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

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## Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2022. 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, including 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 have been 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 (included in Note 1a of the notes to the financial statements on page 70).

### Fund Financial Statements

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

# State of South Carolina

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The State reports three types of *funds*:

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

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

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

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

***Fiduciary funds:*** The State is the trustee, or *fiduciary*, for its employees' retirement and other post-employment benefit plans. The State also is responsible for other assets that, because of a trust-like arrangement, 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 182 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, as well as on the Retiree Health Insurance Trust Fund and the Long-Term Disability Insurance Trust Fund. 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 265 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
	2021		2021		2021		2022-2021
	2022	(as restated)	2022	2021	2022	(as restated)	
<b>Assets</b>							
Current and other assets.....	\$26,074,811	\$ 22,038,469	\$1,937,866	\$ 1,658,645	\$28,012,677	\$ 23,697,114	18.2%
Capital and leased assets.....	19,870,243	19,433,450	319,113	324,093	20,189,356	19,757,543	2.2%
<b>Total assets.....</b>	<b>45,945,054</b>	<b>41,471,919</b>	<b>2,256,979</b>	<b>1,982,738</b>	<b>48,202,033</b>	<b>43,454,657</b>	<b>10.9%</b>
<b>Deferred Outflows of Resources</b>	<b>1,882,840</b>	<b>1,695,060</b>	<b>15,574</b>	<b>14,776</b>	<b>1,898,414</b>	<b>1,709,836</b>	<b>11.0%</b>
<b>Liabilities</b>							
Long-term liabilities.....	10,758,631	11,022,494	248,271	268,096	11,006,902	11,290,590	(2.5%)
Other liabilities.....	7,597,584	4,596,892	156,269	164,109	7,753,853	4,761,001	62.9%
<b>Total liabilities.....</b>	<b>18,356,215</b>	<b>15,619,386</b>	<b>404,540</b>	<b>432,205</b>	<b>18,760,755</b>	<b>16,051,591</b>	<b>16.9%</b>
<b>Deferred Inflows of Resources</b>	<b>1,157,681</b>	<b>565,569</b>	<b>10,892</b>	<b>5,454</b>	<b>1,168,573</b>	<b>571,023</b>	<b>104.6%</b>
<b>Net Position</b>							
Net investment in capital assets.....	18,048,684	17,534,618	307,828	312,603	18,356,512	17,847,221	2.9%
Restricted.....	11,054,061	9,497,442	1,588,210	1,366,066	12,642,271	10,863,508	16.4%
Unrestricted.....	(788,747)	(3,579,868)	(38,917)	(118,814)	(827,664)	(3,698,682)	77.6%
<b>Total net position.....</b>	<b>\$28,313,998</b>	<b>\$23,452,192</b>	<b>\$1,857,121</b>	<b>\$ 1,559,855</b>	<b>\$30,171,119</b>	<b>\$25,012,047</b>	<b>20.6%</b>

**Net Position**

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 Transportation, General Government, and Education.

*Unrestricted* net position—resources normally available for future spending without restrictions—reported a deficit balance of (\$827.664) million at June 30, 2022. This represents an increase of net position of \$2.871 billion over the prior year. Most of this increase resulted from a \$1.539 billion increase in federal grants and a \$2.933 billion increase in tax revenues. The increases in federal grant monies and tax revenues were the result of large federal grants to fight the COVID pandemic and federal stimulus monies to help keep the United States economy from declining.

The State’s *business-type activities* reported a (\$38,917)thousand unrestricted net position. This represents an increase of \$79.897 million over the previous fiscal year. This resulted mostly from the 2022 fiscal year realizing net revenues of \$329.538 million as opposed to realizing net expenses of \$337.043 million in the 2021 fiscal year. The reasons for this were mostly due to the Unemployment Compensation Fund benefits and claims expenses dropping by \$3.527 billion as a result of the COVID pandemic relenting during the 2022 fiscal year, while its operating revenues fell by \$2.898 billion during the same period. Additionally, the Tuition Prepayment Program received \$31.900 million from the State to eliminate its previous years’ negative net deficits. It ended the year with a net position of \$2.773 million.

*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
	2021		2021		2021		
	2022	(as restated)	2022	2021	2022	(as restated)	
<b>Revenues</b>							
Program revenues:							
Charges for services.....	\$ 4,443,641	\$ 4,421,231	\$ 376,738	\$ 325,665	\$ 4,820,379	\$ 4,746,896	1.5%
Operating grants and contributions.....	14,105,152	13,306,491	39,439	2,969,920	14,144,591	16,276,411	(13.1%)
Capital grants and contributions.....	941,283	707,650	36,159	20,966	977,442	728,616	34.2%
General revenues:							
Individual income tax.....	6,932,111	5,584,914	—	—	6,932,111	5,584,914	24.1%
Retail sales and use tax.....	7,092,123	6,106,578	—	—	7,092,123	6,106,578	16.1%
Other taxes.....	3,902,267	3,302,243	—	—	3,902,267	3,302,243	18.2%
Unrestricted investment income.....	(573,226)	71,582	10,944	48,517	(562,282)	120,099	(568.2%)
Loss on termination of hedge accounting.....	—	—	—	—	—	—	(100.0%)
Tobacco legal settlement.....	88,544	88,349	—	—	88,544	88,349	0.2%
Other.....	751,363	927,258	775	1,213	752,138	928,471	(19.0%)
<b>Total revenues.....</b>	<b>37,683,258</b>	<b>34,516,296</b>	<b>464,055</b>	<b>3,366,281</b>	<b>38,147,313</b>	<b>37,882,577</b>	<b>0.7%</b>
<b>Expenses</b>							
Governmental activities:							
General government.....	8,029,072	9,116,325	—	—	8,029,072	9,116,325	(11.9%)
Education.....	8,413,741	6,526,062	—	—	8,413,741	6,526,062	28.9%
Health and environment.....	9,775,171	9,182,050	—	—	9,775,171	9,182,050	6.5%
Social services.....	3,416,209	2,454,063	—	—	3,416,209	2,454,063	39.2%
Administration of justice.....	1,124,187	1,105,209	—	—	1,124,187	1,105,209	1.7%
Resources and economic development.....	618,983	497,983	—	—	618,983	497,983	24.3%
Transportation.....	1,467,938	1,723,643	—	—	1,467,938	1,723,643	(14.8%)
Other.....	8,423	8,135	—	—	8,423	8,135	3.5%
Business-type activities:							
Unemployment compensation benefits.....	—	—	69,049	3,595,804	69,049	3,595,804	(98.1%)
Second Injury Fund.....	—	—	13,915	1,205	13,915	1,205	1,054.8%
Other.....	—	—	51,553	106,315	51,553	106,315	(51.5%)
<b>Total expenses.....</b>	<b>32,853,724</b>	<b>30,613,470</b>	<b>134,517</b>	<b>3,703,324</b>	<b>32,988,241</b>	<b>34,316,794</b>	<b>(3.9%)</b>
<b>Excess (deficiency) before transfers.....</b>	<b>4,829,534</b>	<b>3,902,826</b>	<b>329,538</b>	<b>(337,043)</b>	<b>5,159,072</b>	<b>3,565,783</b>	<b>44.7%</b>
Net transfers.....	32,272	(310,364)	(32,272)	310,364	—	—	—
<b>Change in net position.....</b>	<b>4,861,806</b>	<b>3,592,462</b>	<b>297,266</b>	<b>(26,679)</b>	<b>5,159,072</b>	<b>3,565,783</b>	<b>44.7%</b>
<b>Net position at beginning of year, as restated.....</b>	<b>23,452,192</b>	<b>22,658,037</b>	<b>1,559,855</b>	<b>1,586,534</b>	<b>25,012,047</b>	<b>24,244,571</b>	<b>3.2%</b>
Restatements <sup>a</sup> .....	—	(2,798,307)	—	—	—	(2,798,307)	
<b>Net position at beginning of year, as restated <sup>a</sup>.....</b>	<b>23,452,192</b>	<b>19,859,730</b>	<b>1,559,855</b>	<b>1,586,534</b>	<b>25,012,047</b>	<b>21,446,264</b>	<b>16.6%</b>
<b>Net position, end of year.....</b>	<b>\$28,313,998</b>	<b>\$23,452,192</b>	<b>\$1,857,121</b>	<b>\$1,559,855</b>	<b>\$30,171,119</b>	<b>\$25,012,047</b>	<b>20.6%</b>

a - See Note 15, Fund Equity Reclassifications and Restatements, on page 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 \$5.159 billion, or 20.6%, over the prior year. This overall improvement in the financial position of the State was experienced primarily through increased tax revenues and federal grant revenues within the State’s governmental activities.

# State of South Carolina

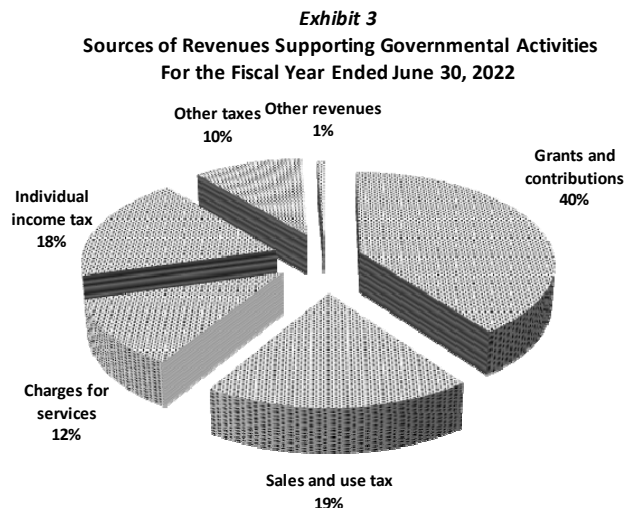
## Governmental Activities

The net position of the State’s governmental activities increased by \$4.862 billion, or 20.7%. Revenue increased from last year by \$3.167 billion, or 9.2%, which was mostly comprised of an increase of \$2.112 billion, or 13.1%, in general revenue. Revenues that support governmental activities are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the sources of revenues that support governmental activities.

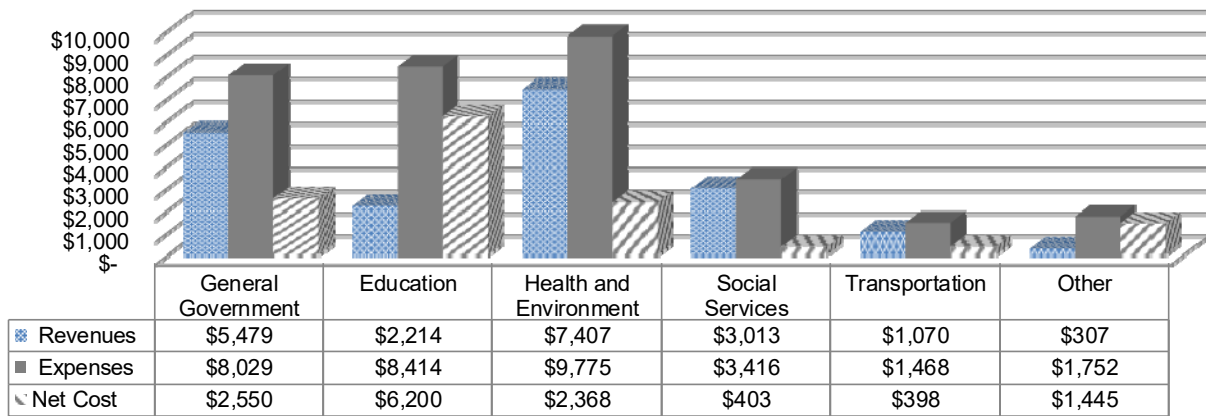
Expenses associated with governmental activities increased by \$2.240 billion, or 7.3%, for the fiscal year ended June 30, 2022. These expenses were mostly associated with services provided for health and environment, education, general government, social services, and transportation. *Exhibit 4* compares 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, 2022, the State used \$13.364 billion in tax and other general revenues to offset the net cost of all services that the State’s governmental activities provided. Business-type activities transferred \$32.272 million to the State’s governmental activities.

The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2022 fiscal year:

- Individual income tax revenues increased by \$1.347 billion, or 24.1%, retail sales and use tax revenues increased by \$985.545 million, or 16.1%, and other taxes revenues increased by \$600.024 million, or 18.2%. Overall tax collections increased during fiscal year 2022 due to increased enforcement and improvements in consumer spending for the majority of the fiscal year 2022.
- Operating grants and contributions increased by \$798.661 million, or 6.0%, over the prior year. This was primarily due to increased federal funding to fight the COVID-19 pandemic and to federal economic stimulus funding.
- Unrestricted investment income decreased by \$644.808 million, or 900.8%, from the previous fiscal year. This decrease was attributed to unrealized losses on investments. With climbing interest rates in the overall nation’s economy, the State’s investments (at lower interest rates) have unrealized losses compared to higher interest low-risk investments in the market. However, when these investments mature, a loss of actual cash will not be realized.
- General government expenses decreased by \$1.087 billion, or 11.9% over the prior year. The decrease in general government expenses was attributable to a reduction in COVID-related expenses as the pandemic subsided in severity during the 2022 fiscal year.
- Education expenses increased by \$1.888 billion, or 28.9% over the prior fiscal year. The increase in education expenses was primarily due to additional State appropriations to school districts for teacher salaries and per student funding. Additionally, the State’s schools and higher education institutions were granted \$531.210 million more in supplemental appropriations at the end of fiscal year 2021 than at the end of fiscal year 2020. Those additional appropriations were mostly spent in fiscal year 2022.
- Social services expenses increased by \$962.146 million, or 39.2%, due to the increase in demand for services largely caused by the COVID-19 pandemic and sharply rising inflation within the nation’s overall economy.
- Transportation expenses decreased by \$255.705 million, or 14.8%. The decrease was attributed to delayed execution of program expenses for permanent improvements and maintenance and weather-related delays.



*Exhibit 4*  
**Governmental Activities - Net Cost of Services**  
**For the Fiscal Year Ended June 30, 2022**  
**(In Millions)**



**Business-type Activities**

The net position of the State’s business-type activities increased by \$297.266 million, or 19.1%.

Most business-type activities are intended to be 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, 2022 was \$1.541 billion, which was an increase of \$254.628 million, or 19.8%, 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, 2022 was \$46.917 million, which was a decrease of \$18.467 million, or 28.2%, from last year.

Operating revenues of the Unemployment Compensation Fund decreased by \$2.918 billion, or 89.8%, and operating expenses for the payment of unemployment compensation benefits decreased by \$3.527 billion, or 98.1%, during the 2022 fiscal year. The decreases in operating revenues and expenses resulted directly from the waning and greatly reduced effects of the COVID-19 pandemic on unemployment rates within the State and throughout the country. Additionally, operating revenues for the Second Injury Fund have increased by \$2.467 million, or 21.6%, and operating expenses for the payment of Second Injury Fund claims remained at a low level during the 2022 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, 2022.

Exhibit 5

**Governmental Fund Balances**  
**For the Fiscal Year Ended June 30, 2022**  
*(Expressed in Thousands)*

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable.....	\$ 146,639	\$ 48,419	\$ —	\$ 10,130	\$ 11,832	\$ 217,020
Restricted.....	1,619,684	1,101,606	2,312,522	1,918,221	1,663,449	8,615,482
Committed.....	826,611	34,475	—	—	55,583	916,669
Assigned.....	540,030	139,275	—	—	253,426	932,731
Unassigned.....	7,501,115	(477,783)	—	—	(689,306)	6,334,026
<b>Totals.....</b>	<b>\$10,634,079</b>	<b>\$ 845,992</b>	<b>\$ 2,312,522</b>	<b>\$ 1,928,351</b>	<b>\$ 1,294,984</b>	<b>\$17,015,928</b>
<b>Change from prior year.....</b>	<b>\$ 3,533,519</b>	<b>\$ 415,689</b>	<b>\$ 93,766</b>	<b>\$ 459,526</b>	<b>\$ 194,958</b>	<b>\$ 4,697,458</b>
<b>Percentage change.....</b>	<b>49.8%</b>	<b>96.6%</b>	<b>4.2%</b>	<b>31.3%</b>	<b>17.7%</b>	<b>38.1%</b>

At June 30, 2022, total ending fund balance for the State’s governmental funds was \$17.016 billion, which represents an increase of \$4.697 billion, or 38.1%, from the prior year. This total contains an *unassigned* fund balance of \$6.334 billion. The total also includes \$7.501 billion reported by the General Fund as 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 50.6% of the total fund balance. The 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 \$1.349 billion, or 24.3%; retail sales and use tax of \$787.071 million, or 16.4%; and other taxes of \$115.684 million, or 16.3%, from the prior year. These revenues grew due to improving consumer sentiment that existed for most of the 2022 fiscal year along with the effects of federal stimulus programs. General Fund expenditures, which increased (including prior year restatements) by \$1.257 billion, or 11.3%, were also below the total General Fund revenues, indicating a continued controlling of costs and spending reductions previously mandated by State officials. Additionally, General Fund expenditures were lower than budgeted because of labor shortages that slowed the hiring of employees within most areas of the State’s government. This was especially felt in the State’s correctional system, which lapsed a significant portion of its 2022 fiscal year budget back into the General Fund because it was unable to hire the amount of employees it was intending to hire within the fiscal year.

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 2022 fiscal year, the total fund balance increased by \$415.689 million, or 96.6%, from the prior year. The increase in fund balance was primarily the result of an increase in federal grant funding of \$881.989 million, or 7.3% over the previous fiscal year. The increase in federal funding was related to the national efforts to fight the COVID-19 pandemic and to various federal economic stimulus programs. The federal funding is mostly grants that are primarily reimbursement-based.

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 \$93.766 million, or 4.2%, during the 2022 fiscal year, leaving a balance of \$2.313 billion at the end of the fiscal year. The increase in fund balance was mostly the result of net other financing sources related to a bond refunding of \$66.606 million.

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 \$459.526 million, or 31.3%, during the 2022 fiscal year, leaving a balance of \$1.928 billion 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 undertaking 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 \$194.958 million, or 17.7%, increase in fund balance during the 2022 fiscal year was primarily the result of a \$194.843 million, or 14.9%, increase in accommodations and local option sales tax revenues. The increase can be attributed to South Carolina’s rapidly growing tourism industry.



Proprietary Funds

Exhibit 6 shows the components of the net position for the State’s various proprietary funds at June 30, 2022.

Exhibit 6  
**Proprietary Fund Net Position**  
**For the Fiscal Year Ended June 30, 2022**  
*(Expressed in Thousands)*

<u>Fund Net Position</u>	<u>Enterprise Funds</u>			<u>Total Enterprise</u>	<u>Internal Service Funds</u>
	<u>Unemployment Compensation</u>	<u>Second Injury</u>	<u>Nonmajor Enterprise</u>		
Net investment in capital assets.....	\$ —	\$ —	\$ 307,828	\$ 307,828	\$ 76,146
Restricted, expendable.....	1,541,293	46,917	—	1,588,210	372,159
Unrestricted.....	—	—	(38,917)	(38,917)	238,225
<b>Totals.....</b>	<b>\$ 1,541,293</b>	<b>\$ 46,917</b>	<b>\$ 268,911</b>	<b>\$ 1,857,121</b>	<b>\$ 686,530</b>
<b>Change from prior year.....</b>	<b>\$ 254,628</b>	<b>\$ (18,467)</b>	<b>\$ 61,105</b>	<b>\$ 297,266</b>	<b>\$(203,782)</b>
<b>Percentage change.....</b>	<b>19.8%</b>	<b>(28.2%)</b>	<b>29.4%</b>	<b>19.1%</b>	<b>(22.9%)</b>

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

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

The net position of the *Unemployment Compensation Benefits Fund*, a major enterprise fund, increased by \$254.628 million, or 19.8%, over the prior year. As stated on page 26, the reasons for this were mostly due to the Unemployment Compensation Fund benefits and claims expenses dropping by \$3.527 billion as a result of the COVID pandemic relenting during the 2022 fiscal year, while its operating revenues fell by \$2.898 billion during the same period.

The net position of the *Second Injury Fund*, a major enterprise fund, decreased by \$18.467 million, or 28.2%, 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 \$61.105 million, or 29.4%, over the prior year. As stated on page 26, the increase in the State’s *nonmajor enterprise funds’* net position was primarily due the Tuition Prepayment Program receiving \$31.900 million from the State to eliminate its previous years’ negative net deficits. Additionally, the combined pension and OPEB liabilities of the State’s *nonmajor enterprise funds’* fell by \$5.661 million, or 7.6%, from \$74.456 million at June 30, 2021 to \$68.795 million at June 30, 2022.

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 a decrease to their net position of \$203.782 million, or 22.9%, in the 2022 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. \$136.299 million, or 66.9%, of the decrease in the State’s *internal service funds’* net position can be attributed to the increase in the State’s Employee Insurance Fund’s benefits and claims paid from the previous fiscal year.

**Budgetary General Fund Highlights**

Estimated revenues for the 2022 fiscal year were \$12.124 billion. Actual revenues at June 30, 2022, were \$880.126 million, or 7.3%, over the estimated revenue used in the fiscal year 2022 budget appropriations act. This also represented an increase in collections over the prior year of \$2.545 billion, or 24.3%. 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 \$439.411 million and sales tax collections ended the year over the adjusted estimate by \$246.661 million.

Actual expenditures were \$3.432 billion less than actual revenues. Also, expenditures were kept \$1.454 billion under fiscal year 2022 adjusted appropriations. In addition, \$1.434 billion of unbudgeted spending occurred through “open-ended” appropriations. Actual expenditures were kept under actual revenues and budgeted expenditures due to conservative budgeting practices by the State, as the economy throughout fiscal year 2022 was highly unpredictable with rapidly rising inflation and a stock market correction in the second half of the fiscal year.

# State of South Carolina

Based on the above results of operations, fiscal year 2022 ended with a budgetary surplus, which resulted in a budgetary General Fund balance after reservation of \$6.866 billion.

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

## Capital Assets, Leased Assets, and Debt Administration

### Capital Assets

At the end of the 2022 fiscal year, the State had \$20.067 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$425.649 million, or 2.2%, over the previous fiscal year (see *Exhibit 7-1*).

*Exhibit 7-1*  
**Capital Assets, Net of Depreciation**  
**As of June 30 for the Years Indicated**  
*(Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change
	2021		2022	2021	2021		2022-2021
	2022	(as restated)			(as restated)	2022	
Land and improvements.....	\$ 2,444,811	\$ 2,336,605	\$ 187,060	\$ 191,184	\$ 2,631,871	\$ 2,527,789	4.1%
Infrastructure.....	11,646,488	11,490,949	—	—	11,646,488	11,490,949	1.4%
Buildings and improvements.....	914,574	962,974	10,524	14,227	925,098	977,201	(5.3%)
Vehicles.....	281,323	269,767	497	633	281,820	270,400	4.2%
Machinery and equipment.....	219,499	227,223	3,670	3,967	223,169	231,190	(3.5%)
Works of art and historical treasures...	3,236	3,296	—	—	3,236	3,296	(1.8%)
Construction in progress.....	4,162,152	3,883,574	117,362	114,082	4,279,514	3,997,656	7.1%
Intangible assets.....	75,741	142,807	—	—	75,741	142,807	(47.0%)
<b>Total.....</b>	<b>\$19,747,824</b>	<b>\$19,317,195</b>	<b>\$ 319,113</b>	<b>\$ 324,093</b>	<b>\$20,066,937</b>	<b>\$ 19,641,288</b>	<b>2.2%</b>

Growth in capital asset investment occurred mostly in infrastructure and construction in progress. The Department of Transportation converted \$389.451 million of previous and current year construction in progress into infrastructure and added a net of \$267.347 million to construction in progress. These additions are part of new and on-going infrastructure projects within the Department of Transportation Special Revenue Fund and are funded by federal grants and the 2-cent per year gas tax increase for road projects and maintenance.

### Leased Assets

At the end of the 2022 fiscal year, the State had \$122.419 million in leased assets, net of amortization. This represented a net decrease (including additions and deductions) of \$2.424 million, or 2.0%, over the previous fiscal year (see *Exhibit 7-2*).

*Exhibit 7-2*  
**Leased Assets, Net of Amortization**  
**As of June 30 for the Years Indicated**  
*(Expressed in Thousands)*

	Governmental Activities		Total Percentage Change
	2021		2022-2021
	2022	(as restated)	
Land and improvements.....	\$ 2,603	\$ 2,561	1.6%
Buildings and improvements.....	109,810	106,605	3.0%
Machinery and equipment.....	10,006	10,829	(7.6%)
<b>Total.....</b>	<b>\$ 122,419</b>	<b>\$ 119,995</b>	<b>2.0%</b>

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

# State of South Carolina

## Debt Outstanding

At June 30, 2022, the State had \$1.747 billion in bonds and notes outstanding—a decrease of \$103.765 million, or a 5.6%, 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		Business-type		Totals—Primary Government		Total
	Activities		Activities				Percentage
	2022	2021	2022	2021	2022	2021	Change 2022-2021
<b>Backed by the State:</b>							
General obligation bonds.....	\$ 193,969	\$ 265,229	\$ —	\$ —	\$ 193,969	\$ 265,229	(26.9%)
<b>Backed by Specific Revenues:</b>							
Revenue bonds and notes.....	100,206	102,026	11,285	11,490	111,491	113,516	(1.8%)
Infrastructure Bank bonds.....	1,441,839	1,472,319	—	—	1,441,839	1,472,319	(2.1%)
<b>Total.....</b>	<b>\$1,736,014</b>	<b>\$1,839,574</b>	<b>\$ 11,285</b>	<b>\$ 11,490</b>	<b>\$1,747,299</b>	<b>\$1,851,064</b>	<b>(5.6%)</b>

The repayment of principal on outstanding debt exceeded issuances of debt, resulting in a decrease in debt outstanding for governmental activities of \$103.560 million, or 5.6%. Contributing to this decline was a major refunding of general obligation 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, 2022, 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, 2022, 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: \$111.650 million for highway bonds, \$597.058 million for general obligation bonds (excluding institution and highway bonds), \$48.009 million for economic development bonds, and \$47.437 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements on page 138 of this report for additional information about the State’s long-term debt.

## Economic Factors and Next Year’s Budget

### The “Rainy Day Account”

The State’s General Reserve Fund, also called the rainy day account, had a \$458.961 million balance at June 30, 2022, which was \$18.723 million greater than the balance a year earlier. Funding for this reserve is mandated by State law and by the State Constitution. If the State withdraws funds from the General Reserve Fund to cover a year-end deficit, it must replace the funds within five years. The State Constitution also requires that at least one percent of the Budgetary General Fund revenue of the latest completed fiscal year, if so much is necessary, be restored each year following the deficit until full funding is achieved. In any year withdrawals are made that reduce the account below its pre-determined full-funding level, the State Constitution requires that full-funding of the General Reserve Fund be restored within three fiscal years. State law defines full funding as 5.0% of the Budgetary General Fund’s revenues of the prior fiscal year.

### Forecasted Budgetary General Fund Revenues for Fiscal Year 2023

In May 2022, the State Board of Economic Advisors (BEA) forecast that there would be \$11.215 billion of budgetary General Fund revenues for fiscal year 2023, which was \$1.789 billion, or 13.8%, less than actual corresponding revenues collected in fiscal year 2022. In November 2022, the BEA increased its 2023 fiscal year forecast another \$1.285 billion. As a

# State of South Carolina

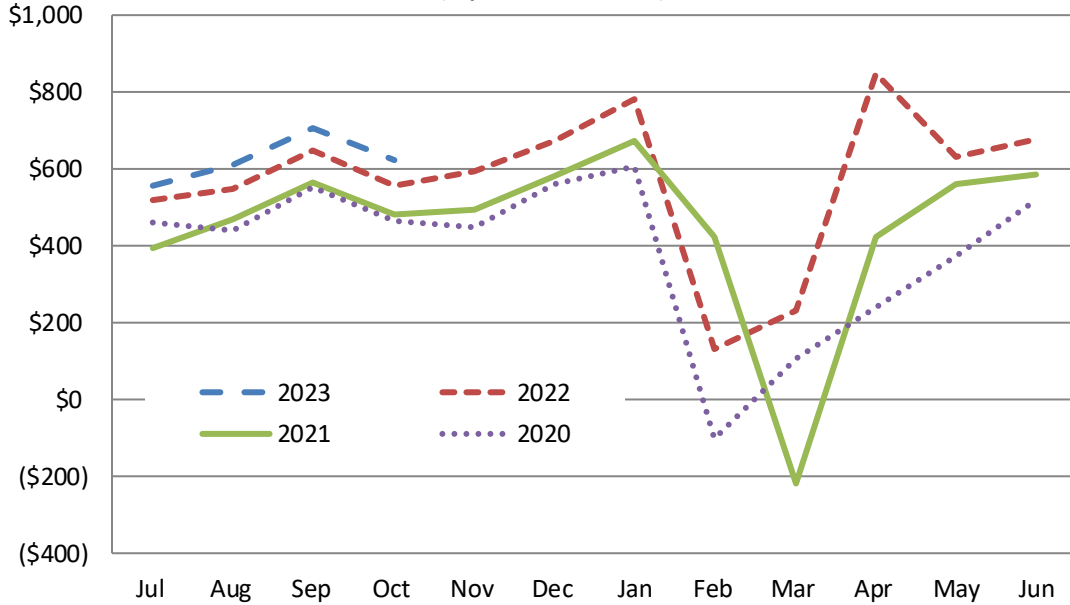
result, forecasted Budgetary General Fund revenues for fiscal year 2023 are currently \$1.313 billion, or 10.1%, below actual revenue collections in fiscal year 2022.

## Economic Conditions

Budgetary General Fund revenues for the first four months of fiscal year 2023 were \$2.572 billion (net of \$661.953 million to the tax relief trust fund), which was an increase of \$346.340 million, or 15.6%, compared to the same period for fiscal year 2022. Total individual income taxes collected have increased by \$224.734 million, or 9.9%, compared to the same period in the prior year. Sales taxes have increased by \$77.828 million, or 7.2%, over the first four months of fiscal year 2022.

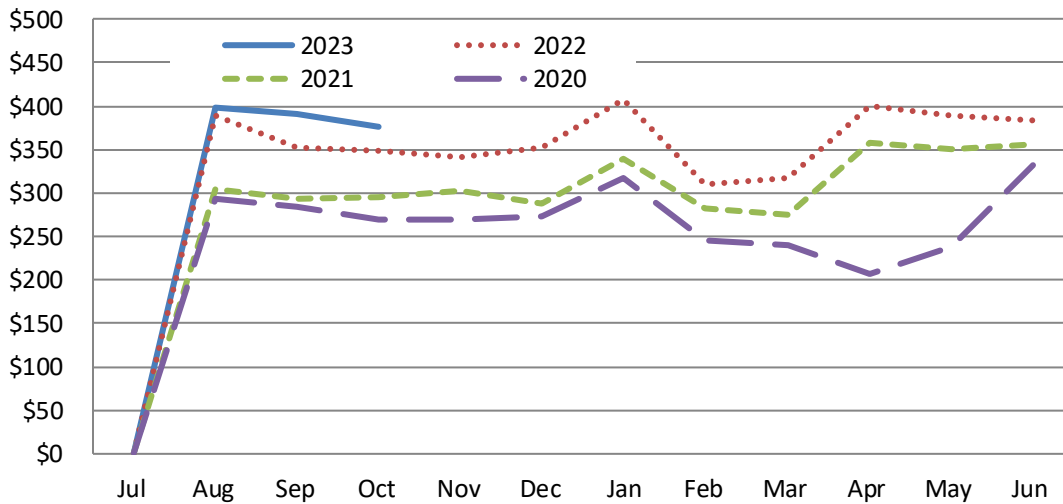
## Individual Income Taxes

(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