
**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, 2016. 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 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.

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 165 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 173 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 167 through 188 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 189 through 235 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, 2016
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percent Change 2016-2015
	2016	2015	<i>(as restated)</i>		<i>(as restated)</i>		
	2016	2015	2016	2015	2016	2015	
Assets							
Current and other assets.....	\$ 11,269,982	\$ 10,070,041	\$ 874,120	\$ 609,897	\$ 12,144,102	\$ 10,679,938	13.7%
Capital assets.....	15,939,923	15,574,782	209,246	156,795	16,149,169	15,731,577	2.7%
Total assets.....	27,209,905	25,644,823	1,083,366	766,692	28,293,271	26,411,515	7.1%
Deferred Outflows of Resources	652,939	405,240	1,595	354	654,534	405,594	61.4%
Liabilities							
Long-term liabilities.....	7,148,977	7,025,853	337,772	368,638	7,486,749	7,394,491	1.2%
Other liabilities.....	2,941,467	2,700,164	161,675	183,157	3,103,142	2,883,321	7.6%
Total liabilities.....	10,090,444	9,726,017	499,447	551,795	10,589,891	10,277,812	3.0%
Deferred Inflows of Resources	250,332	280,306	307	349	250,639	280,655	(10.7%)
Net Position							
Net investment in capital assets.....	13,088,862	12,667,605	203,351	146,739	13,292,213	12,814,344	3.7%
Restricted.....	6,691,147	6,062,068	302,080	70,395	6,993,227	6,132,463	14.0%
Unrestricted.....	(2,257,941)	(2,685,933)	79,776	(2,232)	(2,178,165)	(2,688,165)	19.0%
Total net position.....	\$ 17,522,068	\$ 16,043,740	\$ 585,207	\$ 214,902	\$ 18,107,275	\$ 16,258,642	11.4%

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 2016 fiscal year, the State’s net position totaled \$18.107 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 (\$2.178) billion at June 30, 2016. This represents an increase of \$510.000 million over the prior year. The primary government’s unrestricted deficit net position primarily consists of the \$3.304 billion net pension liability, which is required to be recognized by GASB 68 (see Note 7 on page 102). The increase in the primary government’s unrestricted net position was partially offset by the \$82.008 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 \$195.835 million and assessment revenue realized within the Second Injury Fund outweighing claims expenses by \$59.874 million. 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 \$79.776 million unrestricted net position. This balance was mostly comprised of a (\$51.320) million unrestricted net position in the State-run Patients’ Compensation Fund, a (\$43.268) million unrestricted net position in the State-run college Tuition Prepayment Program, a (\$77.061) million unrestricted net position in the Second Injury Fund, offset by a \$256.925 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, 2016.

Exhibit 2
Government-wide Changes in Net Position
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change
	2016	2015	2016	(as restated) 2015	2016	(as restated) 2015	2016-2015
Revenues							
Program revenues:							
Charges for services.....	\$ 3,276,394	\$ 3,249,778	\$ 536,528	\$ 565,032	\$ 3,812,922	\$ 3,814,810	(0.0%)
Operating grants and contributions.....	8,823,007	8,388,996	11,909	14,335	8,834,916	8,403,331	5.1%
Capital grants and contributions.....	582,940	680,842	39,480	12,567	622,420	693,409	(10.2%)
General revenues:							
Individual income tax.....	3,884,855	3,741,800	—	—	3,884,855	3,741,800	3.8%
Retail sales and use tax.....	4,279,959	4,357,672	—	—	4,279,959	4,357,672	(1.8%)
Other tax.....	2,194,859	2,105,755	—	—	2,194,859	2,105,755	4.2%
Unrestricted grants and contributions.....	90	1	—	—	90	1	8,900.0%
Unrestricted investment income.....	108,313	71,691	28,952	16,306	137,265	87,997	56.0%
Tobacco legal settlement.....	71,119	70,419	—	—	71,119	70,419	1.0%
Other.....	53,026	280,491	8,946	3,141	61,972	283,632	(78.2%)
Total revenues.....	23,274,562	22,947,445	625,815	611,381	23,900,377	23,558,826	1.4%
Expenses							
Governmental activities:							
General government.....	4,693,397	5,348,501	—	—	4,693,397	5,348,501	(12.2%)
Education.....	4,906,919	4,742,995	—	—	4,906,919	4,742,995	3.5%
Health and environment.....	7,683,019	7,832,147	—	—	7,683,019	7,832,147	(1.9%)
Social services.....	1,832,743	1,821,016	—	—	1,832,743	1,821,016	0.6%
Administration of justice.....	883,458	873,450	—	—	883,458	873,450	1.1%
Resources and economic development.....	463,630	389,814	—	—	463,630	389,814	18.9%
Transportation.....	1,310,449	1,118,603	—	—	1,310,449	1,118,603	17.2%
Other.....	23,537	33,322	—	—	23,537	33,322	(29.4%)
Business-type activities:							
Unemployment compensation benefits.....	—	—	208,710	226,470	208,710	226,470	(7.8%)
Second Injury Fund.....	—	—	27	7,461	27	7,461	(99.6%)
Other.....	—	—	45,855	49,708	45,855	49,708	(7.8%)
Total expenses.....	21,797,152	22,159,848	254,592	283,639	22,051,744	22,443,487	(1.7%)
Excess before transfers.....	1,477,410	787,597	371,223	327,742	1,848,633	1,115,339	65.7%
Net transfers.....	918	3,972	(918)	(3,972)	—	—	—
Increase in net position.....	1,478,328	791,569	370,305	323,770	1,848,633	1,115,339	65.7%
Net position at beginning of year.....	16,043,740	15,252,171	214,902	(103,251)	16,258,642	15,148,920	7.3%
Restatements ^a	—	—	—	(5,617)	—	(5,617)	—
Net position at beginning of year, as restated ^a	16,043,740	15,252,171	214,902	(108,868)	16,258,642	15,143,303	7.4%
Net position, end of year.....	\$ 17,522,068	\$ 16,043,740	\$ 585,207	\$ 214,902	\$ 18,107,275	\$ 16,258,642	11.4%

a - 2015 restatement due to the GASBs 68 and 71 implementation and the correction of errors. See Note 14, Fund Equity Reclassifications and Restatements, on pages 129 - 130 of the financial statements.

Changes in Net Position

The State’s total net position increased by \$1.849 billion, or 11.4%, 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 \$1.478 billion, or 9.2%. Revenue increased from last year by \$327.117 million, or 1.4%, which was comprised of a decrease of \$35.608 million, or 0.3%, in general revenue and an increase of \$362.725 million, or 2.9%, 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 decreased by \$362.696 million, or 1.6%, for the fiscal year ended June 30, 2016. 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, 2016, the State used \$9.115 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 \$918 thousand 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 2016 fiscal year:

- Program revenues were \$12.682 billion, which was an increase of \$362.725 million, or 2.9%. The increase was primarily due to the increased demand for health and environmental services.
- Individual income tax revenues increased by \$143.055 million, or 3.8%, retail sales and use tax revenues decreased by \$77.713 million, or 1.8%, and other taxes revenues increased by \$89.104 million, or 4.2%. Overall tax collections increased during fiscal year 2016 due to increased enforcement and improvements in consumer spending within the state and national economies.
- Education expenses increased by \$163.924 million, or 3.5%, 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 \$73.816 million, or 18.9%, which is primarily a result of \$39.408 million expended to Palmetto Railways for capital acquisitions.
- Transportation expenses increased by \$191.846 million, or 17.2%, from last year. The increase 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. Also, the major flooding that occurred in October of 2015 caused significant damage to roadways and bridges which needed to be repaired.
- Health and environmental expenses decreased by \$149.128 million, or 1.9%, which can be attributed to an increase in elimination of internal service fund activity specifically related to the Insurance Reserve Fund.

Exhibit 3
Sources of Revenues Supporting Governmental Activities
For the Fiscal Year Ended June 30, 2016

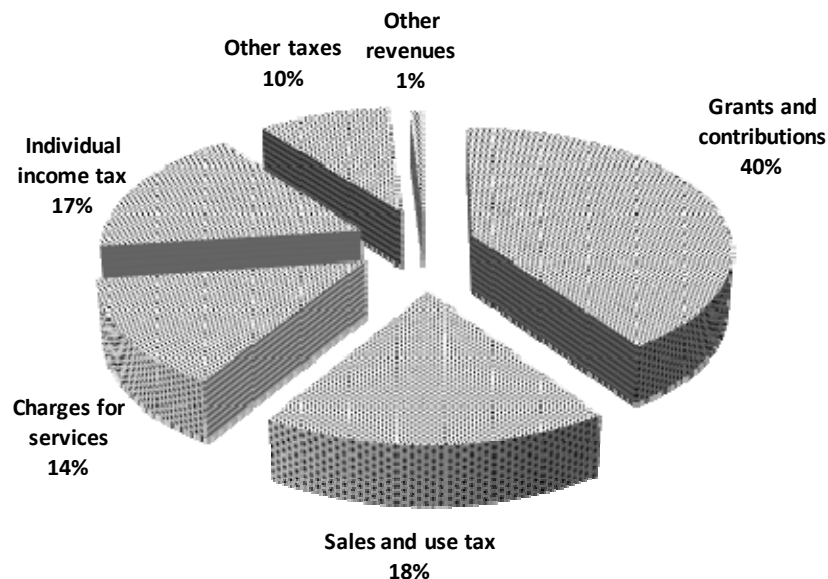
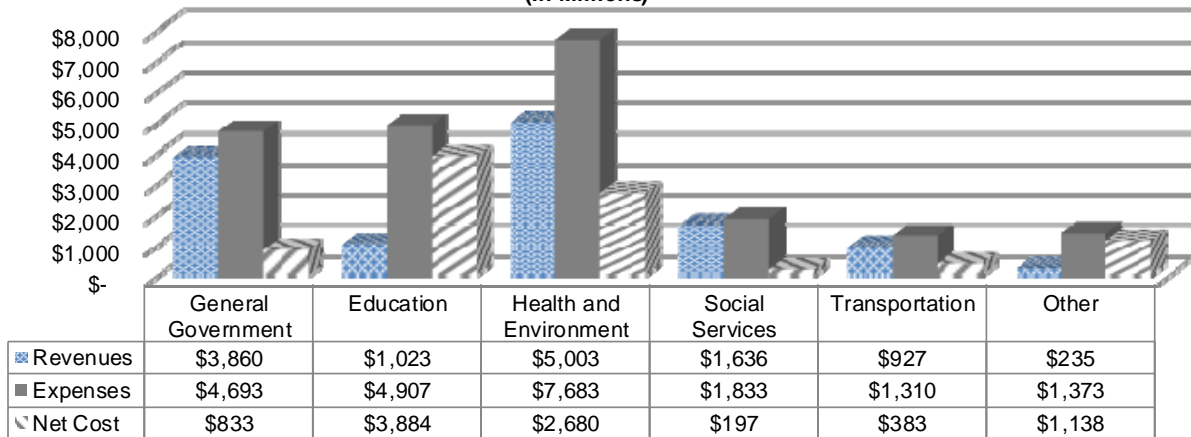


Exhibit 4
Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2016
(In Millions)



Business-type Activities

The net position of the State’s business-type activities increased by \$370.305 million, or 172.31%.

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, 2016 was \$559.005 million, which was an increase of \$239.450 million, or 74.93%. 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, 2016 was (\$77.061) million, which was increase of \$62.061 million, or 44.61%.

Operating revenues of the Unemployment Compensation Fund decreased by \$33.001 million, or 7.0%, and operating expenses for the payment of unemployment compensation benefits decreased by \$17.760 million, or 7.8%, during the 2016 fiscal year. Additionally, the Unemployment Compensation Fund’s nonoperating revenues increased by \$6.407 million, or 807.9%. 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 \$1.314 million, or 2.2%, and operating expenses for the payment of Second Injury Fund claims decreased by \$7.434 million, or 99.6%. The decreases in the Second Injury Fund’s operating expenses were the result of claims expenses booked in prior years and there were no changes in claims estimates during the 2016 fiscal year.

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, 2016.

Exhibit 5
Governmental Fund Balances
As of June 30, 2016
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable.....	\$ 94,624	\$ 6,002	\$ —	\$ 7,573	\$ 11,322	\$ 119,521
Restricted.....	530,698	852,296	2,204,154	10,031	585,753	4,182,932
Committed.....	1,142,072	12,833	—	356,238	96,641	1,607,784
Assigned.....	416,089	—	—	—	5,311	421,400
Unassigned.....	1,313,562	(608,503)	—	—	—	705,059
Totals.....	\$ 3,497,045	\$ 262,628	\$ 2,204,154	\$ 373,842	\$ 699,027	\$ 7,036,696
Change from prior year.....	\$ 553,808	\$ 19,689	\$ 62,358	\$ 163,084	\$ 86,516	\$ 885,455
Percentage change.....	18.8%	8.1%	2.9%	77.4%	14.1%	14.4%

At June 30, 2016, total ending fund balance for the State’s governmental funds was \$7.037 billion, which represents an increase of \$885.455 million, or 14.4%, from the prior year. This total contains an *unassigned* fund balance of \$705.059 million. The total also includes \$1.314 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 59.4% 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 \$141.103 million, 3.8%, \$59.144 million, 45.9%, in other General Fund revenues, and \$9.913 million, 1.9%, in other tax (which includes domestic corporate license taxes, taxes on alcoholic beverages and tobacco, and bank taxes) from the prior year. These increases were partially offset by decreases in retail sales and use tax of \$108.296 million, 3.0% and \$1.027 million, 0.2% in departmental services revenues (which mostly includes Medicaid and Medicare reimbursements). General Fund expenditures, which decreased \$755.245 million, 7.6%, 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 2016 fiscal year, the total fund balance increased by \$19.689 million, or 8.1%, from the prior year. The primary source of revenue for the fund is federal revenues which account for \$7.612 billion or 92.7% 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 transfers from other funds are the fund’s primary resources. The fund balance increased by \$62.358 million, or 2.9% during the 2016 fiscal year leaving a balance of \$2.204 billion at the end of the fiscal year. The increase in fund balance resulted primarily from an increase of \$50.0 million in funds from DOT.

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 \$163.084 million, or 77.4%, during the 2016 fiscal year leaving a balance of \$373.842 million at the end of the fiscal year. The increase in fund balance resulted primarily from an increase of \$217.0 million in General Fund appropriations.

Proprietary Funds

Exhibit 6 shows the components of the net position for the State’s various proprietary funds at June 30, 2016.

Exhibit 6
Proprietary Fund Net Position
As of June 30, 2016
(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.....	\$ —	\$ —	\$ 203,351	\$ 203,351	\$ 101,671
Restricted, expendable.....	302,080	—	—	302,080	292,996
Unrestricted.....	256,925	(77,061)	(100,088)	79,776	202,308
Totals.....	\$ 559,005	\$ (77,061)	\$ 103,263	\$ 585,207	\$ 596,975
Change from prior year.....	\$ 239,450	\$ 62,061	\$ 68,794	\$ 370,305	\$ 107,233
Percentage change.....	74.93%	44.61%	199.58%	172.31%	21.90%

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 \$239.450 million, or 74.93%, 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.

The net position of the *Second Injury Fund*, a major enterprise fund, increased by \$62.061 million, or 44.61%, over the prior year. The increase was largely attributed to assessments being \$59.874 million larger than claims paid in the 2016 fiscal year.

The net position of the State’s *nonmajor enterprise funds* increased by \$68.794 million, or 199.58%, over the prior year. The increase in the State’s *nonmajor enterprise funds*’ net position was primarily due to a \$39.408 capital contribution within the *Palmetto Railways Fund*, an increase of \$10.975 million in interest and investment income within the *Tuition Prepayment Program*, and a \$5.988 million decrease in operating expenses (mostly claims expense) within the *Patient’s Compensation 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 increase in net position of \$107.233 million, or 21.90%, in the 2016 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 2016 fiscal year were \$7.045 billion. Actual revenues at June 30, 2016, were \$225.751 million, or 3.2%, over the estimated revenue used in the fiscal year 2016 budget appropriations act and which also represented an increase in collections over the prior year of \$310.653 million, or 4.5%. 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 \$59.691 million and sales tax collections ended the year over the adjusted estimate by \$104.313 million.

Actual expenditures were \$89.972 million less than actual revenues because revenue collections exceeded the original budget, while expenditures were kept \$370.618 million under fiscal year 2016 adjusted appropriations. In addition, \$2.535 million of unbudgeted spending was allowed through “open-ended” appropriations.

Based on the above results of operations, fiscal year 2016 ended with a budgetary surplus. The State ended the year with a budgetary General Fund balance of \$1.131 billion.

See the *Required Supplementary Information* section on pages 167 through 173 of this report for a detailed budgetary comparison schedule.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2016 fiscal year, the State had \$16.149 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$417.592 million, or 2.7%, 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
	2016	2015	2016	2015	2016	2015	2016-2015
Land and improvements.....	\$ 2,074,471	\$ 1,998,437	\$ 152,427	\$ 109,271	\$ 2,226,898	\$ 2,107,708	5.7%
Infrastructure.....	9,903,747	9,465,852	—	—	9,903,747	9,465,852	4.6%
Buildings and improvements.....	1,039,999	1,032,851	16,007	16,275	1,056,006	1,049,126	0.7%
Vehicles.....	127,419	136,702	246	24	127,665	136,726	(6.6%)
Machinery and equipment.....	152,920	145,129	4,006	3,804	156,926	148,933	5.4%
Works of art and historical treasures...	8,309	8,359	—	—	8,309	8,359	(0.6%)
Construction in progress.....	2,601,135	2,752,351	35,534	26,485	2,636,669	2,778,836	(5.1%)
Intangible assets.....	31,923	35,101	1,026	936	32,949	36,037	(8.6%)
Total.....	\$ 15,939,923	\$ 15,574,782	\$ 209,246	\$ 156,795	\$ 16,149,169	\$ 15,731,577	2.7%

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 \$112.8 million in contributed infrastructure from various county projects.

See Note 6 in the notes to the financial statements on page 100 of this report for additional information on the State’s capital assets.

Debt Outstanding

At June 30, 2016, the State had \$2.854 billion in bonds and notes outstanding—a decrease of \$250.138 million, or an 8.1% 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
	2016	2015	2016	2015	2016	2015	2016-2015
Backed by the State:							
General obligation bonds.....	\$ 962,196	\$ 1,126,138	\$ —	\$ —	\$ 962,196	\$ 1,126,138	(14.6%)
Backed by Specific Revenues:							
Revenue bonds and notes.....	31,019	28,865	5,895	6,055	36,914	34,920	5.7%
Infrastructure Bank bonds.....	1,854,451	1,942,456	—	—	1,854,451	1,942,456	(4.5%)
Limited obligation bonds.....	—	185	—	—	—	185	(100.0%)
Total.....	\$ 2,847,666	\$ 3,097,644	\$ 5,895	\$ 6,055	\$ 2,853,561	\$ 3,103,699	(8.1%)

The reduction of principal on outstanding debt exceeded the issuance of debt resulting in a decrease in debt outstanding for governmental activities of \$249.978 million. Activity in the debt reported by the governmental activities included the

State of South Carolina

issuance of \$44.560 million in economic development general obligation bonds and \$65.915 million in research university 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 ended June 30, 2016, 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, 2016, 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: \$44.564 million for highway bonds, \$305.837 million for general obligation bonds (excluding institution and highway bonds), \$11.978 million for economic development bonds, and \$15.374 million for research university infrastructure bonds.

State institution bonds of \$463.365 million were outstanding at June 30, 2016.

See Note 11 in the notes to the financial statements on page 119 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, 2016, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$327.619 million which increased from the prior year by \$8.141 million appropriated by the 2015-2016 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 2016, State law defines full funding for the reserve as 5.0% of the Budgetary General Fund’s revenues of the prior fiscal year.

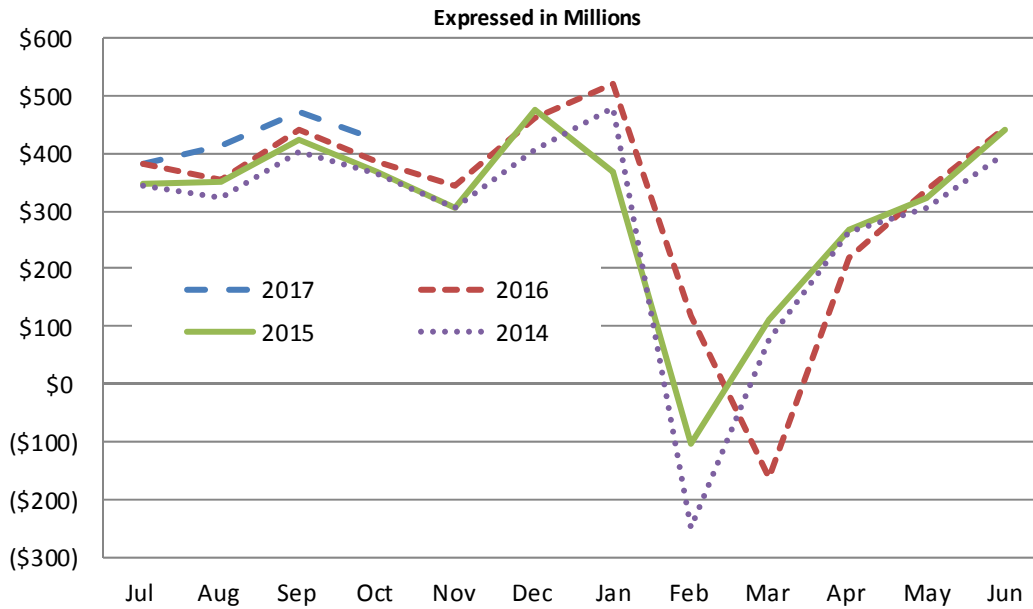
Budgetary General Fund for the 2016-2017 Accounting Year

For fiscal year 2017, the Board of Economic Advisors estimated General Fund cash basis revenue of \$7.580 billion, which was \$308.487 million, or 4.2%, more than fiscal year 2016 actual revenue collections. The State’s Board of Economic Advisors November 2016 estimate reflected no change to the original \$7.580 billion revenue estimate for fiscal year 2017.

Economic Conditions

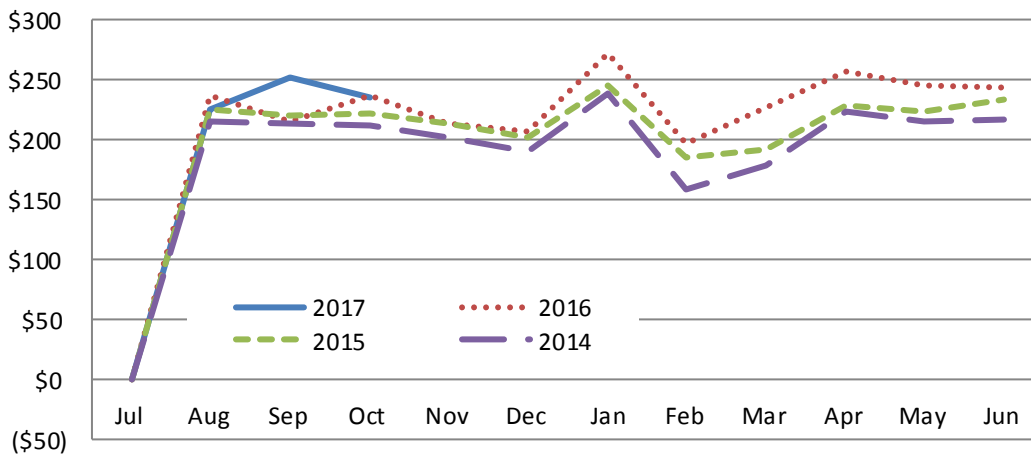
Budgetary General Fund revenues for the first four months of fiscal year 2017 were \$2.685 billion, an increase of \$164.446 million, or 6.5%, over the same period for fiscal year 2016. Total individual income taxes collected have increased by \$128.407 million, or 8.2%, over the same period in the prior year. Sales taxes have also increased by \$23.893 million, or 3.5%, from the first four months of fiscal year 2016.

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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 Columbia, South Carolina 29201