

South Carolina Office of the State Treasurer

Report on Financial Statements

*For the Year Ended June 30, 2015*



**South Carolina  
Office of the State Auditor**

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

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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, 2015, 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

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## 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, 2015, 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, 2015, 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 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, 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, 2015, 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, 2015.

## ***Implementation of New Accounting Standard***

As described in Note 1.D. and Note 9 to the financial statements, the Office adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinions are 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, budgetary comparison schedules, schedule of the proportionate share of the net pension liability, and schedule of contributions, 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, 2015

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, 2015.

## **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, 2015.

As of and for the fiscal year ended June 30, 2015:

- The Office's total net position decreased by \$164,792 and its liabilities exceeded its assets (net position) by \$6,599,253.
- The Office received \$239,758,641 in appropriations from the State, substantially all of which was disbursed for general operations, student loans, and aid to subdivisions.
- The Office held \$988,492,354 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. The residual measure of the government is net position and represents assets and deferred outflows of resources less liabilities and deferred inflows of resources.

### **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.

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.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

**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 2015 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, 2015.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
STATEMENT OF NET POSITION

	2015	2014
Current Assets	\$ 1,402,771	\$ 1,399,263
Total Assets	1,402,771	1,399,263
 Deferred Outflows of Resources	 576,267	 —
Current Liabilities	1,296,134	1,168,805
Noncurrent Liabilities	6,744,234	374,323
Total Liabilities	8,040,368	1,543,128
 Deferred Inflows of Resources	 537,923	 —
Unrestricted	(6,599,253)	(143,865)
Total Net Position	\$ (6,599,253)	\$ (143,865)

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

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

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
STATEMENT OF ACTIVITIES

	2015	2014
Expenses		
Personnel Services	\$ 4,961,550	\$ 4,775,244
Travel	31,687	20,679
Supplies and Materials	145,090	237,606
Contracted Services	2,332,680	2,551,484
Student Loans – Teachers	1,065,125	905,230
Student Loans – Student Loan Corporation	5,089,881	4,847,955
Rent	329,065	306,232
Depreciation	—	7,518
Aid to Subdivisions	231,362,575	230,073,221
Total Expenses	245,317,653	243,725,169
General Revenues		
State Appropriations	239,758,641	238,064,637
Service Charges	5,099	10,468
Fines and Penalties	109,979	109,719
Investment Management Fees	2,700,000	2,699,986
Revenue from Other State Agencies	2,999,360	3,137,017
Other Income	165,000	185,187
	245,738,079	244,207,014
Transfers		
Remission to State General Fund	(585,218)	(382,203)
Total General Revenues and Transfers	245,152,861	243,824,811
Change in Net Position	(164,792)	99,642
Net Position, July 1, as Originally Reported	(143,865)	(243,507)
Implementation Effect of GASB Nos. 68 and 71	(6,290,596)	—
Net Position, July 1, as Restated *	(6,434,461)	(243,507)
Net Position, June 30	\$ (6,599,253)	\$ (143,865)

\* The Office implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* during the fiscal year ended June 30, 2015. Net position as of July 1, 2014 has been restated in accordance with these provisions. Information required to determine the restatement to beginning net position for the fiscal year ended June 30, 2014 was not available, and is therefore not restated. See Note 1.D. and Note 9 to the financial statements for further details regarding the restatement.

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

The Office received \$239,758,641 in appropriations from the State legislature. These appropriations were spent for three purposes. The amount of \$1,655,842 was spent primarily on the operations of the Office. The amount of \$231,362,575 was disbursed as aid to various governmental subdivisions throughout the State. The amount of \$6,155,006 was spent on student loans. Lastly, \$585,218 was not spent by the Office and was remitted back to the State General Fund.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

**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. However, in the current year, \$559,895 of appropriations went unspent and was remitted back to the State's General Fund. This resulted in an ending fund balance of \$1,883 for the General Fund.

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 \$25,323 in State appropriations in the Aid to Subdivisions Fund that were not distributed during the fiscal year ended June 30, 2015. 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. Expenditures exceeded State appropriations and other revenues by \$125,336 during the fiscal year ended June 30, 2015 resulting in a decrease in fund balance to \$142,014.

**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 \$1,814,102 for the fiscal year ended June 30, 2015. This compares to a final budgeted amount of \$3,280,862. The primary increase was due to budgeted teacher student loan payments of \$1,225,020. Actual expenditures, on the budgetary basis, totaled \$2,720,967. These actual expenditures were \$559,895 less than the final budgeted amount.

The Office's budget for E16 Other Budgetary Funds was originally \$6,156,645 for the fiscal year ended June 30, 2015. This compares to a final budgeted amount of \$11,314,673. 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 \$11,314,673. These actual expenditures were in line with the final budgeted amount.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

**Budget Highlights (Continued):**

The Office's budget for X22 General Funds was originally \$204,854,145 for the fiscal year ended June 30, 2015. This compares to a final budgeted amount of \$231,387,898. The primary reason for the increase from the original to final budgeted amount is an additional \$2,312,682 and \$14,952,677 that was added to fund State agencies and fire departments, respectively, additional budgeted distributions to local governments in the amount of \$22,712,641, and a reduction of \$13,496,453 in budgeted distributions to fire departments. Actual expenditures, on the budgetary basis, totaled \$231,362,575. These actual expenditures were \$25,323 less than the final budgeted amount. The Office's Aid to Subdivisions Fund only receives General Fund appropriations. Therefore, amounts are not budgeted for X22 Other Budgetary Funds.

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

The Office implemented 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 required 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, 2015

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 1,279,280
Prepays	123,491
Total Current Assets	1,402,771
Total Assets	1,402,771

**Deferred Outflows of Resources**

Contributions to Retirement Plan after Measurement Date	395,470
Difference Between Expected and Actual Retirement Plan Experience	180,797
Total Deferred Outflows of Resources	576,267

**Liabilities**

Current Liabilities:

Accounts Payable	673,656
Due to State General Fund	585,218
Compensated Absences	37,260
Total Current Liabilities	1,296,134

Noncurrent Liabilities:

Net Pension Liability	6,380,503
Compensated Absences	363,731
Total Noncurrent Liabilities	6,744,234
Total Liabilities	8,040,368

**Deferred Inflows of Resources**

Difference Between Projected and Actual Investment Earnings – Retirement Plan	537,923
Total Deferred Inflows of Resources	537,923

**Net Position**

Unrestricted	(6,599,253)
Total Net Position	\$ (6,599,253)

*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, 2015

<b>Expenses</b>	
Personnel Services	\$ 4,961,550
Travel	31,687
Supplies and Materials	145,090
Contracted Services	2,332,680
Student Loans – Teachers	1,065,125
Student Loans – Student Loan Corporation	5,089,881
Rent	329,065
Aid to Subdivisions	231,362,575
Total Expenses	<u>245,317,653</u>
 <b>General Revenues</b>	
State Appropriations	239,758,641
Service Charges	5,099
Fines and Penalties	109,979
Investment Management Fees	2,700,000
Revenue from Other State Agencies	2,999,360
Other Income	165,000
	<u>245,738,079</u>
 <b>Transfers</b>	
Remission to State General Fund	(585,218)
Total General Revenues and Transfers	<u>245,152,861</u>
 Change in Net Position	 (164,792)
Net Position, July 1, 2014, as Originally Reported	(143,865)
Implementation Effect of GASB Nos. 68 and 71	(6,290,596)
Net Position, July 1, 2014, as Restated	<u>(6,434,461)</u>
 Net Position, June 30, 2015	 <u>\$ (6,599,253)</u>

*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, 2015

	<u>General Fund</u>	<u>Aid to Subdivisions Fund</u>	<u>State Treasurer's Office Earmarked Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and Cash Equivalents	\$ 568,400	\$ 25,323	\$ 685,557	\$ 1,279,280
Prepays	1,883	—	121,608	123,491
Total Assets	<u>\$ 570,283</u>	<u>\$ 25,323</u>	<u>\$ 807,165</u>	<u>\$ 1,402,771</u>
<b>Liabilities</b>				
Accounts Payable	\$ 8,505	\$ —	\$ 665,151	\$ 673,656
Due to State General Fund	559,895	25,323	—	585,218
Total Liabilities	<u>568,400</u>	<u>25,323</u>	<u>665,151</u>	<u>1,258,874</u>
<b>Fund Balances</b>				
Nonspendable – Prepays	1,883	—	121,608	123,491
Restricted:				
State Provisos	—	—	20,406	20,406
Total Fund Balances	<u>1,883</u>	<u>—</u>	<u>142,014</u>	<u>143,897</u>
Total Liabilities and Fund Balances	<u>\$ 570,283</u>	<u>\$ 25,323</u>	<u>\$ 807,165</u>	<u>\$ 1,402,771</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, 2015

Total fund balance, governmental funds	\$ 143,897
Amounts reported for governmental activities in the Statement of Net Position are different because:	
The net pension liability and related deferred outflows and inflows of resources are not due and payable in the current year and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.	
Net pension liability	(6,380,503)
Deferred outflows of resources for contributions after the retirement plan's measurement date	395,470
Deferred outflows of resources for differences between expected and actual retirement plan experience	180,797
Deferred inflows of resources for differences between projected and actual investment experience	(537,923)
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>(400,991)</u>
Net position of governmental activities in the Statement of Net Position	<u><u>\$(6,599,253)</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 Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2015

	<u>General Fund</u>	<u>Aid to Subdivisions Fund</u>	<u>State Treasurer's Office Earmarked Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
State Appropriations	\$ 3,280,862	\$231,387,898	\$ 5,089,881	\$ 239,758,641
Service Charges	—	—	5,099	5,099
Fines and Penalties	—	—	109,979	109,979
Investment Management Fees	—	—	2,700,000	2,700,000
Revenue from Other State Agencies	—	—	2,999,360	2,999,360
Other Income	—	—	165,000	165,000
Total Revenues	<u>3,280,862</u>	<u>231,387,898</u>	<u>11,069,319</u>	<u>245,738,079</u>
<b>Expenditures</b>				
Personnel Services	1,546,263	—	3,375,406	4,921,669
Travel	4,925	—	26,762	31,687
Supplies and Materials	24,290	—	120,800	145,090
Contracted Services	29,469	—	2,303,211	2,332,680
Student Loans - Teachers	1,065,125	—	—	1,065,125
Student Loans – Student Loan Corporation	—	—	5,089,881	5,089,881
Rent	50,470	—	278,595	329,065
Aid to Subdivisions	—	231,362,575	—	231,362,575
Total Expenditures	<u>2,720,542</u>	<u>231,362,575</u>	<u>11,194,655</u>	<u>245,277,772</u>
Revenues Over (Under) Expenditures	<u>560,320</u>	<u>25,323</u>	<u>(125,336)</u>	<u>460,307</u>
<b>Other Financing Uses</b>				
Remission to State General Fund	<u>(559,895)</u>	<u>(25,323)</u>	<u>—</u>	<u>(585,218)</u>
Net Change In Fund Balance	425	—	(125,336)	(124,911)
Fund Balance, July 1, 2014	1,458	—	267,350	268,808
Fund Balance, June 30, 2015	<u>\$ 1,883</u>	<u>\$ —</u>	<u>\$ 142,014</u>	<u>\$ 143,897</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, 2015

Total change in fund balance, governmental funds	\$ (124,911)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Current year retirement plan contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities	395,470
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	
Increase in pension expense due to changes in deferred outflows and inflows of resources	(525,591)
Amortization of deferred outflows of resources related to the net pension liability	(55,922)
Amortization of deferred inflows of resources related to the net pension liability	134,480
Compensated absences	11,682
Decrease in net position, governmental activities	\$ (164,792)

*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, 2015

	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 3,332,994	\$ 988,492,354
Amounts Due from Other State Agencies	7,218,895	87,007,763
Total Current Assets	10,551,889	1,075,500,117
Noncurrent Assets:		
Capital Assets:		
Land and Land Improvements	3,874,100	—
Buildings and Improvements	1,643,925	—
Equipment	405,871	—
Vehicles	113,222	—
Accumulated Depreciation	(1,379,415)	—
Total Noncurrent Assets	4,657,703	—
Total Assets	\$ 15,209,592	\$ 1,075,500,117
<b>Liabilities</b>		
Current Liabilities:		
Due to Depositors	\$ —	\$ 717,473,738
Accounts Payable	7,850,435	—
Amounts Due to Local Governments	—	255,280,096
Unclaimed Property Refunds	—	102,746,283
Total Current Liabilities	7,850,435	1,075,500,117
Total Liabilities	7,850,435	\$ 1,075,500,117
<b>Net Position</b>		
Net Investment in Capital Assets	4,657,703	
Held in Trust for:		
Nuclear Plant Decommissioning	584,148	
Aid to Subdivisions	624,826	
Springdale Fund	1,050,653	
Other Purposes	441,827	
Total Net Position	7,359,157	
Total Liabilities and Net Position	\$ 14,158,939	

*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, 2015

	<b>Private Purpose Trust</b>
<b>Additions:</b>	
Service Fees	\$ 42,843
Sales and Use Taxes	1,831,688
Interest and Investment Income	160,179
Total Additions	2,034,710
<b>Deductions:</b>	
State Allocations	1,838,336
Depreciation	82,868
Contracted Services	2,634,031
Disbursement to Devisee	11,883
Other Expenses	9,307
Total Deductions	4,576,425
Change in Net Position	(2,541,715)
Net Position, July 1, 2014	9,900,872
Net Position, June 30, 2015	\$ 7,359,157

*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, 2015

**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, 2015.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**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 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 ended fiscal June 30, 2015, and reported a net deficit for the Fund of approximately \$55,900,000 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, 2015. According to the actuarial valuation for the Program as of the fiscal year ended June 30, 2015, 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, 2015, the Office received \$1,300,000 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, 2015

**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, 2015

**1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation, Measurement Focus and Basis of Accounting (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, 2015

**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 the 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, 2015

**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 \$717,473,738 as of June 30, 2015.

**Unclaimed Property Refunds**

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. 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:

*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.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies (Continued)**

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

**Net Position and Fund Balance (Continued)**

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, 2015, 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.

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 provisos. These purposes are primarily to pay costs for the management of the Unclaimed Property Program and investment and debt management.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies (Continued)**

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

**Net Position and Fund Balance (Continued)**

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, 2015, 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, 2015, 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, 2015, the Office did not have any unassigned fund balance.

**Deferred Outflows and Inflows of Resources**

A deferred outflow or inflow of resources is a consumption or acquisition of net position that is applicable to a future reporting period. The Office has recorded deferred outflows and inflows of resources in connection with the retirement plan contributions made subsequent to the measurement date, the difference between projected and actual investment earnings on retirement plan assets, and the difference between actual and expected retirement plan experience.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**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.

**Disbursements to Devisee**

Disbursements to Devisee in the Private Purpose Trust Funds represent payments to the Carolina Cup Racing Association, Inc. The Office distributes the investment and interest income on the Springdale Fund, one of the Private Purpose Trust Funds, which is held for the benefit of the Springdale Race Course in Camden, South Carolina. The corpus of the fund is \$1,050,653 as of the fiscal year ended June 30, 2015.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies (Continued)**

**D. Implementation of New Accounting Standards**

The Office implemented 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*, 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 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.

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.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**2. Budget Policy (Continued)**

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, 2015 was \$2,700,000.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**5. Amounts Due from Other State Agencies**

At June 30, 2015, the 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:

	<b>Private Purpose Trust</b>	<b>Agency</b>
Selective Sales and Use Taxes	\$ 7,213,195	\$ 15,454,318
General Sales and Use Taxes	—	68,882,430
Miscellaneous Revenue	5,700	2,671,015
<b>Total Amounts Due from Other State Agencies</b>	<b>\$ 7,218,895</b>	<b>\$ 87,007,763</b>

**6. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015, for the Private Purpose Trust Funds was as follows:

	Beginning Balance June 30, 2014	Increases	Decreases	Ending Balance June 30, 2015
<b>Private purpose trust funds</b>				
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	412,569	—	(6,698)	405,871
Vehicles	113,222	—	—	113,222
Total capital assets being depreciated	2,169,716	—	(6,698)	2,163,018
Less accumulated depreciation for:				
Buildings and improvements	(889,788)	(53,149)	—	(942,937)
Equipment	(301,300)	(28,654)	6,698	(323,256)
Vehicles	(112,157)	(1,065)	—	(113,222)
Total accumulated depreciation	(1,303,245)	(82,868)	6,698	(1,379,415)
Total capital assets being depreciated, net	866,471	(82,868)	—	783,603
Total capital assets for private purpose trust funds, net	<b>\$ 4,740,571</b>	<b>\$ (82,868)</b>	<b>\$ —</b>	<b>\$ 4,657,703</b>

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**7. Amounts Due to Local Governments**

At June 30, 2015, 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	\$ 204,733,349
Local Option Sales Tax Development Fee	6,434,504
Additional Accommodation Tax	22,719,410
Tobacco Products Playing Card Tax	14,664,683
Miscellaneous Amounts	6,728,150
Total Amounts Due to Local Governments	\$ 255,280,096

**8. Long-term Liabilities**

Long-term liabilities consist of compensated absences. Compensated absence activity for the fiscal year ended June 30, 2015 for the primary government was as follows:

Beginning Balance			Ending Balance	Current Portion
June 30, 2014	Increases	Decreases	June 30, 2015	
\$ 412,673	\$ 322,443	\$ (334,125)	\$ 400,991	\$ 37,260

**9. Pension Plan**

The South Carolina Public Employee Benefit Authority (“PEBA”), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the South Carolina Retirement Systems (the “Systems”) and the trust funds. By law, the SBCB, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review.

PEBA issues a Comprehensive Annual Financial Report (“CAFR”) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the State and therefore, retirement trust fund financial information is also included in the State’s CAFR.

**Plan Descriptions**

- The South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the State, its public school districts, and political subdivisions.

**9. Pension Plan (Continued)**

**Plan Descriptions (Continued)**

- The State Optional Retirement Program (“State ORP”) is a defined contribution plan that is offered as an alternative to certain newly hired State, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

*Membership*

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

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, newly hired State, public school, and higher education employees and individuals newly elected to the General Assembly beginning with the November 2012 general election have the option to participate in the State ORP, which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the Systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (0.15 percent), if applicable, which is retained by SCRS.

*Benefits*

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the Code of Laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years.

**9. Pension Plan (Continued)**

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

*Benefits (Continued)*

- Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

*Contributions*

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

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**9. Pension Plan (Continued)**

*Contributions (Continued)*

Required employee contribution rates for fiscal year 2014-2015 are as follows:

**SCRS**

Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation

**State ORP Employee**

8.00% of earnable compensation

Required employer contribution rates for fiscal year 2014-2015 are as follows:

**SCRS**

Employer Class Two	10.75% of earnable compensation
Employer Class Three	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

**State ORP Employee**

Employer Contribution	10.75% of earnable compensation <sup>1</sup>
Employer Incidental Death Benefit	0.15% of earnable compensation

<sup>1</sup> Of this employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the State ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

**Actuarial Assumptions and Methods**

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. State statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board and SBCB are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by the Systems' consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for SCRS.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**9. Pension Plan (Continued)**

**Actuarial Assumptions and Methods (Continued)**

	<b>SCRS</b>
Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	levels off at 3.5%
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

<b>Former Job Class</b>	<b>Males</b>	<b>Females</b>
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

**Net Pension Liability**

The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, less that system's fiduciary net position. As of June 30, 2015, the Office's proportional share of the net pension liability amounts for SCRS is presented below:

<b>System</b>	<b>Proportional Share of Net Pension Liability</b>
SCRS	\$6,380,503

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The Office's proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the fiscal year ended June 30, 2015, the Office's percentage of the SCRS net pension liability was 0.03706%.

**9. Pension Plan (Continued)**

**Net Pension Liability (Continued)**

*Discount Rate*

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, each system's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Long-term Expected Rate of Return*

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

*Long-term Expected Rate of Return (Continued)*

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**9. Pension Plan (Continued)**

**Net Pension Liability (Continued)**

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Expected Arithmetic Real Rate of Return</b>	<b>Long Term Expected Portfolio Real Rate of Return</b>
<b>Short Term</b>	<b>5.0%</b>		
Cash	2.0	0.3%	0.01%
Short Duration	3.0	0.6	0.02
<b>Domestic Fixed Income</b>	<b>13.0</b>		
Core Fixed Income	7.0	1.1	0.08
High Yield	2.0	3.5	0.07
Bank Loans	4.0	2.8	0.11
<b>Global Fixed Income</b>	<b>9.0</b>		
Global Fixed Income	3.0	0.8	0.02
Emerging Markets Debt	6.0	4.1	0.25
<b>Global Public Equity</b>	<b>31.0</b>	<b>7.8</b>	<b>2.42</b>
<b>Global Tactical Asset Allocation</b>	<b>10.0</b>	<b>5.1</b>	<b>0.51</b>
<b>Alternatives</b>	<b>32.0</b>		
Hedge Funds (Low Beta)	8.0	4.0	0.32
Private Debt	7.0	10.2	0.71
Private Equity	9.0	10.2	0.92
Real Estate (Broad Market)	5.0	5.9	0.29
Commodities	3.0	5.1	0.15
 Total Expected Real Return	 <u>100.0%</u>		 <u>5.88</u>
Inflation for Actuarial Purposes			<u>2.75</u>
Total Expected Nominal Return			<u>8.63%</u>

*Sensitivity Analysis*

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

<b>Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate</b>			
<b>System</b>	<b>1.00% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1.00% Increase (8.50%)</b>
SCRS	\$ 8,256,766	\$ 6,380,503	\$ 4,815,162

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**9. Pension Plan (Continued)**

**Deferred Outflows (Inflows) of Resources**

For the fiscal year ended June 30, 2015, the Office recognized pension expense of \$447,033 which is included in employer personnel expenses in the accompanying financial statements. At June 30, 2015, the Office reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 395,470	\$ —
Differences in actual and expected experience	180,797	—
Net differences between projected and actual earnings on plan investments	—	537,923
	\$ 576,267	\$ 537,923

The Office reported \$395,470 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Office's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2015. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2015 was 4.233 years for SCRS.

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	<u>SCRS</u>
2015	2016	\$ (78,558)
2016	2017	(78,558)
2017	2018	(78,558)
2018	2019	(121,452)
Net balance of deferred outflows (inflows) of resources		\$ (357,126)

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**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, 5.00% of annual covered payroll for 2015 and 4.92% of annual covered payroll for 2014. The Insurance Benefits Division sets the employer contribution rate based on a pay-as-you-go basis. The Office paid \$374,223 and \$339,040 to the trust fund for the fiscal years ended June 30, 2015 and 2014, 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, 2015 and 2014.

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.

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

*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, 2015.

**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.

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 \$17,228 to the IRF for insurance premiums during the fiscal year ended June 30, 2015.

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.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**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 \$1,095,427 for the fiscal year ended June 30, 2015. Payments totaling \$3,239 for the fiscal year ended June 30, 2015 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 \$5,979,438 for the fiscal year ended June 30, 2015.

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 \$15,542 were paid to the State Accident Fund during fiscal year 2015.

**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, 2015, the estimated liability was \$102,746,283 which approximated the amount of cash and cash equivalents held by the UPP at June 30, 2015.

**15. Implementation of New Accounting Standards and Restatement of Net Position**

The Office implemented 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*, 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.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

**15. Implementation of New Accounting Standards and Restatement of Net Position**

The implementation of these two GASB standards resulted in the restatement of beginning net position as reported at July 1, 2014 as presented below:

Net position at July 1, 2014, as originally reported	\$ (143,865)
Office's share of the net pension liability	(6,647,242)
Deferred outflow of resources for pension contributions made after the measurement date	356,646
Net position at July 1, 2014, as restated	<u>\$ (6,434,461)</u>

**16. 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.

The South Carolina Restructuring Act of 2014 (Act 121) eliminated the State Budget and Control Board on June 30, 2015. Act 121 created the State Fiscal Accountability Authority. The State Fiscal Accountability Authority is governed by the Governor, State Treasurer, Comptroller General, Chairman of the Senate Finance Committee, and Chairman of the House Ways and Means Committee. Effective July 1, 2015, the State Budget and Control Board became the State Fiscal Accountability Authority.

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, 2015

	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	54,088	54,088	—
Other Operating Expenditures	14,115	14,115	14,115	—
Total Administration	<u>170,947</u>	<u>160,210</u>	<u>160,210</u>	<u>—</u>
Programs and Services				
Personnel Services				
Classified Positions	978,052	949,397	949,397	—
Other Personnel Services	—	45,326	45,326	—
Other Operating Expenditures	52,641	95,464	95,464	—
Special Item – Identity Theft Reimbursement	200,000	400,000	—	400,000
Total Programs and Services	<u>1,230,693</u>	<u>1,490,187</u>	<u>1,090,187</u>	<u>400,000</u>
Employee Benefits – Employer Contributions	412,462	405,445	405,445	—
Special Items – Student Loans, Teachers	—	1,225,02	1,065,12	159,895
		0	5	
Total Expenditures	<u>\$ 1,814,102</u>	<u>\$ 3,280,862</u>	<u>\$ 2,720,967</u>	<u>\$ 559,895</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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Programs and Services				
Personnel Services				
Classified Positions	\$ 2,348,218	\$ 1,911,943	\$ 1,911,943	\$ —
Unclassified Positions	217,000	337,281	337,281	—
Other Personnel Services	75,000	289,057	289,057	—
Other Operating Expenditures	<u>2,665,219</u>	<u>2,849,437</u>	<u>2,849,437</u>	<u>—</u>
Total Programs and Services	5,305,437	5,387,718	5,387,718	—
Employee Benefits – Employer Contributions	851,208	837,074	837,074	—
Special Items – Student Loans, Student Loan Corporation	—	5,089,88	5,089,88	—
		1	1	
Total Expenditures	<u>\$ 6,156,645</u>	<u>\$ 11,314,673</u>	<u>\$ 11,314,673</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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Aid to Subdivisions				
Fire Districts	\$ 13,496,453	\$ —	\$ —	\$ —
Local Government Fund	187,619,411	210,332,052	210,306,729	25,323
Planning Districts	556,253	556,253	556,253	—
County Veterans' Offices	254,932	260,031	260,031	—
State Agencies	—	2,312,682	2,312,682	—
Fire Departments – Premium				
Tax	—	11,175,553	11,175,553	—
Fire Departments – Brokers				
Premium	—	3,777,124	3,777,124	—
Total Aid to Subdivisions	<u>201,927,049</u>	<u>228,413,695</u>	<u>228,388,372</u>	<u>25,323</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	1,302,111	936,240	936,240	—
Treasurers	1,302,110	936,240	936,240	—
Employer Contributions	—	778,848	778,848	—
Total Aid to Subdivisions - Grants	<u>2,927,096</u>	<u>2,974,203</u>	<u>2,974,203</u>	<u>—</u>
Total Expenditures	<u>\$ 204,854,145</u>	<u>\$ 231,387,898</u>	<u>\$ 231,362,575</u>	<u>\$ 25,323</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, 2015

**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 Budgeted Other 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 Budgeted Other 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, 2015

**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 12.
- 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, 2015

	General Fund	State Treasurer's Office Earmarked Fund
Total expenditures, budgetary basis	\$ 2,720,967	\$ 11,314,673
Basis of accounting differences:		
Prepaids are considered current year expenditures under the budgetary basis	(425)	(118,735)
Other basis differences	—	(1,283)
Total expenditures, GAAP basis	\$ 2,720,542	\$ 11,194,655

South Carolina Office of the State Treasurer  
Schedule of the South Carolina Office of the State Treasurer's  
Proportionate Share of the Net Pension Liability -  
South Carolina Retirement System  
June 30, 2015

	2015	2014
The Office's proportion of the net pension liability	0.03706%	0.03706%
The Office's proportionate share of the net pension liability	\$ 6,380,503	\$ 6,647,242
The Office's covered employee payroll during the measurement period	\$ 3,364,584	\$ 3,321,241
The Office's proportionate share of the net pension liability as percentage of covered employee payroll	189.64%	200.14%
Plan fiduciary net position as a percentage of the total pension liability	59.90%	56.40%

Note: The amounts presented above were determined as of June 30<sup>th</sup> of the preceding year.

South Carolina Office of the State Treasurer  
Schedule of the South Carolina Office of the State Treasurer's Contributions -  
South Carolina Retirement System  
For the Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 395,470	\$ 356,646	\$ 352,051	\$ 299,385
Contributions in relation to the contractually required contribution	<u>395,470</u>	<u>356,646</u>	<u>352,051</u>	<u>299,385</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 The Office's covered-employee payroll	 \$ 3,628,165	 \$ 3,364,584	 \$ 3,321,241	 \$ 3,139,861
Contributions as a percentage of covered-employee payroll	10.90%	10.60%	10.60%	9.54%

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2006 through 2011 is not readily available.



**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, 2015, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

## **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

