

---

**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, 2018. Please read it in conjunction with the Comptroller's *Letter of Transmittal* at the front of this report and the financial statements that follow this section.

### Overview of the Financial Statements

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

### Government-wide Financial Statements

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

There are two government-wide financial statements:

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

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

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

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

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

***Component units:*** Although component units are legally separate from the State, the State's elected officials are financially accountable for them. The Public Service Authority (Santee-Cooper, an electric utility company), the State Ports Authority, the State Housing Authority, 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.

# State of South Carolina

---

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. Note 5 on page 190 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 State’s overall financial position and results of operations for the past two years based on information included in the government-wide financial statements.

Exhibit 1  
Government-wide Net Position  
As of June 30, 2018  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percent Change
	2018	2017 (as restated)	2018	2017 (as restated)	2018	2017 (as restated)	2018-2017
	<b>Assets</b>						
Current and other assets.....	\$ 13,017,399	\$ 11,856,925	\$ 1,318,890	\$ 1,123,234	\$ 14,336,289	\$ 12,980,159	10.4%
Capital assets.....	17,521,033	16,761,453	281,212	256,215	17,802,245	17,017,668	4.6%
<b>Total assets.....</b>	<b>30,538,432</b>	<b>28,618,378</b>	<b>1,600,102</b>	<b>1,379,449</b>	<b>32,138,534</b>	<b>29,997,827</b>	<b>7.1%</b>
<b>Deferred Outflows of Resources</b>	<b>989,170</b>	<b>862,866</b>	<b>3,836</b>	<b>3,791</b>	<b>993,006</b>	<b>866,657</b>	<b>14.6%</b>
<b>Liabilities</b>							
Long-term liabilities.....	10,247,203	10,430,759	302,037	322,703	10,549,240	10,753,462	(1.9%)
Other liabilities.....	3,310,805	3,064,462	135,624	145,427	3,446,429	3,209,889	7.4%
<b>Total liabilities.....</b>	<b>13,558,008</b>	<b>13,495,221</b>	<b>437,661</b>	<b>468,130</b>	<b>13,995,669</b>	<b>13,963,351</b>	<b>0.2%</b>
<b>Deferred Inflows of Resources</b>	<b>400,609</b>	<b>93,175</b>	<b>509</b>	<b>115</b>	<b>401,118</b>	<b>93,290</b>	<b>330.0%</b>
<b>Net Position</b>							
Net investment in capital assets.....	15,079,318	14,133,938	218,157	216,697	15,297,475	14,350,635	6.6%
Restricted.....	6,068,437	8,204,123	1,023,083	792,899	7,091,520	8,997,022	(21.2%)
Unrestricted.....	(3,578,770)	(6,445,213)	(75,472)	(94,601)	(3,654,242)	(6,539,814)	44.1%
<b>Total net position.....</b>	<b>\$ 17,568,985</b>	<b>\$ 15,892,848</b>	<b>\$ 1,165,768</b>	<b>\$ 914,995</b>	<b>\$ 18,734,753</b>	<b>\$ 16,807,843</b>	<b>11.5%</b>

Net Position

The comparison of net position to liabilities may serve, over time, as a useful indicator of the State’s financial strength. At the end of the 2018 fiscal year, the State’s net position totaled \$18.735 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 (\$3.654) billion at June 30, 2018. This represents an increase in the deficit net position of \$2.886 billion over the prior year. The primary government’s unrestricted deficit net position partially consists of the \$3.963 billion net pension liability and the \$2.838 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 a \$75.472 million deficit unrestricted net position. This balance was mostly comprised of a \$41.217 million deficit unrestricted net position in the State-run Patients’ Compensation Fund and a \$36.065 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 the full amount of claims exceeding assets on hand on June 30, 2018.

*Exhibit 2*  
**Government-wide Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2018**  
*(Expressed in Thousands)*

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change 2018-2017
	(as restated)		(as restated)		(as restated)		
	2018	2017	2018	2017	2018	2017	
<b>Revenues</b>							
Program revenues:							
Charges for services.....	\$ 3,727,978	\$ 3,406,090	\$ 458,601	\$ 497,012	\$ 4,186,579	\$ 3,903,102	7.3%
Operating grants and contributions.....	9,253,825	9,127,975	5,660	22,708	9,259,485	9,150,683	1.2%
Capital grants and contributions.....	977,834	813,622	—	18,998	977,834	832,620	17.4%
General revenues:							
Individual income tax.....	4,408,772	4,143,217	—	—	4,408,772	4,143,217	6.4%
Retail sales and use tax.....	4,688,789	4,436,958	—	—	4,688,789	4,436,958	5.7%
Other tax.....	2,652,027	2,322,000	—	—	2,652,027	2,322,000	14.2%
Unrestricted grants and contributions.....	38	—	—	—	38	—	100.0%
Unrestricted investment income.....	160,636	191,486	34,132	22,777	194,768	214,263	(9.1%)
Tobacco legal settlement.....	81,605	73,533	—	—	81,605	73,533	11.0%
Other.....	150,635	154,778	4,545	1,802	155,180	156,580	(0.9%)
<b>Total revenues.....</b>	<b>26,102,139</b>	<b>24,669,659</b>	<b>502,938</b>	<b>563,297</b>	<b>26,605,077</b>	<b>25,232,956</b>	<b>5.4%</b>
<b>Expenses</b>							
Governmental activities:							
General government.....	6,819,685	5,507,990	—	—	6,819,685	5,507,990	23.8%
Education.....	4,745,126	4,991,282	—	—	4,745,126	4,991,282	(4.9%)
Health and environment.....	8,156,138	8,156,599	—	—	8,156,138	8,156,599	(0.0%)
Social services.....	1,695,379	1,766,719	—	—	1,695,379	1,766,719	(4.0%)
Administration of justice.....	986,839	938,748	—	—	986,839	938,748	5.1%
Resources and economic development.....	393,575	484,902	—	—	393,575	484,902	(18.8%)
Transportation.....	1,620,126	1,481,762	—	—	1,620,126	1,481,762	9.3%
Other.....	18,335	25,865	—	—	18,335	25,865	(29.1%)
Business-type activities:							
Unemployment compensation benefits.....	—	—	182,537	199,409	182,537	199,409	(8.5%)
Second Injury Fund.....	—	—	285	600	285	600	(52.5%)
Other.....	—	—	60,142	52,900	60,142	52,900	13.7%
<b>Total expenses.....</b>	<b>24,435,203</b>	<b>23,353,867</b>	<b>242,964</b>	<b>252,909</b>	<b>24,678,167</b>	<b>23,606,776</b>	<b>4.5%</b>
<b>Excess before transfers.....</b>	<b>1,666,936</b>	<b>1,315,792</b>	<b>259,974</b>	<b>310,388</b>	<b>1,926,910</b>	<b>1,626,180</b>	<b>18.5%</b>
Net transfers.....	9,201	2,559	(9,201)	(2,559)	—	—	—
<b>Increase in net position.....</b>	<b>1,676,137</b>	<b>1,318,351</b>	<b>250,773</b>	<b>307,829</b>	<b>1,926,910</b>	<b>1,626,180</b>	<b>18.5%</b>
Net position at beginning of year.....	15,892,848	17,522,068	914,995	610,902	16,807,843	18,132,970	(7.3%)
Restatements <sup>a</sup> .....	—	(2,947,571)	—	(3,736)	—	(2,951,307)	—
Net position at beginning of year, restated <sup>a</sup> .....	<b>15,892,848</b>	<b>14,574,497</b>	<b>914,995</b>	<b>607,166</b>	<b>16,807,843</b>	<b>15,181,663</b>	<b>10.7%</b>
<b>Net position, end of year.....</b>	<b>\$ 17,568,985</b>	<b>\$ 15,892,848</b>	<b>\$ 1,165,768</b>	<b>\$ 914,995</b>	<b>\$ 18,734,753</b>	<b>\$ 16,807,843</b>	<b>11.5%</b>

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 increased by \$1.927 billion, or 11.5%, over the prior year’s net position as a result of its governmental activities and its business-type activities. The overall improvement in the financial position of the State was experienced primarily through increased tax and program revenues of the State’s governmental activities.

**Governmental Activities**

The net position of the State’s governmental activities increased by \$1.676 billion, or 10.5%. Revenue increased from last year by \$1.432 billion, or 5.8%, which was comprised of an increase of \$820.530 million, or 7.2%, in general revenue and an increase of \$611.950 million, or 4.6%, in program revenue. Revenues that support governmental activities are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the sources of revenues that support governmental activities.

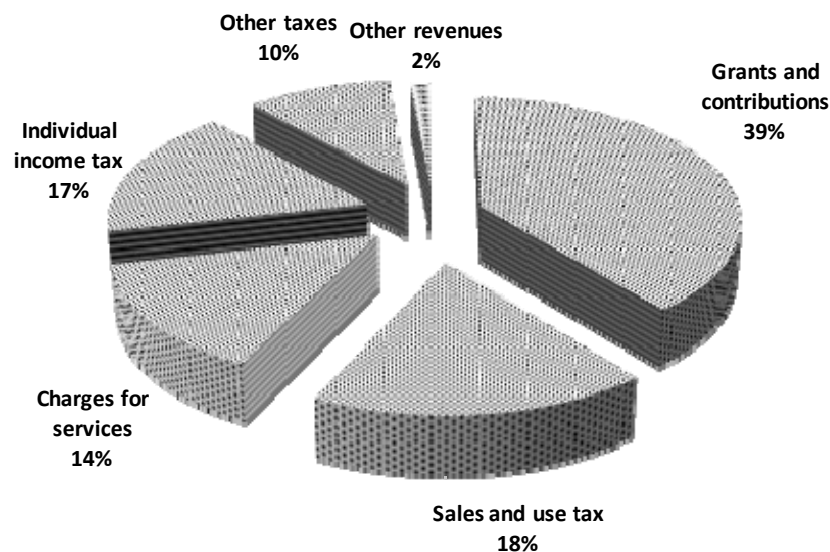
## State of South Carolina

Expenses associated with governmental activities increased by \$1.081 billion, or 4.6%, for the fiscal year ended June 30, 2018. 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, 2018, the State used \$10.476 billion in tax and other general revenues to offset the net cost of all services that the State’s governmental activities provided. Governmental activities reported \$9.201 million in net transfers from the State’s business-type activities.

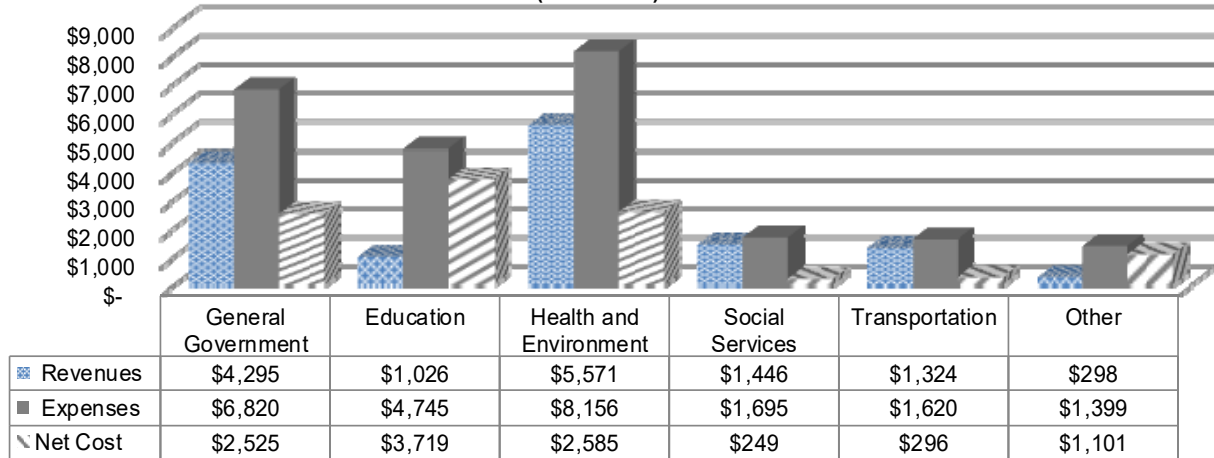
The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2018 fiscal year:

- Individual income tax revenues increased by \$265.555 million, or 6.4%, retail sales and use tax revenues increased by \$251.831 million, or 5.7%, and other taxes revenues increased by \$330.027 million, or 14.2%. Overall tax collections increased during fiscal year 2018 due to increased enforcement and improvements in consumer spending within the state and national economies.
- Capital grants and contributions increased by \$164.212 million or 20.2% from last year. This was primarily a result of contributions from the State Infrastructure Bank and federal grants related to infrastructure for transportation.
- General government expenses increased by \$1.312 billion, or 23.8%, from last year. This was attributable to the implementation of GASB 75 and the recognition of the net OPEB liability within the State and the increase in the State’s net pension liability.
- Transportation expenses increased by \$138.364 million, or 9.3%, from last year. The increase is primarily the result of increased expenditures related to the gas tax increase for road maintenance as well as the storms that South Carolina has experienced over the last three years. These storms did major damage to bridges and roads. As the State of South Carolina recovers from such damage, these expenditures can span a number of years as the infrastructure is rebuilt and repaired. In the 2018 fiscal year, the State incurred \$60.4 million related to the 2016 storm and \$115.7 million related to the 2015 storm. FEMA reimbursed \$123.0 million of these costs as of June 30, 2018.

**Exhibit 3**  
**Sources of Revenues Supporting Governmental Activities**  
**For the Fiscal Year Ended June 30, 2018**



*Exhibit 4*  
**Governmental Activities - Net Cost of Services**  
**For the Fiscal Year Ended June 30, 2018**  
**(In Millions)**



**Business-type Activities**

The net position of the State’s business-type activities increased by \$250.773 million, or 27.4%.

Most business-type activities are self-supporting. The Unemployment Compensation Fund accounts for the State’s unemployment compensation benefits in which federal grants and assessments on employers pay for the services that the Unemployment Compensation Fund provides. The Unemployment Compensation Fund’s net position as of June 30, 2018 was \$976.977 million, which was an increase of \$184.078 million, or 23.2%. The Second Injury Fund serves as a claims processor for insurance carriers, self-insurers, and State Accident Fund. The Second Injury Fund’s net position as of June 30, 2018 was \$46.106 million, which was an increase of \$61.792 million, or 393.9%.

Operating revenues of the Unemployment Compensation Fund decreased by \$40.993 million, or 10.1%, and operating expenses for the payment of unemployment compensation benefits decreased by \$16.872 million, or 8.5%, during the 2018 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 increased by \$101 thousand, or 0.2%, but operating expenses for the payment of Second Injury Fund claims remained at a low level during the 2018 fiscal year due to only a minimal \$185 thousand adjustment to the Second Injury Fund’s claims liability.

**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, 2018.

Exhibit 5  
**Governmental Fund Balances**  
**As of June 30, 2018**  
*(Expressed in Thousands)*

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable.....	\$ 128,937	\$ 14,550	\$ —	\$ 7,982	\$ 11,235	\$ 162,704
Restricted.....	1,134,704	1,071,734	2,123,074	334,280	723,998	5,387,790
Committed.....	505,425	19,784	—	419,976	56,360	1,001,545
Assigned.....	252,357	18,354	—	—	4,218	274,929
Unassigned.....	2,186,155	(678,731)	—	—	—	1,507,424
<b>Totals.....</b>	<b>\$ 4,207,578</b>	<b>\$ 445,691</b>	<b>\$ 2,123,074</b>	<b>\$ 762,238</b>	<b>\$ 795,811</b>	<b>\$ 8,334,392</b>
Change from prior year.....	\$ 465,511	\$ 38,955	\$ 39,197	\$ 247,090	\$ 41,495	\$ 832,248
Percentage change.....	12.4%	9.6%	1.9%	48.0%	5.5%	11.1%

At June 30, 2018, total ending fund balance for the State’s governmental funds was \$8.334 billion, which represents an increase of \$832.248 million, or 11.1%, from the prior year. This total contains an *unassigned* fund balance of \$1.507 billion. The total also includes \$2.186 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 64.6% of the total fund balance. The majority of remaining fund balance is *non-spendable, committed, or assigned* and is *not* available for future appropriation because it is not in a spendable form or is accessible only for specific purposes.

The *General Fund* is the State’s operating fund. This fund includes resources, such as taxes, that pay for the services that the State traditionally has provided to its citizens. Activity is accounted for in the General Fund unless constraints established by State law or external parties require them to be accounted for in another fund. Increases in the current fiscal year were experienced in individual income tax of \$266.435 million, 6.5%; retail sales and use tax of \$108.769 million, 3.0%; corporate income tax of \$63.837 million, 18.8%; insurance tax of \$20.005 million, 11.8%; other taxes \$54.001 million, 10.1%; and \$129.309 million, 71.5%, in other revenues from the prior year. General Fund expenditures, which increased by \$335.602 million, 3.3%, 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 2018 fiscal year, the total fund balance increased by \$38.955 million, or 9.6%, from the prior year. The primary source of revenue for the fund is federal revenues which account for \$7.876 billion or 91.5% of the total revenue reported. These grants are reimbursement-based, thereby creating a higher 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 \$39.197 million, or 1.9% during the 2018 fiscal year leaving a balance of \$2.123 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. The DOT uses these resources to pay for its general operations, which include maintenance, regulation, and construction of public highways and bridges. The fund balance increased by \$247.090 million, or 48.0%, during the 2018 fiscal year leaving a balance of \$762.238 million at the end of the fiscal year. The increase in fund balance was primarily a result of the 2-cent gas tax increase for road projects and maintenance.



# State of South Carolina

## Proprietary Funds

Exhibit 6 shows the components of the net position for the State's various proprietary funds at June 30, 2018.

*Exhibit 6*  
**Proprietary Fund Net Position**  
**As of June 30, 2018**  
*(Expressed in Thousands)*

Fund Net Position	Unemployment Compensation	Second Injury	Nonmajor Enterprise	Total Enterprise	Internal Service Funds
Net investment in					
capital assets.....	\$ —	\$ —	\$ 218,157	\$ 218,157	\$ 91,551
Restricted, expendable.....	976,977	46,106	—	1,023,083	508,628
Unrestricted.....	—	—	(75,472)	(75,472)	17,035
<b>Totals.....</b>	<b>\$ 976,977</b>	<b>\$ 46,106</b>	<b>\$ 142,685</b>	<b>\$ 1,165,768</b>	<b>\$ 617,214</b>
<b>Change from prior year.....</b>	<b>\$ 184,078</b>	<b>\$ 61,792</b>	<b>\$ 4,903</b>	<b>\$ 250,773</b>	<b>\$ 22,970</b>
<b>Percentage change.....</b>	<b>23.2%</b>	<b>393.9%</b>	<b>3.6%</b>	<b>27.4%</b>	<b>3.9%</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 \$184.078 million, or 23.2%, 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, increased by \$61.792 million, or 393.9%, over the prior year. The increase was largely attributed to current year claims and changes in estimates remaining materially unchanged and assessment revenues increasing slightly over the previous fiscal year.

The net position of the State's *nonmajor enterprise funds* increased by \$4.903 million, or 3.6%, over the prior year. The increase in the State's *nonmajor enterprise funds'* net position was primarily due to an increase of \$2.088 million in charges for services and an increase of \$2.728 million within other nonoperating revenues 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. These funds experienced an increased net position of \$22.970 million, or 3.9%, in the 2018 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 primarily benefit State government, South Carolina reports them as governmental activities in the government-wide financial statements.

### Budgetary General Fund Highlights

Estimated revenues for the 2018 fiscal year were \$7.951 billion. Actual revenues at June 30, 2018, were \$173.551 million, or 2.2%, over the estimated revenue used in the fiscal year 2018 budget appropriations act and which also represented an increase in collections over the prior year of \$541.795 million, or 7.1%. 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 \$103.026 million and sales tax collections ended the year under the adjusted estimate by \$6.792 million.

Actual expenditures were \$229.201 million less than actual revenues. Also, expenditures were kept \$486.240 million under fiscal year 2018 adjusted appropriations. In addition, \$1.784 million of unbudgeted spending was allowed through "open-ended" appropriations.

Based on the above results of operations, fiscal year 2018 ended with a budgetary surplus. The State ended the year with a budgetary General Fund balance after reservation of \$1.187 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 2018 fiscal year, the State had \$17.802 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$784.577 million, or 4.6%, over the previous accounting year (see *Exhibit 7*).

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

	Governmental		Business-type		Totals—Primary Government		Total
	Activities		Activities				Percentage
	2018	2017	2018	2017	2018	2017	2018-2017
Land and improvements.....	\$ 2,158,958	\$ 2,101,349	\$ 177,050	\$ 171,280	\$ 2,336,008	\$ 2,272,629	2.8%
Infrastructure.....	10,466,504	10,410,358	—	—	10,466,504	10,410,358	0.5%
Buildings and improvements.....	1,092,507	1,057,699	10,915	16,322	1,103,422	1,074,021	2.7%
Vehicles.....	228,442	177,232	475	626	228,917	177,858	28.7%
Machinery and equipment.....	184,469	168,967	3,385	4,294	187,854	173,261	8.4%
Works of art and historical treasures...	9,519	8,243	—	—	9,519	8,243	15.5%
Construction in progress.....	3,320,255	2,805,901	88,470	62,658	3,408,725	2,868,559	18.8%
Intangible assets.....	60,379	31,704	917	1,035	61,296	32,739	87.2%
<b>Total.....</b>	<b>\$ 17,521,033</b>	<b>\$ 16,761,453</b>	<b>\$ 281,212</b>	<b>\$ 256,215</b>	<b>\$ 17,802,245</b>	<b>\$ 17,017,668</b>	<b>4.6%</b>

Growth in capital asset investment occurred mostly in infrastructure. The construction in progress growth primarily relates to new and on-going infrastructure (roads and bridges) projects within the Department of Transportation Special Revenue Fund. The Department of Transportation recognized \$759.412 million in capital expenditures related to infrastructure and \$205.772 million in depreciation charges for infrastructure to net an increase of \$553.640 million, excluding any current year retirements of infrastructure.

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.

# State of South Carolina

## Debt Outstanding

At June 30, 2018, the State had \$2.452 billion in bonds and notes outstanding—a decrease of \$229.350 million, or a 8.6% decline 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 (as restated)		Total Percentage Change
	2018	2017 (as restated)	2018	2017	2018	2017	2018-2017
<b>Backed by the State:</b>							
General obligation bonds.....	\$ 564,811	\$ 756,172	\$ —	\$ —	\$ 564,811	\$ 756,172	(25.3%)
<b>Backed by Specific Revenues:</b>							
Revenue bonds and notes.....	146,154	131,241	12,055	5,730	158,209	136,971	15.5%
Infrastructure Bank bonds.....	1,729,005	1,788,232	—	—	1,729,005	1,788,232	(3.3%)
<b>Total.....</b>	<b>\$2,439,970</b>	<b>\$ 2,675,645</b>	<b>\$ 12,055</b>	<b>\$ 5,730</b>	<b>\$2,452,025</b>	<b>\$ 2,681,375</b>	<b>(8.6%)</b>

The reduction of principal on outstanding debt exceeded the issuance of debt resulting in a decrease in debt outstanding for governmental activities of \$235.675 million, or 8.8%. Activity in the debt reported by the governmental activities included the issuance of \$27.954 million in notes payable and there was also a \$6.500 million issuance of notes in business-type activities.

Three bond rating services assign ratings to bonds that the State backs with its own taxing authority (*general obligation bonds*). Fitch Ratings rated these bonds as “AAA” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2018, 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, 2018, the State legally could issue additional bonds as long as the new debt would not increase the State’s annual principal and interest payments by more than the following amounts: \$52.408 million for highway bonds, \$401.349 million for general obligation bonds (excluding institution and highway bonds), \$33.368 million for economic development bonds, and \$18.482 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, 2018, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$363.552 million which increased from the prior year by \$15.533 million appropriated by the 2017-2018 Appropriations Act. The balance is fully funded in accordance with the State’s Constitution. The State’s Constitution requires restoration of the reserve to full funding within three fiscal years after a withdrawal. For the fiscal year 2018, 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 2018-2019 Accounting Year

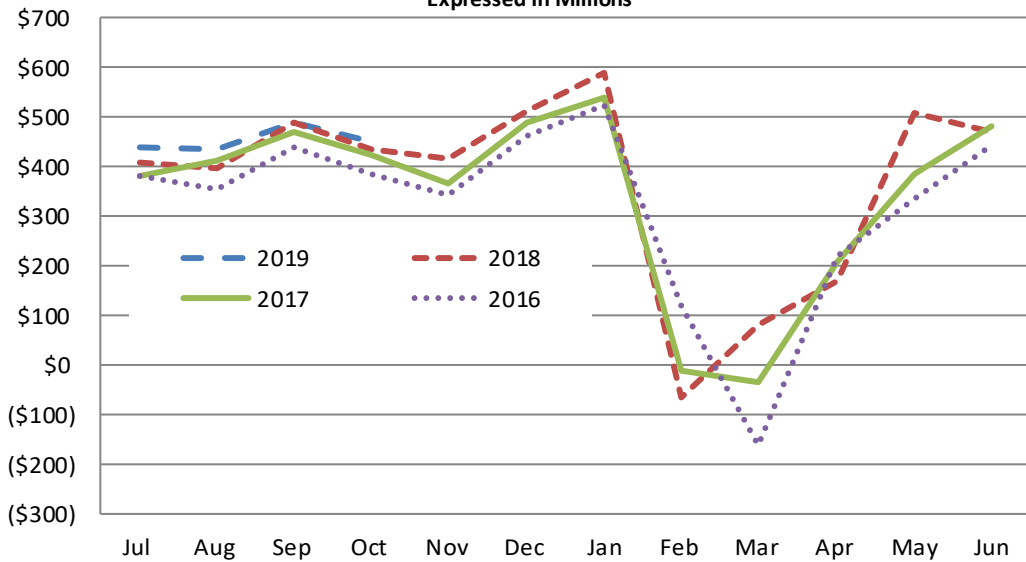
For fiscal year 2019, the Board of Economic Advisors estimated General Fund cash basis revenue of \$8.221 billion, which is \$96.768 million, or 1.2%, more than fiscal year 2018 actual revenue collections. The State’s Board of Economic Advisors November 2018 estimate reflects an additional increase of \$232.721 million, or 2.9%, over the original revenue estimate for fiscal year 2019.

**Economic Conditions**

Budgetary General Fund revenues for the first four months of fiscal year 2019 were \$2.962 billion, an increase of \$210.874 million, or 7.7%, over the same period for fiscal year 2018. Total individual income taxes collected have increased by \$79.310 million, or 6.1%, over the same period in the prior year. Sales taxes have also increased by \$30.076 million, or 6.0%, from the first four months of fiscal year 2018.

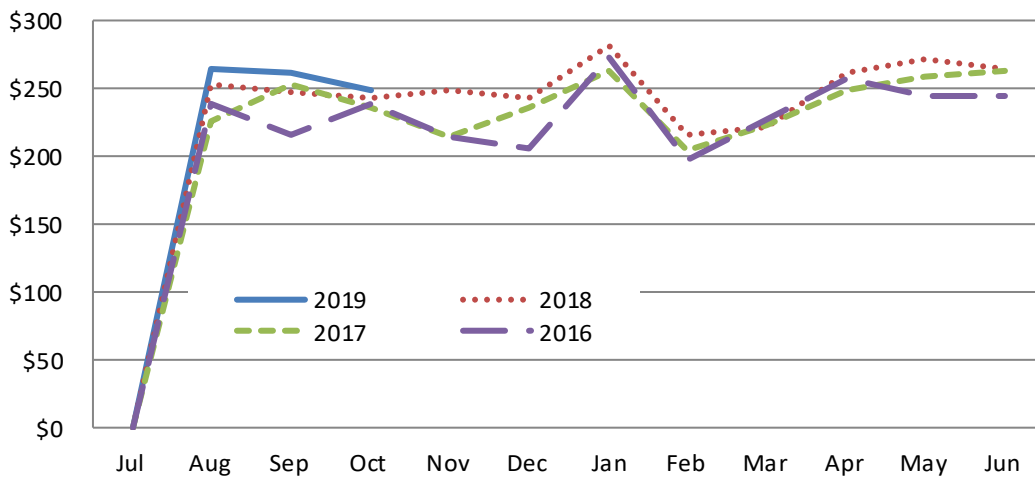
**Individual Income Taxes**

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:

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