
**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, 2013. 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 38 through 41 of this report.

There are two government-wide financial statements:

Statement of net position: This statement presents information on *all* of the State's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether its financial position is improving or deteriorating. However, the statement of net position 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 position changed during the year. The State reports a change in its net position 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 40 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. The Unemployment Compensation Benefits Fund is 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 State Housing Authority, Clemson University, the Medical University of South Carolina, and the University of South Carolina 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 70).

Fund Financial Statements

The fund financial statements on pages 42 through 59 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 42 through 49 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 50 through 56 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 position it reports in fiduciary funds are used for the intended purposes.

The basic fiduciary fund statements are on pages 58 and 59 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 60 through 63 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 64 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 148 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 Position
 As of June 30, 2013
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percent Change 2013-2012
	<i>(as restated)</i>		<i>(as restated)</i>		<i>(as restated)</i>		
	2013	2012	2013	2012	2013	2012	
Assets							
Current and other assets.....	\$ 9,613,883	\$ 8,831,051	\$ 646,956	\$ 641,350	\$ 10,260,839	\$ 9,472,401	8.3%
Capital assets.....	14,945,818	14,847,194	72,497	54,450	15,018,315	14,901,644	0.8%
Total assets.....	24,559,701	23,678,245	719,453	695,800	25,279,154	24,374,045	3.7%
Liabilities							
Long-term liabilities.....	4,488,981	3,891,594	629,150	914,353	5,118,131	4,805,947	6.5%
Other liabilities.....	2,591,818	3,575,176	332,158	260,603	2,923,976	3,835,779	(23.8%)
Total liabilities.....	7,080,799	7,466,770	961,308	1,174,956	8,042,107	8,641,726	(6.9%)
Net Position							
Net investment in capital assets.....	11,468,466	11,251,603	72,497	54,450	11,540,963	11,306,053	2.1%
Restricted.....	5,323,431	3,183,501	56	56	5,323,487	3,183,557	67.2%
Unrestricted.....	687,005	1,776,371	(314,408)	(532,988)	372,597	1,243,383	(70.0%)
Total net position, restated.....	\$ 17,478,902	\$ 16,211,475	\$ (241,855)	\$ (478,482)	\$ 17,237,047	\$ 15,732,993	9.6%

Net Position

The comparison of net position to liabilities may serve, over time, as a useful indicator of the State’s financial strength. At the end of the 2013 fiscal year, the State’s net position totaled \$17.237 billion.

The largest portion of the State’s net position 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 position 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 debt service.

Unrestricted net position—resources available for future spending without restrictions—reported balance of \$372.597 million at June 30, 2013. This represents a decrease of \$870.786 million over the prior year. Some of this decrease resulted from the \$1.089 billion decrease in the unrestricted net position reported for the State’s *governmental activities* was mostly the result of federal and other grants-restricted funds increasing as a portion of the year-end net position, as opposed to the prior year’s portion of net position.

The State’s *business-type activities* reported a (\$314.408) million unrestricted net position. This balance was mostly comprised of a (\$182.600) million net position in the State-run unemployment compensation fund, a (\$82.269) million net position in the State-run medical malpractice insurance program, and a (\$63.362) million net position in the State-run college tuition prepayment program.

Exhibit 2
Government-wide Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change 2013-2012
	<i>(as restated)</i>		<i>(as restated)</i>		<i>(as restated)</i>		
	2013	2012	2013	2012	2013	2012	
Revenues							
Program revenues:							
Charges for services.....	\$ 2,890,953	\$ 2,649,463	\$ 514,169	\$ 449,833	\$ 3,405,122	\$ 3,099,296	9.9%
Operating grants and contributions.....	7,328,281	7,366,197	323,321	689,113	7,651,602	8,055,310	(5.0%)
Capital grants and contributions.....	716,702	646,148	3	—	716,705	646,148	10.9%
General revenues:							
Individual income tax.....	3,479,332	3,101,861	—	—	3,479,332	3,101,861	12.2%
Retail sales and use tax.....	4,268,274	4,148,010	—	—	4,268,274	4,148,010	2.9%
Other tax.....	1,938,479	2,000,124	—	—	1,938,479	2,000,124	(3.1%)
Unrestricted grants and contributions.....	159	93,970	—	—	159	93,970	(99.8%)
Unrestricted investment income.....	55,534	77,729	8,206	6,044	63,740	83,773	(23.9%)
Tobacco legal settlement.....	73,326	74,122	—	—	73,326	74,122	(1.1%)
Other.....	587,564	509,742	85	—	587,649	509,742	15.3%
Total revenues.....	21,338,604	20,667,366	845,784	1,144,990	22,184,388	21,812,356	1.7%
Expenses							
Governmental activities:							
General government.....	5,324,230	4,685,050	—	—	5,324,230	4,685,050	13.6%
Education.....	4,229,595	4,163,313	—	—	4,229,595	4,163,313	1.6%
Health and environment.....	6,403,284	5,778,883	—	—	6,403,284	5,778,883	10.8%
Social services.....	2,087,877	2,066,923	—	—	2,087,877	2,066,923	1.0%
Administration of justice.....	719,891	658,925	—	—	719,891	658,925	9.3%
Resources and economic development.....	281,763	191,684	—	—	281,763	191,684	47.0%
Transportation.....	931,980	1,194,222	—	—	931,980	1,194,222	(22.0%)
Other.....	31,589	87,929	—	—	31,589	87,929	(64.1%)
Business-type activities:							
Unemployment compensation benefits.....	—	—	616,064	1,066,105	616,064	1,066,105	(42.2%)
Other.....	—	—	54,061	51,692	54,061	51,692	4.6%
Total expenses.....	20,010,209	18,826,929	670,125	1,117,797	20,680,334	19,944,726	3.7%
Excess (deficiency) before additions to endowments and transfers.....	1,328,395	1,840,437	175,659	27,193	1,504,054	1,867,630	(19.5%)
Gain on early retirement of debt.....	—	—	—	119	—	119	(100.0%)
Net transfers.....	(60,968)	(640,774)	60,968	137,323	—	(503,451)	—
Increase (decrease) in net position.....	1,267,427	1,199,663	236,627	164,635	1,504,054	1,364,298	10.2%
Net position at beginning of year, restated.....	16,211,475	15,011,812	(478,482)	(643,117)	15,732,993	14,368,695	9.5%
Net position, end of year.....	\$ 17,478,902	\$ 16,211,475	\$ (241,855)	\$ (478,482)	\$ 17,237,047	\$ 15,732,993	9.6%

2012 restatement due to correction of an error. See Note 14, Fund Equity Reclassifications and Restatements, on page 134 of the financial statements.

Changes in Net Position

The State’s total net position increased by \$1.504 billion or 9.6% over the prior year’s net position 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 overall liabilities. 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 helped to allow a better position in the current and other assets as of June 30, 2013.

Governmental Activities

The net position of the State’s governmental activities increased by \$1.267 billion or 7.8%. Revenue increased from last year by \$671.238 million or 3.2%, which is an increase of \$397.110 million or 4.0% in general revenue and an increase of \$274.128 million or 2.6% 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 \$1.183 billion or 6.3% for the fiscal year ended June 30, 2013. 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, 2013, the State used \$9.074 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 \$60.968 million in net transfers to the State’s business-type activities.

The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2013 fiscal year:

- Program revenues were \$10.936 billion, an increase of \$274.128 million, or 2.6%. The increase was primarily due to the increased demand for health and environmental services.
- Individual income tax revenues increased by \$377.471 million or 12.2%, retail sales and use tax revenues increased by \$120.264 million or 2.9%, and other taxes revenues decreased by \$61.645 million or 3.1%. Overall tax collections increased during fiscal year 2013 due to increased enforcement and improvements in the state and national economies.
- General government expenses increased by \$639.180 million or 13.6%, which is attributable to improvements in the state’s economy, availability of budgetary appropriations, and increased demand for government services.
- Education expenses increased by \$66.282 million or 1.6% 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 increased by \$624.401 million or 10.8% which can be attributed 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, 2013

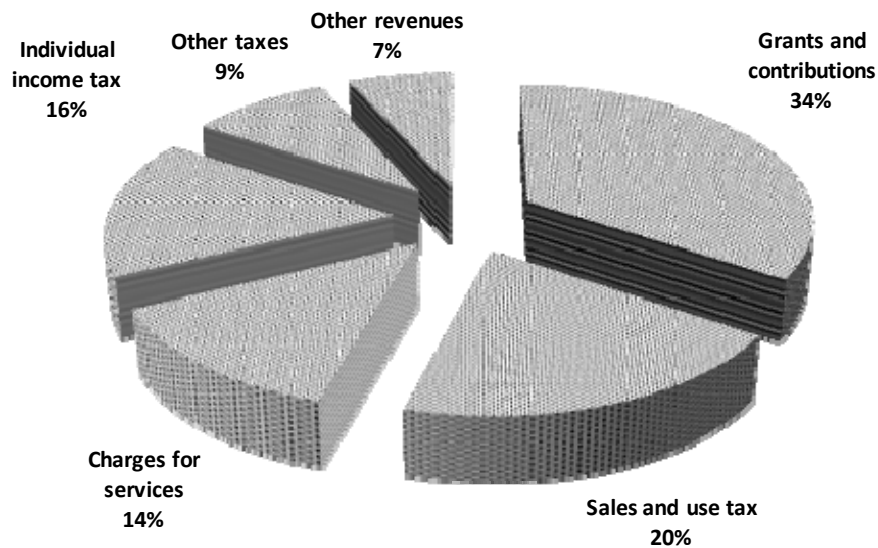
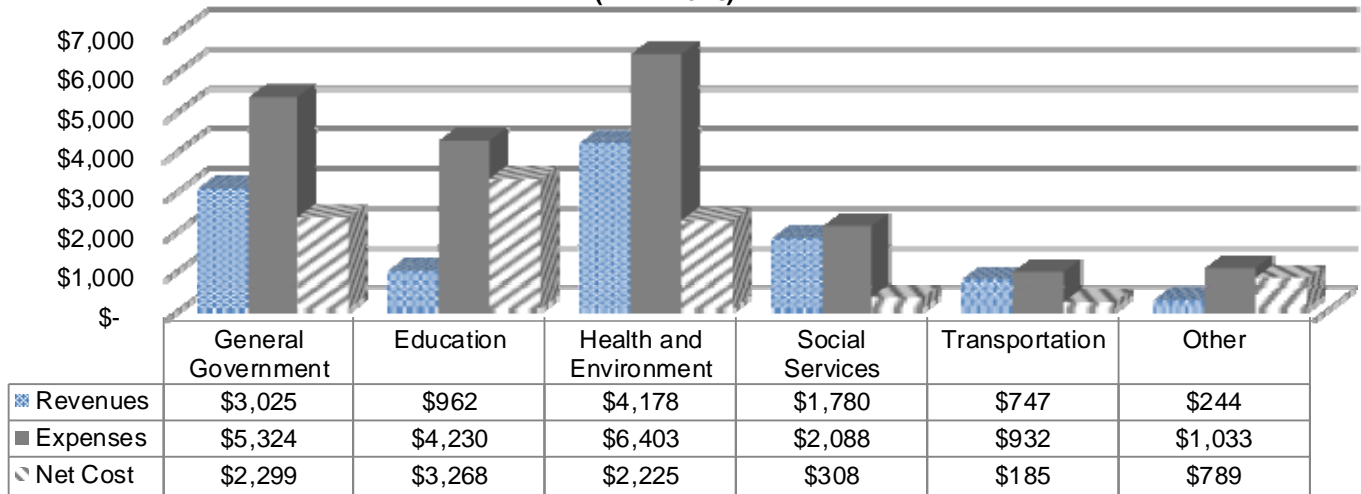


Exhibit 4
Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2013
(In Millions)



Business-type Activities

The net position of the State’s business-type activities increased by \$236.627 million or 49.5%.

Most business-type activities are self-supporting. The Unemployment Compensation Fund accounts for the State’s unemployment compensation benefits in which federal grants and assessments on employers pay for the services that the Unemployment Compensation Fund provides. However, the Unemployment Compensation Fund receives substantial resources (primarily transfers of annual appropriations) from the State’s governmental activities. The \$60.968 million reported as net transfers in Exhibit 2 consists primarily of the appropriations and other transfers to the Unemployment Compensation Fund, which totaled \$72.8 million for the year ended June 30, 2013, and represent the cost of federal unemployment compensation benefits supported with taxes and other general revenues of governmental activities.

Expenses for the payment of unemployment compensation benefits decreased by \$450.041 million or 42.2% during the 2013 fiscal year. This decrease resulted from declining unemployment claims 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, 2013.

Exhibit 5
Governmental Fund Balances
As of June 30, 2013
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable.....	\$ 67,717	\$ 8,466	\$ 740,600	\$ 9,701	\$ 12,401	\$ 838,885
Restricted.....	337,687	249,882	1,292,226	10,000	493,194	2,382,989
Committed.....	650,545	3,955	—	159,627	2,623	816,750
Assigned.....	996,539	—	—	—	156,918	1,153,457
Unassigned.....	791,549	(30,033)	—	(276,644)	—	484,872
Totals.....	\$ 2,844,037	\$ 232,270	\$ 2,032,826	\$ (97,316)	\$ 665,136	\$ 5,676,953
Change from prior year.....	\$ 915,348	\$ (23,022)	\$ 70,311	\$ 33,237	\$ (51,367)	\$ 944,507
Percentage change.....	47.5%	(9.0%)	3.6%	25.5%	(7.2%)	20.0%

At June 30, 2013, total ending fund balance for the State’s governmental funds was \$5.677 billion, which represents an increase of \$0.945 billion or 20.0% from the prior year. Included in this total is an *unrestricted, unassigned* fund balance of \$484.872 million. The General Fund reports \$791.549 million as unrestricted, unassigned and available with no constraints for spending in the coming year. Forty-one percent 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 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 \$358.375 million, 11.6%, sales and use taxes of \$134.078 million, 3.8%, corporate income tax of \$93.274 million, 31.8%, insurance tax of \$4.531 million, 3.4%, and hospital tax of \$824 thousand, 0.3% from the prior year. The increase in expenditures of \$426.076 million, 5.1%, 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 2013 fiscal year, the total fund balance decreased by \$23.022 million or 9.0% from the prior year. The primary source of revenue for the fund is federal revenues which account for \$6.761 billion or 93.0% 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 \$33.237 million or 25.5% during the 2013 fiscal year leaving a balance of (\$97.316) million at the end of the fiscal year. The increase in fund balance was caused by an increase in funding from the federal government.

Proprietary Funds

Exhibit 6 shows the components of the net position for the State’s various proprietary funds at June 30, 2013.

Exhibit 6
Proprietary Fund Net Position
As of June 30, 2013
(Expressed in Thousands)

Fund Net Position	Unemployment Compensation	Nonmajor Enterprise	Total Enterprise	Internal Service Funds
Net investment in capital assets.....	\$ —	\$ 72,497	\$ 72,497	\$ 88,674
Restricted, expendable.....	—	56	56	202,698
Unrestricted.....	(182,600)	(131,808)	(314,408)	202,133
Totals.....	\$ (182,600)	\$ (59,255)	\$ (241,855)	\$ 493,505
Change from prior year.....	\$ 244,741	\$ (8,114)	\$ 236,627	\$ 8,768
Percentage change.....	57.3%	(15.9%)	49.5%	1.8%

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 position of the Unemployment Compensation Benefits Fund, a major enterprise fund, increased by \$244.741 million or 57.3% over the prior year. 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 position and enabled the Fund to operate without obtaining additional advances from the Federal government since May of 2011. Additional information on the advances and plans for repayment are included in Note 11i.

The net position of the State’s *nonmajor enterprise funds* decreased by \$8.114 million or 15.87%. This was due mostly to *Tuition Prepayment Program* tuition plan disbursements increasing by \$28.738 million or 3958.4%. This decrease was partially offset by positive operating results for the *Patients’ Compensation Fund*.

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 position of \$8.768 million or 1.8% over the prior year resulted from increases in charges for services in the Prison Industries and General Services Funds and also in the Employee Insurance Programs. 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 2013 fiscal year were \$6.088 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 \$6.119 billion. Actual revenues at June 30, 2013, were \$270.879 million or 4.4% over the BEA’s adjusted revenue estimate which also represented an increase in collections over the prior year of \$531.780 million or 9.1%. Individual income and sales tax collections are the fund’s primary revenue sources. Individual income tax collections ended the year over the adjusted estimate by \$111.742 million and sales tax collections ended the year under the adjusted estimate by \$18.083 million.

Actual expenditures were \$189.866 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, \$2.437 million of unbudgeted spending was allowed through “open-ended” appropriations.

Based on the above results of operations, fiscal year 2013 ended with a budgetary surplus. The State ended the year with a budgetary General Fund balance of \$1.046 billion.

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 2013 fiscal year, the State had \$15.018 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$116.671 million or 0.8%, 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
	2013	2012	2013	(as restated) 2012	2013	(as restated) 2012	
Land and improvements.....	\$ 1,926,330	\$ 1,910,870	\$ 41,249	\$ 41,143	\$ 1,967,579	\$ 1,952,013	0.8%
Infrastructure.....	9,200,685	9,194,881	—	—	9,200,685	9,194,881	0.1%
Buildings and improvements.....	1,128,643	1,172,558	9,857	8,694	1,138,500	1,181,252	(3.6%)
Vehicles.....	91,305	80,842	6	17	91,311	80,859	12.9%
Machinery and equipment.....	122,036	105,463	3,039	2,179	125,075	107,642	16.2%
Works of art and historical treasures..	5,178	5,238	—	—	5,178	5,238	(1.1%)
Construction in progress.....	2,414,808	2,318,758	10,116	2,072	2,424,924	2,320,830	4.5%
Intangible assets.....	56,833	58,584	8,230	345	65,063	58,929	10.4%
Total.....	\$ 14,945,818	\$ 14,847,194	\$ 72,497	\$ 54,450	\$ 15,018,315	\$ 14,901,644	0.8%

Growth in capital asset investment occurred mostly in construction in progress, which was primarily in software for the State’s Department of Social Services and for various facilities for the State’s Department of Public Safety and Department of Corrections. During the current year, buildings and improvements have continued to decrease due to general aging, as reflected in the net book value through depreciation.

See Note 6 in the notes to the financial statements on page 92 of this report for additional information on the State’s capital assets.

Debt Outstanding

At June 30, 2013, the State had \$3.413 billion in bonds and notes outstanding—a decrease of \$305.672 million, or a 8.2% 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
	2013	2012	2013	(as restated) 2012	2013	(as restated) 2012	
Backed by the State:							
General obligation bonds.....	\$1,376,697	\$ 1,571,957	\$ —	\$ —	\$1,376,697	\$ 1,571,957	(12.4%)
Backed by Specific Revenues:							
Revenue bonds and notes.....	24,318	68,854	6,360	—	30,678	68,854	(55.4%)
Infrastructure Bank bonds.....	2,003,486	2,074,308	—	—	2,003,486	2,074,308	(3.4%)
Limited obligation bonds.....	2,408	3,822	—	—	2,408	3,822	(37.0%)
Total.....	\$3,406,909	\$ 3,718,941	\$ 6,360	\$ —	\$3,413,269	\$ 3,718,941	(8.2%)

The reduction of principal on outstanding debt exceeded the issuance of debt resulting in a decrease in debt outstanding for governmental activities of \$312.032 million. Activity in the debt reported by the governmental activities included the issuance of \$424.910 million in Infrastructure Bank revenue bonds. All of the proceeds from the debt issuance by governmental activities were used to refund earlier bond issues.

For business-type activities, the South Carolina Division of Public Railways assumed responsibility for the payment of \$6.360 million in tax increment financing bonds from the City of North Charleston.

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, 2013, 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, 2013, 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: \$37.609 million for highway bonds, \$176.852 million for general obligation bonds (excluding institution and highway bonds), \$4.716 million for economic development bonds, and \$8.785 million for research university infrastructure bonds.

State institution bonds of \$433.434 million were outstanding at June 30, 2013.

See Note 11 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, 2013, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$281.641 million which increased from the prior year by \$98.175 million appropriated by the 2012-2013 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 2013, State law defines full funding for the reserve as 4.0% 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 2015.

Budgetary General Fund for the 2013-2014 Accounting Year

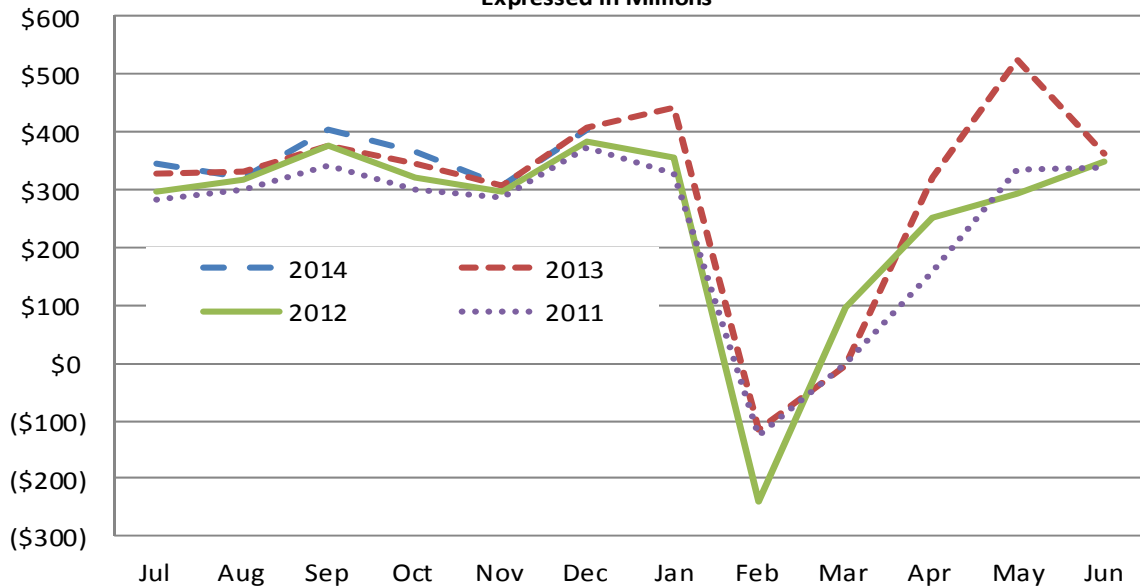
For fiscal year 2014, the Board of Economic Advisors estimated General Fund cash basis revenue of \$6.846 billion, which was \$456.533 million or 7.1% greater than fiscal year 2013 actual revenue collections. The State’s Board of Economic Advisors November 2013 estimate reflects an additional increase of \$92.733 million or 1.4% over the original revenue estimate for fiscal year 2014.

Economic Conditions

Budgetary General Fund revenues for the first six months of fiscal year 2014 were \$3.647 billion, an increase of \$91.496 million or 2.6% over the same period for fiscal year 2013. Total individual income taxes collected have increased \$524.243 million or 16.9% over the same period in the prior year. Sales taxes have also increased \$93.404 million or 4.0% from fiscal year 2013.

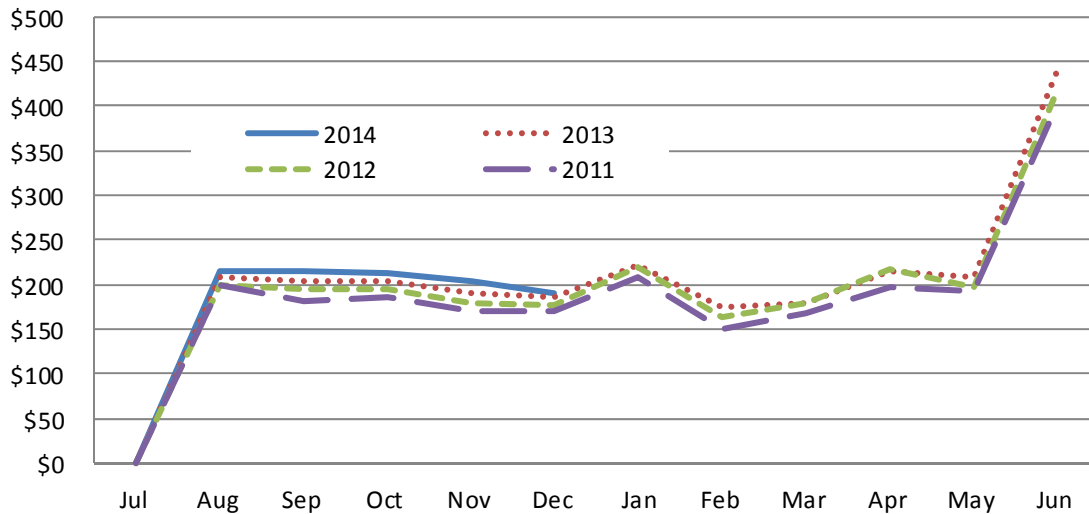
Individual Income Taxes

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
1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201