments of one-half of one percent annually until it reaches 5.0% in fiscal year 2014-15.

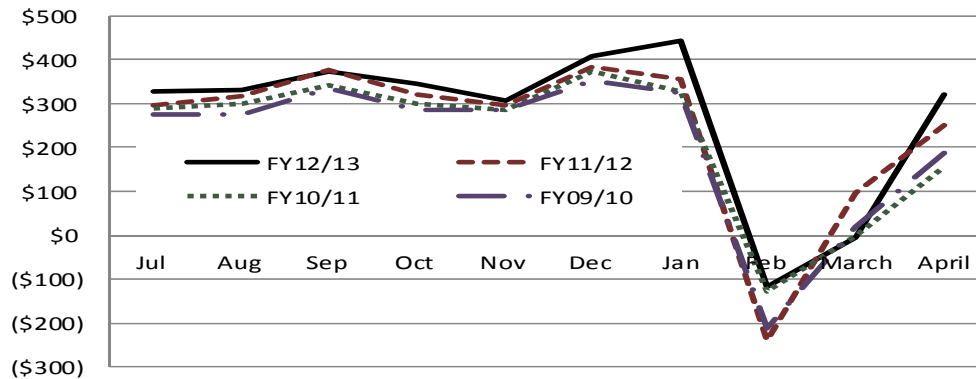
Budgetary General Fund for the 2012-2013 Accounting Year

For fiscal year 2012-2013, the Appropriations Act reflected estimated General Fund cash basis revenue of \$6.088 billion, which was \$230.141 million or 3.9% greater than fiscal year 2011-2012 actual revenue collections. The State's Board of Economic Advisors February 2013 estimate reflects an additional increase of \$163.082 million or 2.8% over the original revenue estimate for fiscal year 2012-2013.

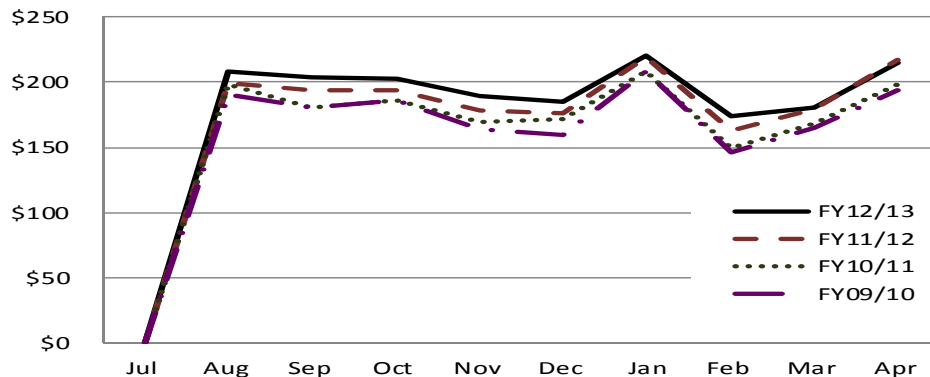
Economic Conditions

Budgetary General Fund revenues for the first ten months of fiscal year 2012-2013 were \$5.391 billion, an increase of \$465.040 million or 9.4% over the same period for fiscal year 2011-2012. Total individual income taxes collected have increased \$278.065 million or 11.3% over the same period in the prior year. Sales taxes have also increased \$60.183 million or 3.5% from fiscal year 2011-2012.

Individual Income Taxes (Expressed in Millions)



Sales Tax (Expressed in Millions)



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:

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ATTN: Chief of Staff
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305 Wade Hampton Office Building
Columbia, South Carolina 29201