

South Carolina Office of the State Treasurer

Report on Audit of Financial Statements

*For the Year Ended June 30, 2012*

(With Independent Auditor's Report Thereon)

*State of South Carolina*



*Office of the State Auditor*

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November 15, 2013

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

This report on the audit of the financial statements of the South Carolina Office of the State Treasurer for the fiscal year ended June 30, 2012, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/trb

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## Independent Auditor's Report

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

and

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

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, 2012, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 provides a reasonable basis for our opinion.

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 Office as of June 30, 2012, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 on our consideration of the Office's internal control over financial reporting and on our tests of 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* and should be considered in assessing the results of our audit.

As described in Note 1, the accompanying financial statements of the Office 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 certain transactions and activities of the Office. 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison 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 on 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Office's basic financial statements. The notes to supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The notes to supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the notes to supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina  
November 15, 2013

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2012

The Management's Discussion and Analysis ("MD&A") of the South Carolina Office of the State Treasurer (the "Office") provides an overview of the Office's financial activities for the fiscal year ended June 30, 2012.

## **FINANCIAL HIGHLIGHTS**

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

These financial statements do not include the transactions or balances from the South Carolina 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 GASB Statement 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB Statement 34") 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 MD&A.

As of and for the year ended June 30, 2012:

- The Office's total net assets increased by \$217,158 and its liabilities exceeded its assets (net deficit) by \$164,391.
- The Office received \$206,841,058 in appropriations from the State of South Carolina (the "State"), substantially all of which was disbursed for general operations, student loans, and aid to subdivisions.
- The Office held \$814,565,581 of cash and cash equivalents in an agency capacity.

## **USING THESE AUDITED FINANCIAL STATEMENTS**

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

### **Government-wide Statements:**

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

### **Fund Statements:**

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

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2012

**Fund Statements (continued):**

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

**Statement of Net Assets** – The Statement of Net Assets provides a summary of the Office's financial condition at the end of the 2012 fiscal year; and reports all assets and liabilities using the accrual basis of accounting. The Statement of Activities reports the revenues and expenses during the time period indicated.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NET ASSETS (DEFICIT)

	2012
Current Assets	\$ 627,474
Capital Assets, Net	3,683
Total Assets	631,157
Current Liabilities	486,454
Noncurrent Liabilities	309,094
Total Liabilities	795,548
Invested In Capital Assets, Net of Related Debt	3,683
Unrestricted	(168,074)
Total Net Assets (Deficit)	\$ (164,391)

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
STATEMENT OF ACTIVITIES

	2012
<b>Expenses</b>	
Personnel Services	\$ 3,999,483
Travel	13,125
Supplies and Materials	122,805
Contracted Services	969,166
Student Loans – Teachers	950,000
Student Loans – Student Loan Corporation	4,000,722
Rent	298,242
Depreciation	4,903
Aid to Subdivisions	200,255,766
Total Expenses	210,614,212
<b>General Revenues</b>	
State Appropriations	206,841,058
Service Charges	23,356
Fines and Penalties	113,076
Investment Management Fees	1,515,893
Revenue from Other State Agencies	2,215,724
Other Income	122,263
Total General Revenues	210,831,370
Increase in Net Assets	217,158
Net Assets (Deficit), July 1, 2011	(381,549)
Net Assets (Deficit), June 30, 2012	\$ (164,391)

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2012

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

The Office received \$206,841,058 in appropriations from the State legislature. These appropriations were spent for three purposes. The amount of \$1,634,570 was spent on the operations of the Office. The amount of \$200,255,766 was disbursed as aid to various governmental subdivisions throughout the State. The amount of \$4,950,722 was spent on student loans.

Total operating revenues exceeded operating expenses by \$217,158. This resulted in a corresponding decrease in net deficit from the prior 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 result from appropriations from the State legislature. Revenues are not budgeted by the Office; therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budgeted appropriations. This resulted in revenues exceeding expenditures by \$3,909 for the year ended June 30, 2012, which is the ending fund balance for the General Fund.

There are two major special revenue funds, the Aid to Subdivisions Fund and the State Treasurer's Office Earmarked Fund. The Aid to Subdivisions Fund distributes funds to various political subdivisions of the State based on amounts budgeted by the State. There was a budgeted surplus of \$101,632 in State appropriations that were not distributed during the fiscal year ended June 30, 2012. This budgeted surplus also corresponds to the actual change in fund balance for the fiscal year ended June 30, 2012. The State Treasurer's Office Earmarked Fund accounts for revenues and transfers of appropriations earmarked for specific Office operations. As required by the earmark provisions, these amounts can only be spent on specific operational expenditures of the Office and therefore, the remaining fund balance is considered restricted. State appropriations and other revenues exceeded expenditures by \$55,316 during the fiscal year ended June 30, 2012 resulting in an increase in fund balance.

**Budget Highlights:**

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

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

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

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

The Office's budget for E16 General Funds was originally \$1,513,724 for the fiscal year ended June 30, 2012. This compares to a final budgeted amount of \$2,482,938. Actual expenditures, on the budgetary basis, totaled \$2,482,938. These actual expenditures were in line with the final budgeted amount.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
June 30, 2012

**Fund Highlights (continued):**

**Budget Highlights (continued):**

The Office's budget for E16 Other Budgetary Funds was originally \$7,988,493 for the fiscal year ended June 30, 2012. This compares to a final budgeted amount of \$7,988,493. Actual expenditures, on the budgetary basis, totaled \$7,984,964. The final budgeted amount exceeded actual expenditures by \$3,529.

The Office's budget for X22 General Funds was originally \$196,804,217 for the fiscal year ended June 30, 2012. This compares to a final budgeted amount of \$200,255,766. Actual expenditures, on the budgetary basis, totaled \$200,255,766. These actual expenditures were in line with the final budgeted amount. The Office's Aid to Subdivisions State Treasurer's Fund only receives General Fund appropriations. Therefore, amounts are not budgeted for X22 Other Budgetary Funds.

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

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

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

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

South Carolina Office of the State Treasurer  
Statement of Net Assets (Deficit)  
June 30, 2012

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 576,600
Prepaid Expenses	50,874
Total Current Assets	<u>627,474</u>

Noncurrent Assets:

Equipment	57,934
Accumulated Depreciation	<u>(54,251)</u>
Total Noncurrent Assets	<u>3,683</u>
Total Assets	<u>631,157</u>

**LIABILITIES**

Current Liabilities:

Accounts Payable	439,411
Compensated Absences	<u>47,043</u>
Total Current Liabilities	<u>486,454</u>

Noncurrent Liabilities:

Compensated Absences	<u>309,094</u>
Total Noncurrent Liabilities	<u>309,094</u>
Total Liabilities	<u>795,548</u>

**NET ASSETS ( DEFICIT)**

Invested in Capital Assets, Net Of Related Debt	3,683
Unrestricted	<u>(168,074)</u>
Total Net Assets (Deficit)	<u>\$ (164,391)</u>

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

South Carolina Office of the State Treasurer  
Statement of Activities  
For the Year Ended June 30, 2012

**Expenses**

Personnel Services	\$ 3,999,483
Travel	13,125
Supplies and Materials	122,805
Contracted Services	969,166
Student Loans – Teachers	950,000
Student Loans – Student Loan Corporation	4,000,722
Rent	298,242
Depreciation	4,903
Aid to Subdivisions	200,255,766
Total Expenses	<u>210,614,212</u>

**General Revenues**

State Appropriations	206,841,058
Service Charges	23,356
Fines and Penalties	113,076
Investment Management Fees	1,515,893
Revenue from Other State Agencies	2,215,724
Other Income	122,263
Total General Revenues	<u>210,831,370</u>

Increase in Net Assets	217,158
Net Assets (Deficit), July 1, 2011	<u>(381,549)</u>
Net Assets (Deficit), June 30, 2012	<u>\$ (164,391)</u>

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

South Carolina Office of the State Treasurer  
 Balance Sheet  
 Governmental Funds  
 June 30, 2012

	<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	\$ —	\$ 101,632	\$ 474,968	\$ 576,600
Prepaid Expenses	4,151	—	46,723	50,874
Total Assets	<u>\$ 4,151</u>	<u>\$ 101,632</u>	<u>\$ 521,691</u>	<u>\$ 627,474</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 242	\$ —	\$ 439,169	\$ 439,411
Total Liabilities	<u>242</u>	<u>—</u>	<u>439,169</u>	<u>439,411</u>
<b>FUND BALANCES</b>				
Restricted for Office Operations	—	—	35,799	35,799
Restricted for Aid to Subdivisions	—	101,632	—	101,632
Nonspendable – Prepaid Expenses	4,151	—	46,723	50,874
Unassigned	(242)	—	—	(242)
Total Fund Balances	<u>3,909</u>	<u>101,632</u>	<u>82,522</u>	<u>188,063</u>
Total Liabilities and Fund Balances	<u>\$ 4,151</u>	<u>\$ 101,632</u>	<u>\$ 521,691</u>	<u>\$ 627,474</u>

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

South Carolina Office of the State Treasurer  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Assets (Deficit)  
 June 30, 2012

Total fund balance, governmental funds		\$ 188,063
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net assets (deficit)		
Equipment	\$ 57,934	
Accumulated depreciation	<u>(54,251)</u>	3,683
Compensated absences are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the statement of net assets (deficit)		
		<u>(356,137)</u>
Net assets of governmental activities in the statement of net assets (deficit)		<u>\$ (164,391)</u>

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

South Carolina Office of the State Treasurer  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Aid to Subdivisions Fund</u>	<u>State Treasurer's Office Earmarked Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
State Appropriations	\$2,482,938	\$200,357,398	\$ 4,000,722	\$206,841,058
Service Charges	—	—	23,356	23,356
Fines and Penalties	—	—	113,076	113,076
Investment Management Fees	—	—	1,515,893	1,515,893
Revenue from Other State Agencies	—	—	2,215,724	2,215,724
Other Income	—	—	122,263	122,263
Total Revenues	<u>2,482,938</u>	<u>200,357,398</u>	<u>7,991,034</u>	<u>210,831,370</u>
<b>Expenditures</b>				
Personnel Services	1,450,817	—	2,609,870	4,060,687
Travel	6,051	—	7,074	13,125
Supplies and Materials	34,236	—	88,569	122,805
Contracted Services	18,628	—	950,538	969,166
Student Loans - Teachers	950,000	—	—	950,000
Student Loans - Student Loan Corporation	—	—	4,000,722	4,000,722
Rent	19,297	—	278,945	298,242
Aid to Subdivisions	—	200,255,766	—	200,255,766
Total Expenditures	<u>2,479,029</u>	<u>200,255,766</u>	<u>7,935,718</u>	<u>210,670,513</u>
Revenues Over Expenditures	<u>3,909</u>	<u>101,632</u>	<u>55,316</u>	<u>160,857</u>
Net Change In Fund Balance	3,909	101,632	55,316	160,857
Fund Balance, July 1, 2011	—	—	27,206	27,206
Fund Balance, June 30, 2012	<u>\$ 3,909</u>	<u>\$ 101,632</u>	<u>\$ 82,522</u>	<u>\$ 188,063</u>

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

South Carolina Office of the State Treasurer  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds to the  
Statement of Activities  
June 30, 2012

Total change in fund balance, governmental funds	\$ 160,857
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets	
Depreciation expense	(4,903)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Compensated absences	<u>61,204</u>
Increase in net assets, governmental activities	<u>\$ 217,158</u>

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

South Carolina Office of the State Treasurer  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2012

	<b>Tuition Prepayment Trust</b>	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 7,860,000	\$ 8,761,389	\$ 814,565,581
Investments	108,928,567	—	—
Future Contract Payments Due from Plan Participants	1,514,849	—	—
Amounts Due from Other State Agencies	—	166,137	122,463,091
Total Current Assets	118,303,416	8,927,526	937,028,672
Noncurrent Assets:			
Future Contract Payments Due from Plan Participants	3,938,501	—	—
Capital Assets:			
Land	—	3,874,100	—
Buildings	—	1,643,925	—
Equipment	—	395,664	—
Vehicles	—	113,222	—
Accumulated Depreciation	—	(1,151,005)	—
Total Noncurrent Assets	3,938,501	4,875,906	—
Total Assets	\$ 122,241,917	\$ 13,803,432	\$ 937,028,672
<b>LIABILITIES</b>			
Current Liabilities:			
Due to Depositors	\$ —	\$ —	\$ 715,772,574
Accounts Payable	—	1,005,937	—
Amounts Due to Local Governments	—	—	172,807,049
Unclaimed Property Refunds	—	—	48,449,049
Claims for Future Tuition	24,654,116	—	—
Total Current Liabilities	24,654,116	1,005,937	937,028,672
Noncurrent Liabilities:			
Claims for Future Tuition	133,596,680	—	—
Total Noncurrent Liabilities	133,596,680	—	—
Total Liabilities	158,250,796	1,005,937	\$ 937,028,672
<b>NET ASSETS</b>			
Held in Trust for:			
Tuition Payment	(36,008,879)	—	
Nuclear Plant Decommissioning	—	7,045,126	
Other Purposes	—	876,463	
Invested in Capital Assets, Net of Related Debt	—	4,875,906	
Total Net Assets	(36,008,879)	12,797,495	
Total Liabilities and Net Assets	\$ 122,241,917	\$ 13,803,432	

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

South Carolina Office of the State Treasurer  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2012

	<b>Tuition Prepayment Trust</b>	<b>Private Purpose Trust</b>
<b>Additions:</b>		
Service Fees	\$ 518,554	\$ 45,715
Sales and Use Taxes	—	1,766,124
Interest and Investment Income	2,283,581	394,101
Revenue from Other State Agencies	—	52,816
Total Additions	\$ 2,802,135	\$ 2,258,756
<b>Deductions:</b>		
Tuition	725,857	—
Loss on Investments	3,885,491	—
State Allocations	—	1,659,171
Depreciation	—	89,594
Contractual Services	—	2,513,434
Other Expenses	—	2,319
Other State Agencies	185,029	66,486
Total Deductions	4,796,377	4,331,004
Change in Net Assets	(1,994,242)	(2,072,248)
Net Assets at Beginning of Year	(34,014,637)	14,869,743
Net Assets at End of Year	\$ (36,008,879)	\$ 12,797,495

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

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

**1. Summary of Significant Accounting Policies**

The financial statements of the South Carolina Office of the State Treasurer (the “Office”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Office also applies Financial Accounting Standards Board (“FASB”) statement and interpretations issued on or before November 30, 1989 to its governmental activities provided they do not conflict or contradict GASB pronouncements. The more significant of the Office’s accounting policies are described below.

**A. Reporting Entity**

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

The State Treasurer is elected every four years and 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, the administration of the State’s Unclaimed Property Program and the administration of the Tuition Prepayment 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, management of debt service for various state entities, and the reconciliation of account balances and transactions with the various state agencies. The Office is also responsible for accounting functions associated with the South Carolina 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 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.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

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

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

In June 1999, the GASB issued GASB Statement No. 34 “*Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*”. This Statement established financial reporting standards for state and local governments, including states, cities, towns, villages, and special- purpose governments, such as school districts and public utilities. It established that the basic financial statements and required supplementary information (“RSI”) for general purpose governments should consist of the following: (1) management’s discussion and analysis (“MD&A”), (2) government-wide financial statements, (3) fund financial statements, (4) notes to the financial statements and (5) budgetary comparison schedules. The MD&A introduces the basic financial statements, which consist of the government-wide financial statements, fund financial statements and notes to the financial statements, and provides an analytical overview of the government’s financial activities. The MD&A is considered to be RSI, but governments are required to present it before the basic financial statements. In addition to the MD&A, RSI includes budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The provisions of this Statement became effective for financial statements in three phases based on a government’s total annual revenues, beginning with periods beginning after June 15, 2001 and continuing through periods beginning after June 15, 2003. The Office elected to adopt the provisions of this Statement during the fiscal year ended June 30, 2012.

**Government-wide Financial Statements**

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

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

Additionally, the Office receives reimbursement from the unclaimed property funds for certain costs incurred in connection with the recovery, advertisement, and sale of unclaimed property. For the fiscal year ended June 30, 2012, the Office received \$925,000 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**

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

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

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

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

**Measurement Focus and Basis of Accounting**

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

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

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

**Governmental Fund Types**

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

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

- *Aid to Subdivisions Fund*–The Aid to Subdivisions Fund is a special revenue fund that accounts for appropriations set by the 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 or restricted for student loan expenditures.

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 Trust 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 the State’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. This program is now closed to new enrollment.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
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**1. Summary of Significant Accounting Policies (continued)**

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

**Governmental Fund Types (continued)**

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

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

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

**Cash and Cash Equivalents**

The amounts shown in the accompanying financial statements as *cash and cash equivalents* represent 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. Since the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The Office administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

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. The cash and cash equivalents in the Tuition Prepayment Trust Fund are maintained in a separate portfolio set up specifically for that fund.

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

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

**Cash Management Pool – Allocation of Interest**

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

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 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 ("CAFR") of the State of South Carolina.

**Future Contract Payments Due from Plan Participants**

The Tuition Prepayment Trust Fund, a private purpose trust fund, reports amounts for future contract payments due from plan participants under the Tuition Prepayment Program. The amounts represent an actuarially determined present value of future contract payments. See Note 12 for further details.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
 NOTES TO THE FINANCIAL STATEMENTS  
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**1. Summary of Significant Accounting Policies (continued)**

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

**Capital Assets**

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

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

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

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

**Compensated Absences**

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

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

**Claims for Future Tuition**

The Tuition Prepayment Trust Fund, a private purpose trust fund, reports claims for future tuition as a liability for future tuition payments due under the tuition prepayment program. The liability represents an actuarially determined present value of future tuition payments. See Note 12 for further details.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
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**1. Summary of Significant Accounting Policies (continued)**

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

**Unclaimed Property Refunds**

The Office holds unclaimed property refunds, or escheat property, in an agency capacity and is reported in the agency funds. A liability is recorded for amounts expected to be reclaimed and paid to claimants.

**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 fiscal year ended June 30, 2012. The following categories of fund balance are now being used in the fund level financial statements of the governmental funds:

Non-spendable fund balance

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

Restricted fund balance

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. Most of the Office’s fund balance is presented as restricted as all fund balance is 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, 2012, the Office did not have any committed fund balance.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
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**1. Summary of Significant Accounting Policies (continued)**

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

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

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, 2012, the Office did not have any assigned fund balance.

Unassigned fund balance

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

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

*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 laws 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. As of June 30, 2012, the Office did not have any restricted 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  
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**1. Summary of Significant Accounting Policies (continued)**

**C. New Accounting Standards**

The Office implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, during the fiscal year ended June 30, 2012. The pronouncement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Prior to the issuance of Statement No. 62, GASB Statements No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, had required that governments apply pre-November 30, 1989, FASB and AICPA pronouncements to accrual-based financial statements that do not conflict with or contradict GASB standards. The pronouncement addresses more than 120 FASB and AICPA pronouncements that date back several decades and covers 30 accounting and financial reporting topic areas. The effects of the implementation of GASB Statement No. 62 are incorporated into these financial statements.

**2. 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 (the "SBCB") 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 the Comptroller General. No such transfer may exceed twenty percent of the program budget. Upon request, details of such personnel transfers may be provided to members of the General Assembly on an agency by agency basis. Transfers of appropriations from personnel service accounts to other operating accounts or from other operating accounts to personnel service accounts may be restricted to any established standard levels set by the SBCB upon formal approval by a majority of the members of the SBCB.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the 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.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
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**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. 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, 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.

*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.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
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**Deposits and Investments (continued)**

**B. Investments (continued)**

*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):

<u>Investment Type</u>	<u>AA (AGY)</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>A-1</u>	<u>NR</u>
<u>U.S. Government</u>						
U.S. Agencies	\$ 12,984	\$ —	\$ —	\$ —	\$ —	\$ —
<u>State and Local Government</u>						
Mortgage Backed Securities	2,688	—	—	—	—	—
<u>Corporate</u>						
Corporate Bonds	—	7,666	5,609	—	—	489
Asset Backed Securities	—	—	—	—	—	928
<u>Short Term Investments</u>						
Repurchase Agreements	—	—	—	—	4	—
Total Invested Assets	<u>\$15,672</u>	<u>\$7,666</u>	<u>\$5,609</u>	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ 1,417</u>

Approximately \$78.6 million of the Tuition Prepayment Portfolio's investments are equity investments in index funds and not included in this credit risk disclosure. This \$78.6 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.

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**Deposits and Investments (continued)**

**B. Investments (continued)**

*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, 2012, the effective duration and fair value of the Office's investments in the Tuition Prepayment Portfolio by investment type are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration (Years)</u>
<u>U.S. Government</u>		
U.S. Agencies	\$ 12,983,752	3.01
<u>State and Local Government</u>		
Mortgage Backed Securities	2,687,656	2.49
<u>Corporate</u>		
Corporate Bonds	13,763,597	2.97
Asset Backed Securities	928,258	1.49
<u>Short Term Investments</u>		
Repurchase Agreements	3,542	0.00
<u>Equity</u>		
Index Funds	78,561,762	N/A
Total Invested Assets	<u>\$108,928,567</u>	

**4. Investment Management Fees**

Under Proviso 76.5, the Office may charge a fee for the operating and management costs associated with the investment management and support operations of various state funds and programs, and further, may retain and expend the fees to provide these services. The fees assessed may not exceed the actual cost of the provision of these services or the earnings on these investments. The total amount the Office received in investment management fees for the fiscal year ended June 30, 2012 was \$1,515,893.

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

At June 30, 2012, both the Agency Fund and the Private Purpose Trust Fund held receivables due from other state agencies. The following is a summary of the amounts due from other state agencies:

	<u>Agency</u>	<u>Private Purpose Trust</u>
Selective Sales and Use Taxes	\$ 68,474,687	\$ 160,234
General Sales and Use Taxes	60,490,756	—
General Property Tax Revenue	4,050,216	—
Miscellaneous Revenue	338,862	5,903
Refund of Revenue	(10,891,430)	—
Total Amounts Due from Other State Agencies	<u>\$ 122,463,091</u>	<u>\$ 166,137</u>

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
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**6. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2012, for the primary government was as follows:

	Beginning Balance <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2012</u>
<b>Governmental activities</b>				
Capital assets being depreciated:				
Equipment	\$ 57,934	\$ —	\$ —	\$ 57,934
Less accumulated depreciation for:				
Equipment	49,348	4,903	—	54,251
Total capital assets for governmental activities, net	<u>\$ 8,586</u>	<u>\$ (4,903)</u>	<u>\$ —</u>	<u>\$ 3,683</u>

Capital asset activity for the fiscal year ended June 30, 2012, for the Private Purpose Trust Funds was as follows:

	Beginning Balance <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2012</u>
<b>Private purpose trust funds</b>				
Capital assets not being depreciated:				
Land and land improvements	\$ 3,874,100	\$ —	\$ —	\$ 3,874,100
Total capital assets not being depreciated	3,874,100	—	—	3,874,100
Capital assets being depreciated:				
Buildings and improvements	1,643,925	—	—	1,643,925
Equipment	340,613	55,051	—	395,664
Vehicles	113,222	—	—	113,222
Total capital assets being depreciated	2,097,760	55,051	—	2,152,811
Less accumulated depreciation for:				
Buildings and improvements	726,030	57,460	—	783,490
Equipment	238,662	26,482	—	265,144
Vehicles	96,719	5,652	—	102,371
Total accumulated depreciation	1,061,411	89,594	—	1,151,005
Total capital assets being depreciated, net	1,036,349	(34,543)	—	1,001,806
Total capital assets for private purpose trust funds, net	<u>\$ 4,910,449</u>	<u>\$ (34,543)</u>	<u>\$ —</u>	<u>\$ 4,875,906</u>

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**7. Amounts Due to Local Governments**

At June 30, 2012, the Agency Fund held amounts due to local governments on a variety of items. The following is a summary of the amounts due to local governments:

	<u>Agency</u>
Local Option Sales and Accommodation Taxes	\$ 168,695,264
Miscellaneous Amounts	4,111,785
Total Amounts due to Local Governments	<u>\$ 172,807,049</u>

**8. Long-term Liabilities**

Long-term liabilities consist of compensated absences. Compensated absence activity for the fiscal year ended June 30, 2012, for the primary government was as follows:

Beginning Balance July 1, 2011	Accrued Leave	Leave Used, Donated or Forfeited	Ending Balance June 30, 2012	Current Portion
<u>\$ 417,341</u>	<u>\$ 284,169</u>	<u>\$ (345,373)</u>	<u>\$ 356,137</u>	<u>\$ 47,043</u>

**9. Pension Plan**

The Retirement Division (the “Division”) maintains five independent defined benefit plans and issues its own publicly available 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 five pension plans are included in the State’s CAFR. The SCRS also administers the State Optional Retirement Program (“ORP”) which is a defined contribution plan.

The majority of employees of the Office are covered by a retirement plan through the SCRS, a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, 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.

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.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

**9. Pension Plan, (continued)**

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 fiscal year ended June 30, 2012, 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 fiscal years ended June 30, 2012, 2011, and 2010 were \$429,690, \$429,971, and \$402,573, 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 fiscal years ended June 30, 2012, 2011 and 2010.

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

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

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

**9. Pension Plan, (continued)**

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

**10. 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 established by the State Comptroller General's Office. 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 State Comptroller General's Office. The SBCB is the Trustee and the plan is administered by the EIP. Benefits under this plan are provided to the employee upon approval of the disability by the SCRS.

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires the post-employment benefits to 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.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

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

Other sources of funding may include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Office's contributions to this trust fund for the fiscal years ended June 30, 2012, 2011, and 2010 were \$285,560, \$280,923, and \$256,992, 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 fund was \$3.22 for the fiscal year ended June 30, 2012.

By State law, the Office is not liable for the employer share of retiree premiums. Accordingly, the annual required contribution and related liability for the fund, as employer, is not included in the accompanying financial statements.

Audited financial statements of the trust funds may be obtained by written request to Employee Insurance Program, South Carolina 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.

**11. Deferred Compensation Plans**

Several optional deferred compensation plans are available to State employees. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Office's financial statements. Compensation deferred under the plans is placed in trust for the contributing employee. The Office has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. The Office made no contributions for the fiscal year ended June 30, 2012.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

**12. Tuition Prepayment Program**

The Office is responsible for developing and adopting the investment policies, guidelines, and strategies for the South Carolina Tuition Prepayment Program (the “Program”) as well as determining the costs, termination, and withdrawal options of prepaid tuition contracts. The Program’s activity is recorded in the fiduciary fund statements as a private purpose trust fund. The Program is now closed to new enrollment.

Assets of the Program consist of cash, cash equivalents, investments, and future contract payments due from plan participants. The future contract payments due from plan participants have been recorded at present value as of June 30, 2012. The present value of those expected payments has been determined by an independent actuary for the Program. In the fall of each year, the Office provides the State legislature with an update on the unfunded liability of the Program. A discount rate of approximately seven percent was used to discount the future contract payments. The present value of payments expected to be received in one year has been recorded as a current asset. The Office expects to revise the discount rate during fiscal year 2013 which will likely result in the lowering of the current discount rate.

Liabilities for the Program consist of future tuition payments due to colleges and universities on behalf of Program participants. These future expected payments have been recorded at present value as determined by the Program’s actuary. The actuarial assumed tuition inflation of approximately seven percent has been used to discount future expected payments. Additionally, assumptions related to voluntary terminations as well as biases to more expensive institutions were used.

As of June 30, 2012, the Program is operating in a deficit position. The existing deficit is an indicator that existing assets combined with future cash flows are insufficient to pay all contract owners their benefits. It is projected that assets will be depleted during fiscal year 2019. Unless remedial action is taken by the State legislature, the Program will be unable to pay benefits. For the full actuarial report on the Program, please see the Program’s website at [www.scprepaid.com](http://www.scprepaid.com).

**13. Risk Management**

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

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

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

The IRF is self-insured and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF’s rates are determined actuarially. The Office paid \$16,380 to the IRF for insurance premiums during the year ended June 30, 2012.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

**13. Risk Management (continued)**

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.

**14. 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 \$695,140 for the fiscal year ended June 30, 2012. Payments totaling \$2,680 for the fiscal year ended June 30, 2012 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 \$3,992,777 for the year ended June 30, 2012.

The Office provided no material services free of charge to other state agencies during the fiscal year. The Office participates in the statewide dual employment program. Workers' compensation insurance premiums of \$11,563 were paid to the State Accident Fund during fiscal year 2012.

**15. Subsequent Events**

In preparing these financial statements, management has evaluated events and transactions for potential recognition and disclosure through November 15, 2013, the date these financial statements were available to be issued.

South Carolina Office of the State Treasurer  
Supplementary Information  
Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis  
E16 - State Treasurer's Office Budgetary General Funds  
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
Expenditures:				
Administration				
Personnel Services				
State Treasurer	\$ 92,007	\$ 92,007	\$ 92,007	\$ —
Classified Positions	62,937	62,937	62,937	—
Other Operating Expenditures	14,115	17,000	17,000	—
Total Administration	<u>169,059</u>	<u>171,944</u>	<u>171,944</u>	<u>—</u>
Programs and Services				
Personnel Services				
Classified Positions	942,885	937,587	937,587	—
Other Personnel Services	—	10,570	10,570	—
Other Operating Expenditures	52,641	65,121	65,121	—
Total Programs and Services	<u>995,526</u>	<u>1,013,278</u>	<u>1,013,278</u>	<u>—</u>
Employee Benefits – Employer				
Contributions	349,139	347,716	347,716	—
Special Items – Student Loans, Teachers	—	950,000	950,000	—
Total Expenditures	<u>\$ 1,513,724</u>	<u>\$ 2,482,938</u>	<u>\$ 2,482,938</u>	<u>\$ —</u>

South Carolina Office of the State Treasurer  
 Supplementary Information  
 Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis  
 E16 - State Treasurer's Office Other Budgetary Funds  
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
Expenditures:				
Administration				
Personnel Services				
State Treasurer	\$ —	\$ —	\$ —	\$ —
Classified Positions	—	—	—	—
Other Operating Expenditures	—	—	—	—
Total Administration	—	—	—	—
Programs and Services				
Personnel Services				
Classified Positions	1,682,381	1,645,688	1,645,688	—
Unclassified Positions	357,320	304,968	304,968	—
Other Personnel Services	10,000	52,106	52,106	—
Other Operating Expenditures	1,318,939	1,377,901	1,374,372	3,529
Total Programs and Services	3,368,640	3,380,663	3,377,134	3,529
Special Items – Student Loans, Student Loan Corporation	4,000,722	4,000,722	4,000,722	—
Employee Benefits – Employer Contributions	619,131	607,108	607,108	—
Total Expenditures	\$ 7,988,493	\$ 7,988,493	\$ 7,984,964	\$ 3,529

South Carolina Office of the State Treasurer  
 Supplementary Information  
 Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis  
 X22 - State Treasurer's Office Budgetary General Funds  
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
Expenditures:				
Aid to Subdivisions				
Fire Districts	\$ 10,281,287	\$ 13,231,817	\$ 13,231,817	\$ —
Local Government Fund	182,619,411	182,619,411	182,619,411	—
Planning Districts	556,253	556,253	556,253	—
County Veterans' Offices	247,507	247,507	247,507	—
Mini Bottle Hold Harmless	—	827,295	827,295	—
Total Aid to Subdivisions	<u>193,704,458</u>	<u>197,482,283</u>	<u>197,482,283</u>	<u>—</u>
Aid to Subdivisions - Grants				
Clerks of Court	72,450	72,450	72,450	—
Probate Judges	72,450	72,450	72,450	—
Sheriffs	72,450	72,450	72,450	—
Register of Deeds	29,925	33,075	33,075	—
Coroners	72,450	72,450	72,450	—
Auditors	1,235,644	892,018	892,018	—
Treasurers	1,235,643	890,950	890,950	—
Employer Contributions	—	667,640	667,640	—
Total Aid to Subdivisions - Grants	<u>2,791,012</u>	<u>2,773,483</u>	<u>2,773,483</u>	<u>—</u>
Total Expenditures	<u>\$ 196,495,470</u>	<u>\$ 200,255,766</u>	<u>\$ 200,255,766</u>	<u>\$ —</u>

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2012

**1. Budgetary Funds**

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

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

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

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

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

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

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

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the Office's General Fund, State Treasurer's Office Earmarked Fund, and Aid to Subdivisions Fund. However, Section 87 (*Recapitulations*) of the Appropriations Act includes net source of funds amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
NOTES TO SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2012

**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 13.
- Revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel taxes and gas taxes, which are not received by the Office's General Fund, State Treasurer's Office Earmarked Fund, or Aid to Subdivisions Fund in the accompanying schedules.

**5. Reconciliation of Budget to GAAP Reporting Differences**

The accompanying budgetary comparison schedules compare the Office's legally adopted budget with actual information in accordance with the legal basis of budgeting. Budgetary accounting principles differ significantly from GAAP accounting principles. Basis differences arise because the basis of budgeting differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balance. In the current year, there are basis differences for the Office's General Fund and State Treasurer's Office Earmarked Fund, but not for the Aid to Subdivisions Fund, and therefore, a reconciliation is not needed for the Aid to Subdivisions Fund.



**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

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

and

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

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, 2012, which collectively comprise the Office's basic financial statements and have issued our report thereon dated November 15, 2013. 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 of America.

**Internal Control Over Financial Reporting**

The State Treasurer and the Office's management are responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Office's financial statements are free of 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*.

We noted certain matters that we reported to management of the Office in a separate letter dated November 15, 2013.

This report is intended solely for the information and use of the State Treasurer, Office of the State Auditor, management and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina  
November 15, 2013



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

and

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

In connection with our audit of the financial statements of the South Carolina Office of the State Treasurer (the "Office") as of and for the year ended June 30, 2012, we identified certain deficiencies in internal control over financial reporting (control deficiencies).

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

However, the following are descriptions of additional identified control deficiencies that we determined did *not* constitute significant deficiencies or material weaknesses:

**Accrued Compensated Absences**

*Condition:* The subsidiary schedule for accrued compensated absences reflected a total of \$356,137, whereas the corresponding ending balance reflected in the financial statements was \$425,116.

*Criteria:* All supporting subsidiary ledgers should reconcile to balances reflected in the financial statements.

*Cause:* The financial statements were not adjusted to reflect the total per the subsidiary ledger.

*Effect:* The Office's payroll expenditures and related liabilities were overstated by \$68,979.

*Recommendation:* As part of the Office's year-end closing process, we recommend that a detailed review of all subsidiary ledgers be performed to ensure that each schedule reconciles to the Office's annual closing package and the financial statements. This will allow the Office to detect and correct errors within the financial statements prior to the start of the audit process.

## **Capital Assets**

*Condition:* Ending balances reflected in the Office's Capital Assets Reporting Package reflected the following footing errors:

- (a) The reported total for "net corrections to beginning balances" was \$10,870. The actual footed total should have been \$5,435.
- (b) The reported total for depreciable and total capital asset "additions" was (\$116,076). The actual footed total should have been (\$34,543).
- (c) The reported total for net depreciable assets "ending balances" was (\$1,151,005). The actual footed total should have been \$1,001,806.
- (d) The reported total for capital assets "ending balances" was (\$2,723,095). The actual footed total should have been \$4,875,906.

We noted that the actual footed totals reflected above were presented in the financial statements.

*Criteria:* Reporting Packages which are used to support the Office's financial statement balances, and balances presented in the State's Comprehensive Annual Financial Report, should reflect totals that accurately foot.

*Cause:* Balances reflected in the Capital Assets Reporting Package were not reviewed for footing errors.

*Effect:* Uncorrected footing errors in the Office's Reporting Packages increase the risk of misstatements occurring in the financial statements.

*Recommendation:* We recommend that the Office perform test-footing of major balances presented in its Reporting Packages in order to detect and correct potential errors.

## **Unclaimed Property Refunds**

*Condition:* We examined a sample of twelve unclaimed property refund disbursements and noted two items totaling \$1,062 for which the voucher checklist was not signed by the employee indicating that claimant information was verified.

*Criteria:* Before an unclaimed property refund is disbursed, it is the policy of the Office to verify certain claimant information reflected on the claim form including name, address, social security number, property number, claim number and claim amount. This process is documented on a voucher checklist via the signature of the employee who performed the verification.

*Cause:* The Office's procedures to document verification of claimant information were not performed for the transactions noted above.

*Effect:* There is no written audit trail to prove that a disbursement has been verified for accuracy.

*Recommendation:* The Office should review its internal controls over verification of claimant information and revise procedures as necessary to ensure that all voucher checklists include the signature of the employee who performed the verification.

### **Accounts Payable**

*Condition:* The accounts payable subsidiary ledger for the Private Purpose Trust Fund consisted of one invoice in the amount of \$262,582 due to a single vendor. The accounts payable balance reflected in the financial statements for the Private Purpose Trust Fund was \$462,582.

*Criteria:* A \$200,000 estimate for accounts payable was inadvertently added to the \$262,582 invoice referenced above.

*Cause:* The accounts payable balance reflected in the financial statements was based on an estimate of accounts payable rather than the total of outstanding vendor invoices.

*Effect:* Contractual services and accounts payable as presented in the financial statements for the Private Purpose Trust Fund were overstated by \$200,000.

*Recommendation:* As part of the Office's year-end closing process, we recommend that a detailed review of all subsidiary ledgers be performed to ensure that each schedule reconciles to the Office's annual closing package and the financial statements. This will allow the Office to detect and correct errors within the financial statements prior to the start of the audit process.

This communication is intended solely for the information and use of the State Treasurer and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina  
November 15, 2013