



State of South Carolina

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COMPTROLLER GENERAL

**WILLIAM E. GUNN**  
CHIEF OF STAFF

November 17, 2017

## To the Citizens, Governor and Members of the South Carolina General Assembly

I am pleased to present to the citizens of South Carolina this Comprehensive Annual Financial Report for the State of South Carolina for the fiscal year ended June 30, 2017. The report provides financial information about the State's operations during the year and describes its financial position at the end of the year.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that was established for this purpose. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor and CliftonLarsonAllen LLP, an independent certified public accounting firm, jointly performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2017. The auditors have issued an unmodified opinion, the most favorable outcome of the audit process.

This letter of transmittal is designed to complement management's discussion and analysis that immediately follows the report of the independent auditors.

### PROFILE OF THE GOVERNMENT

South Carolina extends from the Atlantic Ocean westward to the Blue Ridge Mountains, containing over 30,000 square miles. Fortieth in geographic area among the fifty states, South Carolina ranks twenty-fourth in population with approximately 5.0 million citizens. According to the U.S. Census Bureau, the State's rate of population growth is presently the tenth fastest in the nation.

As shown in the organizational chart on page 15, State government is divided into three separate branches: legislative, executive, and judicial. The State's citizens elect the legislative and executive branch officials. The General Assembly elects certain members of the judicial branch, including the Supreme Court. The principal State officials currently in office are listed on page 14.

State government provides a full range of services to South Carolina's citizens including educational, health, social/human, transportation, public safety, regulatory, and conservation/natural resources services. In addition, the State provides funds, grants, and loans to assist local governments, including school districts.

The State's reporting entity includes the primary government and its component units. The primary government includes all funds, departments, and agencies. The State's component units are legally separate organizations for which the State is accountable for purposes of financial reporting. The Management's Discussion and Analysis (MD&A) and the Basic Financial Statements focus on the activities of the primary government.

Additional information on the State's component units can be found in the notes to the accompanying financial statements and in the separately issued financial statements of those component units.

South Carolina's annual Appropriations Act includes legally adopted budgets by agency for the Budgetary General Fund and for Total Funds. After the budget year begins, the Executive Budget Office (EBO), may order spending cuts if revenue collections fall short of predicted levels. A department or agency may request transfers of appropriations between programs if its transfer request does not exceed 20% of its program budget. The EBO has the authority to approve additional requested transfers of appropriations between personal services and other operating expenditure accounts. For additional information, see the notes to the required supplementary information - budgetary.

### **STATE ECONOMY**

South Carolina has a diversified economic base, including manufacturing, trade, healthcare, services, and leisure/hospitality. Businesses have relocated here from all over the world taking advantage of the State's skilled labor force, competitive wages, lower-priced land, excellent port facilities and accessibility to markets, and, in recent years, substantial tax and other economic incentives.

Businesses continue to choose South Carolina as a place to locate or expand, and the State of South Carolina is committed to working with employers to meet their workforce needs through state-supported workforce development initiatives.

During the year ended June 30, 2017, total non-farm employment in the state increased by 33,700 to 2,084,300. Industry sectors reflecting gains were Trade, Transportation, and Utilities (+11,000); Leisure and Hospitality (+7,900); Manufacturing (+7,300); Construction (+4,800); Education and Health Services (+4,000); Financial Activities (+900); and Government (+100). Declines were experienced in Professional and Business Services (-1,600) and Mining, Logging, Information, and Other Services (-700).

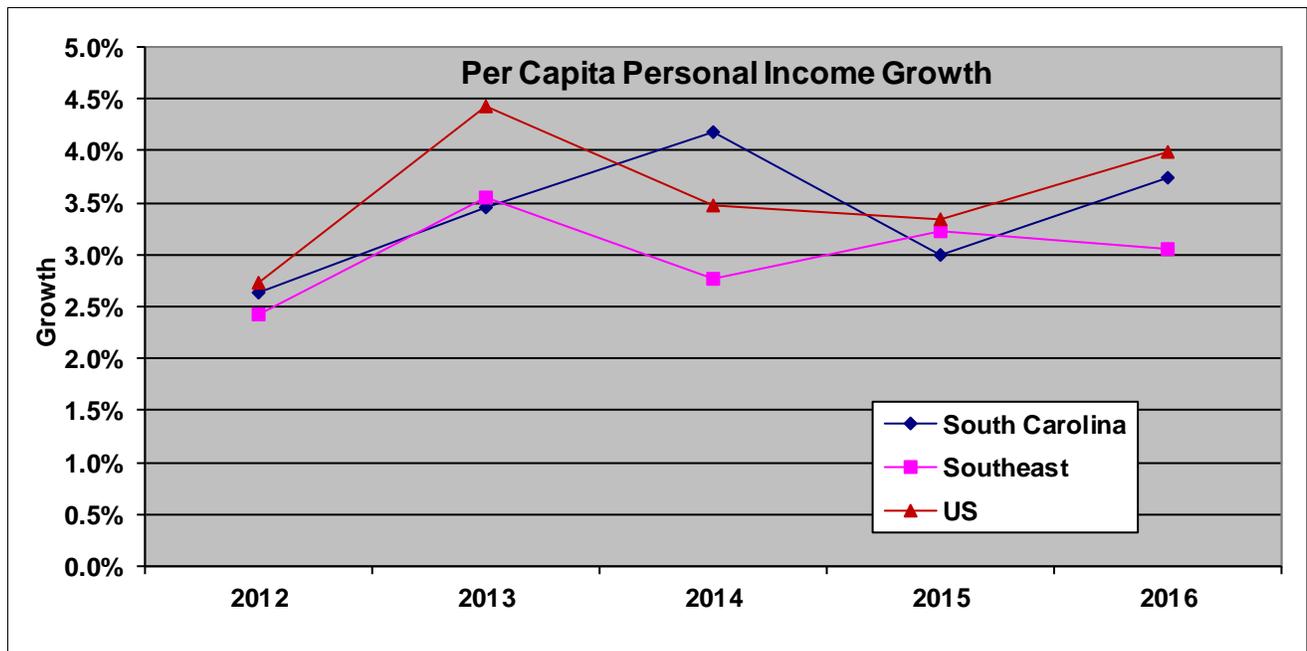
South Carolina's unemployment rate was 3.9% in June 2017, which was below the June 2016 rate of 5.4%. It remained at 3.9% in September 2017. In comparison, the U.S. unemployment rate in June 2017 was 4.4% and 4.2% in September 2017.

The South Carolina Leading Index (SCLI) increased by 0.382 points from June 2016 to June 2017 to 102.47. Above the 100 mark, the SCLI forecasts improving economic conditions for South Carolina over the upcoming three to six months. The SCLI closed the month of September 2017 at 102.16, the most current month available.

The number of real estate closings remained the same when comparing June 2017 and June 2016. But, with the declining number of foreclosures in the state, down 13.6 percent in June 2017 compared to June 2016, the supply of available homes on the market remains low. As inventory tightens, real estate values in South Carolina have gained ground. In addition, residential building permits compared to a year ago are up 0.5 percent in volume and 8.4 percent in valuation.

The South Carolina housing market continued to improve, with the Florence, Charleston and Greenville housing markets experiencing strong home sales in the first half of calendar year 2017. This growth was also complemented by median home prices of homes sold increasing 3.1 percent when comparing June 2017 to June 2016.

Also, see the following for a comparison of South Carolina, the southeastern United States, and the entire United States in per capita personal income growth over the last five years.



**LONG-TERM FINANCIAL PLANNING**

State law requires agencies that receive 1.0% or more of the total annual General Fund appropriations to provide an estimate of their projected General Fund expenditures for the next three fiscal years. The Executive Budget Office combines these expenditure estimates with long-term revenue estimates made by the State’s Board of Economic Advisors (BEA) to create a three-year financial plan. The three-year financial plan assists the State in strategically assessing its future financial commitments. The plan is updated annually and provided to the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate during the second quarter of each fiscal year.

Significant financial challenges facing state government include anticipated future spending increases for Medicaid, State retirement and post-retirement health benefits, and elementary and secondary education.

The State’s long-term financial management practices include a five-year comprehensive permanent improvement plan that requires funding to be in place before beginning construction on any capital improvement projects.

**RELEVANT FINANCIAL POLICIES**

The State’s legislature is required to adopt a balanced budget annually based on revenue projections provided by the BEA. State law requires the BEA to meet at least quarterly to compare actual revenue collections with its earlier projections and to adjust its projections if necessary. The State legislature and EBO are responsible for taking appropriate action to keep the State’s budget in balance. If at the end of the first, second, or third quarter of any fiscal year the BEA reduces revenue by more than three percent below the amount projected for the fiscal year, the President Pro Tempore of the Senate and the Speaker of the House of Representatives may call each respective house into session to take action to avoid a year-end deficit. If the houses do not come into session within twenty days of the BEA determination, the Director of the EBO must reduce most agency appropriations evenly across-the-board to avoid a year-end deficit. The State is also required to maintain a General Reserve Fund amounting to 5.0% of total General Fund revenues for the latest completed fiscal year that can be used only for eliminating a year-end operating deficit. Additionally, the State is required to annually fund a 2% Capital Reserve to be used for capital improvements, debt retirement, or other nonrecurring purposes appropriated by the General Assembly.

Legislation also exists directing that in closing the books each year the Comptroller General shall suspend, to the extent necessary, any budgetary surplus appropriations in a general or supplemental act or Capital Reserve Fund appropriations if the State’s General Fund has a negative unrestricted, unassigned fund balance when reported on a Generally Accepted Accounting Principles-basis.

The State ended fiscal year 2017 with a positive budgetary General Fund balance after reservation of \$1.076 billion, which was made up of legislatively approved agency carryover appropriations of \$549.517 million, the General Reserve of \$348.019 million, the Capital Reserve of \$139.208 million, and unassigned surplus of \$39.726 million. See the Required Supplementary Information – Other than Management’s Discussion and Analysis (Unaudited) section for further information.

### **MAJOR INITIATIVES**

The State continues to fund programs related to job creation. In calendar year 2016, the State committed \$18.0 million to the South Carolina Coordinating Council on Economic Development’s Set-Aside Fund, which is dedicated to improving the economic well-being of the State by providing funds to local government to develop the infrastructure necessary for new and expanding business. Programs like this helped to attract Samsung to Newberry County in fiscal year 2017. Samsung is expected to create 950 jobs in the coming years. Additionally, BMW announced that it will expand its facilities in Spartanburg County in fiscal year 2017, which will create an additional 1,000 jobs in the coming years as well.

South Carolina’s job creation and capital investment from manufacturers have experienced steady growth since the end of the 2007 - 2009 Recession. In 2016 alone, the state attracted more than \$3.4 billion in new capital investment from manufacturing companies, which resulted in the creation of more than 13,100 jobs.

Area Development magazine recently ranked South Carolina second in its 2017 “Top States for Business” analysis. South Carolina also scored high in Site Selection magazine’s executive survey on business climate, ranking second, behind Texas.

### **South Carolina’s Growing Economic Environment**

Over the last several years, South Carolina has continued to demonstrate its ability to attract expanded economic opportunities for citizens. Manufacturing has grown substantially. South Carolina has also experienced a state-wide decrease in its unemployment rate, which has shown that even in the midst of challenging national economic conditions our state’s business-friendly climate and committed workforce continue to attract investment that creates well-paying jobs.

We have seen an emerging trend of companies investing and expanding in South Carolina. Many of South Carolina’s major employers have expanded and created high-quality jobs within the state. In 2012, the State established an Aerospace Task Force to position the state for future growth. The task force is focused on growing the aerospace supply chain for companies like Boeing and GE Turbine and supporting initiatives to assure that South Carolina has a workforce ready for the aerospace industry.

South Carolina’s exports reached record levels again in 2016 with exports increasing by 1.3% to \$31.3 billion from 2015 to 2016. In 2016, South Carolina ranked 15<sup>th</sup> in the United States in exports. These export figures were bolstered by the fact that the State is the nation’s top exporter of completed passenger vehicles and tires, in which the State accounted for approximately 18% of the entire U.S. passenger vehicles market and approximately 30% of the total U.S. tire export market. The State also recently established a Transportation, Distribution and Logistics (TDL) Council that includes strong private sector participation. Part of the mission of this council is to prepare South Carolina for the Panama Canal expansion, providing South Carolina with a world-class port that will have the capacity to support the expected increase in merchant shipping. The Port of Charleston is deepening its shipping channel from forty-five to fifty-two feet. Once the project is completed by the end of the decade, Charleston will be the deepest port on the east coast.

Due in part to the State’s economic outreach initiatives, South Carolina’s total economic output or gross domestic product (GDP) was \$209.716 billion in 2016. Between 2016 and 2017, our real GDP grew 2.1%, which compares to the southeast states average growth of 1.8%.

With our cost of living 0.9% below the national average, South Carolina offers exceptionally productive employees at one of the lowest labor costs in the nation. South Carolina is a right-to-work state and in 2016 had the lowest unionization rate in the nation, at 1.6% of the workforce. As a result of this, Kiplinger recently highlighted South Carolina as seventh in states that have gained the most jobs in 2016 with an employment increase of 2.4%.

**AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of South Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year that ended June 30, 2016. This was the twenty-ninth consecutive year that the State of South Carolina achieved this recognition. In order to be awarded a Certificate of Achievement, a government must publish a timely, easily readable, and efficiently organized CAFR. The CAFR must comply with both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility to be awarded a Certificate of Achievement.

Production of the CAFR was made possible only by the support of all State agencies and component units that supplied financial data to our office on a timely basis. I extend special appreciation for the members of my staff who devoted many of their nights and weekends over the past few months working as a team to produce this comprehensive document. I also express special appreciation for the generous sacrifices made by their families who endured the many extra hours they devoted to successfully complete this project.

Sincerely,



Richard Eckstrom, CPA  
Comptroller General