

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

November 14, 2019

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, 2019. 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, 2019. 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-third in population with approximately 5.1 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 and the State's major component units.

Additional information on the State's nonmajor component units can be found on pages 257 – 263 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, 2019, total non-farm employment in the state increased by 54,100 to 2,179,800. Industry sectors reflecting gains were Professional and Business Services (+17,800); Manufacturing (+10,500); Trade, Transportation, and Utilities (+6,800); Government (+6,100); Construction (+4,000); Leisure and Hospitality (+3,600); Education and Health Services (+3,500); and Financial Activities (+3,200). Declines were experienced in the Mining, Logging, Information, and Other Services sectors (-1,400).

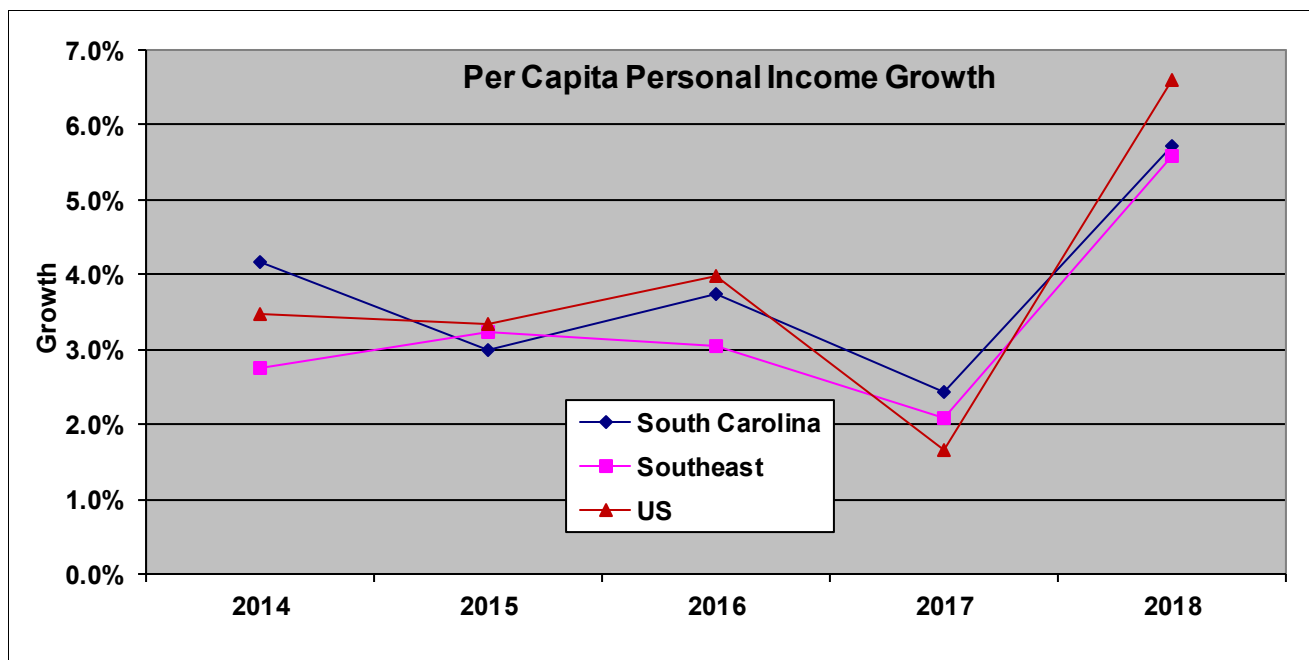
South Carolina's unemployment rate was 3.5% in June 2019, which improved from the June 2018 rate of 3.8%. It further improved to 2.9% in September 2019. In comparison, the U.S. unemployment rate was 3.7% in June 2019 and 3.5% in September 2019.

The South Carolina Leading Index (SCLI) decreased by 0.11 points from June 2018 to June 2019 to 102.44. 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 2019 at 102.52, the most current month available.

The number of real estate closings remained virtually the same when comparing June 2019 and June 2018. But, with the declining number of foreclosures in the state, down 12.5% in June 2019 compared to June 2018, the supply of available homes on the market remains low. As inventory tightens, real estate values in South Carolina have gained ground. In addition, the number of residential building permits remained virtually the same compared to a year ago, but the value of those permits decreased 8.8% when comparing June 2019 and June 2018.

The South Carolina housing market remained strong, with the Charleston housing market experiencing strong home sales in the first half of calendar year 2019. This growth was also complemented by median prices of homes sold increasing 5.1% when comparing June 2019 to June 2018.

The following compares 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% or more of the State government’s 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 (EBO) 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 capital 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 3% 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% 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 directs 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 2019 with a positive budgetary General Fund balance after reservation of \$1.709 billion, which was made up of legislatively approved agency carryover appropriations of \$431.998 million, the General Reserve of \$379.123 million, the Capital Reserve of \$151.649 million, and unassigned surplus of \$745.985 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 2018 the State committed \$19.9 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 ServiceMac to Lancaster County and W International to Berkeley County in fiscal year 2019. ServiceMac is expected to create 1,000 jobs and W International is expected to create 600 in the coming years. Additionally, Charles River Labs announced that it will expand its facilities in Charleston County in fiscal year 2019, which will create an additional 180 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 2018 alone, the State attracted more than \$4.17 billion in new capital investment from manufacturing companies, which resulted in the creation of more than 14,071 jobs.

Area Development Magazine recently ranked South Carolina third in its 2019 “Top States for Business” analysis. It also ranked South Carolina first in business incentive programs and second in leading workforce development programs in its analysis.

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 2018 with exports increasing by 7.5% to \$34.6 billion from 2017 to 2018. In 2018, South Carolina ranked 14th 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 16% of the entire U.S. passenger vehicles market and approximately 32% 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 2020, 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 \$230.354 billion in 2018. Between 2017 and 2018, real GDP grew 1.6%, compared to the southeast states’ average growth of 1.8%.

With our cost of living 11% 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 2018 was tied with North Carolina for the lowest unionization rate in the nation, at 2.7% of the workforce. As a result of this, *Governing Magazine* recently highlighted South Carolina as tied with Hawaii at sixteenth in states that have gained the most jobs in 2018 with an employment increase of 1.7%.

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, 2018. This was the thirty-first 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