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

Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2019. Please read it in conjunction with the Comptroller's *Letter of Transmittal* at the front of this report and the financial statements that follow this section.

Overview of the Financial Statements

This discussion and analysis provides an introduction to the State of South Carolina's basic financial statements, which include the following parts: (1) *government-wide financial statements*, (2) *fund financial statements*, (3) *major discretely presented component unit financial statements*, and (4) *notes to the financial statements*. This annual report also contains certain *required supplementary information* and other *supplementary information* to aid in understanding the operations of the State.

Government-wide Financial Statements

The government-wide statements present a long-term view of the State's finances *as a whole*, using *accrual-basis accounting*—the same accounting basis that most businesses use. The basic government-wide financial statements are presented on pages 38 through 41 of this report.

There are two government-wide financial statements:

Statement of net position: This statement presents information on *all* of the State's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether its financial position is improving or deteriorating. However, the statement of net position does not tell the whole story. To assess the State's overall financial health, other factors need to be considered such as the State's economy and the condition of its *capital assets* such as its buildings and infrastructure (roads and bridges).

Statement of activities: This statement presents information showing how the State's overall net position changed during the year. The State reports a change in its net position as soon as an underlying event occurs that causes a change. The statement of activities accounts for all current-year revenues and expenses, regardless of when the State received or paid cash. Although governments compile the statement of activities using accounting methods similar to businesses, the format of this statement is quite different from the format of a business's profit and loss statement. The statement of activities helps to show how much it costs for the State to provide various services. It also indicates the extent to which each government function covers its own costs through user fees, charges, or grants. The *net revenues (expenses)* column on the far right of this statement on page 40 shows how much a particular function relies on taxes and other general revenues as opposed to program revenues to support its programs.

The government-wide statements present three different kinds of *activities*:

Governmental activities: Most of the State's basic services are included here, such as general government, education, health and environment, social services, administration of justice, and transportation. Taxes (primarily income and sales taxes) and federal grants provide resources to support most of these services.

Business-type activities: These activities usually recover all, or a significant portion, of the costs of their services or goods by charging fees to customers. The Unemployment Compensation Benefits Fund and Second Injury Fund are the most significant of South Carolina's business-type activities.

Component units: Although component units are legally separate from the State, the State's elected officials are financially accountable for them. The Public Service Authority (Santee-Cooper, an electric utility company), the State Ports Authority, the State Housing Authority, the State Lottery Commission, Clemson University, the Medical University of South Carolina, and the University of South Carolina are the State's major component units. Some financial information for these component units is included in this report. Complete financial statements for these component units can also be obtained from their respective administrative offices (see Note 1a of the notes to the financial statements on page 67).

Fund Financial Statements

The fund financial statements on pages 42 through 59 of this report provide detailed information about the State's most significant funds—not the State as a whole. Funds are accounting designations that the State uses to track specific funding sources and spending for particular purposes. South Carolina, like other governments, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements.

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The State reports three types of *funds*:

Governmental funds: The State reports most of its basic services in governmental funds. Governmental funds account for activities that the State reports as *governmental activities* in its government-wide statements. These funds focus on *short-term* inflows and outflows of expendable resources. The balances remaining at the end of the year help determine whether a fund has more or less financial resources available to spend in the near future. Because the governmental fund statements lack the additional long-term focus of the government-wide statements, a reconciliation that explains the relationship (or differences) between the two kinds of statements is provided. By comparing the two kinds of statements and examining the reconciliation, a better understanding of the long-term impact of the State's near-term funding decisions is available.

The basic governmental fund statements are on pages 42 through 49 of this report.

Proprietary funds: Proprietary funds charge customers for the services they provide—whether they are provided to outside customers (*enterprise funds*) or other State agencies and other governments (*internal service funds*). Proprietary funds use the *accrual basis of accounting* like businesses use. The State reports all of its enterprise funds as *business-type activities* in the government-wide statements. However, because the internal service fund operations primarily benefit other State agencies or other governments, these proprietary funds are included as *governmental activities* in the government-wide financial statements.

The basic proprietary fund statements are on pages 50 through 56 of this report.

Fiduciary funds: The State is the trustee, or *fiduciary*, for its employees' retirement and other post-employment benefit plans. The State also is responsible for other assets that, because of a trust agreement, it is to use only for trust beneficiaries such as an investment pool operated on behalf of local governments. These activities are *excluded* from the State's government-wide financial statements because the State is not to use these assets to benefit its operations. The State has an obligation to ensure that the net position it reports in fiduciary funds are used for the intended purposes.

The basic fiduciary fund statements are on pages 58 and 59 of this report.

Component Unit Financial Statements

The *Government-wide Financial Statements* section on the preceding page identifies the State's major component units under the *Component units* subheading. More detailed financial statements which include these component units are on pages 60 through 63 of this report.

Notes to the Financial Statements

Immediately following the financial statements are *notes* that provide additional and pertinent information to the financial statement amounts. The notes on pages 64 through 181 are necessary to fully understand the financial statements.

Required Supplementary Information

This section addresses budgetary matters and provides certain *required* reporting information that supplements the basic financial statements. Included in this section is a schedule that compares the State's legally adopted General Fund budget with actual revenues collected and expenditures paid for the year. On page 190, Note 5 to the required supplementary information is a reconciliation that provides and explains differences between the changes in fund balance of certain funds when presented on the budgetary-basis and the changes in fund balance of these funds when presented on the GAAP-basis as reported in the governmental fund statements. Additionally, the required supplementary information section includes information on the State's five pension programs: The South Carolina Retirement System, the Police Officers' Retirement System, the General Assembly Retirement System, the Judges' and Solicitors' Retirement System, and the National Guard Retirement System. This required supplementary information is on pages 183 through 215 of this report.

Supplementary Information

Nonmajor governmental funds, nonmajor enterprise funds, internal service funds, fiduciary funds, and nonmajor discretely presented component units are presented immediately following the required supplementary information. Combining and individual fund statements and a schedule of General Reserve Activity are found on pages 217 through 263 of this report.

Government-wide Financial Analysis

Exhibits 1 and 2 summarize the overall financial position and results of operations of the primary government for the past two years based on information included in the government-wide financial statements.

Exhibit 1
Government-wide Net Position
As of June 30 for the Years Indicated
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percent Change 2019-2018
	2019	2018	2019	2018 (as restated)	2019	2018 (as restated)	
Assets							
Current and other assets.....	\$ 15,240,640	\$ 13,017,399	\$ 1,495,905	\$ 1,318,890	\$ 16,736,545	\$ 14,336,289	16.7%
Capital assets.....	18,177,586	17,521,033	284,717	281,212	18,462,303	17,802,245	3.7%
Total assets.....	33,418,226	30,538,432	1,780,622	1,600,102	35,198,848	32,138,534	9.5%
Deferred Outflows of Resources	974,312	989,170	3,038	3,836	977,350	993,006	(1.6%)
Liabilities							
Long-term liabilities.....	10,165,698	10,247,203	304,594	312,819	10,470,292	10,560,022	(0.8%)
Other liabilities.....	3,749,575	3,310,805	117,589	135,624	3,867,164	3,446,429	12.2%
Total liabilities.....	13,915,273	13,558,008	422,183	448,443	14,337,456	14,006,451	2.4%
Deferred Inflows of Resources	422,581	400,609	1,357	509	423,938	401,118	5.7%
Net Position							
Net investment in capital assets.....	16,039,329	15,079,318	221,494	218,157	16,260,823	15,297,475	6.3%
Restricted.....	6,064,521	6,068,437	1,226,011	1,023,083	7,290,532	7,091,520	2.8%
Unrestricted.....	(2,049,166)	(3,578,770)	(87,385)	(86,254)	(2,136,551)	(3,665,024)	41.7%
Total net position.....	\$ 20,054,684	\$ 17,568,985	\$ 1,360,120	\$ 1,154,986	\$ 21,414,804	\$ 18,723,971	14.4%

Net Position

The comparison of net position to liabilities may serve, over time, as a useful indicator of the State’s financial strength. At the end of the 2019 fiscal year, the State’s net position totaled \$21.415 billion.

The largest portion of the State’s net position reflects its *net investment in capital assets* (for example, buildings, roads, and bridges) less any related debt used to acquire those assets that is still outstanding. The State uses capital assets to provide services to citizens; consequently, they are *not* available for future spending. Further, the State cannot sell the capital assets to repay the related debt because it needs the assets for its operations; so it must find other resources to repay the debt.

Restricted net position generally is available for future spending but is subject to external restrictions, such as bond covenants, federal government grant restrictions, or restrictions imposed by enabling State legislation or through State constitutional provisions. The State’s largest restricted balances include capital improvement bond proceeds (restricted for various capital projects) and debt service.

Unrestricted net position—resources normally available for future spending without restrictions—reported a deficit balance of (\$2.137) billion at June 30, 2019. This represents an increase in the deficit net position of \$1.528 billion over the prior year. The primary government’s unrestricted deficit net position partially consists of the \$3.957 billion net pension liability and the \$2.965 billion other post-employment benefits other than pensions (OPEB) liability, which are required to be recognized by GASB 68 (see Note 7 starting on page 104) and GASB 75 (see Note 8 starting on page 113), respectively. It should be noted that the deficit unrestricted net position was also offset by increases in restricted net position and net investment in capital assets, resulting in overall increases in the net positions of the State’s *governmental activities* and *business-type activities*.

The State’s *business-type activities* reported an \$87.385 million deficit unrestricted net position. This balance was mostly comprised of a \$48.722 million deficit unrestricted net position in the State-run Patients’ Compensation Fund and a \$36.908 million deficit unrestricted net position in the State-run college Tuition Prepayment Program. The negative unrestricted net position in the Patient Compensation Fund and the Tuition Prepayment Program was the result of projected claims exceeding assets on hand on June 30, 2019.

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

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change
	2019	2018	2019	2018 (as restated)	2019	2018 (as restated)	2019-2018
	Revenues						
Program revenues:							
Charges for services.....	\$ 3,855,126	\$ 3,727,978	\$ 394,187	\$ 458,601	\$ 4,249,313	\$ 4,186,579	1.5%
Operating grants and contributions.....	8,711,747	9,253,825	5,497	5,660	8,717,244	9,259,485	(5.9%)
Capital grants and contributions.....	673,255	977,834	—	—	673,255	977,834	(31.1%)
General revenues:							
Individual income tax.....	4,835,821	4,408,772	—	—	4,835,821	4,408,772	9.7%
Retail sales and use tax.....	5,004,470	4,688,789	—	—	5,004,470	4,688,789	6.7%
Other tax.....	2,791,906	2,652,027	—	—	2,791,906	2,652,027	5.3%
Unrestricted grants and contributions.....	14	38	—	—	14	38	(63.2%)
Unrestricted investment income.....	365,453	160,636	48,530	34,132	413,983	194,768	112.6%
Tobacco legal settlement.....	80,723	81,605	—	—	80,723	81,605	(1.1%)
Other.....	723,194	150,635	4,510	4,545	727,704	155,180	368.9%
Total revenues.....	27,041,709	26,102,139	452,724	502,938	27,494,433	26,605,077	3.3%
Expenses							
Governmental activities:							
General government.....	6,661,431	6,819,685	—	—	6,661,431	6,819,685	(2.3%)
Education.....	4,893,190	4,745,126	—	—	4,893,190	4,745,126	3.1%
Health and environment.....	8,388,809	8,156,138	—	—	8,388,809	8,156,138	2.9%
Social services.....	1,602,776	1,695,379	—	—	1,602,776	1,695,379	(5.5%)
Administration of justice.....	1,013,459	986,839	—	—	1,013,459	986,839	2.7%
Resources and economic development.....	472,696	393,575	—	—	472,696	393,575	20.1%
Transportation.....	1,526,454	1,620,126	—	—	1,526,454	1,620,126	(5.8%)
Other.....	18,211	18,335	—	—	18,211	18,335	(0.7%)
Business-type activities:							
Unemployment compensation benefits.....	—	—	149,581	182,537	149,581	182,537	(18.1%)
Second Injury Fund.....	—	—	12,085	285	12,085	285	4,140.4%
Other.....	—	—	64,908	60,142	64,908	60,142	7.9%
Total expenses.....	24,577,026	24,435,203	226,574	242,964	24,803,600	24,678,167	0.5%
Excess before transfers.....	2,464,683	1,666,936	226,150	259,974	2,690,833	1,926,910	39.6%
Net transfers.....	21,016	9,201	(21,016)	(9,201)	—	—	—
Increase in net position.....	2,485,699	1,676,137	205,134	250,773	2,690,833	1,926,910	39.6%
Net position at beginning of year.....	17,568,985	15,892,848	1,154,986	914,995	18,723,971	16,807,843	11.4%
Restatements ^a.....	—	—	—	(10,782)	—	(10,782)	
Net position at beginning of year, restated ^a.....	17,568,985	15,892,848	1,154,986	904,213	18,723,971	16,797,061	11.5%
Net position, end of year.....	\$ 20,054,684	\$ 17,568,985	\$ 1,360,120	\$ 1,154,986	\$ 21,414,804	\$ 18,723,971	14.4%

a - See Note 15, Fund Equity Reclassifications and Restatements, on pages 145 - 146 of the financial statements.

Changes in Net Position

The State’s total net position of its governmental activities and its business-type activities increased by \$2.691 billion, or 14.4%, over the prior year. This overall improvement in the financial position of the State was experienced primarily through increased tax revenues of the State’s governmental activities.

Governmental Activities

The net position of the State’s governmental activities increased by \$2.486 billion, or 14.1%. Revenue increased from last year by \$939.570 million, or 3.6%, which was comprised of an increase of \$1.659 billion, or 13.7%, in general revenue offset by a decrease of \$719.509 million, or 5.2%, in program revenue. Revenues that support governmental activities are derived

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mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the sources of revenues that support governmental activities.

Expenses associated with governmental activities increased by \$141.823 million, or 0.6%, for the fiscal year ended June 30, 2019. These expenses were mostly associated with services provided for health and environment, education, general government, social services, and transportation. *Exhibit 4* compares the cost of these services with their *program revenues*—revenues derived directly from the program itself or from parties outside the State’s taxpayers or citizenry. The difference between the two represents the *net cost* of these services that taxes and other general revenues financed. For the fiscal year ended June 30, 2019, the State used \$11.337 billion in tax and other general revenues to offset the net cost of all services that the State’s governmental activities provided. Governmental activities received \$21.016 million in net transfers from the State’s business-type activities.

The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2019 fiscal year:

- Individual income tax revenues increased by \$427.049 million, or 9.7%, retail sales and use tax revenues increased by \$315.681 million, or 6.7%, and other taxes revenues increased by \$139.879 million, or 5.3%. Overall tax collections increased during fiscal year 2019 due to increased enforcement and improvements in consumer spending within the state and national economies.
- Capital grants and contributions decreased by \$304.579 million or 31.1% from last year. This was primarily a result of reduced federal transportation reimbursements tied to delayed execution of certain State infrastructure projects and weather-related delays.
- Unrestricted investment income increased by \$204.817 million or 127.5% from the previous fiscal year. This increase was attributed to the availability of higher investable cash balances and increased interest rates during the 2019 fiscal year. Additionally, there was an increase in securities lending investing, which yields higher rates than the other investments the State Treasurer is permitted to invest in by State constitutional limits.
- Resources and economic development expenses increased by \$79.121 million or 20.1% from last year. The reason for this was mostly due to a capital asset donation of \$120.832 million in the 2018 fiscal year that offset the previous year’s expenses compared to only \$2.067 million in similar donations in the fiscal year ended June 30, 2019.
- Transportation expenses decreased by \$93.672 million, or 5.8%, from last year. As stated above, the decrease is primarily the result of delayed execution of projects and weather-related delays.

Exhibit 3
Sources of Revenues Supporting Governmental Activities
For the Fiscal Year Ended June 30, 2019

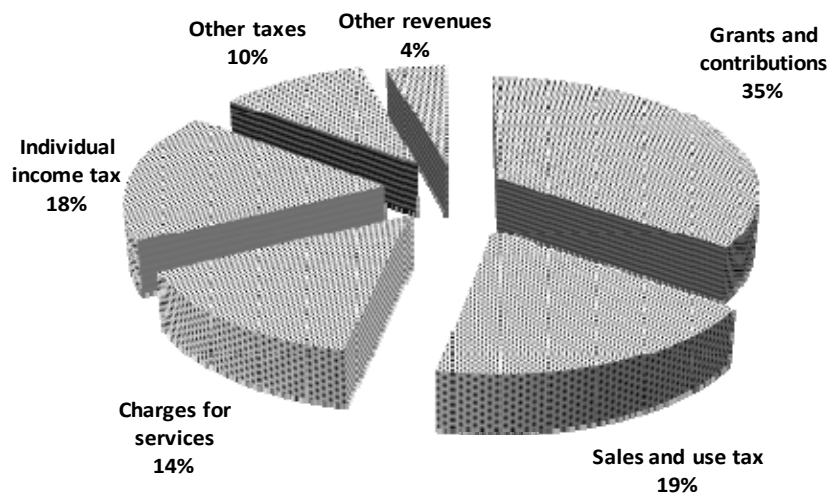
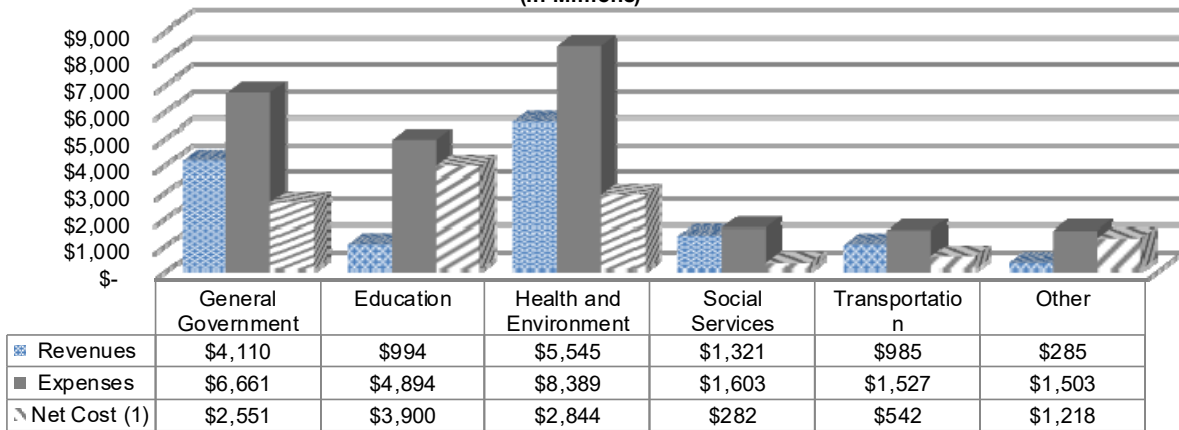


Exhibit 4
Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2019
(In Millions)



(1) - These net costs were funded by taxes and other general revenues.

Business-type Activities

The net position of the State’s business-type activities increased by \$205.134 million, or 17.8%.

Most business-type activities are self-supporting. The Unemployment Compensation Fund accounts for the State’s unemployment compensation benefits in which federal grants and assessments on employers are obtained to pay for the services that the Unemployment Compensation Fund provides. The Unemployment Compensation Fund’s net position as of June 30, 2019 was \$1.180 billion, which was an increase of \$203.036 million, or 20.8% , from last year. The Second Injury Fund serves as a claims processor for insurance carriers, self-insurers, and the State Accident Fund. The Second Injury Fund’s net position as of June 30, 2019 was \$45.998 million, which was a decrease of \$108 thousand, or 0.2%, from last year.

Operating revenues of the Unemployment Compensation Fund increased by \$3.412 million, or 0.9%, and operating expenses for the payment of unemployment compensation benefits decreased by \$32.956 million, or 18.1%, during the 2019 fiscal year. The decreases in operating revenues and expenses resulted from the general decline in unemployment rates throughout the country. Additionally, operating revenues for the Second Injury Fund have decreased by \$50.399 million, or 80.9%, and operating expenses for the payment of Second Injury Fund claims remained at a low level during the 2019 fiscal year due to the Second Injury Fund’s closure plan that took effect in fiscal year 2019.

Financial Analysis of the State’s Funds

The State of South Carolina uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. Within the fund financial statements, the focus is on reporting major funds.

Governmental Funds

Exhibit 5 shows the components of fund balance for the State’s various governmental funds as of June 30, 2019.

Exhibit 5
Governmental Fund Balances
As of June 30 for the Years Indicated
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable.....	\$ 125,746	\$ 15,552	\$ 701,015	\$ 11,681	\$ 11,394	\$ 865,388
Restricted.....	1,194,858	997,196	1,504,036	509,083	555,724	4,760,897
Committed.....	520,128	18,990	—	341,716	198,801	1,079,635
Assigned.....	187,427	22,308	—	—	133,349	343,084
Unassigned.....	3,620,911	(560,631)	—	—	—	3,060,280
Totals.....	\$ 5,649,070	\$ 493,415	\$ 2,205,051	\$ 862,480	\$ 899,268	\$ 10,109,284
Change from prior year.....	\$ 1,441,492	\$ 47,724	\$ 81,977	\$ 100,242	\$ 103,457	\$ 1,774,892
Percentage change.....	34.3%	10.7%	3.9%	13.2%	13.0%	21.3%

At June 30, 2019, total ending fund balance for the State’s governmental funds was \$10.109 billion, which represents an increase of \$1.775 billion, or 21.3%, from the prior year. This total contains an *unassigned* fund balance of \$3.060 billion. The total also includes \$3.621 billion reported by the General Fund as unrestricted, unassigned and available with no constraints for spending in the coming year. In addition, governmental funds that are *restricted* by external parties or enabling legislation which includes creation through state law or constitutional provision constitute 47.1% of the total fund balance. The majority of remaining fund balance is *nonspendable*, *committed*, or *assigned* and is *not* available for future appropriation because it is not in a spendable form or is accessible only for specific purposes.

The *General Fund* is the State’s operating fund. This fund includes resources, such as taxes, that pay for the services that the State traditionally has provided to its citizens. Activity is accounted for in the General Fund unless constraints established by State law or external parties require them to be accounted for in another fund. Increases in the current fiscal year were experienced in individual income tax of \$416.601 million, 9.5%; retail sales and use tax of \$232.862 million, 6.2%; insurance tax of \$13.502 million, 7.1%; other taxes of \$25.121 million, 4.2%; and \$9.323 million, 3.0%, in other revenues from the prior year. General Fund expenditures, which decreased by \$125.428 million, 1.2%, were also below the total General Fund revenues indicating a continued controlling of costs and spending reductions previously mandated by State officials.

The *Departmental Program Services* is a major special revenue fund in which agencies account for primarily restricted resources used to fund program services. These resources provide a supplement for the payment of the services that the State traditionally has provided to its citizens, thus expanding services when possible. During the 2019 fiscal year, the total fund balance increased by \$47.724 million, or 10.7%, from the prior year. The primary source of revenue for the fund is federal revenues, which account for \$7.976 billion, or 92.0%, of the total revenue reported. These grants are reimbursement-based, which generally results in a negative unassigned fund balance until the funds are received.

The *Local Government Infrastructure Fund* accounts for grants, loans and other financial assistance to local governments for infrastructure projects. Certain motor fuel taxes, federal funds, and bond proceeds are the fund’s primary resources. The fund balance increased by \$81.977 million, or 3.9%, during the 2019 fiscal year, leaving a balance of \$2.205 billion at the end of the fiscal year. The increase in fund balance was a result of decreased project expenditures.

The *Department of Transportation (DOT) Special Revenue Fund* accounts for various gasoline taxes, fees, fines, and federal grant resources. DOT uses these resources to pay for its general operations, which include maintenance, regulation, and construction of public highways and bridges. The fund balance increased by \$100.242 million, or 13.2%, during the 2019 fiscal year, leaving a balance of \$862.480 million at the end of the fiscal year. The increase in fund balance was primarily a result of the 2-cent per year gas tax increase for road projects and maintenance. DOT is in the process of contracting with vendors to undertake these road projects.

Nonmajor Governmental Funds are used to account for funds that are restricted for specific purposes, including education, healthcare, and local governments. The \$103.457 million, or 13.0%, increase in fund balance during the 2019 fiscal year was primarily the result of increases in Education Lottery revenues and less transfers out to the General Fund.

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Proprietary Funds

Exhibit 6 shows the components of the net position for the State's various proprietary funds at June 30, 2019.

Exhibit 6
Proprietary Fund Net Position
As of June 30 for the Years Indicated
(Expressed in Thousands)

<u>Fund Net Position</u>	<u>Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Unemployment Compensation</u>	<u>Second Injury</u>	<u>Nonmajor Enterprise</u>	<u>Total Enterprise</u>	
Net investment in capital assets.....	\$ —	\$ —	\$ 221,494	\$ 221,494	\$ 102,064
Restricted, expendable.....	1,180,013	45,998	—	1,226,011	398,445
Unrestricted.....	—	—	(87,385)	(87,385)	226,099
Totals.....	\$ 1,180,013	\$ 45,998	\$ 134,109	\$ 1,360,120	\$ 726,608
Change from prior year.....	\$ 203,036	\$ (108)	\$ 2,206	\$ 205,134	\$ 109,394
Percentage change.....	20.8%	(0.2%)	1.7%	17.8%	17.7%

The State has two kinds of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are reported as business-type activities in the government-wide financial statements. Enterprise funds sell goods or services primarily to parties outside of State government.

The net position of the *Unemployment Compensation Benefits Fund*, a major enterprise fund, increased by \$203.036 million, or 20.8%, over the prior year. Decreases in the number of individuals eligible for and claiming State unemployment insurance benefits resulted in the improved net position and enabled the Fund to operate without obtaining additional advances from the Federal government since May 2011.

The net position of the *Second Injury Fund*, a major enterprise fund, decreased by \$108 thousand, or 0.2%, over the prior year. As stated on page 29, the Second Injury Fund's closure plan started to take effect in fiscal year 2019. The last assessment for this plan was made in fiscal year 2018.

The net position of the State's *nonmajor enterprise funds* increased by \$2.206 million, or 1.7%, over the prior year. The increase in the State's *nonmajor enterprise funds'* net position was primarily due to an increase of \$1.982 million in charges for services and a decrease of \$773 thousand within general operations and administration expenses within the *Palmetto Railways Fund*.

South Carolina's *internal service funds* provide certain services (including maintenance, insurance, printing, information technology, and motor pool services) to other State funds but sometimes to local governments as well. Internal Service Funds experienced an increase to their net position of \$109.394 million, or 17.7%, in the 2019 fiscal year. The objective of an internal service fund is to charge its customers for the costs of the services or goods that it provides. Because internal service funds benefit primarily State government, South Carolina reports them as governmental activities in the government-wide financial statements.

Budgetary General Fund Highlights

Estimated revenues for the 2019 fiscal year were \$8.236 billion. Actual revenues at June 30, 2019, were \$568.148 million, or 6.9%, over the estimated revenue used in the fiscal year 2019 budget appropriations act. This also represented an increase in collections over the prior year of \$680.487 million, or 8.4%. Individual income and sales tax collections are the fund's major revenue sources. Individual income tax collections ended the year over the adjusted estimate by \$298.656 million and sales tax collections ended the year over the adjusted estimate by \$40.156 million.

Actual expenditures were \$662.590 million less than actual revenues. Also, expenditures were kept \$432.182 million under fiscal year 2019 adjusted appropriations. In addition, \$8.144 million of unbudgeted spending occurred through "open-ended" appropriations.

Based on the above results of operations, fiscal year 2019 ended with a budgetary surplus, which resulted in a budgetary General Fund balance after reservation of \$1.709 billion.

See the *Required Supplementary Information* section on pages 183 through 190 of this report for a detailed budgetary comparison schedule.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2019 fiscal year, the State had \$18.462 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$660.058 million, or 3.7%, over the previous fiscal year (see Exhibit 7).

Exhibit 7
Capital Assets, Net of Depreciation
As of June 30 for the Years Indicated
(Expressed in Thousands)

	Governmental		Business-type		Totals—Primary Government		Total
	Activities		Activities				Percentage
	2019	2018	2019	2018	2019	2018	Change
Land and improvements.....	\$ 2,202,040	\$ 2,158,958	\$ 170,104	\$ 177,050	\$ 2,372,144	\$ 2,336,008	1.5%
Infrastructure.....	10,958,223	10,466,504	—	—	10,958,223	10,466,504	4.7%
Buildings and improvements.....	1,043,605	1,092,507	16,027	10,915	1,059,632	1,103,422	(4.0%)
Vehicles.....	242,268	228,442	325	475	242,593	228,917	6.0%
Machinery and equipment.....	201,194	184,469	3,362	3,385	204,556	187,854	8.9%
Works of art and historical treasures...	6,642	9,519	—	—	6,642	9,519	(30.2%)
Construction in progress.....	3,438,744	3,320,255	94,110	88,470	3,532,854	3,408,725	3.6%
Intangible assets.....	84,870	60,379	789	917	85,659	61,296	39.7%
Total.....	\$18,177,586	\$17,521,033	\$ 284,717	\$ 281,212	\$18,462,303	\$ 17,802,245	3.7%

Growth in capital asset investment occurred mostly in infrastructure (roads and bridges), construction in progress, and intangible assets. The Department of Transportation recognized a net \$139.954 million increase in construction in progress and land and improvements. Also, the Department of Transportation converted \$715.982 million of previous year construction in progress into mostly infrastructure. These additions are part of new and on-going infrastructure projects within the Department of Revenue Special Revenue Fund. Additionally, intangible asset growth primarily relates to new software systems coming online within the Department of Employment and Workforce, which totaled \$30.113 million.

See Note 6 in the notes to the financial statements on page 102 of this report for additional information on the State’s capital assets.

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Debt Outstanding

At June 30, 2019, the State had \$2.249 billion in bonds and notes outstanding—a decrease of \$203.240 million, or a 8.3%, from the previous year (see *Exhibit 8*).

Exhibit 8
Outstanding Bonds and Notes
As of June 30 for the Years Indicated
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change
	2019	2018	2019	2018	2019	2018	2019-2018
Backed by the State:							
General obligation bonds.....	\$ 457,555	\$ 564,811	\$ —	\$ —	\$ 457,555	\$ 564,811	(19.0%)
Backed by Specific Revenues:							
Revenue bonds and notes.....	134,348	146,154	11,875	12,055	146,223	158,209	(7.6%)
Infrastructure Bank bonds.....	1,645,007	1,729,005	—	—	1,645,007	1,729,005	(4.9%)
Total.....	\$2,236,910	\$ 2,439,970	\$ 11,875	\$ 12,055	\$2,248,785	\$ 2,452,025	(8.3%)

The repayment of principal on outstanding debt exceeded issuances of debt, resulting in a decrease in debt outstanding for governmental activities of \$203.060 million, or 8.3%. Contributing to this decline was a major refunding of Infrastructure Bank bonds.

Three bond rating services assign ratings to bonds backed by the State with its own taxing authority (*general obligation bonds*). Fitch Ratings rated these bonds as “AAA” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2019, the highest rating that these services assign. The State’s bond rating from Standard & Poor’s was “AA+” during the same period, its second highest rating.

The State limits the amount of annual payments for principal and interest (or annual debt service) on general obligation bonds and notes rather than directly limiting the amount of those bonds and notes that the State may have outstanding. At June 30, 2019, the State had the legal capacity to issue additional bonds as long as the new debt would not increase annual principal and interest payments by more than the following amounts: \$68.809 million for highway bonds, \$442.009 million for general obligation bonds (excluding institution and highway bonds), \$36.077 million for economic development bonds, and \$21.191 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements on page 136 of this report for additional information about the State’s long-term debt.

Economic Factors and Next Year’s Budget

The “Rainy Day Account”

At June 30, 2019, the General Reserve Fund, also called the rainy day account, which was appropriated by the 2018-2019 Appropriations Act, had a balance of \$379.123 million, which increased from the prior year by \$15.571 million. The State’s rainy day account is fully funded in accordance with the State’s Constitution. In any year that funds are withdrawn from this account, the State’s Constitution requires restoration of the reserve to full funding within three fiscal years. State law defines full funding for the reserve as 5.0% of the Budgetary General Fund’s revenues of the prior fiscal year.

Budgetary General Fund for the 2019-2020 Fiscal Year

For fiscal year 2020, the Board of Economic Advisors estimated General Fund cash basis revenue of \$8.737 billion, which is \$67.740 million, or 0.7%, less than fiscal year 2019 actual revenue collections. In November 2019, the State’s Board of Economic Advisors changed their fiscal year 2020 estimate to reflect an additional increase of \$487.110 million, or 5.6%, over its original revenue estimate.

Economic Conditions

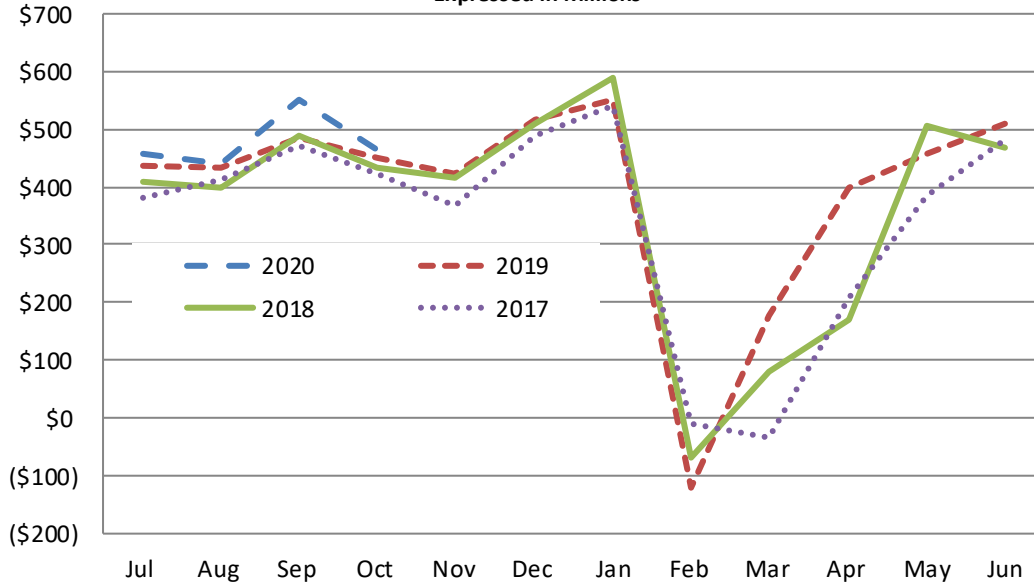
Budgetary General Fund revenues for the first four months of fiscal year 2020 were \$3.158 billion, an increase of \$196.397 million, or 6.6%, over the same period for fiscal year 2019. Total individual income taxes collected have increased by \$106.493

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million, or 5.9%, over the same period in the prior year. Sales taxes have increased by \$72.227 million, or 9.3%, from the first four months of fiscal year 2019.

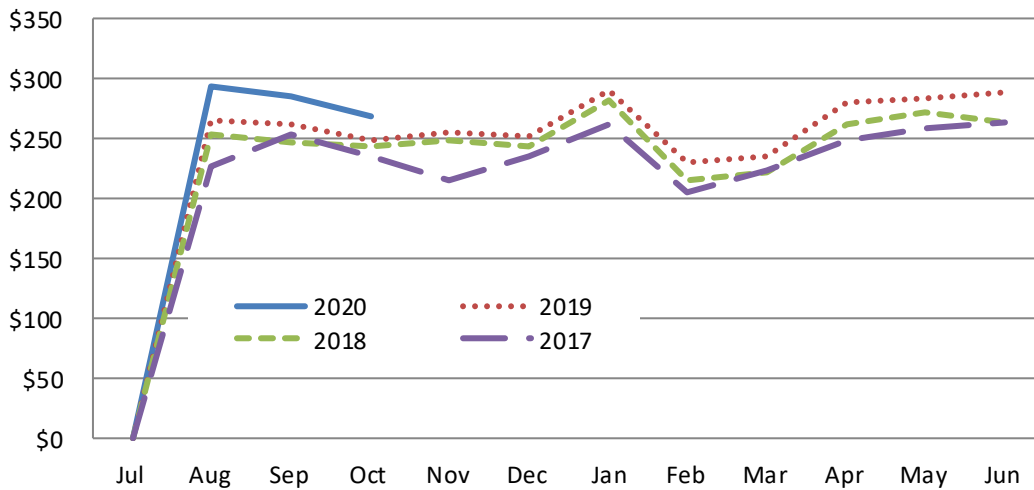
Individual Income Taxes

Expressed in Millions



Sales Tax

(Expressed in Millions)



Requests for Information

The primary purpose of this financial report is to provide South Carolina's citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Please address any questions concerning information in this report to:

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ATTN: Chief of Staff
1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201