

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015



**South Carolina  
Office of the State Auditor**

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

April 2, 2016

The Honorable Nikki R. Haley, Governor  
South Carolina Governor's Office  
State House  
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina Governor's Office and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2015, was issued by Greene, Finney & Horton, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

George L. Kennedy, III, CPA  
State Auditor

GLKIII/sag

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

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**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

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## INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA  
State Auditor  
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 Governor's Office (the "Office"), as of and for the 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 Governor's Office, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 1, the accompanying financial statements of the South Carolina Governor's Office reporting entity are intended to present the financial position and the results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of those divisions of the State that comprise the South Carolina Governor's Office reporting entity. 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 conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in the year ended June 30, 2015 the South Carolina Governor's Office adopted the provisions of Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Governmental Accounting Standards Board Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Budgetary Comparison Schedule – Expenditures (Non-GAAP Budgetary Basis) – Budgetary General Fund, and the Pension Schedules 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. The supplementary information, as listed in the table of contents, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 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 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.



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
April 4, 2016



**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2015**

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**INTRODUCTION**

As management of the South Carolina Governor's Office (the "Office"), we offer readers of the Office's financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2015.

**FINANCIAL HIGHLIGHTS**

- The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by approximately \$10,212,000. These funds will be used to meet the Office's ongoing obligations.
- The Office's total net position increased by approximately \$1,850,000 from the prior year balance adjusted for the change in accounting principle discussed further below.
- As of the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of approximately \$24,736,000, an increase of approximately \$2,192,000 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was approximately \$3,872,000, which is approximately 38% of General Fund expenditures for the year ended June 30, 2015.
- The Office implemented Governmental Accounting Standard Boards ("GASB") Statement No. 68 Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 ("GASB #68") and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 ("GASB #71" and collectively "Statements") in the year ended June 30, 2015. These Statements require the Office to recognize a net pension liability, deferred outflows of resources (including pension contributions made after the measurement date) and deferred inflows of resources for their participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System, cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the Statement of Net Position) and presents more extensive note disclosures.

The adoption of these Statements had no impact on the Office's governmental fund financial statements, which continue to report expenditures in the amount of the contractually required contributions, as required by the South Carolina Public Employee Benefit Authority who administers the plans. However, the adoption has resulted in the restatement of the Office's net position as of July 1, 2014 for its government-wide financial statements to reflect the reporting of net pension liabilities and deferred outflows of resources for each of its qualified pension plans in accordance with the provisions of these Statements. Net position of the Office's government-wide financial statements as of July 1, 2014 was decreased by approximately \$18,569,000, reflecting the cumulative change in accounting principle related to the adoption of these Statements. See Note 6 in the notes to the financial statements for more information regarding the Office's pension plans.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Office's basic financial statements. The Office's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains required supplementary information and supplementary information in addition to the basic financial statements themselves.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Office's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Governor's Office is improving or deteriorating.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2015**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

The Statement of Activities presents information showing how the Office's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

**FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Office are classified as governmental funds.

**Governmental funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide reconciliations to facilitate this comparison between governmental funds and governmental activities.

The South Carolina Legislature adopts a budget for all state agencies, including the Governor's Office. A budgetary comparison schedule has been provided for the General Fund and other budgeted funds to demonstrate compliance with this budget.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Supplementary Information**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the South Carolina Governor's Office compliance with its adopted budget and additional information regarding pensions.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

**GOVERNMENT FINANCIAL ANALYSIS**

By far the largest portion of the Office's assets represents cash and cash equivalents. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the agency. They are also able to determine how much the agency owes vendors. Finally, the Statement of Net Position provides a picture of the net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) and their availability for expenditure by the agency.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2015**

**GOVERNMENT FINANCIAL ANALYSIS (CONTINUED)**

**Condensed Statement of Net Position**

	<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets	\$ 28,632,064	\$ 25,833,650
Capital assets, net of accumulated depreciation	<u>5,361,656</u>	<u>5,516,930</u>
<b>Total Assets</b>	<u>33,993,720</u>	<u>31,350,580</u>
<b>Deferred Outflows of Resources</b>		
Deferred Pension Charges	<u>1,736,732</u>	<u>-</u>
<b>Total Deferred Outflows of Resources</b>	<u>1,736,732</u>	<u>-</u>
<b>Liabilities</b>		
Current liabilities	4,536,598	3,794,122
Non-current liabilities	<u>19,391,030</u>	<u>626,556</u>
<b>Total Liabilities</b>	<u>23,927,628</u>	<u>4,420,678</u>
<b>Deferred Inflows of Resources</b>		
Deferred Pension Credits	<u>1,590,947</u>	<u>-</u>
<b>Total Deferred Inflows of Resources</b>	<u>1,590,947</u>	<u>-</u>
<b>Net Position</b>		
Net investment in capital assets	5,361,656	5,516,930
Restricted	10,468,297	8,182,983
Unrestricted	<u>(5,618,076)</u>	<u>13,229,989</u>
<b>Total Net Position</b>	<u>\$ 10,211,877</u>	<u>\$ 26,929,902</u>

Current assets increased approximately \$2,798,000 mainly due to increased cash and cash equivalents as a result of additional budget carryovers and increased cash receipts in other programs. Net capital assets decreased approximately \$155,000 due to approximately \$101,000 in additions offset by approximately \$256,000 in depreciation expense.

Total deferred outflows of resources increased approximately \$1,737,000 due to the change in accounting principle discussed above.

Total liabilities increased approximately \$19,507,000 primarily due to an increase of approximately \$18,764,000 in non-current liabilities as a result of the Office recognizing approximately \$18,832,000 in net pension liabilities due to the change in accounting principle discussed above. Current liabilities increased approximately \$742,000 due to slight increases in the cash overdraft due to the State Treasurer, accounts payable and accrued payroll and related liabilities.

Total deferred inflows of resources increased approximately \$1,591,000 due to the change in accounting principle discussed above.

**Statement of Activities**

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Activities. The purpose of the statement is to present the revenues received by the agency, and the expenses paid by the agency, and any other revenue, expenses, gains, and losses received or spent by the agency.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2015**

**GOVERNMENT FINANCIAL ANALYSIS (CONTINUED)**

**Statement of Activities (Continued)**

The Statement of Activities is prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

At the end of the current fiscal year, the Office is able to report a positive balance in net position. The same situation held true for the prior fiscal year.

**Condensed Statement of Activities**

	<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>
Program revenues:		
Operating grants and contributions	\$ 72,948,037	\$ 78,014,299
General revenues:		
State appropriations	9,714,991	10,425,350
Interest	9,586	5,835
Total revenues	<u>82,672,614</u>	<u>88,445,484</u>
Expenses:		
General government	10,268,414	9,625,828
Grants and programs	<u>70,553,712</u>	<u>68,967,219</u>
Total expenses	<u>80,822,126</u>	<u>78,593,047</u>
Change in net position	<u>1,850,488</u>	<u>9,852,437</u>
Net position, beginning of year - as previously reported	26,929,902	17,077,465
Cumulative change in accounting principle - see Note 1	<u>(18,568,513)</u>	<u>-</u>
Net position, beginning of year - restated	<u>8,361,389</u>	<u>17,077,465</u>
Net position at end of year	<u><u>\$ 10,211,877</u></u>	<u><u>\$ 26,929,902</u></u>

Operating grants and contributions decreased approximately \$5,066,000 due to a decrease of approximately \$4,655,000 in Medicaid reimbursements as a result of the Office receiving a one-time Medicaid settlement in the prior year. State appropriations decreased \$710,000.

Total expenses increased approximately \$2,229,000 primarily due to increased disbursements to subrecipients related to federal grants and programs.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2015**

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**GENERAL FUND BUDGETING HIGHLIGHTS**

Original General Fund Appropriations were approximately \$777,000 less in fiscal year 2015 than fiscal year 2014. Final General Fund appropriations for 2015 were approximately \$10,263,000. General Fund budget to actual information is included in the required supplementary information following the notes to the financial statements.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The South Carolina Governor's Office investment in capital assets for its governmental activities as of June 30, 2015 amounts to approximately \$5,362,000 (net of accumulated depreciation). This investment in capital assets includes vehicles, equipment and the Veterans' Cemetery. The Office had current year additions of approximately \$101,000 for various furniture and equipment and building improvements, which were offset by approximately \$256,000 in depreciation expense.

**ECONOMIC OUTLOOK**

On January 27, 2014 Governor Haley signed into law Senate Bill 22 "South Carolina Restructuring Act of 2014". The purpose of the bill was to restructure various agencies and programs. All programs currently within The Governor's Office of Executive Policy and Programs will be transferred to the newly created Department of Administration effective July 1, 2015.

The Agency will not relax in our endeavor to continually look for and exploit a more efficient way of conducting business while serving our most vulnerable population that the South Carolina Governor's Office supports.

Because the recent fiscal years have been challenging, we will continue to closely monitor the Agency's financial condition.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Office's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Administration, P.O. Box 2825, Columbia, South Carolina 29211.



**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF NET POSITION**

**JUNE 30, 2015**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 25,133,382
Accounts receivable	155,037
Federal grant receivable	2,517,011
Due from the State General Fund	565,281
Prepaid Items	261,353
Total current assets	<u>28,632,064</u>
Non-current assets:	
Capital assets:	
Non-depreciable capital assets	2,059,955
Depreciable capital assets, net of accumulated depreciation	<u>3,301,701</u>
Total capital assets, net of accumulated depreciation	<u>5,361,656</u>
Total assets	<u>33,993,720</u>
<b>Deferred Outflows of Resources</b>	
Deferred pension charges	1,736,732
Total deferred outflows of resources	<u>1,736,732</u>
<b>Liabilities</b>	
Current liabilities:	
Cash overdraft due to State Treasurer	1,262,937
Accounts payable	1,205,105
Accrued payroll and related liabilities	1,426,948
Accrued compensated absences	640,921
Deposits held for clients	687
Total current liabilities	<u>4,536,598</u>
Non-current Liabilities:	
Net Pension Liability	18,832,187
Accrued compensated absences	558,843
Total Liabilities	<u>23,927,628</u>
<b>Deferred Inflows of Resources</b>	
Deferred pension credits	1,590,947
Total deferred inflows of resources	<u>1,590,947</u>
<b>Net Position</b>	
Net Investment in Capital Assets	5,361,656
Restricted for:	
Federal Grants and Programs	6,855
Victims' Assistance	9,337,507
Veterans' Affairs	1,067,073
Economic Opportunity	56,862
Unrestricted	(5,618,076)
Total Net Position	<u>\$ 10,211,877</u>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

FUNCTIONS/PROGRAMS	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION
	Expenses	Operating Grants and Contributions	Governmental Activities
Governmental Activities:			
General government	\$ 10,268,414	-	\$ (10,268,414)
Grants and programs	70,553,712	72,948,037	2,394,325
Total Governmental Activities	<u>80,822,126</u>	<u>72,948,037</u>	<u>(7,874,089)</u>
	<u>\$ 80,822,126</u>	<u>72,948,037</u>	<u>(7,874,089)</u>
<b>GENERAL REVENUES:</b>			
General Revenues:			
State appropriations			9,714,991
Interest			9,586
Total General Revenues			<u>9,724,577</u>
			<b>1,850,488</b>
NET POSITION, Beginning of Year - As Previously Reported			26,929,902
Cumulative Change in Accounting Principle - See Note 1			<u>(18,568,513)</u>
NET POSITION, Beginning of Year - Restated			<u>8,361,389</u>
<b>NET POSITION, End of Year</b>			<u><b>\$ 10,211,877</b></u>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.



**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**JUNE 30, 2015**

	<b>General</b>	<b>Federal Grants and Programs</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,902,847	-
Accounts receivable	-	-
Federal grant receivable	-	2,517,011
Due from the State General Fund	565,281	-
Prepaid Items	261,353	-
<b>Total assets</b>	<b>\$ 4,729,481</b>	<b>2,517,011</b>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Cash overdraft due to State Treasurer	\$ -	1,262,937
Accounts payable	31,164	1,096,650
Accrued payroll and related liabilities	565,281	150,569
Deposits held for clients	-	-
<b>Total liabilities</b>	<b>596,445</b>	<b>2,510,156</b>
Fund Balances:		
Nonspendable:		
Prepaid Items	261,353	-
Restricted for:		
Federal Grants and Programs	-	6,855
Victims' Assistance	-	-
Veterans' Affairs	-	-
Economic Opportunity	-	-
Committed for:		
Continuum of Care	-	-
Veterans' Affairs	-	-
Guardian Ad Litem	-	-
Mansion Operations	-	-
Assigned for:		
Finance and Administration	-	-
Foster Care	-	-
Ombudsman/Citizen Services	-	-
Unassigned	3,871,683	-
<b>Total fund balances</b>	<b>4,133,036</b>	<b>6,855</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,729,481</b>	<b>2,517,011</b>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

<b>Continuum of Care</b>	<b>Victims' Assistance</b>	<b>Veterans' Affairs</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
6,479,713	9,528,358	1,402,035	3,820,429	\$ 25,133,382
-	-	-	155,037	155,037
-	-	-	-	2,517,011
-	-	-	-	565,281
-	-	-	-	261,353
<b>6,479,713</b>	<b>9,528,358</b>	<b>1,402,035</b>	<b>3,975,466</b>	<b>\$ 28,632,064</b>
-	-	-	-	\$ 1,262,937
28,548	36,597	-	12,146	1,205,105
187,972	154,254	-	368,872	1,426,948
188	-	-	499	687
<b>216,708</b>	<b>190,851</b>	<b>-</b>	<b>381,517</b>	<b>3,895,677</b>
-	-	-	-	261,353
-	-	-	-	6,855
-	9,337,507	-	-	9,337,507
-	-	1,067,073	-	1,067,073
-	-	-	56,862	56,862
6,263,005	-	-	-	6,263,005
-	-	334,962	-	334,962
-	-	-	2,317,795	2,317,795
-	-	-	60,440	60,440
-	-	-	286,496	286,496
-	-	-	789,565	789,565
-	-	-	82,791	82,791
-	-	-	-	3,871,683
<b>6,263,005</b>	<b>9,337,507</b>	<b>1,402,035</b>	<b>3,593,949</b>	<b>24,736,387</b>
<b>6,479,713</b>	<b>9,528,358</b>	<b>1,402,035</b>	<b>3,975,466</b>	<b>\$ 28,632,064</b>



**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2015**

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**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 24,736,387**

Amounts reported for the governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$7,274,243 and the accumulated depreciation was \$1,912,587. 5,361,656

The Office's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State pension plans are not recorded in the governmental funds but are recorded in the Statement of Net Position. (18,686,402)

Long-term obligations are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of the following:

Compensated Absences (1,199,764)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ 10,211,877**

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Federal Grants and Programs</u>
<b>Revenues</b>		
State appropriations	\$ 9,714,991	-
Federal grants and programs	-	54,833,780
Other government grants and contributions	-	-
Interest	-	-
Medicaid reimbursements	-	-
Victim restitutions	-	-
Miscellaneous	-	6,973
<b>Total revenues</b>	<b>9,714,991</b>	<b>54,840,753</b>
<b>Expenditures</b>		
Federal grants and programs:		
Personal services	-	1,200,380
Employer contributions	-	409,946
Other operating	-	943,322
Claims and awards	-	4,264,372
Distributions to subrecipients	-	48,098,239
Finance and administration:		
Personal services	2,032,381	-
Employer contributions	736,879	-
Other operating	733,468	-
Foster Care:		
Personal services	239,533	-
Employer contributions	83,732	-
Other operating	52,482	-
Continuum of Care:		
Personal services	1,082,790	-
Employer contributions	387,305	-
Other operating	639,573	-
Case services	333,794	-
Guardian Ad Litem:		
Personal services	1,024,886	-
Employer contributions	355,907	-
Other operating	803,702	-
Developmental Disabilities:		
Personal services	49,714	-
Employer contributions	11,615	-
Other operating	\$ 2,494	-

<b>Continuum of Care</b>	<b>Victims' Assistance</b>	<b>Veterans' Affairs</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
-	-	-	-	\$ 9,714,991
-	-	-	-	54,833,780
-	-	74,799	5,504,422	5,579,221
-	-	1,300	8,286	9,586
2,469,955	-	-	940,823	3,410,778
-	8,649,455	-	-	8,649,455
47,394	-	211,098	91,232	356,697
<b>2,517,349</b>	<b>8,649,455</b>	<b>287,197</b>	<b>6,544,763</b>	<b>82,554,508</b>
-	-	-	-	1,200,380
-	-	-	-	409,946
-	-	-	-	943,322
-	-	-	-	4,264,372
-	-	-	-	48,098,239
-	-	-	-	2,032,381
-	-	-	-	736,879
-	-	-	683,573	1,417,041
-	-	-	565,174	804,707
-	-	-	182,494	266,226
-	-	-	125,328	177,810
1,492,208	-	-	-	2,574,998
527,128	-	-	-	914,433
608,249	-	-	-	1,247,822
256,485	-	-	-	590,279
-	-	-	2,165,230	3,190,116
-	-	-	711,377	1,067,284
-	-	-	611,521	1,415,223
-	-	-	-	49,714
-	-	-	-	11,615
-	-	-	-	\$ 2,494

(Continued)

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Federal Grants and Programs</u>
Ombudsman/Citizen Services:		
Personal services	\$ 161,513	-
Employer contributions	70,827	-
Other operating	7,463	-
Veteran Counseling	24,820	-
Victims' Assistance:		
Personal services	-	-
Employer contributions	-	-
Other operating	-	-
Claims and awards	41,312	-
Distributions to subrecipients	-	-
Veterans' Affairs:		
Personal services	432,432	-
Employer contributions	130,677	-
Other operating	11,023	-
Veterans' Cemetery:		
Personal services	239,677	-
Employer contributions	99,006	-
Other operating	94,591	-
Claims and awards	-	-
Children Affairs:		
Personal services	37,619	-
Children's Trust Fund:		
Distributions to subrecipients	100,000	-
Small and Minority Business:		
Personal services	87,780	-
Employer contributions	21,535	-
Other operating	14,164	-
Mansion Operations:		
Personal services	-	-
Employer contributions	-	-
Other operating	-	-
Economic Opportunity:		
Personal services	-	-
Employer contributions	-	-
Distributions to subrecipients	-	-
Total expenditures	<u>10,144,694</u>	<u>54,916,259</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ (429,703)</b>	<b>(75,506)</b>

<b>Continuum of Care</b>	<b>Victims' Assistance</b>	<b>Veterans' Affairs</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
-	-	-	156,038	\$ 317,551
-	-	-	46,080	116,907
-	-	-	33,010	40,473
-	-	-	-	24,820
-	1,421,738	-	-	1,421,738
-	511,038	-	-	511,038
-	526,643	-	-	526,643
-	3,341,398	-	-	3,382,710
-	664,000	-	-	664,000
-	-	-	-	432,432
-	-	-	-	130,677
-	-	-	-	11,023
-	-	-	-	239,677
-	-	-	-	99,006
-	-	206,241	-	300,832
-	-	38,000	-	38,000
-	-	-	-	37,619
-	-	-	-	100,000
-	-	-	-	87,780
-	-	-	-	21,535
-	-	-	-	14,164
-	-	-	97,090	97,090
-	-	-	34,740	34,740
-	-	-	60,660	60,660
-	-	-	10,134	10,134
-	-	-	2,716	2,716
-	-	-	341,215	341,215
<b>2,884,070</b>	<b>6,464,817</b>	<b>244,241</b>	<b>5,826,380</b>	<b>80,480,461</b>
<b>(366,721)</b>	<b>2,184,638</b>	<b>42,956</b>	<b>718,383</b>	<b>\$ 2,074,047</b>

(Continued)

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Federal Grants and Programs</u>
<b>Other Financing Sources (Uses):</b>		
Indirect costs retained by the Office	\$ -	-
Transfers In	-	17,192
Transfers Out	-	-
Total other financing sources (uses)	<u>-</u>	<u>17,192</u>
<b>Net changes in fund balances</b>	<b>(429,703)</b>	<b>(58,314)</b>
Fund balances, beginning of year	<u>4,562,739</u>	<u>65,169</u>
<b>Fund balances, end of year</b>	<b><u>\$ 4,133,036</u></b>	<b><u>6,855</u></b>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

<b>Continuum of Care</b>	<b>Victims' Assistance</b>	<b>Veterans' Affairs</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
-	-	-	118,106	\$ 118,106
-	-	2,625	-	19,817
-	-	-	(19,817)	(19,817)
-	-	2,625	98,289	118,106
<b>(366,721)</b>	<b>2,184,638</b>	<b>45,581</b>	<b>816,672</b>	<b>2,192,153</b>
6,629,726	7,152,869	1,356,454	2,777,277	22,544,234
<b>6,263,005</b>	<b>9,337,507</b>	<b>1,402,035</b>	<b>3,593,949</b>	<b>\$ 24,736,387</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2015**

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<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 2,192,153</b>
Amounts reported for governmental activities in the Statement of Activities are different because:	
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 the governmental funds.	(68,502)
Changes in the Office's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year are not reported in the governmental funds but are reported in the Statement of Activities	(117,889)
Governmental funds report capital asset additions as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which current year depreciation expense of \$256,281 exceeded capital asset additions of \$101,007.	(155,274)
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 1,850,488</b>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**1. Summary of Significant Accounting Policies**

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The South Carolina Governor's Office (herein referred to as the "Governor's Office" and the "Office") is part of the primary government of the State of South Carolina, and its funds are reported in the State's Comprehensive Annual Financial Report. Generally, all state agencies are included in the State's reporting entity. These entities are financially and fiscally dependent on the State.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Governor's Office (a primary entity).

A primary entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) *and* (1) it is able to impose its will on that organization *or* (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all of the following powers:

1. Determine its budget without another government having the authority to approve and modify that budget.
2. Levy taxes or set rates or charges without approval by another government.
3. Issue bonded debt without approval by another government.

The organization is fiscally dependent on the primary government/entity which holds one or more of those powers. Based on these criteria, the Governor's Office has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Governor's Office.

The Governor of South Carolina is elected by the general public and administers, has jurisdiction over, and is responsible for the management of the Governor's Office. The Governor's Office is an agency of the State of South Carolina and was established under code section 1-30-110 of the Code of Laws of South Carolina. The laws of the state and the policies and procedures specified by the State for state agencies are applicable to the activities of the Governor's Office. The Governor's Office is composed of four divisions: Mansion and Grounds, Executive Control of State, Office of Executive Policy and Programs, and the State Law Enforcement Division (S.L.E.D.). The S.L.E.D. division is not included in the reporting entity as the State Auditor's Office reports on it separately. Also, the Governor's mansion, buildings, and content assets are not included in this report, as they are owned by a separate commission.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

Reporting Entity (Continued)

The primary responsibility and services of the divisions of the Governor's Office are as follows: The Mansion and Grounds division is responsible for the household operations of the Governor's mansion. The Executive Control of State serves as a liaison office between the governor and other state agencies and public and private entities. These two divisions are funded solely by State General Fund appropriations. The Office of Executive Policy and Programs is responsible for administering various federal and state grant programs. The services include planning, grant financial records, program evaluation and program audit. The Office of Executive Policy and Programs also provides direct program services to the citizens of South Carolina. This area is funded by federal and state grants, state appropriations, and program service revenues and other sources. The Office of Executive Policy and Programs is divided into three divisions: Division of Administrative Services, Division of Children Services and Division of Constituent Services (see Note 14). Each of these divisions is made of offices, which provide the services mentioned above. The governor appoints directors of the state cabinet agencies. These agencies are not included in the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State appropriations and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Governor's Office uses only one fund category, governmental, within which it maintains two fund types, general and special revenue. Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds). Assets are assigned to the various governmental funds according to the purposes for which they may or must be used and current liabilities are assigned to the fund from which they are to be paid. The difference between the assets and the liabilities is the fund balance.

The government reports the following major governmental funds:

**General Fund** - The General Fund is used to account for all financial transactions funded from State General Fund appropriations of the three divisions of the Governor's Office (Mansion and Grounds, Executive Control of State and Office of Executive Policy and Programs). Separate programs have been established for each department of the Governor's Office that receives State appropriations.

**Special Revenue Funds** - Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Separate programs/funds have been established for federal grants and federal programs and for each department of the Governor's Office that administers restricted proceeds. In the current year, these funds have been broken out by department. The Federal Grants and Programs Fund is used to account for the proceeds from the United States government.

The other special revenue funds are used to account for all other restricted revenue. Monies received include Education Improvement Act (EIA) allocations and Medicaid funds for the Continuum of Care, victim restitution fees for the State Office of Victims' Assistance programs used for claims and awards, and revenue received from grants and other programs for Veterans' Affairs. Special revenue funds are also used to report revenue received from individual donors, awards and grants and federal programs. Other expenditures include allocations of non-State General Fund monies to various sub-recipients under various federal and other programs, administrative costs of the Governor's Office, direct program services, and claims and awards paid under various federal grants and federal programs.

The Federal Grants and Programs Fund, Continuum of Care Fund, Victims' Assistance Fund, and the Veterans' Affairs Fund are considered major funds in the current year. The Guardian Ad Litem Fund, Finance and Administration Fund, Foster Care Fund, Ombudsman/Citizens Services Fund, Economic Opportunity Fund, and the Mansion Operations Fund are classified as nonmajor governmental funds in the current year.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

Significant New Accounting Standards Adopted – Change in Accounting Principle

The Office implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB #68”) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (“GASB #71”) and collectively “Statements”) in the year ended June 30, 2015. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. In addition, state and local governments who participate in a cost-sharing multiple employer plan are now required to recognize a liability for their proportionate share of the net pension liability of that plan. It is GASB’s intention that these Statements will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Office’s financial obligations to current and former employees for past services rendered. In particular, these Statements require the Office to recognize a net pension liability, deferred outflows of resources, and deferred inflows of resources for its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System (“Plans”), cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

The adoption of these Statements had no impact on the Office’s governmental fund financial statements, which continue to report expenditures in the amount of the contractually required contributions, as required by the South Carolina Public Employee Benefit Authority (“PEBA”) who administers the Plans. However, the adoption has resulted in the restatement of the Office’s net position as of July 1, 2014 for its government-wide financial statements to reflect the reporting of net pension liabilities and deferred outflows of resources for each of its qualified Plans in accordance with the provisions of these Statements. Net position of the Office’s government-wide financial statements as of July 1, 2014 was decreased by approximately \$18,569,000, reflecting the cumulative change in accounting principle related to the adoption of these Statements. See Note 6 for more information regarding the Office’s retirement plans.

Budget Policy

The Governor’s Office is granted an annual appropriation for operating purposes by the General Assembly. The Appropriations Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds.

The Total Funds column includes all budgeted resources, including the State General Fund as well as most federal and department-generated sources. A revenue budget is not adopted for individual budgetary units.

The accompanying required supplementary information includes a budgetary comparison schedule of expenditures. The Budgetary General Fund category on that schedule corresponds to the General Funds column in the Appropriations Act and the Other Budgeted Funds category represents the difference between the Total Funds and General Funds columns in the Appropriations Act.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

Budget Policy (Continued)

The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate state government for the current fiscal year. Any unexpended State General Fund appropriations lapse to the General Fund of the State on July 31 unless specific authorization is given to carry over the funds to the ensuing fiscal year. Appropriations carried forward for a specific purpose are reported as assigned fund balance.

During the fiscal year closeout period through July, departments and agencies may continue to charge vendor, interagency, and interfund payments applicable to the current year to this fiscal year's appropriation.

State law does not precisely define the budgetary process of accounting. The budget is prepared mostly on the cash basis with several exceptions. Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 12. State law does not require the use of encumbrance accounting. Because the legally prescribed budgetary basis differs materially from GAAP, actual amounts in the accompanying budgetary comparison statements are presented on the budgetary basis. An explanation of the differences between the budgetary basis and GAAP basis is presented in *Note 4*.

The State maintains budgetary control at the line-item level of expenditure within each program of each department or agency. All general fund expenditures are budgeted. The Governor's Office processes its disbursement vouchers through a central budgetary accounting system maintained by the Comptroller General's Office. Disbursement vouchers can only be processed if there is enough cash and appropriations exist. The level of legal control is reported in a publication of the State Comptroller General's Office titled *A Detailed Report of Appropriations and Expenditures*. Transfers of funds may be approved by the State Budget and Control Board (the "Board") under its authority.

Per Proviso 92.5 of the 2014-2015 Appropriations Act, all other provisions of the law notwithstanding, the Executive Control of State section and Mansion and Grounds section shall be treated as a single budget section for the purpose of transfers and budget reconciliation.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on deposit with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the Office, participate in the State's internal cash management pool.

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer 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 the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having a maturity of three months or less at the time of purchase.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

Cash and Cash Equivalents (Continued)

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Office records and reports its monies in the general deposit account at cost. The Office reports its monies in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the agency's special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings at the stated rate, gains/losses, and unrealized gains/losses arising from changes in the fair value of investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are accrued and allocated at year-end based on percentage ownership in the pool.

For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 12.

Federal Grant Receivable

Federal grant revenue receivable represents revenue earned related to expenditures incurred through June 30, 2015 for federal programs/projects that will not be reimbursed until fiscal year 2016.

Accounts Receivable

Accounts receivable represents revenue earned related to expenditures incurred through June 30, 2015 for General Fund or Special Revenue Fund programs/projects that will not be reimbursed until fiscal year 2016.

Capital Assets

Capital assets are recorded at cost if purchased. Capital assets contributed by other State agencies or funds are recorded at the original acquisition cost less accumulated depreciation from the purchase date. Assets donated by other parties are valued at fair market value at the date of gift. The capitalization dollar threshold limit for capital assets is \$5,000 and software is \$100,000. The Office has one class of non-depreciable capital assets: non-depreciable land improvements, and three classes of depreciable capital assets: furniture and equipment, building and improvements, and depreciable land improvements. The Office depreciates capital assets over the assets' estimated useful lives using the straight-line basis. The estimated useful lives for furniture and equipment are 3-12 years. The estimated useful lives for buildings and improvements and depreciable land improvements are 5-40 years.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office currently has one type of deferred outflows of resources. The Office reports *deferred pension charges* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Office currently has one type of deferred inflows of resources. The Office reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

Compensated Absences

Compensated absences are recorded as short and long-term liabilities. Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end up to 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum amount, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Governor's Office calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer 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. Changes in compensated absences are shown in Note 10.

Net Position/Fund Balances

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the Statement of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted.

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

The Office reports a portion of its net position in its government-wide financial statements as restricted. Net position is reported as restricted when constraints placed on resource use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulation of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the State to assess, levy, charge, or otherwise mandate payments of resources (from resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable requirement is one that an outside party (such as citizens, public interest groups, or the judiciary) can compel the government to honor. At June 30, 2015, approximately \$10,468,000 was reported as restricted net position.

Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

**SOUTH CAROLINA GOVERNOR'S OFFICE  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

Net Position/Fund Balances (Continued)

The Office reports constraints in its fund balance in the governmental funds as restricted, committed or assigned. Fund balance is reported as restricted in accordance with the guidelines described above for restricted net position. Fund balance is reported as committed if a state statute or constitutional provision constraints the use of resources of the state. Fund balance is reported as assigned if the fund balance is constrained by the government's intent to use the funds for a specific purpose. The Office reports amounts as assigned if constrained through appropriations actions of the legislature. Committed constraints can be removed only through similar action that created the constraint, either legislation amending or repealing the statute or ratification of a constitutional change by the electorate. The removal of constraints for assigned funds occurs through the budgetary process.

Unassigned fund balance – All other fund balances that do not meet the definition of “restricted,” “committed,” or “assigned”.

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 or fund balances are available. Within the unrestricted fund balance, committed resources would be first applied, when available, followed by assigned resources before unassigned resources are used.

Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note 6 and the required supplementary information immediately following the notes to the financial statements for more information), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The Office recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Office's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the Office's fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Other Postemployment Benefits

Other Postemployment Benefits (“OPEB”) cost for retiree healthcare and similar, non-pension retiree benefits, is required to be measured and disclosed using the accrual basis of accounting (see Note 7 for more information), regardless of the amount recognized as OPEB expense on the modified accrual basis of accounting. Annual OPEB cost is equal to the annual required contributions to the OPEB Plan, calculated in accordance with GAAP.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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

Interfund Transactions – Fund Financial Statements

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursement to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Amounts owed for reimbursement at the end of the year are recorded as a liability in the reimbursing fund and a receivable in the fund to be reimbursed. The interfund receivable or payable is liquidated as soon as funds are available from the applicable funding source.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers in the period the transfer is authorized. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Indirect Cost Recoveries

The receipt of indirect cost recoveries has been included in the Special Revenue Fund as federal revenue and payment of these recoveries to the State's General Fund is recorded as other financing uses. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants, which the Office may retain. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. State law requires the Governor's Office to remit non-exempt recoveries to the State's General Fund. The State of South Carolina General Fund receives indirect cost reimbursements from Blue Cross/Blue Shield for the Infant Mortality Program and from federal granting agencies based on a predetermined percentage of the personnel costs of the Governor's Office. The Office did not remit any cost reimbursements in fiscal year 2015. The Office retained indirect cost recoveries of approximately \$118,000 in fiscal year 2015.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**2. State Appropriations**

The 2014-2015 original appropriations are the base budget amounts for the Executive Control of State, the Office of Executive Policy and Programs, and Mansion and Grounds budgetary units and are presented in the General Funds column of Sections 92A, 92B, and 92C, respectively, of Part IA of the Appropriations Act. The following are reconciliations of adjusted appropriations to the appropriations revenue and General Fund legal basis budget amounts on the Statement of Revenue, Expenditures and Changes in Fund Balances and the Budgetary Comparison Schedule – Expenditures – Budgetary General Fund.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**2. State Appropriations (Continued)**

	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Mansion and Grounds</b>	<b>Totals</b>
Original appropriation	\$ 1,924,404	7,270,288	305,541	\$ 9,500,233
Annualization of employee benefits	44,307	155,731	5,992	206,030
Revised appropriations - legal basis	1,968,711	7,426,019	311,533	9,706,263
Net adjustments to accrual basis:				
Personal services and employer contributions	(1,001)	5,872	3,857	8,728
Revenue from state appropriations - accrual basis	<u>\$ 1,967,710</u>	<u>7,431,891</u>	<u>315,390</u>	<u>\$ 9,714,991</u>
Revised appropriations - legal basis	\$ 1,968,711	7,426,019	311,533	\$ 9,706,263
Brought-forward appropriations from fiscal year ended June 30, 2014:				
(a) Implementing federal programs-match	192,440	4,374,422	2,950	4,569,812
Legal basis appropriation available for 2015 expenditures	<u>\$ 2,161,151</u>	<u>11,800,441</u>	<u>314,483</u>	<u>\$ 14,276,075</u>
	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Mansion and Grounds</b>	<b>Totals</b>
Approved carryforward of appropriated funds to fiscal year 2016				
(b) Implementing federal programs-match	\$ 196,871	3,705,533	443	\$ 3,902,847
Prepaid Items	-	261,353	-	261,353
Accounts payable	(7,614)	(23,112)	(438)	(31,164)
Total carry forward accrual basis	<u>\$ 189,257</u>	<u>3,943,774</u>	<u>5</u>	<u>\$ 4,133,036</u>

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2014 for expenditures in fiscal year 2015 and to carry forward unspent appropriations from fiscal year 2015 to expenditure in fiscal year 2016. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

- (a) 2014 Appropriations Act, Provisos 92.10 – 92.20
- (b) 2015 Appropriations Act, Provisos 92.10 – 92.20

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**2. State Appropriations (Continued)**

Annual fiscal year 2015 appropriations of \$4,133,036 for implementing federal programs approved for carry forward to fiscal year 2016 for expenditure for the same purposes.

**3. Operating Leases**

The Governor's Office rents office and parking space on a year-to-year basis from the State Budget and Control Board-Division of General Services. During fiscal year 2015, total payments under this lease were approximately \$359,000. The Governor's Office leases automobiles from the State Budget and Control Board-State Fleet Management Office on a year-to-year basis. During fiscal year 2015, total payments under this lease were approximately \$238,000. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2016 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was approximately \$275,000 in fiscal year 2015. These leases expire between fiscal years 2016 and 2020. Some leases contain renewal options and scheduled rent increases. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2016 and subsequent years. When these leases expire, they will be replaced with similar leases for like real property.

The Governor's Office also has noncancelable operating leases for various copying and data processing equipment. During fiscal year 2015, total payments were approximately \$107,000, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2016 and subsequent years.

Future minimum lease payments required under noncancelable operating leases that have remaining lease terms of more than one year as of June 30, 2015, are:

<u>Year Ending June 30,</u>	
2016	\$ 241,506
2017	184,149
2018	149,472
2019	126,491
2020	103,267
Total	<u>\$ 804,885</u>

**4. Due From State General Fund**

Accrued payroll and related liabilities represent personal services and employer contribution expenditures accrued at June 30, but paid in July. By State law, these accruals are paid from funds appropriated for the next fiscal year.

The amount receivable for accrued payroll and fringe benefits represents amounts due from the State General Fund to fund the Office's general fund personal services and employer contribution costs accrued at June 30, but paid in July for employees paid from State General Fund appropriations. See Note 2 for detail of the net revenue adjustment by division.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**5. Changes in Capital Assets**

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:					
Non-depreciable land improvements:					
Office of Executive Policy and Programs	\$ 2,059,955	-	-	-	\$ 2,059,955
Total Capital Assets, Not Being Depreciated	<u>2,059,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,059,955</u>
Capital Assets, Being Depreciated:					
Buildings and Improvements:					
Office of Executive Policy and Programs	1,984,770	2,625	-	-	1,987,395
Depreciable land improvements:					
Office of Executive Policy and Programs	2,410,235	-	-	-	2,410,235
Furniture and equipment:					
Office of Executive Policy and Programs	711,050	98,382	-	-	809,432
Executive Control of State	7,226	-	-	-	7,226
Total furniture and equipment	<u>718,276</u>	<u>98,382</u>	<u>-</u>	<u>-</u>	<u>816,658</u>
Total Capital Assets, Being Depreciated	<u>5,113,281</u>	<u>101,007</u>	<u>-</u>	<u>-</u>	<u>5,214,288</u>
Accumulated depreciation:					
Office of Executive Policy and Programs	(1,649,164)	(256,197)	-	-	(1,905,361)
Executive Control of State	(7,142)	(84)	-	-	(7,226)
Total accumulated depreciation	<u>(1,656,306)</u>	<u>(256,281)</u>	<u>-</u>	<u>-</u>	<u>(1,912,587)</u>
Capital assets, net of accumulated depreciation	<u>\$ 5,516,930</u>	<u>(155,274)</u>	<u>-</u>	<u>-</u>	<u>\$ 5,361,656</u>

**6. Pension Plans**

**State Retirement Plans** The Office participates in the State of South Carolina's retirement plans, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board ("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 South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on 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 of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the State.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**6. Pension Plans (Continued)**

*Plan Description*

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

The State Optional Retirement Program (“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.

The South Carolina Police Officers Retirement System (“PORS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

*Plan 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 South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.
- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State 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 retirement 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 (.15 percent), if applicable, which is retained by SCRS.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**6. Pension Plans (Continued)**

*Plan Membership (Continued)*

- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. 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.

*Plan Benefits*

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

- PORS - 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 55 or with 25 years of service regardless of age. 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 at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**6. Pension Plans (Continued)**

*Plan Benefits (Continued)*

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.

*Plan Contributions*

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for the SCRS and 5 percent for the PORS. An increase in the contribution rates adopted by the 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 Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one half of one percent per year.

As noted above, both employees and the Office are required to contribute to the Plans at rates established and as amended by the PEBA. The Office's contributions are actuarially determined but are communicated to and paid by the Office as a percentage of the employees' annual eligible compensation as follows for the past three years:

	SCRS and State ORP Rates			PORS Rates		
	2013	2014	2015	2013	2014	2015
Employer Rate:						
Retirement *	10.45%	10.45%	10.75%	11.90%	12.44%	13.01%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%
	<u>10.60%</u>	<u>10.60%</u>	<u>10.90%</u>	<u>12.30%</u>	<u>12.84%</u>	<u>13.41%</u>
Employee Rate	<u>7.00%</u>	<u>7.50%</u>	<u>8.00%</u>	<u>7.00%</u>	<u>7.84%</u>	<u>8.41%</u>

\*Of the rate for the State ORP Plan, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

The required contributions and percentages of amounts contributed by the Office to the Plans for the past three years were as follows:

Year Ended June 30,	SCRS Contributions		State ORP Contributions		PORS Contributions	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
2015	\$ 1,059,198	100%	244,891	100%	\$ 11,525	100%
2014	1,012,591	100%	236,643	100%	9,725	100%
2013	\$ 937,685	100%	195,974	100%	\$ 5,427	100%

**SOUTH CAROLINA GOVERNOR'S OFFICE  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**6. Pension Plans (Continued)**

*Plan Contributions (Continued)*

Eligible payrolls of the Office covered under the Plans for the past three years were as follows:

Year Ended June 30,	SCRS Payroll	State ORP Payroll	PORS Payroll	Total Payroll
2015	\$ 9,717,414	2,246,701	85,940	\$ 12,050,055
2014	9,552,984	2,232,501	76,075	11,861,560
2013	\$ 8,846,059	1,848,813	44,322	\$ 10,739,194

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions*

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined 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 PEBA's consulting actuary, Gabriel, Roeder, Smith and Company.

The net pension liability ("NPL") is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. For the year ended June 30, 2014, NPL amounts and the change in NPL amounts for SCRS and PORS are as follows:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 42,955,205,796	25,738,521,026	\$ 17,216,684,770	59.92%
PORS	\$ 5,899,529,434	3,985,101,996	\$ 1,914,427,438	67.55%

At June 30, 2015, the Office reported liabilities of approximately \$18,728,000 and \$104,000 for its proportionate share of the net pension liabilities for the SCRS and PORS ("Plans"), respectively. The net pension liabilities were measured as of June 30, 2014, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2013 that was projected forward to the measurement date. The Office's proportion of the net pension liabilities were based on a projection of the Office's long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At June 30, 2014, the Office's SCRS proportion was .1088 percent, which was equal to its proportion measured as of June 30, 2013. At June 30, 2014, the Office's PORS proportion was .0054 percent, which was equal to its proportion measured as of June 30, 2013.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**6. Pension Plans (Continued)**

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)*

For the year ended June 30, 2015, the Office recognized pension expense of approximately \$1,313,000 and \$9,000 for the SCRS and PORS, respectively. At June 30, 2015, the Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>SCRS</b>		
Differences Between Expected and Actual Experience	\$ 530,686	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,578,948
The Office's Contributions Subsequent to the Measurement Date	1,191,754	-
Total SCRS	<u>1,722,440</u>	<u>1,578,948</u>
<b>PORS</b>		
Differences Between Expected and Actual Experience	2,767	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	11,999
The Office's Contributions Subsequent to the Measurement Date	11,525	-
Total PORS	<u>14,292</u>	<u>11,999</u>
Total SCRS and PORS	<u>\$ 1,736,732</u>	<u>\$ 1,590,947</u>

Approximately \$1,192,000 and \$12,000 that were reported as deferred outflows of resources related to the Office's contributions subsequent to the measurement date to the SCRS and PORS, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the SCRS and PORS will be recognized in pension expense as follows:

Year Ended June 30,	SCRS	PORS	Total
2016	\$ (230,590)	(2,282)	\$ (232,872)
2017	(230,590)	(2,282)	(232,872)
2018	(230,590)	(2,282)	(232,872)
2019	(356,492)	(2,386)	(358,878)
Total	<u>\$ (1,048,262)</u>	<u>(9,232)</u>	<u>\$ (1,057,494)</u>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**6. Pension Plans (Continued)**

*Actuarial Assumptions and Methods*

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

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

	SCRS	PORS
Actuarial Cost Method	Entry Age	Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Salary Increases	Levels off at 3.5%	Levels off at 4.0%
Includes Inflation at	2.75%	2.75%
Benefit Adjustments	Lesser of 1% or \$500	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.

Former Job Class	Males	Females
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%

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.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**6. Pension Plans (Continued)**

*Actuarial Assumptions and Methods (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.

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5%		
Cash	2%	0.3%	0.01%
Short Duration	3%	0.6%	0.02%
Domestic Fixed Income	13%		
Core Fixed Income	7%	1.1%	0.08%
High Yield	2%	3.5%	0.07%
Bank Loans	4%	2.8%	0.11%
Global Fixed Income	9%		
Global Fixed Income	3%	0.8%	0.02%
Emerging Markets Debt	6%	4.1%	0.25%
Global Public Equity	31%	7.8%	2.42%
Global Tactical Asset Allocation	10%	5.1%	0.51%
Alternatives	32%		
Hedge Funds (Low Beta)	8%	4.0%	0.32%
Private Debt	7%	10.2%	0.71%
Private Equity	9%	10.2%	0.92%
Real Estate (Broad Market)	5%	5.9%	0.29%
Commodities	3%	5.1%	0.15%
Total Expected Real Return	100%		5.88%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.63%

*Discount Rate*

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**6. Pension Plans (Continued)**

*Discount Rate (Continued)*

The following table presents the sensitivity of the Office's proportionate share of the net pension liability of the Plans to changes in the discount rate, calculated using the discount rate of 7.5 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.5 percent) or 1% point higher (8.5 percent) than the current rate:

System	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
The Office's proportionate share of the net pension liability of the SCRS	\$ 24,235,815	18,728,482	\$ 14,133,786
The Office's proportionate share of the net pension liability of the PORS	\$ 144,924	103,705	\$ 69,599

*Plans Fiduciary Net Position*

Detailed information regarding the fiduciary net position of the Plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at [www.retirement.sc.gov](http://www.retirement.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

**7. Post Employment and Other Employee Benefits**

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina ("State") provides health, dental, and long-term disability benefits ("OPEB Plan") to retired State and school district employees and their covered dependents. The OPEB plans have been determined to be cost-sharing multiple-employer defined benefit plans and are administered by the Employee Insurance Program ("EIP"), a part of the State Budget and Control Board ("SBCB").

Generally, retirees are eligible for the health and dental benefits if they have established 10 years of retirement service credit. For new hires on or after May 2, 2008, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 – 24 years of service for 50% employer funding. Benefits become effective when the former employee retires under a state retirement system (i.e. SCRS, PORS, etc.). Basic long-term disability ("BLTD") benefits are provided to active state, school district and participating local government employees approved for disability. Complete financial statements for the OPEB plans may be obtained by writing to the PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

The Code of Laws of the State, as amended, requires these post-employment healthcare and long-term disability benefits be funded through annual appropriation by the General Assembly for active employees to the EIP and participating retirees to the SBCB except for the portion funded through the pension surcharge (retiree surcharge) who are not funded by State General Fund appropriations. Employers participating in the healthcare plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Office has no liability beyond the payment of monthly contributions.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**7. Post Employment and Other Employee Benefits (Continued)**

The required employer contribution surcharge percentages were 5.00%, 4.92%, and 4.55% for the years ended June 30, 2015, 2014, and 2013, respectively. The actual required employer contribution surcharge amounts were approximately \$603,000, \$584,000, and \$489,000 for the years ended June 30, 2015, 2014, and 2013, respectively. The actual contribution rates and amounts were 100% of the required employer contribution surcharge percentages and amounts for the OPEB Plan for all years presented.

**8. Deferred Compensation Plans**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Governor's Office have elected to participate. 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 Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State 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 Governor's Office made no contributions for the fiscal year ending June 30, 2015.

**9. Risk Management**

The Governor's Office is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settled claims have not exceeded this coverage in any of the past three years. The Governor's Office pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

Several state funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (PEBA – Insurance Benefits Division); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (PEBA – Insurance Benefits Division).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**9. Risk Management (Continued)**

The Governor's Office pays 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. Theft of, damage to, or destruction of assets;
2. Building contents and equipment;
3. Motor vehicles;
4. Torts.

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

The Governor's Office obtains coverage up to \$50,000 through a commercial insurer for employee fidelity bond insurance for certain administrative employees of the Office of Executive Policy and Programs for losses arising from theft or misappropriation. The Governor's Office self-insures itself above this amount because it feels the likelihood of loss is remote. The Governor's Office has not purchased business interruption insurance because management believes the risk of a material loss is a remote likelihood.

The Governor's Office has recorded insurance premium expenditures in the applicable expenditure categories. There is no evidence of asset impairment or other information to indicate that a loss expenditures and liability should be recorded at fiscal year-end for uninsured losses. Therefore, no loss accrual had been recorded.

**10. Changes in Long-Term Obligations**

Changes in long-term obligations for the year ended June 30, 2015, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued compensated absences:					
Executive Control of the State	\$ 127,897	39,712	19,670	147,939	\$ 22,753
Office of Executive Policy and Programs	985,903	626,710	589,636	1,022,977	611,808
Mansion and Grounds	17,462	15,236	3,850	28,848	6,360
Total accrued compensated absences	<u>\$ 1,131,262</u>	<u>681,658</u>	<u>613,156</u>	<u>1,199,764</u>	<u>\$ 640,921</u>

**11. Transactions With State Entities**

The Governor's Office has significant transactions with various State of South Carolina state agencies. Services received at no cost from state agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking functions from the State Treasurer; legal services from the Attorney General; interagency mail services from the State Budget and Control Board; and record storage from the Department of Archives and History. The Governor's Office also leases space, equipment and autos from state agencies. See Note 3 for further disclosure. Retirement plans administration and insurance plans administration, administered by PEBA, and audit services, administered by the Office of the State Auditor, are also received at no cost. Other services received at no cost from the various offices of the State Budget and Control Board include personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

In addition to the above services received at no cost, the Governor's Office pays for the following services with State agencies:

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**11. Transactions With State Entities (Continued)**

<u>Agency</u>	<u>Goods or Services Purchased</u>	<u>Amount</u>
Department of Public Safety	Rent	\$ 2,293
Forestry Commission	Rent	250
Department of Corrections	Printing services	32,944
Department of Corrections	Supplies	25,938
Department of Corrections	Other	5,132
Total Department of Corrections		<u>64,014</u>
Secretary of State	Fees and Fines	25
Governor's Office - SLED	Other professional services	150
State Auditor's Office	Audit	2,296
Legislative Services Agency	Printing	375
Parks, Recreation and Tourism	Supplies & In State Lodging	8,570
Department of Social Services	Fees and Fines	184
State Budget and Control Board	Office equipment and supplies	1,650
State Budget and Control Board	Data processing	130,201
State Budget and Control Board	Postage and freight	1,041
State Budget and Control Board	Telephone services	43,183
State Budget and Control Board	Fuel	177
State Budget and Control Board	Motor vehicle repair	1,226
State Budget and Control Board	General repair	1,959
State Budget and Control Board	Rent	359,442
State Budget and Control Board	Insurance	57,764
State Budget and Control Board	Leased car	237,437
State Budget and Control Board	Other professional services	350
State Budget and Control Board	Registration fees and meals	16,723
State Budget and Control Board	IT Services	374,233
Total State Budget and Control Board		<u>1,225,386</u>
University of South Carolina	Fees and fines	<u>110</u>
Total		<u>\$ 1,303,653</u>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**12. Cash Deposits**

All cash deposits with financial institutions are required to be insured or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. At June 30, 2015, the Office had no deposits with financial institutions. The Office had cash in the amount of \$23,870,445 held by the State Treasurer as of June 30, 2015.

Information on credit risk can be found in the Comprehensive Annual Financial Report of the State of South Carolina.

The following schedule reconciles deposits within the footnotes to the financial statement amounts:

	<u>Financial Statements</u>	<u>Footnotes</u>
Deposits with State Treasurer's Office	\$ -	\$ 23,870,445
Cash and cash equivalents	25,133,382	-
Cash overdraft	(1,262,937)	-
Total	<u>\$ 23,870,445</u>	<u>\$ 23,870,445</u>

**13. Litigation and Contingencies**

At June 30, 2015, the Governor's Office was involved in a number of legal proceedings (predominately civil suits) and claims with various parties, which arose in the normal course of business. Although any litigation has an element of uncertainty, it is management's opinion that the outcome of litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Office. No provision has been made in these financial statements for losses, if any, which might result from litigation pending, threatened or the combination thereof because there is no evidence to indicate that a loss expenditure and liability should be recorded at year end.

The South Carolina Governor's Office has received grant revenue from several federal agencies. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that refunds, if any, will be immaterial, with the potential exception of the item noted below.

The Office has finalized negotiations with the U.S. Department of Energy ("DOE") regarding disallowed costs related to substandard weatherization work performed by a subgrantee with federal Weatherization Assistance Program funds. The DOE ultimately withheld approximately \$161,000 from the Office and agreed upon a disallowance of approximately \$110,000; thus, the difference of \$51,000 was reimbursed to the Office in fiscal year 2016. The disallowance was repaid by the subgrantee and had no financial impact on the Office. Since the amount had no financial impact to the Office, no provision has been made in the accompanying financial statements for the refund of grant monies.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**14. Program Classification**

<u>Division of Administrative Services</u>	<u>Division of Children Services</u>	<u>Division of Consituent Services</u>
Office of Finance and Administration	Office of Continuum of Care	Office of Veterans' Affairs
	Office of Foster Care	Office of Commision of Women
	Office of Guardian Ad Litem	Office of Ombudsman/Consituent Services
	Office of Children Affairs	Office of Developmental Disabilities Council
		Office of Victims' Assistance
		Office of Economic Opportunity
		Office of Small and Minority Business

**15. Subsequent events**

On January 27, 2014 Governor Haley signed into law Senate Bill 22 "South Carolina Restructuring Act of 2014". The purpose of the bill was to restructure various agencies and programs. All programs currently within The Governor's Office of Executive Policy and Programs will be transferred to the newly created Department of Administration effective July 1, 2015.



# **REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**BUDGETARY COMPARISON SCHEDULE - EXPENDITURES (NON-GAAP BUDGETARY BASIS)  
BUDGETARY GENERAL FUND**

**YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance from Final Budget - Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Executive Control of the State				
I. Administration				
Personal Services	\$ 1,351,730	1,312,337	1,312,337	\$ -
Other Operating Expenses	101,213	156,885	156,885	-
Total Administration	1,452,943	1,469,222	1,469,222	-
II. Employee Benefits	471,461	384,732	384,732	-
Total Executive Control of the State	1,924,404	1,853,954	1,853,954	-
Office of Executive Policy and Programs				
I. Administrative Services				
Personal Services	541,356	507,184	507,184	-
Other Operating Expenses	177,635	413,464	413,464	-
Total Administrative Services	718,991	920,648	920,648	-
II. Children Services				
Personal Services	2,717,924	2,393,510	2,393,510	-
Other Operating Expenses	1,000,074	1,754,257	1,754,257	-
Case Services	142,885	333,794	333,794	-
Special Items:				
Children's Case Resolution System	4,054	-	-	-
Children's Trust Fund	100,000	100,000	100,000	-
Total Children Services	3,964,937	4,581,561	4,581,561	-
III. Constituents Services				
Personal Services	886,522	959,011	959,011	-
Other Operating Expenses	32,561	130,268	196,400	(66,132)
Special Items:				
Victims Rights	44,022	41,312	-	41,312
POW Commission	2,080	-	-	-
Veteran's Counseling	65,279	24,820	-	24,820
Total Constituents Services	1,030,464	1,155,411	1,155,411	-
IV. Employee Benefits	1,555,896	1,437,291	1,437,291	-
Total Office of Executive Policy and Programs	7,270,288	8,094,911	8,094,911	-
Mansion and Grounds				
I. Administration				
Personal Services	180,526	210,784	210,784	-
Other Operating Expenses	60,867	27,994	27,994	-
Total Administration	241,393	238,778	238,778	-
II. Employee Benefits	64,148	75,261	75,261	-
Total Mansion and Grounds	305,541	314,039	314,039	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 9,500,233</b>	<b>10,262,904</b>	<b>10,262,904</b>	<b>\$ -</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**BUDGETARY COMPARISON SCHEDULE - EXPENDITURES (NON-GAAP BUDGETARY BASIS)  
OTHER BUDGETED FUNDS**

**YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance from Final Budget - Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Office of Executive Policy and Programs				
II. Children Services				
Personal Services	\$ 4,355,554	4,324,861	2,084,100	\$ 2,240,761
Other Operating Expenses	1,934,738	2,265,625	1,427,637	837,988
Case Services	472,781	571,318	168,510	402,808
Total Children Services	6,763,073	7,161,804	3,680,247	3,481,557
III. Constituents Services				
Personal Services	3,662,514	5,023,386	2,778,665	2,244,721
Other Operating Expenses	16,987,835	13,943,579	9,196,805	4,746,774
Case Services	550,000	550,000	38,000	512,000
Distributions to Subdivisions:				
Allocation Municipalities - Restricted	60,000	60,000	-	60,000
Allocation to School District	300,000	150,000	48,234	101,766
Allocation County - Restricted	650,000	650,000	650,000	-
Allocation Other State Agencies	767,479	667,479	173,913	493,566
Allocation Private Sector	-	44,502	44,502	-
Allocation Other Entities	65,825,661	67,445,159	47,975,425	19,469,734
Total Constituents Services	88,803,489	88,534,105	60,905,544	27,628,561
IV. Employee Benefits	3,173,863	3,179,085	1,660,671	1,518,414
Total Office of Executive Policy and Programs	98,740,425	98,874,994	66,246,462	32,628,532
Mansion and Grounds				
I. Administration				
Personal Services	60,000	102,112	101,429	683
Other Operating Expenses	132,417	60,874	60,660	214
Total Administration	192,417	162,986	162,089	897
II. Employee Benefits	7,583	38,430	36,392	2,038
Total Mansion and Grounds	200,000	201,416	198,481	2,935
<b>TOTAL EXPENDITURES</b>	<b>\$ 98,940,425</b>	<b>99,076,410</b>	<b>66,444,943</b>	<b>\$ 32,631,467</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**Note 1. Budgetary Funds:**

South Carolina's Annual Appropriations Act, the State's 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 these funds are primarily taxes. The State expends General Funds to provide traditional State government services. The General Funds column in the Appropriations Act differs somewhat from the GAAP General Fund and is referred to within these notes and in the accompanying schedule as the *Budgetary General Fund*.

*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 Budgeted Funds*.

**Note 2. Legal Level of Budgetary Control:**

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. The State's Appropriations Act for the 2014-2015 fiscal year has approximately 3,000 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

**Note 3. 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 required.

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

1. Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 12.
2. Certain revenues collected in advance are recorded as liabilities (unearned revenues) rather than as revenues.
3. The following taxes are recorded on the modified accrual basis in accordance with State law: admissions tax, alcoholic liquors tax, beer and wine tax, business license tax, documentary tax, electric power tax, and retail sales taxes.
4. Certain non-cash activity, such as food stamp benefits, is recorded as revenue and expenditure in the fiscal year in which the resources are distributed to the beneficiaries.
5. All other revenues are recorded only when the State receives the related cash.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**Note 4. Reconciliation of Budget to GAAP Reporting Differences:**

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassifications from financial statement fund types to budgetary fund categories, reversals of payroll accruals and the related fringe benefits, and removals of unbudgeted accounts and funds, if any. Acquisitions of fixed assets by donation are unbudgeted and capital lease and installment purchase transactions are budgeted in the year of payment.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE SOUTH CAROLINA GOVERNOR'S OFFICE'S PROPORTIONATE SHARE OF THE NET  
PENSION LIABILITY - SOUTH CAROLINA RETIREMENT SYSTEM**

**LAST TWO FISCAL YEARS**

	<b>Year Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
South Carolina Governor's Office's Proportion of the Net Pension Liability	0.10878%	0.10878%
South Carolina Governor's Office's Proportionate Share of the Net Pension Liability	\$ 18,728,482	\$ 19,511,431
South Carolina Governor's Office's Covered-Employee Payroll	\$ 9,552,984	\$ 8,846,059
South Carolina Governor's Office's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	196.05%	220.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.919%	56.388%

**Notes to Schedule:**

The amounts presented for each fiscal year were determined as of June 30th of the preceding year. Only two years of data were available; thus, only two years were presented.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE SOUTH CAROLINA GOVERNOR'S OFFICE'S CONTRIBUTIONS  
SOUTH CAROLINA RETIREMENT SYSTEM**

**LAST TWO FISCAL YEARS**

---

	<b>Year Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Contractually Required Contribution	\$ 1,191,754	\$ 1,046,845
Contributions in Relation to the Contractually Required Contribution	1,191,754	1,046,845
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
South Carolina Governor's Office's Covered-Employee Payroll	\$ 9,717,414	\$ 9,552,984
Contributions as a Percentage of Covered-Employee Payroll	12.26%	10.96%

**Notes to Schedule:**

Only two years of data were available; thus, only two years were presented.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE SOUTH CAROLINA GOVERNOR'S OFFICE'S PROPORTIONATE SHARE OF THE NET  
PENSION LIABILITY - POLICE OFFICERS RETIREMENT SYSTEM**

**LAST TWO FISCAL YEARS**

---

	<b>Year Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
South Carolina Governor's Office's Proportion of the Net Pension Liability	0.00542%	0.00542%
South Carolina Governor's Office's Proportionate Share of the Net Pension Liability	\$ 103,705	\$ 112,293
South Carolina Governor's Office's Covered-Employee Payroll	\$ 76,075	\$ 44,322
South Carolina Governor's Office's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	136.32%	253.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.55%	62.98%

**Notes to Schedule:**

The amounts presented for each fiscal year were determined as of June 30th of the preceding year. Only two years of data were available; thus, only two years were presented.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE SOUTH CAROLINA GOVERNOR'S OFFICE'S CONTRIBUTIONS  
POLICE OFFICERS RETIREMENT SYSTEM**

**LAST TWO FISCAL YEARS**

---

	<b>Year Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Contractually Required Contribution	\$ 11,525	\$ 8,366
Contributions in Relation to the Contractually Required Contribution	11,525	8,366
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
South Carolina Governor's Office's Covered-Employee Payroll	\$ 85,940	\$ 76,075
Contributions as a Percentage of Covered-Employee Payroll	13.41%	11.00%

**Notes to Schedule:**

Only two years of data were available; thus, only two years were presented.



# **SUPPLEMENTARY INFORMATION**

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION**

**JUNE 30, 2015**

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 443	196,871	3,705,533	\$ 3,902,847
Due from the State General Fund	26,759	139,641	398,881	565,281
Prepaid Items	-	-	261,353	261,353
<b>Total assets</b>	<b>\$ 27,202</b>	<b>336,512</b>	<b>4,365,767</b>	<b>\$ 4,729,481</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 438	7,614	23,112	\$ 31,164
Accrued payroll and related liabilities	26,759	139,641	398,881	565,281
<b>Total liabilities</b>	<b>27,197</b>	<b>147,255</b>	<b>421,993</b>	<b>596,445</b>
Fund Balances:				
Nonspendable:				
Prepaid Items	-	-	261,353	261,353
Unassigned	5	189,257	3,682,421	3,871,683
<b>Total fund balances</b>	<b>5</b>	<b>189,257</b>	<b>3,943,774</b>	<b>4,133,036</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 27,202</b>	<b>336,512</b>	<b>4,365,767</b>	<b>\$ 4,729,481</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION**

**YEAR ENDED JUNE 30, 2015**

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Revenues</b>				
State appropriations	\$ 315,390	1,967,710	7,431,891	\$ 9,714,991
<b>Total revenues</b>	<b>315,390</b>	<b>1,967,710</b>	<b>7,431,891</b>	<b>9,714,991</b>
<b>Expenditures</b>				
Finance and administration:				
Personal services	214,502	1,311,666	506,213	2,032,381
Employer contributions	75,400	384,087	277,392	736,879
Other operating	28,433	274,302	430,733	733,468
Foster Care:				
Personal services	-	-	239,533	239,533
Employer contributions	-	-	83,732	83,732
Other operating	-	-	52,482	52,482
Continuum of Care:				
Personal services	-	-	1,082,790	1,082,790
Employer contributions	-	-	387,305	387,305
Other operating	-	-	639,573	639,573
Case services	-	-	333,794	333,794
Guardian Ad Litem:				
Personal services	-	-	1,024,886	1,024,886
Employer contributions	-	-	355,907	355,907
Other operating	-	-	803,702	803,702
Developmental Disabilities:				
Personal services	-	-	49,714	49,714
Employer contributions	-	-	11,615	11,615
Other operating	-	-	2,494	2,494
Ombudsman/Citizen Services:				
Personal services	-	-	161,513	161,513
Employer contributions	-	-	70,827	70,827
Other operating	-	-	7,463	7,463
Veteran Counseling	-	-	24,820	24,820
Victims Assistance:				
Claims and awards	-	-	41,312	41,312
Veterans Affairs:				
Personal services	-	-	432,432	432,432
Employer contributions	-	-	130,677	130,677
Other operating	-	-	11,023	11,023
Veterans' Cemetery:				
Personal services	-	-	239,677	239,677
Employer contributions	-	-	99,006	99,006
Other operating	-	-	94,591	94,591
Children Affairs:				
Personal services	-	-	37,619	37,619
Children's Trust Fund:				
Distributions to subrecipients	\$ -	-	100,000	\$ 100,000

(Continued)

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION**

**YEAR ENDED JUNE 30, 2015**

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
Small and Minority Business:				
Personal services	\$ -	-	87,780	\$ 87,780
Employer contributions	-	-	21,535	21,535
Other operating	-	-	14,164	14,164
Total expenditures	<u>318,335</u>	<u>1,970,055</u>	<u>7,856,304</u>	<u>10,144,694</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(2,945)</u>	<u>(2,345)</u>	<u>(424,413)</u>	<u>(429,703)</u>
<b>Net changes in fund balances</b>	<u>(2,945)</u>	<u>(2,345)</u>	<u>(424,413)</u>	<u>(429,703)</u>
Fund balances, beginning of year	<u>2,950</u>	<u>191,602</u>	<u>4,368,187</u>	<u>4,562,739</u>
<b>Fund balances, end of year</b>	<u><u>\$ 5</u></u>	<u><u>189,257</u></u>	<u><u>3,943,774</u></u>	<u><u>\$ 4,133,036</u></u>



**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**COMBINING BALANCE SHEET - OTHER NONMAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2015**

	<b>Guardian Ad Litem</b>	<b>Finance and Administration</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,509,257	286,995
Accounts receivable	101,216	-
<b>Total assets</b>	<b>\$ 2,610,473</b>	<b>286,995</b>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Accounts payable	\$ 11,296	-
Accrued payroll and related liabilities	281,382	-
Deposits held for clients	-	499
<b>Total liabilities</b>	<b>292,678</b>	<b>499</b>
Fund Balances:		
Restricted For:		
Economic Opportunity	-	-
Committed For:		
Guardian Ad Litem	2,317,795	-
Mansion Operations	-	-
Assigned	-	286,496
<b>Total fund balances</b>	<b>2,317,795</b>	<b>286,496</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,610,473</b>	<b>286,995</b>

<b>Foster Care</b>	<b>Ombudsman/ Citizen Services</b>	<b>Economic Opportunity</b>	<b>Mansion Operations</b>	<b>Totals</b>
799,598	98,345	56,862	69,372	\$ 3,820,429
53,821	-	-	-	155,037
<b>853,419</b>	<b>98,345</b>	<b>56,862</b>	<b>69,372</b>	<b>\$ 3,975,466</b>
827	23	-	-	\$ 12,146
63,027	15,531	-	8,932	368,872
-	-	-	-	499
<b>63,854</b>	<b>15,554</b>	<b>-</b>	<b>8,932</b>	<b>381,517</b>
-	-	56,862	-	56,862
-	-	-	-	2,317,795
-	-	-	60,440	60,440
789,565	82,791	-	-	1,158,852
<b>789,565</b>	<b>82,791</b>	<b>56,862</b>	<b>60,440</b>	<b>3,593,949</b>
<b>853,419</b>	<b>98,345</b>	<b>56,862</b>	<b>69,372</b>	<b>\$ 3,975,466</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER  
NONMAJOR GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2015**

	<b>Guardian Ad Litem</b>	<b>Finance and Administration</b>	<b>Foster Care</b>
<b>Revenues</b>			
Other government grants and contributions	\$ 4,956,387	-	-
Interest	8,286	-	-
Medicaid reimbursements	-	-	940,823
Miscellaneous	-	-	-
<b>Total revenues</b>	<b>4,964,673</b>	<b>-</b>	<b>940,823</b>
<b>Expenditures</b>			
Finance and administration:			
Other operating	-	683,573	-
Foster Care:			
Personal services	-	-	565,174
Employer contributions	-	-	182,494
Other operating	-	-	125,328
Guardian Ad Litem:			
Personal services	2,165,230	-	-
Employer contributions	711,377	-	-
Other operating	611,521	-	-
Ombudsman/Citizen Services:			
Personal services	-	-	-
Employer contributions	-	-	-
Other operating	-	-	-
Mansion Operations:			
Personal services	-	-	-
Employer contributions	-	-	-
Other operating	-	-	-
Economic Opportunity:			
Personal services	-	-	-
Employer contributions	-	-	-
Distributions to subrecipients	-	-	-
<b>Total expenditures</b>	<b>3,488,128</b>	<b>683,573</b>	<b>872,996</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>1,476,545</b>	<b>(683,573)</b>	<b>67,827</b>
<b>Other Financing Sources (Uses):</b>			
Indirect costs retained by the Office	-	118,106	-
Transfers In	-	-	-
Transfers Out	-	(4,056)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>114,050</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>1,476,545</b>	<b>(569,523)</b>	<b>67,827</b>
Fund balances, beginning of year	841,250	856,019	721,738
<b>Fund balances, end of year</b>	<b>\$ 2,317,795</b>	<b>286,496</b>	<b>789,565</b>

<b>Ombudsman/ Citizen Services</b>	<b>Economic Opportunity</b>	<b>Mansion Operations</b>	<b>Totals</b>
196,000	352,035	-	\$ 5,504,422
-	-	-	8,286
-	-	-	940,823
-	-	91,232	91,232
<b>196,000</b>	<b>352,035</b>	<b>91,232</b>	<b>6,544,763</b>
-	-	-	683,573
-	-	-	565,174
-	-	-	182,494
-	-	-	125,328
-	-	-	2,165,230
-	-	-	711,377
-	-	-	611,521
156,038	-	-	156,038
46,080	-	-	46,080
33,010	-	-	33,010
-	-	97,090	97,090
-	-	34,740	34,740
-	-	60,660	60,660
-	10,134	-	10,134
-	2,716	-	2,716
-	341,215	-	341,215
235,128	354,065	192,490	5,826,380
<b>(39,128)</b>	<b>(2,030)</b>	<b>(101,258)</b>	<b>718,383</b>
-	-	-	118,106
-	-	-	-
-	(15,761)	-	(19,817)
-	(15,761)	-	98,289
<b>(39,128)</b>	<b>(17,791)</b>	<b>(101,258)</b>	<b>816,672</b>
121,919	74,653	161,698	2,777,277
<b>82,791</b>	<b>56,862</b>	<b>60,440</b>	<b>\$ 3,593,949</b>



# **COMPLIANCE SECTION**

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Education</b>		
Direct Program:		
Rehabilitation Services - Client Assistance Program	84.161	\$ 164,548
<b>Total U.S. Department of Education</b>		<u>164,548</u>
<b>U.S. Department of Labor</b>		
Direct Program:		
WIA Adult Program	17.258	68
<b>Total U.S. Department of Labor</b>		<u>68</u>
<b>U.S. Department of Energy</b>		
Direct Program:		
ARRA - Weatherization Assistance for Low Income Persons	81.042	82
Weatherization Assistance for Low Income Persons	81.042	1,274,643
<b>Total U.S. Department of Energy</b>		<u>1,274,725</u>
<b>U.S. Department of Justice</b>		
Direct Programs:		
Crime Victim Assistance	16.575	48,568
Crime Victim Compensation	16.576	4,446,807
<b>Total U.S. Department of Justice</b>		<u>4,495,375</u>
<b>U.S. Department of Health and Human Services</b>		
Direct Programs:		
Low Income Home Energy Assistance	93.568	35,751,740
Community Services Block Grant	93.569	9,386,480
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,480,740
<b>Total U.S. Department of Health and Human Services</b>		<u>46,618,960</u>
<b>U.S. Department of Housing and Urban Development</b>		
Direct Programs:		
Emergency Solutions Grant Program	14.231	2,402,140
<b>Total U.S. Department of Housing and Urban Development</b>		<u>2,402,140</u>
Grand Total		<u>\$ 54,955,816</u>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**Note 1. Basis of Presentation:**

The accompanying schedule of expenditures of federal awards includes the federal grant and federal program activity of South Carolina Governor's Office (the "Office") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Due to timing differences in the recording of expenditures, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements and amounts reported in federal financial reports.

**Note 2. Subrecipients:**

Of the federal expenditures presented in the schedule, the South Carolina Governor's Office provided federal awards to subrecipients as follows:

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Health and Human Services:		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	\$ 1,205,795
Community Services Block Grant	93.569	9,039,201
Low Income Home Energy Assistance	93.568	34,595,042
U.S. Department of Energy:		
Weatherization Assistance for Low Income Persons	81.042	1,120,576
U.S. Department of Housing and Urban Development:		
Emergency Solutions Grant Program	14.231	<u>2,137,626</u>
Total provided to subrecipients		<u><u>\$ 48,098,240</u></u>



**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***

**INDEPENDENT AUDITOR'S REPORT**

Mr. George L. Kennedy, CPA  
State Auditor  
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 Governor's Office (the "Office"), as of and for the 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 April 4, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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 *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. 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

**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*.

### **Office's Response to Finding**

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

### **Purpose of this Report**

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



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
April 4, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on Compliance for Each Major Federal Program**

We have audited the South Carolina Governor's Office's (the "Office") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Office's major federal programs for the year ended June 30, 2015. The Office's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Office's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Office's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Office complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

Management of the Office is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Office's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
April 4, 2016

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2015**

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**2014-002: REPORTING – SUBAWARD REPORTING UNDER THE TRANSPARENCY ACT**

**Federal Agency: U.S. Department of Veteran Affairs, U.S. Department of Housing and Urban Development, U.S. Department of Energy, and U.S. Department of Health and Human Services**

**Pass-Through Agency: N/A**

**CFDA #'s 14.231, 64.203, 81.042, 93.568, and 93.569**

**Pass-Through Grantor's Award Numbers and Years: N/A**

**Condition:** During our testing of the reporting compliance requirements, we noted the Office did not submit the required subaward reports for the Community Services Block Grants (93.569) and the Low Income Home Energy Assistance Program (93.568) and submitted the subaward reports for the Weatherization Assistance Program (81.042), State Cemetery Grant (64.203), and Emergency Solutions Grants (14.231) after the required deadline.

**Criteria:** The Federal Funding Accountability and Transparency Act ("FFATA") requires all prime grant recipients awarded a new federal grant greater than \$25,000 to submit a subaward report by the end of the month following the month in which the prime recipient awards any subaward or subcontract greater than or equal to \$25,000. This report is submitted through the various FFATA Subaward Reporting Systems (FSRS).

**Status:** Required subaward reports were completed and submitted during the year ended June 30, 2015.

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**2014-003: MATCHING FUNDS**

**Federal Agency: U.S. Department of Housing and Urban Development ("HUD")**

**Pass-Through Agency: N/A**

**CFDA #'s 14.231**

**Pass-Through Grantor's Award Numbers and Years: N/A**

**Condition:** During our testing of the matching compliance requirement, we noted that the Office was not documenting the matching funds used to comply with the Emergency Solutions Grant ("ESG") compliance requirement. In addition, the Office was aware that the first \$100,000 of the grant was not required to be matched, but they were not aware that it had to be shared proportionately with the subgrantees. The Office was ultimately able to provide documentation showing that the grants were fully matched.

**Criteria:** Title 24, Section 576.51 of the Code of Federal Regulations states that each grantee must match the funding provided by HUD under its ESG Program with an equal amount from sources other than those provided under the ESG Program. The exception is that a State grantee is not required to match the first \$100,000 of assistance provided to it, but the benefit of the unmatched amount must be shared with local governments and other subrecipients.

**Status:** The Office began documenting the matching fund used to comply with the ESG compliance requirement in fiscal year 2015.

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**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2015**

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**2014-004: DAVIS BACON**

**Federal Agency: U.S. Department of Veterans' Affairs**

**Pass-Through Agency: N/A**

**CFDA #'s 64.203**

**Pass-Through Grantor's Award Numbers and Years: N/A**

**Condition:** During our testing of the Davis-Bacon compliance requirement, we noted that the Office was not obtaining weekly certified payroll reports.

**Criteria:** The Davis-Bacon Act requires all laborers employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds to be paid wages not less than those established for the locality of the project. Non-Federal entities are required to obtain certified payrolls from the contractors or subcontractors weekly for each week in which any contract work is performed.

**Status:** This program was completed and closed out in the prior year; thus, no further Davis-Bacon reports were required.

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**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2015**

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**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u>  x  </u> Yes	<u>          </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>          </u> Yes	<u>  x  </u> None Reported
Noncompliance material to financial statements noted?	<u>          </u> Yes	<u>  x  </u> No

***Federal Awards***

Internal control over major programs:

Material weakness(es) identified?	<u>          </u> Yes	<u>  x  </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>          </u> Yes	<u>  x  </u> None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u>          </u> Yes	<u>  x  </u> No
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Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.568	Low Income Home Energy Assistance
93.569	Community Services Block Grants
14.231	Emergency Solutions Grant Program
16.576	Crime Victim Compensation

Dollar threshold used to distinguish between type A and type B programs	<u>\$ 1,648,674</u>
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Auditee qualified as low-risk auditee?	<u>          </u> Yes	<u>  x  </u> No
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**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2015**

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**Section II – Current Year Financial Statement Findings**

**2015-001: RECORDING OF TRANSACTIONS AND ACCRUALS**

**Condition/Context:** Internal controls were not sufficient to detect material misstatements in the Office's financial statements for the year ended June 30, 2015. During our audit, we identified several transactions that were not properly recorded in accordance with generally accepted accounting principles. The Office failed to properly accrue disbursements made to subrecipients after year-end for amounts earned prior to year-end. We also noted approximately \$155,000 in revenues that had been earned, but not received as of June 30, 2015 and \$237,000 in prepaid expenditures that were not properly recorded.

**Criteria:** The Office should have internal controls in place to ensure that revenues and expenditures and related accruals are properly recorded in accordance with generally accepted accounting principles.

**Effect:** Audit adjustments were required to properly report current year transactions, as follows:

- Federal revenues and expenditures, including expenditures reported on the Schedule of Expenditures of Federal Awards, required an adjustment of approximately \$1,062,000 to properly report reimbursements to subrecipients paid after June 30, 2015 for expenditures incurred by subrecipients prior to June 30, 2015. The SEFA was initially understated; thus, there were no findings related to allowable costs.
- An adjustment of approximately \$237,000 was required to properly report prepaid expenditures as of June 30, 2015. The Office purchased a five year license and initially recorded the entire five year fee as an expenditure in the year ended June 30, 2015.
- An adjustment of approximately \$155,000 was required to properly report revenues and receivables as of and for the year ended June 30, 2015. The Office did not initially record two receivables for services provided to other agencies prior to June 30, 2015.

**Cause:** The misstatements identified above were the result of management oversight.

**Recommendation:** We recommend the Office carefully review all transactions to ensure they are reported accurately and in the proper reporting period in accordance with generally accepted accounting principles.

**Response:** Management concurs with this finding and in the future will carefully review all transactions to ensure they are reported accurately and in the proper reporting period in accordance with generally accepted accounting principles.

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**Section III Findings – Federal Award Findings and Questioned Costs**

There were no federal award findings for the year ended June 30, 2015.