

State of South Carolina

Office of Comptroller General

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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, 2015. 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, 2015. 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 Budget and Control Board (became the State Fiscal Accountability Authority effective July 1, 2015), 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 Budget and Control Board 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, 2015, total non-farm employment in the state increased by 64,100 to 1,998,500. Industry sectors reflecting gains were Professional and Business Services (+16,200); Trade, Transportation, and Utilities (+15,200); Education and Health Services (+9,800); Government (+7,900); Leisure and Hospitality (+7,700); Construction (+6,700); and Financial Activities (+1,100). A modest decline was experienced in Manufacturing (-500).

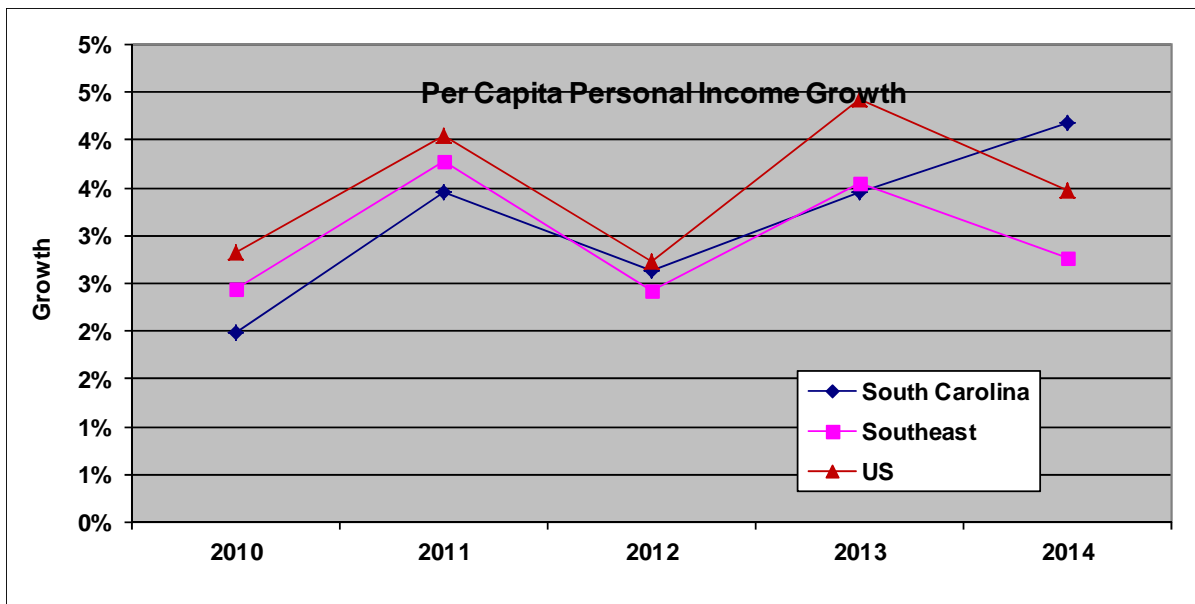
South Carolina's unemployment rate was 6.6% in June 2015, which was slightly above the June 2014 rate of 6.3%. It had improved to 5.7% in September 2015. In comparison, the U.S. unemployment rate in June 2015 was 5.3% and 5.1% in September 2015.

The South Carolina Leading Index (SCLI) increased by 0.42 points from June 2014 to June 2015 to 101.80. 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 2015 at 101.77, the most current month available.

The number of real estate closings in June 2015, up 16.2 percent compared to a year ago, and the declining number of foreclosures in the state, down 8.8 percent in June 2015 compared to June 2014, 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 15.2 percent in volume and 19.9 percent in valuation.

The South Carolina housing market continued to improve, with the Charleston, Columbia, and Greenville housing markets experiencing strong home sales in the first half of calendar year 2015. This growth was also complemented by median home prices of homes sold increasing 4.7 percent when comparing June 2015 to June 2014.

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 State Fiscal Accountability Authority (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 2015 with a positive budgetary General Fund fund balance of \$1.194 billion, which was made up of legislatively approved agency carryover appropriations of \$415.073 million, the General Reserve of \$319.479 million, the Capital Reserve of \$127.790 million, the Contingency Reserve of \$19.741 million, and unassigned surplus of \$299.743 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 2014, the State committed \$16.9 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 2014 alone, the state attracted more than \$5.1 billion in new capital investment from manufacturing companies, which resulted in the creation of more than 19,000 jobs.

South Carolina consistently ranks high on Site Selection magazine's "Top State Business Climate Rankings." The state ranked sixth overall in the most recently released 2014 survey. South Carolina scored high with business executives surveyed by Site Selection, ranking third, behind Texas and Georgia.

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 2014 with exports increasing by 13.1% from 2013 to 2014. As such, South Carolina was ranked as the top Southeastern state for export growth during 2014. In 2014, South Carolina ranked 17th 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 \$9.2 billion of the State's export sales. Additionally, the State led the nation in the export of tires, which accounts for approximately 30 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 \$174.573 billion in 2014. Between 2014 and 2015, our real GDP grew 2.2%, which compares to the southeast states average growth of 1.7%.

With our cost of living 7.3% 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 2014 had the second lowest unionization rate in the nation, at 2.2% of the workforce. CNBC recently ranked the South Carolina workforce ninth in the nation in terms of quality and availability of workers, also citing lower union membership and the success of state worker training programs in placing people in jobs.

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, 2014. This was the twenty-seventh 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