

South Carolina Office of the State Treasurer

Report on Financial Statements

For the Year Ended June 30, 2018

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Independent Auditor’s Report | 1-2 |
| Management’s Discussion and Analysis | 3-7 |
| Basic Financial Statements: | |
| Statement of Net Position | 8 |
| Statement of Activities | 9 |
| Balance Sheet-Governmental Funds | 10 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds | 12 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities | 13 |
| Statement of Fiduciary Net Position | 14 |
| Statement of Changes in Fiduciary Net Position | 15 |
| Notes to the Financial Statements | 16-43 |
| Required Supplementary Information – Budgetary Comparison Schedules | 44-46 |
| Notes to Required Supplementary Information – Budgetary Comparison Schedules | 47-48 |
| Required Supplementary Information – Schedule of the South Carolina Office of the State Treasurer’s Proportionate Share of the Net Pension Liability – South Carolina Retirement System | 49 |
| Required Supplementary Information – Schedule of the South Carolina Office of the State Treasurers’ Contributions – South Carolina Retirement System | 50 |
| Required Supplementary Information – Schedule of the South Carolina Office of the State Treasurer’s Proportionate Share of the Net OPEB Liability – South Carolina Health Insurance Trust Fund | 51 |
| Required Supplementary Information – Schedule of the South Carolina Office of the State Treasurers’ Contributions – South Carolina Health Insurance Trust Fund | 52 |
| Independent Auditor’s Report – Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 53-54 |
| Schedule of Findings and Responses | 55 |

Implementation of New Accounting Standard

As discussed in Notes 10 and 15 to the financial statements, the Office adopted provisions of Governmental Accounting Standards Board (GASB) Statement Number 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective July 1, 2017. Our opinions are not modified with respect to this matter.

Reporting Entity

As described in Note 1.A., the accompanying financial statements of the Office are intended to present the financial position and the respective changes in financial position of certain governmental activities and fiduciary funds comprising the reporting entity as defined by the Office. The accompanying financial statements exclude the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the "Related Entities"), and all debt service transactions related to obligations of the State of South Carolina, its agencies, departments, and political subdivisions. They do not purport to, and do not present fairly, the financial position of the State of South Carolina as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of the proportionate share of the net pension liability, schedule of pension contributions, schedule of proportionate share of the net OPEB liability, and schedule of OPEB contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.



Columbia, South Carolina
January 10, 2019

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Statement of Net Position and Statement of Activities:

The Statement of Net Position provides a summary of the Office's financial condition at June 30, 2018; and reports all assets and liabilities using the accrual basis of accounting. The Statement of Activities reports the revenues and expenses for the fiscal year ended June 30, 2018 using the accrual basis of accounting.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER
STATEMENT OF NET POSITION

| | 2018 | 2017* |
|--------------------------------|------------------------|------------------------|
| Current Assets | \$ 1,338,907 | \$ 536,637 |
| Total Assets | <u>1,338,907</u> | <u>536,637</u> |
| | | |
| Deferred Outflows of Resources | <u>2,470,375</u> | <u>1,645,652</u> |
| | | |
| Current Liabilities | 420,062 | 574,427 |
| Noncurrent Liabilities | <u>17,060,283</u> | <u>16,033,166</u> |
| Total Liabilities | <u>17,480,345</u> | <u>16,607,593</u> |
| | | |
| Deferred Inflows of Resources | <u>667,368</u> | <u>8,845</u> |
| | | |
| Restricted Net Position | 966,180 | - |
| Unrestricted Net Deficit | <u>(15,304,611)</u> | <u>(14,434,149)</u> |
| Total Net Deficit | <u>\$ (14,338,431)</u> | <u>\$ (14,434,149)</u> |

*June 30, 2017 amounts have been restated due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which required the retroactive recognition of the net OPEB liability and related deferred outflows of resources.

For the fiscal year ended June 30, 2018, current assets increased by \$802,270 primarily due to retained cash balances that are restricted for aid to subdivisions. Current liabilities decreased by \$154,365 primarily due to the timing of payments as compared to the fiscal year ended June 30, 2017. Noncurrent liabilities increased by \$1,027,117. The Office's net pension liability and related deferred outflows of resources increased substantially, which is based on the Office's proportionate share of pension related amounts associated with the State's retirement plan. The Office also recognized its proportionate share of the OPEB related amounts associated with the State's retiree health plan. Restricted net position has increased by \$966,180 primarily due to the retained cash balances for aid to subdivisions mentioned previously. These cash balances are restricted for future payment to political subdivisions.

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2018

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

SOUTH CAROLINA OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES

| | 2018 | 2017* |
|--|-----------------|----------------|
| Expenses | | |
| Personnel Services | \$ 7,115,681 | \$ 6,120,753 |
| Travel | 35,396 | 46,822 |
| Supplies and Materials | 347,939 | 189,710 |
| Contracted Services | 2,422,058 | 2,827,987 |
| Student Loans – Student Loan Corporation | 4,694,880 | 5,089,881 |
| Rent | 332,566 | 317,327 |
| Aid to Subdivisions | 243,577,284 | 243,258,227 |
| Total Expenses | 258,525,804 | 257,850,707 |
| General Revenues | | |
| State Appropriations | 251,431,754 | 250,341,842 |
| Fines and Penalties | 99,722 | 104,382 |
| Investment Management Fees | 2,700,000 | 2,800,000 |
| Revenue from Other State Agencies | 4,692,011 | 4,365,278 |
| Total General Revenues | 258,923,487 | 257,611,502 |
| Transfers | | |
| Remission to State General Fund | (301,965) | (21,433) |
| Total General Revenues and Transfers | 258,621,522 | 257,590,069 |
| Change in Net Deficit | 95,718 | (260,638) |
| Net Deficit, July 1 | (14,434,149) | (6,905,029) |
| Net Deficit, June 30 | \$ (14,338,431) | \$ (7,165,667) |

*The Office implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, during the year ended June 30, 2018. Net position as of July 1, 2017 has been restated in accordance with these provisions. See Note 15 for further details regarding the restatement. The restatement was recorded as of July 1, 2017, and as such, the ending net position for June 30, 2017 does not agree to net position as of July 1, 2017.

General revenues of the Office are largely dependent upon appropriations from the State Legislature. For the fiscal year ended June 30, 2018, appropriations to the Office for Aid to Subdivisions were increased by the State Legislature, and as a result State Appropriations revenues and Aid to Subdivisions expenses both increased substantially. The Office also added several members to its staff which, along with an increase in pension expense, increased personnel services expense for the fiscal year ended June 30, 2018. Lastly, remissions to the State General Fund increased from the fiscal year ended June 30, 2017 as the Aid to Subdivisions Fund was required to remit a portion of unspent appropriations to the State General Fund for the year ended June 30, 2018, which amounted to \$301,965, which was greater than the amount of unspent appropriations for the year ended June 30, 2017.

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2018

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

The Office received \$251,431,754 in appropriations from the State Legislature. These appropriations were spent for three purposes. The amount of \$1,993,683 was spent primarily on the operations of the Office. The amount of \$243,577,284 was disbursed as aid to various governmental subdivisions throughout the State. The amount of \$4,694,880 was spent on student loans. This resulted in \$1,165,907 of appropriations unspent, of which \$301,965 were remitted to the State General Fund and \$863,942 were retained and resulted in an increase in net position.

Fund Highlights:

Governmental Funds

The focus of the Office's governmental funds is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the chief operating fund of the Office. The General Fund's operating revenues are provided through appropriations from the State Legislature. Revenues are not budgeted by the Office; therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budgeted appropriations. This resulted in an ending fund balance of \$0 for the General Fund.

There are two major special revenue funds: the Aid to Subdivisions Fund and the State Treasurer's Office Earmarked Fund. The Aid to Subdivisions Fund distributes funds to various political subdivisions of the State based on amounts budgeted by the State. There was a surplus of \$1,165,907 in State appropriations in the Aid to Subdivisions Fund that were not distributed during the fiscal year ended June 30, 2018. Of this surplus, \$301,965 was remitted back to the State General Fund after the end of the fiscal year, resulting in an increase in fund balance of \$863,942, and an ending fund balance of \$863,942. The surplus that was retained by the Aid to Subdivisions Fund was caused by Act 273, which went into effect for the fiscal year ended June 30, 2018. This act required one percent of insurance premium taxes be transferred to the aid to fire districts account within the State Treasury and distributed for firefighting equipment. As such, the fund balance is restricted for future payments to aid fire districts of the State. 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. Revenues exceeded expenditures by \$97,666 during the fiscal year ended June 30, 2018 resulting in an ending fund balance of \$102,238.

Budget Highlights:

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

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

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

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

The Office's budget for E16 General Funds was originally \$1,972,301 for the fiscal year ended June 30, 2018. This compares to a final budgeted amount of \$1,993,683. The increase was primarily due to a budgeted increase in other operating expenditures of \$344,028, a decrease in personnel services of \$213,652, and a decrease in employer contributions of \$108,994. Actual expenditures, on the budgetary basis, totaled \$1,993,683. These actual expenditures were in line with the final budgeted amount.

South Carolina Office of the State Treasurer
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Budget Highlights (Continued):

The Office's budget for E16 Other Budgetary Funds was originally \$7,359,886 for the fiscal year ended June 30, 2018. This compares to a final budgeted amount of \$12,054,765. The increase in the final budgeted amount was primarily due to additional appropriations for student loan payments to the South Carolina Student Loan Corporation in the budgeted amount of \$4,694,879. Actual expenditures, on the budgetary basis, totaled \$12,049,487. These actual expenditures were in line with the final budgeted amount with the exception of other operating expenditures which were \$5,278 under budget.

The Office's budget for X22 General Funds was originally \$243,058,912 for the fiscal year ended June 30, 2018. This compares to a final budgeted amount of \$244,441,224. The primary reason for the increase from the original to final budgeted amount was an additional \$2,312,682 and \$16,439,919 that was added to fund State agencies and fire departments, respectively, and a reduction of \$14,867,220 in budgeted distributions to fire districts. Actual expenditures, on the budgetary basis, totaled \$243,577,279. These actual expenditures were \$863,942 less than the final budgeted amount. The Office's Aid to Subdivisions Fund only receives General Fund appropriations. Therefore, amounts are not budgeted for X22 Other Budgetary Funds.

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
1200 Senate Street, Suite 214
Wade Hampton Office Building
Columbia, South Carolina 29201

South Carolina Office of the State Treasurer
Statement of Net Position
June 30, 2018

Assets

Current Assets:

| | |
|-------------------------------|--------------|
| Cash | \$ 1,326,528 |
| Due from Other State Agencies | 12,379 |
| Total Current Assets | 1,338,907 |
| Total Assets | 1,338,907 |

Deferred Outflows of Resources

| | |
|--|-----------|
| Deferred Outflows of Resources Related to Pensions | 2,212,713 |
| Deferred Outflows of Resources Related to OPEB | 257,662 |
| Total Deferred Outflows of Resources | 2,470,375 |

Liabilities

Current Liabilities:

| | |
|---------------------------|---------|
| Accounts Payable | 70,762 |
| Due to State General Fund | 301,965 |
| Compensated Absences | 47,335 |
| Total Current Liabilities | 420,062 |

Noncurrent Liabilities:

| | |
|------------------------------|------------|
| Net Pension Liability | 9,594,898 |
| Net OPEB Liability | 7,003,745 |
| Compensated Absences | 461,640 |
| Total Noncurrent Liabilities | 17,060,283 |
| Total Liabilities | 17,480,345 |

Deferred Inflows of Resources

| | |
|---|---------|
| Deferred Inflows of Resources Related to Pensions | 5,318 |
| Deferred Inflows of Resources Related to OPEB | 662,050 |
| Total Deferred Inflows of Resources | 667,368 |

Net Deficit

| | |
|-------------------|-----------------|
| Restricted | 863,942 |
| Unrestricted | (15,202,373) |
| Total Net Deficit | \$ (14,338,431) |

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, 2018

Expenses

| | |
|--|--------------|
| Personnel Services | \$ 7,115,681 |
| Travel | 35,396 |
| Supplies and Materials | 347,939 |
| Contracted Services | 2,422,058 |
| Student Loans – Student Loan Corporation | 4,694,880 |
| Rent | 332,566 |
| Aid to Subdivisions | 243,577,284 |
| Total Expenses | 258,525,804 |

General Revenues

| | |
|-----------------------------------|-------------|
| State Appropriations | 251,431,754 |
| Fines and Penalties | 99,722 |
| Investment Management Fees | 2,700,000 |
| Revenue from Other State Agencies | 4,692,011 |
| Total General Revenues | 258,923,487 |

Transfers

| | |
|--------------------------------------|-------------|
| Remission to State General Fund | (301,965) |
| Total General Revenues and Transfers | 258,621,522 |

| | |
|--|-----------------|
| Change in Net Deficit | 95,718 |
| Net Deficit, July 1, 2017, as restated | (14,434,149) |
| Net Deficit, June 30, 2018 | \$ (14,338,431) |

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

South Carolina Office of the State Treasurer
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 June 30, 2018

| | | |
|--|----|---------|
| Total fund balance, governmental funds | \$ | 966,180 |
|--|----|---------|

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

The net pension liability and related deferred outflows and inflows of resources are not due and payable in the current year and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

| | | |
|--|--|-------------|
| Net pension liability | | (9,594,898) |
| Deferred outflows of resources related to pensions | | 2,212,713 |
| Deferred inflows of resources related to pensions | | (5,318) |
| Net OPEB liability | | (7,003,745) |
| Deferred outflows of resources related to OPEB | | 257,662 |
| Deferred inflows of resources related to OPEB | | (662,050) |

| | | |
|---|--|-----------|
| Compensated absences are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. | | (508,975) |
|---|--|-----------|

| | | |
|---|--|-------------------------------|
| Net deficit of governmental activities in the Statement of Net Position | | <u><u>\$ (14,338,431)</u></u> |
|---|--|-------------------------------|

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

South Carolina Office of the State Treasurer
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the
 Statement of Activities
 For the Year Ended June 30, 2018

| | | |
|---|----|---------------|
| Total change in fund balance, governmental funds | \$ | 962,097 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Current year pension plan contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities | | 619,310 |
| Current year OPEB plan contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities | | 245,628 |
| Nonemployer contributions to the OPEB plan are recognized in the Statement of Activities as revenues | | 41,005 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds: | | |
| Increase in pension expense due to changes in the net pension liability and related deferred outflows and inflows of resources | | (1,287,790) |
| Increase in OPEB expense due to changes in the net OPEB liability and related deferred outflows and inflows of resources | | (426,284) |
| Increase in compensated absences | | (58,248) |
| Increase in net deficit, governmental activities | \$ | <u>95,718</u> |

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

South Carolina Office of the State Treasurer
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

| | Private Purpose Trust | Agency |
|---------------------------------------|----------------------------------|------------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$ 2,396,018 | \$ 1,011,736,445 |
| Amounts Due from Other State Agencies | 210,543 | 216,592,645 |
| Total Current Assets | 2,606,561 | 1,228,329,090 |
| Noncurrent Assets: | | |
| Capital Assets: | | |
| Land and Land Improvements | 3,874,100 | - |
| Buildings and Improvements | 1,643,925 | - |
| Equipment | 439,451 | - |
| Vehicles | 113,222 | - |
| Accumulated Depreciation | (1,601,090) | - |
| Total Noncurrent Assets | 4,469,608 | - |
| Total Assets | \$ 7,076,169 | \$ 1,228,329,090 |
| Liabilities | | |
| Current Liabilities: | | |
| Due to Depositors | \$ - | \$ 846,729,067 |
| Accounts Payable | 621,911 | - |
| Amounts Due to Local Governments | - | 155,878,313 |
| Unclaimed Property Refunds | - | 225,721,710 |
| Total Current Liabilities | 621,911 | 1,228,329,090 |
| Total Liabilities | 621,911 | \$ 1,228,329,090 |
| Net Position | | |
| Net Investment in Capital Assets | 4,469,608 | |
| Held in Trust for: | | |
| Aid to Subdivisions | 483,043 | |
| Springdale Fund | 1,050,653 | |
| Other Purposes | 450,954 | |
| Total Net Position | 6,454,258 | |
| Total Liabilities and Net Position | \$ 7,076,169 | |

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

South Carolina Office of the State Treasurer
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

| | Private Purpose Trust |
|---|----------------------------------|
| Additions: | |
| Service Fees | \$ 62,730 |
| Sales and Use Taxes | 2,220,842 |
| Contributions | 8,640 |
| Interest and Investment Income | 36,815 |
| Total Additions | 2,329,027 |
| Deductions: | |
| State Allocations | 2,218,506 |
| Net distributions to political subdivisions | 114,596 |
| Depreciation | 70,456 |
| Contracted Services | 63,287 |
| Disbursement to Devisee | 31,982 |
| Other Expenses | 2,085 |
| Total Deductions | 2,500,912 |
| Change in Net Position | (171,885) |
| Net Position, July 1, 2017 | 6,626,143 |
| Net Position, June 30, 2018 | \$ 6,454,258 |

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, 2018

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 United States Generally Accepted Accounting Principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office’s accounting policies are described below.

A. Reporting Entity

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

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

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

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State that is attributable to transactions of the Office, and exclude the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the “Related Entities”), and all debt service transactions related to obligations of the State, its agencies, departments, and political subdivisions. The financial statements of the Related Entities were audited by other auditors as of and for the fiscal year ended June 30, 2018.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

B. South Carolina Tuition Prepayment Program

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

The Program has been closed to new enrollment since July 1, 2008. The Office provides the State Legislature with a written report of the unfunded liability of the Program each year as well as the projected date that the assets will be fully depleted. The Office determined that the Fund should not be reported in its financial statements because administration of the Program was outsourced on October 1, 2012. The State’s Comprehensive Annual Financial Report included the Fund as a non-major enterprise fund as of and for the fiscal year ended June 30, 2018, and reported a net deficit for the Fund of approximately \$36.1 million as of the fiscal year then ended. The financial statements of the Fund were separately audited as of and for the fiscal year ended June 30, 2018. According to the actuarial valuation for the Program as of the fiscal year ended June 30, 2018, the net deficit in the Fund is an indicator that existing assets combined with future cash flows are insufficient to pay all contract owners their benefits. The Program’s actuary projects that assets will be depleted during the year ending June 30, 2022.

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

Government-wide Financial Statements

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

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

Additionally, the Office receives reimbursement from the unclaimed property funds for certain costs incurred in connection with the recovery, advertisement, and sale of unclaimed property. The Office holds unclaimed property refunds, or escheated property, in an agency capacity. A liability is recorded for amounts expected to be reclaimed and paid to claimants. This liability is satisfied by the State’s General Fund. For the fiscal year ended June 30, 2018, the Office received \$1,900,000 of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the State’s Unclaimed Property Program. The Unclaimed Property Program is accounted for as an agency fund.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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

Fund Financial Statements

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

Measurement Focus and Basis of Accounting

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

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

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

Governmental Fund Types

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

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

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

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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

Governmental Fund Types (Continued)

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

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

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

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

Cash

The amounts shown in the accompanying financial statements as cash represents cash on deposit in banks and cash held in various instruments as a part of the State’s cash management pool. Since the cash management pool operates as a demand deposit account, amounts held in the pool are classified as cash. The Office administers the cash management pool.

Cash Management Pool – Allocation of Interest

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

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets

The Office's only capital assets are related to fiduciary type activities and are reported in the Statement of Fiduciary Net Position – Fiduciary Funds. These capital assets are managed in trust for the benefit of others are reported in the Statement of Fiduciary Net Position – Fiduciary Funds. The Office reports the following categories of capital assets: land and land improvements, buildings and improvements, equipment and vehicles.

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

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

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

Compensated Absences

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

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

Due to Depositors

Due to Depositors reported in the Statement of Fiduciary Net Position – Fiduciary Funds represents amounts held by the Office in its Agency Funds for the benefit of other State agencies, local governments, and State boards. The Office collects various taxes, fines, and fees on behalf of these entities until the funds are needed for use or are distributed under applicable State provisos. The balance of this liability was \$846,729,067 as of June 30, 2018.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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

Unclaimed Property Refunds

The Office holds unclaimed property refunds, or escheated property, in an agency capacity; unclaimed property refunds are reported in the Agency Funds. Each year, the Unclaimed Property Program receives millions of dollars from companies that cannot locate the owners of the funds. The Unclaimed Property Program does not include tangible property like land or vehicles. A liability is recorded for amounts expected to be reclaimed and paid to claimants. See Note 14 for more information on unclaimed property refunds and the respective Unclaimed Property Program.

Net Position and Fund Balance

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

Net Position

Net investment in capital assets

The net investment in capital assets portion of net position consists of capital assets, net of accumulated depreciation. As of June 30, 2018, net investment in capital assets was only reported in the Office's Private Purpose Trust Funds.

Restricted net position

Restricted net position consist of assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or laws through constitutional provisions or enabling legislation. In all cases, if individual restricted net position categories are negative, the negative balance is eliminated and reclassified against unrestricted net position. As of June 30, 2018, the Office reported \$966,180 of restricted net position, of which \$863,942 was restricted by enabling legislation.

Net position held in trust

Net position held in trust consists of assets that are held by the Office in a fiduciary capacity for the decommissioning of a nuclear plant, aid to subdivisions, the Springdale Fund which benefits the Springdale Race Course, or other specific purposes as defined by the trust. As of June 30, 2018, net position held in trust was only reported in the Office's Private Purpose Trust Funds.

Unrestricted net position

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

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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

Net Position and Fund Balance (Continued)

Fund Balance

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

Non-spendable fund balance

The non-spendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaids. It also includes the long-term amount of loans and notes receivable, as well as other assets. As of June 30, 2018, the Office did not have any non-spendable fund balance.

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. All of the Office’s fund balance is presented as restricted as all fund balance is restricted as to use for specific purposes under State provisos. These purposes are primarily to pay costs for the management of the Unclaimed Property Program and investment and debt management.

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, 2018, the Office did not have any committed fund balance.

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by the Office’s intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Office’s highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Office’s highest level of authority. As of June 30, 2018, the Office did not have any assigned fund balance.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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

Net Position and Fund Balance (Continued)

Unassigned fund balance

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

Based on the Office's policies regarding fund balance classifications as noted above, it considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure has been designated by the State or donor stipulations have been made. After these fund balances have been depleted, unassigned fund balances will be considered to have been spent. As of June 30, 2018, the Office did not have any unassigned fund balance.

Deficit Net Position and Fund Balance

The Office reported unrestricted net deficit of \$15,304,611 which is due primarily to its proportionate share of the net pension and OPEB liabilities of \$16,598,643 (see Notes 9 and 10 for more details). The Office does not anticipate funding these liabilities and will continue to contribute to the pension and OPEB plans at State required contribution rates.

Deferred Outflows and Inflows of Resources

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

Revenue from Other State Agencies

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

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies (Continued)

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

Contracted Services

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

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

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

Student Loans – Student Loan Corporation

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

State Allocations

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

Disbursements to Devisee

Disbursements to Devisee in the Private Purpose Trust Funds represent payments to the Carolina Cup Racing Association, Inc. The Office distributes the investment and interest income on the Springdale Fund, one of the Private Purpose Trust Funds, which is held for the benefit of the Springdale Race Course in Camden, South Carolina. The corpus of the fund is \$1,050,653 as of the fiscal year ended June 30, 2018.

2. Budget Policy

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

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

2. Budget Policy (continued)

Transfers of funds may be approved by the State Fiscal Accountability Authority (the “SFAA”) under its authority or by the agency as set forth in Appropriation Act Proviso 117.9 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Executive Budget Office 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 SFAA upon formal approval by a majority of the members of the SFAA.

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

3. Deposits

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

Deposits include cash on deposit in banks. 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 on deposit in banks. All deposits under the control of the Office are fully insured or collateralized.

4. Investment Management Fees

Under Proviso 98.5, 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, 2018 was \$2,700,000.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

5. Amounts Due from Other State Agencies

At June 30, 2018, the Private Purpose Trust Funds and Agency Funds held receivables due from other State agencies. The following is a summary of the amounts due from other State agencies:

| | Private Purpose Trust | Agency |
|--|----------------------------------|-----------------------|
| Selective Sales and Use Taxes | \$ 209,735 | \$ 69,645,170 |
| Accommodations Tax | — | 19,220,596 |
| Motor Carrier Property Taxes | — | 6,243,878 |
| Local Option Tourism Development Fee | — | 7,442,741 |
| 911 Surcharge | — | 2,598,789 |
| Tobacco Products Playing Card Tax | — | 11,607,239 |
| Unclaimed Property | — | 96,787,932 |
| South Carolina State University | — | 2,000,000 |
| Mini Bottle Tax | — | 863,498 |
| Miscellaneous Revenue | 808 | 182,802 |
| Total Amounts Due from Other State Agencies | <u>\$ 210,543</u> | <u>\$ 216,592,645</u> |

During the fiscal year ended June 30, 2018, an additional \$2 million of the original \$12 million due from South Carolina State University was forgiven per the terms of Act 286. Should South Carolina State University maintain compliance with the conditions of Act 286, an additional \$2 million will be forgiven in fiscal year 2019, which will result in the full balance being forgiven.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

6. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 for the Private Purpose Trust Funds was as follows:

| | Beginning Balance June 30, 2017 | Increases | Decreases | Ending Balance June 30, 2018 |
|---|---------------------------------------|--------------------|-------------|------------------------------------|
| Private purpose trust funds | | | | |
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 3,874,100 | \$ - | \$ - | \$ 3,874,100 |
| Total capital assets not being depreciated | 3,874,100 | - | - | 3,874,100 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 1,643,925 | - | - | 1,643,925 |
| Equipment | 430,811 | 8,640 | - | 439,451 |
| Vehicles | 113,222 | - | - | 113,222 |
| Total capital assets being depreciated | 2,187,958 | 8,640 | - | 2,196,598 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,049,235) | (53,149) | - | (1,102,384) |
| Equipment | (368,177) | (17,307) | - | (385,484) |
| Vehicles | (113,222) | - | - | (113,222) |
| Total accumulated depreciation | (1,530,634) | (70,456) | - | (1,601,090) |
| Total capital assets being depreciated, net | 657,324 | (61,816) | - | 595,508 |
| private purpose trust funds, net | <u>\$ 4,531,424</u> | <u>\$ (61,816)</u> | <u>\$ -</u> | <u>\$ 4,469,608</u> |

7. Amounts Due to Local Governments

At June 30, 2018, the Agency Funds held amounts due to local governments. The following is a summary of the amounts due to local governments:

| | |
|--|-----------------------|
| | <u>Agency</u> |
| Local Option Sales and Accommodation Taxes | \$ 123,739,100 |
| Motor Carrier Fees | 6,328,628 |
| 911 Surcharge | 5,046,600 |
| Local Option Tourism Development Fee | 7,458,222 |
| Mini Bottle Tax | 1,351,181 |
| Tobacco Products Playing Card Tax | 11,607,239 |
| Miscellaneous Amounts | 347,343 |
| Total Amounts Due to Local Governments | <u>\$ 155,878,313</u> |

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

9. Pension Plan (Continued)

Plan Descriptions (Continued)

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

Membership

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

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

Benefits

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

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

9. Pension Plan (Continued)

Plan Descriptions (Continued)

Benefits (continued)

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

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

Contributions

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

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

9. Pension Plan (Continued)

Plan Descriptions (Continued)

Contributions (continued)

The Retirement System Funding and Administration Act increased employer contribution rates to 13.56 percent for SCRS, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent for SCRS. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

Required employee contribution rates¹ are as follows:

| | <u>Fiscal Year 2018</u> | <u>Fiscal Year 2017</u> |
|----------------------|-------------------------|-------------------------|
| SCRS | | |
| Employee Class Two | 9.00% | 8.66% |
| Employee Class Three | 9.00% | 8.66% |
| State ORP | | |
| Employee | 9.00% | 8.66% |

Required employer contribution rates¹ are as follows:

| | <u>Fiscal Year 2018</u> | <u>Fiscal Year 2017</u> |
|------------------------------------|-------------------------|-------------------------|
| SCRS | | |
| Employer Class Two | 13.41% | 11.41% |
| Employer Class Three | 13.41% | 11.41% |
| Employer Incidental Death Benefit | 0.15% | 0.15% |
| State ORP | | |
| Employer Contribution ² | 13.41% | 11.41% |
| Employer Incidental Death Benefit | 0.15% | 0.15% |

¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of laws.

² Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

The Office has contributed \$619,310 and \$538,610 to the SCRS and ORP for the years ended June 30, 2018 and 2017, respectively.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

9. Pension Plan (Continued)

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report was most recently issued as of July 1, 2015.

The June 30, 2017, total pension liability (TPL), the net pension liability (NPL), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2017.

| | SCRS |
|--|-----------------------------------|
| Actuarial cost method | Entry age normal |
| Investment rate of return ¹ | 7.25% |
| Projected salary increases ¹ | 3.0% to 12.5% (varies by service) |
| Benefit adjustments | lesser of 1% or \$500 annually |
| ¹ Includes inflation at 2.25% | |

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the determination of the June 30, 2017, TPL are as follows.

| Former Job Class | Males | Females |
|---|------------------------------------|--------------------------------------|
| Educators | 2016 PRSC Males multiplied by 92% | 2016 PRSC Females multiplied by 98% |
| General Employees and Members of the General Assembly | 2016 PRSC Males multiplied by 100% | 2016 PRSC Females multiplied by 111% |
| Public Safety and Firefighters | 2016 PRSC Males multiplied by 125% | 2016 PRSC Females multiplied by 111% |

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

9. Pension Plan (Continued)

Net Pension Liability (Continued)

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Expected Arithmetic Real Rate of Return</u> | <u>Long Term Expected Portfolio Real Rate of Return</u> |
|----------------------------------|--------------------------------|--|---|
| Global Equity | 45.0% | | |
| Global Public Equity | 31.0% | 6.72% | 2.08% |
| Private Equity | 9.0% | 9.60% | 0.86% |
| Equity Options Strategies | 5.0% | 5.91% | 0.30% |
| Real Assets | 8.0% | | |
| Real Estate (Private) | 5.0% | 4.32% | 0.22% |
| Real Estate (REITs) | 2.0% | 6.33% | 0.13% |
| Infrastructure | 1.0% | 6.26% | 0.06% |
| Opportunistic | 17.0% | | |
| GTAA/Risk Parity | 10.0% | 4.16% | 0.42% |
| Hedge Funds (non-PA) | 4.0% | 3.82% | 0.15% |
| Other Opportunistic Strategies | 3.0% | 4.16% | 0.12% |
| Diversified Credit | 18.0% | | |
| Mixed Credit | 6.0% | 3.92% | 0.24% |
| Emerging Markets Debt | 5.0% | 5.01% | 0.25% |
| Private Debt | 7.0% | 4.37% | 0.31% |
| Conservative Fixed Income | 12.0% | | |
| Core Fixed Income | 10.0% | 1.60% | 0.16% |
| Cash and Short Duration (Net) | 2.0% | 0.92% | 0.02% |
| Total Expected Real Return | 100.0% | | 5.31% |
| Inflation for Actuarial Purposes | | | 2.25% |
| Total Expected Nominal Return | | | 7.56% |

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.25 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

| Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate | | | |
|---|-----------------------------------|--|-----------------------------------|
| System | 1.00% Decrease (6.25%) | Current Discount Rate (7.25%) | 1.00% Increase (8.25%) |
| SCRS | \$ 12,366,505 | \$ 9,594,898 | \$ 7,913,183 |

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

9. Pension Plan (Continued)

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2018, the Office recognized pension expense of \$1,287,790 which is included in employer fringe benefits in the accompanying financial statements. At June 30, 2018, the Office reported deferred outflows (inflows) of resources related to pensions from the following sources and will be amortized to pension expense as noted in following schedules. Average remaining service lives of all employees provided with pensions through the pension plans at June 30, 2017 was 4.073 years for SCRS:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date | \$ 619,310 | \$ — |
| Differences in actual and expected plan experience | 42,774 | 5,318 |
| Change in proportionate share and differences between the Office's contributions and proportionate share of contributions | 721,107 | — |
| Changes in assumptions | 561,678 | — |
| Net differences between projected and actual earnings on plan investments | 267,844 | — |
| | \$ 2,212,713 | \$ 5,318 |

| Measurement Period Ending June 30, | Fiscal Year Ending June 30, | SCRS |
|---------------------------------------|--------------------------------|------------|
| 2018 | 2019 | \$ 527,763 |
| 2019 | 2020 | 639,796 |
| 2020 | 2021 | 488,294 |
| 2021 | 2022 | (67,768) |

The Office reported \$619,310 as deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

10. Post-Employment Benefits Other Than Pensions

PEBA is a state agency responsible for the administration and management of the state's employee insurance programs, other post-employment benefits trusts. By law, the SFFA, which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits (OPEB). See Note 9 for more details on PEBA and the SFAA.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

PEBA, Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Fund. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Descriptions

The Other Post-Employment Benefits Trust Fund (OPEB Trust), refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans.

In accordance with Act 195, the OPEB Trust is administered by the PEBA, Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trust is a cost-sharing multiple-employer defined benefit plan. Article 5 of the State Code of Laws defines the plan and authorizes the Trustee to at any time adjust the plan, including its benefits and contributions, as necessary to insure the fiscal stability of the plan. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental benefits to retired State and school district employees and their covered dependents.

Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public-school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The covered payroll surcharge for the year ended June 30, 2017 was 5.33 percent and for the year ended June 30, 2018 was 5.50 percent. The South Carolina Retirement System collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs.

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

Actuarial Assumptions and Methods (continued)

Additional information as of the latest actuarial valuation for SCRHITF:

| | |
|-----------------------------------|--|
| Valuation Date: | June 30, 2016 |
| Actuarial Cost Method: | Entry Age Normal |
| Inflation: | 2.25% |
| Investment Rate of Return: | 4.00%, net of OPEB Plan investment expense; including inflation |
| Single Discount Rate: | 3.56% as of June 30, 2017 |
| Demographic Assumptions: | Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015 |
| Mortality: | For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type. |
| Health Care Trend Rate: | Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years |
| Aging Factors: | Based on plan specific experience |
| Retiree Participation: | 79% for retirees who are eligible for funded premiums |
| Notes: | There were no benefit changes during the year; the discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017 |

Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer's payroll-related contributions over the measurement period. This method is expected to be reflective of the employer's long-term contribution effort.

The following table represents the components of the net OPEB liability as of June 30, 2017:

| OPEB Trust | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability | Plan Fiduciary Net Position as a % of Total OPEB Liability |
|------------|-------------------------|--------------------------------|--------------------|---|
| SCRHITF | \$ 14,659,610,970 | \$ 1,114,774,760 | \$ 13,544,836,210 | 7.60% |

The TOL is calculated by the Trusts' actuary, and each Trust's fiduciary net position is reported in the Trust's financial statements. The NOL is disclosed in accordance with the requirements of GASB No. 74 in the Trusts' notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts' actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trusts' funding requirements.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

Net OPEB Liability (continued)

At June 30, 2018, the Office reported a liability of \$7,003,745 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017. The Office's proportion of the net OPEB liability was based on a projection of the Office's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the Office's proportion was 0.051707%.

Single Discount Rate

The Single Discount Rate of 3.56% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Long-term Expected Rate of Return

The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. For actuarial purposes, the 4.00 percent assumed annual investment rate of return includes a 1.75 percent real rate of return and a 2.25 percent inflation component. This information is summarized in the following table:

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Expected Arithmetic Real Rate of Return</u> | <u>Allocation Weighted Long Term Expected Portfolio Real Rate of Return</u> |
|------------------------------|--------------------------------|--|---|
| US Domestic Fixed Income | 80.00% | 2.09% | 1.67% |
| Cash | 20.00% | 0.84% | 0.17% |
| Total Expected Real Return | <u>100.0%</u> | | <u>1.84%</u> |
| Expected Inflation | | | <u>2.25%</u> |
| Total Return | | | <u>4.09%</u> |
| Investment Return Assumption | | | <u>4.00%</u> |

Sensitivity Analysis

The following table represents the Office's proportionate share of the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.56%, as well as what the Office's proportionate share of the net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

Net OPEB Liability (continued)

Sensitivity Analysis (continued)

| Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Single Discount Rate | | | |
|---|-------------------------------|--|-------------------------------|
| OPEB Trust | 1.00% Decrease (2.56%) | Current Discount Rate (3.56%) | 1.00% Increase (4.56%) |
| SCRHITF | \$ 8,248,295 | \$ 7,003,745 | \$ 6,000,123 |

Regarding the sensitivity of the Office's proportionate share of SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the Office's proportionate share of the net OPEB liability, calculated using the assumed trend rates as well as what the Office's proportionate share of the net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

| Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate | | | |
|---|-----------------------|---|-----------------------|
| OPEB Trust | 1.00% Decrease | Current Healthcare Cost Trend Rate | 1.00% Increase |
| SCRHITF | \$ 5,743,266 | \$ 7,003,745 | \$ 8,635,495 |

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2018, the Office recognized OPEB expense of \$426,284. At June 30, 2018, the Office reported deferred outflows and inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| OPEB contributions subsequent to measurement date | \$ 245,628 | \$ — |
| Differences in actual and expected plan experience | — | 3,040 |
| Changes in assumptions | — | 659,010 |
| Net differences between projected and actual earnings on plan investments | 12,034 | — |
| | \$ 257,662 | \$ 662,050 |

Contributions subsequent to the measurement date of \$245,628 were reported as deferred outflows of resources related to OPEB and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows. Average remaining services lives of all employees provided with OPEB through the June 30, 2017 was 7.246 years for SCRHITF:

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

OPEB Expense and Deferred Outflows and Inflows of Resources (continued)

| Measurement Period Ending June 30, | Fiscal Year Ending June 30, | SCRHITF |
|---------------------------------------|--------------------------------|--------------|
| 2018 | 2019 | \$ (102,987) |
| 2019 | 2020 | (102,987) |
| 2020 | 2021 | (102,987) |
| 2021 | 2022 | (102,987) |
| 2022 | 2023 | (105,996) |
| Thereafter | | (132,072) |

Other Employee Benefits

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

11. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Office’s financial statements. Compensation deferred under the plans is placed in trust for the contributing employee. The Office has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. The Office made no contributions for the fiscal year ended June 30, 2018.

12. Risk Management

The Office is exposed to various risks of loss including theft of, damage to, or destruction of assets, general torts and maintains State insurance coverage for non-owned motor vehicles and general torts. The Office did not incur any losses during the fiscal year ended June 30, 2018.

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

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

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

12. Risk Management

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 \$21,584 to the IRF for insurance premiums during the fiscal year ended June 30, 2018.

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

13. Transactions with State Entities / Related Parties

The Office had significant transactions with the State and various State agencies. The Office purchases goods and services from various State agencies. Total purchases from State agencies were \$2,761,610 for the fiscal year ended June 30, 2018. Payments totaling \$1,376 for the fiscal year ended June 30, 2018 were also made to another agency for unemployment insurance.

The Office is statutorily mandated to provide services or perform duties related to court fines, Local Government Investment Pool, decommissioning trusts, debt, investments, unclaimed property and college savings plans. Total revenues earned by the Office for those services were \$7,300,008 for the fiscal year ended June 30, 2018.

The Office provided no material services free of charge to other State agencies during the fiscal year ended June 30, 2018. The Office participates in the statewide dual employment program. Workers' compensation insurance premiums of \$12,974 were paid to the State Accident Fund during fiscal year 2018.

14. Unclaimed Property Program

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

The Office receives an actuarial valuation for the liability it has to refund the unclaimed property it has received. The liability for the unclaimed property refund is based on historical and expected payout frequencies and other relative factors. For the fiscal year ended June 30, 2018, the estimated liability was \$225,721,710. The amount of cash held by the UPP was \$128,933,778. In the event that the amount of refunds requested exceeds the amount of cash in the UPP, the State would be required to fund the difference. Therefore, the Office has recorded a receivable in the amount of \$96,787,932 from the State's General Fund which represents the excess of the liability over the amount of cash held by the UPP. This receivable is recorded in Amounts Due from Other State Agencies in the Agency Funds in the Statement of Fiduciary Net Position – Fiduciary Funds.

South Carolina Office of the State Treasurer
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

The Office implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (“GASB No. 75”), during the fiscal year ended June 30, 2018.

The primary objective of GASB No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also improves information provided by state and local government employers about financial support for OPEB that are provided by other entities. In addition, state and local governments who participate in a cost sharing multiple employer plan are now required to recognize a liability for their proportionate share of the net OPEB liability of the plan.

In particular, GASB No. 75 requires the Office to recognize a net OPEB liability (and related deferred outflows and inflows of resources) for its participation in the State’s Retiree Health Plan on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures which can be found in Note 10.

The implementation of GASB No. 75 resulted in the restatement of net position reported as of June 30, 2017 as presented below:

| | |
|--|------------------------|
| Net position at July 1, 2017, as originally reported | \$ (7,165,667) |
| The Office’s share of the net OPEB liability | (7,481,295) |
| Deferred outflow of resources for OPEB contributions made after the measurement date | <u>212,813</u> |
| Net position at July 1, 2017, as restated | <u>\$ (14,434,149)</u> |

The Office also implemented GASB Statement No. 85, *Omnibus 2017* (“GASB No. 85”) during the fiscal year ended June 30, 2018. The primary objective of GASB No. 85 was to address a variety of topics, including the timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements using the current financial resources measurement focus and recognizing on-behalf payments for pension or OPEB in employer financial statements.

As a result of the implementation of GASB No. 85, the Office recognized revenues and expenditures in the amount of \$55,299 for on-behalf payments made to the State’s OPEB plan during the fiscal year ended June 30, 2018. No restatement of fund balance or net position was required as a result of the implementation of this standard.

16. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition and disclosure through January 10, 2019, 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 Other Funds
 For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|----------------------|----------------------|--|
| | Original | Final | | |
| Expenditures: | | | | |
| Programs and Services | | | | |
| Personnel Services | | | | |
| Classified Positions | \$ 2,644,387 | \$ 2,852,854 | \$ 2,852,854 | \$ - |
| Unclassified Positions | 221,340 | 319,208 | 319,208 | - |
| Other Personnel Services | 75,000 | 262,110 | 262,110 | - |
| Other Operating Expenditures | 3,403,339 | 2,734,508 | 2,729,230 | 5,278 |
| Total Programs and Services | <u>6,344,066</u> | <u>6,168,680</u> | <u>6,163,402</u> | <u>5,278</u> |
| Employee Benefits – Employer Contributions | 1,015,820 | 1,191,205 | 1,191,205 | - |
| Special Items – Student Loans - Student Loan Corporation | <u>-</u> | <u>4,694,880</u> | <u>4,694,880</u> | <u>-</u> |
| Total Expenditures | <u>\$ 7,359,886</u> | <u>\$ 12,054,765</u> | <u>\$ 12,049,487</u> | <u>\$ 5,278</u> |

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

South Carolina Office of the State Treasurer
 Supplementary Information
 Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis
 X22 - State Treasurer's Office Budgetary General Funds
 For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-----------------------|-----------------------|-----------------------|--|
| | Original | Final | | |
| Expenditures: | | | | |
| Aid to Subdivisions | | | | |
| Fire Districts | \$ 16,496,453 | \$ 1,629,233 | \$ 765,288 | \$ 863,945 |
| Local Government Fund | 222,619,411 | 220,306,729 | 220,306,729 | - |
| Planning Districts | 556,253 | 556,253 | 556,253 | - |
| County Veterans' Offices | 268,482 | 268,482 | 268,482 | - |
| State Agencies | - | 2,312,682 | 2,312,682 | - |
| Fire Departments – Premium Tax | - | 4,126,968 | 4,126,968 | - |
| Fire Departments – Brokers Premium | - | 12,116,951 | 12,116,951 | - |
| Classified Positions | - | 270 | 270 | - |
| Total Aid to Subdivisions | 239,940,599 | 241,317,568 | 240,453,623 | 863,945 |
| Aid to Subdivisions - Grants | | | | |
| Clerks of Court | 72,450 | 72,450 | 72,450 | - |
| Probate Judges | 72,450 | 72,450 | 72,450 | - |
| Sheriffs | 72,450 | 72,450 | 72,450 | - |
| Register of Deeds | 33,075 | 44,494 | 44,494 | - |
| Coroners | 72,450 | 72,450 | 72,450 | - |
| Auditors | 1,388,087 | 967,700 | 967,700 | - |
| Treasurers | 1,388,086 | 967,612 | 967,612 | - |
| Employer Contributions | 19,265 | 854,050 | 854,050 | - |
| Total Aid to Subdivisions - Grants | 3,118,313 | 3,123,656 | 3,123,656 | - |
| Total Expenditures | \$ 243,058,912 | \$ 244,441,224 | \$ 243,577,279 | \$ 863,945 |

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

South Carolina Office of the State Treasurer
Notes to Required Supplementary Information
Budgetary Comparison Schedules
For the Year Ended June 30, 2018

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 SFAA approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the SFAA. Due to the Office's ability to transfer appropriations, the budgetary comparison schedule for the State Treasurer's Office Budgetary General Funds shows no variance between final budgeted amounts and actual expenditures on the budgetary basis of accounting. The overall increase in appropriations for the E16 - State Treasurer's Office Budgetary General Funds, E16 - State Treasurer's Office Budgetary Other Funds, and X22 - State Treasurer's Office Budgetary General Funds were approved by the SFAA.

2. Original and Final Budgeted Amounts; Basis of Presentation

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

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

3. Legal Level of Budgetary Control

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

South Carolina Office of the State Treasurer
Notes to Required Supplementary Information
Budgetary Comparison Schedules
For the Year Ended June 30, 2018

4. Basis of Budgeting

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

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

- Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 12.
- Revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel taxes and gas taxes, which are not received by the Office's General Fund, State Treasurer's Office Earmarked Fund, or Aid to Subdivisions Fund in the accompanying schedules.

5. Reconciliation of Budget to GAAP Reporting Differences

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

Reconciliation of Budgetary Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2018

| | General Fund | State Treasurer's Office Earmarked Fund | Aid to Subdivisions Fund |
|--|--------------|---|--------------------------------|
| Total expenditures, budgetary basis | \$ 1,993,683 | \$ 12,049,487 | \$ 243,577,279 |
| Basis of accounting differences: | | | |
| Accounts payable considered expenditures of the prior budget period | (489) | (2,077) | - |
| Nonemployer OPEB contributions are considered expenditures for GAAP | 14,708 | 40,591 | - |
| Other basis differences | - | 533 | 5 |
| Total expenditures, GAAP basis | \$ 2,007,902 | \$ 12,088,534 | \$ 243,577,284 |

South Carolina Office of the State Treasurer
Schedule of the South Carolina Office of the State Treasurer's
Proportionate Share of the Net Pension Liability -
South Carolina Retirement System
June 30, 2018

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|
| The Office's proportion of the net pension liability | 0.04262% | 0.03812% | 0.03788% | 0.03706% | 0.03706% |
| The Office's proportionate share of the net pension liability | \$ 9,594,898 | \$ 8,143,017 | \$ 7,183,556 | \$ 6,380,503 | \$ 6,647,242 |
| The Office's covered employee payroll during the measurement period | \$ 4,659,256 | \$ 3,802,026 | \$ 3,628,165 | \$ 3,364,584 | \$ 3,321,241 |
| The Office's proportionate share of the net pension liability as percentage of covered payroll | 205.93% | 214.18% | 197.99% | 189.64% | 200.14% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.30% | 52.91% | 56.99% | 59.90% | 56.40% |

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

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2009 through 2013 is not readily available.

South Carolina Office of the State Treasurer
Schedule of the South Carolina Office of the State Treasurer's Contributions -
South Carolina Retirement System
For the Year Ended June 30, 2018

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 619,310 | \$ 538,610 | \$ 420,503 | \$ 395,470 | \$ 356,646 |
| Contributions in relation to the contractually required contribution | <u>619,310</u> | <u>538,610</u> | <u>420,503</u> | <u>395,470</u> | <u>356,646</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| The Office's covered payroll | \$ 4,567,183 | \$ 4,659,256 | \$ 3,802,026 | \$ 3,628,165 | \$ 3,364,584 |
| Contributions as a percentage of covered payroll | 13.56% | 11.56% | 11.06% | 10.90% | 10.60% |
| | <u>2013</u> | <u>2012</u> | | | |
| Contractually required contribution | \$ 352,051 | \$ 299,385 | | | |
| Contributions in relation to the contractually required contribution | <u>352,051</u> | <u>299,385</u> | | | |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | | | |
| The Office's covered payroll | \$ 3,321,241 | \$ 3,139,861 | | | |
| Contributions as a percentage of covered-employee payroll | 10.60% | 9.54% | | | |

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2009 through 2011 is not readily available.

South Carolina Office of the State Treasurer
 Required Supplementary Information -
 Schedule of the South Carolina Office of the State Treasurer's
 Proportionate Share of the Net OPEB Liability –
 South Carolina Health Insurance Trust Fund
 For the Year Ended June 30, 2018

| | <u>2018</u> | <u>2017</u> |
|---|--------------|--------------|
| The Office's proportion of the net OPEB liability | 0.05171% | 0.05171% |
| The Office's proportionate share of the net OPEB liability | \$ 7,003,745 | \$ 7,481,295 |
| The Office's covered employee payroll during the measurement period | \$ 4,360,368 | \$ 3,802,026 |
| The Office's proportionate share of the net OPEB liability as percentage of covered payroll | 160.62% | 196.77% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 7.60% | 6.62% |

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

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2009 through 2016 is not readily available.

South Carolina Office of the State Treasurer
 Required Supplementary Information -
 Schedule of the South Carolina Office of the State Treasurer's Contributions –
 South Carolina Health Insurance Trust Fund
 For the Year Ended June 30, 2018

| | <u>2018</u> | <u>2017</u> |
|---|----------------|----------------|
| Contractually required contribution | \$ 245,628 | \$ 212,813 |
| Contributions in relation to the contractually required contribution | <u>245,628</u> | <u>212,813</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| | | |
| The Office's covered payroll | \$ 4,465,964 | \$ 3,992,739 |
| Contributions as a percentage of covered payroll | 5.50% | 5.33% |

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2009 through 2016 is not readily available.

**Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based On An Audit of Financial Statements
Performed In Accordance With *Government Auditing Standards***

The Honorable Curtis M. Loftis, Jr.
South Carolina Office of the State Treasurer
And
Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer (the “Office”), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Office’s basic financial statements, and have issued our report thereon dated January 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Office’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Columbia, South Carolina
January 10, 2019

South Carolina Office of the State Treasurer
 Schedule of Findings and Responses
 For the Year Ended June 30, 2018

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Section II. Financial Statement Findings Yes X None reported