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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, 2020. Please read it in conjunction with the Comptroller's *Letter of Transmittal* at the front of this report and the financial statements that follow this section.

### Overview of the Financial Statements

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

### Government-wide Financial Statements

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

There are two government-wide financial statements:

***Statement of net position:*** This statement presents information on *all* of the State's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether its financial position is improving or deteriorating. However, the statement of net position does not tell the whole story. To assess the State's overall financial health, other factors need to be considered 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 have been the most significant of South Carolina's business-type activities.

***Component units:*** Although component units are legally separate from the State, the State's elected officials are financially accountable for them. The Public Service Authority (Santee-Cooper, an electric utility company), the State Ports Authority, the State Housing Authority, the State Lottery Commission, Clemson University, the Medical University of South Carolina, and the University of South Carolina are the State's major component units. Some financial information for these component units is included in this report. Complete financial statements for these component units can also be obtained from their respective administrative offices (see Note 1a of the notes to the financial statements on page 67).

### Fund Financial Statements

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

# State of South Carolina

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The State reports three types of *funds*:

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

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

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

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

***Fiduciary funds:*** The State is the trustee, or *fiduciary*, for its employees' retirement and other post-employment benefit plans. The State also is responsible for other assets that, because of a trust agreement, it is to use only for trust beneficiaries such as an investment pool operated on behalf of local governments. These activities are *excluded* from the State's government-wide financial statements because the State is not to use these assets to benefit its operations. The State has an obligation to ensure that the net position it reports in fiduciary funds are used for the intended purposes.

The basic fiduciary fund statements are on pages 58 and 59 of this report.

## **Component Unit Financial Statements**

The *Government-wide Financial Statements* section on the preceding page identifies the State's major component units under the *Component units* subheading. More detailed financial statements which include these component units are on pages 60 through 63 of this report.

## **Notes to the Financial Statements**

Immediately following the financial statements are *notes* that provide additional and pertinent information to the financial statement amounts. The notes on pages 64 through 181 are necessary to fully understand the financial statements.

## **Required Supplementary Information**

This section addresses budgetary matters and provides certain *required* reporting information that supplements the basic financial statements. Included in this section is a schedule that compares the State's legally adopted General Fund budget with actual revenues collected and expenditures paid for the year. On page 190, Note 5 to the required supplementary information is a reconciliation that provides and explains differences between the changes in fund balance of certain funds when presented on the budgetary-basis and the changes in fund balance of these funds when presented on the GAAP-basis as reported in the governmental fund statements. Additionally, the required supplementary information section includes information on the State's five pension programs: The South Carolina Retirement System, the Police Officers' Retirement System, the General Assembly Retirement System, the Judges' and Solicitors' Retirement System, and the National Guard Retirement System. This required supplementary information is on pages 183 through 215 of this report.

## **Supplementary Information**

Nonmajor governmental funds, nonmajor enterprise funds, internal service funds, fiduciary funds, and nonmajor discretely presented component units are presented immediately following the required supplementary information. Combining and individual fund statements and a schedule of General Reserve Activity are found on pages 217 through 263 of this report.

Government-wide Financial Analysis

Exhibits 1 and 2 summarize the overall financial position and results of operations of the primary government for the past two years based on information included in the government-wide financial statements.

Exhibit 1  
 Government-wide Net Position  
 As of June 30 for the Years Indicated  
 (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Totals—Primary Government		Total Percent Change 2020-2019
	2020	2019	2020	2019	2020	2019	
<b>Assets</b>							
Current and other assets.....	\$ 18,079,376	\$ 15,240,640	\$ 1,832,775	\$ 1,495,905	\$ 19,912,151	\$ 16,736,545	19.0%
Capital assets.....	18,887,128	18,177,586	293,479	284,717	19,180,607	18,462,303	3.9%
<b>Total assets.....</b>	<b>36,966,504</b>	<b>33,418,226</b>	<b>2,126,254</b>	<b>1,780,622</b>	<b>39,092,758</b>	<b>35,198,848</b>	<b>11.1%</b>
<b>Deferred Outflows of Resources</b>	<b>1,132,012</b>	<b>974,312</b>	<b>3,672</b>	<b>3,038</b>	<b>1,135,684</b>	<b>977,350</b>	<b>16.2%</b>
<b>Liabilities</b>							
Long-term liabilities.....	10,155,830	10,165,698	234,804	304,594	10,390,634	10,470,292	(0.8%)
Other liabilities.....	4,926,653	3,749,575	324,818	117,589	5,251,471	3,867,164	35.8%
<b>Total liabilities.....</b>	<b>15,082,483</b>	<b>13,915,273</b>	<b>559,622</b>	<b>422,183</b>	<b>15,642,105</b>	<b>14,337,456</b>	<b>9.1%</b>
<b>Deferred Inflows of Resources</b>	<b>547,674</b>	<b>422,581</b>	<b>1,531</b>	<b>1,357</b>	<b>549,205</b>	<b>423,938</b>	<b>29.5%</b>
<b>Net Position</b>							
Net investment in capital assets.....	16,904,849	16,039,329	281,794	221,494	17,186,643	16,260,823	5.7%
Restricted.....	9,612,909	6,064,521	1,721,780	1,226,011	11,334,689	7,290,532	55.5%
Unrestricted.....	(4,049,399)	(2,049,166)	(434,801)	(87,385)	(4,484,200)	(2,136,551)	(109.9%)
<b>Total net position.....</b>	<b>\$ 22,468,359</b>	<b>\$ 20,054,684</b>	<b>\$ 1,568,773</b>	<b>\$ 1,360,120</b>	<b>\$ 24,037,132</b>	<b>\$ 21,414,804</b>	<b>12.2%</b>

Net Position

The largest portion of the State’s net position reflects its *net investment in capital assets* (for example, buildings, roads, and bridges) less any related debt used to acquire those assets that is still outstanding. The State uses capital assets to provide services to citizens; consequently, they are *not* available for future spending. Further, the State cannot sell the capital assets to repay the related debt because it needs the assets for its operations; so it must find other resources to repay the debt.

*Restricted* net position generally is available for future spending but is subject to external restrictions, such as bond covenants, federal government grant restrictions, or restrictions imposed by enabling State legislation or through State constitutional provisions. The State’s largest restricted balances include General Government, Transportation, and Health.

*Unrestricted* net position—resources normally available for future spending without restrictions—reported a deficit balance of (\$4.484) billion at June 30, 2020. This represents an erosion in the deficit net position of \$2.348 billion over the prior year. The primary government’s unrestricted deficit net position partially consists of the \$4.025 billion net pension liability and the \$3.135 billion other post-employment benefits other than pensions (OPEB) liability, which are required to be recognized by GASB 68 (see Note 7 starting on page 104) and GASB 75 (see Note 8 starting on page 112), respectively. It should be noted that the deficit unrestricted net position was also offset by increases in restricted net position and net investment in capital assets, resulting in overall increases in the net positions of the State’s *governmental activities* and *business-type activities*.

The State’s *business-type activities* reported a \$434.801 million deficit unrestricted net position. This balance was mostly comprised of a \$31.547 million deficit unrestricted net position in the State-run college Tuition Prepayment Program and a \$351.733 million deficit unrestricted net position in the State’s Unemployment Compensation Fund. The negative unrestricted net positions in the Tuition Prepayment Program and Unemployment Compensation Fund were the result of projected claims exceeding assets on hand on June 30, 2020.

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

	Governmental Activities		Business-type Activities		Totals— Primary Government		Total Percentage Change
	2020	2019	2020	2019	2020	2019	2020-2019
<b>Revenues</b>							
Program revenues:							
Charges for services.....	\$ 4,163,001	\$ 3,855,126	\$ 344,474	\$ 394,187	\$ 4,507,475	\$ 4,249,313	6.1%
Operating grants and contributions.....	9,677,634	8,711,747	2,377,360	5,497	12,054,994	8,717,244	38.3%
Capital grants and contributions.....	905,754	673,255	53,113	—	958,867	673,255	42.4%
General revenues:							
Individual income tax.....	5,045,819	4,835,821	—	—	5,045,819	4,835,821	4.3%
Retail sales and use tax.....	5,167,804	5,004,470	—	—	5,167,804	5,004,470	3.3%
Other tax.....	2,871,172	2,791,906	—	—	2,871,172	2,791,906	2.8%
Unrestricted grants and contributions.....	40	14	—	—	40	14	185.7%
Unrestricted investment income.....	470,543	365,453	55,291	48,530	525,834	413,983	27.0%
Tobacco legal settlement.....	71,750	80,723	—	—	71,750	80,723	(11.1%)
Other.....	594,187	723,194	3,344	4,510	597,531	727,704	(17.9%)
<b>Total revenues.....</b>	<b>28,967,704</b>	<b>27,041,709</b>	<b>2,833,582</b>	<b>452,724</b>	<b>31,801,286</b>	<b>27,494,433</b>	<b>15.7%</b>
<b>Expenses</b>							
Governmental activities:							
General government.....	6,950,505	6,661,431	—	—	6,950,505	6,661,431	4.3%
Education.....	5,233,490	4,893,190	—	—	5,233,490	4,893,190	7.0%
Health and environment.....	8,752,266	8,388,809	—	—	8,752,266	8,388,809	4.3%
Social services.....	1,783,094	1,602,776	—	—	1,783,094	1,602,776	11.3%
Administration of justice.....	1,108,837	1,013,459	—	—	1,108,837	1,013,459	9.4%
Resources and economic development.....	481,058	472,696	—	—	481,058	472,696	1.8%
Transportation.....	1,761,563	1,526,454	—	—	1,761,563	1,526,454	15.4%
Other.....	10,888	18,211	—	—	10,888	18,211	(40.2%)
Business-type activities:							
Unemployment compensation benefits.....	—	—	3,038,557	149,581	3,038,557	149,581	1,931.4%
Second Injury Fund.....	—	—	1,484	12,085	1,484	12,085	(87.7%)
Other.....	—	—	57,216	64,908	57,216	64,908	(11.9%)
<b>Total expenses.....</b>	<b>26,081,701</b>	<b>24,577,026</b>	<b>3,097,257</b>	<b>226,574</b>	<b>29,178,958</b>	<b>24,803,600</b>	<b>17.6%</b>
<b>Excess (deficiency) before transfers.....</b>	<b>2,886,003</b>	<b>2,464,683</b>	<b>(263,675)</b>	<b>226,150</b>	<b>2,622,328</b>	<b>2,690,833</b>	<b>(2.5%)</b>
Net transfers.....	(472,328)	21,016	472,328	(21,016)	—	—	—
<b>Change in net position.....</b>	<b>2,413,675</b>	<b>2,485,699</b>	<b>208,653</b>	<b>205,134</b>	<b>2,622,328</b>	<b>2,690,833</b>	<b>(2.5%)</b>
<b>Net position at beginning of year.....</b>	<b>20,054,684</b>	<b>17,568,985</b>	<b>1,360,120</b>	<b>1,154,986</b>	<b>21,414,804</b>	<b>18,723,971</b>	<b>14.4%</b>
<b>Net position, end of year.....</b>	<b>\$ 22,468,359</b>	<b>\$ 20,054,684</b>	<b>\$ 1,568,773</b>	<b>\$ 1,360,120</b>	<b>\$ 24,037,132</b>	<b>\$ 21,414,804</b>	<b>12.2%</b>

**Changes in Net Position**

The State’s total net position of its governmental activities and its business-type activities increased by \$2.622 billion, or 12.2%, over the prior year. This overall improvement in the financial position of the State was experienced primarily through increased tax revenues of the State’s governmental activities.

Governmental Activities

The net position of the State’s governmental activities increased by \$2.414 billion, or 12.0%. Revenue increased from last year by \$1.926 billion, or 7.1%, which was comprised of an increase of \$419.734 million, or 3.0%, in general revenue. Revenues that support governmental activities are derived mostly from taxes; grants and contributions, including federal aid; and charges for goods and services. *Exhibit 3* illustrates the sources of revenues that support governmental activities.

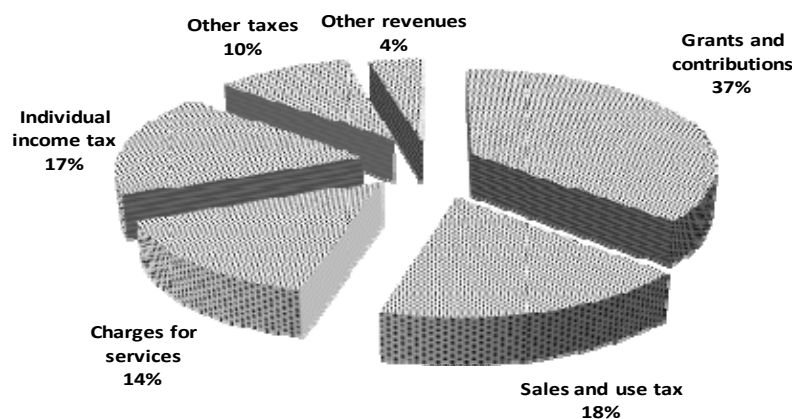
## State of South Carolina

Expenses associated with governmental activities increased by \$1.505 billion, or 6.1%, for the fiscal year ended June 30, 2020. 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, 2020, the State used \$11.335 billion in tax and other general revenues to offset the net cost of all services that the State’s governmental activities provided. Business-type activities received \$472.328 million in net transfers from the State’s governmental activities.

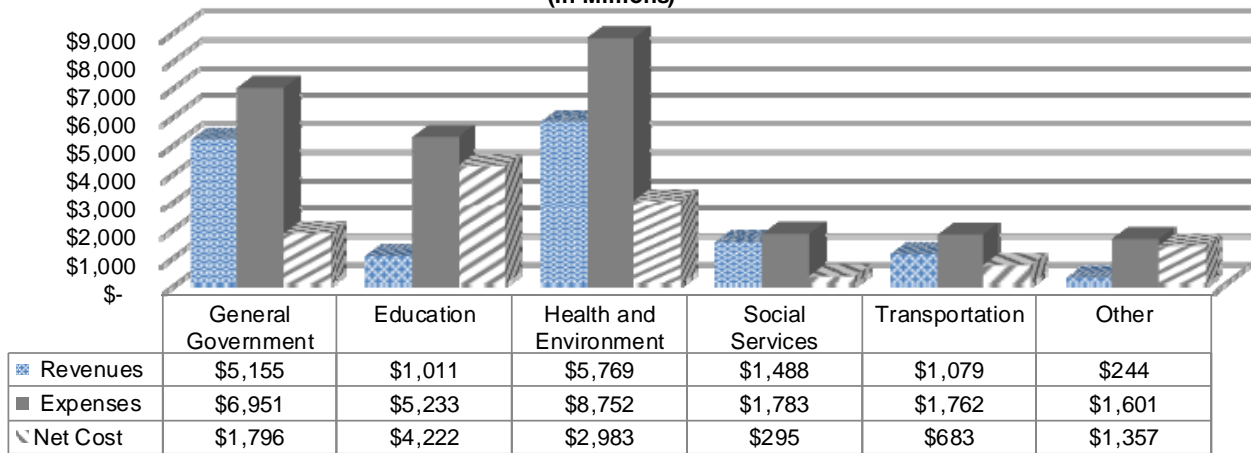
The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2020 fiscal year:

- Individual income tax revenues increased by \$209.998 million, or 4.3%, retail sales and use tax revenues increased by \$163.334 million, or 3.3%, and other taxes revenues increased by \$79.266 million, or 2.8%. Overall tax collections increased during fiscal year 2020 due to increased enforcement and improvements in consumer spending within the state and national economies for the majority of the fiscal year 2020.
- Operating grants and contributions increased by \$965.887 million, or 11.1%, over the prior year. This was primarily due to increased federal funding to fight the COVID-19 pandemic.
- Capital grants and contributions increased by \$232.499 million, or 34.5% from last year. This was primarily a result of approximately \$65.000 million in extra federal funding for large and small urban transit systems and for rural transit systems. This increased funding was related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- Unrestricted investment income increased by \$105.090 million, or 28.8%, from the previous fiscal year. This increase was attributed to the availability of higher investable cash balances during most of the 2020 fiscal year.
- Social services expenses increased by \$180.318 million, or 11.3%, due to the increase in demand for services largely because of the COVID-19 pandemic.
- Administration of justice expenses increased by \$95.378 million, or 9.4%, from the previous year. \$22.223 million of this increase was attributed to increases in the pension and OPEB expenses, while the remainder of the increase can be attributed to increased hiring with the Department of Corrections.
- Transportation expenses increased by \$235.109 million, or 15.4%, from last year. This increase is primarily the result of a \$146.292 million increase in highway maintenance, some of which was delayed by weather in the previous fiscal year. Additionally, and as stated above, transportation expenses increased due to COVID-related expenses being incurred.

**Exhibit 3**  
**Sources of Revenues Supporting Governmental Activities**  
**For the Fiscal Year Ended June 30, 2020**



*Exhibit 4*  
**Governmental Activities - Net Cost of Services**  
**For the Fiscal Year Ended June 30, 2020**  
 (In Millions)



**Business-type Activities**

The net position of the State’s business-type activities increased by \$208.653 million, or 15.3%.

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 are obtained to pay for the services that the Unemployment Compensation Fund provides. The Unemployment Compensation Fund’s net position as of June 30, 2020 was \$1.315 billion, which was an increase of \$134.691 million, or 11.4%, from last year. The Second Injury Fund serves as a claims processor for insurance carriers, self-insurers, and the State Accident Fund. The Second Injury Fund’s net position as of June 30, 2020 was \$55.343 million, which was an increase of \$9.345 million, or 20.3%, from last year.

Operating revenues of the Unemployment Compensation Fund increased by \$2.325 billion, or 628.1%, and operating expenses for the payment of unemployment compensation benefits increased by \$2.889 billion, or 1931.4%, during the 2020 fiscal year. The increases in operating revenues and expenses resulted directly from the effects of the COVID-19 pandemic on unemployment rates within the State and throughout the country. Additionally, operating revenues for the Second Injury Fund have decreased by \$840 thousand, or 7.1%, and operating expenses for the payment of Second Injury Fund claims remained at a low level during the 2020 fiscal year due to the Second Injury Fund’s closure plan that took effect in fiscal year 2019.

**Financial Analysis of the State’s Funds**

The State of South Carolina uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. Within the fund financial statements, the focus is on reporting major funds.

**Governmental Funds**

*Exhibit 5* shows the components of fund balance for the State’s various governmental funds as of June 30, 2020.

Exhibit 5  
**Governmental Fund Balances**  
*(Expressed in Thousands)*

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable.....	\$ 129,273	\$ 40,327	\$ —	\$ 12,616	\$ 11,862	\$ 194,078
Restricted.....	923,224	2,754,250	2,291,457	600,244	584,279	7,153,454
Committed.....	507,269	21,021	—	368,958	208,912	1,106,160
Assigned.....	263,888	195,225	—	—	156,572	615,685
Unassigned.....	5,162,015	(2,577,316)	—	—	—	2,584,699
<b>Totals.....</b>	<b>\$ 6,985,669</b>	<b>\$ 433,507</b>	<b>\$ 2,291,457</b>	<b>\$ 981,818</b>	<b>\$ 961,625</b>	<b>\$ 11,654,076</b>
<b>Change from prior year.....</b>	<b>\$ 1,336,599</b>	<b>\$ (59,908)</b>	<b>\$ 86,406</b>	<b>\$ 119,338</b>	<b>\$ 62,357</b>	<b>\$ 1,544,792</b>
<b>Percentage change.....</b>	<b>23.7%</b>	<b>(12.1%)</b>	<b>3.9%</b>	<b>13.8%</b>	<b>6.9%</b>	<b>15.3%</b>

At June 30, 2020, total ending fund balance for the State’s governmental funds was \$11.654 billion, which represents an increase of \$1.545 billion, or 15.3%, from the prior year. This total contains an *unassigned* fund balance of \$2.585 billion. The total also includes \$5.162 billion reported by the General Fund as unassigned and available with no constraints for spending in the coming year. In addition, governmental funds that are *restricted* by external parties or enabling legislation which includes creation through state law or constitutional provision constitute 61.4% of the total fund balance. The majority of remaining fund balance is *nonspendable, committed, or assigned* and is *not* available for future appropriation because it is not in a spendable form or is accessible only for specific purposes.

The *General Fund* is the State’s operating fund. This fund includes resources, such as taxes, that pay for the services that the State traditionally has provided to its citizens. Activity is accounted for in the General Fund unless constraints established by State law or external parties require them to be accounted for in another fund. Increases in the current fiscal year were experienced in individual income tax of \$216.428 million, or 4.5%; retail sales and use tax of \$99.553 million, or 2.5%; insurance tax of \$10.810 million, or 5.3%; and other taxes of \$30.328 million, or 4.9%, from the prior year. General Fund expenditures, which increased by \$330.767 million, or 3.2%, 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 2020 fiscal year, the total fund balance decreased by \$59.908 million, or 12.1%, from the prior year. The primary source of revenue for the fund is federal revenues, which account for \$9.042 billion, or 93.2%, of the total revenue reported. These grants are reimbursement-based, which generally results in a negative unassigned fund balance until the funds are received.

The *Local Government Infrastructure Fund* accounts for grants, loans and other financial assistance to local governments for infrastructure projects. Certain motor fuel taxes, federal funds, and bond proceeds are the fund’s primary resources. The fund balance increased by \$86.406 million, or 3.9%, during the 2020 fiscal year, leaving a balance of \$2.291 billion at the end of the fiscal year. The increase in fund balance was a result of decreased project expenditures.

The *Department of Transportation (DOT) Special Revenue Fund* accounts for various gasoline taxes, fees, fines, and federal grant resources. 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 \$119.338 million, or 13.8%, during the 2020 fiscal year, leaving a balance of \$981.818 million at the end of the fiscal year. The increase in fund balance was primarily a result of the 2-cent per year gas tax increase for road projects and maintenance. DOT is in the process of undertaking these road projects.

*Nonmajor Governmental Funds* are used to account for funds that are restricted for specific purposes, including education, healthcare, and local governments. The \$62.357 million, or 6.9%, increase in fund balance during the 2020 fiscal year was primarily the result of increases in accommodations and local option sales tax revenues.



# State of South Carolina

## Proprietary Funds

Exhibit 6 shows the components of the net position for the State's various proprietary funds at June 30, 2020.

*Exhibit 6*  
**Proprietary Fund Net Position**  
(Expressed in Thousands)

Fund Net Position	Enterprise Funds			Total Enterprise	Internal Service Funds
	Unemployment Compensation	Second Injury	Nonmajor Enterprise		
Net investment in capital assets.....	\$ —	\$ —	\$ 281,794	\$ 281,794	\$ 84,219
Restricted, expendable.....	1,666,437	55,343	—	1,721,780	498,618
Unrestricted.....	(351,733)	—	(83,068)	(434,801)	302,554
<b>Totals.....</b>	<b>\$ 1,314,704</b>	<b>\$ 55,343</b>	<b>\$ 198,726</b>	<b>\$ 1,568,773</b>	<b>\$ 885,391</b>
<b>Change from prior year.....</b>	<b>\$ 134,691</b>	<b>\$ 9,345</b>	<b>\$ 64,617</b>	<b>\$ 208,653</b>	<b>\$ 158,783</b>
<b>Percentage change.....</b>	<b>11.4%</b>	<b>20.3%</b>	<b>48.2%</b>	<b>15.3%</b>	<b>21.9%</b>

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

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

The net position of the *Unemployment Compensation Benefits Fund*, a major enterprise fund, increased by \$134.691 million, or 11.4%, over the prior year. The increase in net position was the result of additional federal funding related to the COVID-19 pandemic, but the Fund was still able 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 \$9.345 million, or 20.3%, over the prior year. As stated on page 29, the Second Injury Fund's closure plan started to take effect in fiscal year 2019. The last assessment for this plan was made in fiscal year 2018.

The net position of the State's *nonmajor enterprise funds* increased by \$64.617 million, or 48.2%, over the prior year. The increase in the State's *nonmajor enterprise funds'* net position was primarily due to the transfer of \$48.804 million to the Patients' Compensation Fund from the South Carolina Medical Malpractice Liability Joint Underwriting Association (a nonmajor discretely presented component unit). The transfer was a part of the merger between the two agencies. See page 226 for more information. Additionally, the Tuition Prepayment Program saw an increase of \$4.406 million in its interest and investment income, while its tuition plan disbursements decreased by \$1.829 million.

South Carolina's *internal service funds* provide certain services (including maintenance, insurance, printing, information technology, and motor pool services) to other State funds but sometimes to local governments as well. Internal Service Funds experienced an increase to their net position of \$158.783 million, or 21.9%, in the 2020 fiscal year. The objective of an internal service fund is to charge its customers for the costs of the services or goods that it provides. Because internal service funds benefit primarily State government, South Carolina reports them as governmental activities in the government-wide financial statements.

### Budgetary General Fund Highlights

Estimated revenues for the 2020 fiscal year were \$8.717 billion. Actual revenues at June 30, 2020, were \$462.615 million, or 5.3%, over the estimated revenue used in the fiscal year 2020 budget appropriations act. This also represented an increase in collections over the prior year of \$374.472 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 \$343.531 million and sales tax collections ended the year under the adjusted estimate by \$7.630 million.

Actual expenditures were \$545.918 million less than actual revenues. Also, expenditures were kept \$634.190 million under fiscal year 2020 adjusted appropriations. In addition, \$939 thousand of unbudgeted spending occurred through "open-ended" appropriations.

Based on the above results of operations, fiscal year 2020 ended with a budgetary surplus, which resulted in a budgetary General Fund balance after reservation of \$1.805 billion.

# State of South Carolina

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

## Capital Assets and Debt Administration

### Capital Assets

At the end of the 2020 fiscal year, the State had \$19.181 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$718.304 million, or 3.9%, over the previous fiscal year (see *Exhibit 7*).

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

	Governmental		Business-type		Totals—Primary Government		Total
	Activities		Activities				Percentage
	2020	2019	2020	2019	2020	2019	2020-2019
Land and improvements.....	\$ 2,294,497	\$ 2,202,040	\$ 170,982	\$ 170,104	\$ 2,465,479	\$ 2,372,144	3.9%
Infrastructure.....	10,930,987	10,958,223	—	—	10,930,987	10,958,223	(0.2%)
Buildings and improvements.....	1,007,960	1,043,605	14,711	16,027	1,022,671	1,059,632	(3.5%)
Vehicles.....	248,648	242,268	206	325	248,854	242,593	2.6%
Machinery and equipment.....	225,862	201,194	3,092	3,362	228,954	204,556	11.9%
Works of art and historical treasures...	3,362	6,642	—	—	3,362	6,642	(49.4%)
Construction in progress.....	3,941,195	3,438,744	104,488	94,110	4,045,683	3,532,854	14.5%
Intangible assets.....	234,617	84,870	—	789	234,617	85,659	173.9%
<b>Total.....</b>	<b>\$ 18,887,128</b>	<b>\$ 18,177,586</b>	<b>\$ 293,479</b>	<b>\$ 284,717</b>	<b>\$ 19,180,607</b>	<b>\$ 18,462,303</b>	<b>3.9%</b>

Growth in capital asset investment occurred mostly in construction in progress and land and improvements. The Department of Transportation recognized a net \$831.771 million increase in construction in progress and land and improvements. Also, the Department of Transportation converted \$190.920 million of previous year construction in progress into infrastructure. These additions are part of new and on-going infrastructure projects within the Department of Transportation Special Revenue Fund.

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

# State of South Carolina

## Debt Outstanding

At June 30, 2020, the State had \$2.067 billion in bonds and notes outstanding—a decrease of \$181.455 million, or a 8.1%, 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
	2020	2019	2020	2019	2020	2019	2020-2019
<b>Backed by the State:</b>							
General obligation bonds.....	\$ 368,747	\$ 457,555	\$ —	\$ —	\$ 368,747	\$ 457,555	(19.4%)
<b>Backed by Specific Revenues:</b>							
Revenue bonds and notes.....	128,374	134,348	11,685	11,875	140,059	146,223	(4.2%)
Infrastructure Bank bonds.....	1,558,524	1,645,007	—	—	1,558,524	1,645,007	(5.3%)
<b>Total.....</b>	<b>\$2,055,645</b>	<b>\$ 2,236,910</b>	<b>\$ 11,685</b>	<b>\$ 11,875</b>	<b>\$2,067,330</b>	<b>\$ 2,248,785</b>	<b>(8.1%)</b>

The repayment of principal on outstanding debt exceeded issuances of debt, resulting in a decrease in debt outstanding for governmental activities of \$181.265 million, or 8.1%. Contributing to this decline was a major refunding of Infrastructure Bank bonds.

Three bond rating services assign ratings to bonds backed by the State with its own taxing authority (*general obligation bonds*). Fitch Ratings rated these bonds as “AAA” and Moody’s Investors Service rated them as “Aaa” during the fiscal year ended June 30, 2020, 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, 2020, the State had the legal capacity to issue additional bonds as long as the new debt would not increase annual principal and interest payments by more than the following amounts: \$75.597 million for highway bonds, \$485.168 million for general obligation bonds (excluding institution and highway bonds), \$39.734 million for economic development bonds, and \$26.689 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements on page 136 of this report for additional information about the State’s long-term debt.

## Economic Factors and Next Year’s Budget

### The “Rainy Day Account”

The State’s General Reserve Fund, also called the rainy day account, had a \$406.213 million balance at June 30, 2020, which was \$27.090 million greater than the balance a year earlier. Funding for this reserve is mandated by state law and by the state Constitution. If the State withdraws funds from the General Reserve Fund to cover a year-end deficit, it must replace the funds within five years. The state Constitution also requires that at least one percent of the Budgetary General Fund revenue of the latest completed fiscal year, if so much is necessary, be restored each year following the deficit until full funding is achieved. In any year withdrawals are made that reduce the account below its pre-determined full-funding level, the state Constitution requires that full-funding of the General Reserve Fund be restored within three fiscal years. State law defines full funding as 5.0% of the Budgetary General Fund’s revenues of the prior fiscal year.

### Forecasted Budgetary General Fund Revenues for Fiscal Year 2021

In August 2020, the State Board of Economic Advisors (BEA) forecast that there would be \$8.871 billion of budgetary General Fund revenues for fiscal year 2021, which was \$308.526 million, or 3.4%, less than actual corresponding revenues collected in fiscal year 2020. In November 2020, the BEA reduced its August forecast another \$49.740 million. As a result,

# State of South Carolina

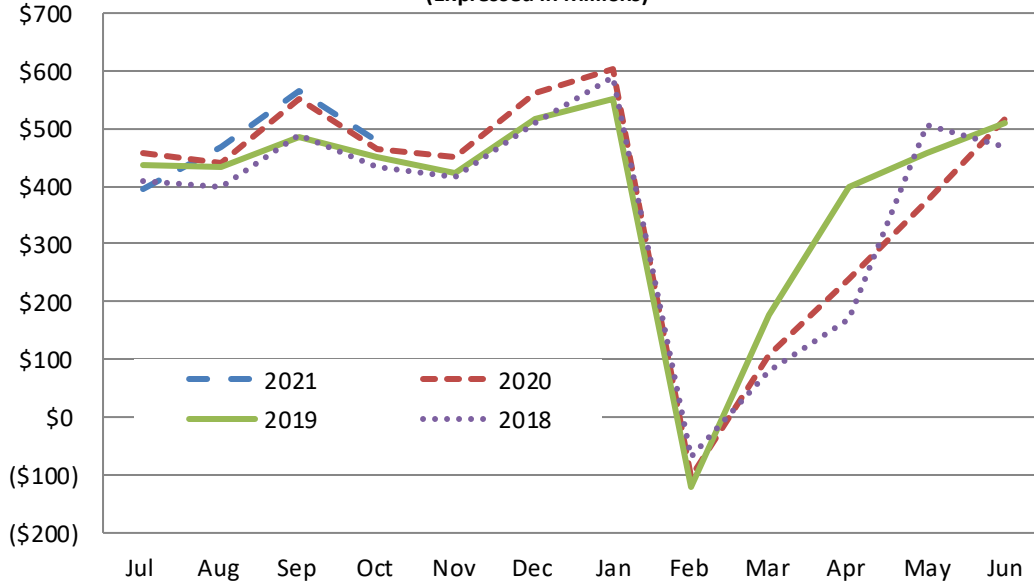
forecasted Budgetary General Fund revenues for fiscal year 2021 are currently \$358.266 million, or 3.9%, below actual revenue collections in fiscal year 2020.

## Economic Conditions

Budgetary General Fund revenues for the first four months of fiscal year 2021 were \$2.603 billion (net of \$629.405 million to the tax relief trust fund), which was an increase of \$56.836 million, or 2.2%, compared to the same period for fiscal year 2020. Total individual income taxes collected have decreased by \$7.107 million, or 0.4%, compared to the same period in the prior year. Sales taxes have increased by \$47.263 million, or 5.6%, over the first four months of fiscal year 2020.

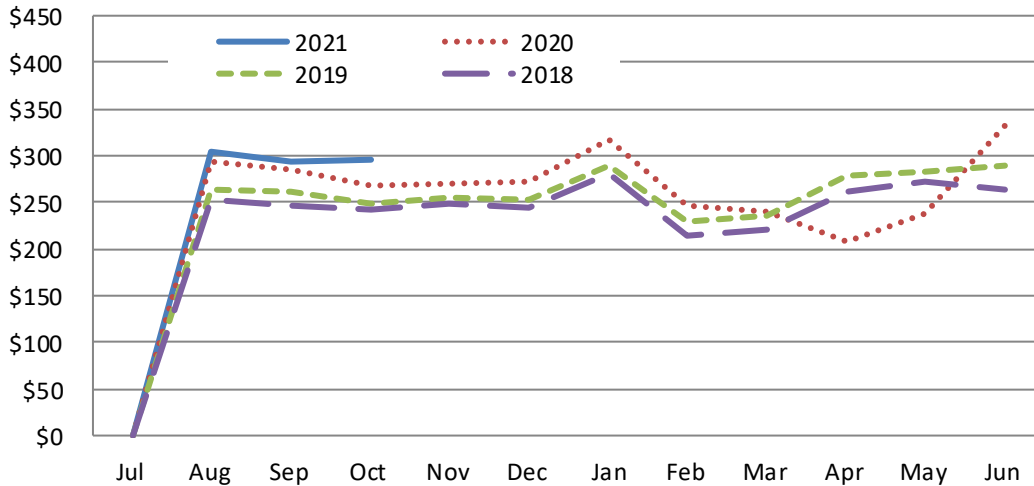
### Individual Income Taxes

(Expressed in Millions)



### Sales Tax

(Expressed in Millions)



## **Requests for Information**

The primary purpose of this financial report is to provide South Carolina's citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Please address any questions concerning information in this report to:

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