

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

State of South Carolina
Office of Comptroller General

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

Telephone: (803) 734-2121
Fax: (803) 734-2064
E-Mail: cgooffice@cg.sc.gov

WILLIAM E. GUNN
CHIEF OF STAFF

December 12, 2016

**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, 2016. 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, 2016. 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 4.7 million citizens. According to the U.S. Census Bureau, the State's rate of population growth is presently the fourteenth 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 State Fiscal Accountability Authority (SFAA), composed of five key executive and legislative officials, 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 SFAA 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, 2016, total non-farm employment in the state increased by 52,100 to 2,050,600. All industry sectors reflected gains within fiscal year 2016. The gains were as follows: Education and Health Services (+9,000); Trade, Transportation, and Utilities (+8,400); Professional and Business Services (+7,500); Manufacturing (+7,400); Government (+5,500); Construction (+5,400); Financial Activities (+4,900); Leisure and Hospitality (+2,300); and Mining, Logging, Information, and Other Services (+1,700).

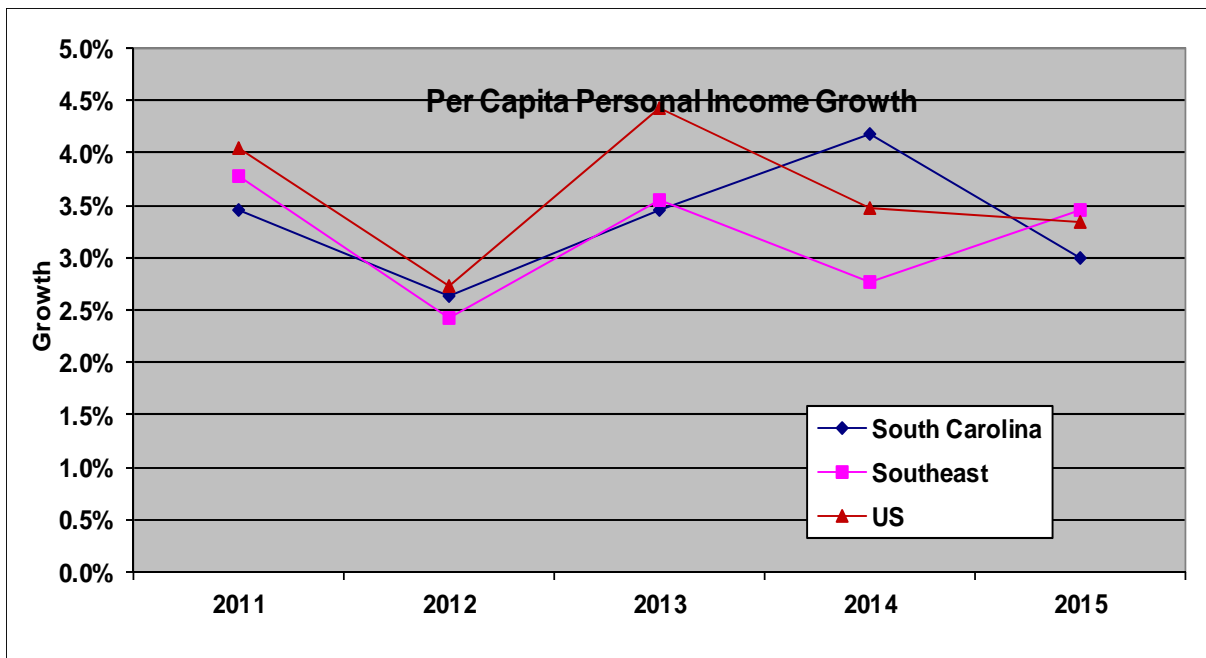
South Carolina's unemployment rate was 5.4% in June 2016, which was below the June 2015 rate of 6.6%. It had improved to 4.9% in September 2016. In comparison, the U.S. unemployment rate in June 2016 was 4.9% and 5.0% in September 2016.

The South Carolina Leading Index (SCLI) increased by 0.288 points from June 2015 to June 2016 to 102.088. 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 August 2016 at 102.063, the most current month available.

The number of real estate closings in June 2016, up 9.9 percent compared to a year ago, and the declining number of foreclosures in the state, down 11.1 percent in June 2016 compared to June 2015, have reduced the supply of available homes on the market. As inventory tightens, real estate values in South Carolina have gained ground. Residential building permits compared to a year ago are up 22.3 percent in volume and 10.8 percent in valuation.

The South Carolina housing market continued to improve, with the Charleston and Myrtle Beach housing markets experiencing strong home sales in the first half of calendar year 2016. This growth was also complemented by median home prices of homes sold increasing 4.1 percent when comparing June 2016 to June 2015.

Also, see below 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 State 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. If the BEA reduces revenue projections significantly once the budget year begins, the SFAA is responsible for taking appropriate action to keep the State’s budget in balance. If the SFAA anticipates a year-end operating deficit as a result of the BEA reducing its revenue projections during the year, it must reduce most agency appropriations evenly across-the-board. 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. If the State’s budgetary General Fund subsequently experiences a year-end operating deficit even after applying all the actions described above, the SFAA is required to meet within sixty days of August 31 to adopt a plan to eliminate the deficit and restore a balanced budget. 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 2016 with a positive budgetary General Fund balance of \$1.131 billion, which was made up of legislatively approved agency carryover appropriations of \$368.967 million, the General Reserve of \$327.619 million, the Capital Reserve of \$131.048 million, the Contingency Reserve of \$46.751 million, and unassigned surplus of \$256.924 million.

MAJOR INITIATIVES

In accordance with the *South Carolina Restructuring Act of 2014 (Act 121)*, effective July 1, 2014, the State Budget Division was eliminated and its functions divided among two newly created offices: the Executive Budget Office and the Revenue and Fiscal Affairs Office.

The Executive Budget Office became a stand-alone agency reporting to the Governor's Office. It was assigned many of the former State Budget Division's responsibilities, including development and oversight of the process for preparing the annual state budget.

Also, in accordance with Act 121, the State Budget and Control Board ceased operations on June 30, 2015. Effective July 1, 2015, most of its functions and responsibilities were transferred to a newly created Department of Administration in the Governor's Office, a newly created State Fiscal Accountability Authority, and the Confederate Relic Room and Military Museum Commission. Also under Act 121, effective July 1, 2015 the Executive Budget Office and the Governor's Office of Executive Policy and Programs were transferred and incorporated into the Department of Administration, the SC Energy Office was transferred to the Office of Regulatory Staff, and the Office of Local Government was transferred to the Rural Infrastructure Authority.

The Revenue and Fiscal Affairs Office consists of the Division of Research and Statistics and the Board of Economic Advisors. Functions of the Revenue and Fiscal Affairs Office include preparing fiscal and revenue impact statements on proposed legislation and assisting the General Assembly and the House Ways and Means and Senate Finance Committees in developing the annual appropriations act.

The State continues to fund programs related to job creation. In calendar year 2015, 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 Volvo to Berkeley County in fiscal year 2015. Volvo is expected to create 4,000 jobs in the State in the coming years.

South Carolina's job creation and capital investment from manufacturers have experienced steady growth since the end of the 2007 - 2009 Recession. In 2015 alone, the state attracted more than \$4.21 billion in new capital investment from manufacturing companies, which resulted in the creation of more than 17,280 jobs.

South Carolina consistently ranks high on Site Selection magazine's "Top State Business Climate Rankings." The state ranked tenth overall in the most recently released 2015 survey. South Carolina also scored high in Site Selection magazine's competitiveness survey, ranking fourth, behind North Carolina, Louisiana, and 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 in 2015 with exports increasing by 4.2% from 2014 to 2015. As such, South Carolina was again ranked as the top Southeastern state for export growth during 2015. In 2015, South Carolina ranked 15th 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, which made up \$9.8 billion of

the State's export sales. Additionally, the State led the nation in the export of tires, which accounts for approximately 28 percent 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 \$177.141 billion in 2015. Between 2014 and 2015, our real GDP grew 1.3%, which compares to the southeast states average growth of 2.1%.

With our cost of living 4.3% 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 2015 had the lowest unionization rate in the nation, at 2.1% of the workforce. As a result of this, 24/7 Wall Street recently ranked South Carolina fourth in states that have gained the most jobs over the last five years with an employment increase of 12.1%. Also, Area Development recently ranked South Carolina second in its 2016 Top States for Doing Business analysis.

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, 2015. This was the twenty-eighth 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