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

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## 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, 2014. 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 and Second Injury Fund 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 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.

# State of South Carolina

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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 153 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 161 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 155 through 161 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, 2014  
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percent Change 2014-2013
	<i>(as restated)</i>		<i>(as restated)</i>		<i>(as restated)</i>		
	2014	2013	2014	2013	2014	2013	
<b>Assets</b>							
Current and other assets.....	\$ 9,894,717	\$ 9,237,967	\$ 750,720	\$ 644,779	\$ 10,645,437	\$ 9,882,746	7.7%
Capital assets.....	15,275,827	14,945,818	136,433	72,497	15,412,260	15,018,315	2.6%
<b>Total assets.....</b>	<b>25,170,544</b>	<b>24,183,785</b>	<b>887,153</b>	<b>717,276</b>	<b>26,057,697</b>	<b>24,901,061</b>	<b>4.6%</b>
<b>Deferred Outflows of Resources</b>	<b>130,143</b>	<b>113,103</b>	<b>—</b>	<b>—</b>	<b>130,143</b>	<b>113,103</b>	<b>15.1%</b>
<b>Liabilities</b>							
Long-term liabilities.....	4,341,673	4,614,946	785,290	851,598	5,126,963	5,466,544	(6.2%)
Other liabilities.....	2,780,290	2,576,554	201,237	362,863	2,981,527	2,939,417	1.4%
<b>Total liabilities.....</b>	<b>7,121,963</b>	<b>7,191,500</b>	<b>986,527</b>	<b>1,214,461</b>	<b>8,108,490</b>	<b>8,405,961</b>	<b>(3.5%)</b>
<b>Net Position</b>							
Net investment in capital assets.....	11,892,515	11,455,604	124,223	72,497	12,016,738	11,528,101	4.2%
Restricted.....	5,488,629	5,323,431	185,732	56	5,674,361	5,323,487	6.6%
Unrestricted.....	797,580	326,353	(409,329)	(569,738)	388,251	(243,385)	(259.5%)
<b>Total net position.....</b>	<b>\$ 18,178,724</b>	<b>\$ 17,105,388</b>	<b>\$ (99,374)</b>	<b>\$ (497,185)</b>	<b>\$ 18,079,350</b>	<b>\$ 16,608,203</b>	<b>8.9%</b>

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 2014 fiscal year, the State’s net position totaled \$18.079 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 is available for future spending but is 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 a balance of \$388.251 million at June 30, 2014. This represents an increase of \$631.636 million over the prior year. Some of this increase resulted from the \$471.227 million increase in the unrestricted net position reported for the State’s *governmental activities* which was mostly the result of increased tax revenues.

The State’s *business-type activities* reported a (\$409.329) million unrestricted net position. This balance was mostly comprised of a (\$64.068) million unrestricted net position in the State-run medical malpractice insurance program, a (\$57.430) million unrestricted net position in the State-run college tuition prepayment program, and a (\$192.367) million unrestricted net position in the Second Injury Fund. The negative unrestricted net position in all three funds was the result of the full amount of claims exceeding assets on hand on June 30, 2014.

*Exhibit 2*  
**Government-wide Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2014**  
*(Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change
	<i>(as restated)</i>		<i>(as restated)</i>		<i>(as restated)</i>		2014-2013
	2014	2013	2014	2013	2014	2013	
<b>Revenues</b>							
Program revenues:							
Charges for services.....	\$ 3,217,602	\$ 2,879,071	\$ 613,765	\$ 511,566	\$ 3,831,367	\$ 3,390,637	13.0%
Operating grants and contributions.....	7,661,223	7,328,281	90,107	323,321	7,751,330	7,651,602	1.3%
Capital grants and contributions.....	806,657	716,702	210	3	806,867	716,705	12.6%
General revenues:							
Individual income tax.....	3,422,532	3,479,143	—	—	3,422,532	3,479,143	(1.6%)
Retail sales and use tax.....	4,178,102	3,988,918	—	—	4,178,102	3,988,918	4.7%
Other tax.....	1,966,716	1,914,771	—	—	1,966,716	1,914,771	2.7%
Unrestricted grants and contributions.....	1	159	—	—	1	159	(99.4%)
Unrestricted investment income.....	115,150	66,152	26,107	8,632	141,257	74,784	88.9%
Tobacco legal settlement.....	109,113	73,326	—	—	109,113	73,326	48.8%
Other.....	684,412	587,729	204	85	684,616	587,814	16.5%
<b>Total revenues.....</b>	<b>22,161,508</b>	<b>21,034,252</b>	<b>730,393</b>	<b>843,607</b>	<b>22,891,901</b>	<b>21,877,859</b>	<b>4.6%</b>
<b>Expenses</b>							
Governmental activities:							
General government.....	5,377,689	5,303,836	—	—	5,377,689	5,303,836	1.4%
Education.....	4,250,632	4,243,187	—	—	4,250,632	4,243,187	0.2%
Health and environment.....	7,071,800	6,403,284	—	—	7,071,800	6,403,284	10.4%
Social services.....	1,977,904	2,087,077	—	—	1,977,904	2,087,077	(5.2%)
Administration of justice.....	830,536	719,891	—	—	830,536	719,891	15.4%
Resources and economic development.....	334,898	281,763	—	—	334,898	281,763	18.9%
Transportation.....	1,159,917	931,980	—	—	1,159,917	931,980	24.5%
Other.....	36,896	44,451	—	—	36,896	44,451	(17.0%)
Business-type activities:							
Unemployment compensation benefits.....	—	—	342,741	616,064	342,741	616,064	(44.4%)
Second Injury Fund.....	—	—	2,547	52,656	2,547	52,656	(95.2%)
Other.....	—	—	35,194	54,061	35,194	54,061	(34.9%)
<b>Total expenses.....</b>	<b>21,040,272</b>	<b>20,015,469</b>	<b>380,482</b>	<b>722,781</b>	<b>21,420,754</b>	<b>20,738,250</b>	<b>3.3%</b>
<b>Excess before transfers.....</b>	<b>1,121,236</b>	<b>1,018,783</b>	<b>349,911</b>	<b>120,826</b>	<b>1,471,147</b>	<b>1,139,609</b>	<b>29.1%</b>
Net transfers.....	(47,900)	(60,968)	47,900	60,968	—	—	—
<b>Increase in net position.....</b>	<b>1,073,336</b>	<b>957,815</b>	<b>397,811</b>	<b>181,794</b>	<b>1,471,147</b>	<b>1,139,609</b>	<b>29.1%</b>
Net position at beginning of year, as restated <sup>a</sup> .....	17,105,388	16,147,573	(497,185)	(678,979)	16,608,203	15,468,594	7.4%
<b>Net position, end of year.....</b>	<b>\$ 18,178,724</b>	<b>\$ 17,105,388</b>	<b>\$ (99,374)</b>	<b>\$ (497,185)</b>	<b>\$ 18,079,350</b>	<b>\$ 16,608,203</b>	<b>8.9%</b>

a - 2013 restatement due to the GASB 65 implementation and the correction of an error. See Note 14, Fund Equity Reclassifications and Restatements, on page 139 of the financial statements.

**Changes in Net Position**

The State’s total net position increased by \$1.471 billion or 8.9% 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 primarily through increased program revenues of the State’s governmental activities.

**Governmental Activities**

The net position of the State’s governmental activities increased by \$1.073 billion or 6.3%. Revenue increased from last year by \$1.127 billion or 5.4%, which is an increase of \$365.828 million or 3.6% in general revenue and an increase of \$0.761 billion or 7.0% 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 sources of revenues that support governmental activities.

Expenses associated with governmental activities increased by \$1.025 billion or 5.1% for the fiscal year ended June 30, 2014. 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, 2014, the State used \$9.355 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 \$47.900 million in net transfers to the State’s business-type activities.

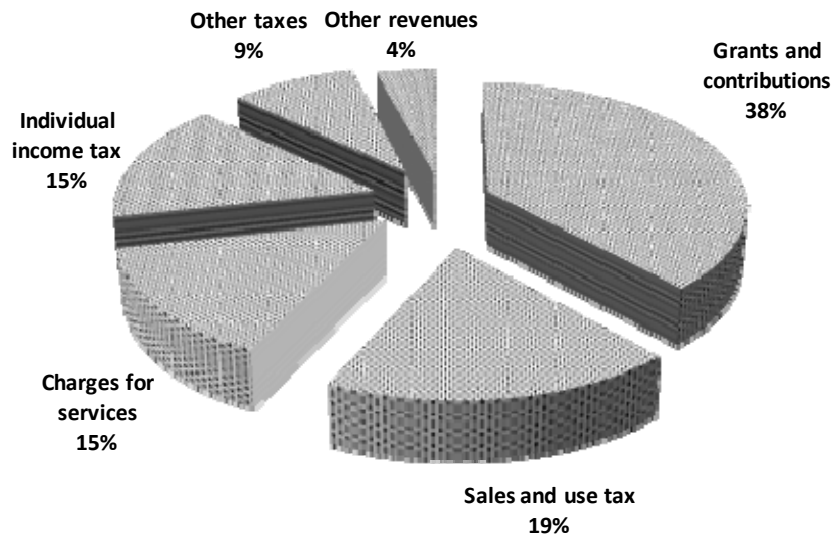
The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2014 fiscal year:

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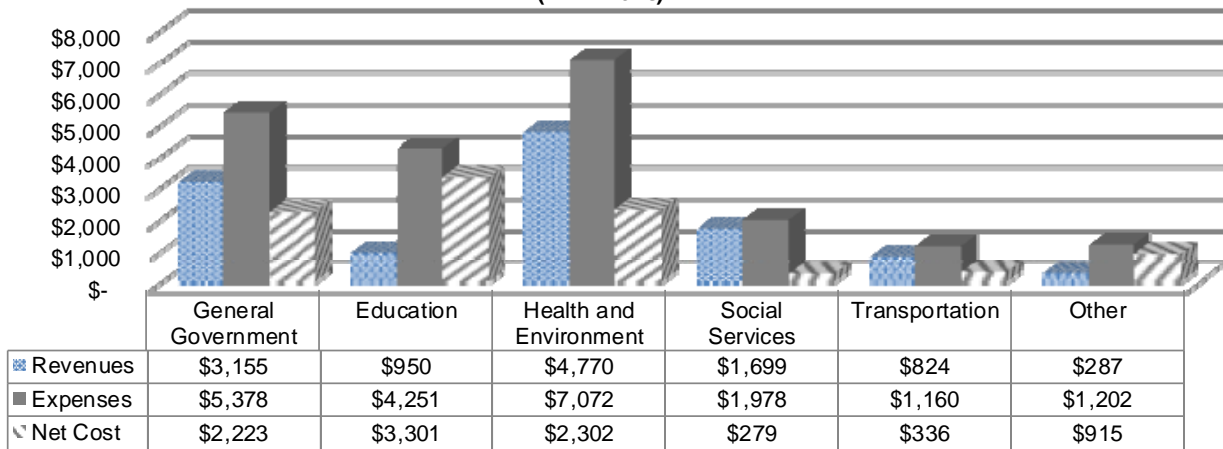
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- Program revenues were \$11.685 billion, an increase of \$0.761 billion, or 7.0%. The increase was primarily due to the increased demand for health and environmental services.
- Individual income tax revenues decreased by \$56.611 million or 1.6%, retail sales and use tax revenues increased by \$189.184 million or 4.7%, and other taxes revenues increased by \$51.945 million or 2.7%. Overall tax collections increased during fiscal year 2014 due to increased enforcement and improvements in spending within the state and national economies.
- General government expenses increased by \$73.853 million or 1.4%, which is attributable to improvements in the state's economy, availability of budgetary appropriations, and increased demand for government services.
- Transportation expenses increased by \$227.937 million or 24.5% from last year. The increase is primarily the result of general increases in the costs of improving and enhancing infrastructure. Secondly, additional appropriations were available from improved economic conditions.
- Health and environmental expenses increased by \$668.516 million or 10.4% which can be attributed to an increase in revenue driven by demand for services.

**Exhibit 3**  
**Sources of Revenues Supporting Governmental Activities**  
**For the Fiscal Year Ended June 30, 2014**



*Exhibit 4*  
**Governmental Activities - Net Cost of Services**  
**For the Fiscal Year Ended June 30, 2014**  
**(In Millions)**



**Business-type Activities**

The net position of the State’s business-type activities increased by \$397.811 million or 84.9%.

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. The Unemployment Compensation Fund’s net position as of June 30, 2014 was \$71.278 million, which was an increase of \$253.878 million or 139.0%. The Second Injury Fund serves as a claims processor for insurance carriers, self-insurers, and State Accident Fund. The Second Injury Fund’s net position as of June 30, 2014 was (\$192.367) million, which was an increase of \$60.918 million.

Operating revenues of the Unemployment Compensation Fund decreased by \$191.077 million or 24.2% and operating expenses for the payment of unemployment compensation benefits decreased by \$273.323 million or 44.4% during the 2014 fiscal year. The decreases resulted from declining unemployment claims in the state. Additionally, operating revenues for the Second Injury Fund have increased by \$58.522 million.

**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, 2014.

*Exhibit 5*  
**Governmental Fund Balances**  
**As of June 30, 2014**  
*(Expressed in Thousands)*

	<b>General Fund</b>	<b>Departmental Program Services</b>	<b>Local Government Infrastructure</b>	<b>Department of Transportation Special Revenue</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
Nonspendable.....	\$ 68,128	\$ 7,306	\$ 749,181	\$ 8,687	\$ 10,501	\$ 843,803
Restricted.....	359,073	717,581	1,376,307	10,000	521,021	2,983,982
Committed.....	967,245	5,234	—	237,390	104,064	1,313,933
Assigned.....	444,630	—	—	—	5,387	450,017
Unassigned.....	1,083,959	(484,181)	—	(263,200)	—	336,578
<b>Totals.....</b>	<b>\$ 2,923,035</b>	<b>\$ 245,940</b>	<b>\$ 2,125,488</b>	<b>\$ (7,123)</b>	<b>\$ 640,973</b>	<b>\$ 5,928,313</b>
<b>Change from prior year.....</b>	<b>\$ 381,350</b>	<b>\$ 13,670</b>	<b>\$ 88,149</b>	<b>\$ 90,193</b>	<b>\$ 39,739</b>	<b>\$ 613,101</b>
<b>Percentage change.....</b>	<b>15.0%</b>	<b>5.9%</b>	<b>4.3%</b>	<b>92.7%</b>	<b>6.6%</b>	<b>11.5%</b>

At June 30, 2014, total ending fund balance for the State’s governmental funds was \$5.928 billion, which represents an increase of \$613.101 million or 11.5% from the prior year. Included in this total is an *unrestricted, unassigned* fund balance of \$336.578 million. The General Fund reports \$1.084 billion as unrestricted, unassigned and available with no constraints for spending in the coming year. Governmental funds that are *restricted* by external parties or enabling legislation which includes creation through state law or constitutional provision constitute 50.3% percent of the total fund balance. 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 interest and other investment income of \$21.69 million, 149.87%, other tax (which includes domestic corporate license taxes, taxes on alcoholic beverages and tobacco, and bank taxes) of \$17.135 million, 3.7%, and departmental services revenues (which mostly includes Medicaid and Medicare reimbursements) of \$137.107 million, 20.9% from the prior year. The increase in expenditures of \$544.467 million, 6.2%, 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 2014 fiscal year, the total fund balance increased by \$13.670 million or 5.9% from the prior year. The primary source of revenue for the fund is federal revenues which account for \$7.096 billion or 92.9% of the total revenue reported. These grants are reimbursement based thereby creating a higher unassigned fund balance until the funds are received.

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 by \$90.193 million or 92.7% during the 2014 fiscal year leaving a balance of (\$7.123) million at the end of the fiscal year. The increase in fund balance was caused primarily by transfers in of \$102.456 million. The transfers in were State appropriations in the 2014 fiscal year, which were not made in the 2013 fiscal year. In fiscal year 2014, the SC General Assembly reallocated the car sales tax to DOT to assist in covering expenditures related to infrastructure improvements and reduce the deficit fund balance.

**Proprietary Funds**

*Exhibit 6* shows the components of the net position for the State’s various proprietary funds at June 30, 2014.



*Exhibit 6*  
**Proprietary Fund Net Position**  
**As of June 30, 2014**  
*(Expressed in Thousands)*

<b>Fund Net Position</b>	<b>Unemployment Compensation</b>	<b>Second Injury</b>	<b>Nonmajor Enterprise</b>	<b>Total Enterprise</b>	<b>Internal Service Funds</b>
Net investment in capital assets.....	\$ —	\$ —	\$ 124,223	\$ 124,223	\$ 92,207
Restricted, expendable.....	69,230	—	116,502	185,732	252,026
Unrestricted.....	2,048	(192,367)	(219,010)	(409,329)	198,170
<b>Totals.....</b>	<b>\$ 71,278</b>	<b>\$ (192,367)</b>	<b>\$ 21,715</b>	<b>\$ (99,374)</b>	<b>\$ 542,403</b>
<b>Change from prior year.....</b>	<b>\$ 253,878</b>	<b>\$ 60,918</b>	<b>\$ 83,015</b>	<b>\$ 397,811</b>	<b>\$ 47,809</b>
<b>Percentage change.....</b>	<b>139.0%</b>	<b>24.1%</b>	<b>135.4%</b>	<b>80.0%</b>	<b>9.7%</b>

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 \$253.878 million or 139.0% over the prior year. Decreases in the number of individuals eligible for and claiming State unemployment insurance benefits 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 *Second Injury Fund*, a major enterprise fund, increased by \$60.918 million or 24.1% over the prior year. The increase was largely attributed to charges for services being \$29.338 million larger than claims paid in the 2014 fiscal year.

The net position of the State's *nonmajor enterprise funds* increased by \$83.015 million or 135.4% over the prior year. The increase in the State's *nonmajor enterprise funds'* net position was primarily due to a \$49.093 million transfer from the *Capital Projects Fund* to the *Palmetto Railways Fund* for the acquisition of land.

South Carolina's *internal service funds* provide certain services (including maintenance, insurance, printing, information technology, and motor pool services) to other State funds but sometimes to local governments as well. The increase in net position of \$47.809 million or 9.7% over the prior year resulted mostly from an increase in charges for services and a decrease in benefits and claims 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 2014 fiscal year were \$6.390 billion. Because of continual review of tax revenue collections, the Board of Economic Advisors (BEA) revised the revenue estimate during the course of the year to a total of \$6.360 billion. Actual revenues at June 30, 2014, were \$192.823 million or 3.0% over the estimated revenue used in the fiscal year 2014 budget appropriations act and which also represented an increase in collections over the prior year of \$162.814 million or 2.5%. 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 \$75.468 million and sales tax collections ended the year over the adjusted estimate by \$44.443 million.

Actual expenditures were \$223.242 million less than actual revenues because revenue collections exceeded the original budget, while expenditures were kept \$490.255 million under fiscal year 2014 adjusted appropriations. In addition, \$829 thousand of unbudgeted spending was allowed through "open-ended" appropriations.

Based on the above results of operations, fiscal year 2014 ended with a budgetary surplus. The State ended the year with a budgetary General Fund balance of \$1.163 billion.

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See the *Required Supplementary Information* section on pages 155 through 161 of this report for a detailed budgetary comparison schedule.

## Capital Assets and Debt Administration

### Capital Assets

At the end of the 2014 fiscal year, the State had \$15.412 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$393.945 million or 2.6%, 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		Business-type		Totals—Primary Government		Total Percentage Change
	Activities		Activities				
	2014	2013	2014	2013	2014	2013	
Land and improvements.....	\$ 1,943,407	\$ 1,926,330	\$ 92,862	\$ 41,249	\$ 2,036,269	\$ 1,967,579	3.5%
Infrastructure.....	9,313,843	9,200,685	—	—	9,313,843	9,200,685	1.2%
Buildings and improvements.....	1,081,718	1,128,643	17,834	9,857	1,099,552	1,138,500	(3.4%)
Vehicles.....	96,440	91,305	3	6	96,443	91,311	5.6%
Machinery and equipment.....	139,804	122,036	3,727	3,039	143,531	125,075	14.8%
Works of art and historical treasures...	8,415	5,178	—	—	8,415	5,178	62.5%
Construction in progress.....	2,645,274	2,414,808	21,892	10,116	2,667,166	2,424,924	10.0%
Intangible assets.....	46,926	56,833	115	8,230	47,041	65,063	(27.7%)
<b>Total.....</b>	<b>\$ 15,275,827</b>	<b>\$ 14,945,818</b>	<b>\$ 136,433</b>	<b>\$ 72,497</b>	<b>\$ 15,412,260</b>	<b>\$ 15,018,315</b>	<b>2.6%</b>

Growth in capital asset investment occurred mostly in construction in progress, which was primarily in infrastructure expenditures (roads and bridges) within the Department of Transportation Special Revenue Fund. 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 97 of this report for additional information on the State's capital assets.

### Debt Outstanding

At June 30, 2014, the State had \$3.365 billion in bonds and notes outstanding—a decrease of \$161.120 million, or a 4.6% 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		Business-type		Totals—Primary Government		Total Percentage Change
	Activities		Activities				
	2014	2013	2014	2013	2014	2013	
<b>Backed by the State:</b>							
General obligation bonds.....	\$ 1,320,532	\$ 1,398,363	\$ —	\$ —	\$ 1,320,532	\$ 1,398,363	(5.6%)
<b>Backed by Specific Revenues:</b>							
Revenue bonds and notes.....	21,072	24,318	6,210	6,360	27,282	30,678	(11.1%)
Infrastructure Bank bonds.....	2,016,518	2,094,922	—	—	2,016,518	2,094,922	(3.7%)
Limited obligation bonds.....	919	2,408	—	—	919	2,408	(61.8%)
<b>Total.....</b>	<b>\$ 3,359,041</b>	<b>\$ 3,520,011</b>	<b>\$ 6,210</b>	<b>\$ 6,360</b>	<b>\$ 3,365,251</b>	<b>\$ 3,526,371</b>	<b>(4.6%)</b>

2013 restatement due to GASB 65 reclassification of deferred amounts on bond refundings to deferred outflows of resources.

The reduction of principal on outstanding debt exceeded the issuance of debt resulting in a decrease in debt outstanding for governmental activities of \$160.970 million. Activity in the debt reported by the governmental activities included the

## State of South Carolina

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issuance of \$86.575 million in highway general obligation refunding bonds. All of the proceeds from the debt issuance by governmental activities were used to refund earlier bond issues.

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, 2014, 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, 2014, 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: \$35.949 million for highway bonds, \$207.442 million for general obligation bonds (excluding institution and highway bonds), \$7.407 million for economic development bonds, and \$10.237 million for research university infrastructure bonds.

State institution bonds and bond anticipation notes of \$491.520 million were outstanding at June 30, 2014.

See Note 11 in the notes to the financial statements on page 121 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, 2014, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$292.889 million which increased from the prior year by \$11.248 million appropriated by the 2013-2014 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 2014, State law defines full funding for the reserve as 4.5% 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 2015.

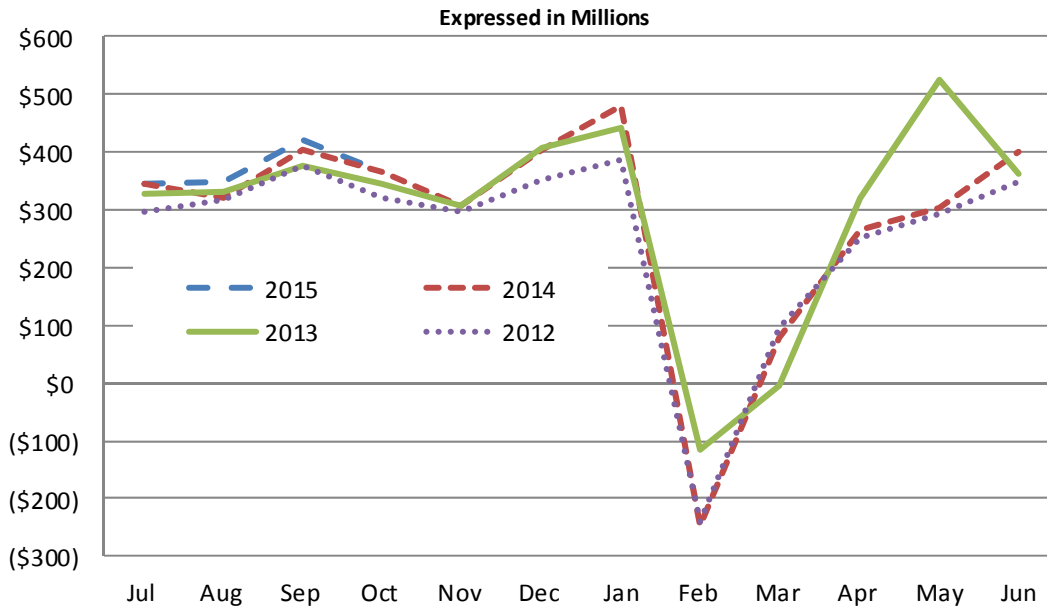
#### **Budgetary General Fund for the 2014-2015 Accounting Year**

For fiscal year 2015, the Board of Economic Advisors estimated General Fund cash basis revenue of \$6.660 billion, which was \$107.758 million or 1.6% greater than fiscal year 2014 actual revenue collections. The State’s Board of Economic Advisors November 2014 estimate reflects an additional increase of \$18.395 million or 0.2% over the original revenue estimate for fiscal year 2015.

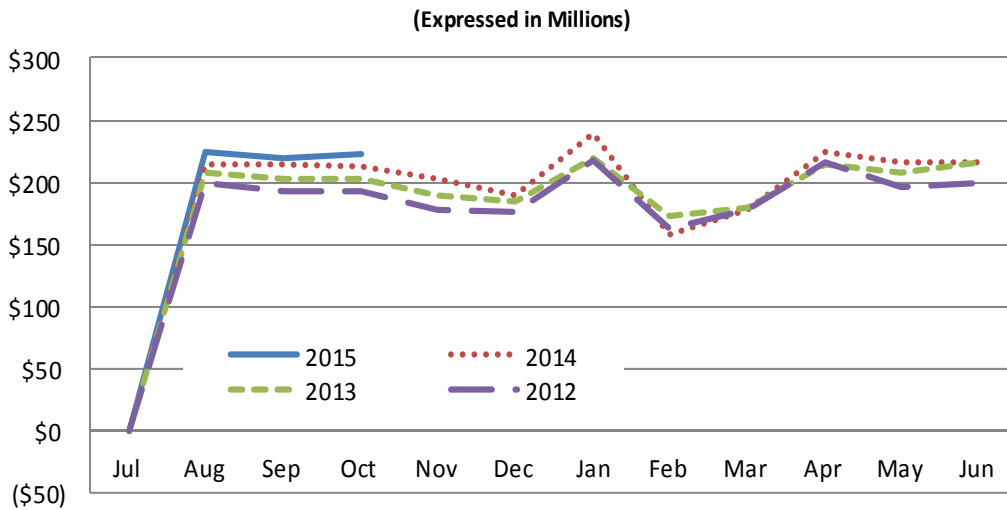
#### **Economic Conditions**

Budgetary General Fund revenues for the first four months of fiscal year 2015 were \$2.424 billion, an increase of \$94.036 million or 4.0% over the same period for fiscal year 2014. Total individual income taxes collected have increased by \$46.879 million or 3.3% over the same period in the prior year. Sales taxes have also increased by \$27.097 million or 4.2% from the first four months of fiscal year 2014.

## Individual Income Taxes



## Sales Tax



### 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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 Columbia, South Carolina 29201