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

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## Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2017. 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.

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 162 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 170 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 163 through 184 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 185 through 231 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, 2017**  
*(Expressed in Thousands)*

|                                       | Governmental<br>Activities |                      | Business-type<br>Activities |                       | Totals—<br>Primary Government |                       | Total<br>Percent<br>Change<br><br>2017-2016 |
|---------------------------------------|----------------------------|----------------------|-----------------------------|-----------------------|-------------------------------|-----------------------|---------------------------------------------|
|                                       | 2017                       | 2016                 | 2017                        | 2016<br>(as restated) | 2017                          | 2016<br>(as restated) |                                             |
|                                       | <b>Assets</b>              |                      |                             |                       |                               |                       |                                             |
| Current and other assets.....         | \$ 11,815,084              | \$ 11,269,982        | \$ 1,123,234                | \$ 899,815            | \$ 12,938,318                 | \$ 12,169,797         | 6.3%                                        |
| Capital assets.....                   | 16,761,453                 | 15,939,923           | 256,215                     | 209,246               | 17,017,668                    | 16,149,169            | 5.4%                                        |
| <b>Total assets.....</b>              | <b>28,576,537</b>          | <b>27,209,905</b>    | <b>1,379,449</b>            | <b>1,109,061</b>      | <b>29,955,986</b>             | <b>28,318,966</b>     | <b>5.8%</b>                                 |
| <b>Deferred Outflows of Resources</b> | <b>776,591</b>             | <b>652,939</b>       | <b>3,693</b>                | <b>1,595</b>          | <b>780,284</b>                | <b>654,534</b>        | <b>19.2%</b>                                |
| <b>Liabilities</b>                    |                            |                      |                             |                       |                               |                       |                                             |
| Long-term liabilities.....            | 7,367,572                  | 7,148,977            | 318,869                     | 337,772               | 7,686,441                     | 7,486,749             | 2.7%                                        |
| Other liabilities.....                | 3,051,962                  | 2,941,467            | 145,427                     | 161,675               | 3,197,389                     | 3,103,142             | 3.0%                                        |
| <b>Total liabilities.....</b>         | <b>10,419,534</b>          | <b>10,090,444</b>    | <b>464,296</b>              | <b>499,447</b>        | <b>10,883,830</b>             | <b>10,589,891</b>     | <b>2.8%</b>                                 |
| <b>Deferred Inflows of Resources</b>  | <b>93,175</b>              | <b>250,332</b>       | <b>115</b>                  | <b>307</b>            | <b>93,290</b>                 | <b>250,639</b>        | <b>(62.8%)</b>                              |
| <b>Net Position</b>                   |                            |                      |                             |                       |                               |                       |                                             |
| Net investment in capital assets..... | 14,133,938                 | 13,088,862           | 216,697                     | 203,351               | 14,350,635                    | 13,292,213            | 8.0%                                        |
| Restricted.....                       | 8,204,123                  | 6,691,147            | 792,899                     | 584,700               | 8,997,022                     | 7,275,847             | 23.7%                                       |
| Unrestricted.....                     | (3,497,642)                | (2,257,941)          | (90,865)                    | (177,149)             | (3,588,507)                   | (2,435,090)           | (47.4%)                                     |
| <b>Total net position.....</b>        | <b>\$ 18,840,419</b>       | <b>\$ 17,522,068</b> | <b>\$ 918,731</b>           | <b>\$ 610,902</b>     | <b>\$ 19,759,150</b>          | <b>\$ 18,132,970</b>  | <b>9.0%</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 2017 fiscal year, the State’s net position totaled \$19.759 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 (\$3.589) billion at June 30, 2017. This represents a decrease of \$1.153 billion over the prior year. The primary government’s unrestricted deficit net position primarily consists of the \$3.717 billion net pension liability, which is required to be recognized by GASB 68 (see Note 7 on page 102). 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 \$90.865 million deficit unrestricted net position. This balance was mostly comprised of a \$43.242 million deficit unrestricted net position in the State-run Patients’ Compensation Fund, a \$36.806 million deficit unrestricted net position in the State-run college Tuition Prepayment Program, and a \$15.686 million deficit unrestricted net position in the Second Injury 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, 2017.

*Exhibit 2*  
**Government-wide Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2017**  
*(Expressed in Thousands)*

|                                                                     | Governmental Activities |                      | Business-type Activities |                   | Totals—<br>Primary Government |                      | Total<br>Percentage<br>Change |
|---------------------------------------------------------------------|-------------------------|----------------------|--------------------------|-------------------|-------------------------------|----------------------|-------------------------------|
|                                                                     | 2017                    | 2016                 | 2016                     |                   | 2017                          | 2016                 |                               |
|                                                                     |                         |                      | 2017                     | (as restated)     |                               |                      |                               |
| <b>Revenues</b>                                                     |                         |                      |                          |                   |                               |                      |                               |
| Program revenues:                                                   |                         |                      |                          |                   |                               |                      |                               |
| Charges for services.....                                           | \$ 3,406,090            | \$ 3,276,394         | \$ 497,012               | \$ 536,528        | \$ 3,903,102                  | \$ 3,812,922         | 2.4%                          |
| Operating grants and contributions.....                             | 9,127,975               | 8,823,007            | 22,708                   | 11,909            | 9,150,683                     | 8,834,916            | 3.6%                          |
| Capital grants and contributions.....                               | 813,622                 | 582,940              | 18,998                   | 39,480            | 832,620                       | 622,420              | 33.8%                         |
| General revenues:                                                   |                         |                      |                          |                   |                               |                      |                               |
| Individual income tax.....                                          | 4,143,217               | 3,884,855            | —                        | —                 | 4,143,217                     | 3,884,855            | 6.7%                          |
| Retail sales and use tax.....                                       | 4,436,958               | 4,279,959            | —                        | —                 | 4,436,958                     | 4,279,959            | 3.7%                          |
| Other tax.....                                                      | 2,322,000               | 2,194,859            | —                        | —                 | 2,322,000                     | 2,194,859            | 5.8%                          |
| Unrestricted grants and contributions.....                          | —                       | 90                   | —                        | —                 | —                             | 90                   | (100.0%)                      |
| Unrestricted investment income.....                                 | 191,486                 | 108,313              | 22,777                   | 28,952            | 214,263                       | 137,265              | 56.1%                         |
| Tobacco legal settlement.....                                       | 73,533                  | 71,119               | —                        | —                 | 73,533                        | 71,119               | 3.4%                          |
| Other.....                                                          | 154,778                 | 53,026               | 1,802                    | 8,946             | 156,580                       | 61,972               | 152.7%                        |
| <b>Total revenues.....</b>                                          | <b>24,669,659</b>       | <b>23,274,562</b>    | <b>563,297</b>           | <b>625,815</b>    | <b>25,232,956</b>             | <b>23,900,377</b>    | <b>5.6%</b>                   |
| <b>Expenses</b>                                                     |                         |                      |                          |                   |                               |                      |                               |
| Governmental activities:                                            |                         |                      |                          |                   |                               |                      |                               |
| General government.....                                             | 5,507,990               | 4,693,397            | —                        | —                 | 5,507,990                     | 4,693,397            | 17.4%                         |
| Education.....                                                      | 4,991,282               | 4,906,919            | —                        | —                 | 4,991,282                     | 4,906,919            | 1.7%                          |
| Health and environment.....                                         | 8,156,599               | 7,683,019            | —                        | —                 | 8,156,599                     | 7,683,019            | 6.2%                          |
| Social services.....                                                | 1,766,719               | 1,832,743            | —                        | —                 | 1,766,719                     | 1,832,743            | (3.6%)                        |
| Administration of justice.....                                      | 938,748                 | 883,458              | —                        | —                 | 938,748                       | 883,458              | 6.3%                          |
| Resources and economic development.....                             | 484,902                 | 463,630              | —                        | —                 | 484,902                       | 463,630              | 4.6%                          |
| Transportation.....                                                 | 1,481,762               | 1,310,449            | —                        | —                 | 1,481,762                     | 1,310,449            | 13.1%                         |
| Other.....                                                          | 25,865                  | 23,537               | —                        | —                 | 25,865                        | 23,537               | 9.9%                          |
| Business-type activities:                                           |                         |                      |                          |                   |                               |                      |                               |
| Unemployment compensation benefits.....                             | —                       | —                    | 199,409                  | 208,710           | 199,409                       | 208,710              | (4.5%)                        |
| Second Injury Fund.....                                             | —                       | —                    | 600                      | 27                | 600                           | 27                   | 2,122.2%                      |
| Other.....                                                          | —                       | —                    | 52,900                   | 45,855            | 52,900                        | 45,855               | 15.4%                         |
| <b>Total expenses.....</b>                                          | <b>23,353,867</b>       | <b>21,797,152</b>    | <b>252,909</b>           | <b>254,592</b>    | <b>23,606,776</b>             | <b>22,051,744</b>    | <b>7.1%</b>                   |
| <b>Excess before transfers.....</b>                                 | <b>1,315,792</b>        | <b>1,477,410</b>     | <b>310,388</b>           | <b>371,223</b>    | <b>1,626,180</b>              | <b>1,848,633</b>     | <b>(12.0%)</b>                |
| Net transfers.....                                                  | 2,559                   | 918                  | (2,559)                  | (918)             | —                             | —                    | —                             |
| <b>Increase in net position.....</b>                                | <b>1,318,351</b>        | <b>1,478,328</b>     | <b>307,829</b>           | <b>370,305</b>    | <b>1,626,180</b>              | <b>1,848,633</b>     | <b>(12.0%)</b>                |
| <b>Net position at beginning of year.....</b>                       | <b>17,522,068</b>       | <b>16,043,740</b>    | <b>610,902</b>           | <b>214,902</b>    | <b>18,132,970</b>             | <b>16,258,642</b>    | <b>11.5%</b>                  |
| <b>Restatements<sup>a</sup>.....</b>                                | <b>—</b>                | <b>—</b>             | <b>—</b>                 | <b>25,695</b>     | <b>—</b>                      | <b>25,695</b>        |                               |
| <b>Net position at beginning of year, restated<sup>a</sup>.....</b> | <b>17,522,068</b>       | <b>16,043,740</b>    | <b>610,902</b>           | <b>240,597</b>    | <b>18,132,970</b>             | <b>16,284,337</b>    | <b>11.4%</b>                  |
| <b>Net position, end of year.....</b>                               | <b>\$ 18,840,419</b>    | <b>\$ 17,522,068</b> | <b>\$ 918,731</b>        | <b>\$ 610,902</b> | <b>\$ 19,759,150</b>          | <b>\$ 18,132,970</b> | <b>9.0%</b>                   |

a - See Note 14, Fund Equity Reclassifications and Restatements, on pages 127 - 128 of the financial statements.

**Changes in Net Position**

The State’s total net position increased by \$1.626 billion, or 9.0%, 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 \$1.318 billion, or 7.5%. Revenue increased from last year by \$1.395 billion, or 6.0%, which was comprised of an increase of \$729.751 million, or 6.9%, in general revenue and an increase of \$665.346 million, or 5.2%, 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.

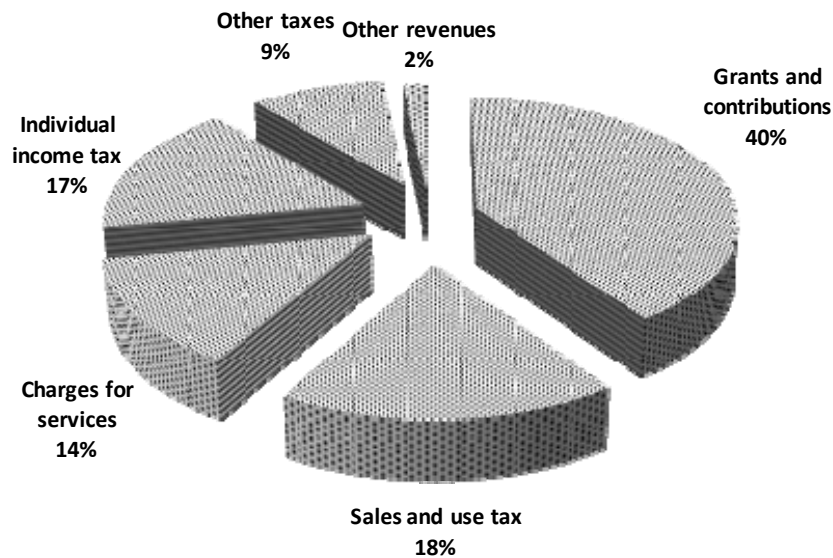
Expenses associated with governmental activities increased by \$1.557 billion, or 7.1%, for the fiscal year ended June 30, 2017. These expenses were mostly associated with services provided for health and environment, education, general government, social services, and transportation. *Exhibit 4* compares 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, 2017, the State used \$10.006 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 \$2.559 million in net transfers from the State’s business-type activities.

# State of South Carolina

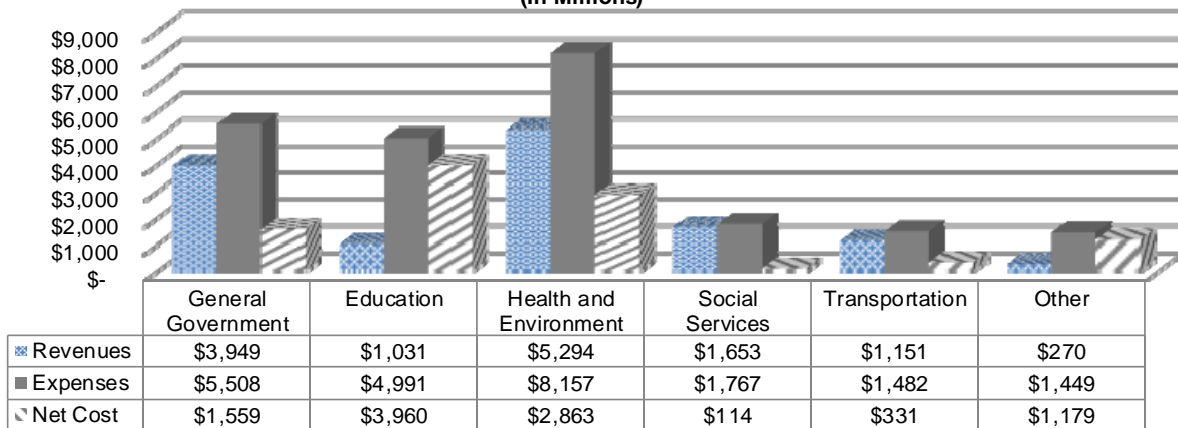
The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2017 fiscal year:

- Individual income tax revenues increased by \$258.362 million, or 6.7%, retail sales and use tax revenues increased by \$156.999 million, or 3.7%, and other taxes revenues increased by \$127.141 million, or 5.8%. Overall tax collections increased during fiscal year 2017 due to increased enforcement and improvements in consumer spending within the state and national economies.
- Capital grants and contributions increased by \$230.682 million or 39.6% 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 \$814.593 million, or 17.4%, from last year. This was attributable to improvements in the State’s economy, availability of budgetary appropriations, and increased demand for government services.
- Transportation expenses increased by \$171.313 million, or 13.1%, from last year. The increase is primarily the result of increased expenditures related to the storms that South Carolina has experienced over the last two 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 2017 fiscal year, the State incurred \$54.8 million related to the 2016 storm and \$110.7 million related to the 2015 storm. FEMA reimbursed \$71.6 million of these costs as of June 30, 2017.

**Exhibit 3**  
**Sources of Revenues Supporting Governmental Activities**  
**For the Fiscal Year Ended June 30, 2017**



*Exhibit 4*  
**Governmental Activities - Net Cost of Services**  
**For the Fiscal Year Ended June 30, 2017**  
**(In Millions)**



**Business-type Activities**

The net position of the State’s business-type activities increased by \$307.829 million, or 50.4%.

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, 2017 was \$792.899 million, which was an increase of \$208.199 million, or 35.6%. The Second Injury Fund serves as a claims processor for insurance carriers, self-insurers, and State Accident Fund. The Second Injury Fund’s deficit net position as of June 30, 2017 was \$15.686 million, which was an increase of \$61.375 million, or 79.6%.

Operating revenues of the Unemployment Compensation Fund decreased by \$33.352 million, or 7.6%, and operating expenses for the payment of unemployment compensation benefits decreased by \$9.301 million, or 4.5%, during the 2017 fiscal year. Additionally, the Unemployment Compensation Fund’s nonoperating revenues decreased by \$7.200 million, or 100.0%. The decreases in operating revenues and expenses resulted from the general decline in unemployment rates throughout the country. Additionally, operating revenues for the Second Injury Fund have decreased by \$124 thousand, or 0.2%, but operating expenses for the payment of Second Injury Fund claims remained at a low level during the 2017 fiscal year due to only a minimal \$573 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, 2017.

Exhibit 5  
**Governmental Fund Balances**  
**As of June 30, 2017**  
*(Expressed in Thousands)*

|                             | General<br>Fund     | Departmental<br>Program<br>Services | Local<br>Government<br>Infrastructure | Department of<br>Transportation<br>Special Revenue | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-----------------------------|---------------------|-------------------------------------|---------------------------------------|----------------------------------------------------|-----------------------------------|--------------------------------|
| Nonspendable.....           | \$ 120,194          | \$ 16,615                           | \$ —                                  | \$ 7,668                                           | \$ 11,039                         | \$ 155,516                     |
| Restricted.....             | 604,959             | 1,043,994                           | 2,083,877                             | 10,031                                             | 659,094                           | 4,401,955                      |
| Committed.....              | 2,137,028           | 18,135                              | —                                     | 497,449                                            | 73,084                            | 2,725,696                      |
| Assigned.....               | 397,688             | —                                   | —                                     | —                                                  | 11,099                            | 408,787                        |
| Unassigned.....             | 440,357             | (672,008)                           | —                                     | —                                                  | —                                 | (231,651)                      |
| <b>Totals.....</b>          | <b>\$ 3,700,226</b> | <b>\$ 406,736</b>                   | <b>\$ 2,083,877</b>                   | <b>\$ 515,148</b>                                  | <b>\$ 754,316</b>                 | <b>\$ 7,460,303</b>            |
| <br>                        |                     |                                     |                                       |                                                    |                                   |                                |
| Change from prior year..... | \$ 203,181          | \$ 144,108                          | \$ (120,277)                          | \$ 141,306                                         | \$ 55,289                         | \$ 423,607                     |
| Percentage change.....      | 5.8%                | 54.9%                               | (5.5%)                                | 37.8%                                              | 7.9%                              | 6.0%                           |

At June 30, 2017, total ending fund balance for the State’s governmental funds was \$7.460 billion, which represents an increase of \$423.607 million, or 6.0%, from the prior year. This total contains a deficit *unassigned* fund balance of \$231.651 million. The total also includes \$440.357 million 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 59.0% 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 \$260.086 million, 6.7%; retail sales and use tax of \$69.854 million, 2.0%; other taxes \$5.677 million, 1.1%; and \$47.253 million, 6.9%, in departmental services revenues (which mostly includes Medicaid and Medicare reimbursements) from the prior year. General Fund expenditures, which increased \$990.069 million, 10.8%, 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 2017 fiscal year, the total fund balance increased by \$144.108 million, or 54.9%, from the prior year. The primary source of revenue for the fund is federal revenues which account for \$7.915 billion or 92.1% 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 decreased by \$120.277 million, or 5.5% during the 2017 fiscal year leaving a balance of \$2.084 billion at the end of the fiscal year. The decrease in fund balance was the result of the capital contribution to DOT of \$164.626 million.

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 \$141.306 million, or 37.8%, during the 2017 fiscal year leaving a balance of \$515.148 million at the end of the fiscal year. The increase in fund balance was primarily a result of the capital contribution from the State Infrastructure Bank of \$164.626 million.



**Proprietary Funds**

*Exhibit 6* shows the components of the net position for the State’s various proprietary funds at June 30, 2017.

*Exhibit 6*  
**Proprietary Fund Net Position**  
**As of June 30, 2017**  
*(Expressed in Thousands)*

| <b>Fund Net Position</b>           | <b>Unemployment<br/>Compensation</b> | <b>Second<br/>Injury</b> | <b>Nonmajor<br/>Enterprise</b> | <b>Total<br/>Enterprise</b> | <b>Internal<br/>Service<br/>Funds</b> |
|------------------------------------|--------------------------------------|--------------------------|--------------------------------|-----------------------------|---------------------------------------|
| Net investment in                  |                                      |                          |                                |                             |                                       |
| capital assets.....                | \$ —                                 | \$ —                     | \$ 216,697                     | \$ 216,697                  | \$ 100,164                            |
| Restricted, expendable.....        | 792,899                              | —                        | —                              | 792,899                     | 501,216                               |
| Unrestricted.....                  | —                                    | (15,686)                 | (75,179)                       | (90,865)                    | 41,116                                |
| <b>Totals.....</b>                 | <b>\$ 792,899</b>                    | <b>\$ (15,686)</b>       | <b>\$ 141,518</b>              | <b>\$ 918,731</b>           | <b>\$ 642,496</b>                     |
| <b>Change from prior year.....</b> | <b>\$ 208,199</b>                    | <b>\$ 61,375</b>         | <b>\$ 38,255</b>               | <b>\$ 307,829</b>           | <b>\$ 45,521</b>                      |
| <b>Percentage change.....</b>      | <b>35.6%</b>                         | <b>79.6%</b>             | <b>37.0%</b>                   | <b>50.4%</b>                | <b>7.6%</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 \$208.199 million, or 35.6%, 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 \$61.375 million, or 79.6%, over the prior year. The increase was largely attributed to assessments being \$59.838 million larger than claims paid and changes in the claims liability estimates in the 2017 fiscal year.

The net position of the State’s *nonmajor enterprise funds* increased by \$38.255 million, or 37.0%, over the prior year. The increase in the State’s *nonmajor enterprise funds’* net position was primarily due to an \$18.937 million capital contribution and an increase of \$2.474 million in charges for services 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 \$45.521 million, or 7.6%, in the 2017 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 2017 fiscal year were \$7.580 billion. Actual revenues at June 30, 2017, were \$2.940 million, or .04%, over the estimated revenue used in the fiscal year 2017 budget appropriations act and which also represented an increase in collections over the prior year of \$311.428 million, or 4.3%. Individual income and sales tax collections are the fund’s major revenue sources. Individual income tax collections ended the year over the adjusted estimate by \$43.997 million and sales tax collections ended the year over the adjusted estimate by \$21.604 million.

Actual expenditures were \$63.050 million more than actual revenues while actual revenues were higher than the previous year, they barely exceeded the original budget. However, expenditures were kept \$550.891 million under fiscal year 2017 adjusted appropriations. In addition, \$3.665 million of unbudgeted spending was allowed through “open-ended” appropriations.

Based on the above results of operations, fiscal year 2017 ended with a budgetary surplus. The State ended the year with a budgetary General Fund balance after reservation of \$1.076 billion.

See the *Required Supplementary Information* section on pages 163 through 170 of this report for a detailed budgetary comparison schedule.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of the 2017 fiscal year, the State had \$17.018 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$868.499 million, or 5.4%, 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 |
|------------------------------------------|----------------------------|----------------------|--------------------------|-------------------|---------------------------|----------------------|-------------------------|
|                                          | 2017                       | 2016                 | 2017                     | 2016              | 2017                      | 2016                 | 2017-2016               |
|                                          | Land and improvements..... | \$ 2,101,349         | \$ 2,074,471             | \$ 171,280        | \$ 152,427                | \$ 2,272,629         | \$ 2,226,898            |
| Infrastructure.....                      | 10,410,358                 | 9,903,747            | —                        | —                 | 10,410,358                | 9,903,747            | 5.1%                    |
| Buildings and improvements.....          | 1,057,699                  | 1,039,999            | 16,322                   | 16,007            | 1,074,021                 | 1,056,006            | 1.7%                    |
| Vehicles.....                            | 177,232                    | 127,419              | 626                      | 246               | 177,858                   | 127,665              | 39.3%                   |
| Machinery and equipment.....             | 168,967                    | 152,920              | 4,294                    | 4,006             | 173,261                   | 156,926              | 10.4%                   |
| Works of art and historical treasures... | 8,243                      | 8,309                | —                        | —                 | 8,243                     | 8,309                | (0.8%)                  |
| Construction in progress.....            | 2,805,901                  | 2,601,135            | 62,658                   | 35,534            | 2,868,559                 | 2,636,669            | 8.8%                    |
| Intangible assets.....                   | 31,704                     | 31,923               | 1,035                    | 1,026             | 32,739                    | 32,949               | (0.6%)                  |
| <b>Total.....</b>                        | <b>\$ 16,761,453</b>       | <b>\$ 15,939,923</b> | <b>\$ 256,215</b>        | <b>\$ 209,246</b> | <b>\$ 17,017,668</b>      | <b>\$ 16,149,169</b> | <b>5.4%</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 \$753.6 million in capital expenditures related to infrastructure and \$215.8 million in depreciation charges for infrastructure to net an increase of 4.8% or approximately \$537.8 million, excluding any current year retirements of infrastructure.

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, 2017, the State had \$2.631 billion in bonds and notes outstanding—a decrease of \$222.186 million, or a 7.8% 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 |                     | Total Percentage Change |
|-------------------------------------|-----------------------------|---------------------|--------------------------|-----------------|---------------------------|---------------------|-------------------------|
|                                     | 2017                        | 2016                | 2017                     | 2016            | 2017                      | 2016                | 2017-2016               |
|                                     | <b>Backed by the State:</b> |                     |                          |                 |                           |                     |                         |
| General obligation bonds.....       | \$ 756,172                  | \$ 962,196          | \$ —                     | \$ —            | \$ 756,172                | \$ 962,196          | (21.4%)                 |
| <b>Backed by Specific Revenues:</b> |                             |                     |                          |                 |                           |                     |                         |
| Revenue bonds and notes.....        | 81,241                      | 31,019              | 5,730                    | 5,895           | 86,971                    | 36,914              | 135.6%                  |
| Infrastructure Bank bonds.....      | 1,788,232                   | 1,854,451           | —                        | —               | 1,788,232                 | 1,854,451           | (3.6%)                  |
| <b>Total.....</b>                   | <b>\$ 2,625,645</b>         | <b>\$ 2,847,666</b> | <b>\$ 5,730</b>          | <b>\$ 5,895</b> | <b>\$ 2,631,375</b>       | <b>\$ 2,853,561</b> | <b>(7.8%)</b>           |

The reduction of principal on outstanding debt exceeded the issuance of debt resulting in a decrease in debt outstanding for governmental activities of \$222.021 million, or 7.8%. Activity in the debt reported by the governmental activities included

## State of South Carolina

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the issuance of \$213.595 million in infrastructure bank refunding bonds, \$37.060 million in revenue bonds, and \$24.973 million in notes payable along with \$22.464 million in premiums on bonds issued.

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, 2017, 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, 2017, 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: \$50.227 million for highway bonds, \$357.069 million for general obligation bonds (excluding institution and highway bonds), \$19.010 million for economic development bonds, and \$17.313 million for research university infrastructure bonds.

State institution bonds of \$483.275 million were outstanding at June 30, 2017.

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, 2017, the General Reserve Fund, sometimes called the *rainy day account*, had a balance of \$348.019 million which increased from the prior year by \$20.400 million appropriated by the 2016-2017 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 2017, State law defines full funding for the reserve as 5.0% of the Budgetary General Fund’s revenues of the prior fiscal year.

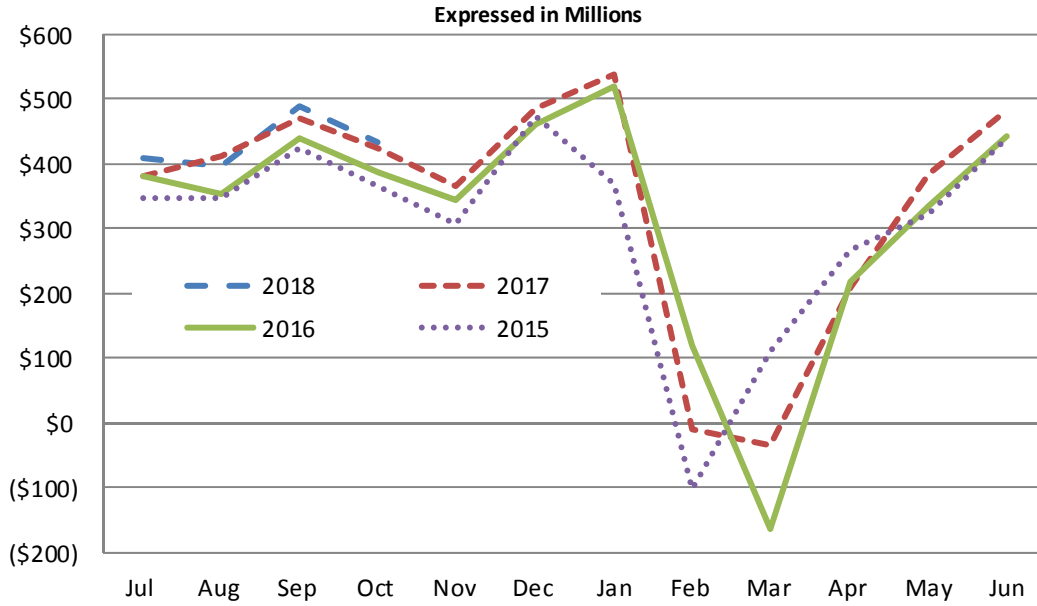
#### **Budgetary General Fund for the 2017-2018 Accounting Year**

For fiscal year 2018, the Board of Economic Advisors estimated General Fund cash basis revenue of \$7.951 billion, which is \$368.244 million, or 4.9%, more than fiscal year 2017 actual revenue collections. The State’s Board of Economic Advisors November 2017 estimate reflected no change to the original \$7.951 billion revenue estimate for fiscal year 2018.

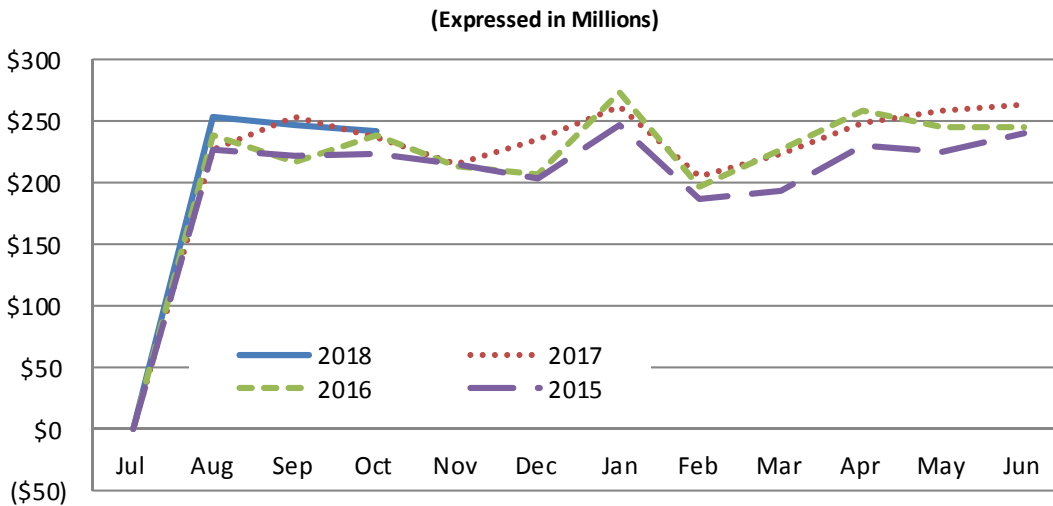
#### **Economic Conditions**

Budgetary General Fund revenues for the first four months of fiscal year 2018 were \$2.752 billion, an increase of \$67.463 million, or 2.5%, over the same period for fiscal year 2017. Total individual income taxes collected have increased by \$39.232 million, or 2.3%, over the same period in the prior year. Sales taxes have also increased by \$27.411 million, or 3.8%, from the first four months of fiscal year 2017.

## Individual Income Taxes



## Sales Tax



### 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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 1200 Senate Street  
 305 Wade Hampton Office Building  
 Columbia, South Carolina 29201