

South Carolina Office of the State Treasurer

Report on Audit of Financial Statements

*For the Year Ended June 30, 2011*

(With Independent Auditors' Report Thereon)

## Contents

---

	<u>Page</u>
Management’s Discussion and Analysis .....	1-5
Independent Auditors’ Report .....	6-7
Basic Financial Statements:	
Statement of Net Assets – Modified Cash Basis .....	8
Statement of Activities – Modified Cash Basis.....	9
Balance Sheet-Governmental Funds – Modified Cash Basis .....	10
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Fund – Modified Cash Basis .....	11
Statement of Fiduciary Assets and Liabilities - Fiduciary Funds – Modified Cash Basis .....	12
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds – Modified Cash Basis.....	13
Notes to the Financial Statements .....	14-29
Supplementary Information – Budgetary Comparison Schedule – General Fund.....	30
Supplementary Information – Budgetary Comparison Schedule – Aid to Subdivisions Fund.....	31
Notes to Supplementary Information – Budgetary Comparison Schedule.....	32-33

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2011

The Management's Discussion and Analysis ("MD&A") of the South Carolina Office of the State Treasurer provides an overview and overall review of the State Treasurer's Office's financial activities for the fiscal year ended June 30, 2011. The intent of the MD&A is to look at the State Treasurer's Office's financial statements and the notes thereto.

### **FINANCIAL HIGHLIGHTS**

The South Carolina Office of the State Treasurer (the "Office") prepared its financial statements on the modified cash basis of accounting which is another comprehensive basis of accounting other than Generally Accepted Accounting Principles ("GAAP") as recognized in AU Sections 623.02 – 623.10 of the American Institute of Certified Public Accountants Professional Standards. Management records receipts and disbursements on a cash basis because it believes this comprehensive basis of accounting is more suitable to the efficient administration of the Office. Management considers cash receipts and disbursements information for operational needs as essential to the decision process and therefore has adopted this basis of accounting.

In reading the information that follows, the reader is asked to note the use of the modified cash basis accounting. The financial statements are presented using the modified cash basis of accounting which is a comprehensive basis of accounting other than GAAP. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in GAAP. Modifications include adjustments for the following balances:

- Due to Depositors – Cash and cash equivalents held by Agency Funds are held in a fiduciary capacity by the Office and are due back to the depositors. As such, a liability is recorded for the entire amount held by the Office in these funds.
- Investments – Amounts held by the Office in the Tuition Prepayment Fund that are investments or deposits with maturities in excess of 90 days from purchase are recorded as investments.

These financial statements do not include the transactions or balances from the South Carolina Tobacco Settlement Revenue Management Authority, South Carolina Resources Authority, or South Carolina Local Government Investment Pool, which are audited separately.

Additionally, this is the first year of implementation of Governmental Accounting Standards Board ("GASB") Statement 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* for the Office. GASB Statement 34 provides that in the first year of implementation, only one year of government-wide data is required to be presented, however, since there is no previous fund level information for the Office, only one year of both government-wide and fund level information is presented in this discussion and analysis. A comparative analysis will be provided in future years. The Office has implemented GASB Statement 34 as limited by the modified cash basis of accounting.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2011

As of and for the year ended June 30, 2011:

- The Office's total net assets increased by \$132,882 and the assets of the Office exceeded its liabilities (net assets) by \$388,780.
- The Office received \$222,710,105 in appropriations from the State of South Carolina. Substantially all of which was disbursed for general operations and aid to subdivisions.
- The Office held \$592,551,461 of cash and cash equivalents in an agency capacity.

**USING THESE AUDITED FINANCIAL STATEMENTS**

The audited basic financial statements presented in the annual report include both government-wide and fund financial statements.

**Government-wide Statements:**

Government-wide statements include a Statement of Net Assets – Modified Cash Basis and a Statement of Activities – Modified Cash Basis. These statements display information about the Office as a whole. The government-wide financial statements of the Office are presented on the modified cash basis of accounting and provide short-term information about the Office.

**Fund Statements:**

The fund financial statements include the Governmental Funds' Balance Sheet – Modified Cash Basis and Statement of Revenue, Expenditures, and Changes in Fund Balance – Modified Cash Basis. In the fund financial statements, the revenues and expenditures of the Office are presented using the modified cash basis of accounting. As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. The modified cash basis of accounting is based on the recording of cash and investments and changes therein, and only recognizes revenues, expenses, transfers, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles.

The Office provides banking and investment services for state agencies. The cash and cash equivalents held by the Office on behalf of the State are reported in the Fiduciary Funds.

**Statement of Net Assets** –The Statement of Net Assets – Modified Cash Basis provides a summary of the Treasurer's financial condition at the end of the 2011 fiscal year; the statement reports all assets and liabilities using the modified cash basis of accounting. The Statement of Changes in Net Assets – Modified Cash Basis reports the revenues and expenses during the time periods indicated.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2011

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NET ASSETS – MODIFIED CASH BASIS

	2011
Current Assets	\$ 388,780
Total Assets	388,780
Restricted	388,639
Unrestricted	141
Total Net Assets	\$ 388,780

As of June 30, 2011, the Office's current assets increased by 51.93% as a result of earmarked revenues, which are determined by legislation, exceeding expenses.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
CHANGES IN NET ASSETS – MODIFIED CASH BASIS

	2011
<b>General Revenues</b>	
State Appropriations	\$222,710,105
Service Charges	28,978
Fines and Penalties	116,529
Interest Income	1,296,786
Receipts from Other State Agencies	2,233,573
Other Income	138,907
Total General Revenues	226,524,878
<b>Expenses</b>	
Personnel Services	4,213,424
Travel	21,282
Supplies and Materials	62,150
Contracted Services	723,878
Student Loans – Teachers	1,065,125
Other	71,502
Disbursements to Other State Agencies	200,000
Payments to Subdivisions	220,034,635
Total Expenses	226,391,996
Increase in Net Assets	132,882
Net Assets Beginning Balance	255,898
Net Assets Ending Balance	\$ 388,780

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

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2011

The Office received \$222,710,105 in appropriations from the State of South Carolina. These appropriations were spent for two purposes. The amount of \$1,610,204 was spent on the operations of the Office. The amount of \$220,034,635 was disbursed as aid to various governmental subdivisions throughout the state.

Total operating revenues exceeded operating expenses by \$132,882. This resulted in a corresponding increase in nets assets from year to year.

**Fund Highlights:**

**Governmental Funds**

The focus of the Office's governmental funds is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the chief operating fund of the Office. The General Fund's operating revenues are appropriations from the State of South Carolina. Revenues are not budgeted by the Office, therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budget. This resulted in revenues exceeding expenditures by \$141 for the year ended June 30, 2011, which is the ending fund balance for the general fund.

The major special revenue fund, the Aid to Subdivisions Fund, distributes funds to various political subdivisions of the state based on amounts budgeted by the State. All amounts that were appropriated to the fund by the State were distributed to the subdivisions resulting in no change in fund balance for the year ended June 30, 2011.

Other governmental funds consist of a special revenue fund that accounts for monies earmarked for the Office. As required by the earmark, these amounts can only be spent on specific operational expenditures of the Office and therefore, the remaining fund balance is considered restricted.

**Budget Highlights:**

The State Treasurer's Office budget for the general fund was originally \$1,596,170 for the year ended June 30, 2011. This compares to a final budgeted appropriation of \$1,610,345. Actual appropriations for the general fund were \$1,610,345 and the actual expenditures totaled \$1,610,204. These actual appropriations and expenditures were in line with the final budgeted amounts of \$1,610,345.

The State Treasurer's Office budget for the aid to subdivisions fund was originally \$216,522,429 for the year ended June 30, 2011. This compares to a final budgeted appropriation of \$220,034,635. Actual appropriations for the aid to subdivisions fund were \$220,034,635 and the actual expenditures totaled \$220,034,635. These actual appropriations and expenditures were in line with the final budgeted amounts of \$220,034,635.

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

Currently, there are no known conditions that are expected to have a significant effect on the Office's financial position.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2011

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

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



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer (the Office), as of and for the year ended June 30, 2011, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Treasurer and the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

As described in Note 1, the Office prepares its financial statements on the modified basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As described in Note 1, the accompanying financial statements of the Office are intended to present the financial position – modified cash basis and results of operations – modified cash basis of only that portion of the State of South Carolina that is attributable to certain transactions and activities of the South Carolina Office of the State Treasurer. The accompanying financial statements exclude the South Carolina Resources Authority, the South Carolina Tobacco Settlement Revenue Management Authority, the South Carolina Local Government Investment Pool, and all debt service transactions related to obligations of the State of South Carolina, its agencies, departments, and political subdivisions. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2011, 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.

We have also issued our report dated December 5, 2011 on our performance audit of the processes and procedures related to financial recordkeeping, reporting and transaction processing occurring within the primary functions and divisions of the Office for the period from July 1, 2010 through June 30, 2011. That report should be considered in assessing the results of our audit of the accompanying financial statements of the Office.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities and each major fund of the Office as of June 30, 2011, and the respective changes in financial position – modified cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Office's basic financial statements. Management's discussion and analysis, the budgetary comparison schedules, and the notes to the budgetary comparison schedules on pages 1 - 5, pages 30 - 31, and pages 32 - 33, respectively are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Management's discussion and analysis, the budgetary comparison schedules, and the notes to the budgetary comparison schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*Elliott Davis, LLC*

Columbia, South Carolina  
October 5, 2012

South Carolina Office of the State Treasurer  
Statement of Net Assets – Modified Cash Basis  
June 30, 2011

<b>ASSETS</b>	
Cash and cash equivalents	\$ 388,780
Total Assets	<u>388,780</u>
<b>NET ASSETS</b>	
Unrestricted	141
Restricted for Office Operations	388,639
Total Net Assets	<u>\$ 388,780</u>

*The notes to the financial statements are an integral part of this statement.*

South Carolina Office of the State Treasurer  
Statement of Activities – Modified Cash Basis  
for the year ended June 30, 2011

**Expenses**

**Governmental Activities – General Government**

Personal Services	\$ 4,213,424
Travel	21,282
Supplies and Materials	62,150
Contracted Services	723,878
Student Loans – Teachers	1,065,125
Other Expenses	71,502
Disbursements to Other State Agencies	200,000
Payments to Subdivisions	<u>220,034,635</u>
Total Expenses	<u>226,391,996</u>

**General Revenues**

State Appropriations	222,710,105
Service Charges	28,978
Fines and Penalties	116,529
Interest Income	1,296,786
Receipts from Other State Agencies	2,233,573
Other Income	<u>138,907</u>
Total General Revenues	<u>226,524,878</u>

Increase in Net Assets	132,882
Net Assets, July 1, 2010	<u>255,898</u>
Net Assets, June 30, 2011	<u>\$ 388,780</u>

*The notes to the financial statements are an integral part of this financial statement.*

South Carolina Office of the State Treasurer  
 Balance Sheet – Modified Cash Basis  
 Governmental Funds  
 June 30, 2011

	<u>General Fund</u>	<u>Aid to Subdivisions Fund</u>	<u>State Treasurer's Office Earmarked Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 141	\$ —	\$ 388,639	\$ 388,780
Total Assets	<u>141</u>	<u>—</u>	<u>388,639</u>	<u>388,780</u>
<b>FUND BALANCE</b>				
Restricted for Office Operations	—	—	388,639	388,639
Unassigned	141	—	—	141
Total Fund Balance	<u>\$ 141</u>	<u>\$ —</u>	<u>\$ 388,639</u>	<u>\$ 388,780</u>

*The notes to the financial statements are an integral part of this financial statement.*

South Carolina Office of the State Treasurer  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Fund – Modified Cash Basis  
for the year ended June 30, 2011

	<b>General Fund</b>	<b>Aid to Subdivisions Fund</b>	<b>State Treasurer's Office Earmarked Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Service Charges	\$ —	\$ —	\$ 28,978	\$ 28,978
Fines and Penalties	—	—	116,529	116,529
Interest Income	—	—	1,296,786	1,296,786
State Appropriations	1,610,345	220,034,635	1,065,125	222,710,105
Other Income	—	—	138,907	138,907
Receipts from Other State Agencies	—	—	2,233,573	2,233,573
Total Revenues	<u>1,610,345</u>	<u>220,034,635</u>	<u>4,879,898</u>	<u>226,524,878</u>
<b>Expenditures</b>				
Personal Services	1,566,030	—	2,647,394	4,213,424
Travel	11,336	—	9,946	21,282
Supplies and Materials	20,682	—	41,468	62,150
Contracted Services	—	—	723,878	723,878
Student Loans - Teachers	—	—	1,065,125	1,065,125
Other	12,156	—	59,346	71,502
Payments to Subdivisions	—	220,034,635	—	220,034,635
Disbursements to Other State Agencies	—	—	200,000	200,000
Total Expenditures	<u>1,610,204</u>	<u>220,034,635</u>	<u>4,747,157</u>	<u>226,391,996</u>
Revenues Over (Under) Expenditures	<u>141</u>	<u>—</u>	<u>132,741</u>	<u>132,882</u>
Net Change In Fund Balance	141	—	132,741	132,882
<b>Fund Balance, July 1, 2010</b>	<u>—</u>	<u>—</u>	<u>255,898</u>	<u>255,898</u>
<b>Fund Balance, June 30, 2011</b>	<u>\$ 141</u>	<u>\$ —</u>	<u>\$ 388,639</u>	<u>\$ 388,780</u>

*The notes to the financial statements are an integral part of this financial statement.*

South Carolina Office of the State Treasurer  
Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds – Modified Cash Basis  
June 30, 2011

	<u>Tuition Prepayment Trust</u>	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,671,539	\$ 10,596,341	\$ 592,551,461
Investments	126,992,191	—	—
<b>Total Assets</b>	<u>128,663,730</u>	<u>10,596,341</u>	<u>592,551,461</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Due to Depositors	—	—	592,551,461
<b>Total Liabilities</b>	<u>—</u>	<u>—</u>	<u>\$ 592,551,461</u>
<b>Net Assets</b>			
Held in trust for:			
Tuition Payment	128,663,730	—	
Nuclear Plant Decommissioning	—	9,180,077	
Other Purposes	—	1,416,264	
<b>Total Net Assets</b>	<u>128,663,730</u>	<u>10,596,341</u>	
<b>Total Liabilities and Net Assets</b>	<u>\$ 128,663,730</u>	<u>\$ 10,596,341</u>	

*The notes to the financial statements are an integral part of this financial statement.*

South Carolina Office of the State Treasurer  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds – Modified Cash Basis  
for the year ended June 30, 2011

	<b>Tuition Prepayment Trust</b>	<b>Private Purpose Trust</b>
	<u>                    </u>	<u>                    </u>
<b>Additions:</b>		
Service Fees	782,202	43,037
Sales and Use Taxes	—	1,821,977
Interest and Investment Income	22,777,999	1,126,483
Receipts from Other State Agencies	—	340,662
<b>Total Additions</b>	<u>\$ 23,560,201</u>	<u>\$ 3,332,159</u>
 <b>Deductions:</b>		
Tuition Payment	12,824,420	—
State Allocations	—	1,852,577
Contractual Services	—	2,934,048
Other Expenses	—	2,713
Disbursements to Other State Agencies	190,591	593,932
<b>Total Deductions</b>	<u>13,015,011</u>	<u>5,383,270</u>
Change in Net Assets	10,545,190	(2,051,111)
Net Assets at Beginning of Year	118,118,540	12,647,452
Net Assets at End of Year	<u>\$ 128,663,730</u>	<u>\$ 10,596,341</u>

*The notes to the financial statements are an integral part of this financial statement.*

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

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

The primary functions of the Office are the maintenance of bank accounts for the receipt and disbursement of state funds, the prudent investment of certain state funds, and the administration of the State's Unclaimed Property Program. Additionally, the Office performs safekeeping and investment functions for state agencies and other entities as authorized by state statute. Various activities of the Office include receipt of warrants, vouchers, management of cash and investments, and the reconciliation of account balances and transactions with the various state agencies. The Office is also responsible for accounting functions associated with the South Carolina Tobacco Settlement Revenue Management Authority, South Carolina Resources Authority, and the South Carolina Local Government Investment Pool.

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State of South Carolina that is attributable to transactions of the Office, and exclude the South Carolina Resources Authority, the South Carolina Tobacco Settlement Revenue Management Authority, and the South Carolina Local Government Investment Pool, which are audited and reported on separately.

**B. Basis of Presentation, Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements**

The government-wide financial statements are presented using the modified cash basis of accounting which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles ("GAAP"). The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances:

- Due to Depositors – Cash and cash equivalents held by Agency Funds are held in a fiduciary capacity by the Office and are due back to the depositors. As such, a liability is recorded for the entire amount held by the Office in these funds.
- Investments – Amounts held by the Office in the Tuition Prepayment Trust Fund that are investments or deposits with maturities in excess of 90 days from purchase are recorded as investments.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

2. **Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements (continued)**

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables), capital assets and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, compensated absences, and other accrued expenses and liabilities) are not recorded in these financial statements.

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

Additionally, the Office receives reimbursement for certain costs incurred in connection with the recovery, advertisement, and sale of unclaimed property. For the year ended June 30, 2011 the Office received \$1,300,000 of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the State's Unclaimed Property Program. Unclaimed property is accounted for as an agency fund.

**Fund Financial Statements**

**Basis of Accounting**

*Modified Cash Basis*

The governmental fund financial statements are presented using the modified cash basis of accounting which is a comprehensive basis of accounting other than GAAP. This basis of accounting is the same as the basis used for the government-wide financial statements. Please refer to the policies regarding the government-wide financial statements for information regarding the presentation of the governmental fund financial statements.

**Governmental Fund Types**

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

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

2. **Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)**

**Governmental Fund Types (continued)**

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

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

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

- *Tuition Prepayment Fund* – The South Carolina Tuition Prepayment Program was created by the South Carolina General Assembly and allows families to pay in advance for the tuition expenses of a child’s college education at any of South Carolina’s public colleges and universities with potentially significant savings over actual tuition costs at the time the child enrolls in college. The fund accounts for the assets held in trust for the prepayment of college tuition deposited under this program.
- *Private Purpose Trust Funds* – These funds include a trust fund with assets set aside for site stabilization and closure of a nuclear waste site operated by a private company within the State’s borders in the event that the company ceases operations or loses its license to operate. The private-purpose trust funds also include miscellaneous other trust agreements holding assets that benefit non-State parties.
- *Agency Funds* – These funds are used to account for assets held by the Office in an agency capacity. The Office is the official depository for agencies of the State and, accordingly, administers the significant majority of State agency receipts and disbursements.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**2. Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)**

**Governmental Fund Types (continued)**

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

- General Fund
- Aid to Subdivisions Fund

**Cash and Cash Equivalents**

The amounts shown in the accompanying financial statements as *cash and cash equivalents* represent petty cash, cash on deposit in banks, restricted cash and cash equivalents on deposit with external parties, and cash invested in various instruments as a part of the State's cash management pool, an internal investment pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The Office administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements. The amounts shown as cash and cash equivalents for the Tuition Prepayment Trust Fund, contain the same components of cash and cash equivalents as the State's cash management pool, but also include certificates of deposit with maturities of 90 days or less at the date of purchase. The cash and cash equivalents in the Tuition Prepayment Trust Fund are maintained in a separate portfolio set up specifically for the trust fund.

**Cash Management Pool – Allocation of Interest**

The State of South Carolina cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. All earnings on that account are recorded in the General Fund of the State of South Carolina. In contrast, each special deposit account retains its own earnings.

**Investment Holdings and Basis**

The Office is authorized by statute to invest all State funds. The Office's investment objectives are preservation of capital, maintenance of adequate liquidity, and obtaining the best yield possible within prescribed parameters. To meet those objectives, the Office uses various resources including an investment advisory service, electronic financial quotation and information services, various economic reports, and daily communication with brokers and financial institution investment officers.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**2. Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)**

**Investment Holdings and Basis**

To insure safety of principal, the Office's policy is to limit liquid investments (i.e., those with maturities not exceeding one year) to cash, repurchase agreements (when collateralized by United States Treasury, federal agency or other federally guaranteed obligations with a market value in excess of 100.0% of funds advanced), United States Treasury bills, federal agency discount notes, and commercial paper.

The Office further preserves principal by investing in only the highest investment grade securities. In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers. Substantially all of the State's investments are presented at fair value; securities are valued at the last reported sales price as provided by an independent pricing service.

More information pertaining to the carrying amounts, fair value, credit and other risks of the cash management pool that the Office participates in as required under GASB Statement No. 40, Deposits and Investments – Risk Disclosures with the exception of the Tuition Prepayment Portfolio which is fully included in the Office's financial statements, are disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**Fund Balance and Net Assets**

*Fund Balance*

The GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The Office implemented the provisions of this statement during the year ended June 30, 2011. The following categories of fund balance are now being used in the fund level financial statement of the governmental fund:

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**2. Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)**

**Fund Balance and Net Assets (continued)**

*Fund Balance (continued)*

Nonspendable fund balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as other assets. The Office did not have any nonspendable fund balance at June 30, 2011.

Restricted fund balance

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. Most of the Office’s fund balance is presented as restricted as all fund balance is required by statute to be used for the Office’s operations.

Committed fund balance

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Office’s highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Office removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. As of June 30, 2011, the Office did not have any committed fund balance.

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by the Office’s intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Office’s highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Office’s highest level of authority. As of June 30, 2011, the Office did not have any assigned fund balance.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**2. Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)**

**Fund Balance and Net Assets (continued)**

Unassigned fund balance

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

Based on the Office's policies regarding fund balance classifications as noted above, the Office considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by the State or donors has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

*Net Assets*

Restricted net assets

Restricted net assets consist of assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation. In all cases, if individual restricted net asset categories are negative, the negative balance is eliminated and reclassified against unrestricted net assets.

Net assets held in trust

Net assets held in trust consist of assets that are held by the Office in a fiduciary capacity for tuition prepayment, the decommissioning of a nuclear facility, or other specific purposes as defined by the trust.

Unrestricted net assets

All other assets that do not meet the definition of "restricted" are considered unrestricted.

The Office's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**3. Budget Policy**

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

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 89.10 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and Comptroller General. No such transfer may exceed twenty percent of the program budget. Upon request, details of such transfers may be provided to members of the General Assembly on an agency by agency basis. Transfers of appropriations from personal service accounts to other operating accounts or from other operating accounts to personal service accounts may be restricted to any established standard levels set by the Budget and Control Board upon formal approval by a majority of the members of the Budget and Control Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 1 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

**3. Deposits and Investments**

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

The following deposit and investment disclosures are limited to the portfolio of investments held only for the Tuition Prepayment Trust Fund as its portfolio is wholly included within the reporting entity. The balances held by the Office for the remainder of the funds presented in these financial statements act as a demand deposit account and are therefore treated as cash and cash equivalents and would not be relevant to these disclosures.

**a. Deposits**

Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. The State's policy by law requires all banks or savings and loan associations that receive State funds deposited by the Office, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**4. Deposits and Investments (continued)**

**a. Deposits (continued)**

All deposit and investment transactions of the Office are under the control of the Office who, by law, has sole authority for the investment of such funds.

*Custodial Credit Risk*

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

**b. Investments**

*Investment Policy*

The State's investment policy by law authorizes investments that vary by fund, but generally include 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, certain corporate bonds, and commercial paper. Substantially all of the Office's investments are presented at fair value. Securities are valued at the last reported sales price as provided by an independent pricing service. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest income earned.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2011

**4. Deposits and Investments (continued)**

**b. Investments (continued)**

*Custodial Credit Risk*

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the Office will not be able to recover the value of investments or collateral securities that are in possession of an outside party. All of the Office's investments are fully insured or collateralized.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the State. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. The ratings of the Tuition Prepayment portfolio are shown below (expressed in thousands):

Investment Type	AA (AGY)	A	BBB	BB	A-1	NR
<u>U.S. Government</u>						
U.S. Agencies	\$6,061	—	—	—	—	—
<u>State and Local Government</u>						
Mortgage Backed Securities	12,393	—	—	—	—	—
<u>Corporate</u>						
Corporate Bonds	—	\$12,306	\$6,863	\$268	—	\$947
Asset Backed Securities	—	—	—	—	—	\$917
<u>Short Term Investments</u>						
Repurchase Agreements	—	—	—	—	\$1,672	—
Total Invested Assets	<u>\$18,454</u>	<u>\$12,306</u>	<u>\$6,863</u>	<u>\$268</u>	<u>\$1,672</u>	<u>\$1,864</u>

Approximately \$85.5 million of the Tuition Prepayment portfolio's investments are equity investments in index funds and not included in this credit risk disclosure. This \$85.5 million in equity investments is comprised of two index funds. One is an S&P 500 Index Fund and the other is the EAFE Index Fund.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Office's policy is to manage interest rate sensitivity by investing in securities with a range of maturities from one day to thirty years using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates. At June 30, 2011, the effective duration and fair value of the Office's investments in the Tuition Prepayment Portfolio by investment type are as follows:

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**4. Deposits and Investments (continued)**

**b. Investments (continued)**

*Interest Rate Risk (continued)*

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
<u>U.S. Government</u>		
U.S. Agencies	\$6,061,448	6.200
 <u>State and Local Government</u>		
Mortgage Backed Securities	12,393,352	3.015
 <u>Corporate</u>		
Corporate Bonds	20,386,477	3.724
Asset Backed Securities	916,757	2.262
 <u>Short Term Investments</u>		
Repurchase Agreements	1,671,539	0.083
 <u>Equity</u>		
Index Funds	85,562,618	—
 Total Invested Assets	 <u>\$126,992,191</u>	

**5. Pension Plan**

The Retirement Division (the “Division”) maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (“CAFR”) which includes financial statements and required supplementary information. A copy is publicly available on the South Carolina Retirement System (“SCRS”) website at [www.retirement.sc.gov](http://www.retirement.sc.gov). Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina. The SCRS also administers the State Optional Retirement Program (“ORP”) which is a defined contribution plan.

The majority of employees of the Fund are covered by a retirement plan through the SCRS, a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**5. Pension Plan (continued)**

The ORP is a defined contribution plan that is offered as an alternative to certain 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 SCRS assumes no liability for State ORP benefits, as they are the liability of the investment providers. New employees have the option of choosing the ORP.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years earned service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive ("TERI") Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. TERI participants with an effective TERI date prior to July 1, 2005 do not make employee contributions to SCRS. TERI participants with an effective TERI date on or after July 1, 2005 make employee contributions to SCRS. All TERI participants do not earn service credit and are eligible to receive group life insurance benefits and are not eligible for disability retirement benefits.

Beginning July 1, 2006, employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. For the year ended June 30, 2011, the employer contribution rate was 9.24 percent (before a surcharge to fund retiree health and dental insurance coverage). The Office's actual contributions to the SCRS for the year ended June 30, 2011, 2010, and 2009 was approximately \$429,971, \$402,573, and \$411,068, respectively, and equaled the required contributions (including the surcharge) in the percentages outlined above. Also, the Office paid employer group-life insurance contributions at the rate .15 percent of compensation for the year ended June 30, 2011 and at the rate of .15 percent of compensation for each of the years ended June 30, 2010 and 2009.

The amounts paid by the Office for pension and group-life benefits are reported as employer contribution expenditures within the applicable administrative expenditure categories to which the related salaries are charged.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**5. Pension Plan (continued)**

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Fund's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board ("SBCB"). Therefore, the Fund's liability under the pension plans is limited to the amounts in which appropriations were included in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Fund recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of services) for up to 90 days for accumulated unused sick leave.

In addition, the State General Assembly periodically directs the SCRS to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

**6. Other Post Employment Benefits (OPEB)**

*Post Employment Benefits*

The State provides post employment health and dental benefits to retired employees and their covered dependents through a plan which has been determined to be a cost-sharing multiple employer defined benefit post employment healthcare plan by the Comptroller General's Office of the State of South Carolina. The SBCB is the Trustee and the plan is administered by the Employee Insurance Program ("EIP"), a part of the SBCB. A retiree's eligibility for the health and dental benefits is based on his hire date and years of earned retirement service credit. Generally, ten years of service credit with the SCRS is required for full funding of employees enrolled in the system prior to May 2, 2008. For all others who may become enrolled, eligibility requires fifteen years of service for partial funding and twenty-five years for full funding.

In addition the State provides long-term disability benefits to active employees through the Long-Term Disability Plan which has been determined to be a cost sharing multiple-employer plan by the Comptroller General's Office of the State of South Carolina. The SBCB is the Trustee and the plan is administered by the EIP, a part of the SBCB. Benefits under this plan are provided to the employee upon approval of the disability by the SCRS.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**6. Other Post Employment Benefits (OPEB) (continued)**

*Post Employment Benefits (continued)*

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires the post-employment benefits be funded through annually established employer's contribution rates, also known as the pension surcharge. Funding for the employer's payment of the surcharge is provided through General Appropriations from the State and other sources. Effective May 1, 2008 through Act 195, the State established the South Carolina Retiree Health Insurance Trust Fund and the Long-Term Disability Insurance Trust Fund for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and employee long-term disability benefits. The Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge.

Other sources of funding may include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Office's contribution to this trust fund for the fiscal year ended June 30, 2011, 2010, and 2009 was approximately \$280,923, \$256,992, and \$243,410, respectively. The Long-Term Disability Insurance Trust Fund is funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee contributed to the trust was \$3.22 for the fiscal year ended June 30, 2011.

By state law, the Office is liable for the employer share of retiree premiums. Accordingly, \$425,118 in annual required contribution and related liability for the Fund, as employer, is included in the accompanying financial statements.

Audited financial statements of the trust funds may be obtained by written request to Employee Insurance Program, SC Budget and Control Board, 1201 Main Street, Suite 360, Columbia, South Carolina 29201 or from the South Carolina Office of the State Auditor's website, [www.osa.sc.gov](http://www.osa.sc.gov).

*Other Employee Benefits*

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

The Office recorded benefit expenses for these insurance benefits for active employees in the amount of \$1,442, for the year ended June 30, 2011.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**7. Deferred Compensation Plans**

Several optional deferred compensation plans are available to State employees. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Office's financial statements. Compensation deferred under the plans is placed in trust for the contributing employee. The Office has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. This Office made no contributions for the fiscal year ending June 30, 2011.

**8. Risk Management**

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

The Office and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities and / or events:

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

The IRF is self-insured and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially. The Office paid \$16,614 to the IRF for insurance premiums during the year ended June 30, 2011.

The Office has not transferred the risk of loss for employee theft or misappropriation of assets and the portion of the risks of loss related to insurance policy deductibles for non-owned motor vehicles and torts to a state or commercial insurer. The Office has not reported an estimated claims loss expenditure as it would not be recognized under the modified cash basis since the payments have not been made.

**9. Transactions with State Entities / Related Parties**

The Office had significant transactions with the State and various State agencies. The Office purchases goods and services from various State agencies. Total purchases from State agencies were approximately \$417,256 for the year ended June 30, 2011. Payments totaling \$3,090 for the year ended June 30, 2011 were also made to another agency for unemployment insurance.

The Office is statutorily mandated to provide services or perform duties related to court fines, Local Government Investment Pool, decommissioning trusts, debt, investments, unclaimed property and college savings plans. Total revenues retained by the Office for those services were \$3,818,327 for the year ended June 30, 2011.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

**Transactions with State Entities / Related Parties (continued)**

The Office provided no material services free of charge to other State agencies during the fiscal year. The Office participates in the statewide dual employment program. Workers' compensations insurance premiums for the fiscal year 2011 of \$14,148 were paid to the State Accident Fund.

**9. Subsequent Events**

Management has evaluated all events subsequent to the Statement of Net Assets date of June 30, 2011 through the date of issuance of these financial statements, October 5, 2012 and has determined that there are no subsequent events that require disclosure.

South Carolina Office of the State Treasurer  
 Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 for the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues:				
State Appropriations	\$ 1,596,170	\$ 1,610,345	\$ 1,610,345	\$ —
Expenditures:				
Administration				
Personal Services				
State Treasurer	92,007	92,007	92,007	—
Classified Positions	31,469	62,937	62,937	—
Other Operating Expense	20,615	23,560	23,560	—
Total Administration	144,091	178,504	178,504	—
Programs and Services				
Personal Services				
Classified Positions	993,879	1,045,339	1,045,339	—
Unclassified Positions	33,330	—	—	—
Other Personal Services	—	3,117	3,117	—
Other Operating Expense	75,470	20,754	20,613	141
Total Programs and Services	1,102,679	1,069,210	1,069,069	141
Employee Benefits – Employer Contributions	349,400	362,631	362,631	—
Total Expenditures	1,596,170	1,610,345	1,610,204	141
Excess of Revenues Over Expenditures	—	—	141	141
Fund Balance at Beginning of Year	—	—	—	—
Fund Balance at End of Year	\$ —	\$ —	\$ 141	\$ 141

South Carolina Office of the State Treasurer  
 Supplementary Information  
 Budgetary Comparison Schedule  
 Aid to Subdivisions Fund  
 for the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues:				
State Appropriations	\$ 216,522,429	\$ 220,034,635	\$ 220,034,635	\$ —
Expenditures:				
Aid to Subdivisions				
Fire Districts	10,281,287	12,563,808	12,563,808	—
Local Government Fund	202,619,411	203,873,431	203,873,431	—
Planning Districts	591,759	591,759	591,759	
County Vets' Offices	263,305	263,305	263,305	
Total Aid to Subdivisions	213,755,762	217,292,303	217,292,303	—
Aid to Subdivisions - Grants				
Clerks of Court	72,450	72,450	72,450	—
Probate Judges	72,450	72,450	72,450	—
Sheriffs	72,450	72,450	72,450	—
Register of Deeds	29,925	33,075	33,075	
Coroners	72,450	72,450	72,450	
Auditors	1,223,472	892,164	892,164	
Treasurers	1,223,470	891,164	891,164	
Employer Contributions	—	636,129	636,129	
Total Aid to Subdivisions - Grants	2,766,667	2,742,332	2,742,332	—
Total Expenditures	216,522,429	220,034,635	220,034,635	—
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	—	—	—
Fund Balance at Beginning of Year	—	—	—	—
Fund Balance at End of Year	\$ —	\$ —	\$ —	\$ —

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011

**1. Budgetary Funds**

South Carolina's Annual Appropriation 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 the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

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

The Office's legally adopted budget is part of the Total Funds budget for the State. It is presented for the Office's General Fund and Aid to Subdivisions Fund at the program level including the restricted, earmarked, and general funds appropriated to the Office.

As operating conditions change, the Office may transfer appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personal services without Budget and Control Board approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the Budget and Control Board.

**2. Original and Final Budgeted Amounts; Basis of Presentation**

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

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the Office's General Fund and Aid to Subdivisions Fund. However, Section 70 (*Recapitulations*) of the Appropriation Act includes net source of funds amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the Office's General Fund and Aid to Subdivisions Fund is presented as supplementary information.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011

**3. Legal Level of Budgetary Control**

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

**4. Basis of Budgeting**

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

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

- Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 17.
- All revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel taxes and gas taxes, which are not received by the Office's General Fund or Aid to Subdivisions Fund in the accompanying schedules.

As the Office presents its financial statements on the modified cash basis of accounting, the budgetary comparison schedule which is prepared predominately on the cash basis does not differ substantively from the Office's financial statements.