
**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, 2015. Please read it in conjunction with the Comptroller's *Letter of Transmittal* at the front of this report and the financial statements that follow this section.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

There are two government-wide financial statements:

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

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

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

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

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

Component units: Although component units are legally separate from the State, the State's elected officials are financially accountable for them. The Public Service Authority (Santee-Cooper, an electric utility company), the State Ports Authority, the State Housing Authority, Clemson University, the Medical University of South Carolina, and the University of South Carolina are the State's major component units. Some financial information for these component units is included in this report. Complete financial statements for these component units can also be obtained from their respective administrative offices (see Note 1a of the notes to the financial statements on page 70).

Fund Financial Statements

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

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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 155 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 163 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 157 through 178 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 schedules can be found on pages 179 through 225 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, 2015
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percent Change 2015-2014
	<i>(as restated)</i>		<i>(as restated)</i>		<i>(as restated)</i>		
	2015	2014	2015	2014	2015	2014	
Assets							
Current and other assets.....	\$ 10,070,041	\$ 9,460,268	\$ 609,897	\$ 750,720	\$ 10,679,938	\$ 10,210,988	4.6%
Capital assets.....	15,574,782	15,275,827	156,795	136,433	15,731,577	15,412,260	2.1%
Total assets.....	25,644,823	24,736,095	766,692	887,153	26,411,515	25,623,248	3.1%
Deferred Outflows of Resources	405,240	298,993	354	234	405,594	299,227	35.5%
Liabilities							
Long-term liabilities.....	7,025,853	7,433,379	363,021	789,347	7,388,874	8,222,726	(10.1%)
Other liabilities.....	2,700,164	2,783,987	183,157	201,291	2,883,321	2,985,278	(3.4%)
Total liabilities.....	9,726,017	10,217,366	546,178	990,638	10,272,195	11,208,004	(8.3%)
Deferred Inflows of Resources	280,306	—	349	—	280,655	—	100.0%
Net Position							
Net investment in capital assets.....	12,667,605	11,892,515	146,739	124,223	12,814,344	12,016,738	6.6%
Restricted.....	6,062,068	5,488,629	70,395	185,732	6,132,463	5,674,361	8.1%
Unrestricted.....	(2,685,933)	(2,128,973)	3,385	(413,206)	(2,682,548)	(2,542,179)	5.5%
Total net position.....	\$ 16,043,740	\$ 15,252,171	\$ 220,519	\$ (103,251)	\$ 16,264,259	\$ 15,148,920	7.4%

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 2015 fiscal year, the State’s net position totaled \$16.264 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 (\$2.683) billion at June 30, 2015. This represents a decrease of \$140.369 million over the prior year. The primary government’s unrestricted deficit net position primarily consists of the \$2.964 billion net pension liability, which is required to be recognized by the newly-established GASB 68 (see Note 2 on page 77). The decrease in the primary government’s unrestricted net position was partially offset by the \$416.591 million increase in the unrestricted net position reported for the State’s *business-type activities*. This was mostly the result of assessment revenue realized within the Unemployment Compensation Fund outweighing claims expenses by \$208.519 million and assessment revenue realized within the Second Injury Fund outweighing claims expenses by \$52.539 million. It should be noted that the decrease in unrestricted net position was 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 \$3.385 million unrestricted net position. This balance was mostly comprised of a (\$60.560) million unrestricted net position in the State-run Patient Compensation Fund, a (\$55.906) million unrestricted net position in the State-run college Tuition Prepayment Program, a (\$139.122) million unrestricted net position in the Second Injury Fund, offset by a \$249.160 million unrestricted net position in the Unemployment Compensation Fund. The negative unrestricted net position in the Patient Compensation Fund, the Tuition Prepayment Program, and the Second Injury Fund, was the result of the full amount of claims exceeding assets on hand on June 30, 2015.

Exhibit 2
Government-wide Changes in Net Position
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change 2015-2014
	<i>(as restated)</i>		<i>(as restated)</i>		<i>(as restated)</i>		
	2015	2014	2015	2014	2015	2014	
Revenues							
Program revenues:							
Charges for services.....	\$ 3,249,778	\$ 3,217,602	\$ 565,032	\$ 613,765	\$ 3,814,810	\$ 3,831,367	(0.4%)
Operating grants and contributions.....	8,388,996	7,661,223	14,335	90,107	8,403,331	7,751,330	8.4%
Capital grants and contributions.....	680,842	806,657	12,567	210	693,409	806,867	(14.1%)
General revenues:							
Individual income tax.....	3,741,800	3,422,532	—	—	3,741,800	3,422,532	9.3%
Retail sales and use tax.....	4,357,672	4,178,102	—	—	4,357,672	4,178,102	4.3%
Other tax.....	2,105,755	1,966,716	—	—	2,105,755	1,966,716	7.1%
Unrestricted grants and contributions.....	1	1	—	—	1	1	0.0%
Unrestricted investment income.....	71,691	115,150	16,306	26,107	87,997	141,257	(37.7%)
Tobacco legal settlement.....	70,419	109,113	—	—	70,419	109,113	(35.5%)
Other.....	280,491	684,412	3,141	204	283,632	684,616	(58.8%)
Total revenues.....	22,947,445	22,161,508	611,381	730,393	23,558,826	22,891,901	2.9%
Expenses							
Governmental activities:							
General government.....	5,348,501	5,377,689	—	—	5,348,501	5,377,689	(0.5%)
Education.....	4,742,995	4,250,632	—	—	4,742,995	4,250,632	11.6%
Health and environment.....	7,832,147	7,071,800	—	—	7,832,147	7,071,800	10.8%
Social services.....	1,821,016	1,977,904	—	—	1,821,016	1,977,904	(7.9%)
Administration of justice.....	873,450	830,536	—	—	873,450	830,536	5.2%
Resources and economic development.....	389,814	334,898	—	—	389,814	334,898	16.4%
Transportation.....	1,118,603	1,159,917	—	—	1,118,603	1,159,917	(3.6%)
Other.....	33,322	36,896	—	—	33,322	36,896	(9.7%)
Business-type activities:							
Unemployment compensation benefits.....	—	—	226,470	342,741	226,470	342,741	(33.9%)
Second Injury Fund.....	—	—	7,461	2,547	7,461	2,547	192.9%
Other.....	—	—	49,708	35,194	49,708	35,194	41.2%
Total expenses.....	22,159,848	21,040,272	283,639	380,482	22,443,487	21,420,754	4.8%
Excess before transfers.....	787,597	1,121,236	327,742	349,911	1,115,339	1,471,147	(24.2%)
Net transfers.....	3,972	(47,900)	(3,972)	47,900	—	—	—
Increase in net position.....	791,569	1,073,336	323,770	397,811	1,115,339	1,471,147	(24.2%)
Net position at beginning of year.....	15,252,171	17,105,388	(103,251)	(497,185)	15,148,920	16,608,203	(8.8%)
Restatements ^a	—	(2,926,553)	—	(3,877)	—	(2,930,430)	
Net position at beginning of year, as restated ^a	<u>15,252,171</u>	<u>14,178,835</u>	<u>(103,251)</u>	<u>(501,062)</u>	<u>15,148,920</u>	<u>13,677,773</u>	<u>10.8%</u>
Net position, end of year.....	<u>\$ 16,043,740</u>	<u>\$ 15,252,171</u>	<u>\$ 220,519</u>	<u>\$ (103,251)</u>	<u>\$ 16,264,259</u>	<u>\$ 15,148,920</u>	7.4%

a - 2014 restatement due to the GASBs 68 and 71 implementation and the correction of errors. See Note 14, Fund Equity Reclassifications and Restatements, on pages 141 - 142 of the financial statements.

Changes in Net Position

The State's total net position increased by \$1.115 billion, or 7.4%, 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 \$791.569 million, or 5.2%. Revenue increased from last year by \$785.937 million, or 3.5%, which is an increase of \$151.803 million, or 1.4%, in general revenue and an increase of \$634.134 million, or 5.4%, in program revenue. Revenues that support governmental activities are derived mostly from

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

Expenses associated with governmental activities increased by \$1.120 billion, or 5.3%, for the fiscal year ended June 30, 2015. These expenses were mostly associated with services provided for health and environment, education, general government, transportation, and social services. *Exhibit 4* compares the cost of these services with their *program revenues*—revenues derived directly from the program itself or from parties outside the State’s taxpayers or citizenry. The difference between the two represents the *net cost* of these services that taxes and other general revenues financed. For the fiscal year ended June 30, 2015, the State used \$9.840 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 \$3.972 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 2015 fiscal year:

- Program revenues were \$12.320 billion, which was an increase of \$634.134 million, or 5.4%. The increase was primarily due to the increased demand for health and environmental services and increased tax collections (see below for further detail).
- Individual income tax revenues increased by \$319.268 million, or 9.3%, retail sales and use tax revenues increased by \$179.570 million, or 4.3%, and other taxes revenues increased by \$139.039 million, or 7.1%. Overall tax collections increased during fiscal year 2015 due to increased enforcement and improvements in consumer spending within the state and national economies.
- Education expenses increased by \$492.363 million, or 11.6%, from last year. The increase is primarily the result of general increases in the costs of providing public education. Secondly, additional appropriations were available from improved economic conditions.
- Resources and economic development expenses increased by \$54.916 million, or 16.4%, which is primarily a result of \$12.562 million expended to Palmetto Railways for capital acquisitions.
- Transportation expenses decreased by \$41.314 million, or 3.6%, from last year. The decrease is primarily the result of major infrastructure projects coming to a close, as displayed in the reduction in construction in progress and the increase in infrastructure within the capital asset disclosure.
- Health and environmental expenses increased by \$760.347 million, or 10.8%, which can be attributed to an increase in demand for services.

Exhibit 3
Sources of Revenues Supporting Governmental Activities
For the Fiscal Year Ended June 30, 2015

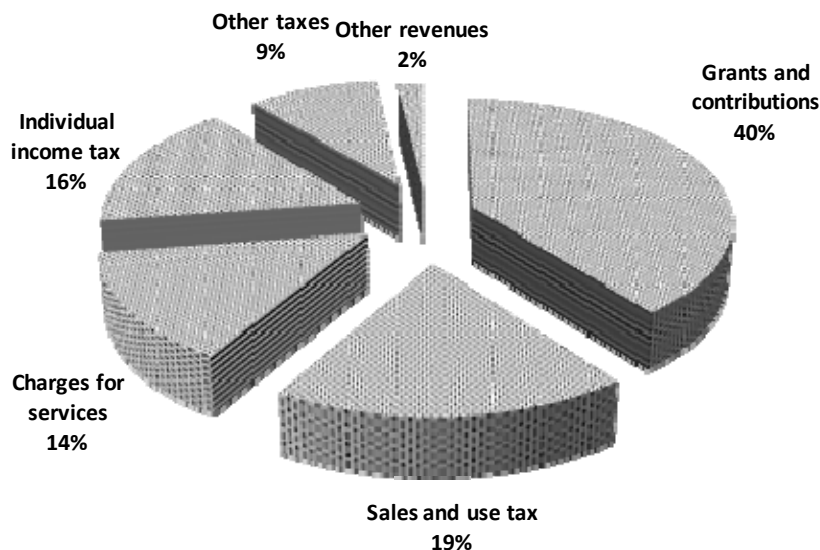
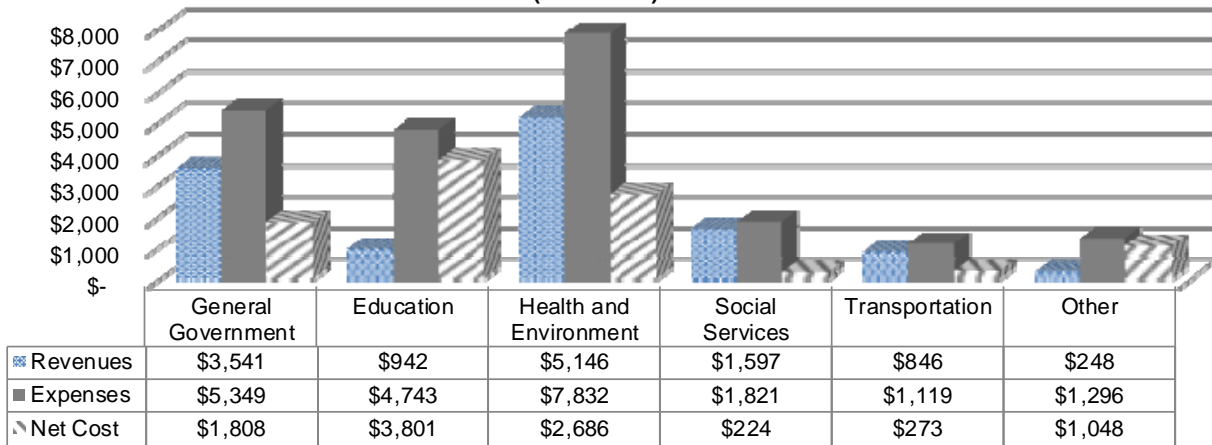


Exhibit 4
Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2015
(In Millions)



Business-type Activities

The net position of the State’s business-type activities increased by \$323.770 million, or 313.58%.

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, 2015 was \$319.555 million, which was an increase of \$248.284 million, or 348.37%. 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, 2015 was (\$139.122) million, which was increase of \$53.290 million, or 27.70%.

Operating revenues of the Unemployment Compensation Fund decreased by \$122.736 million, or 20.6%, and operating expenses for the payment of unemployment compensation benefits decreased by \$116.271 million, or 33.9%, during the 2015 fiscal year. Additionally, the Unemployment Compensation Fund’s nonoperating revenues increased by \$878 thousand, or 1032.94%. The decreases resulted from the general decline in unemployment rates throughout the country. Additionally, operating revenues for the Second Injury Fund have decreased by \$2.466 million, or 3.9%, and operating expenses for the payment of Second Injury Fund claims increased by \$4.914 million, or 192.9%.

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, 2015.

Exhibit 5
Governmental Fund Balances
As of June 30, 2015
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable.....	\$ 74,743	\$ 5,885	\$ 777,365	\$ 8,354	\$ 9,109	\$ 875,456
Restricted.....	502,620	706,535	1,364,431	10,000	500,133	3,083,719
Committed.....	976,846	15,105	—	364,054	96,427	1,452,432
Assigned.....	369,967	—	—	—	6,842	376,809
Unassigned.....	1,019,061	(484,586)	—	(171,650)	—	362,825
Totals.....	\$ 2,943,237	\$ 242,939	\$ 2,141,796	\$ 210,758	\$ 612,511	\$ 6,151,241
Change from prior year.....	\$ 20,299	\$ (2,960)	\$ 17,438	\$ 217,980	\$ (28,254)	\$ 224,503
Percentage change.....	0.7%	(1.2%)	0.8%	3018.3%	(4.4%)	3.8%

At June 30, 2015, total ending fund balance for the State’s governmental funds was \$6.151 billion, which represents an increase of \$224.503 million, or 3.8%, from the prior year. This total contains an *unrestricted, unassigned* fund balance of \$362.825 million. The total also includes \$1.019 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 50.1% of the total fund balance. The majority of the remaining fund balance is *non-spendable, committed, or assigned* and is *not* available for future appropriation because it is not in a spendable form or is accessible only for specific purposes.

The *General Fund* is the State’s operating fund. This fund includes resources, such as taxes, that pay for the services that the State traditionally has provided to its citizens. Activity is accounted for in the General Fund unless constraints established by State law or external parties require them to be accounted for in another fund. Increases in the current fiscal year were experienced in individual income tax of \$318.043 million, 9.4%, retail sales and use tax of \$201.192 million, 5.8%, other tax (which includes domestic corporate license taxes, taxes on alcoholic beverages and tobacco, and bank taxes) of \$44.275 million, 9.3%, from the prior year. These increases were partially offset by a decrease in departmental services revenues (which mostly includes Medicaid and Medicare reimbursements) of \$109.038 million, 13.7%, and a decrease of \$370.257 million, 74.2%, in other General Fund revenues, which was related to the elimination of internal activity for the Temporary Assistance for Needy Families Grant. The increase in expenditures of \$583.965 million, 6.2%, is 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 2015 fiscal year, the total fund balance decreased by \$2.960 million, or 1.2%, from the prior year. The primary source of revenue for the fund is federal revenues which account for \$7.597 billion or 93.6% of the total revenue reported. These grants are reimbursement based thereby creating a higher negative unassigned fund balance until the funds are received.

The *Department of Transportation (DOT) Special Revenue Fund* accounts for various gasoline taxes, fees, fines, and federal grant resources. The DOT uses these resources to pay for its general operations, which include maintenance, regulation, and construction of public highways and bridges. The fund balance increased by \$217.980 million, or 3018.3%, during the 2015 fiscal year leaving a balance of \$210.758 million at the end of the fiscal year. The increase in fund balance resulted primarily from an increase of \$100.698 million in federal revenues. The increase in these revenues was attributed primarily to the FEMA reimbursement for the prior year ice storm.

Proprietary Funds

Exhibit 6 shows the components of the net position for the State’s various proprietary funds at June 30, 2015.

Exhibit 6
Proprietary Fund Net Position
As of June 30, 2015
(Expressed in Thousands)

<u>Fund Net Position</u>	<u>Unemployment Compensation</u>	<u>Second Injury</u>	<u>Nonmajor Enterprise</u>	<u>Total Enterprise</u>	<u>Internal Service Funds</u>
Net investment in capital assets.....	\$ —	\$ —	\$ 146,739	\$ 146,739	\$ 99,742
Restricted, expendable.....	70,395	—	—	70,395	210,265
Unrestricted.....	249,160	(139,122)	(106,653)	3,385	179,735
Totals.....	\$ 319,555	\$ (139,122)	\$ 40,086	\$ 220,519	\$ 489,742
Change from prior year.....	\$ 248,284	\$ 53,290	\$ 22,196	\$ 323,770	\$ (3,859)
Percentage change.....	348.37%	27.70%	124.07%	313.58%	(0.78%)

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 \$248.284 million, or 348.37%, over the prior year. Decreases in the number of individuals eligible for and claiming State unemployment insurance benefits resulted in the improved net position and enabled the Fund to operate without obtaining additional advances from the Federal government since May of 2011. Additional information on the repayment of the advances is included in Note 11i.

The net position of the *Second Injury Fund*, a major enterprise fund, increased by \$53.290 million, or 27.70%, over the prior year. The increase was largely attributed to charges for services being \$52.539 million larger than claims paid in the 2015 fiscal year.

The net position of the State’s *nonmajor enterprise funds* increased by \$22.196 million, or 124.07%, over the prior year. The increase in the State’s *nonmajor enterprise funds’* net position was primarily due to \$12.562 million in capital contributions received by the *Palmetto Railways Fund* for land improvements.

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 a decrease in net position of \$3.859 million, or 0.78%, in the 2015 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 2015 fiscal year were \$6.660 billion. Actual revenues at June 30, 2015, were \$300.241 million, or 4.5%, over the estimated revenue used in the fiscal year 2015 budget appropriations act and which also represented an increase in collections over the prior year of \$407.999 million, or 6.2%. 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 \$146.384 million and sales tax collections ended the year over the adjusted estimate by \$66.862 million.

Actual expenditures were \$145.417 million less than actual revenues because revenue collections exceeded the original budget, while expenditures were kept \$415.253 million under fiscal year 2015 adjusted appropriations. In addition, \$1.565 million of unbudgeted spending was allowed through “open-ended” appropriations.

Based on the above results of operations, fiscal year 2015 ended with a budgetary surplus. The State ended the year with a budgetary General Fund balance of \$1.194 billion.

See the *Required Supplementary Information* section on pages 157 through 163 of this report for a detailed budgetary comparison schedule.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2015 fiscal year, the State had \$15.732 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$319.317 million, or 2.1%, 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 Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change
	2015	2014	2015	2014	2015	2014	2015-2014
Land and improvements.....	\$ 1,998,437	\$ 1,943,407	\$ 109,271	\$ 92,862	\$ 2,107,708	\$ 2,036,269	3.5%
Infrastructure.....	9,465,852	9,313,843	—	—	9,465,852	9,313,843	1.6%
Buildings and improvements.....	1,032,851	1,081,718	16,275	17,834	1,049,126	1,099,552	(4.6%)
Vehicles.....	136,702	96,440	24	3	136,726	96,443	41.8%
Machinery and equipment.....	145,129	139,804	3,804	3,727	148,933	143,531	3.8%
Works of art and historical treasures...	8,359	8,415	—	—	8,359	8,415	(0.7%)
Construction in progress.....	2,752,351	2,645,274	26,485	21,892	2,778,836	2,667,166	4.2%
Intangible assets.....	35,101	46,926	936	115	36,037	47,041	(23.4%)
Total.....	\$ 15,574,782	\$ 15,275,827	\$ 156,795	\$ 136,433	\$ 15,731,577	\$ 15,412,260	2.1%

Growth in capital asset investment occurred mostly in construction in progress and infrastructure. The construction in progress relates to new and on-going infrastructure (roads and bridges) projects within the Department of Transportation Special Revenue Fund. The Department of Transportation recognized \$130.1 million in contributed infrastructure from various county projects. During the current year, buildings and improvements have continued to decrease due to general aging, as reflected in the net book value through depreciation.

See Note 6 in the notes to the financial statements on page 99 of this report for additional information on the State’s capital assets.

Debt Outstanding

At June 30, 2015, the State had \$3.104 billion in bonds and notes outstanding—a decrease of \$279.817 million, or an 8.3% decline from last year (see *Exhibit 8*).

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

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percentage Change
	2015	2014	2015	2014	2015	2014	2015-2014
Backed by the State:							
General obligation bonds.....	\$ 1,126,138	\$ 1,320,532	\$ —	\$ —	\$ 1,126,138	\$ 1,320,532	(14.7%)
Backed by Specific Revenues:							
Revenue bonds and notes.....	28,865	39,337	6,055	6,210	34,920	45,547	(23.3%)
Infrastructure Bank bonds.....	1,942,456	2,016,518	—	—	1,942,456	2,016,518	(3.7%)
Limited obligation bonds.....	185	919	—	—	185	919	(79.9%)
Total.....	\$ 3,097,644	\$ 3,377,306	\$ 6,055	\$ 6,210	\$ 3,103,699	\$ 3,383,516	(8.3%)

The reduction of principal on outstanding debt exceeded the issuance of debt resulting in a decrease in debt outstanding for governmental activities of \$279.662 million. Activity in the debt reported by the governmental activities included the issuance of \$18.110 million in economic development general obligation bonds.

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

State of South Carolina

ended June 30, 2015, 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, 2015, 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: \$39.710 million for highway bonds, \$251.463 million for general obligation bonds (excluding institution and highway bonds), \$8.233 million for economic development bonds, and \$11.185 million for research university infrastructure bonds.

State institution bonds and bond anticipation notes of \$512.455 million were outstanding at June 30, 2015.

See Note 11 in the notes to the financial statements on page 123 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, 2015, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$319.479 million which increased from the prior year by \$26.589 million appropriated by the 2014-2015 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 2015, State law defines full funding for the reserve as 5.0% of the Budgetary General Fund's revenues of the prior fiscal year.

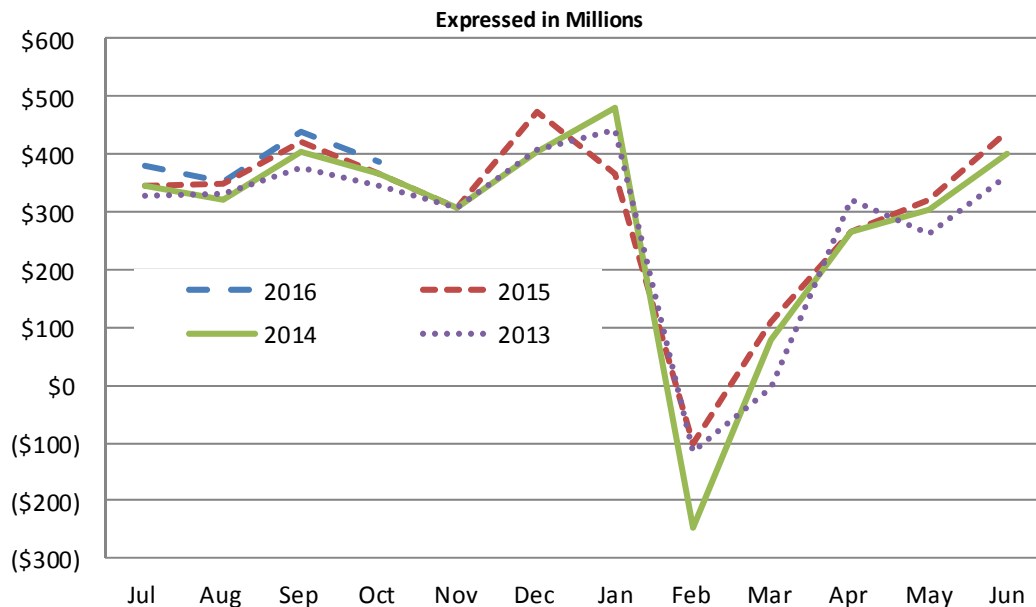
Budgetary General Fund for the 2015-2016 Accounting Year

For fiscal year 2016, the Board of Economic Advisors estimated General Fund cash basis revenue of \$6.895 billion, which was \$65.099 million, or 0.9%, less than fiscal year 2015 actual revenue collections. The State's Board of Economic Advisors November 2015 estimate reflects an additional increase of \$189.723 million, or 2.5%, over the original revenue estimate for fiscal year 2016.

Economic Conditions

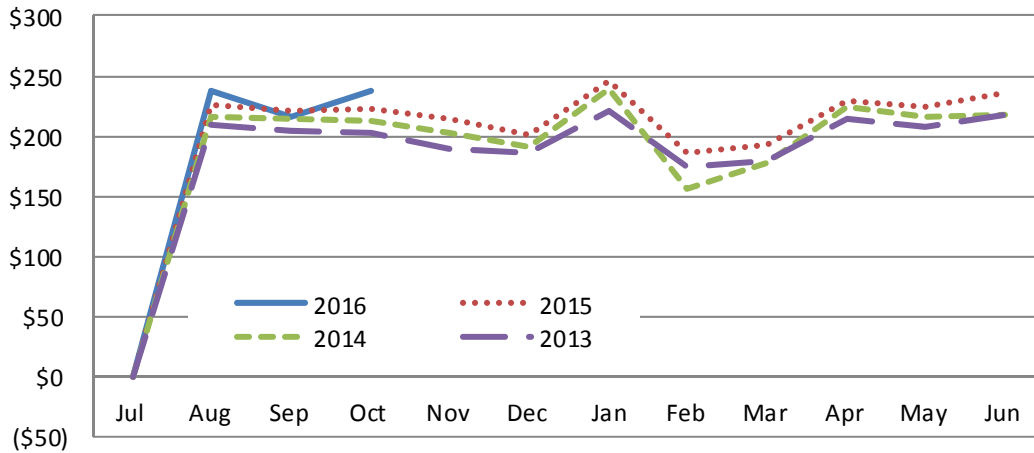
Budgetary General Fund revenues for the first four months of fiscal year 2016 were \$2.520 billion, an increase of \$96.060 million, or 4.0%, over the same period for fiscal year 2015. Total individual income taxes collected have increased by \$75.073 million, or 5.1%, over the same period in the prior year. Sales taxes have also increased by \$20.824 million, or 3.1%, from the first four months of fiscal year 2015.

Individual Income Taxes



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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