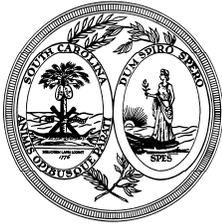

Introductory Section



Letter of Transmittal
Certificate of Achievement
Principal State Officials
Organizational Chart



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William E. Gunn
CHIEF OF STAFF

February 14, 2014

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

I am pleased to present to the citizens of South Carolina this Comprehensive Annual Financial Report for the State of South Carolina for the fiscal year ended June 30, 2013. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that was established for this purpose. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor and CliftonLarsonAllen LLP, an independent certified public accounting firm, jointly performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2013. The auditors have issued an unmodified opinion, the most favorable outcome of the audit process.

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

PROFILE OF THE GOVERNMENT

South Carolina extends from the Atlantic Ocean westward to the Blue Ridge Mountains, containing over 30,000 square miles. Fortieth in geographic area among the fifty states, South Carolina ranks twenty-fourth in population with approximately 4.7 million citizens. According to the U.S. Census Bureau, the State's rate of population growth is presently the fourteenth fastest in the nation.

As shown in the organizational chart on page 15, State government is divided into three separate branches: legislative, executive, and judicial. The State's citizens elect the legislative and executive branch officials. The General Assembly elects certain members of the judicial branch, including the Supreme Court. The principal State officials currently in office are listed on page 14.

State government provides a full range of services to South Carolina's citizens including educational, health, social/human, transportation, public safety, regulatory, and conservation/natural resources services. In addition, the State provides funds, grants, and loans to assist local governments, including school districts.

The State's reporting entity includes the primary government and its component units. The primary government includes all funds, departments, agencies, and institutions. The State's component units are legally separate organizations for which the State is accountable for purposes of financial reporting. The Management's Discussion and Analysis (MD&A) and the Basic Financial Statements focus on the activities of the primary government.

Additional information on the State's component units can be found in the notes to the financial statements and in the separately issued financial statements of those organizations.

South Carolina's annual Appropriations Act includes legally adopted budgets for the Budgetary General Fund and for Total Funds. The initial budget appears in the annual Appropriations Act. After the budget year begins, the State Budget and Control Board, composed of five key executive and legislative officials, may order spending cuts if revenue collections fall short of predicted levels. Departments and agencies may request transfers of appropriations between programs if the transfer request does not exceed 20% of the program budget. The Budget and Control Board has the authority to approve additional requested transfers of appropriations between personal services and other operating expenditure accounts. For additional information, see the notes to the required supplementary information - budgetary.

STATE ECONOMY

South Carolina has a diversified economic base, including manufacturing, trade, healthcare, services, and leisure/hospitality. Businesses have relocated here from all over the world taking advantage of the State's skilled labor force, competitive wages, lower-priced land, excellent port facilities and accessibility to markets, and, in recent years, substantial tax and other economic incentives.

Businesses continue to choose South Carolina as a place to locate or expand, and the State of South Carolina is committed to working with employers to meet their workforce needs through state-supported workforce development initiatives.

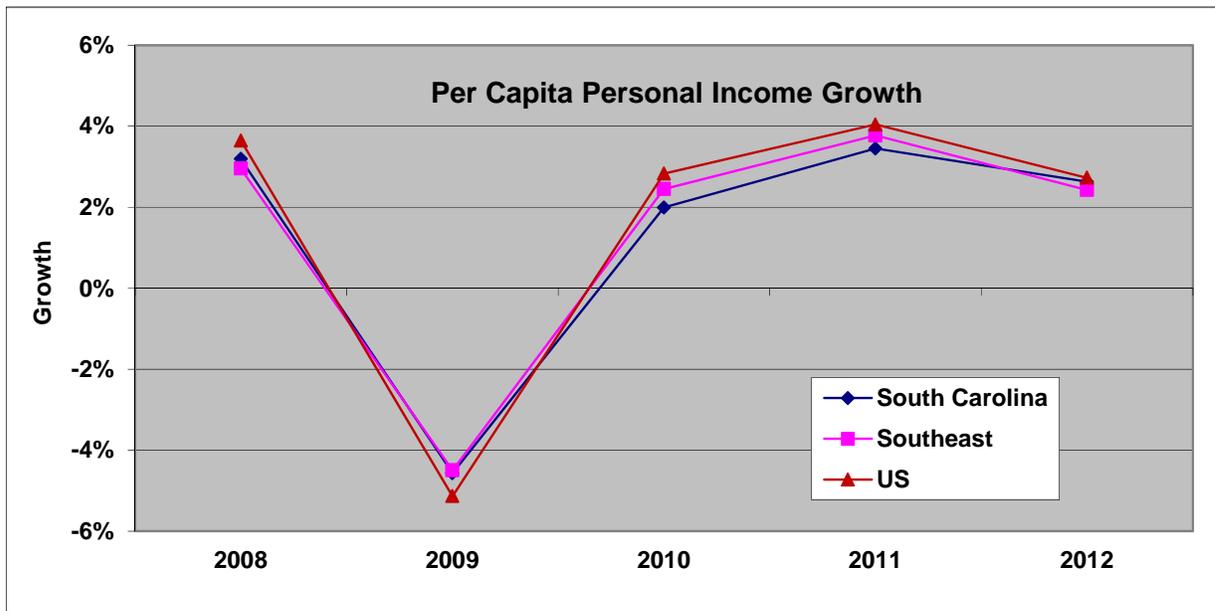
During the year ended June 30, 2013, total non-farm employment in the state increased by 29,900 to 1,887,900. Industry sectors reflecting gains were Leisure and Hospitality (+10,500); Trade, Transportation, and Utilities (+8,300); Government (+4,900); Financial Activities (+4,100); Construction (+3,500); and Manufacturing (+1,700). Declines in non-farm employment were seen in Professional and Business Services (-2,200); and Other Sectors (-900).

South Carolina's unemployment rate decreased to 8.0% in June 2013 (and decreased to 6.6% in December 2013), well below the June 2012 rate of 9.3%. In comparison, the U.S. unemployment rate for June 2013 was 7.5% (and decreased to 6.7% in December 2013).

After four consecutive months of positive movement, the South Carolina Leading Index (SCLI) dipped 0.12 points in June to 101.02. Above the 100 mark, the SCLI forecasts improving economic conditions for South Carolina over the upcoming three to six months. Several factors led to the decline of the SCLI in June, including a 5 percent increase in initial claims for Unemployment Insurance for the month, a nearly 12 percent drop in building permits for new residential construction, a decline in the valuation associated with those permits, and a declining stock market index. A 0.5 percent increase in the average manufacturing workweek helped moderate the SCLI's dip in June. The SCLI closed the month at 101.16 in December, the most current month available.

The number of residential closings in June 2013, up 13 percent compared to a year ago, and the declining number of foreclosures in the state, down 24 percent in June 2013 compared to June 2012, have reduced the supply of available homes on the market. As inventory tightens, real estate values in South Carolina have gained ground. The median home sales price in South Carolina is now at the same level seen in 2007 before the recession. Residential building permits compared to a year ago are up over 20 percent.

The Charleston housing market continued to lead the state in recovery, with 26 percent more home sales in June 2013 than in June 2012 and a 10 percent gain in the median home sales price. Improvements in the Columbia and Greenville areas also helped push the statewide sales volume up 4.4 percent and the median sales price up 13.5 percent compared to last year.



LONG-TERM FINANCIAL PLANNING

State law requires agencies that receive 1.0% or more of the total annual General Fund appropriations to provide an estimate of their General Fund expenditures for the next three fiscal years. The State Budget Office combines these expenditure estimates with long-term revenue estimates made by the State’s Board of Economic Advisors (BEA) to create a three-year financial plan. The three-year financial plan assists the State in strategically assessing its future financial commitments. The plan is updated annually and provided to the State’s Budget and Control Board, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate during the second quarter of each fiscal year.

Significant financial challenges facing state government include anticipated future spending increases for Medicaid, State retirement and post-retirement health benefits, and elementary and secondary education.

The State’s long-term financial management practices include a five-year capital improvement plan that requires funding to be in place before beginning construction on any capital improvement projects.

RELEVANT FINANCIAL POLICIES

The State’s legislature is required to adopt a balanced budget annually based on revenue projections provided by the BEA. State law requires the BEA to meet at least quarterly to review how actual revenue collections compare with its earlier projections and to adjust its projections if necessary. If the BEA reduces revenue projections significantly once the budget year begins, the State’s Budget and Control Board (Board) is responsible for taking appropriate action to keep the State’s budget in balance. If the Board anticipates a year-end operating deficit as a result of the BEA reducing its revenue projections during the year, it must reduce most agency appropriations evenly across-the-board. The State is also required to maintain a 4.0% General Reserve Fund (the required level increases to 4.5% in 2014 and 5.0% in 2015) that can be used only for eliminating a year-end operating deficit. If the State’s budgetary General Fund subsequently experiences a year-end operating deficit even after applying all the actions described above, the Board is required to meet within sixty days of August 31 to adopt a plan to eliminate the deficit and restore a balanced budget. Additionally, the State is required to annually fund a 2% Capital Reserve to be used for capital improvements, debt retirement, or other nonrecurring purposes appropriated by the General Assembly. The foregoing percentages are multiplied against total General Fund revenues for the latest completed fiscal year.

Legislation also exists directing that in closing the books each year the Comptroller General shall suspend, to the extent necessary, any budgetary surplus appropriations in a general or supplemental act or Capital Reserve Fund appropriations if the State’s Generally Accepted Accounting Principles-basis General Fund reports a negative unrestricted, unassigned fund balance.

The State ended fiscal year 2013 with a positive General Fund fund balance of \$1.046 billion, which was made up of legislatively approved agency carryover appropriations of \$381.145 million, the General Reserve of \$281.641 million, the Capital Reserve of \$112.657 million, and unassigned surplus of \$270.647 million.

MAJOR INITIATIVES

This past year the General Assembly authorized several sources of funding for the state's infrastructure needs (H.3360). Lawmakers approved the transfer of \$50 million each year to the Transportation Infrastructure Bank to obtain \$500 million in bonds, along with federal matching funds, to finance bridge replacement, rehabilitation projects, and expansion and improvements to existing interstate highways. Legislators established a dedicated funding source for the State's secondary roadways by redirecting half of the tax revenue collected each year on the sales of motor vehicles, representing \$41.4 million, to the State Non-Federal Aid Highway Fund to be used exclusively for highway, road, and bridge maintenance, construction, and repair.

Legislators authorized (S.578) issuance of up to \$120 million in economic development bonds to expand an existing economic development bond project, which brought the state an additional private investment of at least \$400 million, creating at least 400 new jobs, and an enhanced economic development project with an investment of at least \$1.1 billion, creating at least 2,000 additional jobs. Site preparation and infrastructure improvements funded through these economic development bonds facilitated the Boeing Company's initiative to expand its aircraft manufacturing operations in North Charleston and establish operations that support its manufacturing activities in South Carolina, such as research and development functions.

The *High Growth Small Business Job Creation Act of 2013* was approved to offer state income tax credits to encourage those who act as "angel investors" by providing early stage capital for emerging high growth enterprises in such areas as manufacturing, processing, warehousing, wholesaling, software development, and information technology services.

South Carolina's Growing Economic Environment

Over the last several years, South Carolina has continued to demonstrate its ability to facilitate expanded economic opportunities for citizens. Manufacturing has grown substantially. South Carolina has also experienced a state-wide decrease in its unemployment rate, which has shown that even in the midst of challenging national economic conditions our state's business-friendly climate and committed workforce continue to attract investment that creates well-paying jobs.

We have seen an emerging trend of companies investing and expanding in South Carolina. Several of South Carolina's industry leaders have expanded and created high-quality jobs within the state. In 2012, the State established an Aerospace Task Force to position the state for future growth. The task force is focused on growing the aerospace supply chain for companies like Boeing and GE Turbine and supporting initiatives to assure that South Carolina has a workforce ready for the aerospace industry.

South Carolina's exports reached record levels in 2012. Exports from South Carolina jumped 21% in 2011. In 2012, South Carolina's export growth ranked the state 17th in the United States. Export figures are expected to continue to increase as Boeing has begun to deliver the aircraft made in South Carolina. The State also recently established a Transportation, Distribution and Logistics (TDL) Council that includes strong private sector participation. Part of the mission of this council is to prepare South Carolina for the Panama Canal expansion, providing South Carolina with a world-class port that will have the capacity to support the expected increase in merchant shipping.

Due in part to the State's economic outreach initiatives, South Carolina's total economic output or gross domestic product (GDP) was \$176 billion in 2012. Between 2011 and 2012, our real GDP grew 4.4%, outpacing the southeast states average growth of 3.8%.

With our cost of living 12% below the national average, South Carolina offers exceptionally productive employees at one of the lowest labor costs in the nation. South Carolina is a right-to-work state and in 2012 had the third lowest unionization rate in the nation, at 3.3%. CNBC recently ranked the South Carolina workforce sixth in the nation in terms of quality and availability of workers, as well as lower union membership and the success of state worker training programs in placing people in jobs.

South Carolina's job recruitment and capital investment from manufacturers has experienced steady growth from 2006 to 2011. In 2011 alone, the state attracted more than \$4.7 billion in capital investment from manufacturing companies. Between 2006 and 2011, new and expanding manufacturing firms have committed to creating 70,000 jobs in the state.

South Carolina consistently ranks high on Site Selection magazine's "Top State Business Climate Rankings". The state ranked 7th overall in the most recently released 2013 survey. South Carolina scored high with business executives surveyed by Site Selection, ranking 2nd, only behind Texas.

The State Budget

The General Assembly approved a budget totaling \$22.7 billion for fiscal year 2013-14, which includes \$6.3 billion in recurring general funds and \$106 million in capital reserve funds. The budget fully funds the General Reserve Fund that totals \$281.6 million at June 30, 2013, and is available for management of revenue shortfalls.

Eligibility was not expanded by legislation for the State's Medicaid Program in connection with the federal "Patient Protection and Affordable Care Act" of 2010. Instead, budget legislation includes a redirection of Medicaid spending under a new comprehensive Medicaid Accountability and Quality Improvement Initiative to be undertaken by the South Carolina Department of Health and Human Services upon approval by the Centers for Medicare and Medicaid Services (CMS).

Under this initiative, a total of up to \$35 million (\$10.5 million in state funding) is devoted to the Healthy Outcomes Initiative which would provide financial incentives for hospitals to reduce reliance on comparatively expensive emergency room treatment. The initiative also involves participating in price and quality transparency efforts and entering into agreements with primary care providers to help meet the needs of chronically ill uninsured patients through home visits and care in other settings outside the emergency room. Budget legislation also provided uncompensated care costs at designated rural hospitals of \$20 million (\$6 million in state funding).

The State's maintenance of effort for the Medicaid program is fully funded using \$105 million in tobacco master settlement agreement funds. An additional \$20.7 million is included for the Department of Mental Health for such agency functions as client services, veterans' nursing homes, and school-based mental health services.

The budget devotes approximately \$175 million in new funding to K-12 education for fiscal year 2013-14. Additional funding in the amount of \$77 million was directed to the Education Finance Act, with \$20.5 million to be used to address enrollment growth and an additional \$56.4 million to be used to increase the base student cost from \$2,012 to \$2,100 per student, or 4.4%.

The budget includes a four-year-old kindergarten initiative for school districts with a poverty index of 75% or more, excluding the plaintiff districts in the Abbeville School District vs. the State of South Carolina lawsuit, with 65% of funds directed to the State Department of Education for public programs and 35% directed to private initiatives through the First Steps program.

K-12 instructional materials funding of \$32 million was included in the budget, and \$4 million of Education Lottery funding was devoted for digital instructional materials. An additional \$13 million was devoted for school transportation for the maintenance and upkeep of the state's school bus fleet and \$23.5 million, derived from such sources as capital reserve funds and unclaimed Education Lottery prize funds, was included to purchase or lease new school buses.

Increased costs for operating the state employees' health insurance plan were addressed by budgeting \$54 million to cover a 6.8% increase in employer premiums, and by increasing employee coinsurance payments and deductibles of up to 20%. The actual health insurance premiums paid by employees were not changed.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of South Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year that ended June 30, 2012. This was the twenty-fifth consecutive year that the State of South Carolina achieved this recognition. In order to be awarded a Certificate of Achievement, a government must publish a timely, easily readable, and efficiently organized CAFR. The CAFR must comply with both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility to be awarded a Certificate of Achievement.

Production of the CAFR was made possible only by the support of all State agencies and component units that supplied financial data to our office on a timely basis. I extend special appreciation for the members of my staff who devoted many of their nights and weekends over the past few months working as a team to produce this comprehensive document. I also express special appreciation for the generous sacrifices made by their families who endured the many extra hours they devoted to successfully complete this project.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Eckstrom". The signature is fluid and cursive, with a large initial "R" and "E".

Richard Eckstrom, CPA
Comptroller General