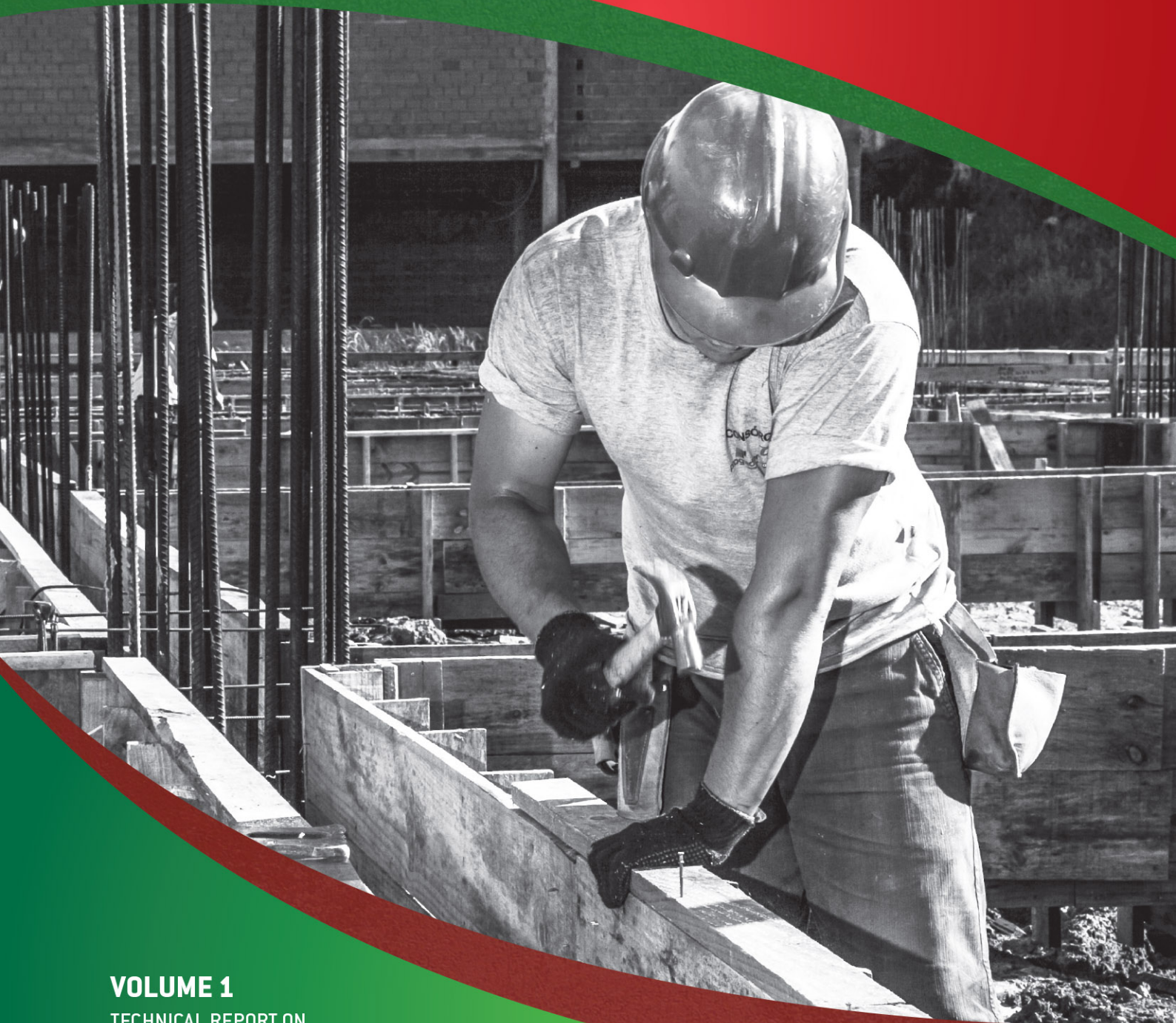


2013 | STATE OF SANTA CATARINA BALANCE SHEET



VOLUME 1

TECHNICAL REPORT ON
FINANCIAL STATEMENTS

State
Department
of Taxation
and Finance
General Accounting
Department – DCOG



2013 | STATE OF SANTA CATARINA BALANCE SHEET



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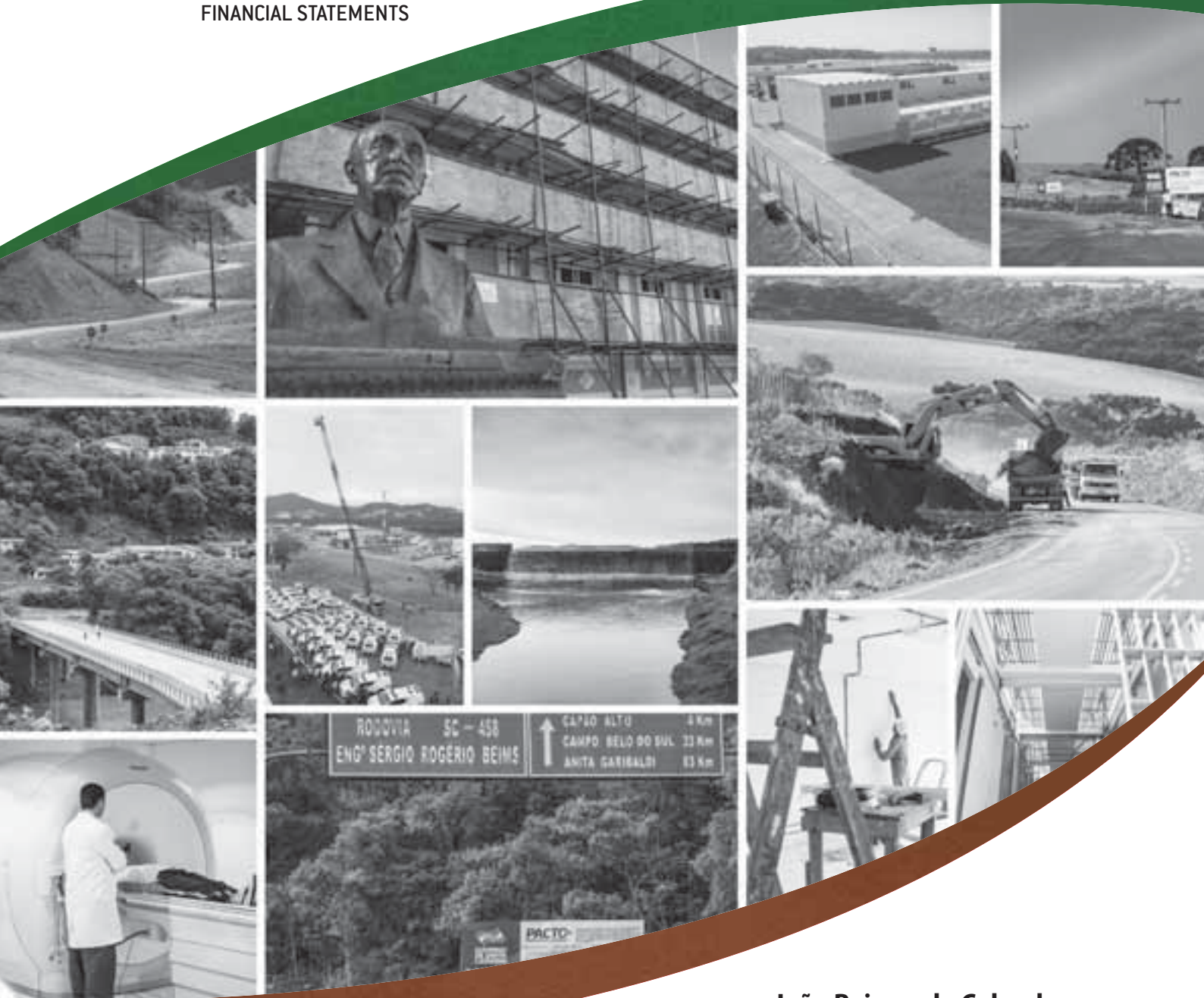


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2013 | STATE OF SANTA CATARINA BALANCE SHEET

VOLUME 1

TECHNICAL REPORT ON
FINANCIAL STATEMENTS



João Raimundo Colombo
GOVERNOR OF THE STATE

Antonio Marcos Gavazzoni
STATE SECRETARY OF THE TREASURY

Adriano de Souza Pereira
DIRECTOR OF GENERAL ACCOUNTING

MESSAGE FROM THE GOVERNOR

Pact of honor

Improving the lives of citizens should be the motto of all public managers. Based on this premise, the year 2013 was marked by the actions of the Santa Catarina Pact, one program of works with a clear strategy of integrated development.

The greater commitment of the Pact is to ensure that the R\$10 billion of funds raised by the State Executive reaches the far end; because a good project is the one that materializes and positively transforms the daily lives of people. Therefore, the funds invested returning to the lives of the people of Santa Catarina is what has guided our investments.

We are still at the beginning of the journey. The Pact is a long-term program, which projects investments until 2016. However, we already have results that bring us good prospects. We ended the first year of the program with 21% of funds released, 42% of service orders delivered and 47% of civil works tenders launched. We revitalized highways, renovated schools, expanded prisons and began expansion works of hospitals. These are data which give the Government the certainty that the Santa Catarina Pact is fulfilling its purpose. This certainty is also evident in figures.

In 2013, the consolidated investment beat its all-time record in the State, reaching R\$ 1.496 billion. Another indicator of the strong economic and social development of Santa Catarina is the number of jobs created in 2013. In the industrial sector, the State led the national ranking prepared by the Ministry of Labor, with the creation of over 20,000 jobs.

It is an indicator which can be added to others of which the people who live in Santa Catarina are so proud: we have the greatest longevity in the country, the lowest infant mortality rate and the lowest rate of illiteracy. The State Government wants to maintain this lead and further improve these indices. And to achieve this objective, it understands that economic and social development must be done in partnership with municipal administrations. Following this logic, the State Fund for Support to Municipalities (FUMDAM) was launched in 2013, which will distribute a total of R\$ 576 million to 295 City Halls in Santa Catarina.

With these and many other actions, the State Government is transforming Santa Catarina in an even better place to live in. It is a commitment the government made to all people of Santa Catarina, especially when it christened its investment program of the Santa Catarina Pact. The word pact implies a contract, an agreement between parties, in this case between the Government and the citizens of Santa Catarina – who entrusted the current administration with the task of governing Santa Catarina. That is why this is a pact of honor.

JOÃO RAIMUNDO COLOMBO
Governor of the State

MESSAGE FROM THE SECRETARY

Focus on results

2013 represented the harvest of many actions initiated in the early years of Government. Santa Catarina has consolidated its leadership position in indicators of several areas, and it was the only State in the Southern region that ended the year with cash on hand.

In contrast to the pessimism of the economic environment, we largely exceeded budgeted targets, collecting R\$ 14 billion in Tax on Circulation of Goods and Services, an increase of 10.44% over the previous year. With each passing year, Santa Catarina depends more on its own resources to meet the increasing demands. The proceeds of the collection and the Santa Catarina Pact investment program gave new impetus to the development of the State, which is now a construction site.

A parallel work of debt management allowed the government to spend a value 30% lower than in the preceding year. Two measures have contributed to this: the raising of funds from the Bank of America Merrill Lynch to settle and repay debt with the federal government; and the discharge of part of the debt with the National Bank for Economic and Social Development (BNDES), from a new loan. Both measures improved the trajectory of the state debt, reducing interest rates by more than half and extending the deadlines.

Despite the excellent outcomes, it was a year of many challenges – among them the balance between the expenditure on payroll and the Net Current Revenue. All year long we have been very close to or above the prudential limit set by the Fiscal Responsibility Law, due to the granting of adjustments for various categories and the inevitable vegetative growth. Nonetheless, the growth of spending on payroll of the Executive Branch in 2013 was 9.21% - lower than that recorded in 2012, of 15.57%.

We work with full awareness that the good performance in the fiscal management of the State directly reflects on the lives of citizens at the end. In addition to works, improvements and services provided directly by the State, the transfer of resources from the state to the municipalities totaled R\$ 5.4 billion in 2013, an increase of R\$ 400 million over the previous year.

For all that has been achieved, the prospects for the current year are of a lot of work, but with the confidence that we are on the right track.

ANTONIO MARCOS GAVAZZONI
State Secretary of the Treasury

PRESENTATION

Transparency, information and accountability

The Balance Sheet of the State demonstrates the achievements of the State of Santa Catarina in the year 2013, and it is also the rendering of accounts of the third year of office of the Governor of the State of Santa Catarina, João Raimundo Colombo, to the Legislative Assembly, in compliance with Article 71, item IX, of the State Constitution.

The presentation of the Balance Sheet to the Legislative Assembly and to the society of Santa Catarina, seeks to support the process of evaluation of public accounts of the State of Santa Catarina, to the benefit of the transparency of fiscal management and social control.

The Balance Sheet has been prepared in accordance with the provisions set forth in Federal Law No. 4.320/64, Supplementary Law No. 101 of May 4, 2000 and according to the Resolutions of the State Court of Auditors (TCE) No TC - 16/94, TC - 06/01 and TC - 11/04, which regulate and standardize the delivery of information and financial statements to the TCE.

The accounting information that comprises the State Balance Sheet was extracted from the Planning and Fiscal Management Integrated System (SIGEF), and it includes the consolidated accounting data from all Branches and Agencies of the State Public Administration members of the Fiscal and Social Security budgets, in compliance with Article 56 of Supplementary Law No. 101 of May 4, 2000 (Fiscal Responsibility Law).

The Balance Sheet was divided into two volumes:

I – Technical Report on Financial Statements for Fiscal Year 2013

It presents the social, economic, administrative and financial aspects of the state of Santa Catarina, the Balance Sheet, the Budget Balance, the Statement of Accounts, and the Statement of Variations in Equity, the Statement of Changes in Net Equity, the Statement of Cash Flows and explanatory notes.

II – Annexes to the State Balance Sheet

It contains the annexes required by Federal Law No. 4,320/64 and by other legal norms, physical and financial monitoring of government programs, as well as the Report of the Fundraising and Public Debt Department and the Report of the General Audit Department.

Social, economic and administrative information are based on the materials produced by Agencies of the

State Government, as well as data from the Federation of Industries of the State of Santa Catarina (FIESC) and the Governor's annual message sent to the State Legislative Assembly.

The analysis of social, economic and administrative aspects demonstrates the evolution of the State, with improved indices of development, education, quality of life and safety, as well as the growth of state agribusiness, industry and foreign trade. It also shows that the Government of the State of Santa Catarina has developed public investment policies over the years that ensure the regional development, promote the decrease of inequalities, the increase in employment and income, and improve the coverage and quality of public services offered to society.

The financial statements, explanatory notes and analysis that make up the Balance Sheet, seek to gather information related to the economic and financial situation of the State, providing indicators to evaluate the balance of public finances by verifying its allocation and its results, ranging from compliance with the legislation to the demand for a transparent approach that allows social control of the State government.

The analysis of tax income for the year demonstrates compliance with the constitutional minimum limits of allocation for health and education, as well as the limits set by the Fiscal Responsibility Law for personnel expenses, public debt, credit operations, guarantees and counter-guarantees and recording of the remainder to be paid, demonstrating the balance of public finances and reflecting a responsible fiscal management.

In compliance with the principle of transparency in Fiscal Management, set out in the Fiscal Responsibility Law, this Accounting will be available in their entirety on the Executive Branch Transparency Portal (www.transparencia.sc.gov.br), and in printed media in the General Accounts of the State Department of Taxation and Finance and other public institutions, so that Santa Catarina society can exercise their rights in relation to the audit of revenues and public expenditure process, performing the social control on the Accounts of the Governor of the State.

Importantly, this Financial Statement is addressed not only to the Legislative Assembly and the Court of Auditors of the State, but especially to the citizens, as a means of transparency and accountability to the society of Santa Catarina.

General Accounting Department



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Santa Catarina

Profile, Administrative, Social,
Economic and Financial Aspects



PROFILE

Balanced development

Located in the Southern region of Brazil, the state of Santa Catarina has an area of 95,736.165 square kilometers¹, bordering the states of Paraná (to the north) and Rio Grande do Sul (to the South), and the Atlantic Ocean (to the East) and Argentina (to the West).

SANTA CATARINA is formed by 295 municipalities. Capital and seat of the government of Santa Catarina, the city of Florianópolis has its territory divided among the whole Island of Santa Catarina and a smaller continental part. Entirely south of the Tropic of Capricorn, located in the southern temperate zone of the planet, the State has a subtropical climate. Historically, its colonization is mainly of European immigrants: the Azorean Portuguese colonized the coast in the eighteenth century, the Germans colonized the Vale do Itajaí, a part of the southern region, and the North of Santa Catarina in the middle of the nineteenth century, and the Italians colonized the south of the State at the end of the same century. The West of Santa Catarina was colonized by people from Rio Grande do Sul, of Italian and German origin, in the first half of the twentieth century.

According to the Brazilian Institute of Geography and Statistics (IBGE), the State of Santa Catarina had a population of 6,634,254 inhabitants and a population density of 69.30 inhabitants/km² in 2013. The most populated cities of Santa Catarina are: Joinville, Florianópolis, Blumenau, São Jose, Chapecó, Itajaí, Lages, Criciúma, Jaraguá do Sul and Palhoça.

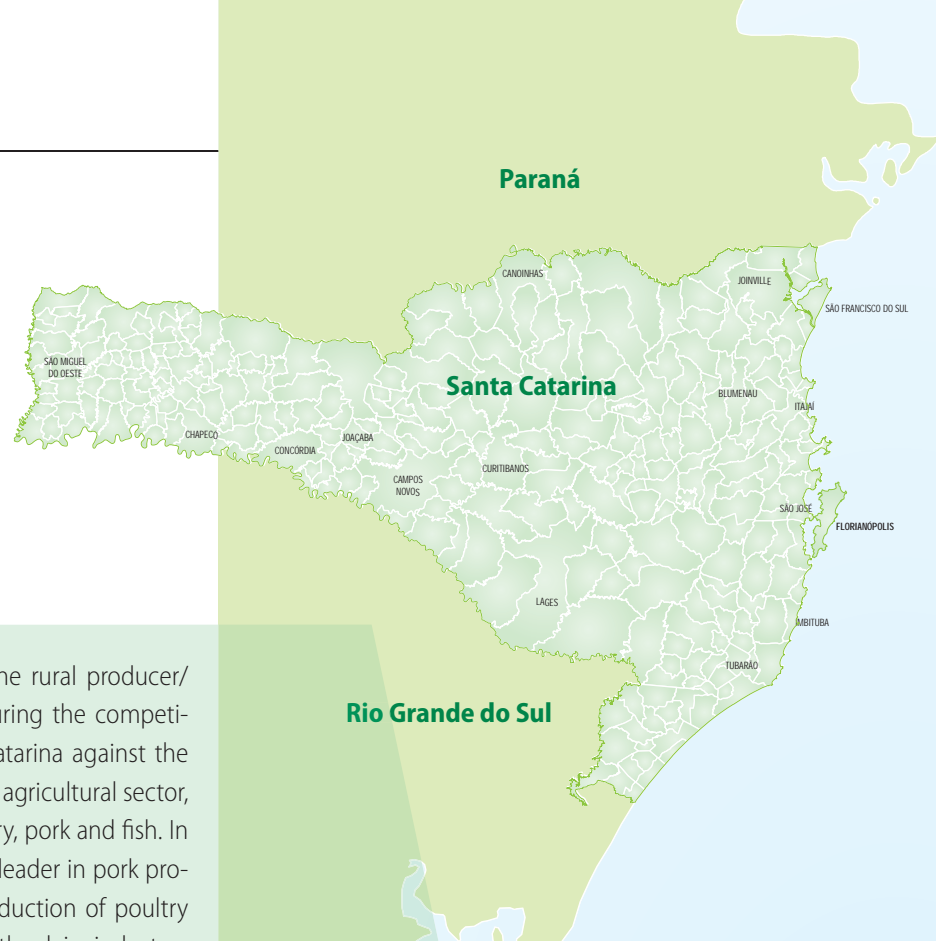
The State has a strong agriculture based on rural small-holdings, which occupies a prominent position in Brazil. Santa Catarina is the largest national producer of apple and onion and the second largest producer of rice, garlic and tobacco.

The agribusiness sector operates in an integrated manner with the supply of the technological package from the industry (selected animals, feed and technical assistance), in exchange for exclusivity for the product purchase from farmers. This model of integration/partnership takes genetics technology, production, man-



BRAZIL

¹ Source: Brazilian Institute of Geography and Statistics



agement and an opportunity for the rural producer/entrepreneur, and it has been ensuring the competitiveness of agribusiness in Santa Catarina against the largest industries in the world in the agricultural sector, especially in the marketing of poultry, pork and fish. In agribusiness, the State is a national leader in pork production, it ranks second in the production of poultry and it has also a prominent place in the dairy industry.

With a model that confers the State with balanced development standards among its regions, the industrial economy of Santa Catarina is characterized by the concentration in different poles: metallurgy, machinery and equipment, electrical equipment, auto parts, plastic, textiles and furniture in the North; ceramics, coal, clothing and disposable plastics in the South; food and furniture in the West; textile, garments, shipbuilding and crystal in the Vale do Itajaí; timber in the mountainous region and technology in the Capital. Although there is this concentration by regions, many municipalities are developing different vocations, strengthening various segments of activity. The technology-based industry, besides being present in Florianópolis, also excels in Blumenau, Chapecó, Criciúma and Joinville.

The balance and dynamism of Santa Catarina's economy are reflected in the high levels of human development, growth, literacy, life expectancy, employment and per capita income, which are much higher than the national average, as well as one of the lowest rates of infant mortality, violence, economic inequality, poverty and illiteracy in Brazil.

More detailed information about the geography, history, colonization, the people, the culture and tourist attractions of the State of Santa Catarina can be viewed on the website of the State (<http://www.sc.gov.br>).

At a national level, Santa Catarina stands out in first place, in the following areas:

- » higher life expectancy: 76.8 years.
- » lower number of infant deaths: 9.2 (under 1 year of age, per 1,000 live births).
- » lowest unemployment rate: 3.59 % (population aged 16 years and over, economically active, unoccupied).
- » lowest percentage of poor children: 9.7% (children aged 0-14 years in families with low monthly income and having a lot of difficulty to get to the end of the month with their income).
- » lowest extreme poverty rate: 3.23% (households with a per capita income of up to one quarter of the minimum wage).
- » best domestic tourist destination for the 7th consecutive time in eight years.
- » largest Brazilian producer of pork, apple, onion, oysters and mussels.
- » greater sense of security in neighborhoods and cities: 79.1% and 68.3% (respectively).
- » better performance in high school (IDEB 4.3) and final grades of primary school (IDEB 4.9).
- » higher percentage of high school teachers with greater than or equal to tertiary education: 99.78%.

Long-term strategic planning

The third year of office of the Governor of the State, João Raimundo Colombo, was marked by the actions of the Santa Catarina Pact, a program that brings together works and acquisitions to meet the main demands of the society in the areas of Education, Health, Infrastructure, Public Safety, Justice and Citizenship, Civil Defense, Agriculture, Social Protection, Innovation, Sanitation and Sustainable Economic Development.

THE ESTABLISHMENT OF THE Health Management Plan was also important; a program designed for the structural improvement of public health services, as well as the creation of the State Fund for Support to Municipalities (FUNDAM), which aims to promote the development of all the cities in Santa Catarina by providing financial support.

It should also be emphasized the actions geared towards convergence with the International Accounting Standards applicable to the public sector, strengthening transparency and e-government and the assessment of costs, establishing the transition to Managerial Accounting in the State Government, as detailed below.

Santa Catarina Pact

The Santa Catarina Pact was created by Decree No. 1,064, of July 17, 2012, and subsequently amended by Decree No. 1,537, of May 10, 2013. The creation of this program is based on a more efficient and proactive new model of management, seeking to bring down bureaucratic barriers, in order to reduce the response time to the demands of society and make the public service more efficient.

The funds raised by the Santa Catarina Pact program amount to R\$ 10 billion and will be invested in various areas regarded as structural and considered to be a priority by the Government, to ensure the rapid advancement and development of the State. From an economic perspective, investments in logistics infrastructure and competitiveness seek to improve the state high-



The objective of the pact is to invest in road and port infrastructure projects and also in the construction, renovation and expansion of hospitals, clinics, prisons, public safety units, dams, over-elevations and instruments to contain floods, school units, event and cultural centers, social protection centers, innovation centers, sanitation works, among others.

Photos: Works of the Santa Catarina Pact/Felipe Carneiro/SECOM

way network linking major routes and ports. Regarding the social area, the objectives are aimed at bringing health services closer to people, increasing the network of public schools and extending the prison system and the social assistance protection network.

All investments of the Pact were designed starting from a long-term strategic planning, with a multi-sectoral and integrated character, and grounded on sustainable development bases.

The focus of the program is to invest in projects, both in the area of road and port infrastructure, which represents almost 40% of total resources, and constructions, renovations and expansions of hospitals, clinics, prisons, public safety units, dams, over-elevations and instruments to contain floods, school units, event and cultural centers, social protection centers, innovation centers, sanitation works, among others.



In order to provide the Departments and Offices with the necessary tools to perform their tasks, complement the program works and provide a better infrastructure for the development of small businesses, the Santa Catarina Pact will also invest in machinery and equipment for hospitals and polyclinics, weather radar, safety and personal protective equipment, vehicles, cars and vessels, ambulances, furniture, tanks and dispensers to combat drought, among other actions planned for the Pact, as shown in **Table 1**.

Table 1 | Santa Catarina Pact – Planned Actions

| AREA | ACTION |
|--------------------------------|---|
| Infrastructure | Revitalization and paving of highways, construction of bypass roads; interventions in Port of Itajaí and Port of Navegantes with the new turning basin and the demolishing of slabs at the Port of São Francisco to ensure more competitiveness for the economy of Santa Catarina. The works will allow a better flow of agricultural and industrial production, encouraging tourism and urban mobility. |
| Health | Expansion of hospitals, construction of ten polyclinics (Araranguá, Içara, Tubarão, Grande Florianópolis, Itapema, Blumenau, Joinville, Mafra, Caçador and São Miguel do Oeste) and supply of equipment for 11 other polyclinics in the State. |
| Civil Defense | Actions for floods containment with over-elevation of dams in Taió and Ituporanga, construction of eight dams, weather radar acquisition and improvements of rivers in the Valley of Itajaí. |
| Education | Revitalization of about 300 schools, construction of 30 new schools, eight vocational centers and 52 sports courts. |
| Public Safety | Acquisition of approximately 1,600 vehicles for the Disclosure and Barring Service Institute (IGP), Military and Civil Police, fire fighting and rescue vehicles, personal protective equipment, video surveillance points, and construction of new structures to serve the population, such as police stations, military police barracks, headquarters of Detran – Traffic Department and headquarters of IGP. |
| Justice and Citizenship | Expansions of prisons through the creation of new jobs in the State prison system. Construction of new facilities for young offenders in Chapecó, Lages and Criciúma, in addition to the Socio-Educational Services Center in Florianópolis. |
| Social Assistance | Construction of Social Assistance Reference Centers (CRAS), Specialized Reference Centers of Social Welfare (Creas) and Day Centers to serve the elderly, acquisition of vehicles, and incentive for the creation of jobs and professionalization of Santa Catarina's people. |
| Agriculture | Installation of tanks for animal consumption and the acquisition of distributors of liquid organic fertilizer which, mounted on tractors, carry drinking water where water trucks cannot go through, to mitigate the effects of drought in the State. |
| Innovation | Construction of Innovation Centers in Criciúma, Tubarão, Florianópolis, Itajaí, Blumenau, Jaraguá do Sul, Joinville, São Bento do Sul, Joaçaba and Chapecó. The objective is to promote regional development by supporting innovation and entrepreneurship, seeking to benefit entrepreneurs, researchers, students, teachers, technological innovation centers and the community. |

In addition to works and acquisitions, the Santa Catarina Pact sought to increase its capacity of future State investments by carrying out the following actions in 2013:

- » amortization of CELESC debts, representing a significant reduction in interest payments of the State;
- » capitalization of the Southern Region Development Bank (BRDE), supporting and encouraging the economy of Santa Catarina;
- » creation of the Fund for Support to Municipalities (FUNDAM) with the aim of decentralizing R\$ 576 mil-

lion for direct implementation by municipalities on works and capital goods.

The actions related to the Santa Catarina Pact can be viewed at the Pact Map, available online (<http://www.pactoporsc.sc.gov.br>). It is divided into seven regions - Florianópolis, South, Vale do Itajaí, Serra, North, Midwest and West – the map includes all Municipalities in the State with information about the progress of works, investments and photos.

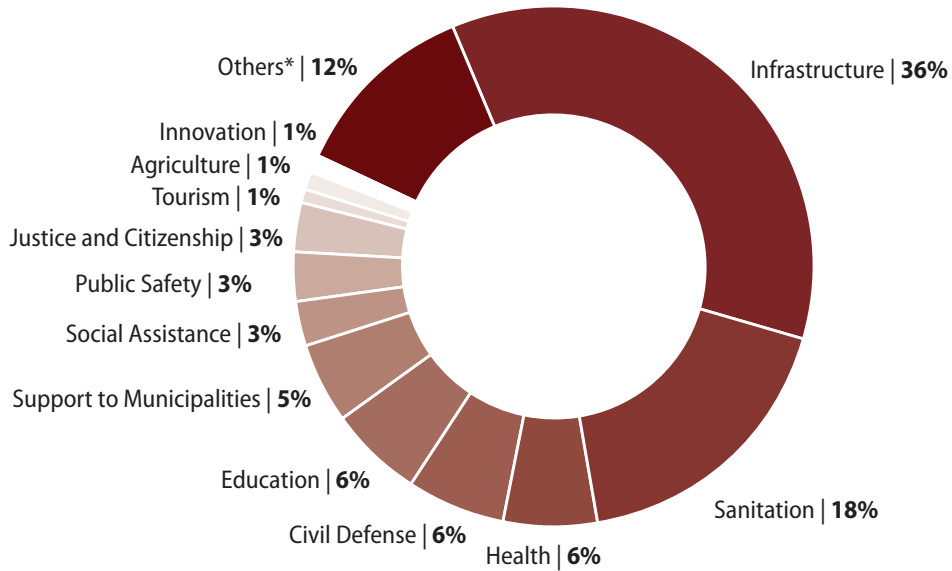


Figure 1 | Distribution by area of investments of the Santa Catarina Pact Program

* **Others:** Renegotiation of CELESC debt, capitalization of BRDE and FUNDAM

Health Management Plan

The Health Plan Management (PGS) is a task force led by the Departments of Health, Taxation and Finance and Administration, with the participation of an international consulting firm, for the feasibility of better working conditions and care in public hospitals. The main workfronts of the Plan are: transfer of new resources to the municipalities; remuneration of physicians and hospital directors by productivity, and creation of regional centers to organize the service by the Unified Health System (SUS). The Plan includes physicians of all specialties, in addition to directors and managers of the 14 state public hospitals and shopping areas of the State Department of Health.

Since the beginning of the plan, about 700 people were heard, including officers and 14 state public hospital workers, experts from other States and leaders of the main entities in Santa Catarina with any connection or influence in the area of Health, such as Santa Catarina Association of Medicine (ACM), Association of Physi-

cians of the State of Santa Catarina (Simesc), Union of Workers from Public State and Private Health establishments in Florianópolis (Sindsaúde), Public Prosecutor's Office (MPSC) and the State Court of Auditors (TCE). The work also took as a reference public and private hospitals from all over Brazil.

The central purpose of PGS is to significantly increase the number of appointments, medical testing and surgeries, and reduce waiting queues. With the evolution of the management model of people and resources, the Government seeks a more efficient healthcare.

Through the Health Management Plan programs for medical productivity in the State (Pro-Activity), professionalization of the management of state public hospitals (Pro-Management), institutionalization of permanent task forces (Pro-Task Force) and agility of purchases made by the Santa Catarina State Department of Health were established.

The Meritocracy implanted by the Pro-Activity program considers the duration and complexity of the procedures performed. Depending on the fulfillment of goals, physicians can receive up to double the amount paid by the SUS. Thus, the Plan establishes a new form of work for physicians, based on meritocracy: those who produce more earn more. To achieve this model, cases were studied throughout Brazil and many industry experts were heard. The goal is to increase productivity and reduce waiting queues, ensuring that the resources effectively applied benefit users and workers.

The Pro-Task Force is scheduled to run on Saturdays, Sundays and holidays and it may take place in 14 state public hospitals for short-stay surgery. The task forces will carry out with priority the surgeries with greater waiting lists in the State. The additional remuneration per hour worked in the task force is planned for physicians and other health professionals.

It was established with the Pro-Management a profile for managers of state public hospitals, who must meet minimum requirements to hold their offices, devote full attention to their position and achieve goals per hospital. A variable remuneration for managers, depending on the goals, is also forecasted.

In addition, the Government plans to invest up to thirty cents per month, per capita, for the municipalities of Santa Catarina to further increase medical consultations and examinations of medium complexity. The principle is simple: to solve less complex cases in the community health centers, so as to prevent overwhelming hospitals. The result will be about 200,000 consultations and 70,000 yearly exams in the municipalities.

Furthermore, through the Plan, it has been planned the creation of eight regional central regulators for organizing hospital admissions, consultations and exams of

Santa Catarina SUS users in the following macro-regions: northeastern and northern Plateau, Florianópolis, Vale do Itajaí, Itajaí River Estuary, mountain ranges of Santa Catarina South, Midwest and Great West. To extend services, the regional healthcare centers will define the municipalities that, in each region, have a better structure to serve the population. In future, these consultations and exams will be made in the ten polyclinics that the State is going to build and the other 11 clinics the State is going to renovate using resources from the Health Pact in different regions of the State.

Another focus of the Plan is the reorganization of the functions of Purchasing and Logistics within the State Department of Health, reducing complexity and streamlining procurement processes, making them more intelligent. With the new model, the area of Procurement and Logistics is concentrated in a single superintendence.

With all the ends of the state public health aligned, in addition to the significant increase in the number of consultations, exams and surgeries performed in the State, it will be possible to measure the performance of hospitals through indicators, which will give the Department of Health a detailed control of the implementation of resources. As an additional benefit, the State would save on purchase of medicines and equipment for public hospitals, being able to direct resources to improvements in the sector.

The measures are concrete and important steps in the restructuring of the sector, as they will require greater involvement of health workers and managers of public hospitals, improve efficiency in the management of procurement of medications and equipment and give new impetus to municipalities to strengthen local attendance services.

Creation of the FUNDAM

In 2013, the State Fund for Support to Municipalities (FUNDAM) was created with the objective of promoting the development of all cities in Santa Catarina through financial support. Established by State Law No. 16,037, of June 24, 2013 and regulated by State Decree No. 1,621, of July 03, 2013, FUNDAM will distribute R\$ 576 million to 295 municipalities in the State, and it must be accomplished as a development action of Santa Catarina's economy.

The funds may be used in the areas of logistics and infrastructure related to urban mobility, construction and expansion of buildings in the areas of education, health and social assistance, construction of integrated centers in the areas of sport and leisure; basic sanitation, purchase of equipment and vehicles intended to end activities of public health and education services, and for the purchase of road machinery and equipment for the operating activities of municipalities.

The management of FUNDAM is the responsibility of the State Department of Taxation and Finance. Its authorized agent is the Southern Region Development Bank (BRDE), which performs technical analysis of projects. The Chief of Staff of the State Department is responsible for the conclusion of agreements with the municipalities.

To date, BRDE received 257 projects for analysis, totaling R\$ 365.7 million. Of these projects, 51% refer to paving (794 streets), 21% to the purchase of equipment and 8% to buildings.

Strengthening Transparency and the E-Government

The State Government has also enhanced the transparency of its management. The Transparency Portal of the Executive Branch of the State of Santa Catarina (www.transparencia.sc.gov.br) exceeded 1.4 million visits in 2013. A large part of the site accesses (71%) was in the public spending area, in which you can research the salaries of state employees, per diem allowances granted, expenditure incurred, amounts paid to suppliers, investments, on-lending agreements, among other queries and reports. The portal also provides information on government revenue and fiscal management, among other issues related to the administration of state public resources.

In addition to complying with the Federal Law on Access to information² and State Law transparency³, the Portal became the official channel of the government accountability to society and since it was launched in May 2012, it had about three million visits, equivalent to 21 seconds for every access.

In 2013, the Mobile Transparency-SC applicators and SEF-SC Indicators were also launched, which allows you quick access on the phone or tablet to all the information from the Transparency Portal, as well as information, updated monthly on the Tax on Circulation of goods and Interstate and Municipal Transport and Communication Services (ICMS), Payroll, Constitutional Allocation for Health and Education, Expenditure, Transfer to the Governments, Active Debt, Pensions, Demand Notices for Payments, and Debts.

Another tool that demonstrates the transparency of public management is the Integrated Control System of Public Works (Sicop), which gathers information from the works since the signing of the contract with the project-executing company up to the inauguration. On the internet address <http://www.sicop.sc.gov.br/>

² Law No. 12,527 of November 18, 2011

³ State Law No. 15,617 of November 10, 2011

mapavivo, it is possible to learn about the current situation of a certain work, how much money has been spent, which agency has been hired, which company has been chosen, the period of implementation, among other information.

In addition, the SC transferences Portal was created, that consolidates information and guidance on the transfers of funds carried out voluntarily by the State, on which the tenderer may register, submit proposals, render accounts, consult the information of bids submitted and instruments concluded, among other actions.

Regarding the strengthening of the e-government, the improvement of the Integrated Planning and Fiscal Management System (SIGEF) is noteworthy, which is the official system of planning, budgeting, finance and accounting of the State of Santa Catarina, as follows:

- » intensification of automatic routines, aiming at the reduction of working time of users and the use of data from other systems, such as: meal tickets of the Military Police; settling of demand notices for payment by the Court of Justice; payment to lawyers of the Dative Defense; payments to physicians of the SC Health plan, and per diem payments by the Court of Justice;
- » improvement of the Voluntary Transfer module, which is important for the implementation of the State Fund for Support to Municipalities (FUNDAM), in order to achieve agreements. The module allows the registration of financial support agreements and social grants to form a consistent database giving subsidies to the generation of management information on the on-lending of public resources to municipalities, nonprofits entities and individuals;
- » improvement of the Contract Management module, which will facilitate the control of goods and services agreements signed by the State Government. The module will have a mandatory use from 2014 and

will enable: issuing of management and monitoring reports, tracking and physical and financial monitoring of contracts; conducting comparisons between the unit value of contracted items, and the identification of the detail of public expenditure. In addition, it will aid a greater financial planning of the State and its bodies, as well as the forecasting of existing contracts for future years. The module will also allow the publication of information on the Transparency Portal, enabling social control over the contracts signed by the Executive Branch;

- » improvement of the Physical and Financial Monitoring of Government Actions module, which aims to better define the use of funds and monitor the implementation of activities and the Multiyear Plan (PPA) projects that generate goods and services for society;
- » construction of the Fundraising Module that will enable the creation of a bank of projects. The idea is to generate a portfolio of projects for defining the priorities of the Government. Another feature of the fundraising module is the availability of a bank of opportunities that seeks to bring together inexpensive sources of resources that can be obtained from third parties for providing resources projects to run them. These sources are voluntary transfers of the federal government (SICONV), transfers from the Growth Acceleration Program (PAC) and other opportunities, such as resources from sponsorships, non-refundable resources from financial institutions and international organizations. With structured projects and defined sources of resources we seek to meet more effectively the allocation of resources;
- » improvement of SIGEF in order to converge the state accounting to International Accounting Standards applicable to the public sector, including the implementation of the new Accounting Plan Applied to the Public Sector (PCASP), as well as the adequacy of existing routines and reports.

International Accounting Standards Applied to the Public Sector

Taking an important step in the process of convergence with the International Public Sector Accounting Standards (IPSAS) in 2013, the State of Santa Catarina implemented the new Chart of Accounts Applied to the Public Sector (PCASP). The initiative complies in advance with the Ordinance No. 634/2013, of the National Treasury Department, which determines the adoption of PCASP by federal entities by the end of 2014. Santa Catarina, next to Minas Gerais, Rio de Janeiro, Rio Grande do Sul, Mato Grosso and Bahia, is among the first states to implement the new PCASP in 2013.

Besides PCASP, the state of Santa Catarina has already implemented other actions related to the convergence with the International Accounting Standards Applied to the Public Sector. Among them, the recognition by the accrual of tax credits receivable of ICMS (GST) and IPVA (vehicle tax), the asset revaluation (movable, immovable and intangible goods), the recognition of infrastructure assets, the Balance Sheet containing explanatory notes and the statement of cash flows, and the implementation of a cost assessment experimental project of the education department of the State.

Managerial Accounting

The basis for the implementation of managerial accounting was strengthened in 2013 with the creation of the subject areas of Costs, Management Information and Assets⁴; a work that is being carried out gradually and will be intensified in 2014.

Each Accountant in the State Treasury acting in organs of the State Executive Branch will work in one of the subject areas and develop their work in order to interact with other colleagues of their area, coordinated by the General Accounts of the State Department of Taxation and Finance. The works that must be developed in each subject area are described below:

- » Assets: coordinate works related to recognition, measurement and presentation of movable and immovable assets, infrastructure and intangible assets and inventory, interacting with the State Department of Administration - SEA and the State Department of Infrastructure - DEINFRA;
- » Costs: studies for determining the costs of public services of agencies and entities of the State Executive Branch (cost per student, per inmate, per hospital care, etc.) and provision of information to public managers for supporting decision making, and to society for purposes of social control;
- » Management Information: prepare management reports and management indicators according to the demand of each manager, aiming at assisting them in decision making and improving the Transparency Portal of the State Executive Branch, maintained by the General Accounting Department, with a view to promoting control social.

⁴ Regulatory Instruction SEF No. 002, of December 15, 2013, establishes within the Department of General Accounting of the Department of Taxation and Finance, the performance of the Accountants of the Department of Taxation and Finance in office in bodies and entities of the State Executive Branch in the thematic areas "Equity", "Costs" and "Information Management". Available at <http://www.sef.sc.gov.br/servicos-orientacoes/dcog/contabilidade-aplicada-ao-setor-publico>.

Cost Assessment

In 2013 we developed an Experimental Project for Cost Assessments of the Education Department of the State of Santa Catarina, with the aim of knowing the costs of the core activity of the provision of educational services in 30 basic units of public education, as well as for supporting the implementation of a management control system and cost assessment of the State activities, in the manner established by the Federal Supplementary Law No. 101/2000 - Fiscal Responsibility Law (LRF), in its Article 50, Paragraph 3, further complying with the rules set out by the Federal Accounting Council (CFC), in the Brazilian Accounting Standard NBC TSP 16.11, which deals with Costs of the Public Sector Information System (SICSP) and regulations of the National Treasury (STN), in particular the Ordinance STN No. 437/2012, as amended by Ordinance STN No. 753/2012.

For the development of the works the Cost Assessment Group - GTCUSTOS was created, by means of State Decree No. 1,365, of February 1, 2013, which will work in the implementation of measures aimed at:

- » assessing the costs of public service agencies and entities of the Executive Branch (cost per student, per inmate, per hospital, per medical care, etc.).
- » adapting the cost accounting of the state public administration to Brazilian Accounting Standards Applied to the Public Sector (NBCASP);
- » adapting the management systems of the Executive Branch to the Integrated Planning and Fiscal Management System, for purposes of determining costs;
- » providing information on public service costs through standardized reporting and information technology tools to managers for decision making and society, for purposes of social control.

Schools that participated in the Experimental Assessment of Costs Project were elected on the basis of size (large, medium and small, depending on the number of students enrolled), taking into account the information concerning the year 2012. The universe evaluated was of 32,401 students, representing 5.76% of all students enrolled in state public schools in 2012, distributed among 30 schools chosen (2.37% of the total state public schools).

The total resources consumed in 2012 by the 30 units participating in the project was of R\$ 94.62 million. From these, R\$ 79.70 million (84.23%), correspond to payroll. The other five cost elements that have had a significant participation in the total consumption of resources were foodstuffs (snacks), approximately R\$ 5 million (5.28%), school transport, with R\$ 2.83 million (2.99%); subsidies to PTAs with R\$ 2.73 million (2.89%) and outsourced personnel, with R\$ 1.5 million (1.59%). Together, these five cost elements had a participation of 97% in total resources consumed. The other cost elements had an individual participation of less than 1%. The average annual cost per student in 2012 of all 30 units of education was R\$ 3,065.08.

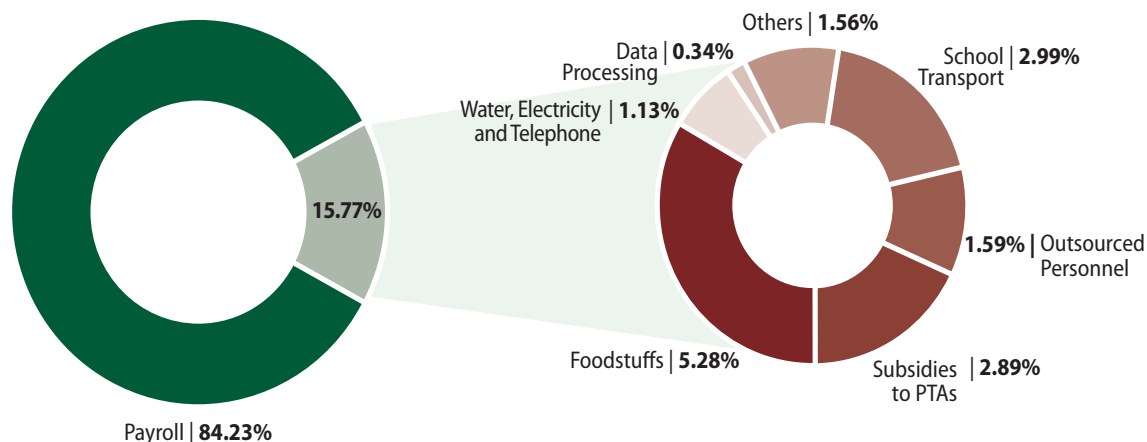


Figure 2 | Breakdown of the Average Cost per student

Breakdown of the Average Cost per Student

When analyzing the cost per student in each school, considering their size (large, medium and small), it was found that the number of enrolled students was the main variable that influenced this result, given that the cost has an inverse relationship to the number of students enrolled per school unit.

The study compared the performance in terms of cost of schools and the Index of Basic Education Development (IDEB), and the analysis found no direct relationship between the cost per student and school performance assessed by IDEB, since the schools that had a high cost per student did not achieve the highest levels of IDEB.

In 2014, we intend to extend the Experimental Assessment of Costs Project to other units of education and other areas of the Government, aimed at calculating the cost of end activities, such as: average cost per patient of state public hospitals and the average cost of inmates in state prisons. These experiences serve as a framework for the evolution of the costs of the public sector management information system (SIGEF Module) that is in development.

Payment of Debt with the Dative Defense

An agreement signed between the State Government and the regional of the Brazilian Bar Association of Santa Catarina (OAB-SC) initiated in 2013, the payment of the fees of the Dative Defense, a state debt accumulated for 17 years, for services rendered by lawyers to defend poor people.

The full amount of the debt was of approximately R\$ 100 million and included all certificates filed with the OAB-SC until April 5, 2013, by 6,541 lawyers. To make this payment, the certificates issued by magistrates and presented by OAB-SC in favor of dative lawyers were audited with the purpose of ensuring the reliability of the amounts paid.

From the total debt, R\$ 40 million were paid in December 2013 and the remainder will be paid in six other installments of R\$ 10 million each in the first half of 2014.

SOCIAL ASPECTS

Focus on priorities

People are the reason for a Government. Everything that is done must be addressed in a comprehensive and collective way. Actions need to be intertwined so that the concept of a project becomes a service to the community. Thinking about this, the State Government created the Santa Catarina Pact, a program focused on promoting citizenship and the protection of people, in the areas of education, health, social care and public safety.

WITH THE CREATION of the PACT, the Santa Catarina educational system is being revised. There is a new on-going school focused on sharing knowledge, where education is born in the intersection between school, family and community.

Public health in turn is being rebuilt with the Health Management Plan, a set of coordinated actions which act on the prospect of doing more with less, without compromising the quality of the services provided.

Social assistance is working with three axes: social protection and guarantee of rights, labor, skills and income generation, and the eradication of extreme poverty.

Structure, police mobility, personal protection equipment and expansion of electronic surveillance are the basis of public safety in Santa Catarina.

Investments in infrastructure, with strategic works for the integrated development of the State, were also a priority of the State of Santa Catarina in 2013.

More information about the main activities of the State in education, health, social welfare, public safety, infrastructure, civil protection and tourism in 2013, follow below.

Education

The Government of Santa Catarina invested in 2013, more than R\$ 911 million (operating expenses and investments) on the revitalization and maintenance of the physical structure of the state education network, providing more comfort and quality education to nearly 546,000 students who study in one of the 1,266 state schools. A total of 107 works of renovation and expansion of schools were started this year, in addition to 18 new schools and 52 sports courts.

The state teaching workforce consists of 19,699 tenured teachers, of which 79.5% are specialized, according to Figure 3. In addition to these professionals, the state temporarily hires other teachers as needed.

The State owns 99.78% of secondary school teachers with tertiary level educational attainment or training at tertiary level, which places it in first place at the national level (the average of Brazil is 92.55%) training.

In 2013, 1,600 teachers were appointed by civil service examination, and over 3,200 were called to start their activities in 2014, totaling 4,800 graduate professionals to renew the teaching workforce and further improve the quality of teaching in Santa Catarina.

The Basic Education had, in 2013, 545,979 students, distributed as shown in Figure 4.

During 2013, the State invested in the strengthening of High School and in expanding school places, increasing the number of enrollments by 16,787 (8.4% more compared to 2012). To prevent truancy, state schools offer different types of education that extend students' time in school: the full-time basis and vocational training are the highlights. In Santa Catarina, 92 schools

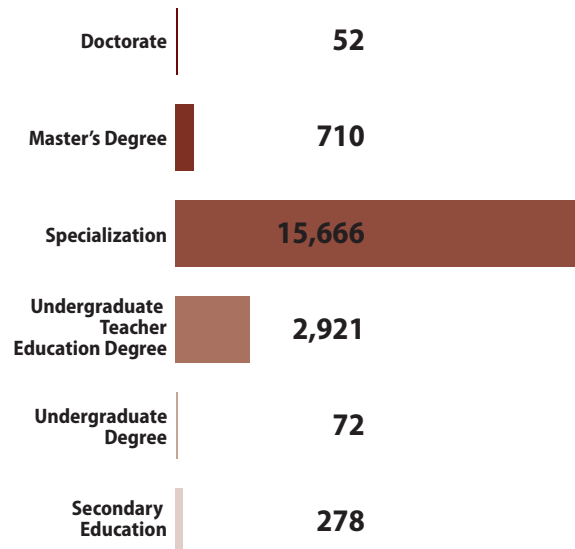


Figure 3 | Level of training of tenured teachers in the State of Santa Catarina
Source: State Department of Education

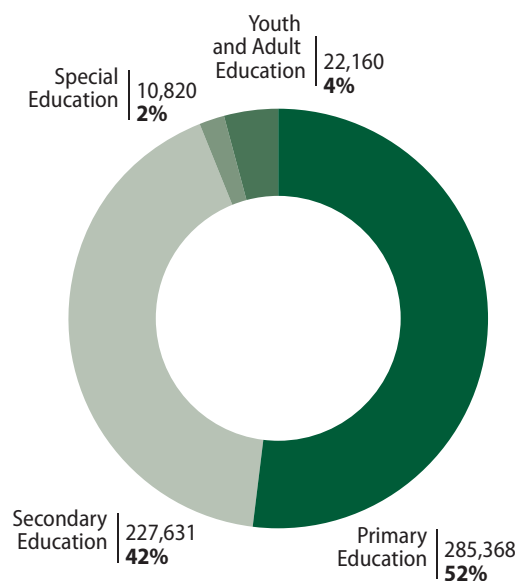


Figure 4 | Number of Students in the Basic Education Network of the State in 2013
Source: State Department of Education

opted for the high school on a full-time basis and offer to 13,060 students (5.7% of the total enrolled in high school), in the second shift/after school activities, elective courses that encourage creativity and innovation of curricula. The target of the State is to have 50% of high school students attending full-time by 2020.

Students of the 2nd and 3rd year of Innovative High School and Regular Middle School still have the opportunity to attend technical classes, with a course load of eight hours a week at SESI, SENAI and SENAC. The initiative is part of the National Program for Access to Technical Education and Employment (Pro-natec). The Vocational Education Centers of Santa Catarina (CEDUPs) also offer this type of education. Classes are geared to sustainable and productive development of each region.

The Integrated Secondary Vocational Education (EMIEP) is another modality offered by the State of Santa Catarina. The objective is to develop projects that address the areas of scientific and technological training. EMIEP adds technological axes, such as business management, information and communication, natural resources, hospitality and leisure, infrastructure, food production, control and industrial processes, environment, health and safety.

In 2013, 45,945 students of the state network (20.24% of the total) completed vocational courses⁵. The goal is to reach 30% by 2020.

To qualify and expand the supply of Secondary Education, the State is investing in school infrastructure. The More Schools Program has 10 new high schools under construction, 18 under a bidding process and one opened in September 2013. Besides these, eight new CEDUPs are also in the final stages of construction.

The Index of Basic Education Development (IDEB), calculated and published every two years, demonstrates the evolution in the quality of education in Santa Catarina, which exceeded the targets set for the year 2011 (the latest year with available data), it was a national highlight in secondary education and in the final years of primary education. Santa Catarina maintained the lead in the national ranking, averaging 4.9 in ratings between students from the fifth to eighth grade levels.

In the evaluation of secondary school, Santa Catarina also came to occupy leadership with IDEB of 4.3. Regarding the early years of primary school, which correspond from 1st to 4th grades, Santa Catarina achieved important progress. In IDEB 2011, Santa Catarina reached 2nd place nationally, with 5.8, being second only to Minas Gerais (5.9).

⁵ Source: State Department of Education. Available at <http://sc.gov.br/index.php/mais-sobre-educacao/5001-novas-perspectivas-no-ensino-medio-ajudam-no-combate-a-evasao>. - Accessed on 01/24/2014.

Table 2 | IDEB Comparative by Region

| Region/UF | IDEB 2007 | | | IDEB 2009 | | | IDEB 2011 | | |
|-----------------------|------------|------------|---------------------|------------|------------|---------------------|------------|------------|---------------------|
| | 4th Grade | 8th Grade | Secondary Education | 4th Grade | 8th Grade | Secondary Education | 4th Grade | 8th Grade | Secondary Education |
| Northern | 3.4 | 3.4 | 2.9 | 3.8 | 3.6 | 3.3 | 4.5 | 3.8 | 3.4 |
| Northeastern | 3.5 | 3.1 | 3.1 | 3.8 | 3.4 | 3.3 | 4.2 | 3.5 | 3.2 |
| Central-Western | 4.4 | 3.8 | 3.4 | 4.9 | 4.1 | 3.5 | 5.2 | 4.2 | 3.6 |
| Southeastern | 4.8 | 4.1 | 3.7 | 5.3 | 4.3 | 3.8 | 5.5 | 4.4 | 3.8 |
| Southern | 4.8 | 4.1 | 3.9 | 5.1 | 4.3 | 4.1 | 5.5 | 4.4 | 4.0 |
| Santa Catarina | 4.9 | 4.3 | 4 | 5.2 | 4.5 | 4.1 | 5.8 | 4.9 | 4.3 |

Tertiary education is also noteworthy. In 2013, UDESC (University of the State of Santa Catarina) was considered by the Ministry of Education (MEC) the fourth best state university in Brazil and the 18th in the overall ranking among 192 institutions evaluated. The highlighted position indicates the quality of teaching,

research and extension activities offered by the university education in Santa Catarina. UDESC has 48 undergraduate programs in 12 units of the institution, distributed in 10 cities of Santa Catarina. The University finished 2013 with 14,192 undergraduates and 1,024 graduate students.

Health

Public health has always been a priority for the State Government, and in 2013, the investment of resources in this area reached R\$ 2.239 billion, representing an increase of 12.61% over the year 2012.

Santa Catarina has 76.304⁶ health professionals working in the area, with nearly 30,000 with tertiary education. It has 244 hospitals, totaling 17,065 beds. The additional beds, in which the various ICUs modalities are inserted, correspond to 1,349 beds.

In addition, the State has 43 Specialized Dental Centers in operation, which, until October 2013, carried out 121,174 procedures, an average attendance of over 95% compared to the target stipulated for the year.

From January to November 2013, the State recorded in their hospitals, the lowest percentage of deaths⁷ of Southern Brazil, as seen in Table 3.

Table 3 | Hospital Morbidity from January to November 2013

| Federation Unit | % of hospital deaths |
|-----------------------|----------------------|
| Paraná | 36.4 |
| Santa Catarina | 20.7 |
| Rio Grande do Sul | 42.9 |

Source: MINISTRY OF HEALTH. SUS Hospital Information System (SIH/ SUS): SUS hospital morbidity by place of admission. Available at: <http://tabnet.datasus.gov.br/cgi/tabcgi.exe?sih/cnv/niuf.def>. Access on 01/16/14.

In the area of organ transplantation, Santa Catarina led the national transplant list for the seventh time in eight years, with 1,175 recipients of organs. The most transplanted organs are kidneys, with 269 procedures, followed by the liver, with 116 transplants. The most transplanted tissue was the corneal tissue with 504 procedures. With regard to the number of donors per million inhabitants the State also stands out with 26.8 donors per million, more than double the national average of 13 donors per million.

The State stands out in caring for pregnant women and children up to 2 years, it has the highest rate of longevity compared to other Brazilian states, with an average of 76.8 years of life, besides being the State with the lowest number of infant deaths⁸ (11.2 per thousand).

The State is also a national reference in newborn screening, with 89% coverage, which means that the coverage of the State is the best in the country (the national average is 82%). Currently, this test includes seven exams, from these, six are part of the national program and one is performed only in Santa Catarina (checking galactosemia to detect hereditary disease or metabolic error that can lead to mental disabilities and, in some cases, death).

Among the major State investments in health, in 2013, the most noteworthy include:

» **Florianópolis Hospital:** Renovation and expansion of the Hospital, which started to treat an average of 5,000 patients per month in 50 inpatient beds and 10 beds in the Intensive Care Unit (ICU). After the renovation, the Hospital grew to have immediate clinical, pediatric, and orthopedic medical services of medium and high complexity, emergencies and general surgery. In addition to the hospitalization beds and ICU, the hospital also has four beds for post-anesthesia recovery and a surgical center with three rooms. The service is provided 100% by the Unified Health System (SUS).

The Florianópolis Hospital has 590 employees, among whom 165 are physicians and 225 are nurses. The remodeling works lasted four years and the current structure of the Hospital is a reinforcement to ease queues in the São José Regional Hospital, besides sharing with it the title of being a reference in orthopedics in the region.



^ **Renovated Florianópolis Hospital**

Photo: Claudio Thomas/SECOM

⁶ According to the National Registry of Health Establishments - CNES
⁷ Source: Website of the Information Technology Department of SUS - Datasus - <http://www2.datasus.gov.br/DATASUS/index.php?area=0203&VObj=http://tabnet.datasus.gov.br/cgi/defohtm.exe?sih/cnv/ni>

⁸ Under 1 year of age per 1000 live births

**Western Regional Hospital, in Chapecó, >
and Tereza Ramos Hospital and Maternity,
in Lages (below)**

Photos: Department of Regional Development in Chapecó
and State Department of Communication



» **Western Regional Hospital – Chapecó:** beginning of expansion and readjustment works of the Hospital, with a new area of 9,360 m², opening of 10 beds for the adult Intensive Care Unit (ICU), 7 beds for the coronary ICU, 10 beds for the pediatric ICU, 27 beds for post-surgical recovery, 56 beds for long-term oncology, 36 beds for short-term chemotherapy, as well as implementation of a new surgical center with an increase of 12 rooms.

» **Tereza Ramos Hospital and Maternity – Lages:** hospital expansion and readjustment with a new area of 16,000 m². Opening of an emergency department and a diagnostic imaging center, an increase of 92 inpatient beds, operating room and ICU (in progress).

» **Mobile Emergency Care Service (SAMU):** acquisition of 51 vehicles, 10 advanced support units, 29 basic support units and 12 special advanced support units 4x4, for SAMU's use.

» **Expansion of the Emergency Care Network:** 22 hospitals in 17 municipalities of the State have signed a commitment to membership and will receive R\$ 63.9 million per year for emergency and urgent care, as well as a qualification of beds in the ICU.

» **Cegonha (Stork) Network:** care for pregnant women and children up to 2 years of age, offered by the Cegonha Network, was a highlight in 2013. The State formed partnerships with 24 hospitals of the public, private and philanthropic networks of Santa Catarina, ensuring medical care by the Unified Health System (SUS). Resources to fund the initiative in hospitals are R\$ 28 million.

» **Basic Care:** the population coverage of the Family Basic Health Care Strategy, in Santa Catarina, in 2013, reached 75.15% and it is among the best in Brazil. The State stands out as the one with most coverage in the country. Currently, the State has 1,526 Family Health teams in the field, in addition to 950 oral health teams.

» **Pharmaceutical Care:** the State has invested, in the year 2013, about R\$ 236 million for the acquisition of medications. From this amount, R\$ 28 million were assigned to basic assistance for the Municipalities and for the diabetes supplies program. The remaining amount was invested in high-cost medicines to SUS patients, mainly for treatment of diseases such as Alzheimer's disease, viral hepatitis, Parkinson's disease, rheumatoid arthritis and also to transplant patients taking immunosuppressive drugs. In addition, more than 13 thousand people from Santa Catarina were attended by judicial determination, exceeding R\$ 141 million in spending.

» **Increase in the workforce:** 806 new professionals were incorporated, in 2013, to the staff of the State Department of Health, currently totaling 10,550 active workers.

» **Surgeries Task Force:** 28,336 procedures from January to November 2013 were performed, exceeding the target of 20 thousand surgeries set for the year. The surgeries carried out are minor, such as cataracts, gallbladder, hernia, and varicose veins, which are made in philanthropic and municipal hospitals that provide medical care through SUS. Since the program began, the State Department of Health has invested R\$ 47.2 million in partnership with the Ministry of Health

» **Telemedicine and Telehealth:** in partnership with the Federal University of Santa Catarina, telemedicine has an approximate annual investment of R\$ 900,000 and it enables the sending of examinations and issuance of reports by specialized physicians without them being in the place of the examination. These are EKGs, dermatologic examinations, laboratory tests, digital x-rays, ultrasound, among other services performed in 287 Municipalities in Santa Catarina which, in 2013 totaled more than 166,600 invested in exams. In addition to Telemedicine, Telehealth offers the teleconsulting service, which is the virtual clinical support for physicians and nurses that enable the exchange of information and discussion of cases instantaneously.

Social Assistance

The State Government, through the State Department of Social Welfare, Labor and Housing (SST), conducted several actions aimed at the social assistance area in 2013, among which the following stand out: early actions of the Santa Catarina Pact - social Protection; training of 5,800 professionals, convocation of 220 civil servants who passed the civil service entrance examination, of which 49 are for the social assistance area, and inter-sectoral action in the drawing up of the State Plan for Public Policies on Drugs.

The amounts invested in social assistance exceeded R\$ 97 million in 2013. From this amount, R\$ 31 million were allocated for Community assistance and R\$ 28 million were allocated for assistance to children and adolescents.

In 2013, the actions of the Pact for Social Protection were initiated, covering three areas:

- 1 - social protection and guarantee of social rights;
- 2 - work, training and income generation;
- 3 - eradicating extreme poverty.

At the end of 2013, 253 vehicles were delivered to areas of assistance scattered throughout the State >

Photo: Jaqueline Noceti/Secom



**Employees receive orientation and guidance >
to the labor market in Mobile Sine
(National Employment System of Santa
Catarina) - Florianópolis, 04/30/2013**

Photo: Cláudia Marcelo de Lima / SST



Axis 1

Social Protection and Guarantee of Social Rights

In the Axis Social Protection and Guarantee of Social Rights 61 Social Assistance Reference Centers (CRAS) were tendered and contracted, with a planned investment of R\$ 23.8 million. There are 342 CRAS in 270 municipalities in the State. In total, Santa Catarina will have 403 CRAS.

Further, 20 Specialized Reference Centers of Social Welfare (Creas), from the 27 anticipated, were tendered and have been hired, with investments of approximately R\$ 13.6 million. Currently, the state has 86 Creas in 82 municipalities. In total, Santa Catarina will have 113 Creas until the end of 2014, making it one of the States with the greatest coverage of CRAS and Creas in the country.

In 2013, a bidding process for the construction of 12 Day Centers for the elderly was initiated, with investments of approximately R\$ 14.7 million. The State is a pioneer in the construction of these spaces. The Centers prevent the elderly from staying in nursing homes and assist needy families who have nowhere to leave them during the day to go to work. The elderly people can spend up to 12 hours a day in the Day Center.

In the area of social protection, in December 2013, 253 vehicles were delivered to the area of assistance, with 229 for municipalities and 24 vehicles for: the operational support of the Department, the 13 Work, Employment and Income Centers, Don Jaime Câmara Technical School, in Palhoça, and São Gabriel Educational Center in São José.

The vehicles, for the exclusive use of the Social Assistance area, help support the Social Assistance Reference Centers (CRAS) and the Specialized Reference Centers of Social Welfare (Creas).

The vehicles delivered to municipalities are intended for the active search and social protection of people.

Active search refers to the location, inclusion and referral to the citizens' protective services, for people who are not aware of their rights.

Among the programs that families can be included in, there are the Continued Payment of Benefits (BPC) to the elderly - granting a minimum wage for people over 65 of age who are unable to support themselves, and the BPC for people with disabilities. The goal is to serve all elderly and disabled people who are entitled to receive the benefit. In addition, families can be registered for income transfer programs, such as Bolsa Família (Family Allowance) of the Federal Government, and the Santa Renda (allowance to supplement the Bolsa Família) of the State Government.

Axis 2

Work, Employment and Income

In the Work, Employment and Income axis, the State invested in stocks in the work and professional training area. In the State, the SST coordinates the relationship between the Municipalities and institutions that offer vocational training courses of the National Access Program to Technical Education and Employment (Pro-natec) of the Ministry of Social Development and Fight against Hunger (MDS).

For two consecutive years (2012 and 2013), Santa Catarina ranked second in the country in relation to the percentage of people enrolled in the Single Registry (instrument that identifies and characterizes low-income families).

In 2012, there were 20,000 jobs, 20,000 students enrolled and investments of R\$ 32 million from the Federal Government in 237 different courses. In total, 245 Municipalities have joined the program. In 2013, there were 69,000 jobs, 36,900 students enrolled and investments of R\$ 59 million in 270 different courses in 284 Municipalities.

In Santa Catarina, there are 120 service centers of the National Employment System (SINE), of which 22 are a direct execution of the State through the State Department of Social Welfare, Labor and Housing. Other 98 posts are in partnership with local city halls.

The posts of the SINE provided care for intermediation of labor to 1.12 million workers from December 2012 to December 2013. This number exceeded, by about 50%, the goal of service stipulated by the Ministry of Labor and Employment (MTE), which were 552,000 in the period. The system also made available 78,000 jobs and sent 169,000 people into the labor market.

The increase in the number of technical schools, designed to provide free vocational training courses, is also among the goals of the State. In 2013, it opened a school located in the Dom Jaime Câmara Education

Center in Palhoça. The school held 23 Pronatec courses in six different areas: sewing, mechanics, bakery, computer, carpentry and graphic arts. In total, 823 students, divided into 33 groups, attended classes.

Axis 3

Eradication of extreme poverty

In the third axis, the State invested, in 2013, in the Santa Renda program, which is a state program of supplementary income that benefits people who already receive the Bolsa Família allowance from the federal program. The Bolsa Família program pays a minimum of R\$ 70.00 per month per person. The State Government contributes with another R\$ 10.00 to benefit families with children and adolescents between zero and 15 years, which raises the minimum wage to R\$ 80.00 per month per person.

It is expected that the Santa Renda program aids 33,073 families (around 132,292 people in Santa Catarina) who are living in extreme poverty by the end of 2014. In the State, 141,210 families (564,840 people) receive the federal benefit. The goal is to eradicate extreme poverty in the State by 2015.

Further, aiming also to eradicate extreme poverty, the State is investing in the construction of tanks, in partnership with the Ministry of Social Development and Fight against Hunger for the capture and storage of rainwater to meet the demand of families of the Western region of the State, suffering from drought. By the end of 2013, about 400 tanks were under construction, and until the end of 2014, the State plans to build 4,508 more tanks.



< **Municipalities within the scope of SDR Maravilha sign contracts for the construction of tanks in April 2013. The total investment is of R\$ 2.3 million**

Photo: Carla Trentin / SDR-Maravilha

State Plan for Public Policies on Drugs

The year 2013 also included inter-sectoral work in counteracting drugs with the participation of technicians from five State departments: Social Services, Education, Health, Public Safety and Justice and Citizenship, besides the participation of municipal departments from these areas and civil society.

During the year, seven regional workshops of inter-sectoral mobilization of public policy on drugs were organized, in order to develop proposals for the State Plan for Public Policies on Drugs. The workshops were attended by 3,000 professionals.

From February 2014, the results of workshops for the preparation of the State Plan for Public Policies on Drugs will be compiled, and the result will be forwarded to the Legislation Assembly to be enacted into law.

In parallel, an ongoing dialogue with regional boards for the execution, monitoring and tracking of the actions foreseen by the technical teams' remains.



^
First Regional Workshop on Inter-sectoral Mobilization of Public Policies on Drugs, held in Lages, in November 2013

Photo: <http://drogasvencer.blogspot.com.br/>



Revival Program

The Revival Program (State Care Network for Chemically Dependent People), designed in 2013 by the State of Santa Catarina, in partnership with the Support Foundation for Research and Innovation of Santa Catarina (Fapesc) and the Commission for the Prevention and Combating of Drugs of the Legislative Assembly, enabled initially 43 therapeutic communities for immediate accommodation of 430 chemically dependent people. In total, 900 places for adults and 300 for teenagers will be made available to the community. Among the actions planned by the Program, the following are included: diagnosis and registration of therapeutic communities, training of professionals in these communities, development of prevention protocols, care evaluation research and family reintegration and preparation of instructional material.

The project integrates the actions of the Crack Program - You Can Win, and involves the State Departments for Justice and Citizenship, Public Safety, Education, and Social Assistance, Labor and Housing, and it will also incorporate the actions of the State Plan for Public Policy on Drugs.

Security

Security in the State stands out for the intelligent performance. In 2013, investments were concentrated in structure, police mobility, individual protection equipment and expansion of the electronic surveillance system, which amplified and interlinked the Civilian Police Equipment, Fire Brigade and Military Police.

During the year, more than R\$ 1.794 billion were invested in the Santa Catarina public security. From this amount, R\$ 1.317 billion was allocated to payroll, R\$ 372 million for the maintenance of public security services and R\$ 105 million to investments.

Investments in public security include:

- » acquisition of 1,260 vehicles for the Military Police, Fire Brigade, Civil Police, Department of Public Safety and Disclosure and Barring Service Institute;
- » acquisition of a firefighting and rescue truck for the Fire Brigade;
- » acquisition of three sets of radio communication consoles for Emergency Centers in Santa Catarina;
- » acquisition of 108 kits for detecting drugs in urine and blood, two spectral video comparators for forensic examination of documents, 58 DNA reagent kits, a chromatography system for searching and quantifying ethanol and other volatile components in blood and other biological fluids, as well as a gas chromatograph-mass spectrometry for the Disclosure and Barring Service Institute;
- » acquisition of police personal protective equipment, including: pistols (7,860), ballistic vests (5,269), handcuffs (4,013), belts (7,263) and tonfas (5,013);
- » acquisition of 1,218 traffic equipment, tonfas and garrison belts;

- » acquisition of a mechanical auto-ladder for the Fire Brigade;
- » modernization of the communication system of Public Safety with the implementation of a digital trunked communication system, integrating the Departments of Public Safety, Civil Defense and Justice and Citizenship, throughout the state of Santa Catarina, and
- » appointment of 1,263 police officers, among them 71 officers and 1,192 soldiers, who will work throughout the state of Santa Catarina, as well as appointment of 154 clerks and two civilian police officers.

It should also be highlighted the acquisition of equipment, vehicles, digital trunked radio system and a helicopter through the ENAFRON Program (National Strategy for Public Security along Borders), in partnership with the Public National Security Department of the Ministry of Justice (SENASP) covering the 82 municipalities in Santa Catarina, which are part of the borderlands. The ENAFRON program is aimed at strengthening the state presence in the border area and the development of projects, in order to prevent illicit drug trafficking, international trafficking of firearms, ammunition

**New vehicles were acquired >
for the Military Police**

Photo: Fabio Fontana / SDR-Curitibanos



The newly built Penitenciária Sul > (South Prison), in Criciúma

Photo: Felipe Carneiro/SECOM

and explosives, smuggling and piracy, tax evasion, illegal export of vehicles, environmental crimes, illegal immigration of foreigners through the dry border of Brazil and human trafficking.

In addition, in 2013, the State structured the Bem-Te-Vi Safety Program by video surveillance. In addition to the 51 cities that already have an urban video surveillance system, contemplated by the first phase of the Bem-Te-Vi Program, the state launched the second phase of the Program, which plans to invest R\$ 10 million in the installation of 1,000 surveillance cameras in 100 municipalities in Santa Catarina. The goal of the program is the safety and systematic surveillance of public places, adding efficient technology in crime prevention, investigation and prosecution of offenses with municipal partnership. Images are shared with the Civil Police, which facilitates the work of investigation and identification of criminals. With this action, more than half of the municipalities of Santa Catarina will be covered by the video surveillance system. Moreover, Santa Catarina is the only State in the country to promote the integrated access of images between the different cities monitored.



^
In the Penitentiary Complex of Canhanduba, in Itajaí, prisoners work, study, occupy clean cells and receive adequate meals

Photo: Felipe Carneiro/SECOM



Prison System

In 2013, there was restructuring in the Santa Catarina prison system, with expansions of the Prison in Itajaí, the Southern Prison in Criciúma, and the Industrial Prison in Joinville, accounting for 624 new vacancies in the State prison system.

The Pact for Justice has allocated R\$ 265 million to the prison and social and educational systems of the State, which has a policy of rehabilitation of prisoners.

In 2013, considering all the Santa Catarina system, 48% of prisoners (8,300) were working, exercising professional activities through 200 agreements signed with private companies. It is the highest average percentage in the country, according to a survey by the National Penitentiary Department.

The percentage of prisoners studying was 11.7% (1,800⁹), also higher than the national average, which is 8.7%. In addition, 1,039 prisoners participated in the National Secondary Education Examination (Enem) in 2013.

Santa Catarina's prison system has 1,600 correctional officers. In 2013, 48,000 escorts between court hearings, transfers, health care and social activities were performed.

The evasion, which is the index of prisoners benefited from a temporary exit whom do not return to the prison system, fell from 4.5% in 2012 to 3.5% in 2013. And the number of escapes dropped from 194 in 2012 to 140 in 2013, a reduction of 28%. Considering the 525 escapes recorded in 2011, the reduction of 73% last year was even more impressive.

9 In this particular indicator inmates of the open system are not included.

Port of Itajaí, Brazil's second largest Port >

Source: www.portoitajai.com.br



Infrastructure

Santa Catarina has a road network of more than 62,000 km of federal, state and municipal roads. Among the major highways, there is the BR-101, the main road linking Santa Catarina and other States along the coast, the BR-116, which cuts the State in the North-South direction, and connects it to the neighboring States; BR-282, which crosses across the State, linking Florianópolis to Argentina. In addition to these roads, the State also has the following federal highways: BR-153, BR-158 and BR-163 (North-South direction), BR-280, BR-283 and BR-285 (East-West direction); BR-386 (diagonal direction) and BR-470, BR-475, BR-477, BR-480 and BR-486 (linking highways). Santa Catarina is the sixth largest automobile fleet and the fifth largest fleet of trucks in the country¹⁰.

The State has two international airports (Florianópolis and Navegantes), nine regional airports (Joinville, Chapecó, Joaçaba, Caçador, Lages, Blumenau, Forquilha, Dionísio Cerqueira and Xanxerê), plus 21 public aerodromes and 47 private aerodromes¹¹.

The state port structure is formed by the Port of Itajaí, São Francisco do Sul, Imbituba, Navegantes and Itapoá, through which a large part of its production flows, and the Laguna Port, which has focused on fishing activities. Together, Santa Catarina Ports handle about 18 million tons each year. The Port of Itajaí is the second largest Brazilian port (and 13th in Latin America and the Caribbean) in the handling of containers, and the Ports of São Francisco and South Imbituba are also among the main Brazilian ports with the highest movement of containers.

Santa Catarina also has 1,365 km of railways. The railway service is provided by two concessionaires: a) Ferrovia Tereza Cristina - with 164 kilometers, it connects the towns of Criciúma and Imbituba, transporting especially coal, b) América Latina Logística - it operates

the ALL railway - with 1,201 km, it is used primarily for the transportation of grains and it connects the cities of Herval d'Oeste, Porto União, Mafra and São Francisco do Sul, as well as Lages to Mafra.

In relation to the Santa Catarina Pact Program, in the area of infrastructure, it will receive an amount of approximately R\$ 3.4 billion for highways and R\$ 170 million for the modernization of ports. These resources will be used in strategic works for the integrated development of the State.

In 2013, there were great advances in the expansion of the gas network, in the resumption of power generation by Celesc, installation of power underground networks, recovery of roads, with the correction of dangerous spots on roads and reconstruction of highways, as well as improving the performance efficiency of the Ports of Santa Catarina. The São Francisco Port had its ability to load and unload goods increased by 20%, with an investment of about R\$ 30 million.

The modernization of the infrastructure projects are aligned with environmental requirements. An example is the doubling of the access to the Hercílio Luz Airport in Florianópolis, which had its schedule changed to meet environmental requirements. In the Southern part of the State, the road link between Praia Grande and Cambará do Sul (RS) had its budget doubled in respect to nature. The State believes that this is the way to support investments and attract other companies to Santa Catarina that are willing not only to generate employment and income, but are also committed in using technology and knowledge to promote the development of people.

¹⁰ Source: Anfavea - 2013 Yearbook of the Brazilian Automotive Industry - Estimates.

¹¹ Source: National Civil Aviation Agency (ANAC).

Civil Defense

For people who live in areas considered critical in the Valley and High Valley of Itajaí, the State is building a protection system in order to preserve life and tranquility of the citizens of Santa Catarina.

Among the main prevention measures, the following deserve mention:

- » measures to reduce the flow of the rivers of the Itajaí River Basin, through the preservation and improvement of the containment function of the water in the basin of the floodplain;
- » measures for the efficient use of existing plumbing installation and installation of new devices for the regulation of floods;
- » measures for extending the channels of the rivers of the basin and construction of dikes, aiming to drain large floods with safety;
- » deployment-related transmission of meteorological and hydrological data, with the acquisition of a weather radar, alarm system, mapping of risk areas, improvement of action plan for evacuation and regulation of land use; and
- » structural measures to raise the level of security in places subject to landslides with the possibility of aggravating social and economic factors.

Tourism

Tourism in Santa Catarina is a major area of economic activity, accounting for a significant share of the State's GDP and impacting on the lives of approximately 600,000 people.

Destination for both summer and for winter, Santa Catarina welcomes tourists from all over the country and different parts of the world. The 500 kilometers of beaches and the mountain range are attractions that ensure movement in the State throughout the year. This diversity of scenarios has led Santa Catarina to receive, in 2012, more than 6 million visitors, with 195,000 of them being foreigners.

The State participates in the SC Rural Program, which aims to increase the competitiveness of the family farmers' organizations, with a focus on rural tourism.

The families involved with rural tourism are supported with funds from the program and it is aimed at seeking in products and processes the main local source of supplies and services for the development of the activity.

In 2013, eight workshops were conducted in eight tourist regions of the State, mobilizing and sensitizing around 500 people who will be multipliers in the region. Meetings also took place with around 300 farmers, with the provision of technical information about tourism, credit lines and some avenues of support to the development of rural tourism actions in family farming.

Actions and investments in tourism caused the State to receive in 2013, for the seventh consecutive year, the award for best tourist destination in Brazil¹². This award consolidates the State as the biggest winner of the category since its inception in 2001.

12 Travels and Tourism Award, "Best Tourist Destination in Brazil." Award given by the Revista Viagem e Turismo (Travel and Tourism Magazine) by Editora Abril.

ECONOMIC ASPECTS

Production and quality of life

Santa Catarina is a differentiated State; it has a balanced and diversified economy, as well as a hard-working people.

THE STATE ECONOMY is based on industry (especially agribusiness, textiles, ceramics and metal - mechanics), the extraction (minerals) and livestock. In agribusiness, our State is a national leader in pig production, it ranks second in the production of poultry and the dairy industry and the cultivation of apple is also to be highlighted.

The State economy gained a strong increase in 2013. The export of pork to the demanding Japanese market consolidated a growth cycle in the Western region. The signing of long-term contracts guarantees stability to the economic activity. The sale being guaranteed, producers expand their businesses and move the production chain in the region.

The achievement of the biggest market buyer of pork in the world - the Japanese import 1.2 million tons per year – that is a sample of what is possible to do to keep the exponential and articulated economic growth of Santa Catarina. This result is not only due to the quality of our production, but to a set of actions taken by the State Government involving sanitation, recuperation of the road network and performance efficiency in the Ports of Santa Catarina.

Economic and social indicators show the evolution of the growth of the State. The State has the fifth highest GDP per capita in the country and the first in the South Region. Santa Catarina is also one of the Brazilian States with better quality of life.

More information about the industry, foreign trade, labor market and gross domestic product of Santa Catarina are presented below.

Industrial Sector

Santa Catarina has a major industrial park, occupying a prominent position in Brazil. The processing industry in Santa Catarina is the fourth in the country in number of companies and the fifth in number of employees. The clothing and food segments are the ones that employ the most people, followed by the textile items.

The main industrial centers in Santa Catarina are Joinville and Blumenau. The first has a diversified character, with textile mills, food products, foundries and the engineering industry. Blumenau, in turn, focuses its activity on the textile industry, metal mechanics and software, in addition to the recent outbreak of craft breweries. Within the State, there are numerous small manufacturing centers, linked both to the industrialization of wood, and the processing of agricultural and pastoral products.

The Northeastern part of the State (Joinville-Jaraguá do Sul axis) stands out in the production of motor compressors, auto parts, refrigerators, motors and electric components, industrial machinery, pipes and fittings. In turn, it is in the Southern part of the State that the main ceramic tile factories are located in Brazil. In the Northern part of the State, there is the city of São Bento do Sul, which is the largest exporter of furniture in Brazil, being recognized as the national capital of furniture.

The headquarters of the country's main slaughterhouses are in the Midwestern and Western parts of the State. The major timber industries of Santa Catarina are also located in this region, which make the State the largest national exporter of doors and their frames and thresholds. The timber industry of the State is among the largest in the country in the production of wooden doors.

According to the Federation of Industries of the State of Santa Catarina - FIESC¹³, Santa Catarina is the Latin American leader in crystal production and fourth in the world in overlay crystal. It is a leader in the Latin American continent in the production of trophies and medals in matrices for the ceramic industry, products for telephony, building ships and tugboats, sales of starter drives for vehicles, production of PVC pipes and fittings, expanded polystyrene products, fastening devices (bolts, nuts, etc.), based on billing, electromagnetic locks and laser processing (cutting and engraving) of organic materials. Santa Catarina has the world's second largest industry in the production of woven labels and it is one of the major global players in electric motors. The State has one of the largest and most modern printing industries in Latin America, and it is also the only manufacturer of the Latin American continent, of oxide, hydroxide and carbonate, in all continents of magnesium and the second largest pottery regarding revenue.

In Santa Catarina there is the world's largest industry in the cylinder blocks and engine cylinder heads segment, based on revenue, and the world's only manufacturer of refractory non-toxic cookware ceramics resistant to thermal shock. Santa Catarina is a national leader in the items mentioned above and also in products aimed at image management, condominium centers, electronic safety switches for small and medium companies and telephony, machining, and compacted graphite iron technology and in the production of pillows. In Brazil, it is second place in acoustic and amplified boxes, Kraft paper and industrial bags and disposable plastics (cups, plates, etc.). It ranks third in manufacturing speakers and paints for the furniture industry.

¹³ Federation of Industries of the State of Santa Catarina. Santa Catarina Data / Economic and Industrial Policy Unit. - Florianópolis: FIESC, 2013.

Foreign Trade (Imports and Exports)

Exports in Santa Catarina in 2013 were US\$ 8.68 billion, representing a decrease of 2.6% compared to 2012 (US\$ 8.92 billion). The total exported by Brazil in 2013, has a decline of 0.2% compared to the previous year. The Santa Catarina imports, meanwhile, totaled \$ 14.7 billion in 2013, an increase of 1.6 % compared to 2012.

The result of the trade balance of the State, in 2013, was negative in US\$ 6.09 billion (US\$ 5.6 billion in 2012). Further, the national result was a surplus of US\$ 2.5 billion, as shown in **Table 4**.

Table 4 | Trade balance (US\$ thousands)

| | Exports 2013 | Variation 2012/2013 | Imports 2013 | Variation 2012/2013 | Trade Balance |
|----------------|---------------------|----------------------------|---------------------|----------------------------|----------------------|
| Santa Catarina | 8,688,839 | -2.6% | 14,778,889 | 1.6% | -6,090,050 |
| Brazil | 242,178,649 | -0.2% | 239,620,905 | 7.4% | 2,557,744 |

Source: FIESC 2013

Major Exporting Companies

BRF - Brasil Foods S.A. was the company in the State that exported the most in 2013, totaling US\$ 1.11 billion, followed by Weg Equipamentos Elétricos S.A. with US\$ 740.56 million, and then by Seara Alimentos

Ltda. with US\$ 673,1 million. The export of the ten leading exporters in 2013 represents 56.3% of the total export of the State, according to information presented in **Table 5**.

Table 5 | Major exporting companies in Santa Catarina – Years 2012 and 2013

| | Company | 2013 | | 2012 | | Variation 2013/2012 % |
|--|---|----------------------|--------------------------------------|----------------------|--------------------------------------|------------------------------|
| | | US\$ F.O.B. | Share in the Exported Total % | US\$ F.O.B. | Share in the Exported Total % | |
| 1 | BRF – Brasil Foods S.A. | 1,114,548,708 | 12.83 | 601,776,432 | 6.75 | 85.21 |
| 2 | Weg Equipamentos Elétricos S.A. | 740,565,046 | 8.52 | 753,787,156 | 8.45 | -1.75 |
| 3 | Seara Alimentos Ltda | 673,102,606 | 7.75 | 739,791,144 | 8.29 | -9.01 |
| 4 | Whirlpool S.A | 532,408,206 | 6.13 | 625,219,156 | 7.01 | -14.84 |
| 5 | Tupy S.A. | 441,725,585 | 5.08 | 467,886,645 | 5.24 | -5.59 |
| 6 | Cooperativa Central Aurora Alimentos | 412,202,376 | 4.74 | 311,532,926 | 3.49 | 32.31 |
| 7 | Souza Cruz S.A. | 396,985,040 | 4.57 | 449,374,182 | 5.04 | -11.66 |
| 8 | Bunge Alimentos S.A | 278,742,648 | 3.21 | 200,382,172 | 2.25 | 39.11 |
| 9 | Alliance One Brasil Exportadora de Tabacos Ltda | 161,288,423 | 1.86 | 185,143,533 | 2.08 | -12.88 |
| 10 | Pamplona Alimentos S.A. | 141,702,508 | 1.63 | 172,292,228 | 1.93 | -17.75 |
| TOTAL OF THE 10 LARGEST EXPORTERS | | 4,893,271,146 | 56.32 | 4,507,185,574 | 50.53 | 83 |
| TOTAL AREA | | 8,688,838,911 | 100.00 | 8,920,673,561 | 100.00 | -2.6 |

Source: Ministry of Development, Industry and Foreign Trade - MDIC. Available at: <http://www.desenvolvimento.gov.br//sitio/interna/interna.php?area=5&menu=1076>. Access on 01/22/2014

Main Products Exported

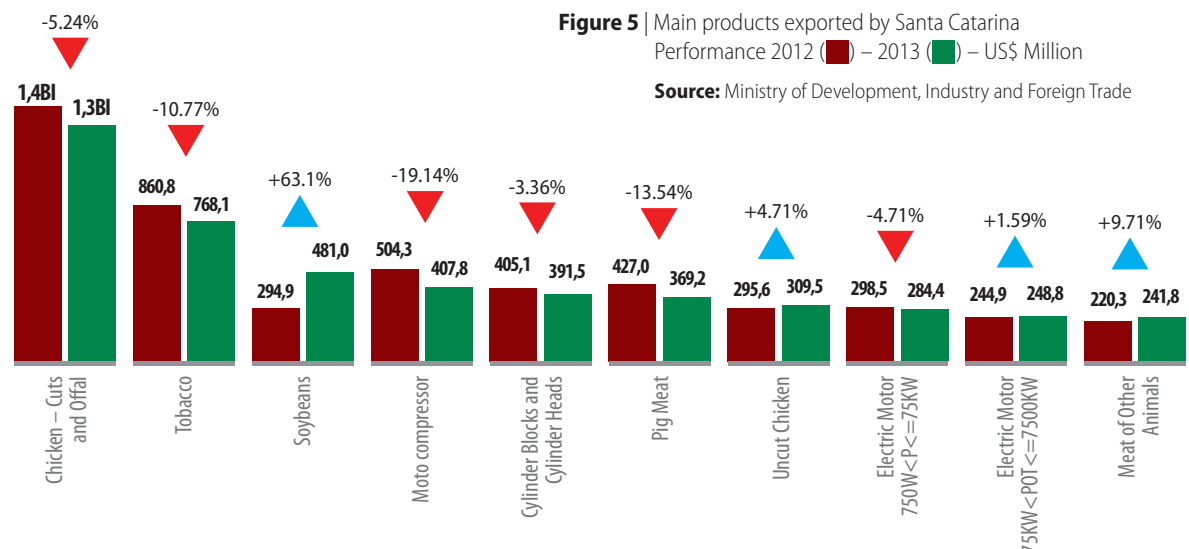
In 2013, agribusiness remained in a prominent place in Santa Catarina exports, accounting for 6 of the top 10 main products exported and with a share of 40.3% of exports. The main product exported is chicken (cuts

and offal), representing 15.34% of exports (15.77% in 2012), followed by tobacco, with an 8.84% share, and soybeans, representing 5.54% of the products exported by the State.

Table 6 | Main products exported by Santa Catarina – Years 2012 and 2013

| | Product | 2013 | | 2012 | | Variation 2013/2012 % |
|--------------------------------------|------------------------------------|----------------------|---------------|----------------------|---------------|-----------------------------|
| | | US\$ F.O.B. | Share % | US\$ F.O.B. | Share % | |
| 1 | Chicken – Cuts and Offal | 1,333,179,801 | 15.34 | 1,406,860,085 | 15.77 | -5.24 |
| 2 | Tobacco | 768,106,660 | 8.84 | 860,812,873 | 9.65 | -10.77 |
| 3 | Soybeans | 481,082,448 | 5.54 | 294,969,381 | 3.31 | 63.1 |
| 4 | Moto compressors | 407,838,841 | 4.69 | 504,365,698 | 5.65 | -19.14 |
| 5 | Cylinder Blocks and Cylinder Heads | 391,511,804 | 4.51 | 405,116,435 | 4.54 | -3.36 |
| 6 | Pig meat | 369,233,082 | 4.25 | 427,043,170 | 4.79 | -13.54 |
| 7 | Uncut Chicken | 309,530,141 | 3.56 | 295,591,556 | 3.31 | 4.72 |
| 8 | Electric Motor 750W<P<=75KW | 284,411,723 | 3.27 | 298,471,382 | 3.35 | -4.71 |
| 9 | Electric Motor 75KW<POT<=7500KW | 248,778,881 | 2.86 | 244,883,541 | 2.75 | 1.59 |
| 10 | Meat of Other Animals | 241,773,245 | 2.78 | 220,365,165 | 2.47 | 9.71 |
| TOTAL OF THE 10 MAIN PRODUCTS | | 4,835,446,626 | 55.64 | 4,958,479,286 | 55.59 | 0.09 |
| TOTAL OF EXPORTED PRODUCTS | | 8,688,838,911 | 100.00 | 8,920,673,561 | 100.00 | -2.6 |

Source: Ministry of Development, Industry and Foreign Trade - MDIC. Available at: <http://www.desenvolvimento.gov.br/sitio/interna/interna.php?area=5&menu=1076>. Access on 01/22/2014

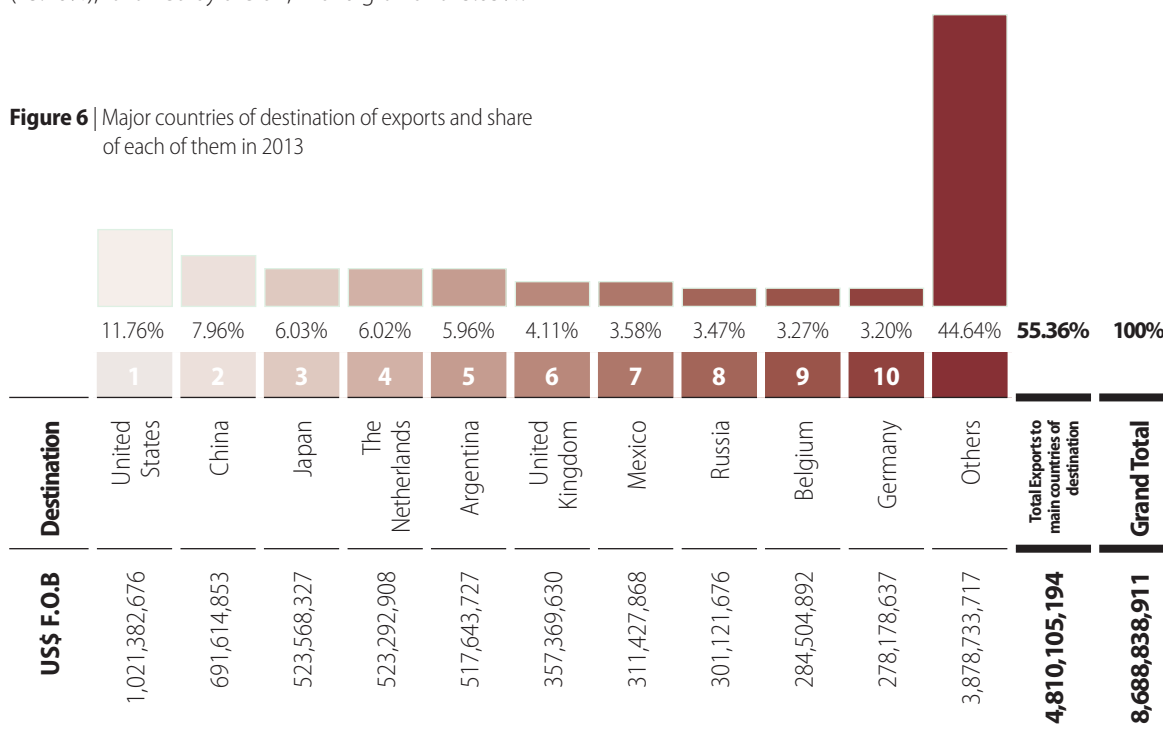


Main Destinations of Exports

The United States remained as the main partner in Santa Catarina's international business, with a share of 11.76% in total exports in 2013. China moved up one position from 2012 to 2013, and became the second nation with the highest volume of purchases of Santa Catarina goods, overtaking Argentina, which fell to fifth place. Of the top ten countries, China had the largest increase in 2013 (23.46%), followed by the UK, with a growth of 5.85%.

The main economic bloc in business with the State remains the European Union, accounting for 23.6% of the total state exports and an amount of US\$ 2.05 billion. Asia is the second place with a 22.33% share, and the United States (including Puerto Rico) comes in third place with an 11.96% share in total exports.

Figure 6 | Major countries of destination of exports and share of each of them in 2013



Source: Ministry of Development, Industry and Foreign Trade

Main Imported Products

The copper cathode remains the main product imported by the State, accounting for 7.67% of total imports and an amount of US\$ 1.134 billion.

In second place comes the yarn of artificial fibers, with 1.57% share of imports and an amount of US\$ 231 million.

In 2013, the highlight was the growth of imports of automobiles, a sector in which the value of purchases jumped from US\$ 2.5 million to US\$ 213.6 million, representing a variation of more than 8000 percent since important makes, such as BMW, brought its operations to Santa Catarina. The German automaker, since Sep-

tember 2013, is importing the majority of its vehicles in Brazil through the Port of Itapoá, representing 78% of Santa Catarina purchases of cars with overseas engine in 2013. The entry of cars from BMW through Santa Catarina was one of the points of the agreement signed with the State Government for the installation of the manufacturing plant in Araquari. Beforehand, the cars of this make came through the Port of Santos.

Textile polyester yarn also had a fairly significant change from 2012 to 2013 (1,052.25%) and imports totaled US\$ 151 million.

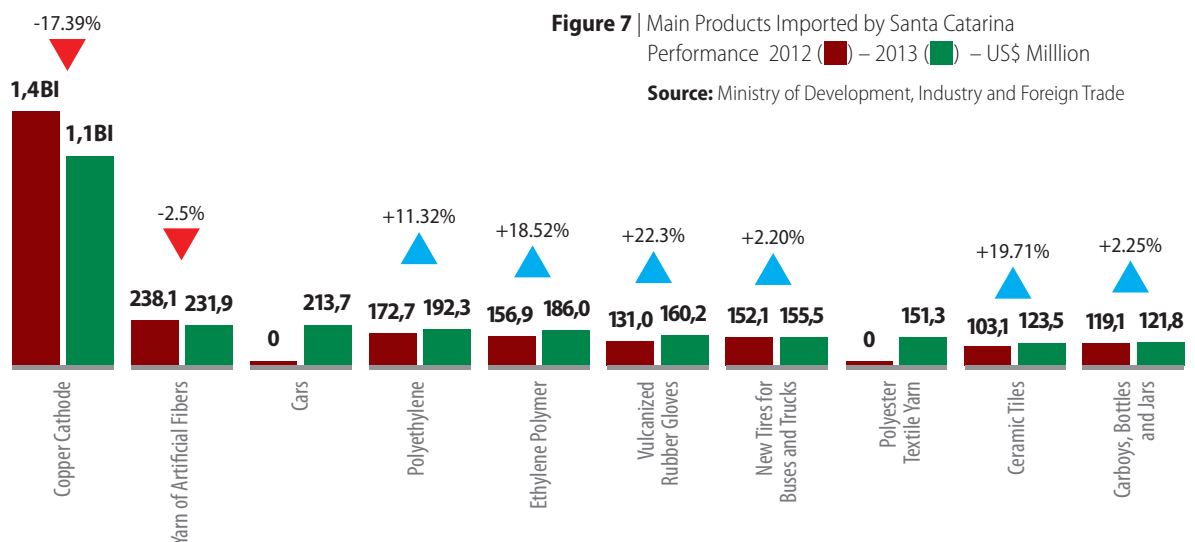
In 2013 there was a change in the top ten products imported by the State, compared to 2012. Their participation was reduced and the following products left the list of ma-

ior product imports: new tires for cars, iron bars and blood fractions/immunological products. These products gave way to automobiles, polyester yarn, and ceramic tiles.

Table 7 | Main Products Imported by Santa Catarina - Years 2012 and 2013

| | Product | 2013 | | 2012 | | Variation % 2013/2012 |
|-----------------------------------|--------------------------------|-----------------------|-----------------|-----------------------|-----------------|--------------------------|
| | | US\$ F.O.B. | Participation % | US\$ F.O.B. | Participation % | |
| 1 | Copper Cathode | 1,134,106,279 | 7.67 | 1,372,837,536 | 9.43 | -17.39 |
| 2 | Yarn of Artificial Fibers | 231,964,186 | 1.57 | 238,139,528 | 1.64 | -2.59 |
| 3 | Cars | 213,698,350 | 1.45 | 2,550,358 | 0.02 | 8279.15 |
| 4 | Polyethylene | 192,270,436 | 1.30 | 172,725,948 | 1.19 | 11.32 |
| 5 | Ethylene Polymer | 186,062,641 | 1.26 | 156,986,656 | 1.08 | 18.52 |
| 6 | Vulcanized Rubber Gloves | 160,248,039 | 1.08 | 131,020,806 | 0.90 | 22.31 |
| 7 | New Tires for Buses and Trucks | 155,498,337 | 1.05 | 152,138,818 | 1.05 | 2.21 |
| 8 | Polyester Textile Yarn | 151,299,184 | 1.02 | 13,130,743 | 0.09 | 1052.25 |
| 9 | Ceramic Tiles | 123,467,058 | 0.84 | 103,138,662 | 0.71 | 19.71 |
| 10 | Carboys, Bottles and Jars | 121,828,488 | 0.82 | 119,145,482 | 0.82 | 2.25 |
| TOTAL OF 10 MAIN PRODUCTS | | 2,670,442,998 | 18.06 | 2,461,814,537 | 16.93 | 8.47 |
| TOTAL OF IMPORTED PRODUCTS | | 14,778,888,607 | 100.00 | 14,551,953,002 | 100.00 | 1.56 |

Source: Ministry of Development, Industry and Foreign Trade – MDIC. Available at: <http://www.desenvolvimento.gov.br//sitiointerna/interna.php?area=5&menu=1076>. Access on 01/22/2014



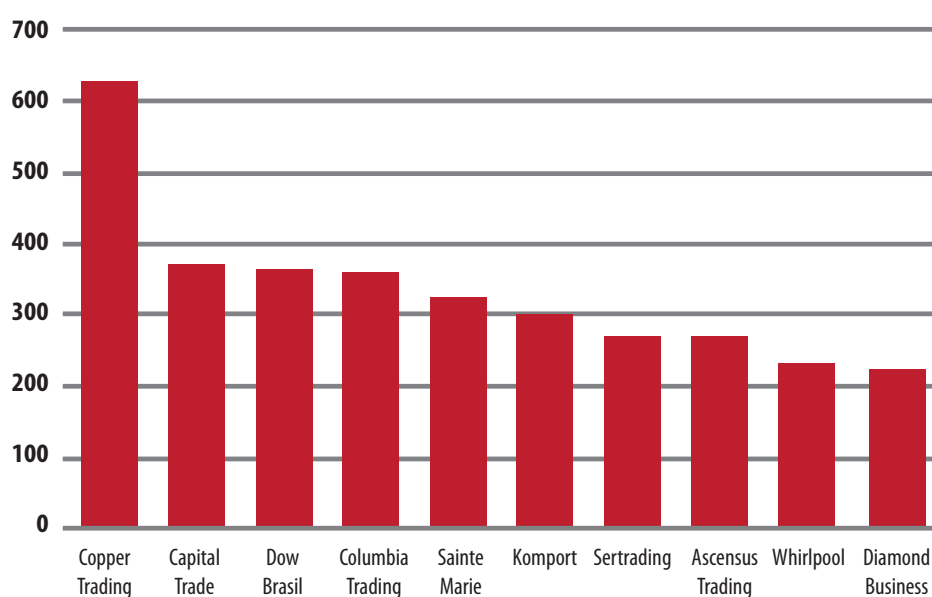


Figure 8 | Main importing companies in Santa Catarina in 2013 (US\$ Million)
 Source: MDIC

Main Importing Companies

Copper Trading S.A. was a company that imported most in the State in 2013, totaling US\$ 628.1 million imported and representing 4.25% of the imports of the year. In second place is the Capital Trade Importação e Exportação Ltda., with US\$ 371.5 million (2.51% of imports). The top ten importing companies in 2013 are presented in Figure 8 and represent 46.7% of the total imports of the State.

Main Origins of Imports

China continues to increase its share in Santa Catarina's imports, representing 30.66% of the imports of the State (28.36% in 2012) and totaling US\$ 4.5 billion imported in 2013 (US\$ 405.2 million more than 2012). The imports of Chinese origin were higher than imports from Chile, Argentina, United States and Germany together (second, third, fourth and fifth place, respectively, in the State imports).

Table 8 | Main countries of origin of imports in Santa Catarina – Years 2012 and 2013

| | Origin | 2013 | | 2012 | | Variation % |
|--|---------------|-----------------------|--------------|-----------------------|--------------|-------------|
| | | US\$ FOB | Share % | US\$ F.O.B. | Share % | |
| 1 | China | 4,531,477,028 | 30.66 | 4,126,250,137 | 28.36 | 9.82 |
| 2 | Chile | 1,230,150,129 | 8.32 | 1,520,906,788 | 10.45 | -19.12 |
| 3 | Argentina | 1,103,972,602 | 7.47 | 1,097,873,540 | 7.54 | 0.56 |
| 4 | United States | 1,023,721,690 | 6.93 | 851,610,932 | 5.85 | 20.21 |
| 5 | Germany | 845,054,740 | 5.72 | 709,208,635 | 4.87 | 19.15 |
| 6 | Peru | 455,660,346 | 3.08 | 422,200,559 | 2.9 | 7.93 |
| 7 | India | 434,545,711 | 2.94 | 416,189,969 | 2.86 | 4.41 |
| 8 | South Korea | 371,198,170 | 2.51 | 452,940,707 | 3.11 | -18.05 |
| 9 | Italy | 342,435,409 | 2.32 | 388,606,668 | 2.67 | -11.88 |
| 10 | Indonesia | 289,144,826 | 1.96 | 283,253,289 | 1.95 | 2.08 |
| TOTAL OF MAIN COUNTRIES OF ORIGIN | | 13,864,828,977 | 93.82 | 13,464,349,189 | 92.53 | 2.97 |
| TOTAL AREA | | 14,778,888,607 | 100 | 14,551,953,002 | 100 | 1.56 |

Source: MDIC

The state has a trade deficit with China of US\$ 3.839 billion (it imports US\$ 4.531 billion and exports US\$ 691 million). Taking into account that the total negative balance of trade balance in Santa Catarina was US\$ 6.09 billion, the deficit with China is equivalent to 63.05% of the total state deficit. The Chinese expansion has contributed to the deindustrialization process in Brazil and Santa Catarina, mainly for impacting on sectors that are important for the State, such as textiles, ceramics and machinery and equipment.

Chile remains the second partner of the State, with a volume of US\$ 1.2 billion and 8.32% share (19.12% less than in 2012). Argentina comes third, representing 7.47% of the imports of the State.

In addition, there was a significant increase in the import of products from Colombia (47.83%), Uruguay (37.91%) and Canada (34.55%), as well as retraction in business with Thailand (-20.59%), Taiwan (-18.56%), South Korea (-18.05%) and Italy (-11.88%).

Labor Market and Human Development Index

Santa Catarina stands out for being one of the states in which people work and study the most, as shown by the 2012 data from the National Survey by Household Sampling (Pnad), published in September 2013 by the Brazilian Institute of Geography and Statistics (IBGE). In terms of employment, the State has only 3% of the unemployed population (the national average was 6.1%). Data from the International Monetary Fund (IMF) indicate that, if it were a country, Santa Catarina would have the second lowest unemployment rate in the world, behind only Singapore. According to the IBGE survey, the sector that most employs in Santa Catarina is services (36.9%) but in comparison to other States, Santa Catarina industry is the one that houses more workers, with 26.3% of the local population being economically active. Sao Paulo, the runner-up, contracted 19.8%.

Against the national average - whose index rose to 8.7% - only 3.2% of people in Santa Catarina aged 15 years or over cannot read or write. This rate of illiteracy places Santa Catarina alongside Countries with the highest Human Development Index (HDI). At a national level, Santa Catarina has achieved third place among Brazilian states and the first in the Southern Region in the Human Development Index in 2010 (HDI). The HDI is calculated based on the IBGE Census, and the Census considers life expectancy at birth, education and per capita income. The data were released in July 2013 by the United Nations¹⁴. Among States in the Southern Region, Santa Catarina had the highest growth (15.35%) going from medium HDI (0.671) in 2000 to High HDI (0.774) in 2010.

¹⁴ Source: Atlas of Human Development in Brazil in 2013, presented in Brasília by the United Nations Program for Development (UNDP), in partnership with the Institute of Applied Economic Research (IPEA) and the João Pinheiro Foundation (FJP).

Gross Domestic Product – GDP

GDP The growth of Santa Catarina is not out of place with the dynamics established in the national economy. The State's economy has been behaving in accordance with Brazilian economic dynamics, differing only in the composition of sectors.

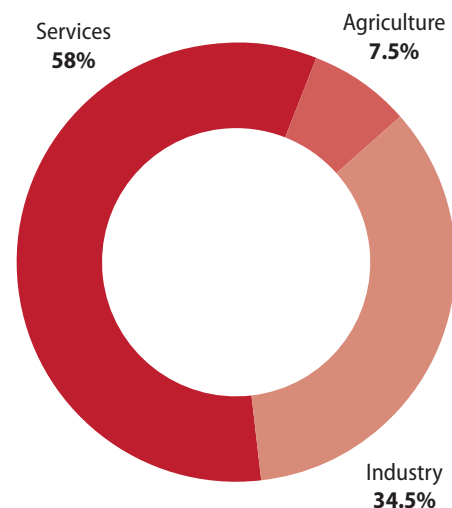
The steady decline of agriculture and the increase in accounts related to industrial activities and services show a status of modernization in the state economy, which is evidenced by the gradual increase of Santa Catarina's share in the total Brazilian economy, representing 4.1% and reaching the place of the 6th national economy, outpacing the State of Bahia and the Federal District, meaning the expansion of economic competitiveness in Santa Catarina.

Santa Catarina's GDP grew by 10.9%, with the value of R\$ 152.482 billion in 2010 and rising to R\$ 169.050 billion in 2011 (The States GDP is released with a delay of

two years). The State has the fifth highest GDP per capita in the country and the first in the Southern Region¹⁵, with the amount of R\$ 26,760.82.

The activities that most influenced the GDP growth in Santa Catarina are presented in **Figure 9**.

Figure 9 | Activities that influenced the GDP growth in Santa Catarina in 2011
Source: IBGE



¹⁵ Source: IBGE. Regional Accounts of Brazil - 2011: Table 4 - GDP, resident population and GDP per capita, according to Major Regions and Federation Units - 2011. Accessed on November 22, 2013.

Responsibility and balance

The State revenue totaled R\$ 16.736 billion in 2013 (R\$ 15.169 billion in 2012) and accounted for 61.35% of the total collected in 2013, which shows that the state increasingly relies on its own resources to meet the demands of society

Revenue Collected

Inflows of funds into the State coffers are called budget revenues. It is through them that the implementation of public policies is made possible, directing resources to programs and actions whose primary aim is to meet the demands of citizens.

The recognition of the budgeted revenue occurs at the time of collection, which corresponds to the transfer of funds by taxpayers to the collecting financial institutions. This is what we call gross revenue.

However, part of the amount collected by the State must be transferred to the municipalities of Santa Catarina, in accordance with constitutional and legal requirements. Examples are ICMS, which has 25% of its revenues transferred to municipalities and IPVA (Vehicle tax) which has 50%.

After the municipal transfers, according to constitutional provisions, another portion of state revenue should be allocated to the Fund for the Maintenance and Development of Basic Education and Valorization of Education Professionals (FUNDEB), for the financing of actions for maintenance and development of public basic education.

Furthermore, returns and refunds to taxpayers also occur when amounts higher than the amounts due have been collected.

These situations are deductions from the budgeted revenues, which are used to record the resources that an entity is entitled to collect, but that belong to another entity, as well as the refund of taxes improperly received.

These considerations being put forward, to better understand the data presented, it is emphasized that the gross revenues of the State of Santa Catarina in 2013 totaled R\$ 27.279 billion (R\$ 24.085 billion in 2012), distributed as shown in **figure 10**.

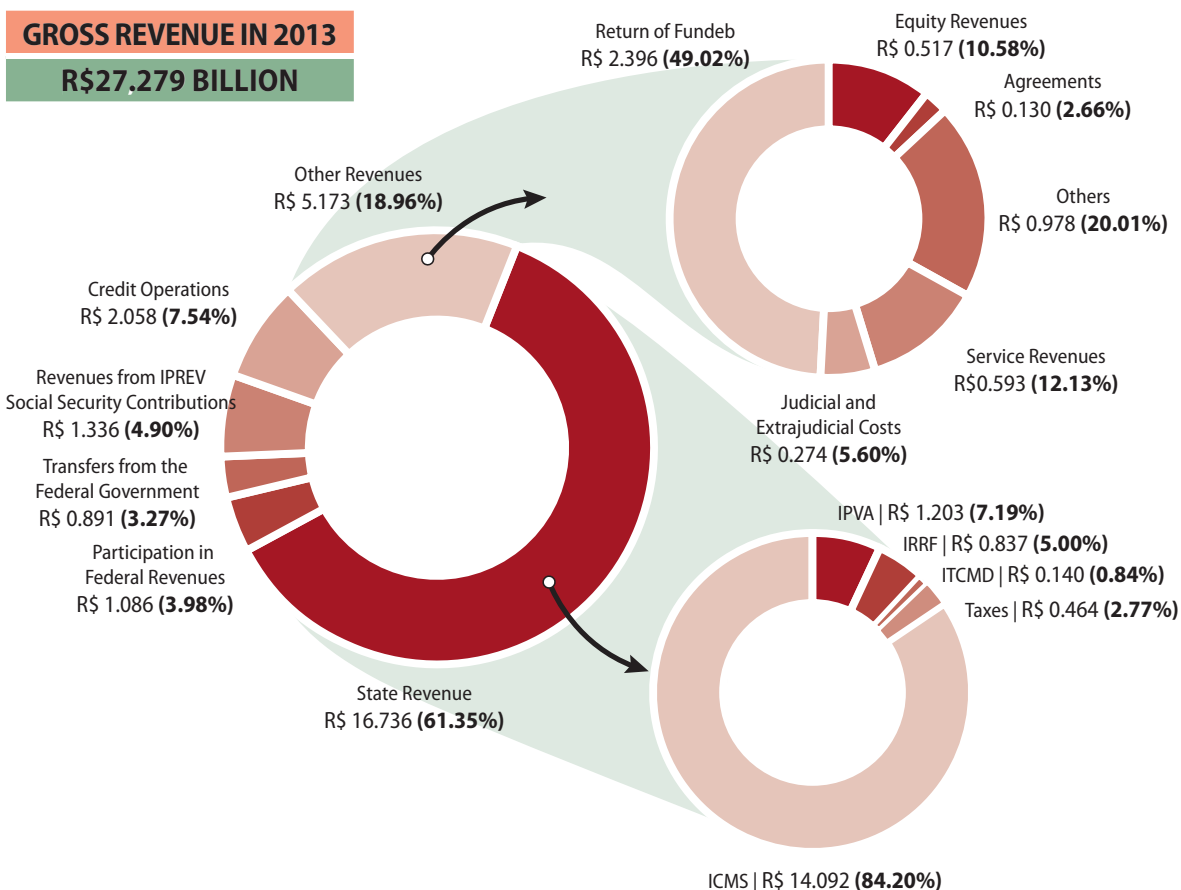


Figure 10 | Gross Revenue collected in 2013 (R\$ billion)

The State revenue¹⁶ totaled R\$ 16.736 billion in 2013 (R\$ 15.169 billion in 2012) and accounted for 61.35% of the total collected in 2013, which shows that the state increasingly relies on its own resources to meet the demands of society.

The Tax on Circulation of Goods and Interstate and Municipal Transport and Communication Services (ICMS) is the largest source of State revenue and represents 51.66% of the total gross revenue. In 2013, it grew by 10.44% compared to 2012, closing the year with a total of R\$ 14.092 billion.

The good performance is directly linked to actions to combat tax evasion and the closest monitoring of economic sectors. Throughout the year, the Santa Catarina Tax Authority conducted more than 70 transactions with the presence of tax officials and data cross-checking, inhibiting tax evasion and honoring entrepreneurs who pay their taxes properly. Currently, the State Department of Taxation and Finance has a technological apparatus that facilitates the completion of tax audits and helps in detecting fraud. The sectors that had the greatest increase in revenues compared to 2012 were: automotive (41.7%), medicines and beauty (27.2%), transport (26.6%) and construction material (20.3%).

¹⁶ The tax revenues consists of the following taxes: Tax on Circulation of Goods and Interstate and Municipal Transport and Communication Services - ICMS, Automotive Ownership Tax - IPVA, causa mortis transmission and donation of any property or right (ITCMD), Withholding Income Tax - IRRF and Fees, including interest, fines and active debt.

Other taxes also grew compared to 2012 (IPVA - 5.85%, IRRF - 14.47%, ITCD - 9.03%, ITBI - 49.35% and Rates - 12.07%), however, when added up, they account for only 8.83% of the total gross revenue.

Another important source of State revenue are transfers from the Federal Government, which includes the share of the States Participation Fund (FPE), which totaled R\$ 852.7 million in 2013, 7.55% more than the value transferred in 2012. The share of export IPI (Tax on Industrialized Products) also showed a slight in-

crease of 4.51% compared to 2012, and closed the year at R\$ 231.4 million. The share of Contribution for Intervention in the Economic Domain levied on the import and sale of oil and oil products, natural gas and their derivatives, and ethyl alcohol fuel (CIDE)¹⁷ reported a significant decrease of 94.91% in transfers in 2013 compared to year 2012. This occurred because the rate of this contribution was reduced to zero by the Federal Government, causing the loss of this source of revenue. The transfers from the Federal Government can be seen in **Table 9**.

Table 9 | Transfers from the Federal Government (R\$ Thousands)

| Transfers from the Federal Government | 2013 | 2012 | % |
|--|------------------|------------------|---------------|
| Share in the revenues of the Federal Government | 1,086,285 | 1,055,320 | 2.93 |
| SHARE OF THE STATE PARTICIPATION FUND - FPE | 852,733 | 792,908 | 7.55 |
| Share of the Tax on Industrialized Products - IPI Export | 231,429 | 221,440 | 4.51 |
| Share CIDE - Contribution for Intervention in the Economic Domain | 2,085 | 40,970 | (94.91) |
| Share of the Tax on Credit, Exchange and Insurance Operations or relative to equities or securities – gold trading | 38 | 2 | 2,105.44 |
| Transfers from the Federal Government | 890,709 | 912,585 | (2.40) |
| Transfers of financial compensation for the exploitation of natural resources | 39,243 | 28,725 | 36.61 |
| Transfers from the Unified Health System - SUS | 495,031 | 454,697 | 8.87 |
| Transfers of Funds from the National Fund of Social Assistance | 713 | 1,232 | (42.16) |
| Transfer from the National Education Development Fund - FNDE | 269,620 | 295,539 | (8.77) |
| Financial transfers ICMS exemption - LC N 87/96 | 52,523 | 52,523 | 0.00 |
| Other transfers from the Federal Government | 33,579 | 79,868 | (57.96) |
| TOTAL | 1,976,994 | 1,967,905 | 0.46 |

¹⁷ Federal Decree No. 7764/2012 reduced the rate of CIDE to zero on kerosene, fuel oils, liquefied petroleum gas, ethanol fuel, gasoline and diesel.

Credit operations incurred in 2013 are also noteworthy because they were an important means of financing investments of the State Government on projects in the social and economic areas.

A total of R\$ 2.058 billion, which is 23.88% more than in 2012 were hired. Regarding the internal credit operations, the largest amount refers to the Santa Catarina Acceleration Program with the National Bank for Economic and Social Development (BNDES), at R\$ 1.538 billion, which allowed: the discharge of the loan previ-

ously granted to the State by BNDES, called BNDES/CELESC (R\$ 979.6 million), the increase in BRDE capital (R\$ 200 million), and investments in the areas of social, economic and environmental infrastructure.

In relation to the external credit operations, the BID V and VI Programs stand out, totaling R\$ 107.4 million, raised to be used in the paving and rehabilitation of roads.

Table 10 shows the relationship of operations entered into in 2013 and respective purposes:

Table 10 | Operations contracted in 2013 and respective purposes (R\$ Thousands)

| Credit Operations | Purpose | Collection |
|--|--|-------------------|
| Internal Credit Operations | | 1,869,975 |
| PMAE FINANCING | Modernization of revenue administration and the State Administration | 1,000 |
| BNDES – Emergency Financing Program - PEF2 | Emergency Financing Program of the States | 12,060 |
| BNDES – Pathways of Development Program - Laws 15,830 and 15,882/2012 | Investments in infrastructure, justice and citizenship, education, health and disaster prevention against droughts | 100,310 |
| BNDES - Santa Catarina Acceleration Program - Laws 15,855 and 15,883/2012 | Investments in health, public safety, education, justice and citizenship, natural disaster prevention, social work, work and housing, infrastructure, sanitation and discharge of BNDES - CELESC debt | 1,537,804 |
| BB - STRATEGIC PATHWAYS FOR PRODUCTION AND DISASTER PREVENTION - LAW 15,941/2012 | Prevention of natural disasters, the implementation works, suitability and capacity expansion of state highways and structural works to increase the operating capacity of the ports in Santa Catarina | 218,800 |
| External Credit Operations | | 187,926 |
| BIRD/SC Financing - Watersheds | Improving the competitiveness of family farmer organizations | 1,733 |
| SC RURAL WATERSHEDS 3 FINANCING PROJECT – SWAP | | 37,723 |
| BID V and VI Program - 14,532/2008 | Pavimentação e reabilitação de rodovias | 107,468 |
| | Paving and rehabilitation of roads | 107,468 |
| Profisco/BID | Modernization of tax and financial management of the state government | 21,423 |
| Regional Integration Program - CAF - Law 13,919/06 | Integrating the Northeastern region of the State with its coastline, enabling port investments and promoting tourism development | 19,579 |
| TOTAL | | 2,057,900 |

Revenue Deductions

Deductions from revenue, which comprise the amounts, transferred to Municipalities for constitutional or legal force, as well as transfers to FUNDEB and revenue refunds, totaled R\$ 7.629 billion in 2013.

Of the total collected in 2013, the State transferred R\$ 4.340 billion (R\$ 3.954 billion in 2012) to the municipalities of Santa Catarina, segregated according to table 11.

A total of R\$ 2.478 billion (R\$ 2.257 billion in 2012) were transferred to the Fund for the Maintenance and Development of Basic Education and Enhancement of Education Professionals (FUNDEB), divided according to table 12.

Refunds of revenue amounted to R\$ 811 million in 2013 (R\$ 126 million in 2012). This increase was due pri-

marily to the reversal of the postings of FUNDEB return conducted by the federal government, under the new calculation of the minimum amount per pupil, according to the Inter-ministerial Ordinance No. 4 of 7 May 2013. Thus, all values transferred from January to May of 2013 were reversed and recorded as deductions from revenues, totaling R\$ 650 million. From the recalculated values the transfer of the amount due for the period (R\$ 648 million) was redone, which were recorded in the account of the gross revenue.

Thus, after all deductions of revenue, comprising the transfers to Municipalities, transfers to FUNDEB and refunds of revenue, net revenue totaled R\$ 19.650 billion.

Table 11 | Breakdown of amounts transferred by the State to Municipalities (R\$ Thousands)

| Transfers to Municipalities | 4,340,366 |
|------------------------------------|------------------|
| IPVA | 601,645 |
| ICMS | 3,521,451 |
| IPI EXPORT SHARE | 57,857 |
| CIDE SHARE | 521 |
| FUNDOSOCIAL | 110,957 |
| SEITEC | 47,934 |

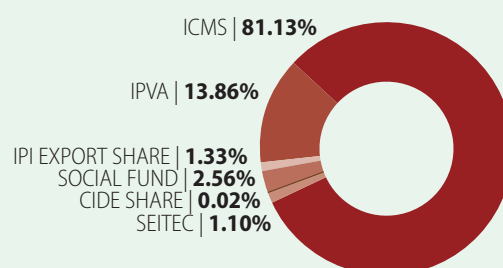
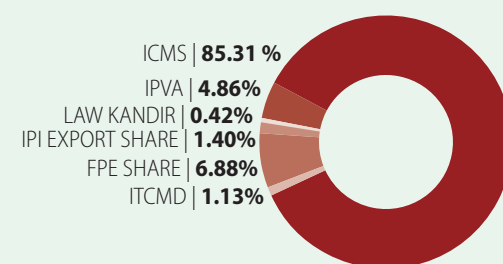


Table 12 | Breakdown of amounts transferred by the State to FUNDEB (R\$ Thousands)

| Allocation to FUNDEB | 2,477,822 |
|-----------------------------|------------------|
| IPVA | 120,329 |
| ICMS | 2,113,771 |
| ITCMD | 27,957 |
| FPE SHARE | 170,547 |
| IPI EXPORT SHARE | 34,714 |
| KANDIR LAW | 10,505 |



Transfer to Governments and UDESC

According to provisions laid down in the Budget Guidelines Law (LDO), the State must transfer to the Legislative and Judiciary Branches, the Public Prosecutor's Office, the Court of Auditors and UDESC, part of the funds that are collected, based on the concept of Available Net Revenue¹⁸ (RLD). In addition, part of the funds from the Social Fund and the State System of Promotion of Culture, Tourism and Sports (SEITEC) Funds must also be transferred in accordance with legal provisions. Thus, in 2013, values were transferred according to **table 13**.

Table 13 | Transfers to the Governments and Bodies (R\$ Million)

| Resources | Legislative Assembly | Audit Court | Court of Justice | Public Prosecutor's Office | UDESC |
|-------------------------|----------------------|-------------|------------------|----------------------------|------------|
| Share in RLD | 476 | 175 | 983 | 413 | 263 |
| Transfer to Social Fund | 15 | 6 | 30 | 12 | 8 |
| Transfer to SEITEC | 7 | 2 | 14 | 6 | 4 |
| Total | 498 | 183 | 1,027 | 431 | 275 |

Source: SIGEF – Integrated Planning and Fiscal Management System

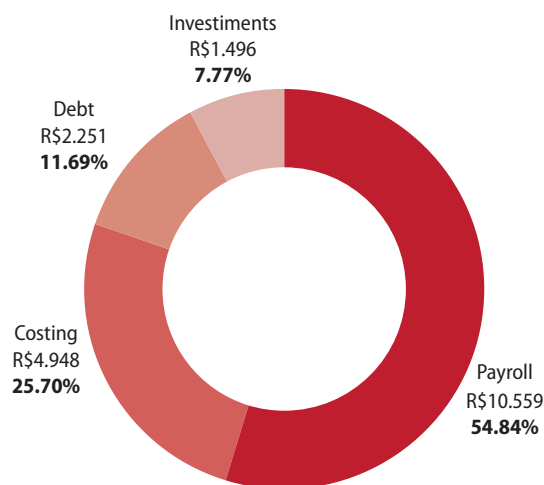


Figure 11 | Expenses by Nature Group (R\$ billion)

Source: Integrated Planning and Fiscal Management System (SIGEF)

Expenditure

In 2013, expenditures totaled R\$ 19.254 billion, representing an increase of 6.44% compared to 2012 (R\$ 18.089 billion).

Personnel expenditure and increased government spending, totaled R\$ 10.559 billion in 2013, representing an increase of 9.90% compared to 2012 (R\$ 9.607 billion). The second largest expense was the maintenance and funding of public services, which totaled R\$ 4.948 billion (R\$ 697.8 million more than 2012). Investments, however, hit a record high, totaling R\$ 1.496 billion in 2013, 48.5% more than in 2012.

Expenditure with the debt totaled R\$ 2.251 billion, of which R\$1.583 billion was used for debt amortization (R\$ 1.580 billion in 2012) and R\$ 668 million was used to pay interest and taxes (R\$ 1.642 billion in 2012). Interest and debt service charges were reduced by 59.3% from 2012 to 2013, representing a savings of R\$ 974 million. This improvement in the debt trajectory was mainly due to the adoption of two measures: the raising of funds from the Bank of America Merrill Lynch to settle and repay debts with the federal government in December 2012, amounting to R\$ 1.478 billion, and the discharge of part of the debt with BNDES, in May 2013, in the amount of R\$ 979 million from a new loan with better interest rates and longer grace period.

Segregating expenditure on main government functions, it is observed that the Education, Public Safety and Health Functions consume the largest share of public expenditure, together representing 37.6% of personnel expenditure, 51.43% of the costs and 20.9% of investments. In the Social Security Function, which aggregates payments of retirees and pensioners of the State, R\$ 3.563 billion was invested in 2013, 11.98% more than in 2012. From this analysis, it appears that the amount spent on Social Security is equivalent to the total payroll of the Education and Public Safety, as well as representing more than double the total of investments made by the State, as illustrated in **Table 14**.

¹⁸ See Explanatory Notes for the Financial Statements No. 2, k.

Table 14 | Expenditure on Main Government Functions – Consolidated Balance Sheet (R\$ Thousands)

| Functions | Payroll | % | Cost | % | Investments | % | Total |
|-----------------|-------------------|------------|------------------|------------|------------------|------------|-------------------|
| Social Security | 3,540,620 | 33.53 | 22,716 | 0.46 | 518 | 0.03 | 3,563,854 |
| Education | 1,880,190 | 17.81 | 780,866 | 15.78 | 130,405 | 8.72 | 2,791,461 |
| Health | 768,672 | 7.28 | 1,392,050 | 28.13 | 77,146 | 5.16 | 2,237,868 |
| Public Safety | 1,317,377 | 12.48 | 371,850 | 7.51 | 104,984 | 7.02 | 1,794,211 |
| Transport | 74,422 | 0.70 | 106,707 | 2.16 | 527,416 | 35.26 | 708,545 |
| Other Functions | 2,977,604 | 28.20 | 2,274,009 | 45.96 | 655,375 | 43.81 | 5,906,989 |
| Total | 10,558,885 | 100 | 4,948,197 | 100 | 1,495,845 | 100 | 17,002,927 |

Source: SIGEF – Integrated Planning and Fiscal Management System

Budget Outcome

The difference between the net revenues collected and expenditure encumbered in the exercise represents the budget outcome, which may be positive (surplus) or negative (deficit). However, not all encumbered expenditures are funded by proceeds from the revenue collected during the year. Part of the expenses is covered by leftover cash from past exercises, which is called financial surplus from previous years, identified in the Balance Sheet of the previous period, which is used to open additional credits.

Thus, considering the total net revenue collected (R\$ 19.650 billion) and total encumbered expenditure (R\$ 19.254 billion), we have a budget surplus of R\$ 396 million. However, if we consider the financial surplus from the previous year used to cover part of the encumbered expenditures, which totaled R\$ 1.066 billion, we have a surplus of R\$ 1.462 billion in 2013.

Compliance with Legal and Constitutional Limits

In 2013, the State of Santa Catarina met the constitutional minimum limits of allocation for health and education, the limits set by the Fiscal Responsibility Law for personnel expenses, public debt, credit operations, guarantees and counter-guarantees, as well as the recording of the remainder to be paid, demonstrating a balanced and responsible fiscal management.

For purposes of verifying the implementation of the constitutional minimum for health and education, the Net Sales Taxes (RLI) is used as basis, which aggregates all tax revenues and Constitutional transfers less the transfers of Municipalities. In 2013 the RLI totaled R\$ 13.533 billion, R\$ 1.507 billion more than in 2012.

In order to verify the limits established by the LRF, the parameter used is the Current Net Revenue, which includes all current State revenues, such as: tax, contributions, property, industrial, agricultural, services, current transfers and other revenue minus the constitutional and legal transfers to Municipalities and FUNDEB, as well as contributions of the Public Servants' Special Social Security System, financial compensation between the general and special social security schemes, and refunds of revenues. In 2013, the RLI totaled R\$ 15.893 billion (R\$ 14.535 billion in 2012), representing an increase of 9.34% compared to 2012.

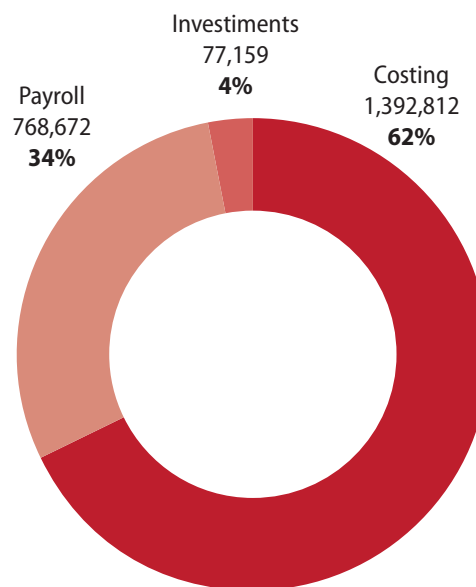
Health

In 2013, more than R\$ 2.239 billion (R\$ 1.988 billion in 2012) were invested on equipment, construction, maintenance of public hospitals and agreements with contractors, municipal, social organizations and philanthropic hospitals. Expenditures for the maintenance of public health services totaled R\$ 1.393 billion (R\$ 1.180 billion in 2012), the payroll of active employees consumed R\$ 769 million (R\$ 707 million in 2012) and health investments amounted to R\$ 77 million (R\$ 102 million in 2012), as can be seen in the graph shown in **Figure 12**.

For purposes of verifying the minimum constitutional¹⁹ in 2013, expenditures in the amount of R\$ 1.627 billion (R\$ 1.461 billion in 2012), representing 12.02% of net revenues from taxes (12.14% in 2012) were considered.

In order to meet the provisos and recommendations of the State Court of Auditors, since 2011 the expenses paid to inactive health workers are not considered for calculating the constitutional minimum. In addition, from 2013, the values collected by FUNDOSO-CIAL from tax revenues were considered in the calculation of Net Sales Tax, in compliance with the issued decision of the Court of Auditors of the State in Judgment No. 892/2010.

Figure 12 | Expenditure on Health in 2013 (R\$ thousands)



Source: SIGEF – Integrated Planning and Fiscal Management System

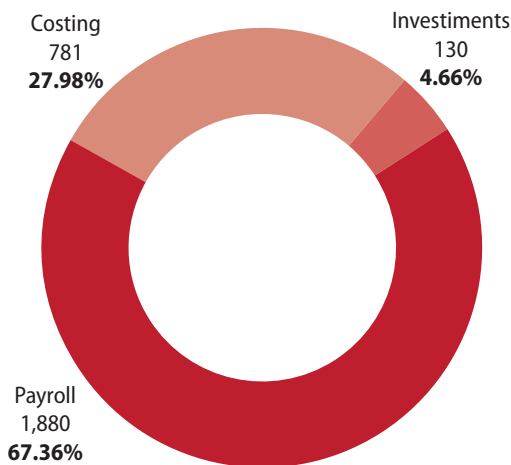
HEALTH 
MISSION ACCOMPLISHED
IN 2013, THE STATE OF SANTA CATARINA MET THE CONSTITUTIONAL MINIMUM LIMITS OF ALLOCATION FOR THE AREA (12% OF NET REVENUE FROM TAXES)

¹⁹ The minimum percentage required by the Constitution is 12% of net revenue from taxes and constitutional transfers - RLI (note 2, m)

Education

In 2013, the State Government spent R\$ 2.791 billion (R\$ 2.765 billion in 2012) on construction, expansion, renovation and maintenance of school units, education centers for youth and adults, sports spaces, food and school transportation, scholarships, materials, furniture, computer equipment and the remuneration of teaching that benefited approximately 545,000 students. The expenses were divided into: investments in the amount of R\$ 130 million (R\$ 185 million in 2012); costing and maintenance of public services in education, in the amount of R\$ 781 million (R\$ 786 million in 2012) and payroll of active employees in the amount of R\$ 1.880 billion (R\$ 1.794 billion in 2012).

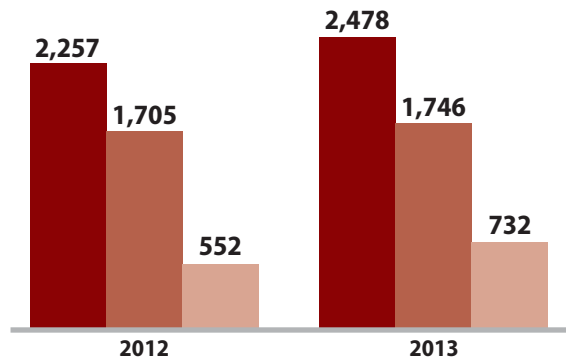
Figure 13 | Expenditure on Education in 2013 (R\$ million)



The State of Santa Catarina, in 2013, transferred R\$ 2.478 billion (R\$ 2.257 billion in 2012) to the Fund for the Maintenance and Development of Basic Education and Valorization of Education Professionals - FUNDEB. However, they returned to the state treasury only R\$ 1.746 billion (R\$ 1.705 billion in 2012), causing a loss of R\$ 732 million (R\$ 552 million in 2012).

It must be pointed out that the resources of FUNDEB that do not return to the Treasury of the State are distributed among the Municipalities of Santa Catarina, as FUNDEB is formed with funds from the State and the Municipalities and the redistribution of these resources occurs in proportion to the number of students enrolled in their education networks.

Figure 14 | Transfer X Return of FUNDEB in 2012 and 2013 (R\$ million)



Legend: (Dark Red) Transfer to FUNDEB (Medium Red) Transfer from FUNDEB (Light Red) Loss
Source: SIGEF – Integrated Planning and Fiscal Management System

From the resources that returned to the State in 2013, 81.77% were spent with the remuneration of professional teachers of basic education (80.48% in 2012), corresponding to R\$ 1.435 billion and meeting the provisions of Article 60, XII of the Transitory Constitutional Disposition Act of the Federal Constitution, which provides that the percentage cannot be less than 60%.

In determining the constitutional minimum²⁰, resources from taxes levied on maintenance and development of education, plus the loss that the State has in the transfer of resources of FUNDEB were considered. In addition, 65% of expenditure on payment of Education workers who are inactive²¹ were considered (70% in 2012) in the amount of R\$ 731 million (R\$ 714 million in 2012). Thus, for purposes of the constitutional limit expenses in the amount of R\$ 3.829 billion (R\$ 3.538 billion in 2012) were considered, totaling 28.30% of net tax revenues (29.42% in 2012).

EDUCATION

MISSION ACCOMPLISHED

PAYMENT OF PROFESSIONAL TEACHERS OF BASIC EDUCATION EXCEEDED THE MINIMUM 60% AND REACHED 81.77% OF FUNDEB. THE ALLOCATION FOR EDUCATION WAS HIGHER THAN THE CONSTITUTIONAL MINIMUM (25% OF NET REVENUE FROM TAXES) REACHING 28.3% OF THE RLI (NET SALES TAXES)

²⁰ The minimum percentage required by the Constitution is 25% of net revenue from taxes and constitutional transfers - RLI (note 2, m).

²¹ The Letter SEF/GABS No. 1,292/2007, provides for a gradual reduction of 5% per year from 2007, for expenditure on payment of inactive workers covered with funds from the State Treasury in calculating the constitutional minimum for education.

Tertiary Education

The State Constitution determines, in Article 170, that at least 5% of the resources for the maintenance and development of education should be implemented in financial assistance to students enrolled in tertiary education

institutions legally authorized to operate in the State of Santa Catarina. During the year 2013 R\$ 62.920 million was invested in this type of assistance (R\$ 59.740 million in 2012), representing 1.86%, according to **table 15**.

Table 15 | Implementation of Financial Assistance to Students Enrolled in Tertiary Education Institutions (R\$ thousands)

| Specification | 2013 | 2012 |
|--|------------------|-----------------|
| CALCULATION BASIS | | |
| Net Tax Revenue and Constitutional and Legal Transfers - RLI | 13,532,600 | 12,026,391 |
| Minimum value to be invested in the Maintenance of Education (25% of RLI) | 3,383,150 | 3,006,598 |
| Minimum amount to be allocated - Article 170 of CE/89 and Supplementary Law No. 281/05. | | |
| (5% of 25% of RLI = 1.25% of RLI) | 169,158 | 150,330 |
| ALLOCATION | | |
| State Department of Education | | |
| 6302 – Support to Third Level Students - Article 170/CE - SED | 56,211 | 58,305 |
| 9785 – Strategic Courses of PROESDE – Regional Development State Program - SED | 6,708 | 1,435 |
| Total allocated – Article 170 of CE/89 | 62,920 | 59,740 |
| Percentage allocated | 1.86% | 1.99% |
| Insufficient resources allocated | (106,238) | (90,590) |

Source: SIGEF – Integrated Planning and Fiscal Management System

Science and Technology

Article 193 of the State Constitution determines that at least 2% of current revenues collected by the State should be jointly²² allocated for scientific and technological research, by the Agricultural Research and Rural Extension Company (EPAGRI) and by the Research and Innovation Support Foundation of the State of Santa Catarina (FAPESC).

In determining the constitutional minimum amounts encumbered by EPAGRI and FAPESC as well as the amounts encumbered and decentralized by FAPESC, encumbered by EPAGRI and UDESC, the sources of funds for the current year, net of amounts to be paid were considered canceled.

The values allocated in years 2013 and 2012 are presented in **Table 16**.

Table 16 | Allocation for Science and Technology (R\$)

| Specification | 2013 | 2012 |
|---|--------------------------|--------------------------|
| CALCULATION BASIS | | |
| Current revenues | 25,103,852,162.77 | 22,315,507,416.92 |
| (-) Deductions from budgeted revenue | (7,629,169,794.82) | (6,337,104,405.08) |
| | 17,474,682,367.95 | 15,978,403,011.84 |
| Value to be allocated (2%) | 349,493,647.36 | 319,568,060.24 |
| ALLOCATIONS | | |
| Epagri | | |
| Function 20 - Agriculture | | |
| Encumbered Expenditure | 273,400,976.39 | 267,078,864.25 |
| (-) Remainder to be paid cancelled during the fiscal year | (400,909.62) | (418,514.11) |
| | 273,000,066.77 | 266,660,350.14 |
| Fapesc | | |
| Function 19 – Science and Technology | | |
| Expenditure encumbered by Fapesc | 32,652,314.97 | 49,820,808.69 |
| (-) Remainder to be paid cancelled during the fiscal year | (10,291.58) | (10,463.47) |
| Expenditure encumbered by Decentralization: | | |
| In Epagri | 1,329,883.69 | 525,669.73 |
| (-) Remainder to be paid cancelled during the fiscal year | (785.53) | 0.00 |
| In UDESC | 485,470.68 | 22,199.94 |
| (-) Remainder to be paid cancelled during the fiscal year | 0.00 | 0.00 |
| | 34,456,592.23 | 50,358,214.89 |
| Total Allocated for Science and Technology | 307,456,659.00 | 317,018,565.03 |
| Percentage Allocated | 1.76% | 1.98% |
| Allocation, below the constitutional minimum | (42,036,988.36) | (2,549,495.21) |

Source: SIGEF – Integrated Planning and Fiscal Management System of Santa Catarina

²² According to article 100 I, and 112, paragraphs 1 and 2 of the Supplementary Law No. 381 of May 7, 2007, as reworded by Supplementary Law No. 534, of April 20, 2011.

Personnel Expenses

The Federal Constitution/88, in article 169, established that the “expenditure with active and retired personnel of the Federal Government, the States, the Federal District and the Municipalities shall not exceed the limits established in a supplementary law.”

Thus, the Supplementary Law No. 101/ 00, called the Fiscal Responsibility Law - LRF, in articles 19, 20, 22 and 59, deals with the limits of personnel expenses, provided for in the Federal Constitution, and sets limits for personnel expenses in relation to Net Current Revenue - RCL, according to table 17.

Table 17 | Limits of personnel expenses in relation to RCL and established by the LRF

| Branch | Alert Threshold Limit | Prudential Limit | Legal Limit (maximum) |
|-----------------------------------|-----------------------|------------------|-----------------------|
| Executive | 44.10% | 46.55% | 49.00% |
| Legislative | 2.70% | 2.85% | 3.00% |
| Court of Auditors | 0.72% | 0.76% | 0.80% |
| Legislative Assembly | 1.98% | 2.09% | 2.20% |
| Judiciary | 5.40% | 5.70% | 6.00% |
| Public Prosecutor's Office | 1.80% | 1.90% | 2.00% |
| Consolidated Results | 54.00% | 57.00% | 60.00% |

Article 18 of Supplementary Law No. 101/00 conceptualizes total personnel expenses for purposes of calculating the limits previously presented, expenses being of a compensation nature of active, inactive and retired staff, as well as outsourcing contracts that refer to the servant's replacement, for the reference month and the preceding eleven months.

In verifying compliance with the limits on personnel expenses, the following shall not be computed: expenditure on inactive workers and pensioners, funded by the Social Security System own resources - Special Social Welfare Policy (RPPS), the severance and voluntary retirement incentives, as well as court decisions on personnel and expenditures from previous years of personnel of a previous competence to the statement calculation period (Supplementary Law No. 101/2000, article 19, paragraph 1).

Considering the understanding of the LRF clarified above, it can be seen in Table 18 that all Branches and Agencies of the State of Santa Catarina, in 2012 and 2013, complied with the legal limit set by the Fiscal Responsibility Law for Expenses with Personnel in relation to Current Net Revenue.

Consolidated personnel expenses of the State of Santa Catarina, which totaled R\$ 8.932 billion, representing 56.20% of the Net Current Revenue and have reached the alert threshold (54%). Its variation from 2012 to 2013 was positive, representing an increase of 0.43%.

Table 18 | Representation of Personnel Expenses in relation to the Net Current Revenue by government branches and bodies

| Specification | 2013 | 2012 | Variation 2012/2013 | Legal Limit | Prudential Limit | Alert Threshold Limit |
|----------------------------|--------|--------|---------------------|-------------|------------------|-----------------------|
| Executive Branch | 46.70% | 46.46% | 0.52% | 49.00% | 46.55% | 44.10% |
| Legislative Branch | 2.71% | 2.72% | -0.37% | 3.00% | 2.85% | 2.70% |
| Court of Auditors | 0.75% | 0.76% | -1.32% | 0.80% | 0.76% | 0.72% |
| Legislative Assembly | 1.96% | 1.96% | 0.00% | 2.20% | 2.09% | 1.98% |
| Judiciary Branch | 5.19% | 5.26% | -1.33% | 6.00% | 5.70% | 5.40% |
| Public Prosecutor's Office | 1.60% | 1.52% | 5.26% | 2.00% | 1.90% | 1.80% |
| Consolidated Results | 56.20% | 55.96% | 0.43% | 60.00% | 57.00% | 54.00% |

Source: Fiscal Management Report of Governments and Bodies

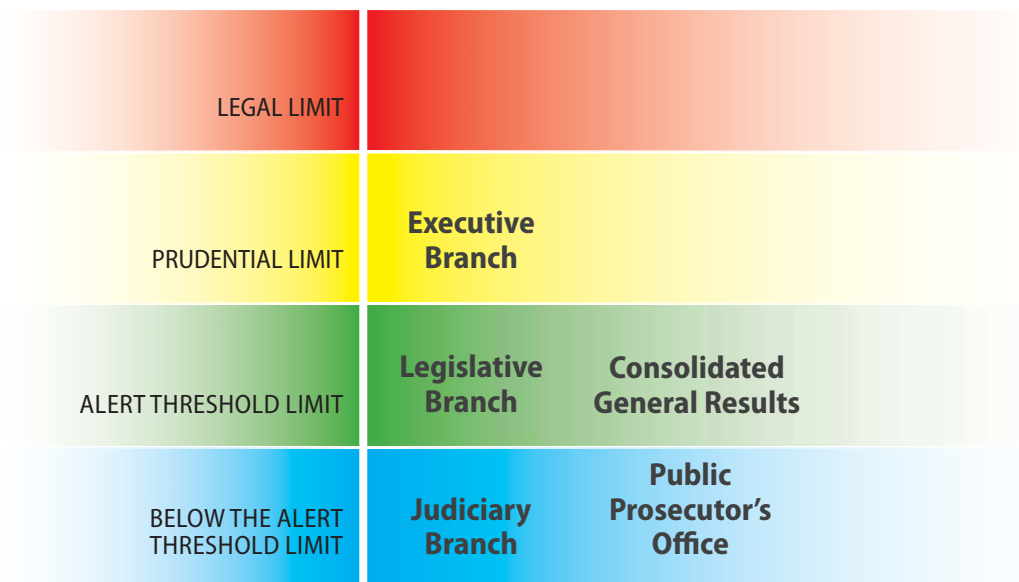
Likewise, personnel expenses of the legislative branch represented 2.71% of the RCL (2.72% in 2012) and have reached the alert threshold. In terms of representativeness for the RCL, expenses reduced their share in 0.37% in 2013.

The expenditures of the Judiciary Branch and the Public

Prosecutor's Office are below the alert threshold limit with personnel expenses corresponding to 5.19% and 1.60% of the RCL, respectively.

The Executive Branch, in turn, hit the prudential limit with personnel expenses accounting for 46.70% of the Current Net Revenues, according to **figure 15**.

Figure 15 | Performance in 2013 of the Governments and Bodies of the State of Santa Catarina with the limits set by the Fiscal Responsibility Law for Personnel Expenses



Analyzing in detail the items that comprise personnel expenses, it appears that the gross expenditure on personnel, which represents almost the entire financial disbursement of the payroll, grew 10.20% in 2013 in the consolidated balance sheet of the State (12.04% in 2012) and 9.36% in the Executive Branch (13.68% in 2012), while the Current Net Revenue grew by 9.34%, as shown in Table 19.

From the data presented, the costs with inactive workers and pensioners should be emphasized, as they rose 12.59% in the Executive Branch, while the payroll of active workers grew 7.64%, when comparing data from 2012 and 2013.

The maintenance of the pension system has required great efforts of the State Executive Branch, which has to bear the financial gap of the Social Security Institute of the State of Santa Catarina - IPREV, according to the State Supplementary Law No. 412 of 26 June 2008. In 2013, the State Treasury has funded R\$ 2.179 billion of the inactive workers payroll, an increase of 17.58% compared to 2012, when R\$ 1.853 billion was borne by it. To get an idea, the amount disbursed by the Treasury to pay the inactive workers payroll was 46% higher than the total of consolidated investments of the State in 2013 (R\$ 1.496 billion).

Table 19 | Personnel Expenses – LRF (R\$ thousands)

| Specification | 2013 | 2012 | Variation |
|--|-------------------|-------------------|---------------|
| CONSOLIDATED | | | |
| Gross Expenditure on Personnel (I) | 10,537,296 | 9,561,634 | 10.20% |
| Active Workers | 6,940,681 | 6,341,250 | 9.45% |
| Inactive Workers and Pensioners | 3,570,276 | 3,191,515 | 11.87% |
| Other personnel expenses resulting from outsourcing contracts | 26,339 | 28,870 | -8.76% |
| Not Computed expenses (article 19, paragraph 1 of LRF) (II) | 1,605,133 | 1,427,210 | 12.47% |
| Severance Pay and Voluntary Resignation Incentives | 81,936 | 46,883 | 74.77% |
| Costs Resulting from Judicial Decision | 130,281 | 83,362 | 56.28% |
| Expenses from Previous Years | 123,058 | 78,034 | 57.70% |
| Inactive Workers and Pensioners with Earmarked Resources | 1,269,858 | 1,218,931 | 4.18% |
| Net Expenditure on Personnel (I-II) | 8,932,163 | 8,134,424 | 9.81% |
| EXECUTIVE BRANCH | | | |
| Gross Expenditure on Personnel (I) | 8,559,622 | 7,826,964 | 9.36 |
| Active Workers | 5,361,743 | 4,981,321 | 7.64 |
| Inactive Workers and Pensioners | 3,171,539 | 2,816,773 | 12.59 |
| Other personnel expenses resulting from outsourcing contracts | 26,339 | 28,870 | -8.76 |
| Not Computed expenses (article 19, paragraph 1 of LRF) (II) | 1,137,321 | 1,073,248 | 5.97 |
| Severance Pay and Voluntary Resignation Incentives | 23,598 | 19,783 | 19.28 |
| Costs Resulting from Judicial Decisions | 35,922 | 50,692 | -29.14 |
| Expenses from Previous Years | 84,790 | 38,760 | 118.76 |
| Inactive Workers and Pensioners with Earmarked Resources | 993,011 | 964,013 | 3.01 |
| Net Expenditure on Personnel (I-II) | 7,422,301 | 6,753,717 | 9.90 |
| Current Net Revenue | 15,892,968 | 14,535,174 | 9.34% |

Source: Fiscal Management Report of Governments and Bodies

Consolidated Net Debt, Guarantees and Counter-guarantees and Credit Operations

The Senate Resolution No. 40/2001 provides that the Consolidated Net Debt (DCL) of the States cannot exceed 200% of the Current Net Revenue (RCL). In 2013, the Consolidated Net Debt totaled R\$ 7.615 billion, corresponding to the percentage of 47.92% of the RCL (40.58% in 2012).

The balance of guarantees granted by the State Government at the end of December 2013, was R\$ 787 million (R\$ 88 million in 2012), representing 4.95% of the RCL (0.61% in 2012) and complying with the maximum limit of 22% set by article 9 of the Senate Resolution No. 43/2001.

The counter-guarantees received by the State totaled R\$ 756 million at the end of the year 2013, due to financing agreements entered into between the Water and Sanitation Company of Santa Catarina (CASAN) and Caixa Economica Federal Bank, and a financing agreement between the Company and Agence Fran-

çaise de Développement (AFD). All contracts refer to interventions in water supply and sanitary sewer systems in Municipalities of the State.

Internal and external credit operations of the States, considered for verification purposes of the limit of 16% of RCL, provided for in Article 7, item I, of the Federal Senate Resolution No. 43/01, totaled R\$ 961.31 million in 2013 (1.661 billion in 2012) and represented 6.05% of RCL (11.43% in 2012), as shown in Table 20.

It is worth reminding that, as established in paragraph 3 of the same article, the credit operations contracted by the States with the Federal Government, multilateral lending agencies or federal official credit institutions or sponsoring institutions for the purpose of financing investment projects for improving revenue administration and tax, financial and asset management, under the proposed program by the Federal Executive Branch, are not considered for purposes of verifying the limit.

Table 20 | Credit Operations in 2013 (R\$)

| PROGRAMS | Credit Operations – Realized Value in the 1st quarter of the year | Credit Operations – Realized Value in the 2nd quarter of the year | Credit Operations – Realized Value in the 3rd quarter of the year | TOTAL |
|--|--|---|---|-----------------------|
| INTERNAL | 4,194,594.95 | 416,210,676.12 | 374,402,347.35 | 794,807,618.42 |
| BNDES Pathways of Development Program - States | 4,194,594.95 | 1,611,253.59 | 0.00 | 5,805,848.54 |
| BNDES Acelera Sub B BRDE | 0.00 | 200,000,000.00 | 0.00 | 200,000,000.00 |
| BNDES Acelera Sub C – Other Programs | 0.00 | 202,539,422.53 | 155,602,347.35 | 358,141,769.88 |
| BNDES –Joinville Transportation System | 0.00 | 12,060,000.00 | 0.00 | 12,060,000.00 |
| BB - Strategic Pathways for Production | 0.00 | 0.00 | 218,800,000.00 | 218,800,000.00 |
| EXTERNAL | 5,476,262.13 | 83,149,411.72 | 77,877,294.21 | 166,502,968.06 |
| BID V – Highways | 549,956.56 | 0.00 | 0.00 | 549,956.56 |
| CAF – Regional Integration Program – PIR | 3,935,000.00 | 13,680,000.00 | 1,964,494.40 | 19,579,494.40 |
| BIRD Watersheds III | 991,305.57 | 741,456.07 | 37,722,799.81 | 39,455,561.45 |
| BID VI – Highways | 0.00 | 68,727,955.65 | 38,190,000.00 | 106,917,955.65 |
| TOTAL | 9,670,857.08 | 499,360,087.84 | 452,279,641.56 | 961,310,586.48 |

Source: Fundraising and Public Debt Department



Inclusion of the Remainder to be Paid and Availability of Cash

The remainder to be paid refers to the encumbered expenditure that is not paid until the end of the accounting period. They are divided into remainder to be paid – processed expenditures (validated and unpaid expenditures) and remainder to be paid – not processed expenditures (encumbered but not validated expenditures).

In order to register expenses as remainder to be paid, the public entity must provide proof that it has available funds to fulfill commitments and to observe whether the resources are legally earmarked for the specific purpose for which resources will be used.

In 2013, the State of Santa Catarina entered the amount of R\$ 675 million (R\$ 393 million in 2012) as remainder of expenditures to be paid, with R\$ 99 million processed and R\$ 576 million not processed.

The availability of consolidated cash less financial Liabilities²³ totaled R\$ 2.920 billion in 2013 (R\$ 2.062 billion in 2012), before the registration of the remainder of expenditures that have been processed and the ones that have not been processed. After the remainder of expenditures to be paid had been entered, the remaining funds available was R\$ 2.245 billion (R\$ 1.668 billion in 2012), representing the financial surplus for the accounting year²⁴

| | | | | |
|-----------------------------|---|-----------------------------|---|--------------------------|
| Availability of Cash | – | Remainder to be Paid | = | Financial Surplus |
| R\$2.920 billion | – | R\$675.13 million | = | R\$ 2.245 billion |

Table 21 | Financial Availabilities x Remainder to be Paid – Consolidated Data (R\$ million)

| Allocation of Resources | Financial Availability | | Financial Liabilities | | Remainder to be Paid Entered | | Financial availability after the Remainder to be Paid has been Entered | |
|-----------------------------------|------------------------|--------------|-----------------------|--------------|------------------------------|------------|--|--------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Earmarked Resources | 5,494 | 3,626 | 3,595 | 2,869 | 7 | 123 | 1,433 | 635 |
| Earmarked Resources for Health | 213 | 172 | 1 | 1 | 193 | 81 | 19 | 89 |
| Earmarked Resources for Education | 224 | 157 | 3 | 3 | 31 | 29 | 190 | 125 |
| Resources Allocated to RPPS/SC | 350 | 257 | 1 | 1 | 2 | 2 | 347 | 254 |
| Other Earmarked Resources | 4,707 | 3,041 | 3,590 | 2,864 | 241 | 11 | 876 | 166 |
| Non-Earmarked Resources | 1,025 | 1,305 | 5 | 1 | 208 | 270 | 812 | 1,034 |
| Regular Treasury Resources | 400 | 274 | 0 | 0 | 69 | 111 | 331 | 163 |
| Other Non-Earmarked Resources | 626 | 1,031 | 5 | 1 | 139 | 160 | 482 | 870 |
| Total | 6,520 | 4,931 | 3,600 | 2,870 | 675 | 393 | 2,245 | 1,668 |

Source: SIGEF – Integrated Planning and Fiscal Management System

²³ Financial liabilities consist of the following items: assignments, deposits of various origins and other financial liabilities arising from transactions with third parties, regardless of budget execution.

²⁴ The report for calculating the financial surplus is contained in Volume II of the Balance Sheet.

Primary Result

The Primary Result is the difference between the Primary Revenue (Total Revenue net of Financial Revenues) and Primary Expense (Total Expenditure deducted from Financial Expenses). Their analysis indicates how much the public entity depends on third-party capital to maintain or pay its expenses. Primary surpluses are directed to the payment of debt services (principal plus interest) and contribute to the reduction of the total stock of the net debt.

The Budget Guidelines Law set the goal of Primary Income for 2013 at R\$ 1.522 billion (R\$ 1.047 billion for 2012), however the result presented was a primary surplus of R\$ 295.5 million (R\$ 869 million in 2012). This happened because the primary result considers only the revenue collected during the year less the expenses incurred, whether funded by proceeds from the collection of the year or of the financial surplus from the previous year. Therefore, if the surplus financial resources that were used for the execution of primary expenditure (R\$ 1.065 billion) were considered, the primary surplus would be R\$ 1.361 billion.

Primary Surplus
R\$ 295.5 million

Nominal Result

The purpose of the Nominal Balance is to measure the evolution of the Net Fiscal Debt between the previous financial year and the current one.

According to the guidelines in the Manual of Tax Statements, published by the National Treasury, the net fiscal debt is the consolidated net debt added to the privatization revenues, net of recognized liabilities as a result of deficits incurred in previous financial years. The consolidated net debt (DCL) is the consolidated debt balance, less the Available Assets and Financial Assets, net of outstanding commitments processed.

Initially, it is important to describe the misunderstanding that took place when calculating the nominal result of year 2012, for considering, when determining the values of the Net Tax Liability on 12/31/2012 as Financial Assets, the amount of R\$ 864 million relating to tax credits receivable, recognized on an accrual basis. As the Financial Assets are deductions from the consolidated debt, the amount of the consolidated net debt for year 2012 was affected.

However, in compliance with the guidelines in the Manual of Tax Statements, published by the National Treasury Department, valid for the year 2013, these credits were not considered in the calculation of the Net Tax Liability on 12/31/2013.

Thus, the difference between the Net Tax Liability for 2012, which totaled R\$ 3.989 billion, and the Net Tax Liability for 2013, which closed at R\$ 5.359 billion, generated a positive Nominal Result of R\$ 1.370 billion, that is, an increase of the Net Tax Liability.

However, if the same methodology were used for the two periods, that is, if the receivables were not considered, recognized on an accrual basis in 2012, the nominal result determined on 12/31/2013 would have been an increase of R\$ 195.6 million in the Net Tax Liability.

Table 22 | Summary of Results of the State of Santa Catarina (2013 – 2012) – R\$ thousands

| | 2013 | | 2012 | |
|--|--------------|--------------------|--------------|--------------------|
| | VALUE | % RLI | VALUE | % RLI |
| HEALTH | | | | |
| Constitutional minimum to be allocated (article 77, ADCT, CF/88) | 1,623,912 | 12 | 1,443,167 | 12 |
| Expenses considered | 1,626,685 | 12.02 | 1,460,567 | 12.14 |
| EDUCATION – Maintenance and Development of Education - MDE | VALUE | % RLI | VALUE | % RLI |
| Constitutional minimum to be allocated (article 212, CF/88) | 3,383,150 | 25 | 3,006,598 | 25 |
| Expenses considered | 3,829,327 | 28.3 | 3,538,303 | 29.42 |
| EDUCATION – Tertiary Education | VALUE | % MDE | VALUE | % MDE |
| Constitutional minimum to be allocated (article 170, CE/89) | 169,158 | 5 | 150,330 | 5 |
| Expenses considered | 62,920 | 1.86 | 59,740 | 1.99 |
| EDUCATION - FUNDEB – Teachers' Remuneration | VALUE | % FUNDEB | VALUE | % FUNDEB |
| Constitutional minimum to be allocated (article 60, ADCT, CF/88) | 1,052,698 | 60 | 1,029,962 | 60 |
| Expenses considered | 1,434,677 | 81.77 | 1,381,568 | 80.48 |
| SCIENCE AND TECHNOLOGY | VALUE | % CUR. REV. | VALUE | % CUR. REV. |
| Constitutional minimum to be allocated (article 193, CE/89) | 349,493 | 2 | 319,568 | 2 |
| Expenses considered | 307,457 | 1.76 | 317,019 | 1.98 |
| CURRENT NET REVENUES | | 15,892,968 | | 14,535,174 |
| PERSONNEL EXPENSES | VALUE | % RCL | VALUE | % RCL |
| Maximum Limit (article 20, items I, II and III, LRF) | 9,535,781 | 60 | 8,721,104 | 60 |
| Prudential Limit (article 22, sole paragraph, LRF) | 9,058,992 | 57 | 8,285,049 | 57 |
| Total Personnel Expenses | 8,932,163 | 56.2 | 8,134,424 | 55.96 |
| CONSOLIDATED DEBT | VALUE | % RCL | VALUE | % RCL |
| Limit set by the Federal Senate Resolution | 31,785,936 | 200 | 29,070,348 | 200 |
| Consolidated Net Debt | 7,615,242 | 47.92 | 5,898,678 | 40.58 |
| GUARANTEES AND COUNTERGUARANTEES | VALOR | % RCL | VALOR | % RCL |
| Limit set by the Federal Senate Resolution | 3,496,453 | 22 | 3,197,738 | 22 |
| Total of Guarantees | 787,080 | 4.95 | 88,922 | 0.61 |
| CREDIT OPERATIONS | VALOR | % RCL | VALOR | % RCL |
| Limit set by the Federal Senate for Internal and External Operations | 2,542,874 | 16 | 2,325,628 | 16 |
| Limit set by the Federal Senate for Deferred Revenue Transactions | 1,112,507 | 7 | 1,017,462 | 7 |
| Internal and External Credit Operations | 961,310 | 6.05 | 1,661,165 | 11.43 |
| Credit Operations by Deferred Revenues | - | - | - | - |
| PRIMARY RESULT | VALUE | | VALUE | |
| Goal Established in LDO | | 1,522,823 | | 1,047,288 |
| Determined Result | | 295,556 | | 869,464 |
| NOMINAL RESULT | VALUE | | VALUE | |
| Goal Established in LDO | | (138,456) | | (327,161) |
| Determined Result | | 1,370,062 | | (1,095,955) |
| REMAINDER TO BE PAID | VALUE | | VALUE | |
| Availability of Net Cash before entering Remainder to be Paid – Processed Expenditures | 2,920,038 | | 2,061,701 | |
| Entry of Remainder to be Paid – Processed Expenditures | 99,421 | | 47,038 | |
| Availability of Net Cash before entering Remainder to be Paid – Not Processed Expenditures | 2,820,617 | | 2,014,663 | |
| Entry of Remainder to be Paid – Not Processed Expenditures | 575,718 | | 346,178 | |





CONSOLIDATED BUDGET BALANCE

Annex 12 - Federal Law No. 4,320/64 | Period: January to December 2013

R\$ thousands

| BUDGETED REVENUE | INITIAL ESTIMATE | UPDATED ESTIMATE (a) | ACCRUED REVENUES (b) | BALANCE (c = b - a) |
|---|-------------------|----------------------|----------------------|---------------------|
| CURRENT REVENUES | 17,667,523 | 17,667,523 | 17,474,769 | -192,754 |
| TAX REVENUES | 10,089,991 | 10,089,991 | 10,243,165 | 153,174 |
| Taxes | 9,630,848 | 9,630,848 | 9,780,975 | 150,126 |
| Fees | 459,143 | 459,143 | 462,190 | 3,048 |
| Improvement Contribution | 0 | 0 | 0 | 0 |
| CONTRIBUTION RECEIPTS | 1,348,385 | 1,348,385 | 1,329,618 | -18,767 |
| Social Contributions | 1,348,385 | 1,348,385 | 1,329,618 | -18,767 |
| Economic Contributions | - | - | - | - |
| EQUITY REVENUES | 437,119 | 437,119 | 486,354 | 49,235 |
| Real Estate Revenues | 6,285 | 6,285 | 6,136 | -149 |
| Revenues from Securities | 420,836 | 420,836 | 288,627 | -132,209 |
| Revenues from Concessions and Permits | 9,055 | 9,055 | 7,819 | -1,236 |
| Revenues from Assignment of Rights | 0 | 0 | 182,702 | 182,702 |
| Other Equity Revenues | 943 | 943 | 1,071 | 128 |
| AGRICULTURAL REVENUES | 1,665 | 1,665 | 1,249 | -416 |
| Crop Production Revenues | 634 | 634 | 670 | 36 |
| Revenues from Animal Production and Derivatives | 1,031 | 1,031 | 578 | -452 |
| Other Agricultural Revenues | 0 | 0 | 0 | 0 |
| INDUSTRIAL REVENUES | 12,931 | 12,931 | 10,220 | -2,711 |
| Revenue from the Manufacturing Industry | 5,539 | 5,539 | 360 | -5,179 |
| Revenue from the Construction Industry | 7,392 | 7,392 | 9,860 | 2,468 |
| Other Industrial Revenues | 0 | 0 | 0 | 0 |
| SERVICE REVENUES | 557,407 | 557,407 | 592,323 | 34,916 |
| CURRENT TRANSFERS | 4,701,013 | 4,701,013 | 4,278,231 | -422,782 |
| Intra-governmental Transfers | 3,858,881 | 3,858,881 | 3,448,468 | -410,414 |
| Private Institutions Transfers | 685,858 | 685,858 | 699,573 | 13,716 |
| Transfers from Abroad | 0 | 0 | 0 | 0 |
| Transfers from People | 0 | 0 | 402 | 402 |
| Transfers from Agreements | 156,274 | 156,274 | 129,788 | -26,485 |
| Transfers to Combat Hunger | - | - | - | - |
| OTHER CURRENT REVENUES | 519,012 | 519,012 | 533,608 | 14,597 |
| Fines and Interest on Arrears | 115,081 | 115,081 | 145,478 | 30,397 |
| Indemnities and Refunds | 165,551 | 165,551 | 130,479 | -35,072 |
| Revenues from the Active Debt | 11,028 | 11,028 | 35,293 | 24,265 |
| Current Miscellaneous Revenues | 227,351 | 227,351 | 222,357 | -4,994 |

Continued on page 71

Continued from page 70

R\$ thousands

| BUDGETED REVENUE | INITIAL ESTIMATE | UPDATED ESTIMATE (a) | ACCRUED REVENUES (b) | BALANCE (c = b - a) |
|--|-------------------|----------------------|----------------------|---------------------|
| CAPITAL REVENUES | 1,683,756 | 1,683,756 | 2,175,424 | 491,668 |
| CREDIT OPERATIONS | 1,547,634 | 1,547,634 | 2,057,900 | 510,266 |
| Internal Credit Operations | 1,266,456 | 1,266,456 | 1,869,975 | 603,519 |
| External Credit Operations | 281,178 | 281,178 | 187,926 | -93,252 |
| DISPOSAL OF ASSETS | 26,923 | 26,923 | 5,362 | -21,561 |
| Disposal of Movable Assets | 24,803 | 24,803 | 5,095 | -19,708 |
| Disposal of Immovable Assets | 2,121 | 2,121 | 267 | -1,854 |
| AMORTIZATIONS OF LOANS | 55,401 | 55,401 | 16,255 | -39,145 |
| CAPITAL TRANSFERS | 52,774 | 52,774 | 89,734 | 36,959 |
| Intragovernmental Transfers | 0 | 0 | 17,865 | 17,865 |
| Private Institutions Transfers | 0 | 0 | 508 | 508 |
| Transfers from Abroad | 0 | 0 | 0 | 0 |
| Transfers from People | 0 | 0 | 0 | 0 |
| Other Public Institutions Transfers | 0 | 0 | 0 | 0 |
| Transfers from Agreements | 52,774 | 52,774 | 71,360 | 18,586 |
| Transfer to Combat Hunger | - | - | - | - |
| OTHER CAPITAL REVENUES | 1,023 | 1,023 | 6,172 | 5,149 |
| Paying in of Capital | 0 | 0 | 6,172 | 6,172 |
| Active Debt from Amortization of Loans and Financing | - | - | - | - |
| Refunds | - | - | - | - |
| Miscellaneous Capital Revenues | 1,023 | 1,023 | 0 | -1,023 |
| SUBTOTAL OF INCOME (I) | 19,351,279 | 19,351,279 | 19,650,193 | 298,914 |
| REFINANCING (II) | - | - | - | - |
| Internal Credit Operations | - | - | - | - |
| Securities | - | - | - | - |
| Contractual | - | - | - | - |
| External Credit Operations | - | - | - | - |
| Securities | - | - | - | - |
| Contractual | - | - | - | - |
| SUBTOTAL WITH REFINANCING (III) = (I + II) | 19,351,279 | 19,351,279 | 19,650,193 | 298,914 |
| DEFICIT (IV) | - | - | - | - |
| TOTAL (V) = (III) + (IV) | 19,351,279 | 19,351,279 | 19,650,193 | 298,914 |
| BALANCES FROM PREVIOUS YEARS (USED FOR ADDITIONAL CREDITS) | | | | |
| Financial Surplus | | 1,419,695 | 1,065,966 | |
| Reopening of Additional Credits | | - | - | |

Continued on page 72

CONSOLIDATED BUDGET BALANCE

Annex 12 - Federal Law No. 4,320/64 | Period: January to December 2013

Continued from page 71

| BUDGET EXPENDITURE | INITIAL ALLOCATION (d) | UPDATED ALLOCATION (e) | |
|--|------------------------|------------------------|--|
| CURRENT EXPENSES | 15,464,481 | 17,564,635 | |
| PERSONNEL AND SOCIAL SECURITY CONTRIBUTIONS | 8,958,637 | 10,842,914 | |
| INTERESTS AND DEBT SERVICE CHARGES | 667,050 | 770,851 | |
| OTHER CURRENT EXPENSES | 5,838,794 | 5,950,870 | |
| CAPITAL EXPENSES | 3,797,640 | 5,317,902 | |
| INVESTMENTS | 2,496,152 | 3,363,527 | |
| FINANCIAL INVESTMENTS | 229,721 | 254,568 | |
| AMORTIZATION OF DEBT | 1,071,766 | 1,699,807 | |
| CONTINGENCY RESERVE | 1,000 | 0 | |
| RESERVE OF RPPS | 88,158 | 88,158 | |
| SUBTOTAL OF EXPENDITURE (VI) | 19,351,279 | 22,970,696 | |
| AMORTIZATION OF DEBT / REFINANCING (VII) | - | - | |
| Amortization of Internal Debt | - | - | |
| Securities Debt | - | - | |
| Other Debts | - | - | |
| Amortization of External Debt | - | - | |
| Securities Debt | - | - | |
| Other Debts | - | - | |
| SUBTOTAL WITH REFINANCING (VIII) = (VI + VII) | 19,351,279 | 22,970,696 | |
| SURPLUS (IX) | - | - | |
| TOTAL (X) = (VIII + IX) | 19,351,279 | 22,970,696 | |

R\$ thousands

| ENCUMBERED EXPENDITURE (f) | VALIDATED EXPENSES (g) | PAID EXPENSES (h) | ALLOCATION BALANCE (i) = (e-f) |
|----------------------------------|------------------------------|-------------------------|--------------------------------------|
| 16,175,396 | 15,812,366 | 15,752,594 | 1,389,239 |
| 10,558,885 | 10,549,750 | 10,546,813 | 284,029 |
| 668,313 | 668,313 | 668,313 | 102,537 |
| 4,948,197 | 4,594,302 | 4,537,467 | 1,002,673 |
| 3,078,944 | 2,866,256 | 2,826,607 | 2,238,958 |
| 1,251,048 | 1,038,920 | 999,271 | 2,112,480 |
| 244,798 | 244,237 | 244,237 | 9,771 |
| 1,583,099 | 1,583,099 | 1,583,099 | 116,708 |
| 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 88,158 |
| 19,254,340 | 18,678,622 | 18,579,201 | 3,716,356 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 19,254,340 | 18,678,622 | 18,579,201 | 3,716,356 |
| 395,853 | - | - | - |
| 19,650,193 | 18,678,622 | 18,579,201 | 3,716,356 |

Source: SIGEF – Integrated Planning and Fiscal Management System

CONSOLIDATED FINANCIAL STATEMENT

From 01/01/2013 to 12/31/2013

| INFLOWS | |
|---|-------------------|
| Budgeted Revenues | 19,650,193 |
| Revenue | 27,279,363 |
| Current Revenues | 24,082,819 |
| Tax Revenues | 16,564,139 |
| Contributions Revenue | 534,641 |
| Equity Revenue | 516,508 |
| Agricultural Revenues | 1,249 |
| Industrial Revenues | 9,939 |
| Service Revenues | 436,651 |
| Current Transfers | 5,374,739 |
| Other Current Revenues | 644,952 |
| Capital Revenues | 2,169,338 |
| Credit Operations | 2,057,900 |
| Disposal of Assets | 5,449 |
| Amortization of Loans | 16,255 |
| Capital Transfers | 89,734 |
| Current Intra-Budgetary Revenues | 1,021,033 |
| Social Contributions Revenue | 800,919 |
| Equity Revenues | 1,197 |
| Industrial Revenues | 280 |
| Service Revenues | 155,923 |
| Other Current Revenues | 62,714 |
| Capital Intra-Budgetary Revenues | 6,172 |
| Other Capital Revenues | 6,172 |
| Deductions | 7,629,170 |
| Deductions from Current Revenues | 7,629,083 |
| Deductions from Tax Revenues | 6,320,974 |
| Deductions from Social Contributions | 5,942 |
| Deductions Equity Revenues | 31,351 |
| Deductions from Service Revenues | 251 |
| Current Transfers | 1,096,508 |
| Other Deductions | 174,058 |
| Deductions from Capital Revenues | 87 |
| Deduction from the Disposal of Movable Assets | 87 |
| Financial Transfers Received | 53,972,036 |
| Transfers Received for the Budget Execution | 14,856,643 |
| Transfers Received Regardless of the Budget Execution | 36,849,910 |
| Transfers Received from RPPS Contribution | 2,265,482 |
| Extra-Budgetary Receipts | 12,061,827 |
| Remainder to be Paid – Processed Expenditures | 99,421 |
| Remainder to be Paid – Not Processed Expenditures | 575,718 |
| Refundable Deposits and Earmarked Resources | 7,689,327 |
| RPPS Investments | 3,692,486 |
| Augmentative Changes in Equity – Cancellation of withholdings | 16 |
| Augmentative Changes in Equity – Offsetting of Credits | 0 |
| Incorporation of Financial Balances | 4,859 |
| Balance in kind from the Previous Fiscal Year | 4,667,396 |
| Cash and Cash Equivalents | 4,667,396 |
| Grand Total | 90,351,451 |

CONSOLIDATED BALANCE SHEET

For the fiscal year ended December 31, 2013

| ASSETS | | | |
|--|---------------------|-------------------|--|
| SECURITIES | EXPLANATORY NOTE | 2013 | |
| CURRENT ASSETS | | | |
| Cash and Cash Equivalents | 3 | 7,500,538 | |
| Short-Term Receivables | | 1,386,255 | |
| Clients | 4 | 66,824 | |
| Tax Credit Receivable | 5 | 1,306,286 | |
| Tax Active Debt | 6 | 414 | |
| Loans and Financings Granted | 7 | 12,730 | |
| Other Credits and Short-Term Securities | 8 | 686,461 | |
| Investments and Temporary, Short-Term Investments | 9 | 344,737 | |
| Inventories | 10 | 249,166 | |
| VPD Paid in Advance | 11 | 3,678 | |
| NON-CURRENT ASSETS | | | |
| Long-term receivables | | 1,941,927 | |
| Long-Term Credits | | 1,805,410 | |
| Tax Credits Receivable | 5 | 1,427,668 | |
| Tax Active Debt | 6 | 77,559 | |
| Loans and Financing Granted | 7 | 300,182 | |
| Other Credits and Long-Term Securities | 8 | 118,574 | |
| Inventories | 10 | 16,589 | |
| VPD Paid in Advance | | 1,354 | |
| Investments | 12 | 3,190,399 | |
| Fixed Assets | 13 | 5,432,284 | |
| Intangible Assets | 14 | 106,887 | |
| TOTAL ASSETS | | | |
| | | 20,842,333 | |
| FINANCIAL ASSETS | | | |
| | | 7,887,088 | |
| PERMANENT ASSETS | | | |
| | | 12,955,245 | |
| EQUITY BALANCE | | | |
| ASSETS' POTENTIAL ACTS | | | |
| SECURITIES | | 2013 | |
| Guarantees and counter-guarantees received | | 990,634 | |
| Third Party Liability for bonds, securities and assets | | 270,700 | |
| Officials Responsible for Calculating Results | | 79,460 | |
| TOTAL | | | |
| | | 1,340,794 | |

R\$ thousands

| LIABILITIES | | |
|--|-------------------------|--------------------|
| SECURITIES | EXPLANATORY NOTE | 2013 |
| CURRENT LIABILITIES | | 6,737,870 |
| Labor and Social Security Obligations to be Paid | 15 | 144,379 |
| Loans and Short-Term Financing | 16 | 570,265 |
| Suppliers and Short-Term Payables | 17 | 207,106 |
| Tax Liabilities | 18 | 10,490 |
| Short-Term Provisions | 19 | 611,074 |
| Other Short-Term Liabilities | 20 | 5,194,557 |
| NON-CURRENT LIABILITIES | | 16,322,265 |
| Long-Term Labor and Social Security Obligations to be Paid | 15 | 837,853 |
| Long-Term Loans and Financing | 16 | 12,660,682 |
| Long-Term Suppliers | 17 | 1,307,708 |
| Long-Term Tax Liabilities | 18 | 241,200 |
| Long-Term Provisions | 19 | 378,821 |
| Other Long-Term Liabilities | 20 | 521,165 |
| Deferred Result | 21 | 374,836 |
| NET WORTH | | (2,217,802) |
| Assets and Equity Capital | | 189,476 |
| Capital Reserves | | 368 |
| Other Reserves | | 8,088 |
| Accrued Results | 22 | (2,415,735) |
| TOTAL LIABILITIES | | 20,842,333 |
| FINANCIAL LIABILITIES | | 5,024,028 |
| FIXED LIABILITIES | | 18,036,108 |
| | | (2,217,802) |
| LIABILITIES' POTENTIAL ACTS | | |
| SECURITIES | | 2013 |
| Guarantees and counter-guarantees received | | 787,080 |
| Control of fiscal risks and contingent liabilities | 23 | 8,007,381 |
| Associated Liabilities and other similar instruments | | 690,433 |
| Third Party Liability for bonds, securities and assets | | 83,409 |
| TOTAL | | 9,568,303 |

Source: SIGEF – Integrated Planning and Fiscal Management System

CONSOLIDATED STATEMENT OF VARIATIONS IN EQUITY

For the fiscal year ended December 31, 2013

R\$ Thousands

| QUANTITATIVE VARIATIONS IN EQUITY | |
|---|----------------------------|
| AUGMENTATIVE VARIATIONS IN EQUITY | 85,838,802 |
| Taxes, Fees and Improvement Contribution | 19,778,128 |
| Contributions | 1,309,442 |
| Exploration and Sale of Goods, Services and Rights | 726,927 |
| Financial Augmentative Variations in Equity | 1,220,649 |
| Transfers and Delegations Received | 61,525,339 |
| Valorization and Gains on Assets | 44,883 |
| Other Augmentative Variations in Equity | 1,233,433 |
| DIMINUTIVE VARIATIONS IN EQUITY | 86,115,381 |
| Payroll and Social Security Contributions | 7,528,988 |
| Assistance and Social Security Benefits | 3,631,066 |
| Consumption of Fixed Capital; Goods and Services | 2,900,880 |
| Diminutive Variations in Equity | 1,937,942 |
| Transfers and Delegations Granted | 64,241,123 |
| Depreciation and Loss on Assets | 2,135,928 |
| Taxes | 151,568 |
| Other Diminutive Variations in Equity | 3,587,885 |
| EQUITY RESULT FOR THE ACCOUNTING PERIOD | -276,579 |
| QUALITATIVE VARIATIONS IN EQUITY (DUE TO BUDGET EXECUTION) | |
| | CURRENT FISCAL YEAR |
| Incorporation of assets | 1,130,382 |
| Disincorporation of liabilities | 1,583,099 |
| Incorporation of Liabilities | 2,064,073 |
| Disincorporation of Assets | 21,705 |

Source: SIGEF – Integrated Planning and Fiscal Management System

CONSOLIDATED CASH FLOW STATEMENT

For the fiscal year ended December 31, 2013

R\$ Thousands

| CASH FLOWS FROM OPERATING ACTIVITIES | |
|---|--------------------|
| INFLOWS | 51,778,680 |
| DERIVED REVENUES | 11,656,190 |
| Tax Revenues | 10,243,165 |
| Revenues from contributions | 1,329,532 |
| Other derived revenues | 83,494 |
| ORIGINATING REVENUES | 1,540,261 |
| Equity Revenues | 206,688 |
| Agricultural Revenues | 1,249 |
| Industrial Revenues | 10,220 |
| Service Revenues | 592,323 |
| Other originating revenues | 450,115 |
| Liquid assets remuneration | 279,666 |
| TRANSFERS | 38,546,793 |
| Intergovernmental | 3,448,468 |
| Intragovernmental | 34,268,562 |
| Agreements | 129,788 |
| Other transfers | 699,975 |
| OTHER OPERATING INFLOWS | 35,435 |
| DISBURSEMENTS | 50,369,123 |
| PERSONNEL AND OTHER CURRENT EXPENDITURES | 14,478,504 |
| INTEREST AND DEBIT SERVICE CHARGES | 668,313 |
| TRANSFERS | 35,211,961 |
| Intergovernmental | 288,744 |
| Intragovernmental | 34,281,081 |
| Multigovernmental | - |
| Private Institutions | 642,136 |
| OTHER OPERATING DISBURSEMENTS | 10,345 |
| 1. NET CASH FLOW FROM OPERATING ACTIVITIES | 1,409,557 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| INFLOWS | 111,438 |
| Disposal of Assets | 5,449 |
| Repayment of granted loans and financing | 16,255 |
| Capital Transfers | 89,734 |
| DISBURSEMENTS | 1,137,122 |
| Acquisition of non-current assets | 1,115,733 |
| Grant of loans and financing | 7,181 |
| LOSSES WITH RPPS APPLICATIONS | 14,209 |
| 2. NET CASH FLOW FROM INVESTING ACTIVITIES | (1,025,684) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| INFLOWS | 2,064,073 |
| Credit Operations | 2,057,900 |
| Other Revenues | - |
| Paying in of Capital | 6,172 |
| DISBURSEMENTS | 1,583,099 |
| Amortization/refinancing of the active debt | 1,583,099 |
| 3. NET CASH FLOW OF FINANCING ACTIVITIES | 480,974 |
| 4. CALCULATION OF CASH FLOWS FOR THE ACCOUNTING PERIOD (1+2+3) | 864,846 |
| 5. NET CASH GENERATION AND CASH EQUIVALENTS | 864,846 |
| Initial Cash and Cash Equivalents | 2,062,916 |
| Final Cash and Cash Equivalents | 2,927,762 |

Source: SIGEF – Integrated Planning and Fiscal Management System

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Values as at 12/31/2012 and 12/31/2013

| SPECIFICATION | ASSETS AND EQUITY CAPITAL | ADVANCES FOR FUTURE CAPITAL INCREASE | CAPITAL RESERVES | REVALUATION RESERVE | |
|---|------------------------------|--|---------------------|------------------------|--|
| INITIAL BALANCE OF THE PRIOR YEAR | 166,644 | 8,510 | 0 | 5,815 | |
| ADJUSTMENTS OF PRIOR YEARS | 0 | 0 | 0 | 0 | |
| REDUCTION OF EQUITY CAPITAL | (8) | 0 | 0 | 0 | |
| INCREASE IN CAPITAL | 13,138 | 0 | 0 | 0 | |
| With Reserves and Profits | 0 | 0 | 0 | 0 | |
| With New Stock Subscriptions | 13,138 | 0 | 0 | 0 | |
| INCOME FOR THE FINANCIAL YEAR | 0 | 0 | 0 | 0 | |
| CONSTITUTION / REVERSAL OF RESERVES | 0 | 0 | 0 | 0 | |
| PROPOSED DIVIDENDS | 0 | 0 | 0 | 0 | |
| CLOSING BALANCE OF THE PREVIOUS YEAR / OPENING BALANCE OF THE CURRENT YEAR | 179,775 | 8,510 | 0 | 5,815 | |
| ADJUSTMENTS OF PRIOR YEARS | 0 | 0 | 0 | 0 | |
| REDUCTION OF EQUITY CAPITAL | 0 | (8,510) | 0 | 0 | |
| INCREASE IN CAPITAL | 9,701 | 0 | 0 | 0 | |
| With Reserves and Profits | 3,529 | 0 | 0 | 0 | |
| With New Stock Subscriptions | 6,172 | 0 | 0 | 0 | |
| INCOME FOR THE FINANCIAL YEAR | 0 | 0 | 0 | 0 | |
| CONSTITUTION / REVERSAL OF RESERVES | 0 | 0 | 368 | 0 | |
| PROPOSED DIVIDENDS | 0 | 0 | 0 | 0 | |
| CLOSING BALANCE OF THE CURRENT YEAR | 189,476 | 0 | 368 | 5,815 | |

R\$ Thousands

| | AJJUSTMENTS OF EQUITY EVALUATION | PROFIT RESERVES | OTHER RESERVES | ACCRUED RESULTS | ADJUSTMENTS OF PRIOR YEARS | TREASURY STOCK | NET WORTH |
|--|--|--------------------|-------------------|--------------------|----------------------------------|-------------------|--------------------|
| | 0 | 0 | 2,274 | (3,734,183) | 406,450 | 0 | (3,144,490) |
| | 0 | 0 | 0 | 0 | 18,859 | 0 | 18,859 |
| | 0 | 0 | 0 | 0 | 0 | 0 | (8) |
| | 0 | 0 | 0 | 0 | 0 | 0 | 13,138 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 1,086,459 | 0 | 0 | 1,086,459 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 2,274 | (2,647,724) | 425,309 | 0 | (2,026,042) |
| | 0 | 0 | 0 | 17,793 | 60,853 | 0 | 78,646 |
| | 0 | 0 | 0 | 8,510 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | (3,529) | 0 | 6,172 |
| | 0 | 0 | 0 | 0 | (3,529) | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 6,172 |
| | 0 | 0 | 0 | (276,579) | 0 | 0 | (276,579) |
| | 0 | 0 | 0 | 0 | (368) | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 2,274 | (2,898,000) | 482,265 | 0 | (2,217,802) |

Source: SIGEF – Integrated Planning and Fiscal Management System





Explanatory Notes for the Financial Statements



1. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The financial statements presented in this Technical Report were prepared in accordance with the guidelines of Part V - Financial Statements Applicable to the Public Sector, of the Public Sector Accounting Handbook, 5th edition, approved by the Ordinance STN No. 437, dated July 12, 2012, which complies with the statutory provisions regulating the matter, such as the Law No. 4,320/1964, Supplementary Law No. 101/2000 and also the provisions of the Federal Accounting Council relating to Accounting Principles, as well as the Brazilian Accounting Standards Applied to the Public Sector (NBCT 16).

Another concern was the compliance with the Ordinance No. 634, of 19 December 2013, issued by the National Treasury Department (STN), which establishes the end of the year 2014 as the deadline for adapting to the Chart of Accounts applicable to the Public Sector (PCASP). Further, it also provides that accounting procedures for preparing balance sheets should be adopted which cover the following: I - recognition, measurement and disclosure of credits, from taxes or not, by competence and the active debt, including its adjustments for losses; II - recognition, measurement and disclosure of liabilities and provisions by competence; III - recognition, measurement and disclosure of movable, immovable and intangible assets; IV - record of economic phenomena, resulting from or independent of the budget execution, such as depreciation, amortization, depletion; V - recognition, measurement and disclosure of infrastructure assets; VI - Implementation of a cost system.

Thus, the work undertaken in 2012 by the Working Group on Accounting Procedures of the State of Santa Catarina (GTCON/SC) and the managers of DCOG resulted in the implementation of the new PCASP in January 2013, complying in advance with the time stipulated by the Ordinance STN No. 634/ 2013.

With the implementation of the new PCASP, many routines were changed, which required a lot of effort in adapting the Integrated Planning and Fiscal Management System (SIGEF) in 2013. For 2014, the work will be intensified for submitting consolidated statements of entities, highlighting transactions between the bodies and entities that are part of the Fiscal Budget and Social Security.

In addition to PCASP, the State of Santa Catarina has already implemented a number of other actions related to the convergence with the International Accounting Standards Applied to the Public Sector. Among them, the recognition on the accrual basis of tax credits receivable of ICMS and IPVA taxes; the equity revaluation (movable, immovable and intangible assets); recognition of infrastructure assets; and implementation of an experimental project for calculating the costs of the education department of the State.

It is also emphasized that the financial statements and its explanatory notes are presented with values expressed in thousands of reais, unless otherwise indicated, and their total may possibly differ from the sum of the parts due to the rounding of amounts.

The consolidated financial statements contained in this Technical Report were prepared based on the data extracted from the Integrated Planning and Fiscal Management System and include, besides the bodies and entities of the Executive Branch, the Legislative Assembly, the Court of Auditors, the Court of Justice and the Public Prosecutor's Office.

The accompanying Explanatory Notes are an integral part of the financial statements and contains relevant, complementary or supplementary information to those not sufficiently disclosed or not contained in the financial statements. The Explanatory Notes provide information on the criteria used in preparing the financial statements, the information of a patrimonial, budgetary, economic, financial, legal, physical and performance nature and other insufficiently disclosed or not disclosed in the said statements.

2. SUMMARY OF MAIN ACCOUNTING PRACTICES

a) Cash Availabilities

Cash availabilities are measured or assessed from the original value, and when they are in a foreign currency, the translation is carried out at the exchange rate ruling at the balance sheet date.

The immediately redeemable financial investments are measured or recorded at the original value, updated to the date of the Balance Sheet.

Cleared updates are accounted for in the income statement accounts.

b) Credits and Debts

The rights, obligations and securities are measured or assessed from the original value, and when they are in a foreign currency, the translation is carried out at the exchange rate ruling at the balance sheet date.

The risks of receiving debts are recognized in an adjustment account, which will be reduced or canceled when the reasons which originated it have ceased to exist.

The rights, obligations and fixed-rate securities are adjusted to present value.

The rights, obligations and floating-rate securities are adjusted considering all charges incurred up to the date of the balance sheet.

Provisions are recorded based on estimates by the realizable value for assets and recognition for liabilities.

Updates and calculated adjustments are recorded in the income statement accounts.

c) Inventories

Inventories are stated using their average production, acquisition or market cost, the lowest cost between them.

d) Permanent Investments

Investments in companies over which the State has significant influence in the administration are measured or recorded under the equity method. Other interests are measured and recorded according to the acquisition cost. Established adjustments are accounted for in the income statement accounts.

e) Fixed assets

Fixed assets, including additional or complementary spending, are measured or established initially based on the value of the acquisition, production or construction and, in the case of fixed assets obtained free of charge, at the value obtained from the evaluation based on technical procedure or the equity value defined in terms of the donation.

f) Intangible

Intangible assets correspond to those rights related to incorporeal assets whose purpose is the maintenance of the public activity or exercised for such purpose and are measured or evaluated initially based on the purchase price or production, and in the case of intangible assets obtained free of charge at the value obtained from the evaluation based on technical procedure or the equity value defined in terms of the donation.

g) Revaluation and Impairment

Depreciation, amortization or depletion of goods purchased and put into operation until 12/31/2009, according to the constitutional provision of Decree No. 3,486/2010, are calculated and recorded only after carrying out the procedures for the revaluation or impairment adjustments of assets. A time cut was therefore performed.

From that point on, a schedule of revaluation/impairment adjustments of the assets previously recorded in properties before 01/01/2010 was established. On the other hand, the possibility of recognizing the loss of value of goods purchased and put into operation after that date was ensured, considering that these are assets measured at fair value from the transaction that led to its incorporation into the State Equity Account. The solution adopted by the State of Santa Catarina, therefore, sought to meet the accounting rules applicable to the matter, as well as mobilizing the structures involved in the task of properly assessing the properties of the state.

h) Depreciation, amortization and depletion

Depreciation/amortization/depletion of the assets acquired and put into operation until 12/31/2009 was performed in accordance with the useful life defined in the revaluation report, according to the schedule set out in the Joint Normative Instruction SEA/SEF No. 001/2011.

i) Demand Notices for Payment (Precatórios)

Demand Notices for Payment are judicial orders issued by the Judiciary determining the amount that the Public Treasury (Federal, State and Municipal) has been ordered to disburse, that is, the collection is the result of an action that recognized the particular individual or entity with the constitutional right of receiving a debt that the government owes to them. The payment is determined by the Court of Justice, according to the chronological order of requisition, except those from alimony payments (Constitutional Amendment - EC No. 62/2009.).

The segregation of the demand notices for payment by period before and after 05/05/2000 derives from the Federal Senate Resolution No. 40/2001, which in its Article 1, paragraph 1, item III, ruled that the judicial orders issued from that date and not paid during the execution of the budget in which they were included, are part of the consolidated public debt for purposes of compliance with borrowing limits.

Through the State Decree No. 3,061, of March 8, 2010, the State of Santa Catarina opted by special arrangements for payment of their judicial orders (payment period of up to 15 years), including the direct and indirect administration. The judicial orders pending payment and those that were to be issued during its term are included in this system.

For the settling of demand notices for payment that are overdue or for future payments, the amount of one twelfth (1/12) of the value corresponding to fifteen (15) years calculated on the total balance of the judicial orders owed and subsequently divided by the number of years remaining in special arrangements for payments shall be deposited monthly on the last business day of each month, in a specific bank account of the Court of Justice. From the funds deposited in a separate account for payment of court orders, amounts are used as follows:

I – Fifty percent (50%) to settle demand notices for payment in chronological order of presentation, subject to the preferences defined in paragraph 1 of Article 100 of the Federal Constitution, for the judicial orders of the same year, and in paragraph 2 of the same article, for judicial orders in general;

II – Fifty percent (50%) to settle demand notices for payment by means of an auction, in a unique and increasing value order by judicial orders and in direct agreement with lenders, as defined in a specific state law¹.

In March 2013, the Constitutional Amendment No. 62/2009 was declared partially unconstitutional by the Federal Supreme Court (STF) in the judgment of the Direct Actions of Unconstitutionality (ADIs) No. 4,357 and 4,425, with the consideration of the question of its effects still pending – as the Federal Supreme Court can modulate the effects of its decision over time.

As matter of caution, on April 11, 2013, the Supreme Court ruled that the Courts of Justice of all States and the Federal District gave continuity to the payment of judicial orders in the way they were already doing, until the High Court decides on the modulation of the decision rendered. Therefore, in the fiscal year 2013, the rules for settling demand notices for payment adopted with the publication of the Constitutional Amendment No. 62/2009 were maintained.

j) Calculation of Results

The budget and equity accounting results were determined in accordance with current accounting practices.

k) Net Revenue Available – RLD

The concept of RLD is dictated by the Budget Guidelines Law (LDO) and serves as the basis of calculation for setting the amounts to be transferred by the Executive Branch to the Legislative and Judiciary, the Public Prosecutor's Office, the Court of Auditors and the State University of the State of Santa Catarina (UDESC).

The RLD consists of the total Current Revenue of the State Treasury, deducted from earmarked resources deriving from rates, which by specific legislation, should be allocated to specific bodies or entities; of equity income; compensation and refunds from the State Treasury; Voluntary Transfers and Donations received; offsetting of social security contributions between the general social security and special social security systems of the public servants; Share of the Education Allowance; Share of CIDE; Share of Water Resources; and funds received from the Fund for the Maintenance and Development of Basic Education and Valorization of Education Professionals (FUNDEB).

l) Current Net Revenue – RCL

The concept of Current Net Revenue (RCL) was established by the Fiscal Responsibility Law, article 2, item IV, as the total current revenues deducted from the constitutional and legal transfers carried out to municipalities, transfers to FUNDEB, social contributions receipts of the state employees to the RPPS/SC and refunds of income. This concept was established to serve as a parameter for the calculation of contingency reserves and to determine the limits of the total personnel expenditures, public debt, guarantees and counter-guarantees and credit operations.

m) Net Tax Revenues and Constitutional Transfers - RLI

They are the concept of revenue that serves as the basis for verifying compliance with the thresholds prescribed by the Federal Constitution for the application of resources in the areas of Health and Education. The taxes collected by the State (ICMs, IPVA, ITCMD and IRRF) and the constitutional and legal transfers received from the Federal Government (FPE, Share of the IPI and Exports, exemption of ICMs and share of the IOF ouro) less transfers to municipalities and refunds to taxpayers.

From 2013, amounts collected by the FUNDOSOCIAL originating from tax revenue were also included, in compliance with the decision issued by the State Court of Auditors, in Judgment No. 892/2010.

¹ State Decree No. 3,061 dated 8 March 2010; State Decree No. 3,379 dated 14 July 2010; Decree No. 228 dated 13 May 2011; State Law No. 15,300 dated 13 September 2010 and Law No. 15,693 dated 21 December 2011.

3. CASH AND CASH EQUIVALENTS

| | R\$ Thousands |
|--|-------------------|
| SECURITIES | 12/31/2013 |
| Treasury Single Account | 240 |
| Banco do Brasil | 1,324,899 |
| (-) Financial Investments of the Treasury single account | (1,324,660) |
| RPPS Single Account | 5,524 |
| Transaction Account – Financial Plan | 41,796 |
| Transaction Account – Social Security Plan | 290,817 |
| Transaction Account – Administration Fees | 17,018 |
| (-) Financial Investments – Financial Fund | (36,273) |
| (-) Financial Investments – Social Security Fund | (290,817) |
| (-) Financial Investments – Administration Fees | (17,016) |
| Other accounts | 95,814 |
| Banco do Brasil – other accounts | 1,448,840 |
| Bradesco | 376 |
| Caixa Econômica Federal | 3,364,242 |
| Other Bank Accounts | 3,437 |
| (-) Financial Investments in other banks | (4,721,081) |
| Direct Collection | 28,320 |
| Financial Investments | 6,045,741 |
| CDB/RDB | 1,548,501 |
| Savings | 90,204 |
| Funds | 4,307,577 |
| Other investments | 99,459 |
| Withdrawal Limit | 1,324,899 |
| TOTAL | 7,500,538 |

Treasury Single Account

In compliance with the principle of the Treasury Unit, the State financial administration is carried out by using the Treasury Single Account Financial System. In order to optimize the management of financial resources by seeking better interest rates or yields, funds deposited into the Treasury Single Treasury are invested in the financial market, pursuant to Article 128, paragraph 6, of the State Supplementary Law No. 381/2007, which stipulates that the financial resources of agencies and entities of the State Public Administration may be invested in federal securities, financial institutions that have higher profitability and security, in compliance with valid clauses of existing contracts.

Thus, to operationalize the accounting records of financial investments of the Treasury single account, the following creditors' headings should be used: "(-) Financial Investments of the Treasury Single Account", the outstanding balance of financial investments being presented in the sub-group "Financial Investments".

RPPS Single Account

It comprises the sum of the values available in the RPPS single account. Similarly to the scheme of the Treasury single account, the creditor headings "(-) Financial Investments - Financial Fund", "(-) Financial Investments - Social Security Fund" and "(-) Financial Investments - Management Fee" demonstrate financial resources invested in the Special Social Welfare Policy - RPPS, however the account group that presents the outstanding balance of financial investments of the RPPS are segregated from the Cash and Cash Equivalents group, as described in the explanatory note 9.

Other accounts

They state the cash available in other bank accounts, which do not belong to the Single Bank Account Financial System by virtue of earmarking resources, according to legal provisions.

Indirect Collection

It represents the values of revenues collected by financial agents and not deposited into the banks accounts of various management units in the State.

Financial Investments

These investments comprise the amounts deposited into the single bank account and in into other bank accounts that are invested in the financial market pursuant to Article 128, paragraph 6, of the State Supplementary Law No. 381/07, cited above. Regarding funds received by transfers (agreements), they are invested according to the specific laws of the grantors.

The following shows the composition of investments by Authority and Agency.

R\$ Thousands

31/12/2013

| SECURITIES | CDB/RDB | Savings | Funds | Other Investments | TOTAL |
|----------------------------|------------------|---------------|------------------|-------------------|------------------|
| Executive | 1,243,229 | 89,070 | 884,447 | 2,046 | 2,218,793 |
| Legislative | - | - | 45,884 | - | 45,884 |
| Judiciary | 305,271 | 1,134 | 3,302,153 | - | 3,608,558 |
| State Audit Court | - | - | 127 | 97,413 | 97,540 |
| Public Prosecutor's Office | - | - | 74,967 | - | 74,967 |
| TOTAL | 1,548,501 | 90,204 | 4,307,577 | 99,459 | 6,045,741 |

Withdrawal Limits

The use of the withdrawal limit account in the management units of the Executive Branch is based on the systematic operationalization of the single bank account, which is registered centrally in the Management Unit 520099/1 - State Treasury Department, in the GL account 1.1.1.1.1.02.01.00.

Thus, all amounts deposited in collection accounts (general ledger account 1.1.1.1.1.03.01.01) of agencies and entities of the State are automatically transferred to the Treasury Single Account, writing off such amounts in the collecting account and the incorporation of a right in the agency, with a corresponding obligation in the Treasury by centralizing the collection. This right/obligation is called a withdrawal limit. In the active unit, the withdrawal limit is represented by the GL account 1.1.1.1.2.40.01.01 and in the Treasury's liabilities, through the account 2.1.8.9.2.40.01.00.

In addition, financial transfers from the Treasury for payments of expenses are also recorded in the withdrawal limit accounts, as well as payments made.

To better understand the systematics of withdrawal limit accounts, the accounting scheme for the collection of values in management units and centralization on one Treasury single account is presented below:

At the Collecting Agency:

D – 1.1.1.1.1.03.01.01

C – Revenue account, liability account or appropriate account

Through the transfer of funds into the Single Bank Account

At the collecting agency:

D – 3.5.1.2.2.05.00.00

C – 1.1.1.1.1.03.01.01

D – 1.1.1.1.2.40.01.01

C – 4.5.1.2.2.05.00.00

At the central body – Treasury:

D – 1.1.1.1.1.02.01.00

C – 4.5.1.2.2.05.00.00

D – 3.5.1.2.2.05.00.00

C – 2.1.8.9.2.40.01.00

As a result of the accounting treatment of centralized collection through the Treasury single account, it should be noted that, for purposes of analysis of financial statements and general consolidation of accounts the value of the withdrawal limit must be disregarded, both for assets and liabilities, since they do not constitute effective availability/financial obligations.

4. CLIENTS

| | R\$ Thousands |
|--|-------------------|
| MANAGEMENT UNIT | 12/31/2013 |
| Integrated Agricultural Development Company of Santa Catarina - CIDASC | 2,598 |
| Agricultural Research and Rural Extension Company - EPAGRI | 1,834 |
| State Fund for Rural Development | 593 |
| Materials, Publishing and Official Printed Forms Fund | 62,623 |
| Florianopolis Prison Rotating Fund | 17 |
| Chapeco Prison Rotating Fund | 47 |
| Loss Adjustment for Doubtful Debts | (888) |
| TOTAL | 66,824 |

5. TAX CREDITS RECEIVABLE

R\$ Thousands

| | 12/31/2013 | | |
|---|-------------------|--------------------|------------------|
| SECURITIES | Current | Non-Current | TOTAL |
| Taxes | 794,150 | - | 794,150 |
| Tax Credit Installments | 512,110 | - | 512,110 |
| PRODEC Tax Credits | - | 1,427,668 | 1,427,668 |
| Social Security Credits in Installments | 27 | - | 27 |
| TOTAL | 1,306,286 | 1,427,668 | 2,733,955 |

Taxes

In compliance with the accrual basis at year-end 2012, loans receivable were incorporated into the ICMs, IPVA and ITCMD taxes, a result from the work of the Technical Group constituted by the SEF Ordinance No. 081 /2012, which aggregates the Management Financial Accounting public servants - GEFOF/DCOG, Management Administration, Finance and Accounting - GEAFD/DIAF and the Department of Tax Administration - DIAT.

With this in view, following the guidelines of the Public Sector Accounting Handbook², the Company recognized tax notifications issued, installments, as well as the ICMs estimated values declared in Current Assets in the Management Unit of the State Treasury Board. During the year 2013, amounts recognized initially were updated according to the monthly estimates of the receipt of taxes.

Credits in Installments

Records of the tax credits in installments by the State Department of Taxation and Finance accounted for in the Management Unit of the State Treasury, the values arising from contracts for the Development Program of the Santa Catarina Company (PRODEC) in the Support Fund for the Business Development of Santa Catarina (FADESC) and the amount receivable from 2013, by the Financial Fund of the Social Security Institute of the State of Santa Catarina (IPREV) regarding the Installment Agreement and Social Security Debt Confession Agreement between the IPREV, the Public Prosecutor's Office and the State Department of Taxation and Finance.

6. DÍVIDA ATIVA TRIBUTÁRIA

R\$ Thousands

| | 12/31/2013 | | |
|-------------------------------------|-------------------|--------------------|---------------|
| SECURITIES | Current | Non-Current | TOTAL |
| ICMS | 417,274 | 8,680,141 | 9,097,415 |
| IPVA | 2,934 | 132,800 | 135,734 |
| ITCMD | 2,193 | 28,339 | 30,532 |
| Other Credits | 2,179 | 98,521 | 100,700 |
| Loss Adjustment of Tax Active Debts | (424,166) | (8,862,241) | (9,286,407) |
| TOTAL | 414 | 77,559 | 77,973 |

² National Treasury Department – Ordinance No. 406 dated 20 June 2011. Available at <https://www.tesouro.fazenda.gov.br/pt/responsabilidade-fiscal/contabilidade-publica/manuais-de-contabilidade-publica>.

Collection of the active debt

| | R\$ Thousands |
|------------------------------------|-------------------|
| SECURITIES | 12/31/2013 |
| Stock of the Tax Active Debt | 9,364,381 |
| Recovery in the Fiscal Year | 30,867 |

Loss Adjustment of the Tax Active Debt

Provision for Losses of the Active Debt is calculated using the methodology of calculation provided for in Part III – Specific Accounting Procedures, of the 5th edition of the Public Sector Accounting Handbook (MCASP), according to the Ordinance STN No. 437/2012, which is based on the record of past receipts.

This methodology for calculating the provision was based on two main variables:

1. Average percentage of past receipts;
2. Updated account balance of credits listed in the Collectible Debts Register (active debt).

The mean percentage of past receipts uses a weighted average of the receipts with the amounts entered in the last three fiscal years.

This weighted average of receipts is calculated in each of the last three fiscal years, by dividing the monthly average of receipts in each year by the annual average of monthly balances.

From the weighted average of the receipts of the last three fiscal years, we calculate the average percentage of receipts by dividing the sum of these percentages by the number of months corresponding to the fiscal year.

7. LOANS AND FINANCING GRANTED

| | R\$ Thousands | | |
|---|-------------------|--------------------|----------------|
| | 12/31/2013 | | |
| SECURITIES | Current | Non-Current | TOTAL |
| Santa Catarina State Housing Company | 28,892 | 21,906 | 50,797 |
| Santa Catarina Low Cost Housing Fund | - | 22,951 | 22,951 |
| Water and Sewerage Fund | - | 66,843 | 66,843 |
| Santa Catarina Land Fund | - | 7,725 | 7,725 |
| State Fund for Rural Development | - | 78,985 | 78,985 |
| Support Fund for the Business Development of Santa Catarina | - | 14,493 | 14,493 |
| State Overhead Charges | - | 87,279 | 87,279 |
| Adjustment of Losses on Loans and Financing Granted | (16,162) | - | (16,162) |
| TOTAL | 12,730 | 300,182 | 312,912 |

8. OTHER CREDITS AND AMOUNTS

R\$ Thousands

| SECURITIES | 12/31/2013 | | |
|--|----------------|----------------|----------------|
| | Current | Non-Current | TOTAL |
| Advances Paid to Personnel | 3,106 | - | 3,106 |
| Supply of Funds/Daily Allowances | 18,890 | - | 18,890 |
| Advances of Voluntary Transfers (Agreements and Others) | 399,574 | - | 399,574 |
| Advances for Settling the Demand Notices for Payment under Special Arrangements | 12,770 | - | 12,770 |
| Taxes to recover/offset | 8,252 | - | 8,252 |
| Credits for Property Damages | 140,870 | - | 140,870 |
| Refundable deposits and earmarked amounts | 30,527 | 11,956 | 42,483 |
| Non-Taxable Active Debt | 26 | 11,464 | 11,490 |
| Principal | 885 | 143,376 | 144,261 |
| (-) Loss Adjustment | (859) | (131,913) | (132,772) |
| Credits Resulting from the Concession of Rights to Use and Exploit Resources – Net Value | 1,139 | 9,957 | 11,096 |
| Principal | 278,832 | 10,012 | 288,844 |
| (-) Loss Adjustment | (277,693) | (55) | (277,749) |
| Other Credits and Amounts Receivable | 71,307 | 85,198 | 156,505 |
| TOTAL | 686,461 | 118,574 | 805,035 |

Supply of Funds/Daily Allowances

After the implementation of the new PCASP in 2013, advance payments paid by the entity by way of supply of funds/daily allowance are recorded in assets, being retired with the due accountability of the amount.

Advances of Voluntary Transfers (Agreements and Others)

Advances made under voluntary transfers are now also recorded as assets until their proper accountability, with the implementation of the new PCASP in 2013. The breakdown of the transfers made that have not yet been accounted for is presented below:

R\$ Thousands

| SECURITIES | 12/31/2013 |
|---|----------------|
| Agreements | 262,631 |
| Social Benefits | 28,151 |
| Financial Support Contract – Individuals and Legal Entities | 52,901 |
| Management Contracts | 7,570 |
| Research Support Contract | 44,171 |
| Economic Benefits | 4,150 |
| TOTAL | 399,574 |

Advances for Settling Demand Notices for Payment (*Precatórios*) – Special Arrangements

It presents the values transferred to the State Court of Justice for settling demand notices for payment under special arrangements. These values can be written off upon the payment confirmation of these judicial orders by the State Court of Justice.

Taxes to Recover/Offset

It records the tax credits to offset, such as withholding tax, income tax, social contribution, PIS, COFINS, among others, in the following management units:

| R\$ Thousands | |
|--|-------------------|
| MANAGEMENT UNITS | 12/31/2013 |
| Integrated Agricultural Development Company of Santa Catarina - CIDASC | 3,484 |
| Agricultural Research and Rural Extension Company - EPAGRI | 4,767 |
| Materials, Publishing and Official Printed Forms Fund | 1 |
| TOTAL | 8,252 |

Credits for Property Damages

Records of the values of advanced funds whose deadline has expired for accountability and the amounts of potential damages to the treasury established in accountings were deemed irregular by the internal control unit, as defined in the Joint Normative Instruction DIAG/DCOG No. 001/2008.

| R\$ Thousands | |
|--|----------------|
| 12/31/2013 | |
| Credits for Property Damages | 140,870 |
| Credits resulting from an act of omission to render accounts | 84,788 |
| Credits resulting from irregularities/unlawful investment in prepayments | 17,579 |
| Credits arising from payments without budget support | 91 |
| Other receivables resulting from administrative claims | 1,249 |
| Established amounts in a special rendering of accounts | 37,162 |

Refundable Deposits and Earmarked Amounts

It records values resulting from judicial or appeal deposits and judicial sequestrations into the single bank account and other bank accounts, due to lawsuits and demand notices for payment.

| R\$ Thousands | | | |
|---|----------------|--------------------|---------------|
| 12/31/2013 | | | |
| SECURITIES | Current | Non-Current | TOTAL |
| Santa Catarina State Housing Company | 1,832 | 695 | 2,527 |
| Integrated Agricultural Development Company of Santa Catarina | 34 | 6,317 | 6,351 |
| Company of Agriculture Research and Rural Extension of Santa Catarina | - | 4,225 | 4,225 |
| State Treasury Department | 27,779 | - | 27,779 |
| Special Fund for Modernization and Re-equipment of the Public Prosecutor's Office | - | - | - |
| Other Management Units | 882 | 719 | 1,602 |
| TOTAL | 30,527 | 11,956 | 42,483 |

Credits Resulting from the Concession of Rights to Use and Exploit Resources

R\$ Thousands

| MANAGEMENT UNITS | 12/31/2013 (short- and long-term) | | |
|------------------------------------|-----------------------------------|------------------|---------------|
| | Main | Loss Adjustment | Net Value |
| State Department of Infrastructure | 288,359 | (277,749) | 10,610 |
| State Treasury Department | 476 | - | 476 |
| Santa Catarina Culture Foundation | 9 | - | 9 |
| TOTAL | 288,844 | (277,749) | 11,096 |

It records the rights to receive the concession of the areas of domain groups. The exploration of the use and marketing, for consideration, of the domain groups and areas adjacent to state and federal highways is provided for in State Law No. 13,516/05, regulated by State Decree No. 3,930/06.

The "Provision for Losses" is being recognized by the State Department of Infrastructure (DEINFRA) and it consists of notes overdue for more than 30 days, with the exception of rights against the Power Plants of Santa Catarina (CELESC) that have all of the amounts accrued due to litigations (Lawsuit No. 023.09.028623-8).

Below, the composition of the rights of the DEINFRA Management Unit in 2013 is demonstrated by debtor:

R\$ Thousands

| DEBTORS | 12/31/2013 | | | | | |
|---------------|----------------|----------------------|------------|---------------|----------------------|--------------|
| | Short-Term | | | Long-Term | | |
| | Rights | Provision for Losses | Sub-total | Rights | Provision for Losses | Sub-total |
| CASAN | 1,255 | (1,255) | - | 42 | (42) | - |
| CELESC | 276,004 | (276,004) | - | - | - | - |
| Claro S/A | - | - | - | 83 | - | 83 |
| Embratel | - | - | - | 4,940 | - | 4,940 |
| SC GAS | - | - | - | 3,247 | - | 3,247 |
| Vivo S/A | 466 | - | 466 | 411 | - | 411 |
| Other Debtors | 622 | (434) | 188 | 1,289 | (13) | 1,276 |
| TOTAL | 278,347 | (277,693) | 654 | 10,012 | (55) | 9,957 |

9. INVESTMENTS AND TEMPORARY FINANCIAL INVESTMENTS

These investments cover the values deposited into a single bank account of Public Servants - Special Social Welfare Policy – RPPS, which are invested in the financial market.

R\$ Thousands

| SECURITIES | 12/31/2013 |
|--|----------------|
| Fixed Income Investment Funds | 327,090 |
| Applications with the RPPS Administration Fees | 17,016 |
| Shares Eligible for Disposal | 631 |
| TOTAL | 344,737 |

10. INVENTORIES

R\$ Thousands

| | | | 12/31/2013 |
|-------------------|----------------|--------------------|-------------------|
| SECURITIES | Current | Non-Current | TOTAL |
| Goods for Resale | 1,527 | - | 1,527 |
| Raw-Materials | 2,229 | - | 2,229 |
| Warehouse | 240,771 | - | 240,771 |
| Other Stocks | 4,638 | - | 4,638 |
| Land Blocks | - | 15,608 | 15,608 |
| Works in Progress | - | 981 | 981 |
| TOTAL | 249,166 | 16,589 | 265,755 |

11. DIMINUTIVE VARIATIONS IN EQUITY - VPDS

They represent the amounts recorded in the form of prepaid expenditure that will be allocated in subsequent financial years by its triggering event, in accordance with the provisions of the principle of the competence. These are basically insurance records to mature, as well as subscriptions and annuities to settle.

R\$ Thousands

| | | | 12/31/2013 |
|-------------------|----------------|--------------------|-------------------|
| SECURITIES | Current | Non-Current | TOTAL |
| Current Asset | 3,678 | - | 3,678 |
| Non-Current Asset | - | 1,354 | 1,354 |
| TOTAL | 3,678 | 1,354 | 5,033 |

12. INVESTMENTS

R\$ Thousands

| SECURITIES | 12/31/2013 |
|------------------------------------|-------------------|
| Equity Investments – Equity Method | 3,181,132 |
| Equity Investments in Enterprises | 2,779,268 |
| Advance for Capital Increase | 401,864 |
| Participation – Cost Method | 9,266 |
| Other Permanent Investments | 2 |
| TOTAL | 3,190,399 |

Equity Investments

The State's investments include equity interests in both state-owned enterprises with surplus and dependent state-owned enterprises³, in addition to interests in other enterprises.

In the consolidated accounts, which include the balances of state-owned companies, the value of the interests in these companies should be set aside, to avoid duplication of balances. Thus, until the fiscal year 2012, the State used a reduction account to nullify the effect of the application of the equity method realized on investments in state-owned companies for the purpose of consolidation of financial statements. However, with the implementation of the new PCASP, these holdings were identified in the 5th level of the chart of accounts, identified by the intra "2" - code, representing a transaction between the same Fiscal Budget and Social Security units.

R\$ Thousands
12/31/2013

| Enterprises | Equity Interests | | Advance for Capital Increase | TOTAL |
|--|------------------|----------------|------------------------------------|------------------|
| | Equity Method | Cost Method | | |
| Water and Sanitation Company of Santa Catarina - CASAN | 772,246 | | 25,382 | 797,628 |
| SC Parcerias | 253,866 | | 373,482 | 627,348 |
| Power Plants of Santa Catarina - CELESC | 414,240 | | | 414,240 |
| Southern Region Development Bank - BRDE | 657,941 | | | 657,941 |
| State of Santa Catarina Development Company - CODESC | 415,438 | 8,896 | | 424,334 |
| Development Bank of Santa Catarina - BADESC | 232,385 | | | 232,385 |
| Center for Informatics and Automation of State of Santa Catarina - CIASC | 4,452 | | 3,000 | 7,452 |
| Agricultural Research and Rural Extension Company - EPAGRI | 6,172 | 65 | | 6,237 |
| Santa Catarina Supply Center - CEASA | 5,869 | | | 5,869 |
| Industrial District Company - CODISC | 2,172 | 6 | | 2,177 |
| Oi S.A. (mobile phone carrier) | | 148 | | 148 |
| Brazilian Telecommunications Company - EMBRATEL | | 71 | | 71 |
| Santa Catarina State Bank - BESC | | 32 | | 32 |
| Cia Hidromineral Piratuba - HIDROPIRATUBA | | 22 | | 22 |
| Telecommunications of Santa Catarina - TELESC | | 11 | | 11 |
| Telenorte Celular Participações S/A | | 9 | | 9 |
| Blumenautur Empreendimentos Turísticos S/A | | 6 | | 6 |
| Indústria Carboquímica Catarinense S/A | | 1 | | 1 |
| Integrated Agricultural Development Company of Santa Catarina - CIDASC | 4,376 | | | 4,376 |
| Monte Castelo Ind. Erva Mate Ltda. | 2 | | | 2 |
| Santa Catarina Turismo S/A - SANTUR | 117 | | | 117 |
| Santa Catarina State Housing Company - COHAB | 9,995 | | | 9,995 |
| TOTAL | 2,779,270 | 9,266 | 401,864 | 3,190,399 |

3 EPAGRI, SANTUR, COHAB and CIDASC.

Advance for Capital Increase

The Advance for capital increase of SC Participações e Parcerias S/A is registered in FADESC⁴ (R\$ 373 million). The capital increase of CASAN (R\$ 25 million) and CIASC (R\$ 3 million) are registered in the Management Unit, State Overheads.

13. FIXED ASSETS

R\$ Thousands

| 12/31/2013 | | | |
|---|------------------|--------------------------|------------------|
| SECURITIES | Corrected Cost | Accumulated Depreciation | Net Value |
| Movable Assets | 1,812,361 | (270,229) | 1,542,132 |
| Machinery, Devices, Equipment and Tools | 714,168 | (113,316) | 600,853 |
| Information Technology Equipment | 188,790 | (27,027) | 161,763 |
| Furniture and Fixtures | 335,023 | (31,959) | 303,064 |
| Cultural, Education and Communication Materials | 129,311 | (1,114) | 128,197 |
| Vehicles | 407,371 | (91,548) | 315,823 |
| Armaments | 27,965 | (1,686) | 26,279 |
| Other Movable Assets | 9,733 | (3,578) | 6,155 |
| Immovable Assets | 3,920,352 | (30,201) | 3,890,151 |
| Special Use Properties | 1,921,314 | (22,492) | 1,898,821 |
| Common Use Properties of the People | 164,293 | - | 164,293 |
| Immovable Assets Underway | 1,553,642 | - | 1,553,642 |
| Installations | 53,574 | (2,901) | 50,674 |
| Improvements to Third Party Properties | 5,063 | (1,650) | 3,413 |
| Other Immovable Assets | 222,466 | (3,158) | 219,309 |
| TOTAL | 5,732,714 | (300,430) | 5,432,284 |

The main criteria for equity valuation adopted by the State of Santa Catarina within the Executive Branch are the cost of acquisition, production or construction, including additional spending, in the case of recognition; and the value obtained from the evaluation based on technical procedure or the equity value defined in terms of the donation in the case of fixed or intangible assets obtained free of charge.

The evolution in consolidated accounts of movable and immovable assets of the State is presented in the following table:

R\$ Thousands

| Account | Balance | | | |
|------------------|------------|------------|------------|------------|
| | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 |
| Movable Assets | 1,414,362 | 1,659,946 | 1,577,734 | 1,812,361 |
| Immovable Assets | 1,832,387 | 2,605,705 | 3,275,688 | 3,920,352 |

⁴ State Decree No. 704/2007, Article 14, Paragraph 2. See also Explanatory Notes 20 and 21.

Basis for the initial assessment, reassessment and assessors

The basis for the initial assessment (initial revaluation) of movable assets of the Executive Branch were established by the Joint Normative Instruction SEA/SEF No. 001/2011 and its annexes, which required that until the 2013 Fiscal Year-End Closing, the following properties should be measured:

| Groups | Security | Maximum Period |
|--------|---|----------------|
| 5 | Furniture in general | 2013 |
| 6 | Movable assets not specified in the items | 2013 |

Source: IN Conjunta SEA/SEF No. 001/2011 (Annex I)

The progress of the work revaluation is summarized in the following table:

| Revaluation Position | Deadline for Revaluation of Assets | | | | | |
|---------------------------|------------------------------------|----------------|-----------------|----------------|-----------------|----------------|
| | 2011 | | 2012 | | 2013 | |
| | Number of units | % | Number of units | % | Number of units | % |
| Initiated/completed | 49 | 60.49% | 39 | 48.15% | 42 | 51.85% |
| Not initiated | 26 | 32.10% | 26 | 32.10% | 26 | 32.10% |
| Unit does not have assets | 6 | 7.41% | 16 | 19.75% | 13 | 16.05% |
| TOTAL | 81 | 100.00% | 81 | 100.00% | 81 | 100.00% |

Source: Management of Movable Assets/State Department of Administration

The basis for the initial assessment, augmentative or diminutive revaluation of properties of the Executive Branch are contained in the technical reports issued by commissions appointed by the Asset Management Board, the State Department of Administration (DGPA/SEA), in accordance with Article 4 of Decree No. 3,486/2010.

In the year 2013, 658 properties of a total of 724 previously mapped had to undergo measurement procedures during which period they were revaluated, with 500 initially planned for that year and 158 relating to assets that could not be revaluated in year 2012. The corresponding accounting entry should occur exceptionally in 2014, considering issues related to the consistency of reports submitted by DGPA SEA to the accounting department for recording.

For Indirect Administration the Normative Instruction No. 003, dated April 24, 2013, was issued, regulating revaluation procedures applicable to independent agencies and foundations.

Depreciation

R\$ Thousands

| Movable Assets – Accumulated Depreciation | | | |
|---|------------|------------|------------|
| Type of Consolidation | 12/31/2011 | 12/31/2012 | 12/31/2013 |
| Direct Administration | 15,003 | 73,003 | 135,559 |
| Independent Agencies | 5,050 | 9,856 | 15,642 |
| Foundations | 6,076 | 11,257 | 21,204 |
| Special Funds | 2,534 | 5,183 | 9,935 |
| Dependent Companies | 77,888 | 78,592 | 87,889 |
| Consolidated Results | 106,551 | 177,891 | 270,229 |

From October 2013, the State suspended the monthly calculation of depreciation for assets whose value was less than or equal to R\$ 10.00. Considering the materiality of this value and the cost associated with the processing of this data (calculations extended for three days, according to the State's data processing company before the adoption of this cutoff value, shifting to 3 hours after its adoption), the Executive Branch considers that it meets the provisions of item QC 35 (cost/benefit balance) of the Resolution CFC No. 1,374, dated December 8, 2011.

The criteria for calculating the depreciation of movable assets are presented in the table below:

| Depreciated Item | Parameter |
|---|--|
| Movable assets acquired and put into operation until 12/31/2009 | » Revalued according to the schedule established in the Joint Normative Instruction SEA/SEF No. 001 /2011. |
| Useful lives established in the revaluation report. | » Straight-line method. » Useful life defined by the State Department of Administration, based on the Normative Instruction SRF 162/1998. |

The policy for depreciation of immovable assets of agencies and entities of the Executive Branch (except for companies that must comply with specific legislation) is in accordance with the Brazilian accounting standards applied to the public sector.

R\$ Thousands

| Type of Consolidation | Immovable Assets – Accumulated Depreciation | | |
|-----------------------|---|------------|------------|
| | 12/31/2011 | 12/31/2012 | 12/31/2013 |
| Direct Administration | 2,261 | 22 | 297 |
| Independent Agencies | 26 | 49 | 71 |
| Special Funds | | 1,190 | 1,190 |
| Foundations | | | 47 |
| Dependent Companies | 26,319 | 26,945 | 28,595 |
| Court of Justice | | | 274 |
| Consolidated Results | 28,606 | 28,207 | 30,201 |

Infrastructure Assets

The criteria and procedures for the recognition, measurement and disclosure of infrastructure assets administered by the State Executive Branch were fixed by a Working Group, consisting of civil servants of the State Department of Taxation and Finance of Infrastructure, designated by the Ordinance SEF No. 244 of 21 October 2013 (published in the Official Gazette (DOE) No. 19,688 of 23 October 2013). The criteria were established according to the provisions in the Brazilian Accounting Technical Standards Applied to the Public Sector 16.9 and 16.10, approved by the Resolution CFC. No. 1,136 and 1,137 of 21 November 2008, amended by Resolution CFC No. 1,437 of 22 March 2013 and Ordinance STN/MF No. 437 of 12 July 2012, as amended by Ordinance No. STN No. 753 of 21 December 2012.

In 2013 the infrastructure assets were recognized (new construction and significant restorations works) both completed in 2012 and in 2013. Three types of infrastructure works were recorded in the accounts bridges, dams, highways and roads, according to the following details:

R\$

| Registry Accounts | Balance at 12/31/2012 | Incorporations in 2013 | Balance at 12/31/2013 |
|---|----------------------------------|-----------------------------------|----------------------------------|
| 1.2.3.2.1.03.01.00 – Highways and roads | 120,953,095.63 | 33,626,592.83 | 154,579,688.46 |
| 1.2.3.2.1.03.03.00 – Bridges | 38,387.59 | 9,203,309.81 | 9,241,697.40 |
| 1.2.3.2.1.03.05.00 – Dams | 0.00 | 471,969.98 | 471,969.98 |
| TOTAL | 120,991,483.22 | 43,301,872.62 | 164,293,355.84 |

Source: DEINFRA accounting

Accounting

The General Accounting Board, from the State Department of Taxation and Finance, chose to follow the standard established by the National Treasury, under the Ministry of Finance, to actually post the initial assessment of goods which are already part of the equity (or initial revaluation) to the account of adjustments of prior years. The effect on income from depreciation on this initial assessment and subsequent write-off of these assets was zero, as a result of this option. From the initial assessment procedures, new estimates are recorded in the accounts of augmentative variations in equity (VPA) or diminutive variations in equity (VPD), following the guidance of the Public Sector Accounting Handbook.

In 2013, revaluations reduced the net income for the year at R\$ 4.146 million, according to details presented below:

| Account | Value |
|--|----------------|
| VPD 3.6.1.2.1.01 Impairment adjustment of Movable Assets | (6,434) |
| VPA 4.6.1.1.1.01 Revaluation of Movable Assets | 2,288 |
| TOTAL | (4,146) |

R\$ Thousands

Public Enterprises

The State's public⁵ enterprises are subject to the rules set forth by Federal Law N. 6,404 of 15 December 1976, and thus prevented from performing the revaluation of its fixed assets.

Other Authorities and the Public Prosecutor's Office

The Court of Justice (The Judiciary), the Legislature, the State Court of Audit (Legislative Branch) and the Public Prosecutor's Office must comply with Brazilian accounting standards applied to the public sector, as well as other rules relating to the procedures discussed throughout this explanatory note. However, these entities are not subject to the provisions of the Decree No. 3,486/2010 and the Joint Normative Instruction SEA/SEF No. 001/2011, given their constitutional autonomy.

In this sense, it is observed that the Court of Justice recorded the depreciation of assets for the year 2010 in the amount of R\$ 346,253.40 (document 2012NL007620), to the Adjustment of Previous Years account. This procedure is adhered to that adopted by the State Executive Branch and the Federal Government. There were no records relating to the subject matter in other entities.

⁵ Agricultural Research and Rural Extension Company (EPAGRI), Integrated Agricultural Development Company of Santa Catarina (CIDASC), Santa Catarina Turismo (SANTUR) and Santa Catarina State Housing Company (COHAB).

14. INTANGIBLE

R\$ Thousands

| | 31/12/2013 | | |
|---|-------------------|---------------------------------|--------------------|
| SECURITIES | Cost | Accumulated Amortization | Net Balance |
| Software | 60,822 | (5,869) | 54,953 |
| Software in Development | 51,710 | - | 51,710 |
| Trademarks, Rights and Industrial Patents | 248 | (24) | 225 |
| TOTAL | 112,780 | (5,892) | 106,887 |

The State's Intangible assets comprise, especially - but not exclusively - software purchased from specialized companies to meet specific requirements of this unit of the Federation. The following tables present a list of the main assets classified in the software and software in development accounts, in some units of the Executive Branch (only material values are presented).

Software registered in some management units

R\$

| Unit | Description | Value |
|----------------|---|--------------|
| EPAGRI | Microsoft Office Home & Business 2013 | 122,210.00 |
| | SIG@LIVRE System | 164,643.75 |
| | Office 2010 (license) | 161,633.88 |
| | Software Office STD 2010 SNGL MVL SEL D | 218,649.60 |
| | Software Office STD 2007 SNGL MVL | 410,211.84 |
| UDESC | VOLARE – Elaboração de Projetos e Acompanhamento de Obras | 26,972.00 |
| DEINFRA | ACT - Traffic Accident System | 1,732,388.85 |
| | CCO – Audit and Consultancy Contract Systems | 1,220,287.75 |
| | SCO – Cost and Road Budget System | 1,340,817.40 |
| | SGF – Financial Management System | 3,299,274.30 |
| | SICOP - Public Works Control Integrated System | 3,766,401.65 |
| | SQM – Quantitative Measurement System | 1,958,456.90 |
| | SPJ - Management System for Legal Proceedings* | 1,440,774.55 |
| SEF | SAT – Tax Management System | 9,272,523.96 |
| FEF | Oracle License | 6,910,205.32 |
| PGE | PGE-Net – Electronic Process | 3,837,931.03 |

Source: Accounting Unit of each Management Unit

* It will be recorded in the accounts in January/2014.

Software in development registered in some management units

| Unit | Description | Value |
|--------|---|---------------|
| EPAGRI | CREDIAGRI – Agricultural Credit System | 107,628.05 |
| | MULTIAGRI – Computerized Organizational Management Module | 166,490.63 |
| | SAFI – Financial Management System | 184,470.00 |
| | SEPLAN – Planning System | 45,489.00 |
| UDESC | SIGA – Academic Management System | 871,355.05 |
| | SAPI – Institutional Production Evaluation System | 14,800.00 |
| FEF | SIGEF – Integrated Planning and Fiscal Management System | 12,703,888.22 |
| FEF | SAT – Tax Management System | 1,746,540.31 |
| FAPESC | FAPESC Platform | 1,680,598.05 |
| SEA | SIGRH – Integrated Human Resource Management System | 12,892,823.47 |
| | SGPE – Electronic Protocol Management System | 12,515,888.49 |
| | DOESC – Electronic Official Gazette | 1,984,500.00 |

Source: Accounting unit of each Management Unit

These assets were measured at production cost, represented by the value of the development contract and its additions, or by the estimated replacement cost (PGE-Net and Software of DEINFRA), and that are not subject to amortization, since it was not possible to estimate their useful life, observing the provisions of the Brazilian Accounting Standards Applied to the Public Sector, and in Technical Note No. 001/2011, item 35.

The evolution of the balance of the software and software in development accounts, from 2010 to 2013 is presented in the following table:

Evolution of the Software and Software in Development Accounts

R\$

| | Software | Software in Development | TOTAL |
|------------------------------|-----------------------|-------------------------|-----------------------|
| Balance at 1/1/2010 | - | - | - |
| Additions | 10,193,385.98 | 8,694,889.11 | 18,888,275.09 |
| Write-offs | - | 389,587.56 | 389,587.56 |
| Balance at 12/31/2010 | 10,193,385.98 | 8,305,301.55 | 18,498,687.53 |
| Additions | 8,382.60 | 24,385,364.59 | 24,393,747.19 |
| Write-offs | - | 274,875.86 | 274,875.86 |
| Balance at 12/31/2011 | 10,201,768.58 | 32,415,790.28 | 42,617,558.86 |
| Additions | 31,363,243.37 | 12,919,190.00 | 44,282,433.37 |
| Write-offs | 20,150.00 | 2,704,583.35 | 2,724,733.35 |
| Balance at 12/31/2012 | 50,784,356.81* | 42,630,396.93 | 93,414,753.74* |
| Additions | 17,617,690.54 | 10,181,652.37 | 27,799,342.91 |
| Write-offs | 7,580,167.64 | 1,102,499.29 | 8,682,666.93 |
| Balance at 12/31/2013 | 60,821,879.71 | 51,709,550.01 | 112,531,429.72 |

Source: Integrated Planning and Fiscal Management System – SIGEF

* The balance at 31/12/2012 corresponds to an adjustment resulting from the transfer of values of account 1.4.2.3.3.00.00.00 – Software, at the time classified in fixed assets..

By analyzing the evolution of the balances of the year 2010 until year 2013, it can be seen that there was an increase in the order of 508% in the total of the balance of Software & Software in Development accounts, which demonstrates the effort of the State's administrative units to recognize, measure and demonstrate its financial developments in respect of these intangible assets.

Reevaluation

Intangible assets are subject to the procedures for initial assessment, reassessment or impairment. To date, procedures for the recognition of software were performed, for both of them, and those that were in operation and underwent an evaluation.

15. LABOR, SOCIAL SECURITY AND WELFARE OBLIGATIONS PAYABLE

R\$ Thousands

| SECURITIES | 12/31/2013 | | |
|---|----------------|----------------|----------------|
| | Current | Non-Current | TOTAL |
| Personnel Expenses | 64,865 | 210,163 | 275,027 |
| Paid Vacation | 16,309 | - | 16,309 |
| Christmas Bonus | - | - | - |
| Bonus Leave | 624 | - | 624 |
| Personnel Costs from Previous Years | 27,911 | - | 27,911 |
| Demand Notices for Payment of Personnel - Before 05/05/2000 | 242 | 2,443 | 2,686 |
| Demand Notices for Payment of Personnel - After 05/05/2000 | 19,586 | 207,719 | 227,306 |
| Other Personnel Obligations Payable | 192 | - | 192 |
| Social Security Benefits Payable | 2,698 | 193,445 | 196,142 |
| Demand Notices for Payment of Social Security Benefits – as of 05/05/2000 | 2,698 | 193,445 | 196,142 |
| Social Security Contributions Payable | 76,816 | 434,245 | 511,061 |
| Private Pension Funds Entities | 7,962 | - | 7,962 |
| Contribution to Special Social Welfare Policy | 12,809 | 48,191 | 61,001 |
| INSS (Social Security) Payable | 55,789 | 386,054 | 441,843 |
| PIS/PASEP (Social Integration Program) on Payroll | 255 | - | 255 |
| TOTAL | 144,379 | 837,853 | 982,231 |

16. LOANS AND FINANCING

R\$ Thousands

| SECURITIES | 12/31/2013 | | |
|--------------|----------------|-------------------|-------------------|
| | Current | Non-Current | TOTAL |
| Internal | 468,451 | 10,383,303 | 10,851,754 |
| External | 101,814 | 2,277,379 | 2,379,193 |
| TOTAL | 570,265 | 12,660,682 | 13,230,947 |

Internal

| | R\$ Thousands |
|---|-------------------|
| AUTHORIZATIONS (CREDITORS INSTITUTIONS, LAWS, NUMBER AND DATE) | 2013 |
| CAIXA ECONÔMICA FEDERAL – CEF | 10,952 |
| Contract dated 03/31/98 – Law No. 10,637 of 12/23/97 | 10,952 |
| BANCO DO BRASIL S/A | 8,687,281 |
| Contract dated 10/31/95 - IPESC – Law No. 8,727 of 11/05/93 | 2,036 |
| Contract dated 11/10/98 - COHAB – Law No. 8,727 11/05/93 | 35,669 |
| Contract dated 02/21/94 - GOVERNMENT - Law No. 8,727 of 11/05/93 | 15,800 |
| Contract dated 03/31/98 - 012/98/STN/COAFI - Law No. 9,496 of 09/11/97 | 8,564,795 |
| Contract dated 01/21/98 - DMLP - Law No. 10,542 of 09/30/97 | 37,520 |
| Contract dated 10/22/09 - PFE-I - Law No.14,500 of 08/13/08 | 31,462 |
| NATIONAL BANK FOR ECONOMIC AND SOCIAL DEVELOPMENT - BNDES | 2,153,308 |
| Contract dated 09/11/09 - PMAE - Law No.14,500 of 08/13/08 | 6,108 |
| Contract dated 10/22/09 - PEF II - Law No.14,500 of 08/13/08 | 62,206 |
| Contract dated 08/13/10 - CASAN/PAC - Law No.15,255 of 08/05/10 and Law No.14,436 of 05/21/08 | 87,279 |
| Contract dated 12/15/2011 - Joinville Transport System – Law No.14,031 of 06/22/07 | 16,520 |
| Contract dated 11/21/2012 - Pathways of Development Program - Law No.15,830 of 05/30/12 | 206,647 |
| Contract dated 04/04/2013 - Santa Catarina Acceleration Program - Law No.15,903 of 12/20/2012 | 1,555,747 |
| Contract dated 07/18/2013 – Natural Disaster Prevention - Law No.15,941 of 12/21/2012 | 218,800 |
| SUPPLIERS | 213 |
| Equipment Supply and Service Agreement No. 044/2012 | 213 |
| TOTAL | 10,851,754 |

Source: Fundraising and Public Debt Department - SEF

External

| | R\$ Thousands |
|--|------------------|
| AUTHORIZATIONS (CREDITORS INSTITUTIONS, LAWS, NUMBER AND DATE) | 2013 |
| INTER-AMERICAN DEVELOPMENT BANK - BID 1390/0C/BR-ROF: TA154202 | |
| Contract signed on 05/09/2002 - Law No.11,830 of 10 July 2002 | 224,158 |
| INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT – BIRD 4660 BR - ROF: 232598 | |
| Contract signed on 05/10/2002 - Law No.12,007 of 09 November 2001 | 51,490 |
| INTER-AMERICAN DEVELOPMENT BANK - BID 2171/0C/BR | |
| Contract signed on 04/09/2010 – Law No.14,532 of 06 November 2008 | 114,468 |
| INTER-AMERICAN DEVELOPMENT BANK - BID 2172/0C/BR | |
| Contract signed on 09/01/2010 – Law No.14,529 of 28 October 2008 | 34,128 |
| Andean Development Corporation – CAF | |
| Contract signed on 09/01/2010 – Law No.14,529, of 28 October 2008 | 76,271 |
| INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT – BIRD 7952-BR-RURAL | |
| Contract signed on 09/30/2010- Law No.14,962 of 03 December 2009 | 61,511 |
| BANK OF AMERICA - BAML TA 634758 | |
| Contract signed on 12/27/12- Law No. 15,881 of 10 August 2012 | 1,701,762 |
| INTER-AMERICAN DEVELOPMENT BANK - BID 2900 | |
| Contract signed on 01/09/13- Law No. 14,532 of 06 November 2008 | 115,405 |
| TOTAL | 2,379,193 |

Source: Fundraising and Public Debt Department - SEF

The total amount to bring in from internal operations is R\$ 4.79 billion. From this total 41% represent resources to disburse, contracted with BNDES. The difference (59%) refers to the values of financial agreements contracted in July and November/2013 with Banco do Brasil. With regards to the total amount to bring in from external operations, it is R\$ 279.910 million divided into IDB, BIRD and CAF.

It should be highlighted the signing of contracts with BID ("BID VI - Highways"), on 01/09/2013, in the amount of R\$ 250 million and with BNDES ("Santa Catarina Acceleration Program") on 04/04/2013 amounting to R\$ 3 billion, as well as for the two contracts with Banco do Brasil, signed on 07/18/2013 ("Strategic Pathways for Production and Prevention of Natural Disasters") and 11/27/2013 ("Santa Catarina Pact") in the amount of R\$ 1 billion and R\$ 2 billion, respectively.

The contract signed with the Inter-American Development Bank (BID), titled Santa Catarina Road Program - Stage VI, is the largest ever to be held between the State and the institution to finance expansions and improvements to the highway infrastructure of the State. The funds will be invested in the implementation, paving and rehabilitation of state highways.

Since 1980, six partial financing contracts for the implementation of investment programs in road infrastructure have been concluded between the State and BID, briefly called BID I, BID II, BID III, BID IV, BID V and now BID VI.

From the total resources of the Santa Catarina Acceleration BNDES Program, a significant volume (R\$ 1.179 million) was used for the full payment of the loan previously granted to the State by BNDES, called BNDES/CELESC (R\$ 979 million) and to increase the capital in BRDE (R\$ 200 million). The remaining funds (R\$ 1.820 million) will be allocated to projects in the social, economic and environmental infrastructure areas. The program includes the recovery of the Hercílio Luz Bridge, and investments in the paving and restoration of highways. It also includes the construction of polyclinics, improvements in various hospitals and expansion and restoration of schools in the State network. In the areas of public safety and social welfare, funding will include the following: construction of a complex of public safety, acquisition of equipment for police and firefighters, construction of social and educational care centers, construction of social assistance centers, deployment of a public facilities network to support the production and the supply and consumption of food.

The operation with Banco do Brasil, amounting to R\$ 1.056 million, covers investments in the execution of deployment, adaptation and expansion works of state highways and works to increase the operating capacity of the São Francisco do Sul Port. Furthermore, it also includes investments in projects for the prevention of natural disasters in the Itajaí River Basin (studies, licensing, expropriation costs and acquisition of equipment), and infrastructure projects in the areas of Health, Education, Social Welfare, Justice and Citizenship and Public Safety.

The second financing agreement signed with Banco do Brasil (R\$ 2 billion) aims to ensure the continuity of the Santa Catarina actions with investment forecasted for improving the road network, construction of new units in the prison system, investments in public safety, building of dams to contain floods, expansion of hospital facilities and investments in the area of tourism of events.

Further details on the contracts listed are found in the Fundraising and Public Debt Department - DICD 2013 Report, an integral part of Volume II of this Balance Sheet.

17. SUPPLIERS AND ACCOUNTS PAYABLE

R\$ Thousands

| 12/31/2013 | | | |
|--|----------------|------------------|------------------|
| SECURITIES | Current | Non-Current | TOTAL |
| Suppliers and Accounts Payable for the Fiscal Year | 77,166 | - | 77,166 |
| Suppliers and Accounts Payable for the Previous Years | - | 42 | 42 |
| Demand Notices for Payment of Suppliers and Accounts Payable – Before 05/05/2000 | 1,856 | 18,505 | 20,361 |
| Demand Notices for Payment of Suppliers and Accounts Payable – as of 05/05/2000 | 128,084 | 1,289,160 | 1,417,244 |
| TOTAL | 207,106 | 1,307,708 | 1,514,814 |

18. TAX LIABILITIES

R\$ Thousands

| 12/31/2013 | | | |
|-----------------------|---------------|----------------|----------------|
| SECURITIES | Current | Non-Current | TOTAL |
| Renegotiated Taxes | 9,664 | 241,185 | 250,849 |
| Other Tax Liabilities | 826 | 15 | 841 |
| TOTAL | 10,490 | 241,200 | 251,690 |

19. PROVISIONS

R\$ Thousands

| 12/31/2013 | | | |
|---|----------------|----------------|----------------|
| SECURITIES | Current | Non-Current | TOTAL |
| Provision for Labor Contingencies | 12,219 | 8,991 | 21,211 |
| Provision for Civil Contingencies | 3,319 | 1,499 | 4,818 |
| Provision for Tax Contingencies | - | 34,456 | 34,456 |
| Provision for Allocation of Credits | 543,003 | - | 543,003 |
| Mathematical/Social Security Provisions | - | 333,875 | 333,875 |
| Other Provisions | 52,533 | - | 52,533 |
| TOTAL | 611,074 | 378,821 | 989,896 |

Provision for Allocation of Credits

It refers to the estimated amount of legal and constitutional revenues recognized on an accrual basis in assets, as described in explanatory note No. 5.

R\$

| Taxes | Transfers to FUNDEB | Transfers to Municipalities |
|-------------------|----------------------------|------------------------------------|
| ICMS | 171,923,437.11 | 286,539,061.86 |
| IPVA | 12,678,713.41 | 63,393,567.06 |
| ITCMD | 8,468,353.01 | - |
| TOTAL 2013 | 193,070,503.53 | 349,932,628.92 |

Mathematical/Social Security Provisions

R\$ Thousands

| 12/31/2013 | | | |
|---|-----------------------|---------------------|----------------|
| SECURITIES | Financial Plan | Pension Plan | TOTAL |
| Provisions for Benefits Granted: | | | |
| Retirement/Pensions/Other Benefits | 81,695,023 | 632 | 81,695,655 |
| Contributions of Inactive Employees | (2,392,922) | - | (2,392,922) |
| Contribution of Pensioners | (744,730) | (0) | (744,730) |
| Cover for Financial Insufficiency | (78,502,100) | - | (78,502,100) |
| | 55,271 | 632 | 55,903 |
| Provisions for Benefits to be Granted: | | | |
| Retirement/Pensions/Other Benefits | 111,660,655 | 5,984,993 | 117,645,648 |
| Contributions of the Entity | (7,252,571) | (2,870,595) | (10,123,167) |
| Contributions of Assets | (8,028,437) | (3,292,932) | (11,321,369) |
| Social Security Payment Offset | (2,191,145) | (27,550) | (2,218,695) |
| Cover for Financial Insufficiency | (94,188,501) | - | (94,188,501) |
| Actuarial Provisions for Adjustment of the Plan | - | 484,056 | 484,056 |
| | 0 | 277,972 | 277,972 |
| TOTAL | 55,271 | 278,604 | 333,875 |

The actuarial valuation for fiscal year 2013 was carried out by the Actuarial – Assessoria e Consultoria Atuarial Ltda. Company, which carried out monthly updates of the balance of the mathematical provisions.

Regarding the criteria, hypotheses and actuarial assumptions adopted in this review, the following points are highlighted:

- the social security payment offset received by the RPPS referring to current beneficiaries was not considered for purposes of calculation;
- the rate of actuarial interest applied in the calculations of 6% per annum meets the ceiling imposed by the Ordinance of the Ministry of Social Security (MPS) No. 403 of 12/10/2009;
- the growth rate of remuneration of assets determined by the statistical analysis in relation to age of the public servants showed an average real growth of 2.42% per year;

- d) the real growth rate of earnings and retirement pension of 1.42% per year was adopted for this evaluation;
- e) the non-application of a turnover for the group of active public servants linked to the RPPS is justified by the non-adoption of the criterion of social security offset in favor of the RGPS (INSS), a fact that would serve to negate the effects of the application of this hypothesis;
- f) the effects of inflation were not considered for purposes of calculating future revenues and expenses;
- g) for the purposes of recomposition of wages and benefits, the hypothesis of full replacement of future inflation rates was used, which represents the permanent purchasing power of the public servants' salaries (capacity factor = 1);
- h) the hypothesis of full replacement of the mass of active public servants (1:1) was used.

In the 2013 actuarial valuation, the cover for financial insufficiency was R\$ 172.691 million (R\$ 133.519 million in 2012).

20. OTHER LIABILITIES

R\$ Thousands

| 12/31/2013 | | | |
|-------------------------------|------------------|--------------------|------------------|
| SECURITIES | Current | Non-Current | TOTAL |
| Advance Payments to Customers | 70,243 | 247,329 | 317,573 |
| Dividends Payable | 1,104 | - | 1,104 |
| Consignments | 7,643 | - | 7,643 |
| Guarantees | 7,868 | - | 7,868 |
| Judicial Deposits | 3,401,770 | - | 3,401,770 |
| Deposits | 241,743 | - | 241,743 |
| Withdrawal Limit | 1,324,899 | - | 1,324,899 |
| Other Liabilities | 139,286 | 273,836 | 413,121 |
| TOTAL | 5,194,557 | 521,165 | 5,715,722 |

Advance Payments from Customers

It registers mainly amounts paid in advance by the Banco do Brasil to the Government of the State of Santa Catarina for providing banking services for a period of 60 months recorded in the Management Unit of the State Treasury Department.

Deposits

Among the values reported in this section, the amounts received by FADESC regarding PRODEC⁶ stand out.

As provided for in the legislation⁷, values paid to FADESC may be used for investments of high interest for the State, especially as a corresponding entry of funds from the federal government or transferred to the SC Parcerias S.A.

By 2011, the amounts transferred to SC Parcerias S.A. were recorded in financial liabilities of FADESC until the posting of budget revenue, which occurs only at the end of the loan agreement⁸, which resulted in financial deficit of the funding source 9.9.99 - Extrabudgetary Source⁹.

⁶ State Law No. 13,342/2005 and amendments.

⁷ State Decree No. 704/2007, Article 14, Paragraph 2.

⁸ State Law No. 13,342/2005, Article 9, Paragraph 2.

⁹ Proviso number 05 - Source of funding with high financial deficits in the auditing of the 2011 government accounts

However, although the legislation requires the posting of budget revenues only at the end of the loan agreement, there was a suspended recognition of an income, both from a budget as well as an equity perspective.

The deferral of the recognition of revenues means that there was the triggering event of the income, and this in terms of budget means a collection (article 35, item I, of Law No. 4,320/64), and under the patrimonial theory this would be the occurrence of the taxable event but that, due to legal provision, its recognition was not carried out.

Therefore, a deferred income is recognized in 2013 (note 21) amounting to R\$ 375 million (R\$ 336 million).

21. DEFERRED RESULTS

This heading includes the deferral of the budget revenue of the values transferred by the FADESC to SC Parcerias¹⁰ (note 20). At the end of the loan agreement, the deferred revenue will be recorded as budget revenue, as set out in the legislation¹¹.

22. ADJUSTMENTS OF PRIOR YEARS

The Adjustments of Prior Years account was operated in 2013, substantially due to:

- » revaluation and impairment of property and assets, according to the procedures under State Decree No. 3,486, of 03 September 2010;
- » change in the accounting criteria, considering that it was adopted from 2013 onwards, the accrual basis accounting for revenues and expenses due to the convergence with the International Accounting Standards applicable to the Public Sector; and
- » adjustment of the balance of the public accounting to business accounting, performed by the Dependent State Enterprises.

According to international standards, the carrying value of an asset class due to revaluation should be credited directly to the revaluation reserve account. However, if the increase occurs during the reversal of revaluation decrease of the same asset previously recognized in the income statement, it should be recognized as income and not be carried to the revaluation reserve.

The General Accounting Department chose to follow the standard set by the National Treasury Department (STN), linked to the Ministry of Finance, promoting the posting of the initial revaluation to the adjustment account of prior accounting periods.

23. TAX RISKS AND CONTINGENT LIABILITIES

| SECURITIES | 12/31/2012 | 12/31/2013 |
|--|-------------------|-------------------|
| Securities Issued – Treasury Bills - Law 10,168 | 2,320,317 | 1,782,326 |
| Court Rulings being Processed | 5,347,174 | 6,192,152 |
| INVESC | 3,918,626 | 4,703,241 |
| DEINFRA | 1,417,935 | 1,437,988 |
| UDESC | 10,613 | 10,282 |
| EPAGRI | | 40,640 |
| Debt owed to CELESC | 32,903 | 32,903 |
| TOTAL | 7,700,395 | 8,007,381 |

¹⁰ State Decree No. 704/2007, Article 14, Paragraph 2.

¹¹ State Law No. 13,342/2005, Article 9, Paragraph 2.

LFTSC

The Treasury Bills of the State of Santa Catarina (LFTSC) were issued in 1996, under the protection of Law No. 10,168, of 11 July 1996, and held in custody for the Central for Custody and Financial Settlement of Private Securities. The LFTSCs were moved by the Public Debt Liquidity Fund of BESC and were taken from the custody by CETIP on June 2000. The LFTSCs were not paid on maturity, which is why there are legal disputes regarding 239,855 Treasury Bills.

INVESC

In 1995 the amount of R\$ 104.22 million was raised by Santa Catarina Participação e Investimentos S.A (INVESC) by the issue of 10,000 debentures. The funds were transferred to the State Treasury and invested in public investments. Such debentures, due on October 31, 2000, and not redeemed by INVESC, are being charged in court (Court Case No. 023.00.005707-2 - PLANNER Corretora de Valores S/A X INVESC).

CELESC

This refers to the debt that CELESC charges from the State, for the period of November 1985 to December 2007, according to Case PSEF 97521/043. In December 2010 part of the liability recorded for the recognition of debt according to the protocol of intentions ECP03/88 (PSEF 97521/043, 93345 PSEF/097, SEF 198457/098, SEF 64127/958, SEPF 64696/952, SEF 40207/2010 and PSEF 88046/095) was reclassified.

DEINFRA

Tax Contingencies of DEINFRA consist of civil lawsuits, outstanding debt, labor proceedings and common proceedings, and in the latter the lawsuit regarding the duplication of highways SC-401, SC-402 and SC-403 (R\$ 72.154 million) is integrated.

UDESC

These are lawsuits, virtually all civil, filed at the Court of Exchequer. In general, they are lawsuits regarding refund of overpayment of distance learning, and they are mostly paid through a RPV (Low Value Requisition).

EPAGRI

Fiscal contingencies of the Agricultural Research and Rural Extension Company (EPAGRI) refer to labor, civil and tax lawsuits, filed by accounting in December 2013.

Agricultural Research and Rural Extension Company

In Volume II of this Annual Reporting, is the report of the Fundraising and Public Debt Department of the State Department of Taxation and Finance, which details the tax risks and contingent liabilities.

24. CASH AND CASH EQUIVALENTS (DFC)

The availability of the Statement of Cash Flows consists of cash and cash equivalents. The cash balance is equal to the available resources in bank accounts. Cash equivalents are highly liquidity investments, and amounts collected and not paid to the State treasuries that are accounted for as indirect tax collection.

In preparing the Cash and Cash Equivalents of fiscal year 2013, intending to focus on the Public Sector Accounting Handbook (MCASP), the total of the source 9.9.99 (extrabudgetary source) was excluded from the availability value. This source represents compensatory cash inflows and cash equivalents; therefore, it does not represent a source of funding for state activities.



Analysis of Financial Statements



ANALYSIS

For a better analysis of Financial Statements presented in this Balance Sheet, concepts in the literature that allow a more detailed understanding of financial statements presented in this Balance Sheet are presented below.

Balance Sheet – structured in Assets, Liabilities and Net Equity, it shows qualitatively and quantitatively the financial position of the public entity.

Asset – includes availabilities, rights and the tangible or intangible property; acquired, formed, produced, received, maintained or used by the public sector, which holds or represents a stream of present or future benefits, relating to the provision of public services.

Liability – includes the obligations undertaken by public sector entities to the achievement of the public utilities, which they maintain in the capacity of depositaries, as well as provisions.

Net Equity – is the residual value of the assets of the entity after deducting all of its liabilities.

Current Asset – includes assets that meet any one of the following criteria: is cash or cash equivalents; is realized or held for sale or consumption within the operating cycle of the entity; is maintained for commercial purposes; is achievable within the twelve months following the date of publication of the financial statements.

Non-Current Asset – includes assets and rights realizable within twelve months after the date of publication of the financial statements.

Current Liability – comprises pending or outstanding securities, payable until the end of the year following the publication of the financial statements obligations

Non-Current Liability – Comprises known and estimated securities, whose established or expected terms are within twelve months after the date of publication of the financial statements.

Financial Asset – includes credits and amounts receivables regardless of budget authorization and cash.

Financial Liability – includes funded debts and other liabilities payable, whose payment is independent of budget authorization like the remains to be paid, debt service charges payable, deposits and treasury debts (loans on the basis of anticipated revenues).

Permanent Asset – comprises properties, credits and amounts whose mobilization or disposal depends on legislative authorization, pursuant to Law No. 4,320/64.

Permanent Liability – includes funded debts and other relying on legislative authorization for repayment or redemption, according to Law No. 4,320/64.

Budget Balance – shows the revenues and budget expenditures, detailed in relevant levels of analysis, comparing the original budget and any changes to the implementation, demonstrating the budget outcome. It is structured to highlight the integration between planning and budget execution.

Financial Statement – shows the revenues and budgetary expenditures, as well as receipts and payments of an extrabudgetary nature, combined with the balances of the previous fiscal year and those transferred to the beginning of the following year.

Statement of Variations in Equity – shows the quantitative variations, the equity results and the qualitative variations derived from the budget execution. Quantitative variations arise from transactions in the public sector that increase or decrease the net equity. Qualitative variations arise from transactions in the public sector that alter the composition of the assets without affecting the net equity.

Cash Flow Statement – aims to contribute to the transparency of public management as it allows a better management and financial control of bodies and entities of the public sector. The information of cash flows is useful to provide users of accounting information a tool to evaluate the ability of the entity to generate cash and cash equivalents, as well as its liquidity needs. Thus, the Cash Flow Statement allows users to design scenarios of future cash flows and prepare an analysis on possible changes around the capacity to maintain the regular financing of public services. The Statement of Cash Flows shows the movements in cash and cash equivalents, in the following flows: (a) operations; (b) investments; and (c) funding.

The cash flow from operations includes income, including the incomes arising from originating and derived revenues, and disbursements related to public action and the other flows that do not qualify as investment or financing.

Cash flow from investments includes cash resources related to the acquisition and disposal of non-current assets, as well as cash receipts for payment of advances or repayment of loans and other transactions of the same nature.

The cash flow from financing includes resources related to borrowing and paying down loans and financing.

Statement of Changes in Equity – it aims to demonstrate : a) the deficit or surplus equity for the period; b) each directly recognized mutation in equity; c) the effect of the change in accounting policies and effects arising from the rectification of errors made in previous fiscal years; d) contributions from owners and distributions received by them as owners.

Changes in equity of an entity between the dates of two consecutive financial statements reflect the increase or decrease of wealth during the period.

1. BALANCE SHEET INDICATORS

Financial Statement

| Indicator | Methodology | 2010 | H% | 2011 | H% | 2012 | H% | 2013 | Interpretation |
|----------------------------------|---|------|----|------|----|------|----|------|--|
| Financial Situation ¹ | Financial Asset ÷ Financial Liability | 1.45 | 2% | 1.48 | 2% | 1.51 | 4% | 1.57 | It indicates whether a budgetary surplus or financial deficit occurred in the period. = 1 Balance of Financial Situation > 1 Existence of Financial Surplus < 1 Existence of Financial Deficit <u>Conclusion:</u> the bigger, the better |

Note: ¹The Captions Cash and Cash Equivalents (note 3) and Investments and Temporary Investments (Note 9) were considered in the financial assets. The caption withdrawal limit (note 20) was excluded from the financial liability, because it does not qualify as debt.

Liquidity

| Indicator | Methodology | 2010 | H% | 2011 | H% | 2012 | H% | 2013 | Interpretation |
|-------------------|---|------|----|------|-----|------|-----|------|---|
| Current Liquidity | Current Asset ÷ Current Liability | 1.28 | 2% | 1.30 | -5% | 1.23 | 23% | 1.51 | It indicates how much money the State has plus realizable goods and rights in the next financial year, compared with its debts to be paid in the same period. = indicates the balance of short-term assets to honor short-term liabilities > 1 indicates left over of short-term assets to honor short-term liabilities < 1 indicates a lack of short-term assets to honor short-term liabilities <u>Conclusion:</u> the bigger, the better |

Indebtedness

| Indicator | Methodology | 2010 | H% | 2011 | H% | 2012 | H% | 2013 | Interpretation |
|---|--|------|------|------|------|------|-----|------|---|
| Composition of indebtedness ¹ | $\frac{\text{Current Liability}}{\text{Current Liability} + \text{Non-Current Liability}}$ | 0.18 | 17% | 0.21 | 48% | 0.31 | 0% | 0.31 | <p>It shows how much of the debt of the State is payable in the next financial year.</p> <p>= 1 indicates that the total sum of the debt will be realized in the next financial period</p> <p>< 1 indicates when the debt will be realized in the next financial period</p> <p><u>Conclusion:</u> the bigger, the better</p> |
| Onerous Indebtedness on Total Assets ² | $\frac{\text{Short-term and Long-term Loans and Financing}}{\text{Total Assets}}$ | 0.96 | -15% | 0.82 | -12% | 0.72 | -6% | 0.68 | <p>It indicates how much of the total assets of the State is compromised by onerous debts with Financial Institutions</p> <p>= 1 indicates that the total assets of the State is compromised by onerous debts</p> <p>> 1 indicates that onerous debts exceed the assets of the State</p> <p>< 1 indicates that a portion of the State's assets is compromised by onerous debts</p> <p><u>Conclusion:</u> the bigger, the better</p> |
| Net Onerous Debt ³ | $\frac{\text{Available}}{\text{Short-term and Long-term Loans and Financing}}$ | 0.31 | 29% | 0.40 | 2% | 0.41 | 45% | 0.59 | <p>It indicates how much money the State has in investments to meet its onerous debt.</p> <p>= 1 indicates the balance of cash to honor the onerous debt</p> <p>>1 indicates balances of resources available to honor the onerous debt</p> <p>< 1 indicates lack of resources to honor the onerous debt</p> <p><u>Conclusion:</u> the bigger the better</p> |

Note: ¹The withdrawal limit heading (note 20) was excluded because it does not qualify as debt.

²The withdrawal limit heading (note 20) was removed from Assets (note 3) because it equals the balance of the single account.

³The headings Cash and Cash Equivalents (note 3) and Investments and Temporary Applications (note 9) were considered in the available assets.

2. ANALYSIS OF BUDGET EXECUTION

| Indicator | Methodology | 2010 | H% | 2011 | H% | 2012 | H% | 2013 | Interpretation |
|-------------------------------|--|------|-----|------|------|------|-----|------|--|
| Implementation of Revenue | Realized Revenue ÷ Expected Revenue | 0.98 | 4% | 1.02 | 2% | 1.04 | -2% | 1.02 | Indicator allows to accurately assess the budget = 1 Revenue realized is the same as the expected > 1 The difference represents excess collection < 1 Collection lower than expected <u>Conclusion:</u> the higher than 1, the better |
| Balanced Budget | Fixed Expenditure ÷ Expected Revenue | 1.00 | 0% | 1.00 | 0% | 1.00 | 0% | 1.00 | It indicates whether there is balance between the fixed expenditure and the expected revenue provided for in LOA (Annual Budget Law). = 1 There is a balanced budget. > 1 The difference represents the amount of additional credits opened. < 1 The budget law may have been approved with a surplus, not with a balance. <u>Conclusion:</u> the ideal is equal to 1 |
| Implementation of Expenditure | Implemented Expenditure ÷ Updated Allocation | 0.85 | -1% | 0.84 | 2% | 0.86 | -3% | 0.84 | It evaluates the effectiveness of the budget regarding the setting of expenditure ceilings. = 1 Balance in the execution of expenditure. > 1 Use of the allocation without legal authorization < 1 Budgetary economy <u>Conclusion:</u> the lower than 1, the better |
| Budget Outcome | Realized Revenue ÷ Implemented Expenditure | 1.00 | 2% | 1.02 | -9% | 0.93 | 10% | 1.02 | It indicates whether a budgetary surplus or financial deficit occurred in the period. = 1 Balance of financial situation > 1 Budgetary surplus in the execution < 1 Budgetary deficit in the execution <u>Conclusion:</u> the bigger, the better |
| Current Budget Execution | Current Revenue ÷ Current Expenditure | 1.13 | 0% | 1.13 | -9% | 1.03 | 5% | 1.08 | It indicates whether the current revenue could bear the current expenditure or whether it was necessary to use capital revenue. = 1 Balance of the current budgetary execution > 1 Existence of current budgetary surplus < 1 Existence of current budgetary deficit, indicating that there will be a need to use capital revenue to meet the necessary resources. <u>Conclusion:</u> the bigger, the better |
| Capital Budget Execution | Capital Revenue ÷ Capital Expenditure | 0.08 | 25% | 0.10 | 580% | 0.68 | 4% | 0.71 | It indicates whether a capital surplus or financial deficit occurred in the period. = 1 Balance of the budget execution of capital > 1 Existence of budgetary surplus capital, demonstrating that there was disposal of property and securities, and therefore a decrease in equity, or credit operation. < 1 Existence of capital budget deficit, indicating that there was use of current revenues to cover capital expenditure. <u>Conclusion:</u> the ideal is equal to or higher than 1 |

3. FINANCIAL STATEMENT ANALYSIS

| Indicator | Methodology | 2010 | H% | 2011 | H% | 2012 | H% | 2013 | Interpretation |
|--|--|------|-----|------|------|------|-----|------|---|
| Actual Financial Ratio of the Budget Execution | $\frac{\text{Budget Revenue}}{\text{Budget Expenditure Paid}}$ | 1.02 | 3% | 1.05 | -5% | 1.00 | 6% | 1.06 | <p>It indicates whether surplus or deficit in the budget and financial execution occurred in the period, considering also the cash basis for the expenditures.</p> <p>= 1 Balance of the budget and financial execution, considering also the cash basis for the expenditures.</p> <p>> 1 Existence of budgetary surplus in execution and financial transactions, considering also the cash basis for the expenditures.</p> <p>< 1 Existence of budgetary deficit in execution and financial transactions, considering also the cash basis for the expenditures.</p> <p><u>Conclusion:</u> the bigger, the better</p> |
| Extrabudgetary Execution | $\frac{\text{Extrabudgetary Revenue}}{\text{Extrabudgetary Expenditure}}$ | 1.00 | 1% | 1.01 | -1% | 1.00 | 10% | 1.10 | <p>It indicates whether a capital surplus or financial deficit occurred in the period.</p> <p>= 1 Balance in the extrabudgetary execution</p> <p>> 1 Existence of Extrabudgetary Surplus</p> <p>< 1 Existence of Extrabudgetary Deficit</p> <p><u>Conclusion:</u> the ideal is equal to 1</p> |
| Outcome of Financial Balances | $\frac{\text{Balance Carried Forward to the Next Fiscal Year}}{\text{Balance of the Previous Year}}$ | 1.13 | 13% | 1.28 | -19% | 1.04 | 27% | 1.32 | <p>Indicates whether surplus or deficit occurred in the period.</p> <p>= 1 Balance between receipts and payments for the period</p> <p>> 1 Existence of Financial Surplus</p> <p>< 1 Existence of Financial Deficit</p> <p><u>Conclusion:</u> the bigger, the better</p> |

4. ANALYSIS OF VARIATIONS IN EQUITY

| Indicator | Methodology | 2010 | H% | 2011 | H% | 2012 | H% | 2013 | Interpretation |
|--------------------------------|---|------|--------|------|-------|------|--------|------|--|
| Result of Variations in Equity | $\frac{\text{Total of Augmentative Variations}}{\text{Total of Diminutive Variations}}$ | 1.45 | 48.55% | 1.01 | 0.39% | 1.01 | -1.31% | 1.00 | Indicates whether surplus or deficit equity occurred during the period. = 1 Balanced Financial Position > 1 Surplus Assets in the Financial period < 1 Existence of Financial Deficit in the period Conclusion: the bigger, the better |

5. ANALYSIS OF THE STATEMENT OF CASH FLOWS

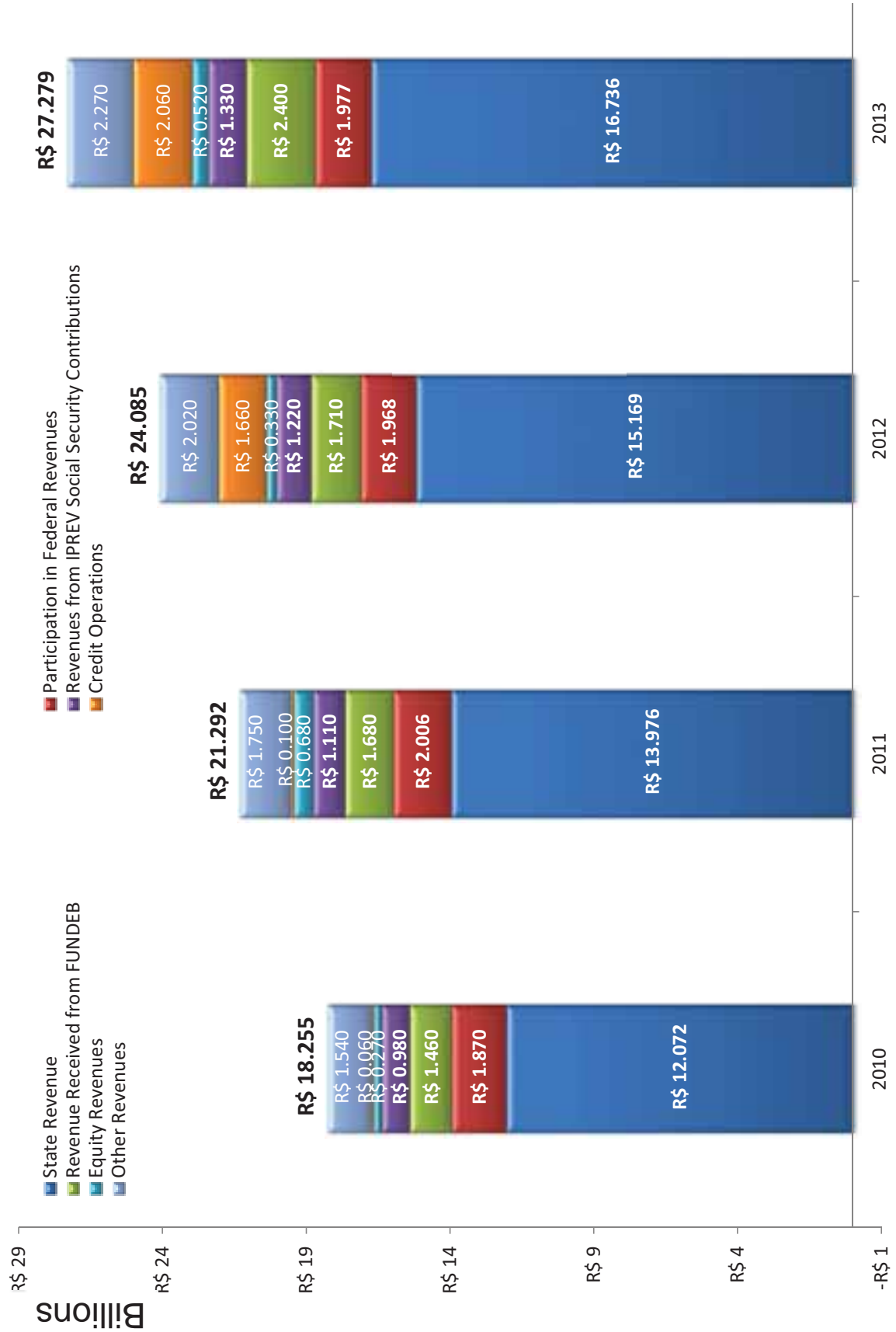
| Indicator | Methodology | 2010 | H% | 2011 | H% | 2012 | H% | 2013 | Interpretation |
|--|---|------|------|------|------|------|------|------|--|
| Ratio of the ability to repay the debt | $\frac{\text{Net Cash Generated from Operations}}{\text{Total Liabilities}}$ | 0.09 | 33% | 0.12 | -67% | 0.04 | 81% | 0.07 | Indicates the portion of the resources generated by the entity for payment of the debt. <u>Conclusion:</u> the bigger, the better |
| Ratio of the operating activity | $\frac{\text{Net Cash Generated from Operations}}{\text{Total of Net Cash Generation}}$ | 3.67 | -46% | 1.99 | 113% | 4.24 | -62% | 1.63 | It indicates the percentage of net cash generation by the entity that was assigned to the operational activities. <u>Conclusion:</u> the bigger, the better |



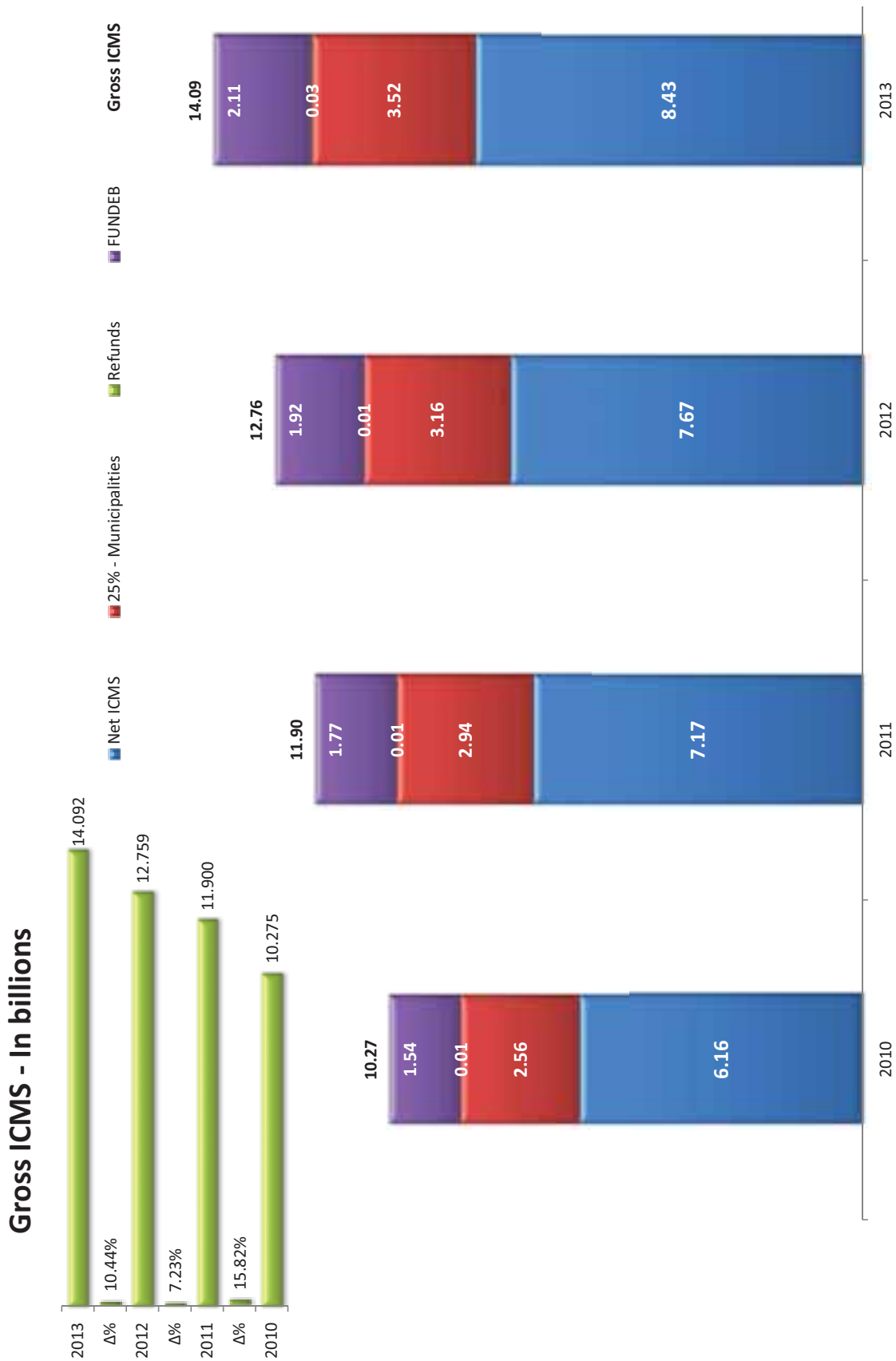
SC > Annexes Fiscal Management Indicators



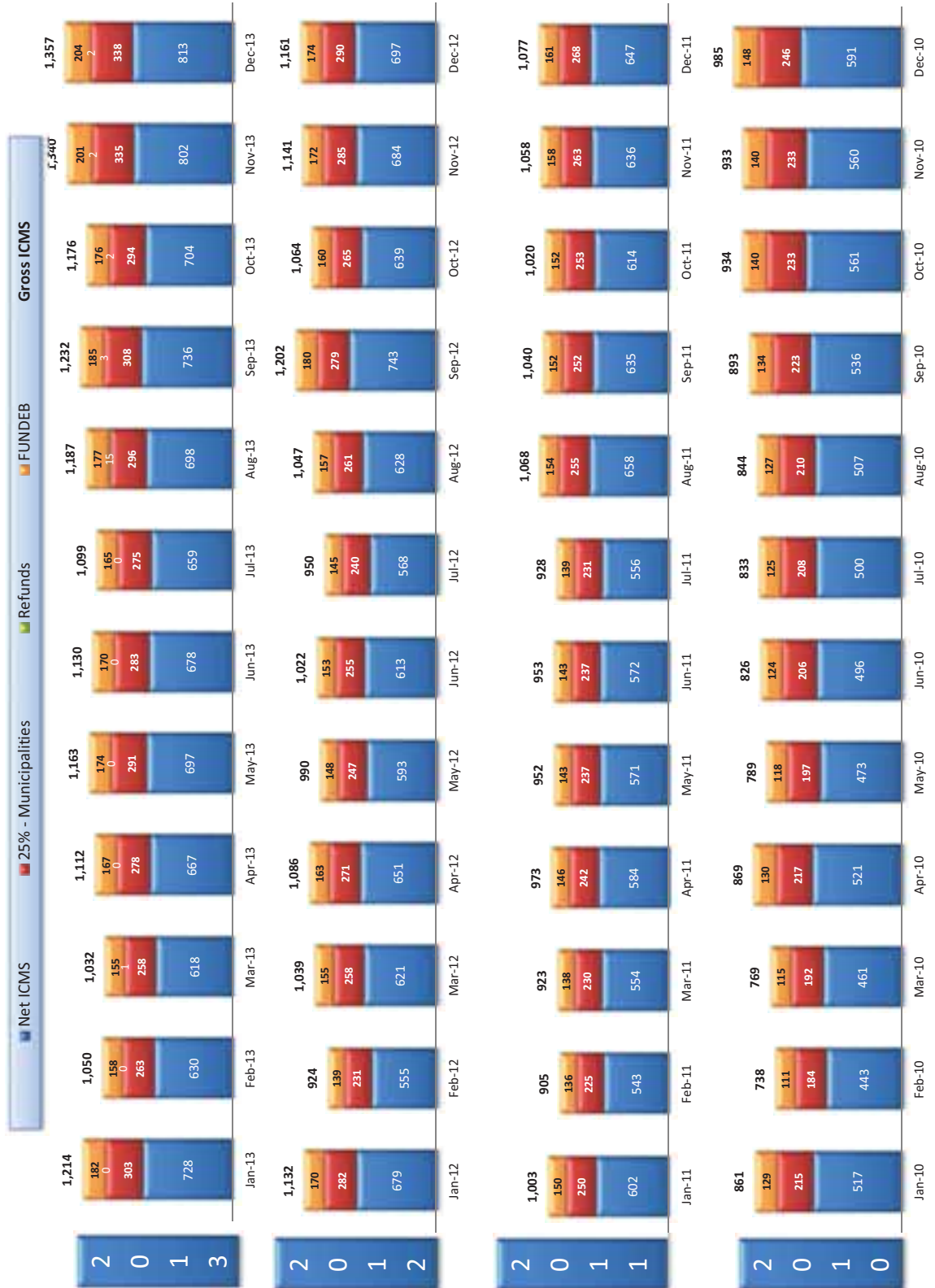
1. GROSS REVENUE COLLECTED



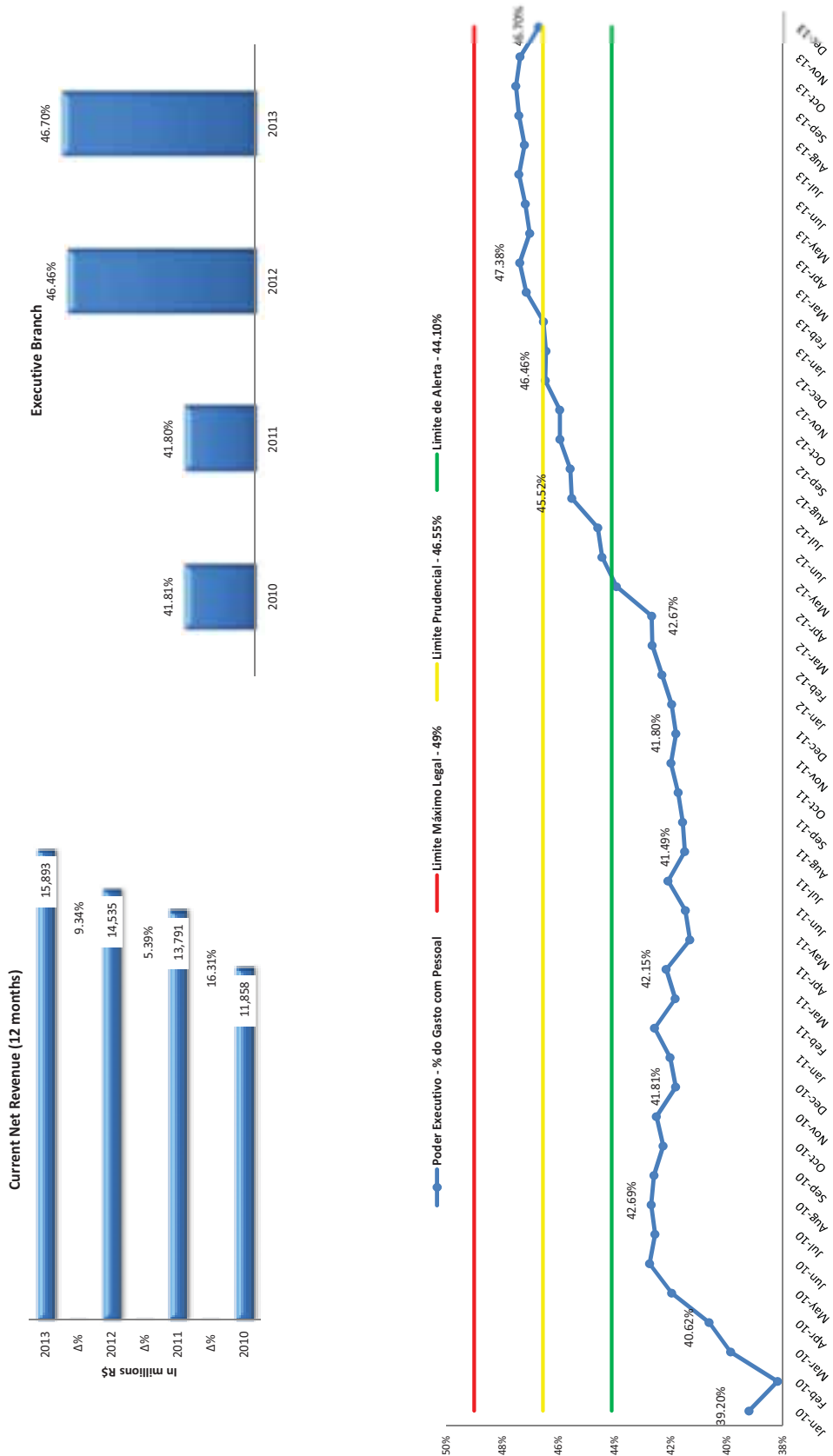
2. TAX REVENUE – BEHAVIOR OF THE TAX REVENUE OF ICMS



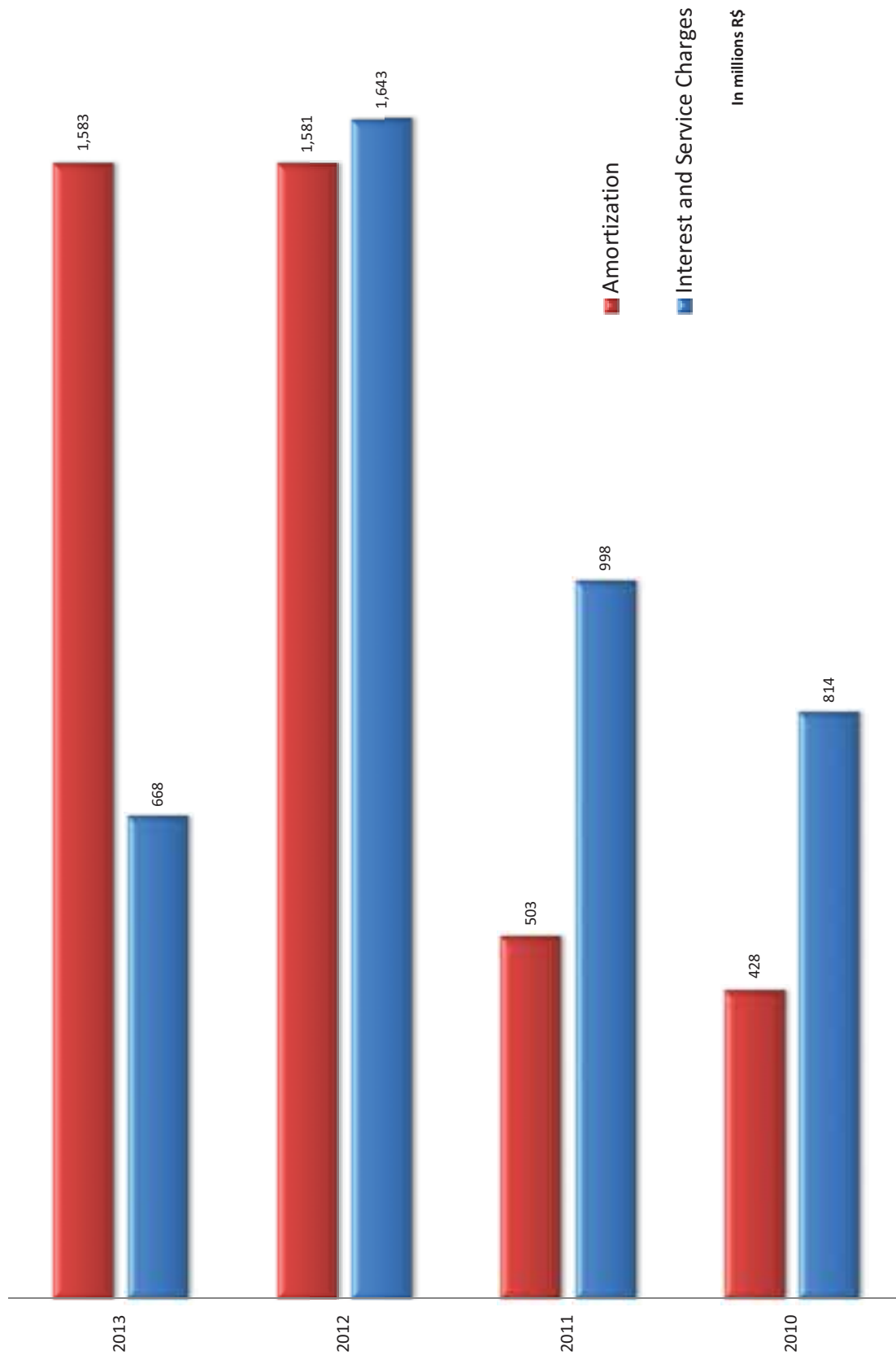
3. ICMS - MONTH TO MONTH



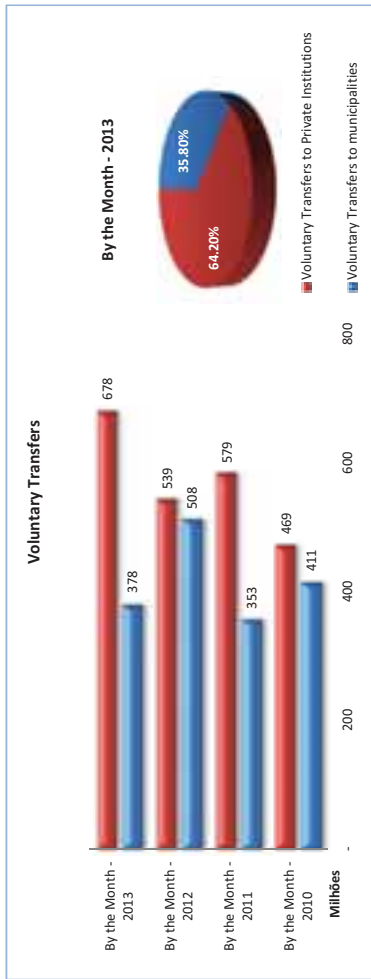
4. PERSONNEL EXPENSES – ACCORDING TO THE FISCAL RESPONSIBILITY LAW



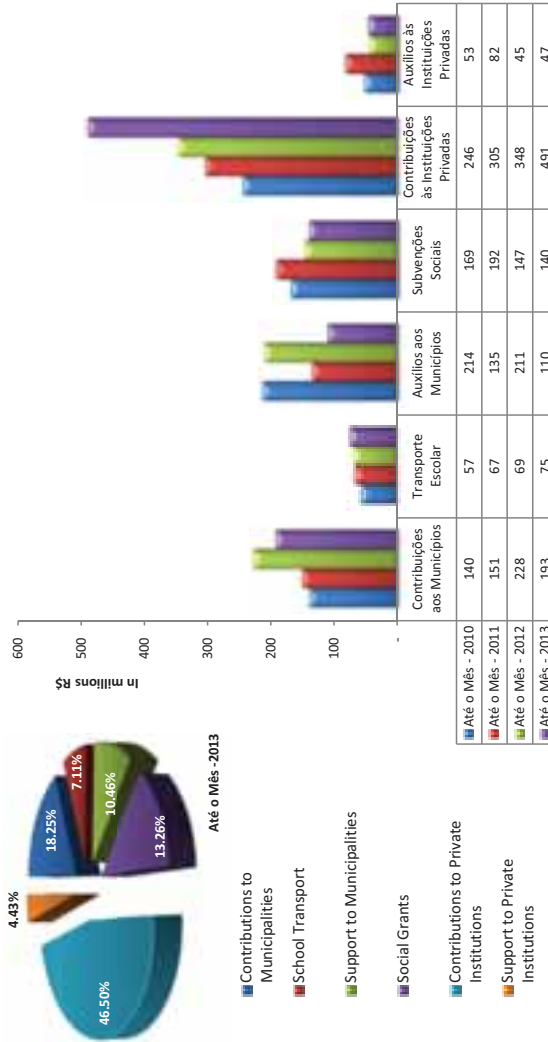
5. PAYMENT OF PUBLIC DEBT AND LOANS



6. VOLUNTARY TRANSFERS MADE BY THE STATE



Details of Voluntary Transfers



Voluntary transfers are funds transferred by the State Government to Municipalities and Private Institutions, with or without profit, for execution of current or capital expenditures not resulting from constitutional or legal determination.

There are four types of transfers: Contributions, Assistance, School Transportation and Social Grants.

Contributions

Represent funds transferred to municipalities or private institutions to meet maintenance expenses (purchase of consumables, hiring of third-party services, etc.). They do not require direct consideration of goods and services.

Assistance

Represent funds transferred to municipalities or private institutions to meet investment spending (execution of works, acquisition of movable and immovable assets, etc.). They do not require direct consideration of goods and services.

Social Grants

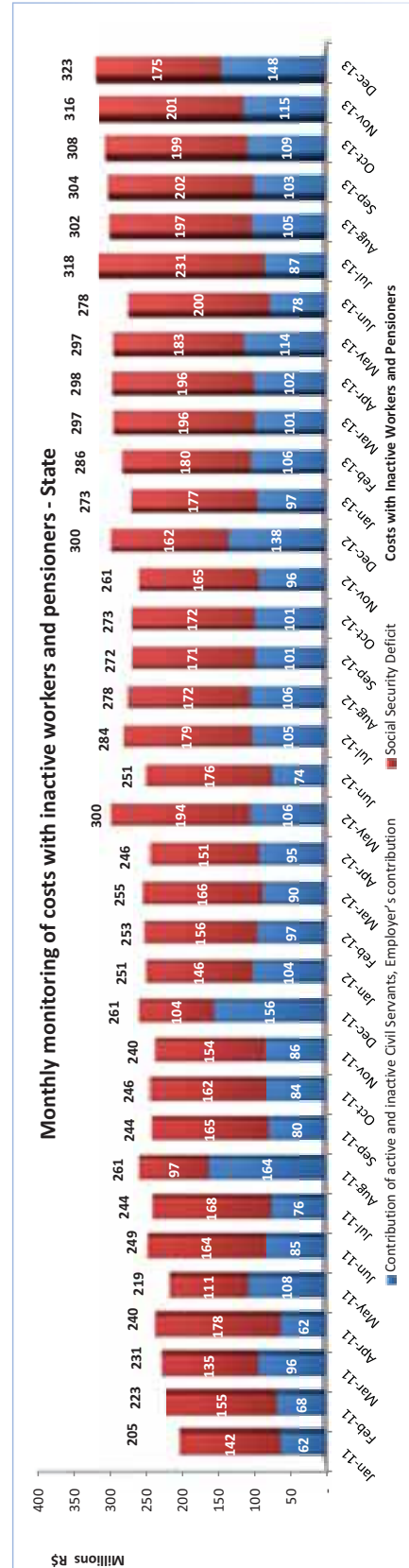
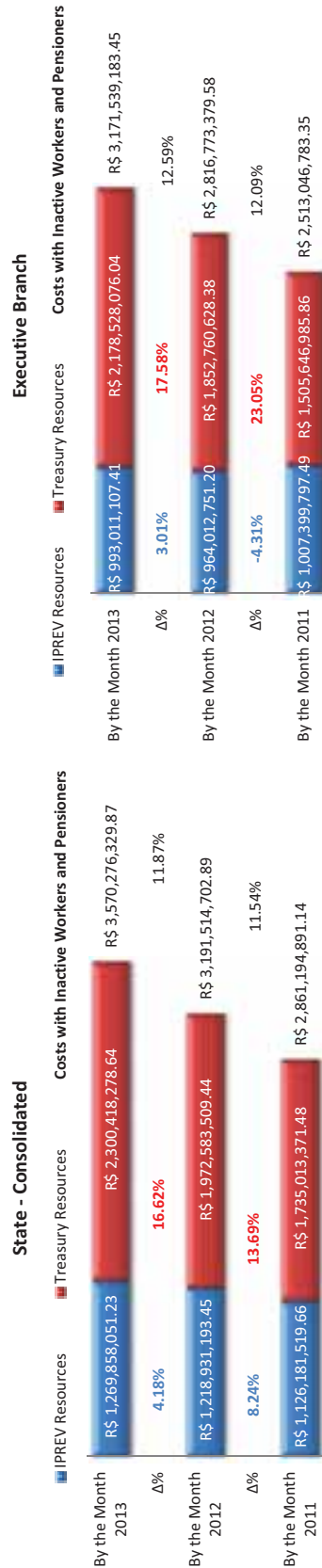
Represent resources transferred to private institutions of essential services, such as Social Welfare, Medical Education and to meet maintenance expenses of the entity (purchase of consumables, hiring of third-party services, etc.).

School Transportation Services

Represent funds transferred to municipalities to meet expenses for transportation of students and teachers in public schools.

| | Contribuições aos Municípios | Transporte Escolar | Auxílios aos Municípios | Subvenções Sociais | Contribuições às Instituições Privadas | Auxílios às Instituições Privadas |
|------------------|------------------------------|--------------------|-------------------------|--------------------|--|-----------------------------------|
| Até o Mês - 2010 | 140 | 57 | 214 | 169 | 246 | 53 |
| Até o Mês - 2011 | 151 | 67 | 135 | 192 | 305 | 82 |
| Até o Mês - 2012 | 228 | 69 | 211 | 147 | 348 | 45 |
| Até o Mês - 2013 | 193 | 75 | 110 | 140 | 491 | 47 |

7. COSTS WITH INACTIVE WORKERS AND PENSIONERS

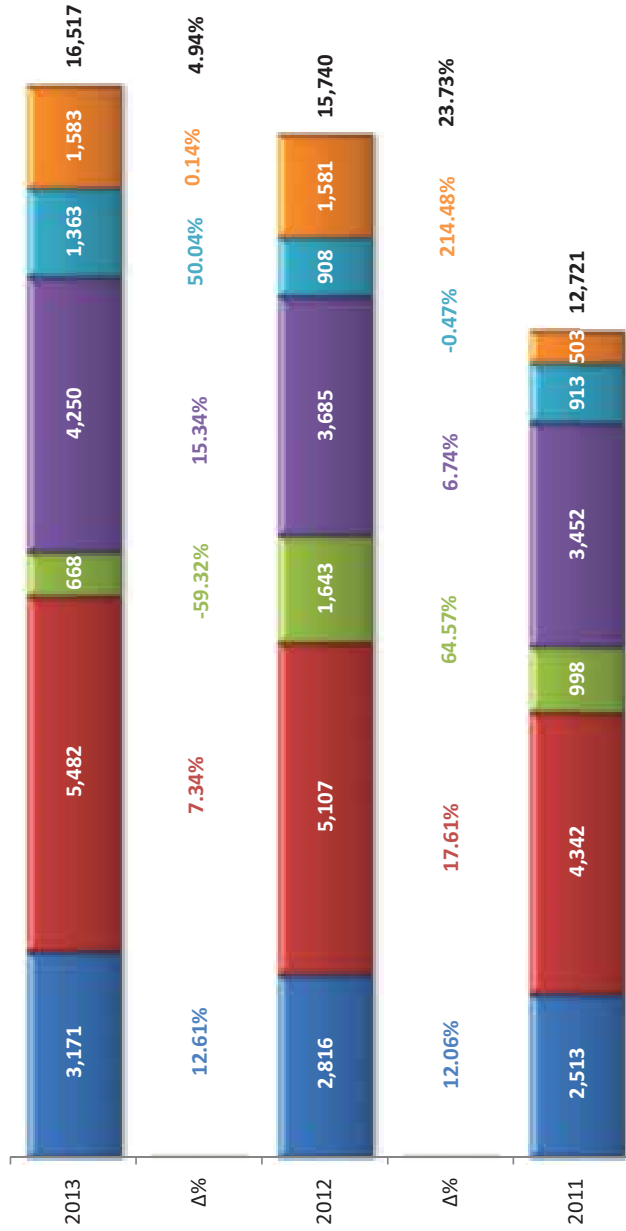


8. CONSOLIDATED STATE EXPENDITURES BY NATURE GROUP



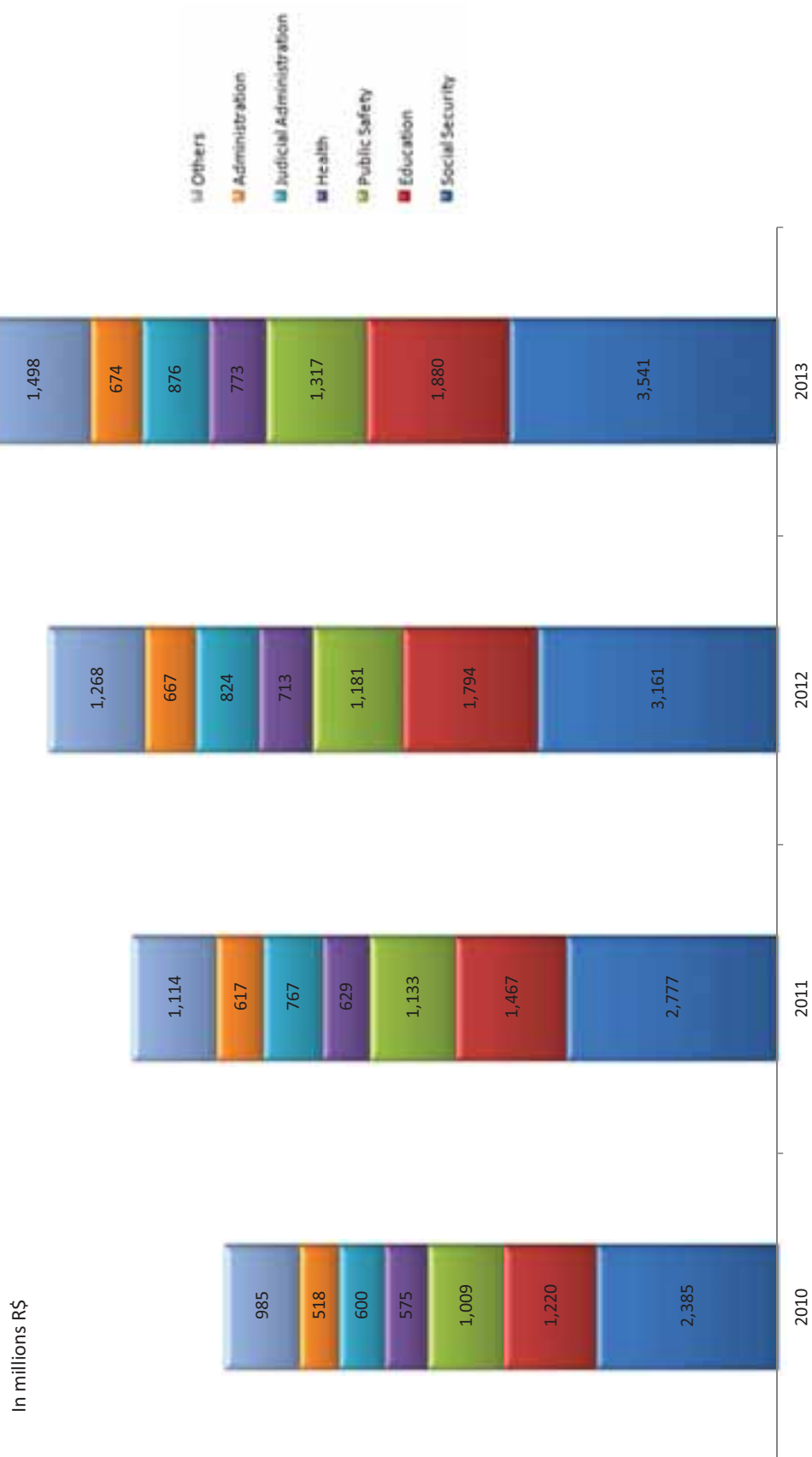
9. STATE EXPENDITURES BY NATURE GROUP - EXECUTIVE BRANCH

Inactive Workers and Pensioners | Active Workers | Interest and Debt Service Charges | Other Current Expenses | Investments | Debt Amortization

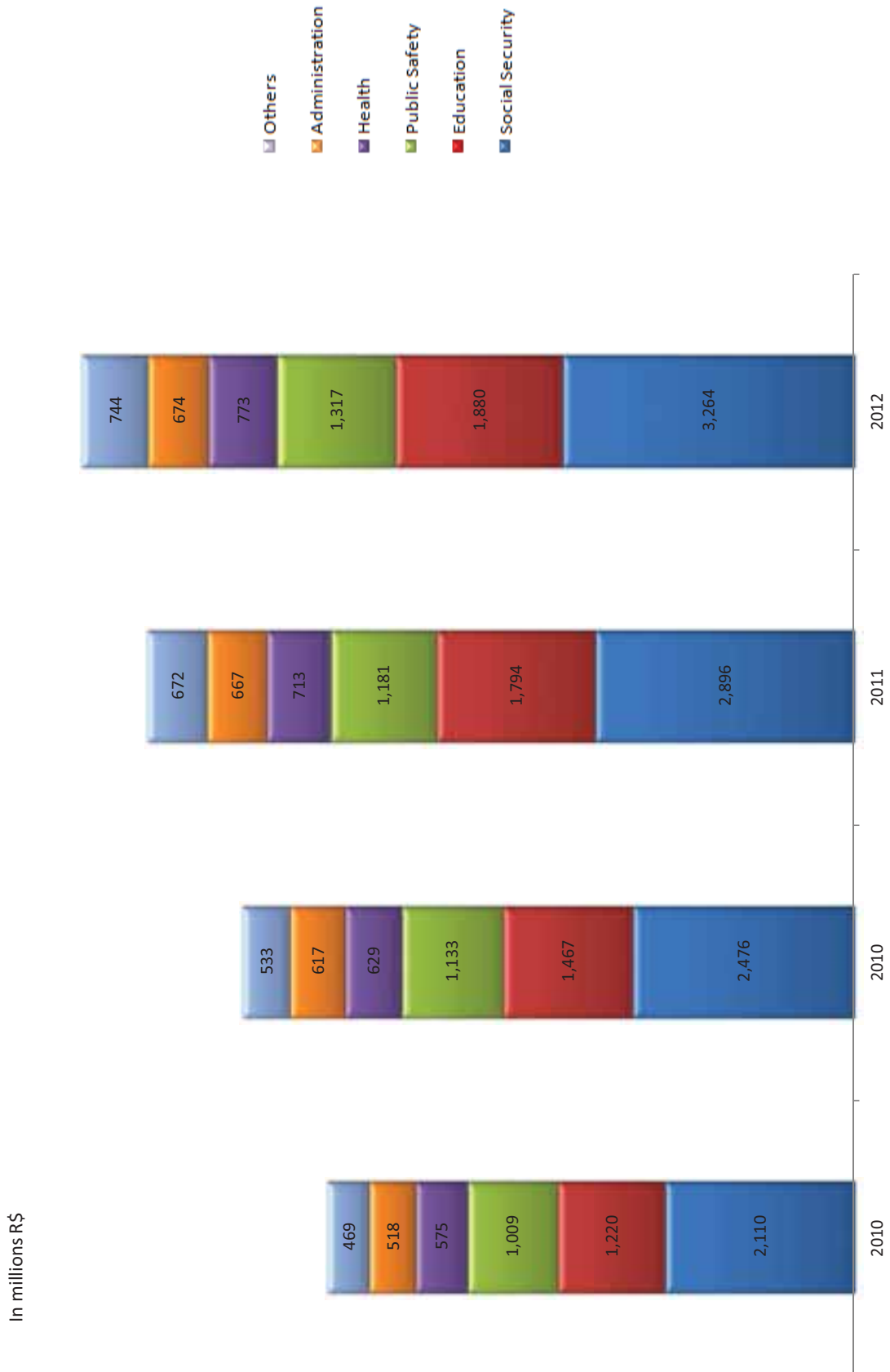


Million

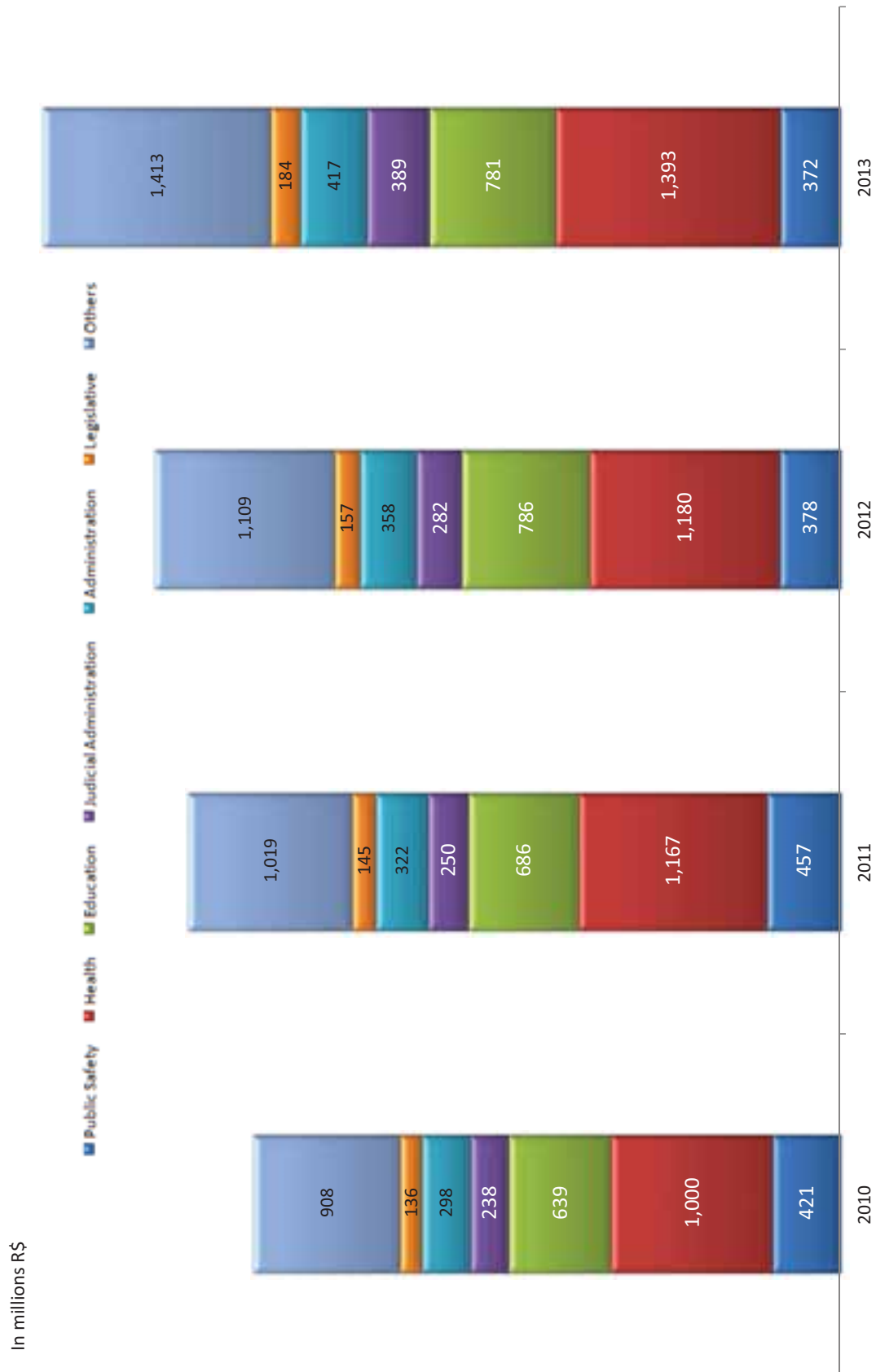
10. CONSOLIDATED PAYROLL BY GOVERNMENT FUNCTION



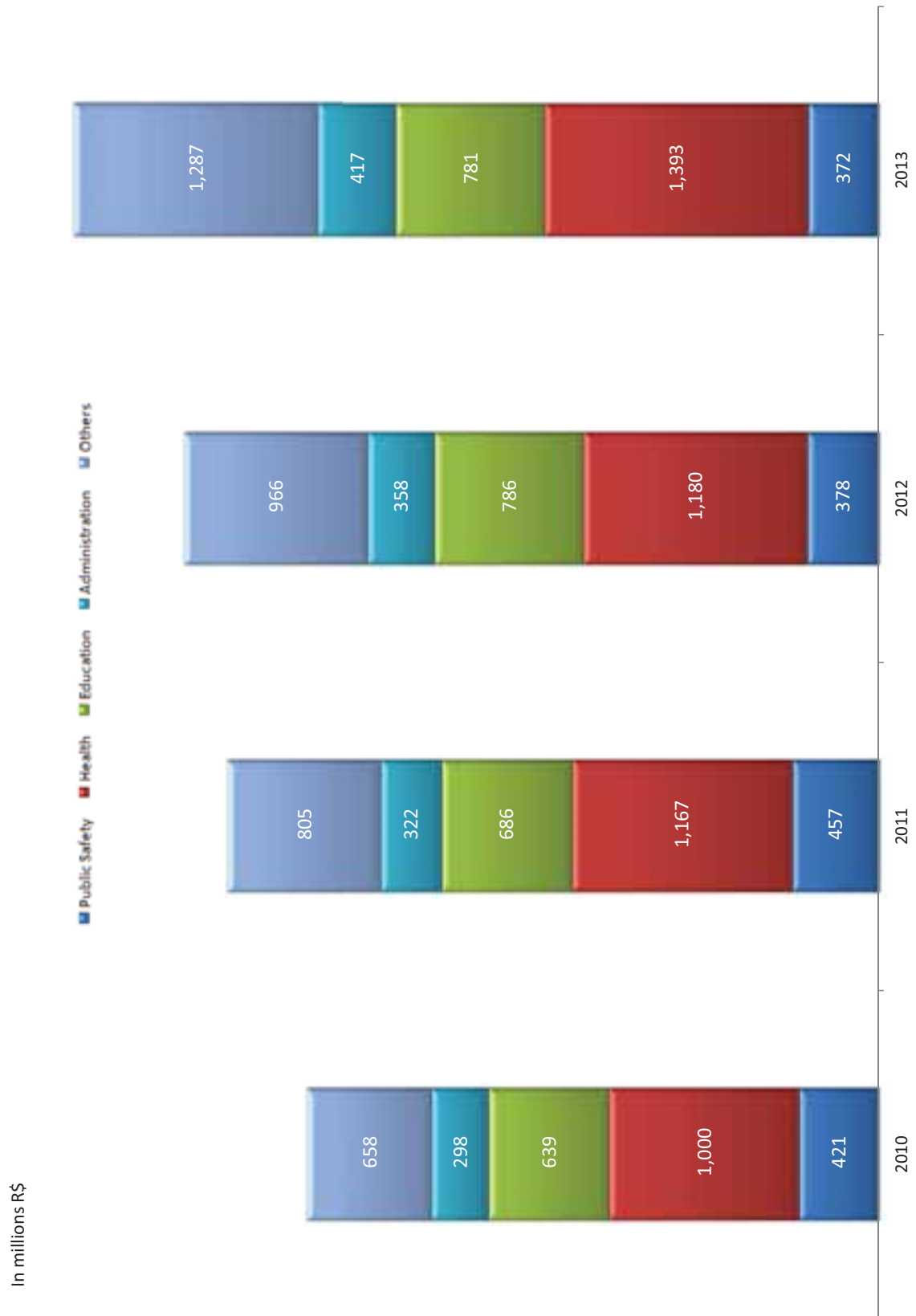
11. PAYROLL BY GOVERNMENT FUNCTION - EXECUTIVE BRANCH



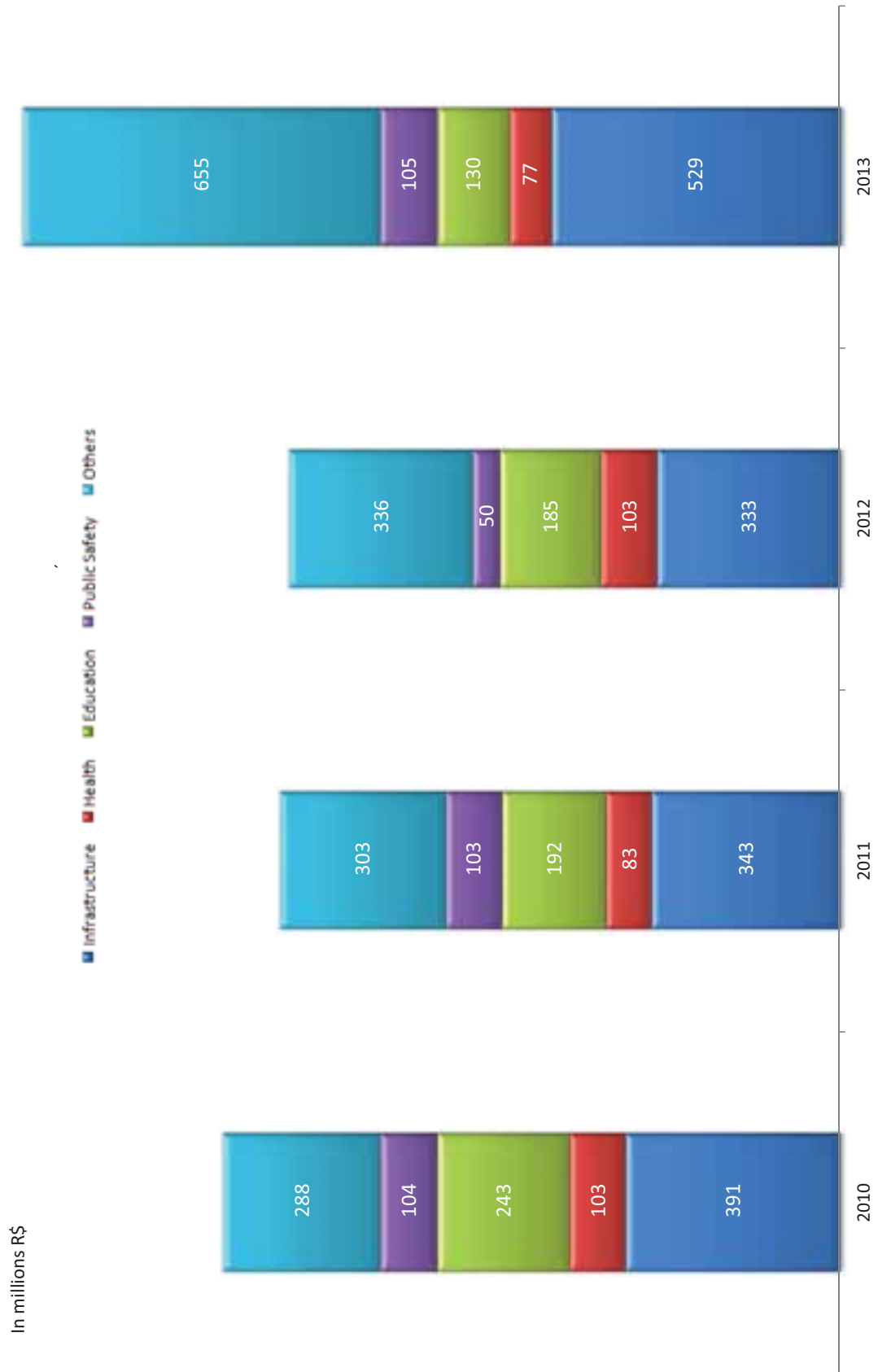
12. CONSOLIDATED FUNCTION COSTING



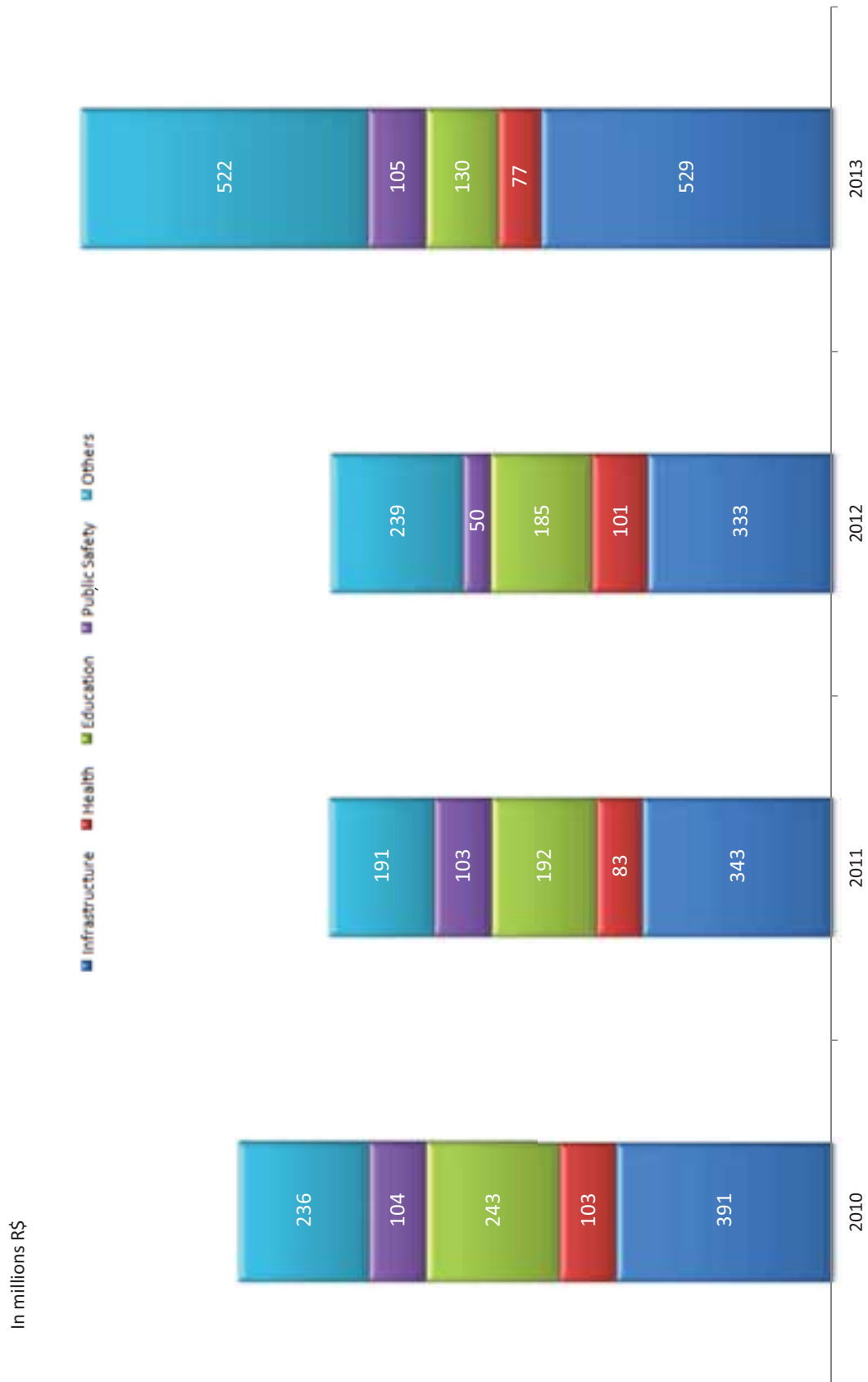
13. FUNCTION COSTING - EXECUTIVE BRANCH



14. CONSOLIDATED INVESTMENTS BY FUNCTION



15. INVESTMENTS BY FUNCTION – EXECUTIVE BRANCH





State
Department
of Taxation
and Finance
General Accounting
Department – DCOG

