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

Management's Discussion and Analysis

In this section of the State of South Carolina's annual report, we provide a narrative overview and analysis of the State's financial performance for its accounting year (*fiscal year*) that ended June 30, 2023. 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, including 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 (included in Note 1a of the notes to the financial statements on page 70).

Fund Financial Statements

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

State of South Carolina

The State reports three types of *funds*:

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

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

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

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

Fiduciary funds: The State is the trustee, or *fiduciary*, for its employees' retirement and other post-employment benefit plans. The State also is responsible for other assets that, because of a trust-like arrangement, 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 186 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 194, 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, as well as on the Retiree Health Insurance Trust Fund and the Long-Term Disability Insurance Trust Fund. This required supplementary information is on pages 187 through 219 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 221 through 269 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
	2022		2022		2022		
	2023	(as restated)	2023	2022	2023	(as restated)	
Assets							
Current and other assets.....	\$27,808,871	\$ 26,074,811	\$2,120,578	\$ 1,937,866	\$29,929,449	\$ 28,012,677	6.8%
Capital and lease assets.....	20,717,751	19,958,693	361,058	319,113	21,078,809	20,277,806	4.0%
Total assets.....	48,526,622	46,033,504	2,481,636	2,256,979	51,008,258	48,290,483	5.6%
Deferred Outflows of Resources	1,638,755	1,882,840	11,584	15,574	1,650,339	1,898,414	(13.1%)
Liabilities							
Long-term liabilities.....	9,902,622	10,847,081	266,394	248,271	10,169,016	11,095,352	(8.3%)
Other liabilities.....	7,992,606	7,597,584	154,553	156,269	8,147,159	7,753,853	5.1%
Total liabilities.....	17,895,228	18,444,665	420,947	404,540	18,316,175	18,849,205	(2.8%)
Deferred Inflows of Resources	1,875,015	1,157,681	14,569	10,892	1,889,584	1,168,573	61.7%
Net Position							
Net investment in capital assets.....	18,942,599	18,048,684	349,988	307,828	19,292,587	18,356,512	5.1%
Restricted.....	10,489,505	11,054,061	1,723,151	1,588,210	12,212,656	12,642,271	(3.4%)
Unrestricted.....	963,030	(900,381)	(15,435)	(38,917)	947,595	(939,298)	200.9%
Total net position.....	\$30,395,134	\$ 28,202,364	\$2,057,704	\$ 1,857,121	\$32,452,838	\$30,059,485	8.0%

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 Transportation, General Government, and Education.

Unrestricted net position—resources normally available for future spending without restrictions—reported a balance of \$947.595 million at June 30, 2023. This represents an increase of net position of \$1.887 billion over the prior year. Most of this increase resulted from a \$2.049 billion increase in operating grants and contributions. Increases in federal grant monies related to the COVID pandemic and federal stimulus monies to help keep the United States economy from declining contributed to this gain in revenues.

The State’s *business-type activities* reported a deficit balance of (\$15.435) million in unrestricted net position. This represents an increase of \$23.482 million over the previous fiscal year. This resulted mostly from Palmetto Railways, a nonmajor enterprise fund, receiving \$40.058 million in capital contributions related to a land purchase for an economic development project.

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
	2022		2022		2022		2023-2022
	2023	(as restated)	2023	2022	2023	(as restated)	
Revenues							
Program revenues:							
Charges for services.....	\$ 5,009,143	\$ 4,443,641	\$ 312,532	\$ 376,738	\$ 5,321,675	\$ 4,820,379	10.4%
Operating grants and contributions.....	16,207,733	14,105,152	5,207	39,439	16,212,940	14,144,591	14.6%
Capital grants and contributions.....	1,066,190	941,283	42,557	36,159	1,108,747	977,442	13.4%
General revenues:							
Individual income tax.....	5,884,974	6,932,111	—	—	5,884,974	6,932,111	(15.1%)
Retail sales and use tax.....	7,423,406	7,092,123	—	—	7,423,406	7,092,123	4.7%
Other taxes.....	4,189,343	3,902,267	—	—	4,189,343	3,902,267	7.4%
Unrestricted grants and contributions.....	5	—	—	—	5	—	100.0%
Unrestricted investment income.....	422,478	(573,226)	42,053	10,944	464,531	(562,282)	(182.6%)
Tobacco legal settlement.....	75,499	88,544	—	—	75,499	88,544	(14.7%)
Opioid legal settlement.....	10,690	—	—	—	10,690	—	100.0%
Other.....	914,464	751,363	1,251	775	915,715	752,138	21.7%
Total revenues.....	41,203,925	37,683,258	403,600	464,055	41,607,525	38,147,313	9.1%
Expenses							
Governmental activities:							
General government.....	12,115,118	8,029,072	—	—	12,115,118	8,029,072	50.9%
Education.....	8,179,679	8,413,741	—	—	8,179,679	8,413,741	(2.8%)
Health and environment.....	10,734,583	9,775,171	—	—	10,734,583	9,775,171	9.8%
Social services.....	3,553,243	3,416,209	—	—	3,553,243	3,416,209	4.0%
Administration of justice.....	1,495,855	1,124,187	—	—	1,495,855	1,124,187	33.1%
Resources and economic development.....	982,370	618,983	—	—	982,370	618,983	58.7%
Transportation.....	1,979,406	1,467,938	—	—	1,979,406	1,467,938	34.8%
Other.....	10,539	8,423	—	—	10,539	8,423	25.1%
Business-type activities:							
Unemployment compensation benefits.....	—	—	92,888	69,049	92,888	69,049	34.5%
Second Injury Fund.....	—	—	20,279	13,915	20,279	13,915	45.7%
Other.....	—	—	50,212	51,553	50,212	51,553	(2.6%)
Total expenses.....	39,050,793	32,853,724	163,379	134,517	39,214,172	32,988,241	18.9%
Excess (deficiency) before transfers.....	2,153,132	4,829,534	240,221	329,538	2,393,353	5,159,072	(53.6%)
Net transfers.....	39,638	32,272	(39,638)	(32,272)	—	—	—
Change in net position.....	2,192,770	4,861,806	200,583	297,266	2,393,353	5,159,072	(53.6%)
Net position at beginning of year, as restated.....	28,202,364	23,452,192	1,857,121	1,559,855	30,059,485	25,012,047	20.2%
Restatements ^a	—	(111,634)	—	—	—	(111,634)	—
Net position at beginning of year.....	28,202,364	23,340,558	1,857,121	1,559,855	30,059,485	24,900,413	20.7%
Net position, end of year.....	\$30,395,134	\$28,202,364	\$2,057,704	\$1,857,121	\$32,452,838	\$30,059,485	8.0%

a - See Note 15, Fund Equity Reclassifications and Restatements, on page 146 of the financial statements.

Changes in Net Position

The State’s total net position of its governmental activities and its business-type activities increased by \$2.393 billion, or 8.0%, over the prior year. This overall improvement in the financial position of the State was experienced primarily through increased tax revenues and federal grant revenues within the State’s governmental activities.

Governmental Activities

The net position of the State’s governmental activities increased by \$2.193 billion, or 7.8%. Revenue increased from last year by \$3.521 billion, or 9.3%, which was mostly comprised of an increase of \$727.677 million, or 4.0%, 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 \$6.197 billion, or 18.9%, for the fiscal year ended June 30, 2023. 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, 2023, the State used \$16.768 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 transferred \$39.638 million to the State’s governmental activities.

The following paragraphs highlight the most significant changes in revenues and expenses for governmental activities during the 2023 fiscal year:

- Individual income tax revenues decreased by \$1.047 billion, or 15.1%, retail sales and use tax revenues increased by \$331.283 million, or 4.7%, and other taxes revenues increased by \$287.076 billion, or 7.4%. Overall tax collections decreased by \$428.778 million, or 2.4%, during fiscal year 2023 as economic growth slowed largely due to increasing inflation.
- Operating grants and contributions increased by \$2.103 billion, or 14.9%, over the prior year. This was primarily due to increased federal funding to fight the COVID-19 pandemic and to federal economic stimulus funding.
- Unrestricted investment income increased by \$995.704 million, or 173.7%, from the previous fiscal year. This increase was attributed to the slowing of interest rate increases, as compared to the previous fiscal year, which curbed unrealized losses on investments. Additionally, higher interest rates led to higher investment earnings.
- General government expenses increased by \$4.086 billion, or 50.9% over the prior year. The increase in general government expenses was mostly attributable to a \$1.000 billion tax rebate distributed during fiscal year 2023 of up to \$800 per taxpayer during the 2023 fiscal year.
- Education expenses decreased by \$234.062 million, or 2.8% over the prior fiscal year. The decrease in education expenses was primarily due to additional State appropriations made in the previous fiscal year to school districts for teacher salary and per student funding increases. Additionally, the State’s schools and higher education institutions spent \$68.509 million more in supplemental appropriations during fiscal year 2022 as opposed to fiscal year 2023 related to supplemental appropriations granted during their respective previous fiscal years.
- Health and environment expenses increased by \$959.412 million, or 9.8% over the previous fiscal year. These increases are attributed to increases in Medicaid and public assistance food payments over the previous year.
- Social services expenses increased by \$137.034 million, or 4.0%, due to the increase in demand for services largely caused by sharply rising inflation within the nation’s overall slowing economy.
- Transportation expenses increased by \$511.468 million, or 34.8%. The increase in spending was primarily a result of increased revenues from the 2-cent per year gas tax increase for road projects and maintenance.

Exhibit 3
Sources of Revenues Supporting Governmental Activities
For the Fiscal Year Ended June 30, 2023

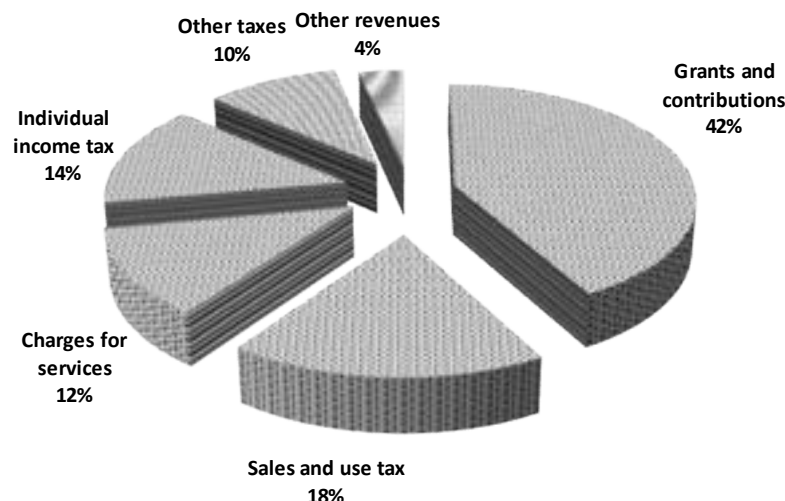
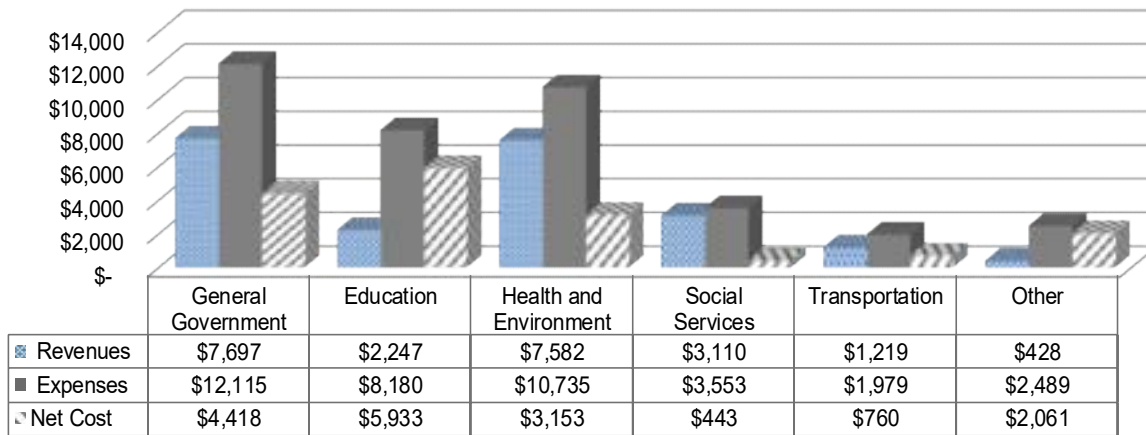


Exhibit 4
Governmental Activities - Net Cost of Services
For the Fiscal Year Ended June 30, 2023
(In Millions)



Business-type Activities

The net position of the State’s business-type activities increased by \$200.583 million, or 10.8%.

Most business-type activities are intended to be 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, 2023 was \$1.692 billion, which was an increase of \$150.311 million, or 9.8%, 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, 2023 was \$31.547 million, which was a decrease of \$15.370 million, or 32.8%, from last year.

Operating revenues of the Unemployment Compensation Fund decreased by \$87.072 billion, or 26.2%, and operating expenses for the payment of unemployment compensation benefits increased by \$23.839 million, or 34.5%, during the 2023 fiscal year. The decreases in operating revenues resulted directly from the declining assessments and federal grants related to the national COVID-19 pandemic response ending. However, as the nationwide economy started to slow during the 2023 fiscal year, unemployment benefit expenses have grown during that time. Additionally, operating expenses for the Second Injury Fund have increased by \$6.364 million, or 45.7%, and operating revenues for the payment of Second Injury Fund claims remained at a low level during the 2023 fiscal year due to the Second Injury Fund’s closure plan that took effect in fiscal year 2019. The operating expenses of the Second Injury Fund increased due to a new and revised actuarial report on its claims.

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, 2023.

Exhibit 5
Governmental Fund Balances
For the Fiscal Year Ended June 30, 2023
(Expressed in Thousands)

	General Fund	Departmental Program Services	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable.....	\$ 141,250	\$ 56,482	\$ —	\$ 9,880	\$ 12,183	\$ 219,795
Restricted.....	1,580,428	905,614	2,414,469	2,572,514	1,311,636	8,784,661
Committed.....	—	36,844	—	—	60,975	97,819
Assigned.....	722,535	—	—	—	2,282	724,817
Unassigned.....	8,602,152	(3,334)	—	—	(199,682)	8,399,136
Totals.....	\$11,046,365	\$ 995,606	\$ 2,414,469	\$ 2,582,394	\$ 1,187,394	\$18,226,228
Change from prior year.....	\$ 412,286	\$ 149,614	\$ 101,947	\$ 654,043	\$ (107,590)	\$ 1,210,300
Percentage change.....	3.9%	17.7%	4.4%	33.9%	(8.3%)	7.1%

State of South Carolina

At June 30, 2023, total ending fund balance for the State's governmental funds was \$18.226 billion, which represents an increase of \$1.210 billion, or 7.1%, from the prior year. This total contains an *unassigned* fund balance of \$8.399 billion. The total also includes \$8.602 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 48.2% of the total fund balance. The 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. Decreases in the current fiscal year were experienced in individual income tax of \$1.047 billion, or 15.2%, while increases in retail sales and use tax of \$0.237 million, or 4.2%; and other taxes of \$9.511 million, or 1.2%, were experienced from the prior year. These revenues grew due to improving consumer sentiment that existed for most of the 2023 fiscal year, but this was stymied by higher interest rates during the same period of time. General Fund expenditures, which increased by \$3.187 billion, or 25.8%, were also below the total General Fund revenues, indicating a continued controlling of costs and spending reductions previously mandated by State officials. Additionally, General Fund expenditures increased due to a \$1.000 billion tax rebate distributed during fiscal year 2023 of up to \$800 per taxpayer.

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 2023 fiscal year, the total fund balance increased by \$149.614 million, or 17.7%, from the prior year. The increase in fund balance was primarily the result of an increase in federal grant funding of \$2.056 billion, or 15.4% over the previous fiscal year. The increase in federal funding was related to the previous national efforts to fight the COVID-19 pandemic and to various federal economic stimulus programs. The federal funding is mostly grants that are primarily reimbursement-based.

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 \$101.947 million, or 4.4%, during the 2023 fiscal year, leaving a balance of \$2.414 billion at the end of the fiscal year. The increase in fund balance was mostly the result of interest income increasing by \$110.604 million, or 190.9%, from the previous year's \$57.936 million loss.

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 \$654.043 million, or 33.9%, during the 2023 fiscal year, leaving a balance of \$2.582 billion 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 \$107.590 million, or 8.3%, decrease in fund balance during the 2023 fiscal year was primarily the result of a \$197.957 million, or 104.5%, decrease in the Capital Projects Fund balance. The decrease can be attributed a \$282.264 million, or 240.6% increase in its capital outlay expenditures. These expenditures increased largely because of a \$92.602 million increase in CARES Act capital outlay expenditures over the previous fiscal year. Additionally, capital outlay related to other federal grants increased by \$104.924 million over the 2022 fiscal year.

Proprietary Funds

Exhibit 6 shows the components of the net position for the State’s various proprietary funds at June 30, 2023.

Exhibit 6
Proprietary Fund Net Position
For the Fiscal Year Ended June 30, 2023
(Expressed in Thousands)

Fund Net Position	Enterprise Funds			Total Enterprise	Internal Service Funds
	Unemployment Compensation	Second Injury	Nonmajor Enterprise		
Net investment in capital assets.....	\$ —	\$ —	\$ 349,988	\$ 349,988	\$ 90,703
Restricted, expendable.....	1,691,604	31,547	—	1,723,151	662,413
Unrestricted.....	—	—	(15,435)	(15,435)	(2,443)
Totals.....	\$ 1,691,604	\$ 31,547	\$ 334,553	\$ 2,057,704	\$ 750,673
Change from prior year.....	\$ 150,311	\$ (15,370)	\$ 65,642	\$ 200,583	\$ 64,143
Percentage change.....	9.8%	(32.8%)	24.4%	10.8%	9.3%

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 \$150.311 million, or 9.8%, over the prior year. As stated on page 29, the reasons for this slower net position growth were mostly due to the Unemployment Compensation Fund benefits and claims expenses increasing by \$23.839 million as a result of the nationwide economy beginning to slow during the 2023 fiscal year, while its operating revenues fell by \$87.072 million during the same period because of the national COVID-19 pandemic response ending during that time.

The net position of the *Second Injury Fund*, a major enterprise fund, decreased by \$15.370 million, or 32.8%, 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 \$65.642 million, or 24.4%, over the prior year. As stated on page 26, the increase in the State’s *nonmajor enterprise funds’* net position was primarily due to the Palmetto Railways receiving \$40.058 million in capital contributions related to economic development.

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 \$64.143 million, or 9.3%, in the 2023 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. \$36.700 million, or 57.2%, of the increase in the State’s *internal service funds’* net position can be attributed to the increase in the State’s Employee Insurance Fund’s operating revenues increasing by \$409.812 million, while its benefits and claims paid only increased by \$267.322 million from the previous fiscal year.

Budgetary General Fund Highlights

Estimated revenues for the 2023 fiscal year were \$11.663 billion. Actual revenues at June 30, 2023, were \$663.384 million, or 5.7%, over the estimated revenue used in the fiscal year 2023 budget appropriations act. This also represented an decrease in collections over the prior year of \$678.263 million, or 5.2%. Individual income and sales tax collections are the fund’s major revenue sources. Individual income tax collections ended the year under the adjusted estimate by \$40.457 million and sales tax collections ended the year over the adjusted estimate by \$155.503 million.

Actual expenditures were \$560.910 million less than actual revenues. Also, expenditures were kept \$4.059 billion under fiscal year 2023 adjusted appropriations. In addition, \$6.638 million of unbudgeted spending occurred through “open-ended” appropriations. Actual expenditures were kept under actual revenues and budgeted expenditures due to conservative budgeting practices by the State, as the economy throughout fiscal year 2023 was highly unpredictable with rising inflation and stock market volatility during the fiscal year.

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Based on the above results of operations, fiscal year 2023 ended with a budgetary surplus, which resulted in a budgetary General Fund balance after reservation of \$6.846 billion.

See the *Required Supplementary Information* section on pages 187 through 194 of this report for a detailed budgetary comparison schedule.

Capital Assets, Lease Assets, and Debt Administration

Capital Assets

At the end of the 2023 fiscal year, the State had \$21.079 billion invested in capital assets, net of depreciation. This represented a net increase (including additions and deductions) of \$801.003 million, or 4.0%, over the previous fiscal year (see *Exhibit 7-1*).

Exhibit 7-1
Capital Assets, Net of Depreciation
As of June 30 for the Years Indicated
(Expressed in Thousands)

	Governmental		Business-type		Totals—Primary Government		Total Percentage Change
	Activities		Activities				
	2023	2022 (as Restated)	2023	2022	2023	2022 (as Restated)	2023-2022
Land and improvements.....	\$ 2,558,746	\$ 2,444,811	\$ 229,938	\$ 187,060	\$ 2,788,684	\$ 2,631,871	6.0%
Infrastructure.....	11,608,996	11,646,488	—	—	11,608,996	11,646,488	(0.3%)
Buildings and improvements.....	977,336	914,574	10,052	10,524	987,388	925,098	6.7%
Vehicles.....	334,531	281,323	49	497	334,580	281,820	18.7%
Machinery and equipment.....	242,267	219,499	3,236	3,670	245,503	223,169	10.0%
Works of art and historical treasures...	1,448	3,236	—	—	1,448	3,236	(55.3%)
Construction in progress.....	4,771,853	4,162,152	117,783	117,362	4,889,636	4,279,514	14.3%
Intangible assets.....	3,388	75,741	—	—	3,388	75,741	(95.5%)
Leased land and improvements.....	141,298	122,419	—	—	141,298	122,419	15.4%
Subscription assets.....	77,888	88,450	—	—	77,888	88,450	(11.9%)
Total.....	\$ 20,717,751	\$ 19,958,693	\$ 361,058	\$ 319,113	\$ 21,078,809	\$ 20,277,806	4.0%

Growth in capital asset investment occurred mostly in infrastructure and construction in progress. The Department of Transportation converted \$201.106 million of previous and current year construction in progress into infrastructure and added a net of \$839.491 million to construction in progress. These additions are part of new and on-going infrastructure projects within the Department of Transportation Special Revenue Fund and are funded by federal grants and the 2-cent per year gas tax increase for road projects and maintenance.

See Note 6 in the notes to the financial statements on page 103 of this report for additional information on the State's capital assets.

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Debt Outstanding

At June 30, 2023, the State had \$1.605 billion in bonds and notes outstanding - a decrease of \$141.993 million, or 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		Business-type		Totals—Primary Government		Total
	Activities		Activities				Percentage
	2023	2022	2023	2022	2023	2022	Change
Backed by the State:							
General obligation bonds.....	\$ 141,344	\$ 193,969	\$ —	\$ —	\$ 141,344	\$ 193,969	(27.1%)
Backed by Specific Revenues:							
Revenue bonds and notes.....	71,755	100,206	11,070	11,285	82,825	111,491	(25.7%)
Infrastructure Bank bonds.....	1,381,137	1,441,839	—	—	1,381,137	1,441,839	(4.2%)
Total.....	\$1,594,236	\$1,736,014	\$ 11,070	\$ 11,285	\$1,605,306	\$1,747,299	(8.1%)

The repayment of principal on outstanding debt exceeded issuances of debt, resulting in a decrease in debt outstanding for governmental activities of \$141.778 million, or 8.2%. Contributing to this decline was a major refunding of general obligation 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, 2023, 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, 2023, 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: \$130.920 million for highway bonds, \$749.795 million for general obligation bonds (excluding institution and highway bonds), \$60.737 million for economic development bonds, and \$60.165 million for research university infrastructure bonds.

See Note 12 in the notes to the financial statements on page 137 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 \$522.987 million balance at June 30, 2023, which was \$64.025 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 currently defines full funding as 5.0% of the Budgetary General Fund’s revenues of the prior fiscal year. In 2022, voters decided to increase the full funding threshold of the Budgetary General Fund to 7.0% by 0.5% increments starting in fiscal year 2024.

Forecasted Budgetary General Fund Revenues for Fiscal Year 2024

In May 2023, the State Board of Economic Advisors (BEA) forecast that there would be \$12.559 billion of budgetary General Fund revenues for fiscal year 2024, which was \$232.505 million, or 1.9%, more than actual corresponding revenues collected in fiscal year 2023. In November 2023, the BEA increased its 2024 fiscal year forecast another \$326.854 million. As

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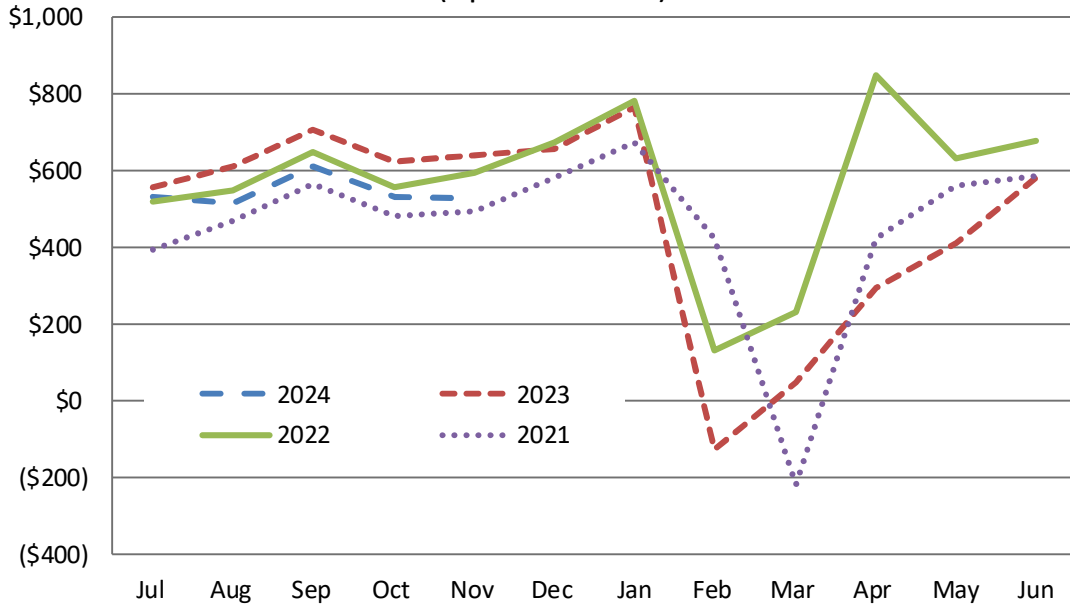
a result, forecasted Budgetary General Fund revenues for fiscal year 2024 are currently \$559.359 million, or 4.5%, above actual revenue collections in fiscal year 2023.

Economic Conditions

Budgetary General Fund revenues for the first five months of fiscal year 2024 were \$5.065 billion (net of \$795.943 million to the tax relief trust fund), which was a decrease of \$392.421 million, or 7.2%, compared to the same period for fiscal year 2023. Total individual income taxes collected have decreased by \$419.484 million, or 13.4%, compared to the same period in the prior year. Sales taxes have increased by \$41.891 million, or 2.7%, over the first four months of fiscal year 2023.

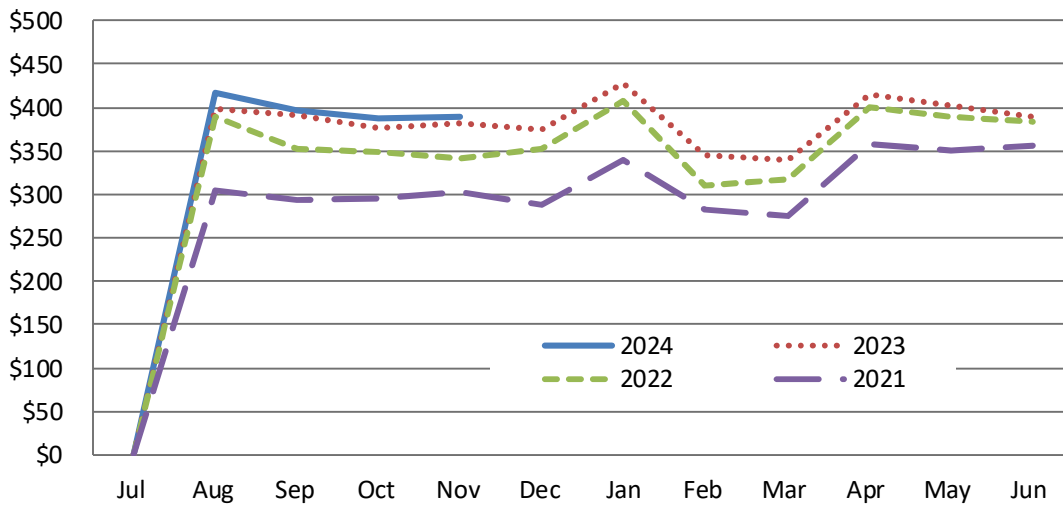
Individual Income Taxes

(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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305 Wade Hampton Office Building
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