

South Carolina Office of the State Treasurer

Report on Financial Statements

For the Year Ended June 30, 2014



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

November 30, 2016

The Honorable Curtis M. Loftis, Jr., State Treasurer
State of South Carolina
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Office of the State Treasurer for the fiscal year ended June 30, 2014, was issued by Elliott Davis Decosimo, LLC, Certified Public Accountants, 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,

A handwritten signature in blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

Contents

	<u>Page</u>
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	4-8
Basic Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Balance Sheet - Governmental Funds	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Fiduciary Net Position - Fiduciary Funds	15
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	16
Notes to the Financial Statements	17-35
Required Supplementary Information:	
Supplementary Information - Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis - E16 - State Treasurer’s Office Budgetary General Funds	36
Supplementary Information - Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis - E16 - State Treasurer’s Office Budgetary Other Funds	37
Supplementary Information - Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis - X22 - State Treasurer’s Office Budgetary General Funds	38
Notes to Supplementary Information - Budgetary Comparison Schedules	39-40
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 <i>Governmental Auditing Standards</i>	41-42
Schedule of Findings and Responses	43



Independent Auditor's Report

The Honorable Curtis M. Loftis, Jr.
South Carolina Office of the State Treasurer
and

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 governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer (the "Office") as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Office'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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer as of June 30, 2014, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As described in Note 1.A., the accompanying financial statements of the Office are intended to present the financial position and the respective changes in financial position of certain governmental activities and fiduciary funds comprising the reporting entity as defined by the Office. The accompanying financial statements exclude South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the "Related Entities"), and all debt service transactions related to obligations of the State of South Carolina, its agencies, departments, and political subdivisions. They do not purport to, and do not present fairly, the financial position of the State of South Carolina as of June 30, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. The financial statements of the Related Entities were audited by other auditors as of and for the fiscal year ended June 30, 2014.

Change in Accounting Estimate

As described in Note 1.C., the Office changed its methodology for determining its liability for unclaimed property refunds associated with the Office's Unclaimed Property Program. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules, as listed in the table of contents, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of the Office'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 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 Office's internal control over financial reporting and compliance.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
November, 30 2016

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Management's Discussion and Analysis ("MD&A") of the South Carolina Office of the State Treasurer (the "Office") provides an overview of the Office's financial activities for the fiscal year ended June 30, 2014.

FINANCIAL HIGHLIGHTS

The Office prepared its financial statements on the Generally Accepted Accounting Principles ("GAAP") basis and follows pronouncements from the Governmental Accounting Standards Board ("GASB").

These financial statements do not include the transactions or balances from the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the "Related Entities"), and all debt service transactions related to obligations of the State of South Carolina (the "State"), its agencies, departments, and political subdivisions. The financial statements of the Related Entities were audited by other auditors as of and for the fiscal year ended June 30, 2014.

As of and for the fiscal year ended June 30, 2014:

- The Office's total net position increased by \$99,642 and its liabilities exceeded its assets (net position) by \$143,865.
- The Office received \$238,064,637 in appropriations from the State, substantially all of which was disbursed for general operations, student loans, and aid to subdivisions.
- The Office held \$823,666,399 of cash and cash equivalents in an agency capacity.

USING THESE AUDITED FINANCIAL STATEMENTS

The audited basic financial statements presented in this document include both government-wide and fund financial statements.

Government-wide Statements:

Government-wide statements include a Statement of Net Position and a Statement of Activities. These statements display information about the Office as a whole. The government-wide financial statements of the Office are presented on the accrual basis of accounting and provide short-term and long-term information about the Office.

Fund Statements:

The fund financial statements include the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. The governmental fund financial statements are presented on the modified accrual basis of accounting which focuses on the near term inflows and outflows of resources available for expenditure for the current fiscal year.

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Fund Statements (Continued):

The Office provides banking and investment services for State agencies. The cash and cash equivalents held by the Office on behalf of the State and local governments are reported in the Fiduciary Funds. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented on the accrual basis of accounting.

Statement of Net Position and Statement of Activities:

The Statement of Net Position provides a summary of the Office's financial condition at the end of the 2014 fiscal year; and reports all assets and liabilities using the accrual basis of accounting. The Statement of Activities reports the revenues and expenses for the fiscal year ended June 30 2014.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER
STATEMENT OF NET POSITION

	2014	2013
Current Assets	\$ 1,399,263	\$ 1,212,488
Noncurrent Assets	—	7,518
Total Assets	1,399,263	1,220,006
Current Liabilities	1,168,805	1,116,540
Noncurrent Liabilities	374,323	346,973
Total Liabilities	1,543,128	1,463,513
Net Investment in Capital Assets	—	7,518
Unrestricted	(143,865)	(251,025)
Total Net Position	\$ (143,865)	\$ (243,507)

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Statement of Net Position and Statement of Activities (Continued):

SOUTH CAROLINA OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES

	2014	2013
Expenses		
Personnel Services	\$ 4,775,244	\$ 4,460,159
Travel	20,679	31,094
Supplies and Materials	237,606	181,407
Contracted Services	2,551,484	1,860,257
Student Loans – Teachers	905,230	1,065,125
Student Loans – Student Loan Corporation	4,847,955	4,000,722
Rent	306,232	300,691
Depreciation	7,518	1,167
Aid to Subdivisions	230,073,221	229,757,671
Total Expenses	243,725,169	241,658,293
General Revenues		
State Appropriations	238,064,637	236,421,854
Service Charges	10,468	16,286
Fines and Penalties	109,719	109,619
Investment Management Fees	2,699,986	1,888,273
Revenue from Other State Agencies	3,137,017	3,097,350
Other Income	185,187	147,427
	244,207,014	241,680,809
Transfers		
Remission to State General Fund	(382,203)	(101,632)
Total General Revenues and Transfers	243,824,811	241,579,177
Change in Net Position	99,642	(79,116)
Net Position, July 1	(243,507)	(164,391)
Net Position, June 30	\$ (143,865)	\$ (243,507)

Operating revenues of the Office are largely dependent upon appropriations from the State legislature.

The Office received \$238,064,637 in appropriations from the State legislature. These appropriations were spent for three purposes. The amount of \$1,856,028 was spent primarily on the operations of the Office. The amount of \$230,073,221 was disbursed as aid to various governmental subdivisions throughout the State. The amount of \$5,753,185 was spent on student loans. Unspent appropriations of \$382,203 were remitted back to the State General Fund.

Fund Highlights:

Governmental Funds

The focus of the Office's governmental funds is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the chief operating fund of the Office. The General Fund's operating revenues are provided through appropriations from the State legislature. Revenues are not budgeted by the Office; therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budgeted appropriations. This resulted in expenditures and other financing uses exceeding revenues by \$1,220 for the fiscal year ended June 30, 2014, which resulted in an ending fund balance of \$1,458 for the General Fund.

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Fund Highlights (Continued):

Governmental Funds (Continued)

There are two major special revenue funds, the Aid to Subdivisions Fund and the State Treasurer's Office Earmarked Fund. The Aid to Subdivisions Fund distributes funds to various political subdivisions of the State based on amounts budgeted by the State. There was a surplus of \$22,308 in State appropriations in the Aid to Subdivisions Fund that were not distributed during the fiscal year ended June 30, 2014. This surplus was remitted back to the State General Fund during the fiscal year, resulting in no change in fund balance and an ending fund balance of \$0. The State Treasurer's Office Earmarked Fund accounts for revenues and transfers of appropriations earmarked for specific Office operations. As required by the earmark provisions, these amounts can only be spent on specific operational expenditures of the Office and therefore, the remaining fund balance is considered restricted. State appropriations and other revenues exceeded expenditures by \$138,532 during the fiscal year ended June 30, 2014 resulting in a fund balance of \$267,350 as of June 30, 2014.

Budget Highlights:

The State's Annual Appropriations Act, its legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds – These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

Total Funds – The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total Funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities, but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred as to *Other Budgeted Funds*.

The Office's budget for E16 General Funds was originally \$1,798,336 for the fiscal year ended June 30, 2014. This compares to a final budgeted amount of \$2,879,227. The primary increase was due to budgeted teacher student loan payments of \$1,065,125. Actual expenditures, on the budgetary basis, totaled \$2,519,332. These actual expenditures were under the final budgeted amount by \$359,895.

The Office's budget for E16 Other Budgetary Funds was originally \$6,156,466 for the fiscal year ended June 30, 2014. This compares to a final budgeted amount of \$11,246,347. The increase in the final budgeted amount is due primarily to additional appropriations for student loan payments to the South Carolina Student Loan Corporation in the budgeted amount of \$5,089,881. Actual expenditures, on the budgetary basis, totaled \$11,246,347. These actual expenditures were in line with the final budgeted amount.

The Office's budget for X22 General Funds was originally \$199,837,745 for the fiscal year ended June 30, 2014. This compares to a final budgeted amount of \$230,095,529. The primary reason for the increase from the original to final budgeted amount is an additional \$2,312,682 and \$13,737,839 that was added to fund State agencies and fire departments, respectively, additional budgeted distributions to local governments in the amount of \$27,687,318, and a reduction of \$13,496,453 in budgeted distributions to fire departments. Actual expenditures, on the budgetary basis, totaled \$230,073,221. These actual expenditures were under the final budgeted amount by \$22,308. The Office's Aid to Subdivisions Fund only receives General Fund appropriations. Therefore, amounts are not budgeted for X22 Other Budgetary Funds.

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Current Conditions that are Expected to have a Significant Effect on the Office's Financial Position:

The Office will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (“GASB No. 68”) and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (“GASB No. 71”) during the fiscal year ended June 30, 2015. This requires that the Office recognize a portion of the State's net pension liability, deferred outflows of resources, and deferred inflows of resources. The estimated portion of the net pension liability applicable to the Office is approximately \$6,381,000 for the fiscal year ended June 30, 2015. The implementation of GASB No. 68 and GASB No. 71 will not affect the required retirement contributions made by the Office.

This MD&A is designed to provide a general overview of the Office's finances for all of the State's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Office's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Office of the State Treasurer
P.O. Box 11778
Columbia, South Carolina 29211

South Carolina Office of the State Treasurer
Statement of Net Position
June 30, 2014

Assets

Current Assets:

Cash and Cash Equivalents	\$ 991,294
Amounts Due from Other State Agencies	403,638
Prepays	4,331
Total Current Assets	1,399,263

Noncurrent Assets:

Equipment	62,936
Accumulated Depreciation	(62,936)
Total Noncurrent Assets	—
Total Assets	1,399,263

Liabilities

Current Liabilities:

Accounts Payable	748,252
Due to State General Fund	382,203
Compensated Absences	38,350
Total Current Liabilities	1,168,805

Noncurrent Liabilities:

Compensated Absences	374,323
Total Noncurrent Liabilities	374,323
Total Liabilities	1,543,128

Net Position

Unrestricted	(143,865)
Total Net Position	\$ (143,865)

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Statement of Activities
For the Year Ended June 30, 2014

Expenses

Personnel Services	\$ 4,775,244
Travel	20,679
Supplies and Materials	237,606
Contracted Services	2,551,484
Student Loans – Teachers	905,230
Student Loans – Student Loan Corporation	4,847,955
Rent	306,232
Depreciation	7,518
Aid to Subdivisions	230,073,221
Total Expenses	<u>243,725,169</u>

General Revenues

State Appropriations	238,064,637
Service Charges	10,468
Fines and Penalties	109,719
Investment Management Fees	2,699,986
Revenue from Other State Agencies	3,137,017
Other Income	185,187
	<u>244,207,014</u>

Transfers

Remission to State General Fund	(382,203)
Total General Revenues and Transfers	<u>243,824,811</u>

Change in Net Position 99,642

Net Position, July 1, 2013 (243,507)

Net Position, June 30, 2014 \$ (143,865)

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General Fund</u>	<u>Aid to Subdivisions Fund</u>	<u>State Treasurer's Office Earmarked Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and Cash Equivalents	\$ 215,475	\$ 22,308	\$ 753,511	\$ 991,294
Amounts Due from Other State Agencies	159,895	—	243,743	403,638
Prepays	1,458	—	2,873	4,331
Total Assets	<u>\$ 376,828</u>	<u>\$ 22,308</u>	<u>\$ 1,000,127</u>	<u>\$ 1,399,263</u>
Liabilities				
Accounts Payable	\$ 15,475	\$ —	\$ 732,777	\$ 748,252
Due to State General Fund	359,895	22,308	—	382,203
Total Liabilities	<u>375,370</u>	<u>22,308</u>	<u>732,777</u>	<u>1,130,455</u>
Fund Balances				
Nonspendable – Prepays	1,458	—	2,873	4,331
Restricted:				
State Provisos	—	—	264,477	264,477
Total Fund Balances	<u>1,458</u>	<u>—</u>	<u>267,350</u>	<u>268,808</u>
Total Liabilities and Fund Balances	<u>\$ 376,828</u>	<u>\$ 22,308</u>	<u>\$ 1,000,127</u>	<u>\$ 1,399,263</u>

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

Total fund balance, governmental funds	\$ 268,808
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Compensated absences are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position	<u>(412,673)</u>
Net position of governmental activities in the Statement of Net Position	<u>\$ (143,865)</u>

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Aid to Subdivisions Fund	State Treasurer's Office Earmarked Fund	Total Governmental Funds
Revenues				
State Appropriations	\$ 2,879,227	\$230,095,529	\$ 5,089,881	\$ 238,064,637
Service Charges	—	—	10,468	10,468
Fines and Penalties	—	—	109,719	109,719
Investment Management Fees	—	—	2,699,986	2,699,986
Revenue from Other State Agencies	—	—	3,137,017	3,137,017
Other Income	—	—	185,187	185,187
Total Revenues	<u>2,879,227</u>	<u>230,095,529</u>	<u>11,232,258</u>	<u>244,207,014</u>
Expenditures				
Personnel Services	1,511,035	—	3,234,057	4,745,092
Travel	5,412	—	15,267	20,679
Supplies and Materials	44,890	—	192,716	237,606
Contracted Services	21,398	—	2,530,086	2,551,484
Student Loans - Teachers	905,230	—	—	905,230
Student Loans – Student Loan Corporation	—	—	4,847,955	4,847,955
Rent	32,587	—	273,645	306,232
Aid to Subdivisions	—	230,073,221	—	230,073,221
Total Expenditures	<u>2,520,552</u>	<u>230,073,221</u>	<u>11,093,726</u>	<u>243,687,499</u>
Revenues Over Expenditures	<u>358,675</u>	<u>22,308</u>	<u>138,532</u>	<u>519,515</u>
Other Financing Uses				
Remission to State General Fund	<u>(359,895)</u>	<u>(22,308)</u>	<u>—</u>	<u>(382,203)</u>
Net Change In Fund Balance	(1,220)	—	138,532	137,312
Fund Balance, July 1, 2013	2,678	—	128,818	131,496
Fund Balance, June 30, 2014	<u>\$ 1,458</u>	<u>\$ —</u>	<u>\$ 267,350</u>	<u>\$ 268,808</u>

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2014

Total change in fund balance, governmental funds	\$ 137,312
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets	
Depreciation expense	(7,518)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Compensated absences	<u>(30,152)</u>
Increase in net position, governmental activities	<u><u>\$ 99,642</u></u>

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust	Agency
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 5,854,936	\$ 823,666,399
Due from State General Fund	—	15,832,195
Amounts Due from Other State Agencies	4,188,453	178,492,337
Total Current Assets	10,043,389	1,017,990,931
Noncurrent Assets:		
Capital Assets:		
Land and Land Improvements	3,874,100	—
Buildings and Improvements	1,643,925	—
Equipment	412,569	—
Vehicles	113,222	—
Accumulated Depreciation	(1,303,245)	—
Total Noncurrent Assets	4,740,571	—
Total Assets	\$ 14,783,960	\$ 1,017,990,931
Liabilities		
Current Liabilities:		
Due to Depositors	\$ —	\$ 706,330,706
Accounts Payable	4,883,088	—
Amounts Due to Local Governments	—	216,840,751
Unclaimed Property Refunds	—	94,819,474
Total Current Liabilities	4,883,088	1,017,990,931
Total Liabilities	4,883,088	\$ 1,017,990,931
Net Position		
Net Investment in Capital Assets	4,740,571	
Held in Trust for:		
Nuclear Plant Decommissioning	2,586,653	
Aid to Subdivisions	1,083,041	
Springdale Fund	1,050,653	
Other Purposes	439,954	
Total Net Position	9,900,872	
Total Liabilities and Net Position	\$ 14,783,960	

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	Private Purpose Trust
Additions:	
Service Fees	\$ 37,546
Sales and Use Taxes	1,771,600
Interest and Investment Income	224,338
Capital Asset Contributions	117,867
Donated Funds	1,050,653
Revenue from Other State Agencies	328,198
Total Additions	3,530,202
Deductions:	
State Allocations	1,773,940
Depreciation	86,093
Contracted Services	2,231,763
Disbursements to Devisee	14,302
Other Expenses	2,337
Total Deductions	4,108,435
Change in Net Position	(578,233)
Net Position, July 1, 2013	10,479,105
Net Position, June 30, 2014	\$ 9,900,872

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies

The financial statements of the South Carolina Office of the State Treasurer (the “Office”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office’s accounting policies are described below.

A. Reporting Entity

The Office is established under the authority of the Constitution of South Carolina (the “Constitution”) as an agency of the State of South Carolina (the “State”). The Office performs duties as designated by the Constitution or prescribed by law. The Office is a part of the primary government of the State.

The State Treasurer is elected every four years and is inaugurated the second Monday in January following the election for the position in November. In January 2011, the Honorable Curtis M. Loftis, Jr. became the State Treasurer.

The primary functions of the Office are acting as Custodian for both State funds and Retirement System funds, maintaining bank accounts for the receipt and disbursement of State funds, prudent investing of certain State funds, and administering the State’s Unclaimed Property Program. Additionally, the Office performs safekeeping and investment functions for State agencies and other entities as authorized by State statute. Various activities of the Office include receipt of documents, management of cash and investments, management of debt service for various State entities, and the reconciliation of account balances and transactions with the various State agencies. The Office is also responsible for accounting functions associated with the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool.

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State that is attributable to transactions of the Office, and exclude the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the “Related Entities”), and all debt service transactions related to obligations of the State, its agencies, departments, and political subdivisions. The financial statements of the Related Entities were audited by other auditors as of and for the fiscal year ended June 30, 2014.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

B. South Carolina Tuition Prepayment Program

The South Carolina Tuition Prepayment Program (the “Program”) was created by the General Assembly and allows families to pay in advance for the tuition expenses of a child’s college education at any of the State’s public colleges and universities with potentially significant savings over actual tuition costs at the time the child enrolls in college. The assets and related transactions of the Program are accounted for in the South Carolina Tuition Prepayment Trust Fund (the “Fund”), for which the Office serves as the fiduciary agent.

The Program has been closed to new enrollment since July 1, 2008. The Office provides the State legislature with a written report of the unfunded liability of the Program each year as well as the projected date that the assets will be fully depleted. The Office determined that the Fund should not be reported in its financial statements because administration of the Program was outsourced on October 1, 2012. The State’s Comprehensive Annual Financial Report included the Fund as a non-major enterprise fund as of and for the year fiscal ended June 30, 2014, and reported a net deficit for the Fund of approximately \$57,400,000 as of the fiscal year then ended. The financial statements of the Fund were separately audited as of and for the fiscal year ended June 30, 2014. According to the actuarial valuation for the Program for the fiscal year ended June 30, 2014, the net deficit in the Fund is an indicator that existing assets combined with future cash flows are insufficient to pay all contract owners their benefits. The Program’s actuary projects that assets will be depleted in fiscal year 2019.

C. Basis of Presentation, Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are presented under GAAP using the accrual basis of accounting and pronouncements issued by the GASB.

All of the functions available to finance the Office are presented together as general government activities. Financial information for funds that are not available to finance these activities are not included; consequently, the government-wide financial statements exclude fiduciary assets and liabilities.

Additionally, the Office receives reimbursement from the unclaimed property funds for certain costs incurred in connection with the recovery, advertisement, and sale of unclaimed property. The Office holds unclaimed property refunds, or escheated property, in an agency capacity. A liability is recorded for amounts expected to be reclaimed and paid to claimants. This liability is satisfied by the State’s General Fund. For the fiscal year ended June 30, 2014, the Office received \$650,000 of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the State’s Unclaimed Property Program. The Unclaimed Property Program is accounted for as an agency fund.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements

The fund financial statements are used to report the Office's financial position and results of operations as well as to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The governmental fund financial statements are presented on the modified accrual basis and the fiduciary fund financial statements are presented on the accrual basis. These methods of accounting are described below.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or for non-exchange transactions, when all eligibility requirements have been met, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay obligations of the current period. For this purpose, the Office considers major sources of revenue to be available if they are collected within sixty days of the end of the current fiscal year.

Financial resources of fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Governmental Fund Types

General Fund – The General Fund is the primary operating fund of the Office. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund.

Special Revenue Funds – These funds are used to account for revenues derived from specific taxes, state appropriations, and other revenue sources that are designated to finance particular functions or activities of the Office. Special Revenue Funds include:

- *Aid to Subdivisions Fund*–The Aid to Subdivisions Fund is a special revenue fund that accounts for appropriations set by the General Assembly from the State General Fund for aid to governmental subdivisions. Actual distributions are formula funded based on actual collections of the specific State General Fund revenue types.
- *State Treasurer's Office Earmarked Fund*–This special revenue fund accounts for revenues and transfers of appropriations earmarked for specific Office operations or restricted for student loan expenditures.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements (Continued)

Governmental Fund Types (Continued)

Fiduciary Funds – Transactions related to assets held by the Office as an agent of other governmental agencies or private organizations are accounted for in the Fiduciary Funds. These are presented separately in the financial statements. The Office’s Fiduciary Funds include:

- *Private Purpose Trust Funds* – These funds include a trust fund with assets set aside for site stabilization and closure of a nuclear waste site operated by a private company within the State’s borders in the event that the company ceases operations or loses its license to operate as well as a trust fund with assets set aside for the operation of the equestrian center and activities at the Springdale Race Course (for the exclusive benefit of the Carolina Cup Racing Association, Inc., a private nonprofit corporation). The Private-Purpose Trust Funds also include miscellaneous other trust agreements holding assets that benefit non-State parties.
- *Agency Funds* – These funds are used to account for assets held by the Office in an agency capacity. The Office is the official depository for agencies of the State and, accordingly, administers the significant majority of State agency receipts and disbursements.

The fund financial statements focus on major funds. Each major fund is presented in a separate column. Major funds include (a) the Office’s primary operating fund, (b) any fund for which total cash, receipts, or disbursements of an individual fund are at least 10% of the corresponding element total for all funds of that type, and (c) any other fund that Office officials believe is particularly important to financial statement users. The Office reports the following major governmental funds which are discretely presented in the governmental fund financial statements:

- General Fund
- Aid to Subdivisions Fund
- State Treasurer’s Office Earmarked Fund

Cash and Cash Equivalents

The amounts shown in the accompanying financial statements as *cash and cash equivalents* represent cash on deposit in banks, restricted cash and cash equivalents with maturities of less than three months on the date of purchase, on deposit with external parties, and cash invested in various instruments as a part of the State’s cash management pool, an internal investment pool. Since the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The Office administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Cash Management Pool – Allocation of Interest

The State 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. All earnings on that account are recorded in the State General Fund. In contrast, each special deposit account retains its own earnings.

Prepays

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of maintenance and service agreements.

Capital Assets

The Office reports its capital assets in the applicable governmental or fiduciary type activities in the government-wide financial statements or Statement of Fiduciary Net Position. General capital assets for use by the Office are included in the government-wide financial statements while capital assets managed in trust for the benefit of others are reported in Statement of Fiduciary Net Position. The Office reports the following categories of capital assets: land and land improvements, buildings and improvements, equipment and vehicles.

Capital assets are valued at historical cost or at estimated historical cost if actual historical cost data is not available. Donated capital assets are recorded at estimated fair market value on the donation date. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized.

An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost of more than \$5,000 for buildings and improvements, equipment, and vehicles. All land and non-depreciable land improvements with a cost of more than \$100,000 are capitalized and reported. Once the Office places a depreciable capital asset in service, depreciation is recorded using the straight-line method over the following useful lives:

<u>Asset Category</u>	<u>Years</u>
Buildings and Improvements	5-55
Equipment	2-25
Vehicles	3-20

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the Office's working days of the month are entitled to accrue and carry forward at calendar year-end maximums of 180 days of sick leave and 45 days of annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave.

The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The entire unpaid liability for which the Office expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end, current salary costs, and the cost of the salary-related benefit payments, is recorded as a liability. The General Fund is used to liquidate the liability for compensated absences.

Due to Depositors

Due to Depositors reported in the Statement of Fiduciary Net Position – Fiduciary Funds represents amounts held by the Office in its Agency Funds for the benefit of other State agencies, local governments, and State boards. The Office collects various taxes, fines, and fees on behalf of these entities until the funds are needed for use or are distributed under applicable State provisos. The balance of this liability was \$706,330,706 as of June 30, 2014.

Unclaimed Property Refunds and Change in Accounting Estimate

The Office holds unclaimed property refunds, or escheated property, in an agency capacity and is reported in the Agency Funds. Each year, the Unclaimed Property Program receives millions of dollars from companies that cannot locate the owners of the funds. The Unclaimed Property Program does not include tangible property like land or vehicles. A liability is recorded for amounts expected to be reclaimed and paid to claimants. During the fiscal year ended June 30, 2014, the Office changed its methodology for estimating the liability associated with unclaimed property refunds. The Office's previous methodology was a generally accepted actuarial method; however, the new methodology better represents the expected payout of unclaimed property refunds in the future. Future payouts under the new methodology are projected to increase and stabilize. As a result of this change, the estimated liability increased from \$68,667,188 under the old methodology to \$94,819,474 under the new methodology. This represents an increase of \$26,152,286. See Note 14 for more information on unclaimed property refunds and the respective Unclaimed Property Program.

Net Position and Fund Balance

Net position is the residual measure of governmental activities while fund balance is the residual measure of governmental funds. A description of the various classifications of net position and fund balance are as follows:

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Net Position and Fund Balance (Continued)

Net Position

Net investment in capital assets

The net investment in capital assets portion of net position consists of capital assets, net of accumulated depreciation.

Restricted net position

Restricted net position consist of assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or laws through constitutional provisions or enabling legislation. In all cases, if individual restricted net position categories are negative, the negative balance is eliminated and reclassified against unrestricted net position. As of June 30, 2014, the Office did not have any restricted net position.

Net position held in trust

Net position held in trust consists of assets that are held by the Office in a fiduciary capacity for the decommissioning of a nuclear plant, aid to subdivisions, the Springdale Fund which benefits the Springdale Race Course, or other specific purposes as defined by the trust.

Unrestricted net position

All other assets that do not meet the definition of “restricted” are considered “unrestricted”. The Office’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance

The Office has implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following categories of fund balance are now being used in the fund level financial statements of the governmental funds:

Non-spendable fund balance

The non-spendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaids. It also includes the long-term amount of loans and notes receivable, as well as other assets.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Net Position and Fund Balance (Continued)

Fund Balance (Continued)

Restricted fund balance

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. Most of the Office's fund balance is presented as restricted as all fund balance is restricted as to use for specific purposes under State provisions. These purposes are primarily to pay costs for the management of the Unclaimed Property Program and investment and debt management.

Committed fund balance

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Office's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Office removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. As of June 30, 2014, the Office did not have any committed fund balance.

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by the Office's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Office's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Office's highest level of authority. As of June 30, 2014, the Office did not have any assigned fund balance.

Unassigned fund balance

The unassigned fund balance classification includes amounts that have not been assigned to other funds and have not been restricted, committed, or assigned for specific purposes within the General Fund.

Based on the Office's policies regarding fund balance classifications as noted above, it considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure has been designated by the State or donor stipulations have been made. After these fund balances have been depleted, unassigned fund balances will be considered to have been spent. As of June 30, 2014, the Office did not have any unassigned fund balance.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Revenue from Other State Agencies

Revenue from Other State Agencies in the State Treasurer's Office Earmarked Fund generally consists of revenue earned for administering State programs such as the Unclaimed Property Program and the South Carolina Future Scholar 529 College Savings Plan as well as fees for administering the State and State agency long term debt.

Contracted Services

Contracted services expenditures in the General Fund generally consist of payments for professional and data processing services.

Contracted services expenditures in the State Treasurer's Office Earmarked Fund generally consist of payments for asset and debt management consulting fees, custodial fees, and other investment consulting services.

Contracted services expenses in the Private Purpose Trust Funds generally consist of payments for the administration and decommissioning of a nuclear plant.

Student Loans – Teachers

Student Loans – Teachers expenditures in the General Fund are payments to the South Carolina Student Loan Corporation for its loan disbursements under its Career Changers Loan Program. These payments are funded through State Appropriations.

Student Loans – Student Loan Corporation

Student Loans – Student Loan Corporation expenditures in the State Treasurer's Office Earmarked Fund are payments to the South Carolina Student Loan Corporation for its loan disbursements under its South Carolina Teachers Loan Program. These payments are funded through State Appropriations.

State Allocations

State Allocations expenses in the Private Purpose Trust Funds generally consist of payments to municipalities for their allocated share of State collected fees, such as the solid waste fee.

Donated Funds

Donated funds in the Private Purpose Trust Funds consist of a bequest to be held by and invested by the Office. Investment and interest earnings on this bequest are remitted bi-annually to the Carolina Cup Racing Association, Inc. for the maintenance and operation of the Springdale Race Course equestrian facility in Camden, South Carolina. Only the investment and interest earnings can be distributed and amounted to \$14,302 for the year ended June 30, 2014. These payments are classified as Disbursements to Devisee. The corpus of the bequest is \$1,050,653 as of the fiscal year ended June 30, 2014.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

D. New Accounting Standards

The Office will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (“GASB No. 68”) and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (“GASB No. 71”) during the fiscal year ended June 30, 2015.

The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The estimated net pension liability of the Office is expected to be approximately \$6,381,000 as of June 30, 2015.

The objective of GASB No. 71 is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. GASB No. 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of GASB No. 71 are required to be applied simultaneously with the provisions of GASB No. 68.

2. Budget Policy

The Office is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Office. The Appropriation Act authorizes expenditures from funds appropriated from the State General Fund and authorizes expenditures of total funds. The “Total Funds” column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement documents in the State’s budgetary accounting system only if enough cash and appropriation authorization exist.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

2. Budget Policy (Continued)

Transfers of funds may be approved by the State Budget and Control Board (the “SBCB”) under its authority or by the agency as set forth in Appropriation Act Proviso 117.9 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the Comptroller General. No such transfer may exceed twenty percent of the program budget. Upon request, details of such personnel transfers may be provided to members of the General Assembly on an agency by agency basis. Transfers of appropriations from personnel service accounts to other operating accounts or from other operating accounts to personnel service accounts may be restricted to any established standard levels set by the SBCB upon formal approval by a majority of the members of the SBCB.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year’s appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the State General Fund on July 1 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year.

3. Deposits

By law, all deposits are under the control of the Office except for those that, by specific authority, are under the control of other agencies or component units. The deposit and investment policies of those entities may differ from those of the Office. Typically, these agencies follow the deposit and investment policies of the Office in an effort to minimize deposit and investment risks.

Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. The State’s policy by law requires all banks or savings and loan associations that receive State funds deposited by the Office, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss. All deposit and investment transactions of the Office are under the control of the Office who, by law, has sole authority for the investment of such funds.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a depository financial institution’s failure, the Office will not be able to recover collateral securities that are in the possession of an outside party. Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. All deposits under the control of the Office are fully insured or collateralized.

4. Investment Management Fees

Under Proviso 97.5, the Office may charge a fee for the operating and management costs associated with the investment management and support operations of various State funds and programs, and further, may retain and expend the fees to provide these services. The fees assessed may not exceed the actual cost of the provision of these services or the earnings on these investments. The total amount the Office received in investment management fees for the fiscal year ended June 30, 2014 was \$2,699,986.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

5. Amounts Due from Other State Agencies

At June 30, 2014, the General Fund, State Treasurer's Office Earmarked Fund, Private Purpose Trust Funds, and Agency Funds held receivables due from other State agencies. The following is a summary of the amounts due from other State agencies:

	General Fund	State Treasurer's Office Earmarked	Private Purpose Trust	Agency
Selective Sales and Use Taxes	\$ —	\$ —	\$ 4,022,468	\$ 12,762,160
General Sales and Use Taxes	—	—	162,985	48,272,670
Amounts due to Capital Reserve Fund from the State	—	—	—	114,867,392
Reimbursement from Other State Agencies	159,895	243,743	—	—
Miscellaneous Revenue	—	—	3,000	2,590,115
Total Amounts Due from Other State Agencies	\$ 159,895	\$ 243,743	\$ 4,188,453	\$ 178,492,337

6. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, for the primary government was as follows:

	Beginning Balance <u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2014</u>
Governmental activities				
Capital assets being depreciated:				
Equipment	\$ 62,936	\$ —	\$ —	\$ 62,936
Less accumulated depreciation for:				
Equipment	<u>(55,418)</u>	<u>(7,518)</u>	<u>—</u>	<u>(62,936)</u>
Total capital assets for governmental activities, net	<u>\$ 7,518</u>	<u>\$ (7,518)</u>	<u>\$ —</u>	<u>\$ —</u>

Capital asset activity for the fiscal year ended June 30, 2014, for the Private Purpose Trust Funds was as follows:

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

6. Capital Assets (Continued)

	Beginning Balance <u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2014</u>
Private purpose trust funds				
Capital assets not being depreciated:				
Land and land improvements	\$ 3,874,100	\$ —	\$ —	\$ 3,874,100
Total capital assets not being depreciated	3,874,100	—	—	3,874,100
Capital assets being depreciated:				
Buildings and improvements	1,643,925	—	—	1,643,925
Equipment	382,276	38,569	(8,276)	412,569
Vehicles	113,222	—	—	113,222
Total capital assets being depreciated	2,139,423	38,569	(8,276)	2,169,716
Less accumulated depreciation for:				
Buildings and improvements	(836,639)	(53,149)	—	(889,788)
Equipment	(277,296)	(28,693)	4,689	(301,300)
Vehicles	(107,906)	(4,251)	—	(112,157)
Total accumulated depreciation	(1,221,841)	(86,093)	4,689	(1,303,245)
Total capital assets being depreciated, net	917,582	(47,524)	(3,587)	866,471
Total capital assets for private purpose trust funds, net	<u>\$ 4,791,682</u>	<u>\$ (47,524)</u>	<u>\$ (3,587)</u>	<u>\$ 4,740,571</u>

7. Amounts Due to Local Governments

At June 30, 2014, the Agency Funds held amounts due to local governments on a variety of items. The following is a summary of the amounts due to local governments:

	<u>Agency</u>
Local Option Sales and Accommodation Taxes	\$ 179,186,090
Local Option Sales Tax Development Fee	6,096,468
General and Selective Sales Taxes	821,148
Aid and Allocations to Local Governments	18,979,019
Additional Accommodation Tax	5,969,545
Miscellaneous Amounts	5,788,481
Total Amounts Due to Local Governments	<u>\$ 216,840,751</u>

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

8. Long-term Liabilities

Long-term liabilities consist of compensated absences. Compensated absence activity for the fiscal year ended June 30, 2014, for the primary government was as follows:

Beginning Balance June 30, 2013	Increases	Decreases	Ending Balance June 30, 2014	Current Portion
\$ 382,521	\$ 325,850	\$ (295,698)	\$ 412,673	\$ 38,350

9. Pension Plan

The majority of employees of the Office are covered by a retirement plan through the South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefit Authority (“PEBA”). Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (“ORP”). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits to eligible employees and retired members.

The Retirement Benefits Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (“CAFR”) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Benefits Division and the five pension plans are included in the State of South Carolina’s CAFR.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

9. Pension Plan (Continued)

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation ("AFC") multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. Teacher and Employee Retention Incentive ("TERI") Program participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the TERI Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

9. Pension Plan (Continued)

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, 0.15% for the incidental death benefit program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Office's actual retirement and incidental death benefit program contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were \$484,391, \$431,629, and \$385,465, respectively, and equaled the base required retirement contribution rate including retiree insurance surcharge and incidental death benefit program contributions.

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the ORP, a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2014. Of the 10.60% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and 0.15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2014, 2013, and 2012, total contributions requirements to the ORP were \$61,987, \$71,538, and \$44,225 respectively.

The amounts paid by the Office for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

According to PEBA's CAFR as of and for the fiscal year ended June 30, 2014, the pension liability for SCRS was 62.5% funded based on an actuarial valuation date of July 1, 2013.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

9. Pension Plan (Continued)

For the current fiscal year, the SCRS does not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Office's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by PEBA and as appropriated in the Appropriation Act and from other applicable revenue sources. Accordingly, the Office recognizes no contingent liability for unfunded costs associated with participation in the plans.

10. Post-Employment Benefits Other Than Pensions

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Office contributes to the South Carolina Retiree Health Insurance Trust Fund ("SCRHITF") and the South Carolina Long-Term Disability Insurance Trust Fund ("SCLTDITF"), cost-sharing multiple employer defined benefit postemployment healthcare and long-term disability plans administered by the Insurance Benefits Division of PEBA.

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 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active State, public school district, and participating local government employees approved for disability.

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 be funded through annual appropriations by the General Assembly for active employees to the Insurance Benefits Division and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the Insurance Benefits Division, for its active employees who are not funded by State General Fund appropriations. Employers are mandated by State statute to contribute at a rate assessed each year by the SBCB, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The Insurance Benefits Division sets the employer contribution rate based on a pay-as-you-go basis. The Office paid \$339,040 and \$310,832 to the trust fund for the fiscal years ended June 30, 2014 and 2013, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to the Insurance Benefits Division was \$3.22 for the fiscal years ended June 30, 2014 and 2013.

10. Post-Employment Benefits Other Than Pensions (Continued)

Funding Policies (Continued)

Effective May 1, 2008, the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated insurance benefit reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State provides certain health care, dental, and life insurance benefits to all permanent full-time and certain permanent part-time employees of the Office. These benefits are provided on a reimbursement basis by the employer agency based on rates established at the beginning of the service period by the Insurance Benefits Division of PEBA.

11. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Office’s financial statements. Compensation deferred under the plans is placed in trust for the contributing employee. The Office has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. The Office made no contributions for the fiscal year ended June 30, 2014.

12. Risk Management

The Office is exposed to various risks of loss including theft of, damage to, or destruction of assets, general torts and maintains State insurance coverage for non-owned motor vehicles and general torts. The Office did not incur any losses during the year.

The Office 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. Motor vehicles (non-owned);
2. Torts;
3. Building and content;
4. Inland marine; and
5. Data processing.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2014

12. Risk Management (Continued)

The IRF is self-insured and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially. The Office paid \$17,461 to the IRF for insurance premiums during the fiscal year ended June 30, 2014.

The Office has not transferred the risk of loss for employee theft or misappropriation of assets and the portion of the risks of loss related to insurance policy deductibles for non-owned motor vehicles and torts to a State or commercial insurer.

13. Transactions with State Entities / Related Parties

The Office had significant transactions with the State and various State agencies. The Office purchases goods and services from various State agencies. Total purchases from State agencies were \$1,653,591 for the fiscal year ended June 30, 2014. Payments totaling \$1,614 for the fiscal year ended June 30, 2014 were also made to another agency for unemployment insurance.

The Office is statutorily mandated to provide services or perform duties related to court fines, Local Government Investment Pool, decommissioning trusts, debt, investments, unclaimed property and college savings plans. Total revenues earned by the Office for those services were \$6,142,377 for the fiscal year ended June 30, 2014.

The Office provided no material services free of charge to other State agencies during the fiscal year. The Office participates in the statewide dual employment program. Workers' compensation insurance premiums of \$12,999 were paid to the State Accident Fund during fiscal year 2014.

14. Unclaimed Property Program

The Unclaimed Property Program ("UPP") is administered by the Office. The property transferred to the UPP for safekeeping is held indefinitely for the benefit of the rightful owners. Until claimed, the funds are used for the good of all South Carolina citizens.

The Office receives an actuarial valuation for the liability it has to refund the unclaimed property it has received. The liability for the unclaimed property refund is based on historical and expected payout frequencies and other relative factors. For the fiscal year ended June 30, 2014, the estimated liability was \$94,819,474. The amount of cash and cash equivalents held by the UPP was \$78,987,279. In the event that the amount of refunds requested exceeds the amount of cash and cash equivalents in the UPP, the State would be required to fund the difference. Therefore, the Office has recorded a receivable in the amount of \$15,832,195 from the State's General Fund which represents the excess of the liability over the amount of cash and cash equivalents held by the UPP.

15. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition and disclosure through November 30, 2016 the date these financial statements were available to be issued.

South Carolina Office of the State Treasurer
 Supplementary Information
 Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis
 E16 - State Treasurer's Office Budgetary General Funds
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Administration				
Personnel Services				
State Treasurer	\$ 92,007	\$ 92,007	\$ 92,007	\$ —
Classified Positions	64,825	64,824	64,824	—
Other Operating Expenditures	14,115	15,000	15,000	—
Total Administration	<u>170,947</u>	<u>171,831</u>	<u>171,831</u>	<u>—</u>
Programs and Services				
Personnel Services				
Classified Positions	978,052	956,681	956,681	—
Other Personnel Services	—	9,533	9,533	—
Other Operating Expenditures	52,641	88,067	88,067	—
Special Item – Identity Theft Reimbursement	200,000	200,000	—	200,000
Total Programs and Services	<u>1,230,693</u>	<u>1,254,281</u>	<u>1,054,281</u>	<u>200,000</u>
Employee Benefits – Employer Contributions	396,696	387,990	387,990	—
Special Items – Student Loans, Teachers	—	1,065,12	905,23	159,895
		<u>5</u>	<u>0</u>	
Total Expenditures	<u>\$ 1,798,336</u>	<u>\$ 2,879,227</u>	<u>\$ 2,519,332</u>	<u>\$ 359,895</u>

See accompanying independent auditor's report and notes to required supplementary information.

South Carolina Office of the State Treasurer
 Supplementary Information
 Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis
 E16 - State Treasurer's Office Budgetary Other Funds
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Programs and Services				
Personnel Services				
Classified Positions	\$ 2,308,219	\$ 1,969,341	\$ 1,969,341	\$ —
Unclassified Positions	317,000	228,415	228,415	—
Other Personnel Services	10,000	259,554	259,554	—
Other Operating Expenditures	<u>2,710,039</u>	<u>2,922,486</u>	<u>2,922,486</u>	<u>—</u>
Total Programs and Services	5,345,258	5,379,796	5,379,796	—
Employee Benefits – Employer Contributions	811,208	776,670	776,670	—
Special Items – Student Loans, Student Loan Corporation	—	5,089,88	5,089,88	—
		<u>1</u>	<u>1</u>	
Total Expenditures	<u>\$ 6,156,466</u>	<u>\$ 11,246,347</u>	<u>\$ 11,246,347</u>	<u>\$ —</u>

See accompanying independent auditor's report and notes to required supplementary information.

South Carolina Office of the State Treasurer
 Supplementary Information
 Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis
 X22 - State Treasurer's Office Budgetary General Funds
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Aid to Subdivisions				
Fire Districts	\$ 13,496,453	\$ —	\$ —	\$ —
Local Government Fund	182,619,411	210,306,729	210,306,729	—
Non-recurring Revenue	1	—	—	—
Planning Districts	556,253	556,253	556,253	—
County Veterans' Offices	254,932	254,932	254,932	—
State Agencies	—	2,312,682	2,312,682	—
Fire Departments – Premium				
Tax	—	10,428,433	10,428,433	—
Fire Departments – Brokers				
Premium	—	3,309,406	3,309,406	—
Total Aid to Subdivisions	<u>196,927,050</u>	<u>227,168,435</u>	<u>227,168,435</u>	<u>—</u>
Aid to Subdivisions - Grants				
Clerks of Court	72,450	72,450	72,450	—
Probate Judges	72,450	72,450	72,450	—
Sheriffs	72,450	72,450	72,450	—
Register of Deeds	33,075	33,075	33,075	—
Coroners	72,450	72,450	72,450	—
Auditors	1,293,910	927,110	918,642	8,468
Treasurers	1,293,910	927,109	918,892	8,217
Employer Contributions	—	750,000	744,377	5,623
Total Aid to Subdivisions - Grants	<u>2,910,695</u>	<u>2,927,094</u>	<u>2,904,786</u>	<u>22,308</u>
Total Expenditures	<u>\$ 199,837,745</u>	<u>\$ 230,095,529</u>	<u>\$ 230,073,221</u>	<u>\$ 22,308</u>

See accompanying independent auditor's report and notes to required supplementary information.

South Carolina Office of the State Treasurer
Notes to Supplementary Information
Budgetary Comparison Schedules
For the Year Ended June 30, 2014

1. Budgetary Funds

The State's Annual Appropriations Act, its legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds – These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

Total Funds – The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total Funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities, but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred to within these notes and in the accompanying schedules as *Other Budgetary Funds*.

As operating conditions change, the Office may transfer appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personnel services without SBCB approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the SBCB. Due to the Office's ability to transfer appropriations, the budgetary comparison schedule for the State Treasurer's Office Budgetary Other Funds shows no variance between final budgeted amounts and actual expenditures on the budgetary basis of accounting. The overall increase in appropriations for the E16 - State Treasurer's Office Budgetary General Funds, E16 - State Treasurer's Office Budgetary Other Funds, X22 - State Treasurer's Office Budgetary General Funds were approved by the SBCB.

2. Original and Final Budgeted Amounts; Basis of Presentation

The original appropriations presented in the accompanying schedules for the General Fund, Aid to Subdivisions Fund and State Treasurer's Office Earmarked Fund include amounts in the Appropriations Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classification, and format of the appropriations section of the accompanying schedules are substantively the same as for the legally adopted budget.

The General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the Office's General Fund, State Treasurer's Office Earmarked Fund, and Aid to Subdivisions Fund. However, Section 115 (*Recapitulations*) of the Appropriations Act includes net source of funds amounts (i.e., estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted.

3. Legal Level of Budgetary Control

The Office maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency which is the level of detail presented in the accompanying schedules.

South Carolina Office of the State Treasurer
Notes to Supplementary Information
Budgetary Comparison Schedules
For the Year Ended June 30, 2014

4. Basis of Budgeting

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

State law does not precisely define the State's budgetary basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 14.
- Revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel taxes and gas taxes, which are not received by the Office's General Fund, State Treasurer's Office Earmarked Fund, or Aid to Subdivisions Fund in the accompanying schedules.

5. Reconciliation of Budget to GAAP Reporting Differences

The accompanying budgetary comparison schedules compare the Office's legally adopted budget with actual information in accordance with the legal basis of budgeting. Budgetary accounting principles differ significantly from GAAP accounting principles. Basis differences arise because the basis of budgeting differs from the GAAP basis used to prepare the Statement of Revenues, Expenditures, and Changes in Fund Balances. In the current year, there are basis differences for the Office's General Fund and State Treasurer's Office Earmarked Fund, which consists primarily of amounts due from other State agencies, accounts payable, and prepaids.

Reconciliation of Budgetary Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2014

	General Fund	State Treasurer's Office Earmarked Fund
Total expenditures, budgetary basis	\$ 2,519,332	\$ 11,246,347
Basis of accounting differences:		
Prepaids are considered current year expenditures under the budgetary basis	1,352	97,391
Amounts expended but returned after year end are considered expenditures under the budgetary basis	—	(241,926)
Accounts payable are considered prior year expenditures under GAAP	(132)	—
Other basis differences	—	(8,086)
Total expenditures, GAAP basis	\$ 2,520,552	\$ 11,093,726



**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***

The Honorable Curtis M. Loftis, Jr.
South Carolina Office of the State Treasurer

and

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 governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer (the "Office"), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office'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*.

South Carolina Office of the State Treasurer's Response to Findings

The Office's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Office's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Office'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 Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive style with a large, sweeping initial 'E'.

Columbia, South Carolina
November 30, 2016

South Carolina Office of the State Treasurer
 Schedule of Findings and Responses
 For the Year Ended June 30, 2014

Section I. Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified
 Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Section II. Financial Statement Findings

Item 2014-001:

Condition: For the year ended June 30, 2014, it was discovered that the Springdale Fund, a Private Purpose Trust Fund, was reported in the Agency Funds on the Office’s financial statements.

Criteria: Assets that are set aside to provided benefits to an individual or organization should be reported in a trust fund.

Cause: The underlying agreement establishing the Springdale Fund was not sufficiently evaluated to be identified as a Private Purpose Trust for purposes of generally accepted accounting principles.

Effect: The balances for cash and cash equivalents and amounts due to depositors reported in the Agency Funds on the Statement of Fiduciary Net Position – Fiduciary Funds were overstated by \$1,050,653 as of June 30, 2014. The balances for cash and cash equivalents and donated funds reported in the Private Purpose Trust Funds on the Statement of Fiduciary Net Position – Fiduciary Funds and Statement of Changes in Fiduciary Net Position – Fiduciary Funds, respectively, were understated by \$1,050,653 as of and for the year ended June 30, 2014. Likewise, the balances for interest and investment income and disbursements to the devisee were both understated on the Statement of Changes in Fiduciary Net Position – Fiduciary Funds by \$14,302 for the year ended June 30, 2014.

Recommendation: We recommend that management review all of the Office’s trust fund agreements, supporting accounting records, and all general ledger activity to ensure that all trust fund accounts are properly reported in the Private Purpose Trust Funds on its financial statements.

Views of Responsible Officials and Planned Corrective Actions: The Springdale Fund, along with its daily accounting transactions were appropriately accounted for in a trust fund account within the Office’s accounting system. Therefore, no corrective action is needed within the accounting system. However, when preparing the financial statements, the Springdale Fund was erroneously classified as an Agency Fund instead of a Private Purpose Trust Fund. In the future, management will review and verify that all trust fund accounts are properly reported in the Private Purpose Trust Funds on the financial statements.