

**SOUTH CAROLINA  
DEPARTMENT OF TRANSPORTATION  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2023**



September 27, 2023

Members of the South Carolina Transportation Commission  
South Carolina Department of Transportation  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Transportation for the fiscal year ended June 30, 2023, was issued by Mauldin & Jenkins, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III, CPA  
State Auditor

GLKIII/sag

**South Carolina Department of Transportation**  
**Table of Contents**  
**Year Ended June 30, 2023**

<b>INDEPENDENT AUDITOR'S REPORT</b>	1 - 4
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5 - 13
<b>OVERVIEW OF THE FINANCIAL STATEMENTS:</b>	
Government-wide financial statements:	
Statement of net position	14 - 15
Statement of activities	16
Fund financial statements:	
Balance sheet – governmental funds	17
Reconciliation of the governmental funds balance sheet to the statement of net position	18
Statement of revenues, expenditures and changes in fund balances- governmental funds	19
Reconciliation of the statement of revenues, expenditures, and changes in fund balance to the statement of activities	20
Notes to financial statements	21 - 49
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary comparison schedule (Non-GAAP budgetary basis) - governmental fund	50
Notes to required supplementary information	51 - 52
Required Supplementary Information - Schedule of the South Carolina Department of Transportation's Proportionate Share of the Net Pension Liability - South Carolina Retirement System	53
Required Supplementary Information - Schedule of the South Carolina Department of Transportation's Proportionate Share of the Net Pension Liability - Police Officers Retirement System	54
Required Supplementary Information - Schedule of the South Carolina Department of Transportation's Contributions - South Carolina Retirement System	55
Required Supplementary Information - Schedule of the South Carolina Department of Transportation's Contributions - Police Officers Retirement System	55
Required Supplementary Information - Schedule of the South Carolina Department of Transportation's Actuarial Methods and Assumption Used to Determine the Contribution Rates	56
Required Supplementary Information - Schedule of the South Carolina Department of Transportation's Proportionate Share of the Net OPEB Liability- South Carolina Insurance Health Trust Fund	57
Required Supplementary Information - Schedule of the South Carolina Department of Transportation's Contributions - South Carolina Health Insurance Trust Fund	57



## INDEPENDENT AUDITOR'S REPORT

---

**Mr. George L. Kennedy, III, CPA**  
**State Auditor**  
**South Carolina Office of the State Auditor**  
**Columbia, South Carolina**

**Members of the South Carolina Transportation Commission**  
**South Carolina Department of Transportation**  
**Columbia, South Carolina**

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the governmental activities, the discretely presented component unit, and each major fund of the **South Carolina Department of Transportation** (the "Department"), a department of the State of South Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of the Department as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Connector 2000 Association, Inc., which represents 100% of the assets and revenues of the discretely presented component unit as of June 30, 2023, and the respective changes in financial position for the year then ended. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Connector 2000 Association, Inc. is based solely on the report of the other auditors.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. The financial statements of the Connector 2000 Association, Inc. were not audited in accordance with *Government Auditing Standards*. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical reporting requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

---

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the discretely presented component unit, and each major fund of the State of South Carolina that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2023, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

***Changes in Accounting Principle***

As discussed in Note 1 and Note 7 to the financial statements, the Department implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, as of July 1, 2022. This new standard changed the accounting for the Department's arrangement with the Connector 2000 Association, Inc. regarding the Southern Connector Toll Road. Additionally, as discussed in Note 12 to the financial statements, the Department implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as of July 1, 2022. This new standard changed the accounting for the Department's contracts involving subscription-based information technology arrangements. Our opinions are not modified with respect to these matters.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

---

***Auditor's Responsibilities for the Audit of the Financial Statements (Continued)***

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 5 through 13), the budgetary comparison schedule (on page 50), the Schedules of the Department's Proportionate Share of the Net Pension Liability (on pages 53 and 54), the Schedules of the Department's Pension Contributions (on page 55), the Schedule of the Department's Proportionate Share of the Net OPEB Liability (on page 56), and the Schedule of the Department's OPEB Contributions (on page 57), be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

---

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2023, on our consideration of the South Carolina Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*Mauldin & Jenkins, LLC*

Columbia, South Carolina  
September 27, 2023

## **SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

### **MANAGEMENT'S DISCUSSIONS AND ANALYSIS**

As management of the South Carolina Department of Transportation (the "Department"), we provide this *Management's Discussion and Analysis* of the Department's financial statements for the fiscal year ended June 30, 2023 as a narrative overview and analysis. We encourage readers to consider this information in conjunction with the Department's financial statements, which follow.

Included in these financial statements is the discretely reported information of one component unit, the *Connector 2000 Association, Inc. (the Association)*, which operates the Southern Connector toll road in Greenville County under a license agreement with the Department. Component units are legally separate organizations for which the elected/appointed officials of the primary entity are financially accountable. The Department's inclusion of the Association as a component unit is done for the purpose of communicating information about its component unit as required by generally accepted accounting principles. It is not intended to create the perception that the Department has a legal or financial responsibility for the Association. The Association's financial statements are independently audited and a separate annual report with the auditor's opinion is dated April 26, 2023. We refer readers to that report and our financial statements for more detailed information.

### **FINANCIAL HIGHLIGHTS**

#### ***Primary Entity***

*Net Position* - The assets and deferred outflows of resources of the Department exceeded its liabilities and deferred inflows of resources at fiscal year ending June 30, 2023 by \$19.8 billion (presented as "Net Position"). Of this amount, a deficit of (\$173.5) million was reported as "unrestricted net position." Part of the deficit in unrestricted net position is due to the Department reporting \$674.0 million in pension and OPEB liabilities. The Department's component unit, Connector 2000 Association, Inc. reported a *net position deficit* of (\$120.1) million as of December 31, 2022, the close of its fiscal year.

*Changes in Net Position* - The Department's total net position increased by \$1.3 billion, or 6.3% in fiscal year 2023. The increase in net position can be attributed to an increase in self-constructed infrastructure assets net of accumulated depreciation and a donation of infrastructure assets from the South Carolina Transportation Infrastructure Bank, as well as \$821.6 million in revenues from the Infrastructure Maintenance Trust Fund.

*Capital Assets* – Capital Assets, net of depreciation, which include infrastructure, were approximately \$18.2 billion at June 30, 2023, for the Department. Capital additions for the year totaled \$906.3 million. The carrying value of capital assets removed from the records this year was \$2.1 million.

*Long-term Obligations* - The Department's total net long-term obligations decreased by \$105.8 million (13.0%) during the current fiscal year to \$718.3 million. This change is attributable to a net decrease in bonds payable of \$12.4 million, and another net decrease of \$106.1 million which is primarily attributable to OPEB and pension liabilities.

### **FUND ACTIVITY**

*Governmental Funds - Fund Balances* - As of the close of fiscal year 2023, the Department's governmental funds reported a combined ending fund balance of \$2.5 billion, an increase of \$610.9 million in comparison with the prior year. Of this total amount, \$686.6 million represents the committed fund balance which has been committed for spending at the Department's discretion on future road and bridge construction and maintenance or other necessary activities, \$1.4 billion in restricted fund balance to fund maintenance expenditures on existing roadways, bridges, and capital purchases and \$360.7 million in restricted fund balance to fund the County Transportation Committees Fund. Revenue and other financing sources exceeded expenditures by \$610.9 million.

In the current fiscal year, highway maintenance expenditures increased 21.9% over the previous year while capital expenditures increased 17.2%. Operating expenditures, excluding debt service increased 27.6%, debt service decreased 88.1%, and allocations to other entities decreased 1.4%. Overall revenues increased 27%. Federal revenues decreased 2.2% over last year; and motor fuel and fee revenues were up 7.9% from the previous year.



Revenues from the Infrastructure Maintenance Trust Fund increased 29.7%.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements include three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These sections are described below:

### ***Government-Wide Financial Statements***

The *Government-Wide Financial Statements* provide a broad overview of the Department's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Department's financial position, which assists in assessing the Department's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Position* presents all of the Department's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these reported as "net position". Over time, increases or decreases in the Department's net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Department.

Both of the above financial statements have separate columns for two different types of programs or activities. These two types of activities are:

*Governmental Activities* – The activities in this column are mostly supported by motor fuel taxes and intergovernmental revenues (federal grants). All services normally associated with the Department fall into this category.

*Component Unit* – The activities in this column are solely supported by the activities of the component unit. All services associated with the component unit fall into this category.

The government-wide financial statements can be found immediately following this discussion and analysis.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. The Department, like other state agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department are categorized as governmental funds. The discretely presented component unit, Connector 2000 Association, Inc., is considered a proprietary fund. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

*Governmental Funds* – Most of the basic services provided by the Department are financed through the governmental funds. The governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide financial statements. However, unlike the Government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual

basis of accounting. These statements provide a detailed short-term view of the Department's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Department.

Because the focus of the governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented in governmental funds with similar information presented for governmental activities in the Government-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Departmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

*Special Revenue Funds* – These funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Department has three governmental funds, which are special revenue funds, described as follows:

*Transportation Special Revenue Fund* – The Transportation Special Revenue Fund, which is a special revenue fund, generally records the expenditure of revenues that are committed or restricted to specific programs or projects. This special revenue fund accounts for federal grant program revenues, taxes levied with statutorily defined distributions, and other resources committed or restricted as to purpose. Charges for and costs of operations of vehicles and other equipment utilized for road and bridge network projects are reported in this fund. The Transportation Special Revenue Fund was established pursuant to Section 57-11-20 of the Code of Laws of South Carolina (the "Code").

This fund accounts for, among others, gasoline user fee, and other special imposts upon highway users for the construction and maintenance of highways and bridges and for other operations of the Department. This fund also accounts for revenue from the sales of goods and services and from participation agreements between the Department and other entities for the sharing of costs of construction projects. The Department's appropriation from the State's General Fund is also included in this fund.

*Infrastructure Maintenance Trust Special Revenue Fund* – Established during fiscal year 2017, the Infrastructure Maintenance Trust Fund was created by South Carolina Act 40 of 2017 and provides additional funding to the Department to be used for the repairs, maintenance and improvements to the existing transportation system.

This fund accounts for a 2 cents increase to the existing gasoline user fee per year for six years, an infrastructure maintenance fee imposed on the registration of vehicles, trailers, semi-trailers and other items pursuant to Chapter 3 of Title 56 of the Code, a motor carrier road use fee, an increase in biennial vehicle registration fees and a road use fee on hybrid and alternative fuel vehicles. The Infrastructure Maintenance Trust Fund is a special revenue fund as all funds are restricted by law to the repairs, maintenance, and improvements of the existing transportation system.

*County Transportation Committees Fund* – The County Transportation Committees Fund was established pursuant to Section 12-28-2740 of the Code to provide for the receipt and use of the 2.66 cents per gallon gasoline user fee designated for the County Transportation Committees. Beginning July 1, 2018, the South Carolina Act 40 of 2017, increased the County Transportation Committees' portion annually by .3325 cents per gallon through July 1, 2021, when the total amount reached 3.99 cents per gallon. The County Transportation Committees Fund also receives a transfer of up to \$20.5 million annually from the Infrastructure Maintenance Trust Fund. Each county has a Transportation Committee that is appointed by the county legislative delegation to administer the use of these funds. Based on the legally prescribed allocation formula, these monies are either paid directly to the counties for infrastructure projects that are administered by the counties or to vendors on behalf of the counties for expenditures incurred on projects that the County Transportation Committees have contracted the Department to administer.

The governmental funds financial statements can be found immediately following the government-wide statements.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and the fund financial statements. The notes to the financial statements can be found

immediately following the fund financial statements.

**Required Supplementary Information**

The basic financial statements are preceded by the management discussion and analysis and are followed by another section of required supplementary information. This section includes a budgetary comparison schedule for the *governmental funds*, which includes comparisons of original budget to final budget to actual outflow (expenditures) on a non-GAAP budgetary basis. This section also includes financial disclosures of the Department’s proportionate share of SCRS and PORS pension liabilities, actual contributions to these two retirement programs on behalf of current and former employees of the Department, retiree health benefit (OPEB) liabilities, and related contributions.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial condition. The Department’s assets and deferred outflows of resources (all classified as governmental activities) exceeded liabilities and deferred inflows of resources by \$19.8 billion at the close of business on June 30, 2023, (See **Table A-1** for a summary of net position for fiscal years 2022-2023 and 2021-2022). The largest portion of the Department’s net position (92.0%) reflects its investment in infrastructure and other capital assets such as land, buildings, and equipment less any related debt used to acquire those assets that are still outstanding. The Department uses these capital assets to fulfill its primary mission to provide a safe and efficient transportation system for the State of South Carolina. Consequentially, these assets are not available for future spending. Although the Department’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table A-1**  
**SCDOT Net Position**  
(In Millions)

	Governmental Activities	
	2023	2022 (as restated)
Current assets	\$ 3,400.8	\$ 2,263.8
Noncurrent assets	0.3	0.4
Capital assets	18,228.3	17,590.7
Deferred outflows of resources	137.4	162.3
Total assets and deferred outflows of resources	\$ 21,766.8	\$ 20,017.2
Current liabilities	948.7	429.9
Noncurrent liabilities	695.1	793.7
Deferred inflows of resources	304.9	142.2
Total liabilities and deferred inflows of resources	\$ 1,948.7	\$ 1,365.8
Net position:		
Net investments in capital assets	18,212.6	17,574.6
Restricted	1,779.0	1,361.7
Unrestricted	(173.5)	(284.9)
Total net position	\$ 19,818.1	\$ 18,651.4

At June 30, 2023, the Department’s net position includes resources that are subject to external restrictions on how they may be used or represent amounts invested in capital assets net of related debt. The remaining or unrestricted balance of net position is a deficit of (\$173.5) million primarily caused by the Department’s pension and OPEB liabilities. Internally imposed designations of resources are not presented as restricted net position.

## Changes in Net Position

The Department's net position increased by \$1.3 billion, or 6.3%. The balance of the increase in net position can be attributed to an increase in self-constructed infrastructure assets net of accumulated depreciation. As stated earlier, the primary purpose of the Department is to maintain and preserve road infrastructure assets. Furthermore, the South Carolina Transportation Infrastructure Bank donated \$44.9 million in infrastructure assets to the Department.

In 2023, the Department's program expenses exceeded program revenues by \$777.3 million. A breakdown of the \$3.1 billion in gross revenues reveals that motor fuel user fees of \$1.0 billion represented 32.5 %, while federal grants and contributions of \$914.6 million represented 29.1%. Other revenue sources representing 38% of revenues came from various sources including motor vehicle fees, charges for services, state appropriations, and interest income.

During the fiscal year, the Department received approximately \$4.0 million in Federal Emergency Management Assistance (FEMA) funds as reimbursement for eligible costs incurred from costs and damages due to multiple weather emergency events since 2015. Additional federal assistance will be based upon total costs and their federal assistance eligibility.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 and included \$25 billion to transit agencies to help to prevent, prepare for, and respond to the COVID-19 pandemic. The apportionment for South Carolina was \$120 million to South Carolina - \$75.2 million for large and small urban transit systems and \$44.8 million for rural transit systems. Funding is provided at a 100-percent federal share for all 27 public transit systems in the state, with no local match required. (These funds are administered by the Federal Transit Administration and in fiscal year 2023, the Department received approximately \$6.7 million in reimbursements).

**Table A-2** presents a breakdown of these revenues and expenses for fiscal year 2022-2023 with comparative figures for the prior year.

**Table A-2**  
**SCDOT Changes in Net Position**

(In Millions)

	Governmental Activities			
	2023	% of Revenue	2022 (as restated)	% of Revenue
<b>Revenues:</b>				
Program Revenues:				
Charges for Services	\$ 150.6	5%	\$ 100.5	4%
Operating Grants and Contributions	143.8	5%	186.0	8%
Capital Grants and Contributions	770.8	25%	718.0	29%
General Revenues and special items:				
Motor Fuel User Fees	1,021.6	33%	946.9	39%
Infrastructure Maintenance Fees	353.4	11%	327.5	13%
Taxes	10.9	0%	10.0	0%
Unclaimed income tax credit	37.5	1%	21.0	1%
Other Fees	115.8	4%	122.2	5%
State Appropriations	506.2	16%	102.5	4%
Investment Earnings	27.8	1%	(84.7)	-3%
Loss on defeasance of debt	-	0%	(11.3)	0%
<b>Total Revenues</b>	<b>\$ 3,138.4</b>	<b>100%</b>	<b>\$ 2,438.6</b>	<b>100%</b>
<b>Expenses:</b>				
Public Transportation	1,841.8		1,512.7	
Unallocated Interest Expense	0.7		2.0	
<b>Total Expenses</b>	<b>1,842.5</b>		<b>1,514.7</b>	
<b>Changes in Net Position</b>	<b>\$ 1,295.9</b>		<b>\$ 923.9</b>	

## FINANCIAL ANALYSIS OF THE DEPARTMENT'S INDIVIDUAL FUNDS

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the Department's governmental funds are to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Department's Transportation Special Revenue Fund reported ending fund balance of \$696.5 million, an increase of \$193.4 million in comparison with the prior year. Committed fund balance is 98.6% of the total fund balance or \$696.5 million, which has been approved by the Board of Commissioners for spending in the coming years. The remainder of fund balance is "non-spendable" for 1) for inventories and prepaid items (\$9.7 million), 2) for long-term receivables (\$73 thousand) and for other assets (\$203 thousand).

The Department's Infrastructure Maintenance Trust Special Revenue Fund reported ending fund balance of \$1.42 billion, an increase of \$144.4 million from prior year. Restricted fund balance is 100% of the total fund balance or \$1.42 billion, as it has been restricted by law to fund maintenance expenditures of existing roadways.

The Department's County Transportation Committees Special Revenue Fund reported ending fund balance of \$360.7 million, an increase of \$147.9 million from the prior year. Restricted fund balance is 100% of the total fund balance or \$360.7 million, as it has been restricted by law to fund county transportation committees' expenditures.

### GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

The South Carolina Appropriations Act as enacted becomes the legal operating budget for the Department. The Department's legally adopted budget is presented at the program level including the restricted, earmarked, and general funds appropriated and is included in Other Budgeted Funds for the State. Legal level of authority exists at the program level and any revisions to the budget over and above the amount totally appropriated must be approved by the State Fiscal Accountability Authority. The Department has the authority to carry forward any unspent cash balances in certain earmarked accounts and appropriate those balances to meet program expenditures.

Program expenditures for permanent improvements and maintenance that are federally funded were lower than planned due to the delayed execution of projects and weather-related delays. As a result, federal reimbursements were lower than budgeted.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

The Department's investment in capital assets for its governmental activities as of June 30, 2023, amounts to \$23.7 billion, less accumulated depreciation of \$5.5 billion, leaving a net book value of \$18.2 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally stationary in nature and can be preserved for a significantly longer period than most capital assets. In the case of the Department, infrastructure assets are classified into three networks: roads, bridges and right of ways. Costs or estimated costs of infrastructure and related depreciation were recorded retroactively back to the year 1917. The Department has chosen to depreciate infrastructure assets (excluding right of ways).

**Table A-3** summarizes capital assets for fiscal year 2022-2023 with comparative figures for the prior year.

**Table A-3**  
**SCDOT Capital Assets**

(In Millions)

	Primary Government	
	2023	2022 (as restated)
Land	\$ 4.7	\$ 4.7
Buildings and Improvements	94.9	94.7
Furniture, Vehicles and Equipment	343.2	341.3
Infrastructure		
Right of Way	1,945.5	1,894.3
Roads and bridges	16,771.0	16,574.0
Construction in Progress	4,561.2	3,922.7
Total Cost	\$ 23,720.5	\$ 22,831.7
Less Accumulated Depreciation	5,492.2	5,241.0
Net Capital Assets	<u>\$ 18,228.3</u>	<u>\$ 17,590.7</u>

The total increase in the Department's investment in capital assets for the current fiscal year was about 3.5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$861.4 million for the year. Donated assets equaled \$44.9 million. Depreciation charges for the year totaled \$266.5 million. There was a total of \$2.1 million in net capital assets disposed of during the year. Refer to note 6 in the financial statements for additional information on capital assets.

### Long Term Debt and Other Long Term Obligations

The authority of the Department to incur debt is described in Sections 57-11-210 of the South Carolina Code and continued and amended by Section 11-27-30 thereof, authorizing the issuance of general obligation State Highway Bonds for highway construction and related purposes backed by the full faith and credit of the state. State Highway Bonds are additionally secured by a pledge of so much of the revenues as may be made applicable by the General Assembly for state highway purposes from gasoline and fuel oil taxes and motor vehicle license fees.

The Department's total net long-term obligations decreased by \$105.6 million during the current fiscal year to \$706.1 million. The net decrease is primarily attributed to the payment of principal on outstanding debt of \$16.0 million and the (\$2.1) million in-substance defeasance of the remaining due to the South Carolina Transportation Infrastructure Bank for financial assistance on transportation projects. Other long-term debt includes accrued compensated absences of \$28.6 million (net increase for the year of \$827 thousand). Due within one year for all long-term obligations is \$23.2 million. Refer to notes 7, 8 and 9 of the financial statements for additional information on debt administration and the in-substance defeasance.

The Department's net pension liability has been recorded in accordance with GASB Statement No. 68 and represents the Department's share of the State's net pension liability. The net pension liability as of June 30, 2022 was \$358.1 million and at June 30, 2023, it had increased to \$381.3 million. The increase is due to an overall increase in the net pension liability in the pension plan of the State. GASB Statement No. 68 does not affect the Department's required contributions to the pension plan. See note 12 to the financial statements for additional information regarding the Department's pension plan.

The Department is required to record its proportionate share of the net OPEB liability in accordance with GASB Statement No. 75 and represents the Department's share of the State's net OPEB liability related to the State's Retiree Health Insurance Trust Fund. The net OPEB liability as of June 30, 2023 was \$292.7 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

One of the largest revenue sources for the Department are federal funds derived from the federal motor fuel user fees.

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (IIJA) (Public Law 117-58, also known as the "Bipartisan Infrastructure Law") into law. The IIJA is the largest long-term investment of infrastructure and the economy in the Nation's history. Nationally, it provides \$550 billion over fiscal years 2022 through 2026 in new Federal investment in infrastructure, including in roads, bridges, and mass transit, water infrastructure, resilience, and broadband.

The IIJA will integrate well into SCDOT's 10-Year plan to upgrade and improve South Carolina's road and bridge network. The 10-Year Plan was launched in 2017 and is backed by a combination of state and federal funds, including having already incorporated into it the baseline funding included in the bipartisan federal infrastructure funding package. The 10-Year Plan is focused on repaving thousands of miles of highways in the state, replacing hundreds of bridges, widening of critical segments of our interstates and improving many rural roads to drive down our state's rural fatality rate.

The IIJA also included some additional funding, above and beyond the baseline levels. The additional federal funding is projected to be approximately \$250 million per year and will flow directly to SCDOT for incorporation into the 10-Year Plan.

During the 2022-2023 Legislative Session, the General Assembly provided the Department the following: \$120 million in recurring funds to provide match for the increased Federal Funding, \$2 million for off-interstate litter pickup, and \$20 million for the County Transportation Committees.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Department's finances for all of the Department's taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Department's accountability for the money it receives.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Department of Transportation Deputy Secretary of Finance and Administration 955 Park Street,  
Suite 304  
Columbia, South Carolina 29202-0191

The Department's component unit, Connector 2000 Association, Inc., issues its own separately audited financial statements. These statements may be obtained by directly contacting Southern Connector at Post Office Box 408, Piedmont, South Carolina 29673 or by telephone at (864) 527-2150.



**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF NET POSITION**

**JUNE 30, 2023**

(In Thousands)

	Primary Entity Governmental Activities	Component Unit
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,852,021	\$ 1,401
Invested securities lending collateral	82,664	-
Receivables:		
Federal government	144,780	-
State agencies	271,922	-
Local governments	6,849	-
Other entities, net of allowances	6,417	-
Accrued interest receivable	26,495	-
Prepaid items	5,383	78
Inventories	4,294	111
Total current assets	<u>3,400,825</u>	<u>1,590</u>
<b>Noncurrent assets:</b>		
Restricted assets:		
Cash and cash equivalents	-	16,619
Total restricted assets	<u>-</u>	<u>16,619</u>
Receivables, net of current portion:		
Local governments	2	-
Other entities	71	-
Other assets	203	-
Non-depreciable capital assets	6,511,370	-
Capital assets, net of accumulated depreciation	<u>11,716,959</u>	<u>102,283</u>
Total noncurrent assets	<u>18,228,605</u>	<u>118,902</u>
<b>TOTAL ASSETS</b>	<u>21,629,430</u>	<u>120,492</u>
<b>Deferred outflows of resources:</b>		
Deferred outflows of resources related to pensions	50,320	-
Deferred outflows of resources related to OPEB	87,118	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 137,438</u>	<u>\$ -</u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF NET POSITION**

**JUNE 30, 2023**

(Continued)

(In Thousands)

<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	Primary Entity Governmental Activities	Component Unit
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Bonds payable, including unamortized premium	\$ -	\$ 12,059
Accounts payable	292,695	125
Intergovernmental payable:		
Due to state agency	1,471	-
Financed purchase payable	320	-
Subscription liability	4,839	-
Accrued payroll and related liabilities	24,860	-
Accrued compensated absences	18,066	-
Unearned revenue	521,928	978
Deposits	1,872	-
Securities lending collateral	82,664	-
<b>Total current liabilities</b>	<b>948,715</b>	<b>13,162</b>
<b>Noncurrent liabilities:</b>		
Bonds payable, net of current portion	-	227,448
Financed purchase payable, net of current portion	3,113	-
Subscription liability, net of current portion	7,415	-
Accrued compensated absences, net of current portion	10,546	-
Net pension liability	381,333	-
Net OPEB liability	292,672	-
<b>Total noncurrent liabilities</b>	<b>695,079</b>	<b>227,448</b>
<b>TOTAL LIABILITIES</b>	<b>1,643,794</b>	<b>240,610</b>
<b>Deferred inflows of resources:</b>		
Deferred inflows of resources related to pensions	31,737	-
Deferred inflows of resources related to OPEB	165,384	-
Deferred public-public arrangement receipts	107,784	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>304,905</b>	<b>-</b>
<b>Net position:</b>		
Net investment in capital assets	18,212,642	(3,865)
Restricted:		
SCDOT maintenance	1,418,324	3,176
County Transportation Committees	360,741	-
Unrestricted	(173,538)	(119,429)
<b>TOTAL NET POSITION</b>	<b>\$19,818,169</b>	<b>\$ (120,118)</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2023**

(In Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Unit
Primary entity:						
Public transportation	\$ 1,841,768	\$ 150,600	\$ 143,848	\$ 770,786	\$ (776,534)	-
Unallocated interest expense	749	-	-	-	(749)	-
Total primary entity	<u>1,842,517</u>	<u>150,600</u>	<u>143,848</u>	<u>770,786</u>	<u>(777,283)</u>	<u>-</u>
Component unit:						
Toll operations	\$ 23,782	\$ 15,411	-	-	-	\$ (8,371)
Totals					<u>(777,283)</u>	<u>(8,371)</u>
General revenues:						
Motor fuel user fees					1,021,559	-
Taxes (sales and use/electric power)					10,858	-
Infrastructure maintenance fees					353,403	-
Unclaimed tax credit					37,529	-
Other revenues					115,787	-
State appropriations					506,243	-
Interest/investment income					27,820	173
Total general revenues					<u>2,073,199</u>	<u>173</u>
Change in net position					1,295,916	(8,198)
Net position - Beginning, as restated					<u>18,522,253</u>	<u>(111,920)</u>
Net position - Ending					<u>\$ 19,818,169</u>	<u>\$ (120,118)</u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2023**

(In Thousands)

<b>ASSETS</b>	Transportation Special Revenue Fund	Infrastructure Maintenance Trust Fund	County Transportation Committees Fund	Total
<b>Current assets:</b>				
Cash and cash equivalents	\$ 1,141,683	\$ 1,356,994	\$ 353,344	\$ 2,852,021
Invested securities lending collateral	82,664	-	-	82,664
Receivables:				
Federal government	144,780	-	-	144,780
State agencies	111,843	139,326	20,753	271,922
Local governments	5,716	-	1,133	6,849
Other entities, net of allowances	6,417	-	-	6,417
Accrued interest receivable	8,825	13,699	3,971	26,495
Prepaid items	5,383	-	-	5,383
Inventories	4,294	-	-	4,294
<b>Total current assets</b>	<b>1,511,605</b>	<b>1,510,019</b>	<b>379,201</b>	<b>3,400,825</b>
<b>Noncurrent assets:</b>				
Receivables, net of current portion				
Local governments	2	-	-	2
Other entities	71	-	-	71
Other assets	203	-	-	203
<b>Total noncurrent assets</b>	<b>276</b>	<b>-</b>	<b>-</b>	<b>276</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,511,881</b>	<b>\$ 1,510,019</b>	<b>\$ 379,201</b>	<b>\$ 3,401,101</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 183,334	\$ 90,901	\$ 18,460	\$ 292,695
Intergovernmental payable				
Due to state agencies	1,471	-	-	1,471
Accrued payroll and related liabilities	24,066	794	-	24,860
Unearned revenue	521,930	-	-	521,930
Deposits	1,872	-	-	1,872
Securities lending collateral	82,664	-	-	82,664
<b>TOTAL LIABILITIES</b>	<b>815,337</b>	<b>91,695</b>	<b>18,460</b>	<b>925,492</b>
<b>Fund Balances:</b>				
<b>Nonspendable</b>				
Inventories and prepaid items	9,677	-	-	9,677
Long-term receivables	73	-	-	73
Other assets	203	-	-	203
Restricted	-	1,418,324	360,741	1,779,065
Committed	686,591	-	-	686,591
<b>TOTAL FUND BALANCES</b>	<b>696,544</b>	<b>1,418,324</b>	<b>360,741</b>	<b>2,475,609</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,511,881</b>	<b>\$ 1,510,019</b>	<b>\$ 379,201</b>	<b>\$ 3,401,101</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2023**  
(In Thousands)

<b>FUND BALANCE - GOVERNMENTAL FUNDS</b>	<b>\$ 2,475,609</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Assets are capitalized and depreciated or amortized in the statement of net position and are charged to expenditures in the governmental funds:	
Capital assets and SBITAs, net of accumulated depreciation and amortization	18,228,329
Unearned revenues are recognized on an accrual basis in the statement of net position and on the modified accrual basis in the governmental funds:	
Participation agreements, net of allowance for bad debts	2
Deferred outflow of resources are recognized in the statement of net position, but are not reported on in the governmental funds:	
Deferred outflows of resources related to pensions	50,320
Deferred outflows of resources related to OPEB	87,118
Deferred inflow of resources are recognized in the statement of net position, but are not reported on in the governmental funds:	
Deferred inflows of resources related to pensions	(31,737)
Deferred inflows of resources related to OPEB	(165,384)
Deferred inflows of resources related to public-public partnership	(107,784)
Liabilities are not due and payable in the current period, therefore, are not reported in the governmental funds:	
Financed purchase payable	(3,433)
Subscription liability	(12,254)
Accrued compensated absences	(28,612)
Net pension liability	(381,333)
Net OPEB liability	(292,672)
<b>NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b>\$ 19,818,169</b>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

(In Thousands)

	Transportation Special Revenue Fund	Infrastructure Maintenance Trust Fund	County Transportation Committees Fund	Total
<b>REVENUES:</b>				
Taxes:				
Sales and use	\$ 129	\$ 5,960	\$ -	\$ 6,089
Electric power	4,769	-	-	4,769
Fees:				
Motor fuel user fees	508,215	402,156	111,188	1,021,559
Infrastructure maintenance fees	-	353,403	-	353,403
Other fees, fines, and permits	115,787	-	-	115,787
Unclaimed tax credit	-	37,529	-	37,529
State appropriations	256,243	-	250,000	506,243
Federal grants - FHWA	801,481	-	-	801,481
Federal grants - FTA	17,957	-	-	17,957
Federal grants - FEMA	3,994	-	-	3,994
Federal grants - ARPA	39,978	-	-	39,978
Federal grants - Other	2,437	-	-	2,437
Interest/investment income	1,748	22,569	3,503	27,820
Sales of goods and fees for services	16,483	-	-	16,483
Other revenues	4,250	-	-	4,250
Participation agreement/project revenues	59,398	-	70,470	129,868
<b>TOTAL REVENUES</b>	<u>1,832,869</u>	<u>821,617</u>	<u>435,161</u>	<u>3,089,647</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	54,253	-	-	54,253
Engineering	86,967	-	-	86,967
Toll facilities	31	-	-	31
Public transportation	30,853	-	-	30,853
Highway maintenance	663,886	429,954	-	1,093,840
County Transportation Committees	-	-	307,387	307,387
Capital outlay:				
Rights of way land	50,023	2,498	-	52,521
Construction in progress				
Infrastructure - road and bridge network	683,536	111,392	-	794,928
Other	254	-	-	254
Equipment and furniture	9,801	-	-	9,801
Vehicles	3,859	-	-	3,859
Debt service:				
Principal	15,960	-	-	15,960
Interest	880	-	-	880
Allocations to other entities:				
State agency - Transportation Infrastructure Bank	27,824	-	-	27,824
<b>TOTAL EXPENDITURES</b>	<u>1,628,127</u>	<u>543,844</u>	<u>307,387</u>	<u>2,479,358</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>204,742</u>	<u>277,773</u>	<u>127,774</u>	<u>610,289</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	608	-	-	608
Transfer in	-	11,998	20,093	32,091
Transfer out	(11,998)	(20,093)	-	(32,091)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(11,390)</u>	<u>(8,095)</u>	<u>20,093</u>	<u>608</u>
<b>NET CHANGE IN FUND BALANCE</b>	193,352	269,678	147,867	610,897
<b>FUND BALANCE, beginning of year</b>	503,192	1,148,646	212,874	1,864,712
<b>FUND BALANCE, end of year</b>	<u>\$ 696,544</u>	<u>\$ 1,418,324</u>	<u>\$ 360,741</u>	<u>\$ 2,475,609</u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2023**

(In Thousands)

**INCREASE IN FUND BALANCE - GOVERNMENTAL FUNDS** \$ 610,897

Amounts reported for governmental activities in the statement of activities are different because:

Costs of capital assets are reported as expenditures in the governmental fund and are reported as capital asset additions in the statement of net position	861,363
Donated capital assets for right of ways land and infrastructure - road and bridge network are reported in the statement of activities but are not reported in the governmental fund	44,892
Depreciation of capital assets and subscription assets is reported as expenses in the statement of activities	(266,512)
Costs less accumulated depreciation of capital assets disposed of are reported as expenses in the statement of activities	(2,121)
Amortization of deferred losses on refunding of bonds is reported as expenses in the statement of activities	(118)
Changes related to pension liabilities are reported as expenses in the statement of activities	21,786
Contributions to the OPEB plan by nonemployer entities are reported as revenue in the statement of activities	45
Changes related to OPEB liabilities are reported as expenses in the statement of activities	4,622
Changes in accrued interest payable is reported as an expense in the statement of activities	131
Amortization of deferred inflows of resources from public-public partnership arrangements are reported as revenues in the statement of activities	3,850
Unearned revenues are reported on a modified accrual basis in the governmental fund and on an accrual basis in the statement of activities	(1)
Amortization of premium on bonds is reported as a reduction of expenses in the statement of activities	1,949
Repayments of long-term debt are reported as expenditures in the governmental fund and are reported as a reduction of liabilities in the statement of net position:	
Bonds payable	\$ 10,470
Financed purchase payable	311
Subscription liability payable	5,179
	15,960
Changes in accrued compensated absences is reported as expense in the statement of activities	(827)
<b>INCREASE IN NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b>\$ 1,295,916</b>

**See accompanying Notes to Financial Statements.**

## **SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

##### **Reporting Entity**

The South Carolina Department of Transportation (the "Department") was established pursuant to Section 57-1-20 of the Code of Laws of South Carolina (the "State") as an administrative agency of the State, comprised of a Division of Intermodal Planning; a Division of Engineering; and a Division of Finance and Administration. The Department is responsible for the planning, construction, maintenance and operation of the highway system of the State and the coordination of statewide mass transit activities.

The Department is governed by the South Carolina Transportation Commission (the "Commission"), which is composed of nine members: one member from each Congressional District and two at-large members. The District members are appointed by the Governor, subject to approval of the legislative delegations of their respective Districts. The at-large members are appointed by the Governor, subject to approval by a separate confirmation vote in both the Senate and the House of Representatives.

The Commission serves as a general policy-making body for the various functions and purposes of the Department as prescribed by law. The Commission defines policies that are to be administered by the Secretary of Transportation.

The core of a financial reporting entity is normally the primary government, which has a separately elected governing body. The Department is reported as part of the primary government of the State. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. The Department is identified herein as such a primary entity. As required by generally accepted accounting principles, the financial reporting entity includes both the primary entity and all of its component units. Component units are legally separate organizations for which the elected officials of the primary entity are financially accountable, or entities that if excluded would make the financial statements misleading or incomplete. In turn, component units may have component units. The Department has determined it has one component unit, the Connector 2000 Association, Inc. (the "Association"). The Association issues a separate, stand-alone financial report that can be obtained by contacting the Connector 2000 Association, Inc., P.O. Box 408, Piedmont, SC 29673.

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, and 1) it is able to impose its will on that organization or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent and there is a potential for the organization to provide a financial benefit or impose a financial burden on the primary entity, even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- 1) Determines its budget without another government having the authority to approve and modify that budget;
- 2) Levies taxes or set rates or charges without approval by another government; or,
- 3) Issues bonded debt without approval by another government.

Based on the above described financial accountability criterion, the Department has determined it is not a component unit of another entity and the Association is a component unit of the Department under Statements 14, 39 and 61 of the Governmental Accounting Standards Board ("GASB"). The Association is a component unit due to the nature and significance of the relationship between the Association and the Department. This financial reporting entity includes only the Department (a primary entity) and its component unit.

##### **Government-Wide and Fund Financial Statements**

The financial statements of the Department and its component unit are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The GASB is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.



## Government-Wide Financial Statements

The Government-wide financial statements are prepared on the accrual basis of accounting and include a “Statement of Net Position” which discloses the financial position of the Department; and a “Statement of Activities” which demonstrates the degree to which the direct expenses by function of the Department’s programs are offset by program revenues.

Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) Charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all the activities of the primary government.

## Fund Financial Statements

The Department uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

### Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government’s general activities, including the collection and disbursement of earmarked monies. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and, the difference between the assets and liabilities is fundbalance.

*Transportation Special Revenue Fund* – The Transportation Special Revenue Fund, which is a special revenue fund, generally records the expenditure of revenues that are committed or restricted to specific programs or projects. This special revenue fund accounts for federal grant program revenues, taxes levied with statutorily defined distributions, and other resources committed or restricted as to purpose. Charges for and costs of operations of vehicles and other equipment utilized for road and bridge network projects are reported in this fund. The State Transportation Special Revenue Fund was established pursuant to Section 57-11- 20 of the Code of Laws of South Carolina (the “Code”).

This fund accounts for, among others, gasoline user fee, and other special imposts upon highway users for the construction and maintenance of highways and bridges and for other operations of the Department. This fund also accounts for revenue from the sales of goods and services and from participation agreements between the Department and other entities for the sharing of costs of construction projects. The Department’s appropriation from the State’s General Fund is also included in this fund.

*Infrastructure Maintenance Trust Special Revenue Fund* – The Infrastructure Maintenance Trust Fund was created by South Carolina Act 40 of 2017 and provides additional funding to the Department to be used for the repairs, maintenance and improvements to the existing transportation system.

This fund accounts for a 2 cents increase to the existing gasoline user fee per year for six years, an infrastructure maintenance fee imposed on the registration of vehicles, trailers, semi-trailers and other items pursuant to Chapter 3 of Title 56 of the Code, a motor carrier road use fee, an increase in biennial vehicle registration fees and a road use fee on hybrid and alternative fuel vehicles. The Infrastructure Maintenance Trust Fund is a special revenue fund as all funds are restricted by law to the repairs, maintenance, and improvements of the existing transportation system.

*County Transportation Committees Fund* – The County Transportation Committees Fund records was established pursuant to Section 12-28-2740 of the Code to provide for the receipt and use of the 2.66 cents per gallon gasoline user fee designated for the County Transportation Committees. Beginning July 1, 2018, the South Carolina Act 40 of 2017, increased the County Transportation Committees’ portion annually by .3325 cents per gallon through July 1, 2021, when the total amount reached 3.99 cents per gallon. The County Transportation Committees Fund also receives a transfer of up to \$20.5 million annually from the Infrastructure Maintenance Trust Fund. Each county

has a Transportation Committee that is appointed by the county legislative delegation to administer the use of these funds. Based on the legally prescribed allocation formula, these monies are either paid directly to the counties for infrastructure projects that are administered by the counties or to vendors on behalf of the counties for expenditures incurred on projects that the county Transportation Committees have contracted the Department to administer.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or for non-exchange transactions, when all eligibility requirements have been met, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay obligations of the current period. For this purpose, the Department considers major sources of revenues to be available if they are collected within sixty days of the end of the current fiscal year. Major sources of revenue reported in compliance with policy are taxes and fees, federal grants, and participation agreements. The Department also accrues current amounts due on long-term receivables based on set repayment schedules.

Expenditures generally are recorded when a liability is incurred, except for principal and interest on bonds payable and other long-term obligations, as under accrual accounting.

### **Revenues – Exchange and Non-Exchange Transactions**

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place and the transaction revenues are recorded in the fiscal year in which the resources are measurable and become available on the modified accrual basis.

Non-exchange transactions, in which the Department receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted or authorized; matching requirements, in which the Department must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Department on a reimbursement basis contingent upon the federal authority to claim the funds.

### **Budget Policy**

All activity in the Department's governmental funds is budgeted, and inclusive of State General Funds and Other Funds. The State General Assembly enacts the annual appropriation which becomes the Transportation Special Revenue Fund, Infrastructure Maintenance Trust Special Revenue Fund, and County Transportation Committees Funds operating budget. Please refer to the information contained in Required Supplementary Information for the budgeted and actual expenditures on the budgetary basis of accounting and related notes on pages 49-51.

### **Cash and Cash Equivalents**

The amounts shown in the financial statements of the Department as "cash and cash equivalents" represent petty cash, cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the Department, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments, such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Information pertaining to carrying amounts, fair value, and credit risk of the State Treasurer's investments is disclosed in the Annual

Comprehensive Financial Report (“ACFR”) of the State of South Carolina.

The State’s internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund’s equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Department records and reports its deposits in the general deposit account at cost, and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Department’s special deposit accounts is posted to the Department’s account at the end of each month and is retained. Interest/investment earnings are allocated based on the percentage of the Department’s accumulated daily income receivable to the income receivable of the pool. Reported income includes interest earnings at the stated rate, realized gains/losses and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

Some State Treasurer accounts are not included in the State’s internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less at the time of acquisition. At year-end, the Department held no investments.

**Capital Assets**

Capitalized assets include land, improvements to land, easements, right-of-ways, buildings, building improvements, vehicles, equipment, furniture, infrastructure, subscription based information technology agreements, and all other tangible or intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. Infrastructure assets acquired prior to fiscal years ended June 30, 1980 are reported at cost beginning with fiscal year 1917. Capital assets also include assets purchased with Federal funds in which the Federal government retains a reversionary interest.

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation in the case of gift. Assets contributed by another state agency are recorded at the carrying value of that agency. The Department follows capitalization guidelines established by the State. Major additions, renovations, and other improvements which provide new uses, or extend the useful life of an existing capital asset, are capitalized. Routine repairs and maintenance are charged to operations in the year in which the expense is incurred.

Depreciation is computed using a full month of depreciation recorded upon the initial acquisition of the asset. A full month of depreciation will be recorded during the life of the asset each month and this will continue until retirement of the asset or until full depreciation of that asset has occurred.

A summary of the Department’s capitalization thresholds and useful life by asset category is as follows:

Asset Category	Capitalization	Useful Life (Years)
Land	All, regardless of cost	Indefinite
Non-depreciable land improvements	All, regardless of cost	Indefinite
Depreciable land improvements	Any costing more than \$100,000	30
Infrastructure: Roads Bridges	Any costing more than \$500,000	75 50
Buildings and building improvements	Any costing more than \$100,000	50
Vehicles Equipment and furniture	Any costing more than \$5,000	5 – 12
Subscription based information technology arrangements	Any costing more than \$100,000	Length of contract

## **Receivables**

Receivables are reported net of any allowances for uncollectible amounts and any discounts, if applicable. The Department's receivables consist of amounts due from the Federal government, State agencies, local governments, and other entities and individuals. Some of the receivables are evidenced by notes and contracts. The notes and contracts are related to costs shared by other entities in construction projects.

## **Prepaid Items**

The Department makes certain payments to vendors to reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements.

## **Inventories**

The Department maintains inventories for its use and resale to other state agencies, local governments, and other entities. All inventories are valued at cost using the weighted average method. Expenditures for inventory are accounted for using the consumption method of accounting.

## **Other Assets**

Other assets consist of right of way land the Department had to purchase for economic reasons that was not allocable to project construction costs. These purchases are held until they are disposed of and are reflected in the accompanying financial statements at the original cost to the Department. Expenditures for this land are accounted for using the consumption method of accounting in which the purchase is recorded as expenditure when purchased. Gains or losses on the disposition of right of way land are included in the other revenues category in the fund financial statements. Right of way land transferred to county and municipal governments for no consideration are recorded as allocations to other entities – county and municipal governments in the fund financial statements.

## **Bonds Payable, Bond Discounts, Bond Premiums and Bond Issuance Costs**

The Department reports bonds payable in the government-wide financial statements. The Department defers and amortizes bond discounts and bond premiums over the term of the bonds using the bonds outstanding method, which results in amortization being computed using the percentage of bonds retired to the original amount of bonds issued. Costs incurred in connection with the bond issues are expensed as incurred unless it is insurance. The Department reports bonds payable net of the applicable bond premium or discount.

## **Deferred Outflows and Inflows of Resources**

Deferred outflows and inflows of resources consist of deferred losses on refunding of bonds, amounts related to the net pension and other post-employment benefits ("OPEB") liabilities, and the public-public partnership arrangement with the Connector 2000 association. The deferred losses on refunding of bonds result from the current or advance refunding of bonds resulting in the defeasance of debt. The difference between the reacquisition price and the net carrying amount of the old debt is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Refer to Notes 7, 11, 14, and 15 for information on the Department's deferred outflows and inflows of resources.

## **Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expending of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain financed purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier.

The potential liability is calculated annually for financial reporting purposes. There was no arbitrage liability at

June 30, 2023.

## **Unearned Revenue**

Unearned revenue in the government-wide financial statements consists of advance payments received for construction projects which have not been earned. Revenues are recognized in the period in which the project outlays are made. Revenues from participation agreements and other project contracts are recognized as earned based on the percentage of completion method. The unearned portion is reflected as unearned revenue in the liability section of the financial statements of the Department until earned.

Unearned revenue in the fund financial statements represents the long-term portion of receivables that will not be collected within one year of the balance sheet date and advance payments for construction projects.

## **Compensated Absences**

Generally, all permanent, full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work days of the month are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Department calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability.

## **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates. Estimates include but are not limited to the amounts remaining on outstanding construction contracts, the allowance for doubtful accounts and the useful life of capital assets and estimates of the pension and OPEB liabilities.

## **Net Position**

The Department presents the following classifications of net position in the "Statement of Net Position" in accordance with GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

*Net Investment in Capital Assets* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position* – Consists of assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation. In all cases, if individual restricted net position categories are negative, the negative balance is eliminated and reclassified against unrestricted net position. \$1.4 billion of net position is restricted by enabling legislation related to the Infrastructure Maintenance Trust Fund. \$360.7 million of net position is restricted by enabling legislation related to the County Transportation Committees Fund.

*Unrestricted net position* – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

The Department's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

## **Fund Balance**

The following categories of fund balance are being used in the fund level financial statement of the governmental fund in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*:

### ***Nonspendable fund balance***

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

### ***Restricted fund balance***

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. The use of the Infrastructure Maintenance Trust Special Revenue Fund and County Transportation Committees fund is restricted by law and as such, its fund balances is presented as restricted.

### ***Committed fund balance***

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department’s highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Department recognizes committed fund balances that have been approved for specific purposes by Department Commission before the fiscal year end.

The Department pre-defines the use of committed fund balance with two key actions. 1) The Commission submits a budget to the governor, the budget, in some revised form, is later approved by the legislature and governor, which generally governs the purpose and use of departmental funds and resources. 2) The Commission also develops and approves, following public comment, the Statewide Transportation Improvement Plan (“STIP”) which further prioritizes the use of Departmental funds and resources for the following six years. Amendments to either the annual budget or the STIP require formal submission to the State Budget Office or to the Commission respectively.

### ***Assigned fund balance***

The assigned fund balance classification includes amounts that are constrained by the Department’s intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Department’s highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Department’s highest level of authority. Assigned fund balance amounts in the Department’s financial statements represent amounts approved by the Department to be transferred and spent after year end. In the special revenue fund, assigned fund balances represent amounts to be spent for specific purposes. The Department had no assigned fund balance at June 30, 2023 as it was all restricted or committed.

### ***Unassigned fund balance***

The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the general fund. The Department’s governmental funds are presented as special revenue funds, and therefore, there was no unassigned fund balance.

Based on the Department’s policies regarding fund balance classifications as noted above, the Department considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by the Department’s Commission has been made.

### Implementation of New Accounting Standards

The Department implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* in the year ended June 30, 2023. Net position as of July 1, 2022 has been restated in accordance with these provisions.

As a part of the implementation of the new standard, the Department was required to restate beginning net position of its governmental activities as follows:

(In Thousands)	
Beginning net position, as previously reported:	\$ 18,633,887
Adjustment to reflect balance of deferred inflows of resources related to public-public partnership as of June 30, 2022:	(111,634)
Beginning net position, as restated:	<u>\$ 18,522,253</u>

### NOTE 2. DEPOSITS AND INVESTMENTS:

The following schedule reconciles deposits and investments within the footnotes to the amounts in the financial statements:

#### Deposits Held by State Treasurer

The deposits of the Department held by the State Treasurer are under the control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. The State's investment policy by law authorizes investments that vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper.

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of investments or collateral securities that are in possession of an outside party. All of the State Treasurer's investments are fully insured or collateralized.

More information pertaining to carrying amounts, fair value, credit and other risks as required by GASB Statement No. 40, *Deposits and Investments - Risk Disclosures*, and GASB Statement No. 72, *Fair Value Measurement and Application* of the State Treasurer's investments are disclosed in the ACFR of the State of South Carolina.

The following schedule reconciles deposits and investments within the footnotes to the amounts in the financial statements:

	(In Thousands)		
	<u>Financial Statements</u>		<u>Footnotes</u>
Primary Entity:			
Unrestricted current assets:		Deposits held by State	
Cash and cash equivalents	\$ 2,852,021	Treasurer	\$ 2,852,021

Cash and cash equivalents reported include an unrealized loss of \$109.2 million for the governmental funds as of June 30, 2023, arising from changes in the fair value. Interest/investment income includes an unrealized loss from decreases in fair value of \$29.5 million for the year ended June 30, 2023, for the Department's governmental funds.

**NOTE 3. STATE APPROPRIATIONS:**

The original appropriation is the Department's base budget amount as presented in House Bill 5150 Section 84 of the 2022-2023 Appropriation Act. The Department received \$2.7 billion in original appropriations for the Transportation Special Revenue and Infrastructure Maintenance Trust Funds and \$154.6 million for the County Transportation Committees Fund. The original appropriations included \$120.0 million of state general funds for the Transportation Special Revenue Fund. Additional general fund appropriations of \$136.2 million were received for the Transportation Special Revenue Fund and \$250 million for the County Transportation Committees. State General Fund appropriations carried forward from fiscal year 2022 to 2023 were \$56.4 million. Additional budget authority of \$18.7 million in Federal authorization for Coronavirus Aid, Relief and Economic Security (CARES) Act and \$150 million for the American Rescue Plan Act (ARPA) were received in the Transportation Special Revenue Fund. State General Fund appropriations of \$125.4 million were expended in fiscal year 2023 in the Transportation Special Revenue Fund and \$250 million in the County Transportation Committee Funds. State General Fund appropriations of \$187.3 million will be carried forward from fiscal year 2022 to 2023. In fiscal year 2023, the Department expended \$2.6 billion on the budgetary basis of accounting and \$2.5 billion was expended under the modified accrual basis of accounting.



**NOTE 4. RECEIVABLES:****PRIMARY ENTITY:**

The following schedule summarizes receivables at June 30, 2023, which include various notes, contracts and other accounts receivable.

(In Thousands)

<u>Due From / Description</u>	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Totals</u>
<u>Intergovernmental:</u>			
Federal Government:			
Amounts due under various grant programs and reimbursable contracts	\$ 144,780	\$ -	\$ 144,780
	<u>144,780</u>	<u>-</u>	<u>144,780</u>
<u>State Agencies:</u>			
South Carolina Department of Motor Vehicles	77,399	-	77,399
South Carolina Department of Revenue	186,652	-	186,652
Various Agencies	7,871	-	7,871
	<u>271,922</u>	<u>-</u>	<u>271,922</u>
<u>Local Governments:</u>			
Long-term contracts for construction projects	3,799	2	3,801
Participation agreements	3,050	-	3,050
	<u>6,849</u>	<u>2</u>	<u>6,851</u>
<u>Other:</u>			
Long-term contracts for construction projects	433	71	504
Sales of goods and services	6,435	-	6,435
Less: allowance for doubtful accounts	(451)	-	(451)
	<u>6,417</u>	<u>71</u>	<u>6,488</u>
Total Receivables	<u>\$ 429,968</u>	<u>\$ 73</u>	<u>\$ 430,041</u>

The balances due under long-term contracts for construction projects from local governments and other entities represent loans to those entities for their share of the costs of construction projects.

**NOTE 5. INVENTORIES:**

The following schedule summarizes inventories at June 30, 2023:

(In Thousands)

Sign Shops	\$ 884
Repair Shops	2,281
Supply Depot	1,129
	<u>\$ 4,294</u>

**NOTE 6. CAPITAL ASSETS:**

**PRIMARY ENTITY:**

The following schedule summarizes changes in the Department's capital assets and their funding sources for the year ended June 30, 2023:

	(In Thousands)				
	Ending Balances June 30, 2022 (as restated)	Increases	Decreases	Transfers	Ending Balances June 30, 2023
Capital assets not being depreciated:					
Land and improvements	\$ 4,695	-	-	-	\$ 4,695
Right of way land	1,894,275	52,850	(1,635)	-	1,945,490
Construction in progress:					
Infrastructure - road and bridge network	3,910,446	839,491	-	(201,106)	4,548,831
Other	12,230	254	-	(130)	12,354
Total capital assets not being depreciated	<u>5,821,646</u>	<u>892,595</u>	<u>(1,635)</u>	<u>(201,236)</u>	<u>6,511,370</u>
Other capital assets:					
Infrastructure - road and bridge network	16,574,033	-	(4,117)	201,106	16,771,022
Buildings and improvements	94,725	-	-	130	94,855
Equipment and furniture	190,175	9,801	(9,426)	-	190,550
Subscription based IT arrangements	17,433	-	-	-	17,433
Vehicles	133,725	3,859	(2,333)	-	135,251
Total other capital assets	<u>17,010,091</u>	<u>13,660</u>	<u>(15,876)</u>	<u>201,236</u>	<u>17,209,111</u>
Less accumulated depreciation for:					
Infrastructure - road and bridge network	4,933,431	238,084	(3,914)	-	5,167,601
Buildings and improvements	59,874	1,993	-	-	61,867
Equipment and furniture	121,877	14,704	(9,233)	-	127,348
Subscription based IT arrangements	-	5,292	-	-	5,292
Vehicles	125,848	6,439	(2,243)	-	130,044
Total accumulated depreciation	<u>5,241,030</u>	<u>266,512</u>	<u>(15,390)</u>	<u>-</u>	<u>5,492,152</u>
Other capital assets, net	<u>11,769,061</u>	<u>(252,852)</u>	<u>(486)</u>	<u>201,236</u>	<u>11,716,959</u>
Total capital assets for governmental activities, net	<u>\$17,590,707</u>	<u>\$639,743</u>	<u>\$ (2,121)</u>	<u>-</u>	<u>\$18,228,329</u>

\*The balances reported as of June 30, 2022 have been restated to include the beginning balance of the right-to-use asset related to the Department's subscription-based IT arrangements.

The following schedule further summarizes additions to capital assets and their funding sources for the year ended June 30, 2023:

(In Thousands)

<b>Additions:</b>	
Increases per above:	
Capital assets not being depreciated	\$ 892,595
Other capital assets	13,660
Total additions	<u>\$ 906,255</u>
<b>Funding Sources:</b>	
Governmental fund	\$ 861,363
Donated capital assets:	
SC Transportation Infrastructure Bank	44,892
Total funding sources	<u>\$ 906,255</u>

Included in the Department's capital assets as of June 30, 2023, is approximately \$110 million that was paid for by the Association for the Southern Connector. The same amount has been capitalized by the Association as an intangible right-to-use asset captioned as "Interest in License Agreement" with the Department. Accumulated depreciation on these assets was \$92.6 million at June 30, 2023. Depreciation expense on these assets for the year ended June 30, 2023, was \$3.8 million.

At June 30, 2023, the estimated total costs of Department projects in progress to construct, acquire, and maintain various capitalized assets amounted to approximately \$8.4 million for facilities, capital projects, and approximately \$14.9 billion for infrastructure projects including capital and non-capital costs. The estimated costs to complete the facilities capital projects amounted to approximately \$497.8 thousand and the infrastructure projects amounted to approximately \$5.1 billion at June 30, 2023. The outstanding contractual obligations attributable to the facilities capital projects were approximately \$440.2 thousand and to the infrastructure projects were approximately \$2.5 billion. The estimated time frame for completion of these projects is from one to five or more years. The costs of the projects in progress and future projects will be funded from taxes and fees, federal grants, bond proceeds, and other Department revenues. The amounts for infrastructure projects exclude those infrastructure project costs funded by the South Carolina Transportation Infrastructure Bank. The total amount of depreciation expense recorded by the Department in fiscal year 2023 was \$261.2 million.

**NOTE 7. PUBLIC-PUBLIC PARTNERSHIP AGREEMENT:**

On February 11, 1998, the Department entered into a public-public partnership arrangement (the "PPP Arrangement") with the Connector 2000 Association, Inc. (a discretely presented component unit of the Department), under which the Association was granted the rights and obligations to finance, acquire, construct, and operate the Southern Connector Toll Road (the "Toll Road") for fifty (50) years after substantial completion of the Toll Road. The Department accepted the Toll Road on June 30, 2001.

For the fiscal year ended June 30, 2023, the Department is required to implement the provisions of GASB Statement No. 94. Accordingly, at the time of the execution of the agreement, the Department would have recorded a receivable and deferred inflows of resources related to the Toll Road at the estimated carrying value of the operator. When the Toll Road was received, the Department would have removed the receivable and recorded the capital asset. The deferred inflow of resources is being amortized over the life of the arrangement. As of June 30, 2023, the Department reports the Toll Road within its capital assets at a carrying value of \$128.9 million and related deferred inflow of resources related to the PPP Arrangement of \$107.8 million.

The following summarizes the deferred inflow of resources related to the public-public partnership license agreement.

(In Thousands)

Deferred inflow related to the public-public arrangement	\$ 192,472
Less: accumulated amortization	<u>(80,838)</u>
Net deferred inflow at June 30, 2022	111,634
Current year amortization	<u>(3,850)</u>
Balance of deferred inflow	<u><u>\$ 107,784</u></u>

**NOTE 8. CHANGES IN LONG-TERM OBLIGATIONS:**

The following schedule summarizes changes in long-term obligations of the Department for the year ended June 30, 2023:

(In Thousands)

	Balances at June 30, 2022 (as restated)	Increases	Decreases	Balances at June 30, 2023	Due Within One Year
General obligations bonds payable	\$ 10,470	-	\$ 10,470	\$ -	\$ -
Unamortized premiums	1,949	-	1,949	-	-
Total bonds payable	<u>12,419</u>	<u>-</u>	<u>12,419</u>	<u>-</u>	<u>-</u>
Financed purchase payable	3,744	-	311	3,433	320
Subscription liability	17,433	-	5,179	12,254	4,839
Accrued compensated absences	27,785	17,276	16,449	28,612	18,066
Net pension liability	358,114	53,463	30,244	381,333	-
Net OPEB liability	422,009	10,337	139,674	292,672	-
Total governmental activities	<u>\$ 841,504</u>	<u>\$ 81,076</u>	<u>\$ 204,276</u>	<u>\$ 718,304</u>	<u>\$ 23,225</u>

The following schedule summarizes principal and interest expenditures/expenses attributable to long-term obligations of the Department for year ended June 30, 2023:

(In Thousands)

	Principal	Interest	Totals
Bonds payable	\$ 10,470	\$ 263	\$ 10,733
Financed purchase payable	311	115	426
Subscription based IT arrangement	5,179	502	5,681
Total expenditures - governmental funds	<u>\$ 15,960</u>	<u>880</u>	<u>\$ 16,840</u>
Adjustments to government - wide statements			
Change in interest accrual - bonds payable		(131)	
Total interest expense - Government wide		<u>\$ 749</u>	

Long-term liabilities are primarily extinguished by the Transportation Special Revenue Fund.

**NOTE 9. BONDS PAYABLE:**

Sections 57-11-210, et seq. of the Code (the "State Highway Bond Act"), as continued and amended by Section 11-27-30 thereof, authorized the issuance of general obligation State Highway Bonds for highway construction and related purposes backed by the full faith, credit, and taxing power of the State. State Highway Bonds are additionally secured by a pledge of so much of the revenues as may be made applicable by the General Assembly for State highway purposes from any and all taxes, fees, or licenses imposed upon individuals or vehicles for the privilege of using the public highways of the State. Such taxes and fees include the gasoline user

fee, the fuel oil tax, the road tax and the motor vehicle license fees described herein. So long as any State Highway Bonds are outstanding the amount of revenues made applicable thereto by the General Assembly may not be less than the amounts needed to fund the general operations budget of the Department and meet debt service requirements for annual principal and interest payments on such bonds. Section 57-11-240 of the South Carolina Code of Laws and Article X, Section 13 of the South Carolina Constitution state that highway bonds may be issued if such bonds are additionally secured by a pledge of revenues designated by the General Assembly for State highway purposes from taxes or licenses imposed for using the public highways of the State. The maximum annual debt service on all highway bonds shall not exceed fifteen percent of the proceeds received from the designated revenues for the fiscal year next preceding.

**HIGHWAY BONDS**

(In Thousands)

2021-2022 Budgetary General Fund revenues pledged for highway bonds	\$ 11,179
2021-2022 other revenues pledged for highway bonds	861,622
2021-2022 revenues pledged for highway bonds	872,801
15% of 2021-2022 revenues pledged for highway bonds	130,920
Less: maximum annual debt service for highway bonds	-
Legal debt service margin at June 30, 2023--highway bonds	\$ 130,920

From time to time, the State Fiscal Accountability Authority may authorize the issuance of various amounts of State Highway Bonds for specific types of projects or individual projects and may authorize the total to be issued in one or more series depending on the projections of the timing of project expenditures to be funded from the proceeds.

Series 2014A

On June 1, 2014, the Department issued \$63.4 million in general obligation State Refunding Bonds, Series 2014A. The purpose of the issuance was to advance refund \$70.9 million of the Series 2005A bonds.

The Department deposited \$75.0 million in an escrow account with the Bank of New York pursuant to an irrevocable Trust Indenture for the future retirement of the refunded bonds. The deposited funds were invested in State and Local Government securities. The \$70.9 million of Series 2005A bonds are considered to be defeased and the liability for this portion of the bonds have been removed from the statement of net position. The principal balance defeased and held in escrow for the 2014A bond is \$0 as of June 30, 2023.

**NOTE 10. INTERGOVERNMENTAL PAYABLE – DUE TO STATE AGENCY:**

The Department entered into various intergovernmental agreements with the South Carolina Transportation Infrastructure Bank (the “Bank”) and various local governments to provide financial assistance for highway and transportation facilities projects. Details of the agreements follow in which the Department has a financial obligation.

In December 2021, the Department completed an in-substance defeasance of the previously outstanding loans payable to the South Carolina Transportation Infrastructure Bank (the Bank). At the time of the transaction, the Department used existing resources to place \$116.2 million in an escrow account with U.S. Bank pursuant to an irrevocable trust indenture for the future retirement of these loans based on intergovernmental agreements with the Bank. The funds deposited with U.S. Bank were invested in U.S. Treasury Notes and State and Local Government Securities.

At the time of the defeasance, the loans payable to the Bank had the following balances: Charleston County Project (\$44.0 million), US-17 Project in Beaufort and Colleton Counties (\$55.9 million), and Multi-Project Loan (\$4.9 million). Because these loans are now considered defeased, the liability for this debt has been removed from the Department’s statement of net position. The amount placed on deposit with the escrow agent by the Department at the time of defeasance differed from the net book value of these loans by \$11.4 million. In accordance with GASB Statement No. 86, this loss resulting from the in-substance defeasance of debt using existing resources has all been recognized in the current year and is shown on its own line in the Department’s statement of activities.

The outstanding balance of loans considered defeased as of June 30, 2023 for which the escrow agent is paying

the Bank is as follows: Charleston County Project (\$31.3 million), US-17 Project in Beaufort and Colleton Counties (\$51.9 million), and Multi-Project Loan (\$0).

**NOTE 11. DEFERRED LOSS ON REFUNDING**

The advance refunding of the 2014A resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of \$3.9 million. This difference is reported in the accompanying financial statements as a deferred outflow and is being amortized on a straight-line basis and will be charged to operations through the fiscal year ending June 30, 2023. The Department completed the advance refunding to reduce its total debt service payments over the next 10 fiscal years by approximately \$4.3 million and to obtain an economic gain of approximately \$4.2 million (the difference between the present values of the debt service payments on the old debt and the new debt).

The following summarizes the deferred loss on advance refunding of the Series 2014A bonds:

(In Thousands)

Escrow deposit	\$	74,973
Less: Net carrying amount		<u>(71,042)</u>
Deferred loss on refunding of bonds payable		3,931
Accumulated amortization of deferred loss		<u>(3,931)</u>
Balance of unamortized deferred loss	\$	<u><u>-</u></u>

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2023 was \$118 thousand.

**NOTE 12. SUBSCRIPTION BASED INFORMATION TECHNOLOGY ARRANGEMENTS PAYABLE:**

The Department utilizes subscription based information technology arrangements instead of purchasing assets. These contracts, at times, include variable payments, residual value guarantees, or termination penalties that are not known or certain to be exercised at the time of the liability valuation. These are recognized as expenses in the period that they occur. There were no residual guarantee or termination payments expensed for the fiscal year ended June 30, 2023.

Beginning in June 2019, the Department entered into subscription based information technology arrangements for the right-to-use of various assets. As of July 1, 2022, the Department recorded a liability for \$17.4 million related to these arrangements. As of June 30, 2023, the remaining liability is \$12.2 million. The department will amortize the arrangements on a straight-line basis throughout the remainder of the contract terms. Annual interest rates range from 3.25-7.00%. The following is a schedule by fiscal year of principal and interest payments due for lease payments as of June 30, 2023:

(In Thousands)

Year Ending June 30	Principal	Interest	Total
2024	\$ 4,839	\$ 487	\$ 5,326
2025	4,003	268	4,271
2026	1,679	111	1,790
2027	1,733	56	1,789
Total liabilities	<u>\$ 12,254</u>	<u>\$ 922</u>	<u>\$ 13,176</u>

**NOTE 13. FINANCED PURCHASE PAYABLE:**

In March 2018, the Department entered into an agreement with TD Equipment Finance, Inc. through the State Treasurer Master Lease program to purchase energy, water, and wastewater services performance contract for the Department Headquarters Guaranteed Energy Savings Contract. The equipment has a cost of \$4.5 million and at the end of the term of the loan ownership of the equipment will transfer to the Department. The interest rate of the agreement is 3.040%.

(In Thousands)

Year ending June 30	Principal	Interest	Total
2024	320	106	\$ 426
2025	330	96	426
2026	340	86	426
2027	350	75	425
2028	361	66	427
2029-2033	1,732	145	1,877
Totals	<u>\$ 3,433</u>	<u>\$ 574</u>	<u>\$ 4,007</u>

**NOTE 14. PENSION PLANS:**

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, and governed by an 11-member Board, is the state agency responsible for the administration and management of the various Retirement Systems and benefit programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an 8-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues an Annual Comprehensive Financial Report containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The Annual Comprehensive Financial Report is publicly available through PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the annual comprehensive financial report of the state.

**Plan Descriptions**

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts and individuals first elected to the General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third-party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third-party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

## **Membership**

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and first term individuals elected to the South Carolina General Assembly. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, newly hired state, public school district, and public higher education institution employees, as well as first term individuals elected to the S.C. General Assembly have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.
- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

## **Benefits**

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of the benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An



incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

## **Contributions**

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. In accordance with the legislative funding schedule, employer contribution rates will continue to increase by 1 percentage point each year until reaching 18.56 percent for SCRS and 21.24 percent for PORS but may be increased further, if the scheduled contributions are not sufficient to meet the funding periods set for the applicable year. The board shall increase the employer contribution rates as necessary to meet the amortization periods set in statute.

Pension reform legislation modified statute such that the employer contribution rates for SCRS and PORS to be further increased, not to exceed one-half of one percent in any one year if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS and PORS to the maximum amortization period of 20 years from 30 years over a ten-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS and PORS may not be decreased until the plans are at least 85 percent funded.

Required employee contribution rates<sup>1</sup> are as follows:

	<u>Fiscal Year 2023</u>	<u>Fiscal Year 2022</u>
<b>SCRS</b>		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%
<b>State ORP</b>		
Employee	9.00%	9.00%
<b>PORS</b>		
Employee Class Two	9.75%	9.75%
Employee Class Three	9.75%	9.75%

Required employer contribution rates<sup>1</sup> are as follows:

	<u>Fiscal Year 2023</u>	<u>Fiscal Year 2022</u>
<b>SCRS</b>		
Employer Class Two	17.41%	16.41%
Employer Class Three	17.41%	16.41%
Employer Incidental Death Benefit	0.15%	0.15%
<b>State ORP</b>		
Employer Contribution <sup>2</sup>	17.41%	16.41%
Employer Incidental Death Benefit	0.15%	0.15%
<b>PORS</b>		
Employer Class Two	19.84%	18.84%
Employer Class Three	19.84%	18.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

1. Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

2. Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP service provider. to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

## Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five- year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019.

The June 30, 2022, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2021. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2022, using generally accepted actuarial principles. There was no legislation enacted during the 2022 legislative session that had a material change in the benefit provisions for any of the systems.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2022.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return <sup>1</sup>	7.00%	7.00%
Projected salary increases	3.0% to 11.0% (varies by service) <sup>1</sup>	3.5% to 10.5% (varies by service) <sup>1</sup>
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually
<sup>1</sup> Includes inflation at 2.25%		

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

Assumptions used in the determination of the June 30, 2022, TPL are as follows:

Former Job Class	Males	Females
Educators	2020 PRSC Males multiplied by 95%	2020 PRSC Females multiplied by 94%
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 97%	2020 PRSC Females multiplied by 107%
Public Safety and Firefighters	2020 PRSC Males multiplied by 127%	2020 PRSC Females multiplied by 107%

### Net Pension Liability

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. The Department's proportionate share of the State's NPL totals, as of June 30, 2022 (reported at June 30, 2023), for SCRS and PORS are presented below.

#### Proportionate Share of Net Pension Liability (in Thousands)

System	Total Pension Liability	Plan Fiduciary Net Position	Department's Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 885,817	\$ 505,440	\$ 380,377	57.1%
PORS	2,848	1,892	956	66.4%
Total	<u>\$ 888,665</u>	<u>\$ 507,332</u>	<u>\$ 381,333</u>	

The TPL is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

The Department's proportionate share of the net pension liability for both SCRS and PORS is as follows for the years ended June 30, 2022 and 2023:

System	June 30, 2023	June 30, 2022	Change
SCRS	1.569073%	1.651078%	-0.082005%
PORS	0.031861%	0.031076%	0.000785%

The Department's change in proportionate share of the net pension liability and related deferred inflows and outflows of resources will be amortized into pension expense over the respective average remaining service lives of each system.

### Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2022 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

Allocation/Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
<b>Public Equity</b>	46.0%	6.79%	3.12%
<b>Real Assets</b>	<b>12.0%</b>		
Real Estate	9.0%	4.12%	0.37%
Infrastructure	3.0%	5.88%	0.18%
<b>Bonds</b>	26.0%	-0.35%	-0.09%
<b>Private Equity</b>	9.0%	8.75%	0.79%
<b>Private Debt</b>	7.0%	6.00%	0.42%
Total Expected Real Return	<u>100%</u>		4.79%
Inflation for Actuarial Purposes			<u>2.25%</u>
Total Expected Nominal Return			<u>7.04%</u>

### Discount Rate

The discount rate used to measure the TPL was 7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

### Sensitivity Analysis

The following table presents the collective NPL of the Department calculated using the discount rate of 7 percent, as well as what the employers' NPL would be if it were calculated using a discount rate that is 1 percent lower (6 percent) or 1 percent higher (8 percent) than the current rate.

System	1.00% Decrease (6%)	Current Discount Rate (7%)	1.00% Increase (8%)
SCRS	\$ 487,690	\$ 380,377	\$ 291,160
PORS	\$ 1,332	\$ 956	\$ 647

## Additional Financial and Actuarial Information

Information contained in these Notes to the Schedules of Employer and Nonemployer Allocations and Schedules of Pension Amounts by Employer (Schedules) was compiled from the Systems' audited financial statements for the fiscal year ended June 30, 2022, and the accounting valuation report as of June 30, 2022. Additional financial information supporting the preparation of the Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is available in the Systems' Annual Comprehensive Financial Report.

### Deferred Outflows (Inflows) of Resources Related to Pensions

For the year ended June 30, 2023, the Department recognized pension expense of \$12.313 million. At June 30, 2023, the Department reported deferred outflows (inflows) of resources related to pensions from the following sources:

	(In Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 34,099	-
Change in proportionate share of net pension liability and differences in actual and proportionate share of employer contributions	71	30,060
Assumption changes	12,239	-
Differences in actual and expected experience	3,321	1,677
Net differences between projected and actual earnings on plan investments	590	-
	<u>\$ 50,320</u>	<u>\$ 31,737</u>

The Department reported approximately \$34.1 million as deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years.

The following schedule reflects the amortization of the Department's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2022. Average remaining service lives of all employees provided with pensions through the pension plans at June 30, 2023 was 3.767 years for SCRS and 3.846 years for PORS.

		(In Thousands)		
Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRS	PORS	Total
2023	2024	\$ (6,509)	\$ 58	\$ (6,451)
2024	2025	(6,157)	42	(6,115)
2025	2026	(12,881)	(26)	(12,907)
2026	2027	9,920	37	9,957
Net Balance of Deferred Outflows / Inflows of Resources		<u>\$ (15,627)</u>	<u>\$ 111</u>	<u>\$ (15,516)</u>

## NOTE 15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS:

### Plan Description

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) established by the State of South Carolina as Act 195, which became effective in May, 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans.

In accordance with Act 195, the OPEB Trust is administered by the PEBA – Insurance Benefits and the State

Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trust is a cost-sharing multiple-employer defined benefit OPEB plan. Article 5 of the State Code of Laws defines the plan and authorizes the Trustee to at any time adjust the plan, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

## **Benefits**

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

## **Contributions and Funding Policies**

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires the post-employment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves.

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2022 was 6.25 percent. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves. However, due to the COVID-19 pandemic and the impact it has had on the PEBA – Insurance Benefits reserves, the General Assembly has indefinitely suspended the statutorily required transfer until further notice. The SCRHITF is also funded through investment income. During the year ended June 30, 2023, the Department contributed \$12.5 million to the SCRHITF.

The allocation percentage of the OPEB amounts are calculated differently for each OPEB Trust. For the SCRHITF, the allocation percentage is based on the covered payroll surcharge contribution for each employer. Please note that actual covered payroll contributions received from SCRS for the fiscal year 2022 totaled \$615.4 million. However, the covered payroll contributions total includes prior year covered payroll contribution adjustments and true-ups that net to a total of \$1.1 million.

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trust, and additions to and deductions from the OPEB Trust fiduciary net position have been determined on the same basis as they were reported by the OPEB Trust. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

PEBA – Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the PEBA – Insurance Benefits' link on PEBA's

website at [www.peba.sc.gov](http://www.peba.sc.gov) or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the annual comprehensive financial report of the state.

**Actuarial Assumptions and Methods**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Additional information as of the latest actuarial valuation for SCRHITF:

<b>Valuation Date:</b>	June 30, 2021
<b>Actuarial Cost Method:</b>	Entry Age Normal
<b>Inflation:</b>	2.25%
<b>Investment Rate of Return:</b>	2.75%, net of OPEB Plan investment expense; including inflation
<b>Single Discount Rate:</b>	3.69% as of June 30, 2022
<b>Demographic Assumptions:</b>	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019
<b>Mortality:</b>	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with multipliers based on plan experience; the rates are projected on a fully generational basis using 80% of the ultimate rates of scale MP-2019 to account for future mortality improvements.
<b>Health Care Trend Rate:</b>	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
<b>Aging Factors</b>	Based on plan specific experience
<b>Retiree Participation:</b>	79% for retirees who are eligible for funded premiums; 59% participation for retirees who are eligible for Partial Funded Premiums; 20% participation for retirees who are eligible for Non-Funded Premiums
<b>Notes:</b>	The discount rate changed from 1.92% as of June 30, 2021 to 3.69% as of June 30, 2022.

**Roll Forward Disclosures**

The actuarial valuation was performed as of June 30, 2021. Update procedures were used to roll forward the total OPEB liability to June 30, 2022, the Department’s measurement date.

**Net OPEB Liability**

The Net OPEB Liability (NOL) is calculated for the OPEB Trust Fund and represents the Trust’s Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less fiduciary net position. The allocation of each employer’s proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer’s payroll-related contributions over the measurement period. This method is expected to be reflective of the employer’s long-term contribution effort as well as be transparent to individual employers and their external auditors.

The following table represents the components of the Departments proportional share of the net OPEB liability as of June 30, 2022:

**Proportional Share of Net OPEB Liability**

(In Thousands)

Fiscal Year Ending	System	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
June 30, 2022	SCRHITF	\$ 323,911	\$ 31,239	\$ 292,672	9.64%

The TOL is calculated by the Trust’s actuary, and each Trust’s fiduciary net position is reported in the Trust’s financial statements. The NOL is disclosed in accordance with the requirements of GASB No. 74 in the Trusts’ notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts’ actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trusts’ funding requirements.

At June 30, 2023, the Department reported a liability of \$292.7 million for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021, and rolled forward to June 30, 2022. The Department’s proportion of the net OPEB liability was based on a projection of the Department’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2023, the Department’s proportion was 1.923974%, a decrease of 0.102657% from the Department’s proportion at the prior measurement date.

**Single Discount Rate**

The Single Discount Rate of 3.69% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate, (Fidelity “20-Year Municipal GO AA Index). Due to the plan’s investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

**Long-term Expected Rate of Return**

The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation.

This information is summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Allocation- Weighted Long- Term Expected Real Rate of Return
U.S. Domestic Fixed Income	80.0%	0.95%	0.76%
Cash equivalents	20.0%	0.35%	0.07%
Total	100.0%		0.83%
Expected Inflation			2.25%
Total Return			3.08%
Investment Return Assumption			2.75%



## Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.69%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

<b>Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Single Discount Rate</b> (In Thousands)			
<b>OPEB Trust</b>	<b>1.00% Decrease (2.69%)</b>	<b>Current Discount Rate (3.69%)</b>	<b>1.00% Increase (4.69%)</b>
SCRHITF	\$ 346,017	\$ 292,672	\$ 249,802

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

<b>Sensitivity of the Proportional Share of Net OPEB Liability to Changes in Healthcare Cost Trend Rate</b> (In Thousands)			
<b>OPEB Trust</b>	<b>1.00% Decrease</b>	<b>Current Healthcare Cost Trend Rate</b>	<b>1.00% Increase</b>
SCRHITF	\$ 240,694	\$ 292,672	\$ 353,359

## OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2023, the Department recognized OPEB expense of \$7.92 million. At June 30, 2023, the Department reported deferred outflows and inflows of resources related to OPEB from the following sources:

(In Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 12,544	-
Net differences between projected and actual experience	6,282	25,734
Assumption Changes	65,990	94,078
Net difference between projected and actual investment experience	2,302	-
Change in proportionate share of net OPEB liability and differences in actual and proportionate share of employer contributions	-	45,572
	<u>\$ 87,118</u>	<u>\$ 165,384</u>

Contributions subsequent to the measurement date of \$12.5 million were reported as deferred outflows of resources related to OPEB and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows. Average remaining service lives of all employees provided with OPEB through the June 30, 2022 was 7.203 years for SCRHITF:

(In Thousands)

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRHITF
2023	2024	\$ 17,422
2024	2025	14,344
2025	2026	11,585
2026	2027	11,505
2027	2028	17,172
Thereafter		18,782
		<u>\$ 90,810</u>

**NOTE 16. DEFERRED COMPENSATION PLANS:**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Department have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), 403(b), and Roth 401(k) are administered by third parties and are not included in the ACFR of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee.

The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. The Department has not made any contributions to these plans.

**NOTE 17. TRANSACTIONS WITH STATE ENTITIES / RELATED PARTIES:**

The Department has significant transactions with the State and various State agencies. The Department purchases goods and services from various State agencies. Total purchases from State agencies were approximately \$28.1 million for the year ended June 30, 2023. The Department sells supply items and provides services for various State agencies. Total sales to State agencies were approximately \$1.1 million for the year ended June 30, 2023.

The gasoline user fees, special fuels user fees and max sales taxes are collected by the South Carolina Department of Revenue (DOR) and remitted on a monthly basis. The user fees and sales taxes collected by DOR for the Department amounted to \$1.0 billion, net of transfers for IFTA, for the year ended June 30, 2023, of which \$182.5 million was accrued as a receivable at June 30, 2023. Gasoline user fees revenues collected by DOR for the County Transportation Committees Fund amounted to \$111.2 million for the year ended June 30, 2023. The Department transferred \$20.1 million from the Infrastructure Maintenance Trust Fund to the County Transportation Committees Fund. The Infrastructure Maintenance Trust Fund received \$37.5 million of unclaimed tax credit from the Department of Revenue and as required by SC Code Section 12-6-3780 and subsequently no transfer was made for the tax year 2022 income tax credit. Tax year 2022 is the last year that taxpayers are eligible to claim the Preventative Maintenance Tax Credit.

The Department participates in the International Fuel Tax Agreement (IFTA) program. This program is an agreement between the lower 48 states of the United States and the Canadian provinces, to simplify the reporting of fuel use by motor carriers that operate in more than one jurisdiction. Alaska, Hawaii, and the Canadian territories do not participate. An operating carrier with IFTA receives an IFTA license and two decals for each qualifying vehicle it operates. The carrier files a quarterly fuel tax report. This report is used to determine the net tax or refund due and to redistribute taxes from collecting states to states that it is due. This tax is required for motor vehicles used, designed, or maintained for transportation of persons or property and:

- Having two axles and a gross vehicle weight rating or registered gross vehicle weight in excess of 26,000 pounds, and/or

- Having three or more axles regardless of weight, and/or
- Is used in combination, when the weight of such combination exceeds 26,000 pounds gross vehicle or registered gross vehicle weight.

Exceptions exist for Recreational Vehicles (such as motor homes, pickup trucks with attached campers, and buses when used exclusively for personal pleasure by an individual). Some states have their own exemptions that often apply to farm vehicles or government vehicles. Additional information about the IFTA can be found at <http://www.iftach.org/>.

The calculation of net amount owed or due is performed by this central organization. This calculation has historically resulted in a net amount due from the Department to the central organization. The Department remitted \$12.8 million of fuel oil user fee revenue to the South Carolina Department of Motor Vehicles (“DMV”) in fiscal year 2023 for the IFTA calculation. The DMV then remits that amount to the central IFTA organization for redistribution to other member states. The Department remitted \$19.7 million in FY 2022 for the same calculation.

Services received at no cost from the various state agencies, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

Significant payments were made to other state agencies for retirement plan contributions and health insurance premiums, insurance coverage, office supplies, printing, telephone, and inter-agency mail. The amounts of expenditures applicable to related party transactions are not readily available.

Workers' compensation insurance premiums for the fiscal year 2023 of \$7.7 million were paid to the State Accident Fund and \$14 thousand was paid for Unemployment Insurance, to the South Carolina Unemployment Trust Fund. The Department provided no material services free of charge to other State agencies during the fiscal year.

The Department provided the Bank administrative services, clerical assistance, and project oversight during fiscal year 2023 for which it was paid \$902 thousand. The Bank also reimbursed the Department \$2.2 million in direct project costs. Allocations to other entities - State agency represented amounts paid to the Bank and totaled \$27.8 million for the year ended June 30, 2023. The payments represent an amount not to exceed the one cent per gallon collected in accordance with Section 11-43-160 of the Code for the on-going funding of construction and maintenance of highways. See Note 9 regarding transactions resulting from intergovernmental agreements entered into by the Department, the Bank, and other local governments.

A summary of intergovernmental payables to other State agencies in the governmental fund balance sheet at June 30, 2023 is as follows:

<u>(In Thousands)</u>	
<u>Due To / Description</u>	
Dept of Public Safety	\$ 168
Dept of Administration	19
SC Transportation Infrastructure	1,284
	<u>\$ 1,471</u>

**NOTE 18. FEDERAL GRANTS:**

The Department receives funds from the Federal government, the South Carolina Emergency Management Division (SCEMD) and the Department of Administration (DOA) for the funding of costs related to the programs described in the grants. These funds are subject to audit and/or adjustment by the various funding sources. The Department does not expect any significant impact should grantors audit and/or adjust reimbursement amounts.

**NOTE 19. RISK MANAGEMENT:**

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from that carried in the prior year. Settled claims have not exceeded this coverage in the prior three years. The Department pays insurance

premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Public Employee Benefit Authority – Insurance Benefits);and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefit Authority – Insurance Benefits).

The State offers two self-insured health plans and a Tricare Supplemental plan to qualified employees. Additionally, all other coverages (such as dental, vision, life and long-term disability) are extended through the State's insurance offerings with premiums being remitted to the PEBA.

The Department and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

- Theft of, damage to, or destruction of assets
- Data processing equipment
- Motor vehicles
- Business interruptions
- Real property and contents
- Torts
- Inland Marine (Rental Equipment)

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from re-insurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially. State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and IRF.

The Department self-insures itself for any losses beyond those covered by insurance because it believes the likelihood of losses is remote. The Department has not transferred the portion of the risk of loss related to insurance policy deductibles and limits for capital assets and fidelity overages to a State or commercial insurer.

The Department has not reported an estimated claims loss expenditure, and the related liability at June 30, 2023, based on the requirements of GASB Statement No. 10 and No. 30 which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2023, and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the Department's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded and, therefore, no loss accrual has been recorded.

## **NOTE 20. CONTINGENCIES:**

The Department is a defendant in various lawsuits arising from the conduct of its normal business primarily regarding rights-of-way. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of any litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Department.

**South Carolina Department of Transportation**  
**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)**  
**Governmental Fund (State, Earmarked, Restricted Funds)**  
**June 30, 2023**

(In Thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive
	Original	Final		
<b>Revenues</b>				
Earmarked	\$ 128	\$ 128	\$ 115	\$ (13)
General	375,377	375,377	375,377	-
Restricted	2,642,553	2,892,553	2,847,855	(44,698)
Federal	168,746	168,746	54,814	(113,932)
<b>Total Revenues</b>	<b>\$ 3,186,804</b>	<b>\$ 3,436,804</b>	<b>\$ 3,278,276</b>	<b>\$ (158,528)</b>
<b>Expenditures</b>				
<b>General Fund</b>				
Mass Transit	\$ 57	\$ 57	\$ 57	-
Forest Acres Bridge	225	225	225	-
Engineering - Const	-	3,510	3,510	-
Other Operating Other	7,414	9,233	9,233	-
Perm Improve Bridges	23,023	45,211	45,211	-
Perm Improve Rehab Resurf	14,648	1,021	1,021	-
Perm Improve Op & Safety	32,290	28,277	28,277	-
Perm Improve Widenings	36,502	30,087	30,087	-
Perm Improve Enhancements	6,123	2,661	2,661	-
Historic T-Bridge Repairs	60	60	60	-
City of York Lincoln Road Sidewalk Installation	96	96	96	-
Litter Pickup	3,491	3,491	3,491	-
Palmetto Trail Highway 301	1,448	1,448	1,448	-
County Transportation Program	250,000	250,000	250,000	-
<b>General Administration</b>				
Executive director	298	298	298	-
Classified positions	18,148	18,091	18,032	59
Unclassified position	170	227	227	-
Other personal services	225	688	670	18
Other operating	47,849	46,751	30,446	16,305
Debt service	51	996	902	94
<b>Land &amp; Buildings</b>				
Other operating	2,701	1,678	1,041	637
Permanent improvement	3,700	4,714	213	4,501
<b>Engineering - Adm. Proj. Mgmt.</b>				
Classified positions	71,580	77,813	77,807	6
Unclassified position	186	258	257	1
Other personal services	1,892	4,082	4,073	9
Other operating	15,692	17,589	13,013	4,576
Permanent improvement	-	5	5	-
<b>Engineering - Construction</b>				
Other operating	29,040	9,015	534	8,481
Permanent improvements	2,000,832	1,942,192	1,478,060	464,132
Debt service	10,256	10,256	10,256	-
<b>Highway Maintenance</b>				
Classified positions	111,492	97,729	89,848	7,881
Other personal services	5,745	10,464	10,461	3
Other operating	166,664	175,397	162,800	12,597
Permanent improvements	-	158	153	5
<b>Non-Federal Aid</b>				
Other operating Bridges Minor Repair	12,673	12,673	9,469	3,204
Other operating Rehab & Resurfacing	26,577	64,577	61,871	2,706
Other operating	45,750	45,750	42,264	3,486
<b>Mass Transit</b>				
Unclassified position	154	176	176	-
Classified positions	5,512	5,495	4,444	1,051
Other personal services	34	116	116	-
Other operating	550	1,800	876	924
Allocations municipal - restricted	5,624	5,694	16	5,678
Allocations counties - restricted	29,483	28,163	16,350	11,813
Allocations other entities	18,746	18,746	9,616	9,130
<b>Toll Operations</b>				
Other operating	-	33	30	3
<b>Employer Contributions</b>	103,066	103,066	95,252	7,814
<b>County Transportation</b>				
Permanent improvements	18,010	41,752	38,722	3,030
Other operating	1,000	2,056	1,050	1,006
Distributions to subdivisions	135,565	110,767	4,653	106,114
<b>Total Expenditures</b>	<b>\$ 3,264,642</b>	<b>\$ 3,234,642</b>	<b>\$ 2,559,378</b>	<b>\$ 675,264</b>

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**JUNE 30, 2023**

**NOTE 1. BUDGETARY FUNDS**

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

*General Funds.* These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

*Total Funds.* The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust fund activities.

The Department's legally adopted budget is part of the Total Funds budget for the State. It is presented on a combined basis for the Transportation and Infrastructure Maintenance Trust Special Revenue Funds at the program level including the restricted, earmarked, and general funds appropriated to the Department.

**NOTE 2. ORIGINAL AND FINAL BUDGETED AMOUNTS; BASIS OF PRESENTATION**

The original appropriations presented in the accompanying schedule for the Transportation Special Revenue Fund include amounts in the Appropriations Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classification, and format of the appropriations section of the accompanying schedule for department's governmental fund are substantively the same as for the legally enacted budget.

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the Transportation Special Revenue Fund. However, Section 115 (Recapitulations) of the Appropriation Act includes net source of funds amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the Transportation Special Revenue Fund is presented as required supplementary information.

As operating conditions change, the Department may move appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personal services without SFAA approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the SFAA.

**NOTE 3. LEGAL LEVEL OF BUDGETARY CONTROL**

The Department maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency which is the level of detail presented in the accompanying schedule.

**NOTE 4. BASIS OF BUDGETING**

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is used.

State law does not precisely define the State’s basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- Departments and agencies shall charge certain vendor and inter-fund payments against the preceding fiscal year’s appropriations through July 14.
- The gasoline and motor fuel taxes are recorded on the modified accrual basis in accordance with State law.
- All other revenues are recorded only when the State receives the related cash.
- The accrual basis is used for other non-payroll expenditures.

**NOTE 5. RECONCILIATION OF BUDGET TO GAAP REPORTING DIFFERENCES**

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist primarily of reclassifications from financial statement classifications to budgetary fund categories, the accrual and reversal of accounts payable and payroll and related fringe benefits, which exceed the cut off for the Department to charge the previous fiscal year’s appropriations.

**Reconciliation of Budget Basis to GAAP Basis Expenditures  
For The Year Ended June 30, 2023**

(in Thousands)

	General Fund	Other Budgeted Funds	Total
Total expenditures, budgetary basis	\$ 375,377	\$ 2,184,001	\$ 2,559,378
Basis of accounting differences:			
Change in accrued salaries	-	43,757	43,757
Change in accounts payable	-	2,883	2,883
Transfer to other entities not expenditures under budgetary basis	-	20,093	20,093
Other basis difference	-	(146,753)	(146,753)
Total expenditures, GAAP basis	<u>\$ 375,377</u>	<u>\$ 2,103,981</u>	<u>\$ 2,479,358</u>

**South Carolina Department of Transportation Required Supplementary Information**

**Schedule of the South Carolina Department of Transportation's Proportionate Share of the Net Pension Liability  
South Carolina Retirement System as of June 30, 2023  
Last Ten Fiscal Years\***

	(In Thousands)				
	2023	2022	2021	2020	2019
SCDOT's proportion of the net pension liability	1.57%	1.65%	1.76%	1.82%	1.89%
SCDOT's proportionate share of the net pension liability	\$ 380,377	\$ 357,314	\$ 450,598	\$ 415,285	\$ 422,832
SCDOT's covered payroll	\$ 182,047	\$ 182,301	\$ 201,499	\$ 201,976	\$ 192,463
SCDOT's proportionate share of the net pension liability as percentage of covered payroll	208.94%	196.00%	223.62%	205.61%	219.70%
Plan fiduciary net position as a percentage of the total pension liability	57.10%	60.70%	50.70%	54.40%	54.10%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
SCDOT's proportion of the net pension liability	1.99%	1.96%	1.89%	1.91%	
SCDOT's proportionate share of the net pension liability	\$ 448,473	\$ 418,310	\$ 359,827	\$ 328,817	
SCDOT's covered payroll	\$ 198,382	\$ 187,553	\$ 171,918	\$ 173,387	
SCDOT's proportionate share of the net pension liability as percentage of covered payroll	226.07%	223.04%	209.30%	189.64%	
Plan fiduciary net position as a percentage of the total pension liability	53.30%	52.90%	57.00%	59.92%	

\*The state implemented GASB 68 in fiscal year 2015, which changed prior calculations of the total pension liabilities. As such, only the last nine years' information is available



**South Carolina Department of Transportation Required Supplementary Information**  
**Schedule of the South Carolina Department of Transportation's Proportionate Share of the Net Pension Liability**  
**Police Officers Retirement System as of June 30, 2023**  
**Last Ten Fiscal Years\***

	(In Thousands)				
	2023	2022	2021	2020	2019
SCDOT's proportion of the net pension liability	0.032%	0.031%	0.028%	0.027%	0.026%
SCDOT's proportionate share of the net pension liability	\$ 956	\$ 800	\$ 937	\$ 767	\$ 729
SCDOT's covered payroll	\$ 504	\$ 466	\$ 420	\$ 383	\$ 412
SCDOT's proportionate share of the net pension liability as percentage of covered payroll	189.68%	171.67%	223.10%	200.26%	176.94%
Plan fiduciary net position as a percentage of the pension liability	66.40%	70.40%	58.80%	62.70%	61.70%
	2018	2017	2016	2015	
SCDOT's proportion of the net pension liability	0.021%	0.030%	0.029%	0.022%	
SCDOT's proportionate share of the net pension liability	\$ 587	\$ 761	\$ 632	\$ 426	
SCDOT's covered payroll	\$ 429	\$ 400	\$ 265	\$ 268	
SCDOT's proportionate share of the net pension liability as percentage of covered payroll	136.83%	190.25%	238.49%	158.96%	
Plan fiduciary net position as a percentage of the pension liability	60.90%	60.40%	64.57%	67.55%	

\*The state implemented GASB 68 in fiscal year 2015, which changed prior calculations of the total pension liabilities. As such, only the last nine years' information is available

**South Carolina Department of Transportation Required Supplementary Information  
Schedule of the South Carolina Department of Transportation's Contributions  
South Carolina Retirement System as of June 30, 2023  
Last Ten Fiscal Years**

(In Thousands)

	2023	2022	2021	2020	2019
Contractually required contribution	\$ 34,008	\$ 30,147	\$ 28,366	\$ 29,331	\$ 27,388
Contributions in relation to the contractually required contribution	34,008	30,147	28,366	29,331	27,388
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCDOT covered payroll	\$ 193,667	\$ 182,047	\$ 182,301	\$ 201,449	\$ 201,976
Contributions as a percentage of the covered-employee payroll	17.56%	16.56%	15.56%	14.56%	13.56%
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 26,098	\$ 22,933	\$ 20,743	\$ 18,739	\$ 18,379
Contributions in relation to the contractually required contribution	26,098	22,933	20,743	18,739	18,379
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCDOT covered payroll	\$ 192,463	\$ 198,382	\$ 187,553	\$ 171,918	\$ 173,387
Contributions as a percentage of the covered-employee payroll	13.56%	11.56%	11.06%	10.90%	10.60%

**South Carolina Department of Transportation Required Supplementary Information  
Schedule of the South Carolina Department of Transportation's Contributions  
Police Officer Retirement System as of June 30, 2023  
Last Ten Fiscal Years**

(In Thousands)

	2023	2022	2021	2020	2019
Contractually required contribution	\$ 91	\$ 97	\$ 85	\$ 78	\$ 66
Contributions in relation to the contractually required contribution	91	97	85	78	66
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCDOT covered payroll	\$ 450	\$ 504	\$ 466	\$ 420	\$ 383
Contributions as a percentage of the covered-employee payroll	20.24%	18.56%	18.56%	18.56%	17.23%
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 58	\$ 59	\$ 55	\$ 34	\$ 34
Contributions in relation to the contractually required contribution	58	59	55	34	34
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCDOT covered payroll	\$ 412	\$ 429	\$ 400	\$ 265	\$ 265
Contributions as a percentage of the covered-employee payroll	14.32%	13.75%	13.75%	12.83%	12.84%

**South Carolina Department of Transportation Required Supplementary Information -  
Actuarial Methods and Assumption Used to Determine the Contribution Rates  
For Year Ended June 30, 2023**

Item	SCRS	PORS
(1)	(2)	(3)
Actuarial Valuation Date:	July 1, 2020	July 1, 2020
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	5-year smoothed	5-year smoothed
Amortization Method:	Level % of Pay	Level % of Pay
Amortization Period as of the actuarial valuation date:	27-years maximum, closed	27-years maximum, closed
Investment Return:	7.25%	7.25%
Inflation:	2.25%	2.25%
Salary Increases:	3.00% plus step-rate increases for members with less than 21 years of service.	3.50% plus step-rate increases for members with less than 15 years of service.
Mortality:	The 2016 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale AA from the year 2016. Male rates multiplied by 100% for non-educators and 92% for educators. Female rates multiplied by 111% for non-educators and 98% for educators.	The 2016 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale AA from the year 2016. Male rates multiplied by 125%. Female rates multiplied by 111%.
Comment on the development of the actuarially determined and actual contribution rate:	Contribution rate for fiscal year 2022 is determined in accordance with the Retirement System Funding and Administration Act of 2017.	Contribution rate for fiscal year 2022 is determined in accordance with the Retirement System Funding and Administration Act of 2017.

**South Carolina Department of Transportation Required Supplementary Information**  
**Schedule of the South Carolina Department of Transportation's Proportionate Share**  
**of the Net OPEB Liability - South Carolina Health Insurance Trust Fund**

(In Thousands)

	2023	2022	2021	2020	2019	2018
Department's proportion of the net OPEB liability	1.924%	2.027%	2.160%	2.222%	2.290%	2.400%
Department's proportionate share of the net OPEB liability	\$ 292,672	\$ 422,099	\$ 389,973	\$ 355,988	\$ 324,484	\$ 325,592
Department's covered payroll	\$ 188,010	\$ 187,724	\$ 197,771	\$ 197,527	\$ 192,018	\$ 185,610
Department's proportionate as percentage of covered payroll	155.67%	224.85%	197.18%	180.22%	168.99%	175.42%
Plan fiduciary net position as a percentage of the total OPEB liability	9.64%	7.48%	8.39%	8.44%	7.91%	7.60%

Note: The amounts presented above were determined as of June 30th of the preceding year.

**South Carolina Department of Transportation Required Supplementary Information**  
**Schedule of the South Carolina Department of Transportation's Contributions**  
**South Carolina Health Insurance Trust Fund**  
**Last Seven Fiscal Years\***

(In Thousands)

	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	\$ 12,544	\$ 11,807	\$ 11,515	\$ 11,089	\$ 10,864	\$ 10,561	\$ 9,893
Contributions in relation to the contractually required contribution	12,544	11,807	11,515	11,089	10,864	10,561	9,893
Contribution deficiency(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department covered payroll	\$ 199,428	\$ 188,010	\$ 187,724	\$ 197,771	\$ 197,527	\$ 192,018	\$ 185,610
Contributions as a percentage of the covered payroll	6.29%	6.28%	6.13%	5.61%	5.50%	5.50%	5.33%

\*The State implemented GASB 75 in fiscal year 2018, which changed prior calculations of the total OPEB liabilities. As such, only the last seven years' information is available