# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

**(A component unit of the State of South Carolina)**

## FINANCIAL REPORT

## FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

September 24, 2018

Members of the Board of Directors
South Carolina Jobs-Economic Development Authority
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Jobs-Economic Development Authority, for the fiscal year ended June 30, 2018, was issued by Mauldin & Jenkins, LLC 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

George L. Kennedy, III, CPA
State Auditor

GLK/sag

# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## FINANCIAL REPORT
## FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

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MAULDIN & JENKINS

# INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the **South Carolina Jobs-Economic Development Authority** (the "Authority"), a component unit of the State of South Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Jobs-Economic Development Authority as of June 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 10, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. This standard significantly changed the accounting for the Authority's net other postemployment benefits (OPEB) liability and the related disclosures. Our opinion is not modified with respect to this matter.

## Other Matters

*Required Supplementary Information* - Accounting principles generally accepted in the United States of America require the Schedule of the Authority's Proportionate Share of the Net Pension Liability (on page 44), the Schedule of Authority Pension Contributions (on page 45), the Schedule of the Authority's Proportionate Share of the Net OPEB Liability (on page 46), and the Schedule of Authority OPEB Contributions (on page 47) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information* - Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Carolina Jobs-Economic Development Authority's basic financial statements. The Summarized Schedule of Comparative Financial Information – Enterprise Fund is presented for purposes of additional analysis as required by the South Carolina Office of the Comptroller General and is not a required part of the basic financial statements.

The Summarized Schedule of Comparative Financial Information – Enterprise Fund is the responsibility of management, was derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Summarized Schedule of Comparative Financial Information – Enterprise Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended June 30, 2018.

The financial statements of the Authority as of and for the year ended June 30, 2017 were audited by other auditors, whose report dated September 25, 2017 expressed an unmodified opinion on those statements. The report of the other auditors dated September 25, 2017 stated that the supplementary information for the year ended June 30, 2017 was subjected to the auditing procedures applied in the audit of the 2017 basic financial statements and certain auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In their opinion, the supplementary information was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2017.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018, on our consideration of the South Carolina Jobs-Economic Development Authority'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 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 South Carolina Jobs-Economic Development Authority'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 South Carolina Jobs-Economic Development Authority's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Columbia, South Carolina
September 24, 2018

# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## STATEMENTS OF NET POSITION
## JUNE 30, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 771,604 | $ 452,299 |
| Accounts receivable | 17,094 | 121,379 |
| Accrued interest receivable | 20,012 | 31,155 |
| Total current assets | 808,710 | 604,833 |
| **Noncurrent assets** | | |
| Investments | 3,603,833 | 3,004,616 |
| Notes receivable | 3,300,000 | 3,300,000 |
| Total noncurrent assets | 6,903,833 | 6,304,616 |
| Total assets | 7,712,543 | 6,909,449 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Pension - South Carolina Retirement System | 133,695 | 77,223 |
| Other postemployment benefits | 15,307 | - |
| Total deferred outflows of resources | 149,002 | 77,223 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accrued payroll and withholdings | 54,850 | 64,500 |
| Accrued compensated absences, due within one year | 21,033 | 21,033 |
| Total current liabilities | 75,883 | 85,533 |
| **Noncurrent liabilities** | | |
| Accrued compensated absences, net of current portion | 21,300 | 21,300 |
| Net pension liability - South Carolina Retirement System | 481,974 | 383,196 |
| Net other postemployment benefits liability | 346,883 | - |
| Total non-current liabilities | 850,157 | 404,496 |
| Total liabilities | 926,040 | 490,029 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Pension - South Carolina Retirement System | 725 | 14,288 |
| Other postemployment benefits | 32,794 | - |
| Total deferred inflows of resources | 33,519 | 14,288 |
| **NET POSITION** | | |
| Restricted for loan programs | 3,300,000 | 3,300,000 |
| Unrestricted | 3,601,986 | 3,182,355 |
| Total net position | $ 6,901,986 | $ 6,482,355 |

**The accompanying notes are an integral part of these financial statements.**

# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
## FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

| | **2018** | 2017 |
|---|---|---|
| **Operating revenues** | | |
| Annual fees | **$ 322,206** | $ 278,458 |
| Issuer fees | **643,032** | 715,957 |
| Miscellaneous | **23,599** | 31,000 |
| Total operating revenues | **988,837** | 1,025,415 |
| **Operating expenses** | | |
| Salaries, wages, and employee benefits | **377,229** | 362,347 |
| Insurance | **4,708** | 5,273 |
| Contractual services | **58,432** | 56,545 |
| Office lease | **12,876** | 12,720 |
| Printing and supplies | **524** | 670 |
| Travel and training | **27,195** | 22,175 |
| Dues and subscriptions | **10,095** | 12,626 |
| Other operating expenses | **6,904** | 7,058 |
| Total operating expenses | **497,963** | 479,414 |
| Operating income | **490,874** | 546,001 |
| **Non-operating revenues (expenses)** | | |
| Intergovernmental refund expense | **(18,018)** | (18,001) |
| Intergovernmental revenues - state assistance | **20,031** | 18,000 |
| Contributions to others | **-** | (105,000) |
| Contributions from others | **-** | 764,056 |
| Other non-operating revenues | **247,763** | 172,352 |
| Interest income | **38,981** | 20,213 |
| Total non-operating revenues, net | **288,757** | 851,620 |
| **Change in net position** | **779,631** | 1,397,621 |
| **Net position, beginning of year, as previously reported** | **6,482,355** | 5,084,734 |
| **Restatement for change in accounting principle** | **(360,000)** | - |
| **Net position, beginning of year, as restated** | **6,122,355** | 5,084,734 |
| **Net position, end of year** | **$ 6,901,986** | $ 6,482,355 |

**The accompanying notes are an integral part of these financial statements.**

# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## STATEMENTS OF CASH FLOWS
## FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers and users | $ 1,093,122 | $ 917,368 |
| Payments to suppliers | (120,734) | 46,989 |
| Payments to employees | (353,766) | (280,495) |
| Net cash provided by operating activities | 618,622 | 683,862 |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| Intergovernmental receipts | 20,031 | 18,000 |
| Intergovernmental refunds | (18,018) | (18,001) |
| Grant contributions to others | - | (105,000) |
| Other non-operating receipts | 247,763 | 172,352 |
| Net cash provided by non-capital financing activities | 249,776 | 67,351 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investments | (4,099,211) | (2,464,837) |
| Proceeds from the sale and maturity of investments | 3,499,994 | 1,214,837 |
| Interest received | 50,124 | 19,069 |
| Net cash used in investing activities | (549,093) | (1,230,931) |
| Increase (decrease) in cash and cash equivalents | 319,305 | (479,718) |
| **Cash and cash equivalents:** | | |
| Beginning of year | 452,299 | 932,017 |
| End of year | $ 771,604 | $ 452,299 |
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income | $ 490,874 | $ 546,001 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 104,285 | 56,009 |
| Deferred outflows of resources - pension and other postemployment benefits | (61,237) | (30,790) |
| Increase (decrease) in: | | |
| Accrued payroll and withholdings | (9,650) | 47,070 |
| Accrued compensated absences | - | 24,892 |
| Deferred inflows of resources - pension and other postemployment benefits | 19,231 | (6,827) |
| Net other postemployment benefits liability | (23,659) | - |
| Net pension liability | 98,778 | 47,507 |
| Net cash provided by operating activities | $ 618,622 | $ 683,862 |
| **NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Grant contributions from others | $ - | $ 600,000 |

**The accompanying notes are an integral part of these financial statements.**

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The South Carolina Jobs-Economic Development Authority (the “Authority”) was created by Section 41-43-30 of the Code of Laws of South Carolina, as a quasi-public instrument of the State, to maintain and expand job opportunities through financial assistance to small and middle market businesses. The Authority functions as a fixed asset lender providing low interest loans for the acquisition of real estate, machinery, and equipment. Loans are made through the packaging and issuance of industrial revenue bonds, direct loans, and guarantee of loans. Also, the Authority works cooperatively with and through existing financial institutions statewide. The Authority services a small number of loans for others including grants to qualifying entities under the Community Development Block Grant program.

The governing body of the Authority consists of a ten-member board of directors whose members are appointed by the Governor of South Carolina, with the advice and consent of the South Carolina State Senate. In addition, the State of South Carolina can impose its will on the Authority by significantly influencing its activities. As a result, the Authority is considered a component unit of the State of South Carolina for financial reporting purposes as defined in Government Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity* as amended by GASB Statement 39, *Determining Whether Organizations Are Component Units* and GASB Statement 61, *The Financial Reporting Entity: Omnibus*. The Authority’s financial information is included in the State of South Carolina’s Comprehensive Annual Financial Report as a non-major discretely presented component unit.

### Measurement Focus, Basis of Accounting and Basis of Presentation

The Authority accounts for its activities in an enterprise fund.

**Proprietary funds** are accounted for using the *flow of economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The accounting objective of this measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

**Enterprise funds** are a type of proprietary fund used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Measurement Focus and Basis of Accounting (Continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses for proprietary funds include the cost to provide services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### Cash and Cash Equivalents and Investments

**Cash and Cash Equivalents** - The amounts shown in the financial statements as “cash and cash equivalents” represent cash on hand, deposits in banks, repurchase agreements, and cash invested in various instruments by the State Treasurer as part of the State’s internal cash management pool.

Because the State’s internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States of America and certain agencies of the United States of America, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Most State agencies participate in the State’s internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds.

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 Authority records and reports its deposits in the general deposit account at cost and reports its deposits in the special deposit account at fair value. Investments held by the pool are recorded at fair value. Reported interest income on deposits and investments include interest earned, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments in the pool.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Cash and Cash Equivalents and Investments (Continued)

Interest earned by the Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained by the Authority. Interest earnings are allocated based on the percentage of an Authority's accumulated daily interest receivable to the total undistributed interest received by 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.

The Authority considers all highly liquid deposit accounts and investments with original maturities of three months or less at the time of acquisition to be cash equivalents.

**Investments** - Deposits and investments for the Authority are governed by the South Carolina Code of Laws, Section 11-9-660, "Investment of Funds". The Authority accounts for its investments at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Changes in unrealized gain or loss on the carrying value of investments are reported as a component of investment income in the statement of revenue, expenses, and changes in net position.

The Authority has a number of financial instruments, none of which are held for trading purposes. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposits and repurchase agreements, are reported at amortized cost which approximates fair value. See Note 2 for additional information.

### Receivables

Accounts receivable consist mainly of receivables from annual fees and issuer fees receivable from entities eligible for participation in the Authority's activities. Management considers all accounts receivable to be fully collectible as of June 30, 2018 and 2017. Additionally, the Authority recognizes receivables from interest earnings on its investments as well as interest associated with the outstanding note to the Business Development Corporation (BDC).

Amounts loaned to others, which were funded via the State Small Business Credit Initiative (SSBCI), are recorded as notes receivable. The Authority periodically evaluates the collectability of its outstanding note receivable and has determined no provision for uncollectible amounts to be necessary. The note receivable is stated at the amount of unpaid principal as of June 30, 2018 and 2017.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees of the Authority may carry over a maximum of 45 days of vacation to the next year, which may be taken either as time off or as pay upon termination. There is no liability for nonvesting accumulated rights to receive sick pay benefits. All vacation pay is accrued when incurred in the financial statements.

### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. Five items relating to the Authority's Retirement Plan and two items relating to the Authority's Other Postemployment Benefit Plan (OPEB) qualify for reporting in this category and are combined in the Statement of Net Position under the headings "Pension" and "Other Postemployment Benefits", respectively. The first item, experience losses, results from periodic studies by the actuaries of the Retirement Plan and OPEB Plan, which adjust the net pension liability and the net OPEB liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience losses are recorded as deferred outflows of resources and are amortized into pension expense and OPEB expense over the expected remaining service lives of the plan members. The second item, differences between projected investments return on pension investments and actual return on those investments, is deferred and amortized against pension expense over a four-year period, resulting in recognition as a deferred outflow of resources. The third item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions. These changes are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in future years. The fourth item, changes in the actuarial assumptions, adjust the net pension liabilities and are amortized into pension expense over the expected remaining service lives of plan members. Additionally, any contributions made by the Authority to the pension plan and to the OPEB plan before year-end but subsequent to the measurement date of the Authority's net pension liability and net OPEB liability are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability and the net OPEB liability during the year ended June 30, 2019.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position reports a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Two items relating to the Authority's Retirement Plan and three items relating to the Authority's OPEB Plan qualify for reporting in this category and are combined in the Statement of Net Position under the heading "Pension" and "Other Postemployment Benefits", respectively. The first item, experience gains relating to the Authority's Retirement Plan and the Authority's OPEB Plan qualify for reporting in this category. Experience gains result from periodic studies by the actuary of the Retirement Plan, which adjust the net pension liability and net OPEB liability for actual experience for certain trend information that was previously assumed. These gains are recorded as deferred inflows of resources and are amortized into pension expense over the expected remaining lives of the plan members. The second item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions relating the Authority's pension and OPEB plans. These changes are reported as deferred inflows of resources and will be recognized as pension expense and OPEB expense, respectively, in future years. The third item, changes in the actuarial assumptions, adjust the net pension liability and net OPEB liability and are amortized into pension expense and OPEB expense, respectively, over the expected remaining service lives of plan members.

### Long-term Obligations

Long-term debt and obligations financed by the Authority are reported as liabilities in the Statement of Net Position.

### Net Position Classification

Net position is classified and displayed in two components within the Statement of Net Position. These two classifications are as follows:

a) Restricted net position consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

b) Unrestricted net position consists of all other net position that does not meet the definition of "restricted".

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Operating and Non-operating Revenues and Expenses

Operating revenues and expenses in the financial statements are those that result from providing services and delivering services. Also included are all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Comparative Data/Reclassifications

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in the Authority's financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. These reclassifications had no effect on previously reported net position or increases in net position.

## NOTE 2. DEPOSITS AND INVESTMENTS

Total deposits as of June 30, 2018 and 2017 are summarized as follows:

| | June 30, | |
|---|---|---|
| | **2018** | 2017 |
| As reported in the *Statements of Net Position*: | | |
| Cash and cash equivalents | **$ 771,604** | $ 452,299 |
| Investments | **3,603,833** | 3,004,616 |
| | **$ 4,375,437** | $ 3,456,915 |
| Cash deposited with financial institutions | **$ 384,163** | $ 251,846 |
| Cash deposited with the South Carolina State Treausurer's Office | **387,441** | 200,453 |
| Money market mutual funds | **62,409** | 59,265 |
| Certificates of deposit | **250,000** | 1,000,000 |
| U.S. agency securities | **3,242,992** | 1,945,351 |
| Municipal bonds | **48,432** | - |
| | **$ 4,375,437** | $ **3,456,915** |

## NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

**Custodial Credit Risk – Deposits and Investments.** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2018 and 2017, all the Authority's funds were covered under federal deposit as required by South Carolina state statutes and as defined by GASB pronouncements. For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Authority has an informal investment policy that limits investment to instruments with primarily short-term maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information regarding interest rate risk can be found on the following page.

As of June 30, 2018, the Authority was exposed to interest rate risk regarding its investments as follows:

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less than 1** | **1 - 5** | **5 - 10** |
| Money market mutual funds | $ 62,409 | $ 62,409 | $ - | $ - |
| Certificates of deposit | 250,000 | - | 250,000 | - |
| U.S. agency securities | 3,242,992 | 1,120,290 | 2,122,702 | - |
| Municipal bonds | 48,432 | - | 48,432 | - |
| | $ 3,603,833 | $ 1,182,699 | $ 2,421,134 | $ - |

## NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2017, the Authority was exposed to interest rate risk regarding its investments as follows:

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less than 1** | **1 - 5** | **5 - 10** |
| Money market mutual funds | $ 59,265 | $ 59,265 | $ - | $ - |
| Certificates of deposit | 1,000,000 | - | 1,000,000 | - |
| U.S. agency securities | 1,945,351 | 947,349 | 998,002 | - |
| | $ 3,004,616 | $ 1,006,614 | $ 1,998,002 | $ - |

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has adopted an investment policy in accordance with state statutes, which authorize the Authority to invest in the following:

1. Obligations of the United States of America and agencies thereof;

2. Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations;

3. General obligations of the State of South Carolina or any of its political units;

4. Banks and savings and loan association deposits to the extent insured by the FDIC;

5. Certificates of deposit and repurchase agreements collateralized by securities, of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of certificates of deposit and repurchase agreements so secured, including interest; and

6. No-load open and closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit.

## NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Additional information regarding investment credit risk is as follows at June 30, 2018:

| Investment | | Fair Value | Percentage of Portfolio | Credit Rating |
|---|---|---|---|---|
| Federal Home Loan Bank | $ | 1,531,041 | 34.99% | Aaa/AA+ |
| Federal Home Loan Mortgage Company | | 739,876 | 16.91% | Aaa/AA+ |
| Federal National Mortgage Association | | 291,390 | 6.66% | Aaa/AA+ |
| Federal Farm Credit Bank | | 680,685 | 15.56% | Aaa/AA+ |
| Money market mutual funds | | 62,409 | 1.43% | N/A |
| Municipal bonds | | 48,432 | 1.11% | N/A |
| Certificates of deposit | | 250,000 | 5.71% | N/A |
| Total investments | | 3,603,833 | | |
| Cash and cash equivalents | | 771,604 | 17.63% | |
| | $ | 4,375,437 | | |

Additional information regarding investment credit risk is as follows at June 30, 2017:

| Investment | | Fair Value | Percentage of Portfolio | Credit Rating |
|---|---|---|---|---|
| Federal Home Loan Bank | $ | 625,527 | 18.09% | Aaa/AA+ |
| Federal Home Loan Mortgage Company | | 129,669 | 3.75% | Aaa/AA+ |
| Federal National Mortgage Association | | 1,190,155 | 34.43% | Aaa/AA+ |
| Money market mutual funds | | 59,265 | 1.71% | N/A |
| Certificates of deposit | | 1,000,000 | 28.93% | N/A |
| Total investments | | 3,004,616 | | |
| Cash and cash equivalents | | 452,299 | 13.08% | |
| | $ | 3,456,915 | | |

## NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

**Fair Value Measurements.** The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2018:

| Investment | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| U.S. agencies | $ 1,120,290 | $ 2,122,702 | $ - | $ 3,242,992 |
| Municipal bonds | - | 48,432 | - | 48,432 |
| Money market mutual funds | 62,409 | - | - | 62,409 |
| Total investments measured at fair value | $ 1,182,699 | $ 2,171,134 | $ - | 3,353,833 |
| Investments not subject to level disclosure | | | | |
| Certificates of deposit | | | | 250,000 |
| Total investments | | | | $ 3,603,833 |

The Authority has the following recurring fair value measurements as of June 30, 2017:

| Investment | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| U.S. agencies | $ 125,674 | $ 1,819,677 | $ - | $ 1,945,351 |
| Money market mutual funds | 59,265 | - | - | 59,265 |
| Total investments measured at fair value | $ 184,939 | $ 1,819,677 | $ - | 2,004,616 |
| Investments not subject to level disclosure: | | | | |
| Certificates of deposit | | | | 1,000,000 |
| Total investments | | | | $ 3,004,616 |

The U.S. agencies and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments.

The U.S. agencies and municipal bonds investments classified in Level 2 of the fair value hierarchy are valued using pricing matrix technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Authority has no investments classified in Level 3 of the fair value hierarchy.

## NOTE 3. RECEIVABLES

Intergovernmental receivables consisted of the following at June 30, 2018 and 2017:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Accounts receivable: | | |
| Bond issuance and monitoring fees | **$ 8,844** | $ 47,323 |
| State Small Business Credit Initiative | **8,250** | 64,056 |
| State Small Business Credit Initiative annual fee | **-** | 10,000 |
| Total accounts receivable | **$ 17,094** | $ 121,379 |

During fiscal year 2012, the Authority renegotiated the State Small Business Credit Initiative (SSBCI) note receivable agreement with Business Development Corporation (BDC). The Authority and BDC agreed that BDC shall refund to the Authority approximately 20% of amounts granted to BDC under the SSBCI, as defined by the agreement. In August 2017, the Authority and BDC signed a revised agreement with an effective date of April 1, 2017. This agreement and the revised terms adjusted to total principal amount to be received by the Authority to $3,300,000. Under the terms of the agreement, the Authority may demand repayment of the note beginning at any time five years after the effective date of the agreement to be paid in quarterly installments of $275,000. Should the Authority not demand repayment during this five-year period, principal payments are due to in quarterly installments of $275,000 commencing on April 15, 2027 with a final maturity date of January 1, 2030. Additionally, interest is assessed on the outstanding balance of the note at a rate of 2% to be paid quarterly from the inception of the agreement through final maturity.

The following is a summary of note receivable activity for the Authority for the fiscal year ended June 30, 2018:

| | **Beginning Balance** | **Increases** | **Decreases** | **Ending Balance** |
|---|---|---|---|---|
| State Small Business Credit Initiative - Business Development Corporation | $ 3,300,000 | $ - | $ - | $ 3,300,000 |

The following is a summary of note receivable activity for the Authority for the fiscal year ended June 30, 2017:

| | **Beginning Balance** | **Increases** | **Decreases** | **Ending Balance** |
|---|---|---|---|---|
| State Small Business Credit Initiative - Business Development Corporation | $ 2,700,000 | $ 600,000 | $ - | $ 3,300,000 |

## NOTE 4. LONG-TERM LIABILITIES

The following is a summary of long-term liability activity for the Authority for the fiscal year ended June 30, 2018:

| | Balance June 30, 2017 | Additions | Reductions | **Balance June 30, 2018** | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 42,333 | $ 2,615 | $ (2,615) | **$ 42,333** | $ 21,033 |
| Net pension liability | 383,196 | 143,883 | (45,105) | **481,974** | - |
| Net OPEB liability | - | 392,099 | (45,216) | **346,883** | - |
| | $ 425,529 | $ 538,597 | $ (92,936) | **$ 871,190** | $ 21,033 |

The following is a summary of long-term liability activity for the Authority for the fiscal year ended June 30, 2017:

| | Balance June 30, 2016 | Additions | Reductions | Balance June 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 34,871 | $ 19,962 | $ (12,500) | $ 42,333 | $ 21,033 |
| Net pension liability | 335,689 | 68,269 | (20,762) | 383,196 | - |
| | $ 370,560 | $ 88,231 | $ (33,262) | $ 425,529 | $ 21,033 |

Compensated absences payable: As discussed in Note 1, this obligation represents accumulated annual leave and compensatory time benefits, which are accrued when incurred.

Net Pension Liability: See Note 6 for additional information.

Net OPEB Liability: See Note 7 for additional information.

## NOTE 5. CONDUIT DEBT OBLIGATIONS

The Authority is authorized by South Carolina Code of Laws Section 41-43-110 to administer an industrial revenue bond program to benefit businesses in South Carolina. The Authority charges each borrower a nonrefundable application fee and a closing fee established by the State Fiscal Accountability Authority based upon the face value of the bonds to be issued.

A trustee handles the industrial revenue bond monies. Bonds are sold either in public markets or in private placements at the option of the borrower. The trustee issues the funds to borrowing businesses. The borrower makes principal and interest payments to the trustee who, in turn, pays the bondholder(s).

Industrial revenue bonds are generally secured by an irrevocable letter of credit or are secured by the property financed. Under the terms of the letter of credit, when certain specified conditions of default occur and the borrower business does not make its payments, the financial institution issuing the letter of credit repays the bondholders and holds the business liable for payment of any advances made under the letter of credit. The letter of credit is secured by the assets of the business. Upon repayment of the bonds, ownership of the financed asset(s) transfers to the private-sector entity served by the bond issuance. Thus, neither the full faith and credit nor the taxing power of the State of South Carolina, the Authority, or any of its political subdivisions is pledged to secure payment of the bonds.

Governmental accounting standards require the Authority to present the outstanding balance of all conduit debt at fiscal year-end. As of June 30, 2018, there were 193 series of industrial revenue bonds outstanding, with an aggregate principal amount payable of $3.682 billion. As of June 30, 2017, there were 186 series of industrial revenue bonds outstanding, with an aggregate principal amount payable of $3.742 billion.

## NOTE 6. RETIREMENT SYSTEM

### Overview

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the systems and serves as a co-trustee of the systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds. 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 a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement System's Pension Trust Funds. The CAFR is publically available through the Retirement Benefits' link on PEBA's website at 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 comprehensive annual financial report of the state.

### Plan Description

The South Carolina Retirement System (SCRS), a cost–sharing multiple-employer defined benefit pension plan, was established effective 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 allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Membership

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

**South Carolina Retirement System** – Generally, all employees of covered employers are required to participate in and contribute to the SCRS as a condition of employment. This plan covers general employees, teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. 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, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with the investment providers 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. For the fiscal years ended June 30, 2018 and 2017, the Authority had no employees who made contributions to or participated in the State ORP plan.

### 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. A brief summary of the benefit terms is presented on the following page.

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Benefits (Continued)

**South Carolina Retirement System** – 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 or retired members of employees who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or $500 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.

### Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9% of earnable compensation for SCRS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of 1% in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of 1% per year.

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 90%, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 90%.

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Contributions (Continued)

Any decrease in contribution rates must maintain the 2.9% differential between the SCRS employer and employee contribution rates. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 90%, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90%.

The Retirement System Funding and Administration Act increases employer contribution rates to 13.26% for SCRS, effective July 1, 2017. It also removes the 2.9% differential, increases, and establishes a ceiling on employee contribution rates at 9% and for SCRS. The employer contribution rates will continue to increase annually by 1% through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56% for SCRS. The amortization period is schedules to be reduced one year for each of the next 10 years to a twenty-year amortization schedule. The recent pension reform legislation also changes the long-term funded ratio requirement from ninety to eight-five.

Required employee contribution rates for the fiscal years ended June 30, 2018 and 2017, are as follows:

| | South Carolina Retirement System | |
|---|---|---|
| | Fiscal year ended June 30, 2018 | Fiscal year ended June 30, 2017 |
| Employee class two | 9.00% | 8.66% |
| Employee class three | 9.00% | 8.66% |

Required employer contribution rates for the years ended June 30, 2018 and 2017, are as follows:

| | South Carolina Retirement System | |
|---|---|---|
| | Fiscal year ended June 30, 2018 | Fiscal year ended June 30, 2017 |
| Employer class two | 13.41% | 11.41% |
| Employer class three | 13.41% | 11.41% |
| Employer incidental death benefit | 0.15% | 0.15% |

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Actuarial Assumptions and Methods

Actuarial valuations 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 during the valuation process 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. The last experience study was performed on data through June 30, 2015, and the next experience study is scheduled to be conducted after the June 30, 2020 annual valuation is complete.

The June 30, 2017 total pension liability, net pension liability, and sensitivity information were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2016, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board, which utilized membership data as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

Assumptions and methods used in the July 1, 2016 valuation for the System are as follows:

| | |
|---|---|
| Actuarial cost method | Entry Age |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% |
| Projected salary increases | 3.0% to 12.5%<br>(varies by service) |
| Includes inflation at | 2.25% |
| Benefit adjustments | lesser of 1% or $500 |

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Actuarial Assumptions and Methods (Continued)

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumption, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumption, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

| Former Job Class | Males | Females |
|---|---|---|
| General Employees and Members of the General Assembly | 2016 PRSC Males multiplied by 100% | 2016 PRSC Females multiplied by 111% |

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30-year capital market assumptions. The actuarial long-term expected rates of return 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 real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year of the Systems. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation, which is summarized in the table on the following page. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes a 5% real rate of return and a 2.25% inflation component.

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Actuarial Assumptions and Methods (Continued)

| Asset Class | Target Asset Allocation | Expected Arithmetic Real Rate of Return | Long-Term Expected Portfolio Real Rate of Return |
|---|---|---|---|
| **Global Equity** | **45.0%** | | |
| Global public equity | 31.0% | 6.72% | 2.08% |
| Private equity | 9.0% | 9.60% | 0.86% |
| Equity options securities | 5.0% | 5.91% | 0.30% |
| **Real assets** | **8.0%** | | |
| Real estate (private) | 5.0% | 4.32% | 0.22% |
| Real estate (REITs) | 2.0% | 6.33% | 0.13% |
| Infrastructure | 1.0% | 6.26% | 0.06% |
| **Opportunistic** | **17.0%** | | |
| GTAA/Risk parity | 10.0% | 4.16% | 0.42% |
| Hedge funds (non-PA) | 4.0% | 3.82% | 0.15% |
| Other opportunistic strategies | 3.0% | 4.16% | 0.12% |
| **Diversified credit** | **18.0%** | | |
| Mixed credit | 6.0% | 3.92% | 0.24% |
| Emerging markets | 5.0% | 5.01% | 0.25% |
| Private debt | 7.0% | 4.37% | 0.31% |
| **Conservative fixed income** | **12.0%** | | |
| Core fixed income | 10.0% | 1.60% | 0.16% |
| Cash and short duration (net) | 2.0% | 0.92% | 0.01% |
| | 100% | | |
| | Total expected real return | | 5.31% |
| | Inflation for actuarial purposes | | 2.25% |
| | Total expected nominal return | | 7.56% |

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all 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 total pension liability.

The following table presents the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2018.

**South Carolina Retirement System**
**Sensitivity of the Net Position Liability to Changes in the Discount Rate**

| Fiscal Year | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| 2018 | $ 621,198 | $ 481,974 | $ 397,497 |

The following table presents the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2017.

**South Carolina Retirement System**
**Sensitivity of the Net Position Liability to Changes in the Discount Rate**

| Fiscal Year | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| 2017 | $ 478,026 | $ 383,196 | $ 304,258 |

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2018 and 2017, for SCRS are presented below.

For the Authority's fiscal years ending June 30, 2018 and 2017, the net pension liability for the South Carolina Retirement System is as follows:

| | **2018** | 2017 |
|---|---|---|
| Total pension liability | **$ 1,032,914** | $ 813,691 |
| Plan fiduciary net position | **550,940** | 430,495 |
| Employers' net pension liability | **$ 481,974** | $ 383,196 |
| Plan fiduciary net position as a percentage of the total pension liability | **53.3%** | 52.9% |

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Net Pension Liability (Continued)

As of June 30, 2018 and 2017, the changes in the net pension liability for the SCRS Plan is calculated follows:

| **Total pension liability** | **2018** | 2017 |
|---|---|---|
| Service cost | **$ 17,215** | $ 13,695 |
| Interest | **71,039** | 57,974 |
| Difference between actual and expected experience | **1,169** | 838 |
| Assumption changes | **37,396** | - |
| Benefit payments | **(64,982)** | (49,922) |
| **Net change in total pension liability** | **61,837** | 22,585 |
| **Total pension liability - beginning** | **971,077** | 791,106 |
| **Total pension liability - ending** | **1,032,914** | 813,691 |
| | | |
| **Plan fiduciary net position** | | |
| Contributions - employer | **25,025** | 19,244 |
| Contributions - member | **17,696** | 13,530 |
| Refunds of contributions to members | **(2,252)** | (1,681) |
| Retirement benefits | **(62,245)** | (47,871) |
| Death benefits | **(486)** | (371) |
| Net investment income | **59,760** | (2,967) |
| Administrative expense | **(287)** | (236) |
| Net transfers to affiliated systems | **(33)** | (18) |
| **Net change in plan fiduciary net position** | **37,178** | (20,370) |
| **Plan fiduciary net position - beginning** | **513,762** | 450,865 |
| **Plan fiduciary net position - ending** | **550,940** | 430,495 |
| | | |
| **Net pension liability** | **$ 481,974** | $ 383,196 |

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability 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.

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Pension Expense

For the fiscal years ended June 30, 2018 and 2017, the Authority recognized pension expense for the SCRS plan as follows:

| Description | | 2018 | | 2017 |
|---|---|---|---|---|
| Service cost (annual cost of current service) | **$** | **17,215** | $ | 13,695 |
| Interest on the total pension liability | | **71,039** | | 57,974 |
| Plan administrative costs | | **288** | | 236 |
| Plan member contributions | | **(17,696)** | | (13,530) |
| Expected return on plan assets | | **(37,685)** | | (33,162) |
| Recognition of current year amortization - difference between expected and actual experience & assumption changes | | **12,712** | | 2,718 |
| Recognition of current year amortization - difference between projected and actual investment earnings | | **2,946** | | 6,168 |
| Other | | **34** | | 18 |
| Total proportionate share of collective pension expense | | **48,853** | $ | 34,117 |
| Deferred amounts from changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions | | **17,164** | | 680 |
| Total employer pension expense | **$** | **66,017** | $ | 34,797 |

Additional items included in total employer pension expense are the current period amortized portions of deferred outflows and/or inflows of resources related to changes in the employers' proportionate share of the collective net pension liability and differences between actual employer contributions and proportionate share of total plan employer contributions.

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

### Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| South Carolina Retirement System | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 2,149 | $ 267 |
| Changes of assumptions | 28,214 | - |
| Net difference between projected and actual earnings on pension plan investments | 13,454 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 52,928 | 458 |
| Employer contributions subsequent to the measurement date | 36,950 | - |
| Total | $ 133,695 | $ 725 |

Authority contributions subsequent to the measurement date of $36,950 for the SCRS plan are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

## NOTE 6. RETIREMENT SYSTEM (CONTINUED)

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

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| **South Carolina Retirement System** | **Deferred Outflows of Resources** | **Deferred Inflows of Resources** |
|---|---|---|
| Differences between expected and actual experience | $ 3,972 | $ 416 |
| Net difference between projected and actual earnings on pension plan investments | 45,259 | 13,020 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 3,346 | 852 |
| Employer contributions subsequent to the measurement date | 24,646 | - |
| Total | $ 77,223 | $ 14,288 |

Authority contributions subsequent to the measurement date of $24,646 for the SCRS plan are reported as deferred outflows of resources and were recognized as a reduction of the net pension liability in the year ended June 30, 2018.

As of June 30, 2018 and 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**South Carolina Retirement System**

| Year ended June 30: | **2018** | 2017 |
|---|---|---|
| 2018 | **$ -** | $ 9,566 |
| 2019 | **30,344** | 7,490 |
| 2020 | **37,882** | 13,859 |
| 2021 | **30,314** | 7,374 |
| 2022 | **(2,520)** | - |

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

### Overview

The South Carolina Public Employee Benefit Authority (PEBA) was created by the South Carolina General Assembly as part of Act No. 278 effective July 1, 2012. PEBA is a state agency responsible for the administration and management of the state's employee insurance programs, other post-employment benefits trusts and retirement systems and is part of the State of South Carolina primary government.

The governing board of PEBA is a board of 11 members. The membership composition is three members appointed by the Governor, two members appointed by the President Pro Tempore of the Senate, two members appointed by the Chairman of the Senate Finance Committee, two members appointed by the Speaker of the House of Representatives and two members appointed by the Chairman of the House Ways and Means Committee. Individuals appointed to the PEBA board must possess certain qualifications. Members of the PEBA board serve for terms of two years and until their successors are appointed and qualify. Terms commence on July first of even numbered years. The PEBA board appoints the Executive Director. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to all activities of PEBA. By law, the State Fiscal Accountability Authority (SFFA), which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits (OPEB).

### Plan Description

The Other Post-Employment Benefits Trust Fund (OPEB Trust), refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF), was established by the State of South Carolina as Act 195, which became effective on 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 SCRHITF 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 SCRHITF is a cost-sharing multiple-employer defined benefit plans. 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 plan. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental benefits to retired State and school district employees and their covered dependents.

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### 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 these postemployment and long-term disability benefits to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The covered payroll surcharge for the fiscal years ended June 30, 2018 and 2017 was 5.33 percent. The South Carolina Retirement System collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions 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.

GASB Statement No. 75 requires participating employers to 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 the fiscal year ended June 30, 2018, the Authority recognized $2,031 as a non-operating revenue from contributions from non-employer contributing entities.

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Contributions and Funding Policies (Continued)

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 SCRHITF, and additions to and deductions from the SCRHITF fiduciary net position have been determined on the same basis as they were reported by the SCRHITF. 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 Insurance Benefits' link on PEBA's website at 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 comprehensive annual 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. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Actuarial Assumptions and Methods (Continued)

Additional information as of the latest actuarial valuation for SCRHITF:

| | |
|---|---|
| Valuation Date: | June 30, 2016 |
| Actuarial Cost Method: | Entry Age Normal |
| Inflation: | 2.25% |
| Investment Rate of Return: | 4.00, net of OPEB Plan investment expense; including inflation |
| Single Discount Rate: | 3.56% as of June 30, 2017 |
| Demographic Assumptions: | Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015 |
| Mortality: | For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type. |
| Health Care Trend Rate: | Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years |
| Aging Factors: | Based on plan specific experience |
| Retiree Participation: | 79% for retirees who are eligible for funded premiums |
| Notes: | There were no benefit changes during the year; the discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017. |

### Roll Forward Disclosure

The actuarial valuation was performed as of June 30, 2016. Update procedures were used to roll forward the total OPEB liability to June 30, 2017 (measurement date used for the Authority's reporting as of June 30, 2018).

### Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's 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.

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Net OPEB Liability (Continued)

The following table represents the components of the net OPEB liability as of June 30, 2018:

| | 2018 |
|---|---|
| **Total OPEB liability** | |
| Service cost | $ 15,644 |
| Interest | 11,660 |
| Difference between actual and expected experience | (175) |
| Assumption changes | (37,866) |
| Benefit payments | (10,656) |
| **Net change in total OPEB liability** | (21,393) |
| **Total OPEB liability - beginning** | 396,825 |
| **Total OPEB liability - ending** | 375,432 |
| **Plan fiduciary net position** | |
| Contributions - employer | 10,546 |
| Contributions - nonemployer contributing entities | 2,031 |
| Net investment income | 344 |
| Benefit payments | (10,656) |
| **Net change in plan fiduciary net position** | 2,265 |
| **Plan fiduciary net position - beginning** | 26,284 |
| **Plan fiduciary net position - ending** | 28,549 |
| **Net OPEB liability** | $ 346,883 |
| **Plan fiduciary net position as a percentage of the total OPEB liability** | 7.60% |

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 Trust's notes to the financial statements and required supplementary information. Liability calculations performed by the Trust's 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 Trust's funding requirements.

### Single Discount Rate

The Single Discount Rate of 3.56% 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. 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).

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Long-term Expected Rate of Return

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. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 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 | Weighted Long-Term Expected Real Rate of Return |
|---|---|---|---|
| U.S. Domestic Fixed Income | 80.00% | 2.09% | 1.67% |
| Cash | 20.00% | 0.84% | 0.17% |
| **Total** | 100.00% | | 1.84% |
| | Total expected weighted real return | | 1.84% |
| | Inflation for actuarial purposes | | 2.25% |
| | **Total expected nominal return** | | 4.09% |
| | **Investment return assumption** | | **4.00%** |

### Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.56%, 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:

**South Carolina Retiree Health Insurance Plan**
**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

| Fiscal Year | 1% Decrease (2.56%) | Current Discount Rate (3.56%) | 1% Increase (4.56%) |
|---|---|---|---|
| 2018 | $ 408,530 | $ 346,883 | $ 297,181 |

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Sensitivity Analysis (Continued)

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:

**South Carolina Retiree Health Insurance Plan**

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate**

| Fiscal Year | 1% Decrease (6.00% decreasing (to 3.15%) | Current Healthcare Cost Trend Rates (7.00% decreasing (to 4.15%) | 1% Increase (8.00% decreasing (to 5.15%) |
|---|---|---|---|
| 2018 | $ 284,459 | $ 346,883 | $ 427,708 |

### OPEB Expense

Components of collective OPEB expense reported in the allocation of the OPEB expense and deferred outflows and inflows of resources related to OPEB for the fiscal year ended June 30, 2018 are presented below.

| Description | |
|---|---|
| Service cost | $ 15,644 |
| Interest on the total OPEB liability | 11,660 |
| Projected earnings on plan investments | (1,090) |
| Recognition of outflow (inflow) of resources due to liabilities | (5,250) |
| Recognition of outflow (inflow) of resources due to assets | 149 |
| Total proportionate share of collective pension expense | 21,113 |
| Deferred amounts from changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions | (1) |
| Total employer OPEB expense | $ 21,112 |

Additional items included in total employer OPEB Expense are the current period amortized portions of deferred outflows and/or inflows of resources related to changes in employers' proportionate share of the collective NOL and differences between actual employer contributions and proportionate share of total plan employer contributions.

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| South Carolina Retiree Health Insurance Plan | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 596 | $ 151 |
| Changes of assumptions | - | 32,640 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 3 |
| Employer contributions subsequent to the measurement date | 14,711 | - |
| Total | $ 15,307 | $ 32,794 |

Authority contributions subsequent to the measurement date of $14,711 for the SCRHITF plan are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**South Carolina Retiree Health Insurance Plan**

| Year ended June 30: | 2018 |
|---|---|
| 2019 | $ (5,102) |
| 2020 | (5,102) |
| 2021 | (5,102) |
| 2022 | (5,101) |
| 2023 | (5,250) |
| Thereafter | (6,541) |

## NOTE 8. RELATED PARTY TRANSACTIONS

The Authority has significant transactions with the State of South Carolina and various agencies.

Services received at no cost from State agencies include maintenance of limited accounting records from the Comptroller General; composite investing functions from the State Treasurer; and legal services from the Attorney General.

Other services received at no cost from the various State Agencies include audit services, grant services, personnel management, procurement services, assistance in the preparation of the State Budget, review and approval of certain budget amendments, and other centralized functions. The Authority also receives retirement and health plan administration services from SC Public Employee Benefits Authority.

The Authority had financial transactions with various State agencies during the fiscal year. Significant payments were made to a division of the State Fiscal Accountability Authority for insurance coverage and Public Employee Benefits Authority for retirement and insurance plan contributions.

For fiscal year 2018 and 2017, the Authority received no State appropriated funds from the General Assembly as set forth in Appropriation Act. Section 41-43-50 of the 1976 Code of Laws of South Carolina authorizes the Authority to retain unexpended funds regardless of the source and expend them in subsequent fiscal years.

In May 2007, the Authority relocated their office to space rented by the South Carolina Department of Commerce. During the fiscal years ended June 30, 2018 and 2017, the Authority paid $36,122 and $37,469, respectively, for rent and other administrative expenses.

In prior years the South Carolina Department of Commerce Division of Economic Opportunity transferred various loans to the Authority for no consideration. They have also transferred various agreements to the Authority in prior years under which the Authority receives grant program income. For the fiscal years ended June 30, 2018 and 2017, the Authority refunded $18,018 and $18,001, respectively to the Department of Commerce for Community Development Block Grant for federal grant revenue received by the Authority. These transactions are reported in these financial statements as a non-operating expense titled “intergovernmental refund expense”.

## NOTE 9. RISK MANAGEMENT

The Authority 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 coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The Authority 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 the deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. 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 Benefits Authority – Insurance Benefits); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefits Authority – Insurance Benefits).

All of the coverage's listed above are through the applicable State self-insurance plan except dependent and optional life premiums which are remitted to commercial carriers.

The Authority 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:

1. Automobile liability and collision; and
2. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. The IRF's rates are determined actuarially.

## NOTE 9. RISK MANAGEMENT (CONTINUED)

No payments for uninsured losses were made during the fiscal years ended June 30, 2018 and June 30, 2017.

The Authority has not reported an estimated claims loss expenditure, and the related liability at June 30, 2018 and June 30, 2017, based on the requirements of GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which states that a liability for claims must be reported if information prior to issuance of the financial statements indicates that it is probable and estimable for accrual that an asset has been impaired or liability has been incurred on or before June 30 and the amount of the loss is reasonably estimable have not been satisfied.

In management's opinion, claim losses in excess of insurance coverage, if any, is unlikely and if it occurred, would not be significant. Therefore, no loss accrual has been made in these financial statements. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expense and liability should be accrued at year-end.

## NOTE 10. CHANGE IN ACCOUNTING PRINCIPLE

The Authority has determined that a restatement to its July 1, 2017 beginning net position was required to recognize the changes in accounting principles for implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* through which accounting for OPEB plans and the related disclosure requirements were modified. The implementation of GASB Statement No. 75 requires retroactive implementation to the earliest period presented during the year of implementation, unless such implementation is impractical. In such a case, the Statement allows for the restatement due to implementation to be reported for the earliest period for which it is practical. As discussed in Note 7, the Authority participates in a multiple employer cost-sharing defined benefit OPEB plan. Participating employers are provided with collective OPEB amounts that are allocated among the plan's participants. Historical information required to restate beginning net position as of July 1, 2016 is not available and given the nature of the plan is not practical to obtain on behalf of the Authority. As a result, the Authority has determined a restatement as of July 1, 2017 which is as follows:

| | |
|---|---|
| Net position, as previously reported | $ 6,482,355 |
| Change in accounting principle due to the implementation of GASB Statement No. 75: | |
| Net OPEB liability | (370,542) |
| Deferred outflows of resources for contributions subsequent to the measurement date | 10,542 |
| Net position, as restated | $ 6,122,355 |

# REQUIRED SUPPLEMENTARY INFORMATION

## SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION
## SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
## FOR THE PLAN YEAR ENDED JUNE 30,

**South Carolina Retirement System**

| Plan Year Ended June 30, | Authority's proportion of the net pension liability | Authority's proportionate share of the net pension liability | Authority's covered employee payroll | Authority's share of the net pension liability as a percentage of its covered employee payroll | Plan fiduciary net position as a percentage of the total pension liability |
|---|---|---|---|---|---|
| 2017 | 0.002141% | $ 481,974 | $ 216,000 | 223.1% | 53.3% |
| 2016 | 0.001794% | 383,196 | 173,729 | 220.6% | 52.9% |
| 2015 | 0.001770% | 335,689 | 166,000 | 202.2% | 57.0% |
| 2014 | 0.001779% | 306,285 | 161,500 | 189.7% | 59.9% |
| 2013 | 0.001779% | 319,089 | 154,751 | 206.2% | 56.4% |

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

## SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION
## SCHEDULE OF AUTHORITY PENSION CONTRIBUTIONS

## FOR THE FISCAL YEAR ENDED JUNE 30,

**South Carolina Retirement System**

| Fiscal Year Ended June 30, | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | Authority's covered employee payroll | Contributions as a percentage of covered employee payroll |
|---|---|---|---|---|---|
| 2018 | $ 36,950 | $ 36,950 | $ - | $ 272,492 | 13.56% |
| 2017 | 24,646 | 24,646 | - | 216,000 | 11.41% |
| 2016 | 18,954 | 18,954 | - | 173,729 | 10.91% |
| 2015 | 17,845 | 17,845 | - | 166,000 | 10.75% |
| 2014 | 16,876 | 16,876 | - | 161,500 | 10.45% |

**Notes to the Schedule:**
The schedule will present 10 years of information once it is accumulated.

## SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION
## SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

## FOR THE PLAN YEAR ENDED JUNE 30,

**South Carolina Retiree Health Plan**

| Plan Year Ended June 30, | Authority's proportion of the net OPEB liability | Authority's proportionate share of the net OPEB liability | Authority's covered employee payroll | Authority's share of the net OPEB liability as a percentage of its covered employee payroll | Plan fiduciary net position as a percentage of the total OPEB liability |
|---|---|---|---|---|---|
| 2017 | 0.002561% | $ 346,883 | $ 216,000 | 160.6% | 7.60% |
| 2016 | 0.002561% | 370,542 | 173,729 | 213.3% | 6.62% |

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

The discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017.

# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION
## SCHEDULE OF AUTHORITY OPEB CONTRIBUTIONS

## FOR THE FISCAL YEAR ENDED JUNE 30,

**South Carolina Retiree Health Plan**

| Fiscal Year Ended June 30, | Statutorily required contribution | Contributions in relation to the statutorily required contribution | Contribution deficiency (excess) | Authority's covered employee payroll | Contributions as a percentage of covered employee payroll |
|---|---|---|---|---|---|
| 2018 | $ 14,711 | $ 14,711 | $ - | $ 272,492 | 5.40% |
| 2017 | 10,542 | 10,542 | - | 216,000 | 4.88% |

**Notes to the Schedule:**
The schedule will present 10 years of information once it is accumulated.

# SUPPLEMENTARY INFORMATION

# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## SUMMARIZED SCHEDULE OF FINANCIAL INFORMATION
## ENTERPRISE FUND
## FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

| **Condensed Statements of Net Position** | **2018** | 2017 |
|---|---|---|
| **Assets** | | |
| Current | **$ 808,710** | $ 604,833 |
| Noncurrent | **6,903,833** | 6,304,616 |
| Total assets | **7,712,543** | 6,909,449 |
| **Deferred Outflows of Resources** | **149,002** | 77,223 |
| **Liabilities** | | |
| Current | **75,883** | 85,533 |
| Noncurrent | **850,157** | 404,496 |
| Total liabilities | **926,040** | 490,029 |
| **Deferred Inflows of Resources** | **33,519** | 14,288 |
| **Net Position** | | |
| Restricted | **3,300,000** | 3,300,000 |
| Unrestricted | **3,601,986** | 3,182,355 |
| Total net position | **$ 6,901,986** | $ 6,482,355 |

| **Condensed Statements of Revenues, Expenses, and Changes in Net Position** | **2018** | 2017 |
|---|---|---|
| Program revenues: | | |
| Charges for services | **$ 988,837** | $ 1,025,415 |
| Operating grants and contributions | **20,031** | 782,056 |
| Program expenses | **(515,981)** | (602,415) |
| Net program revenue | **492,887** | 1,205,056 |
| General revenues: | | |
| Grants and contributions not restricted to specific programs | **247,763** | 172,352 |
| Unrestricted revenue from the use of money and property | **38,981** | 20,213 |
| Change in net position | **779,631** | 1,397,621 |
| Net position, beginning of year, as previously reported | **6,482,355** | 5,084,734 |
| Restatement | **(360,000)** | - |
| Net position, beginning of year, as restated | **6,122,355** | 5,084,734 |
| Net position, end of year | **$ 6,901,986** | $ 6,482,355 |

Note: The above information is provided in accordance with the requirements of the South Carolina Office of the Comptroller General Audited Financial Statement Manual.

# COMPLIANCE SECTION

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Carolina Jobs-Economic Development Authority (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 24, 2018. Our report includes a reference to the change in accounting principles resulting from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Columbia, South Carolina
September 24, 2018

# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## SCHEDULE OF FINDINGS AND RESPONSES
## FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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### SECTION I
### SUMMARY OF AUDIT RESULTS

***Financial Statements***

| | |
|---|---|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: Material weaknesses identified? | ____ Yes __X__ No |
| Significant deficiencies identified not considered to be material weaknesses? | ____ Yes __X__ None Reported |
| Noncompliance material to financial statements noted? | ____ Yes __X__ No |

***Federal Awards***

There was not an audit of major federal award programs as of June 30, 2018 due to the total amount expended being less than $750,000.

### SECTION II
### FINANCIAL STATEMENT FINDINGS AND RESPONSES

None reported

### SECTION III
### FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Not applicable.

# SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

## SCHEDULE OF PRIOR FINDINGS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2018

### SECTION IV
### STATUS OF PRIOR YEAR AUDIT FINDINGS

**2017-001. Check Signing Authority**
**Criteria:** A well designed internal control structure would have separate individuals responsible for the authorization of expenses and the payment of expenses.

**Condition:** The South Carolina Jobs–Economic Development Authority (JEDA) current policy is to require two signatures on all checks, that of the executive director and his administrative assistant. The executive director currently can authorize a transaction and also sign the check for payment of that transaction, which could result in a conflict of interest.

**Status:** Resolved.

**2017-002. Expense Account Reimbursement**

**Criteria:** A well designed internal control structure would require a formal expense report be prepared with supporting documentation attached and approved by an individual charged with oversight.

**Condition:** The South Carolina Jobs–Economic Development Authority (JEDA) current policy is to pay for travel related expenses incurred by the executive director by direct payment to the vendor, by credit card (issued to JEDA), or by reimbursement. The executive director makes notations on the credit card statement as to the appropriate expense account to classify each expense. The bookkeeper (contract basis) records the expenses into the accounting system and then issues payment for the business related expenses. There is no secondary review or signoff as to approval of the expenses incurred.

**Status:** Resolved.