

South Carolina Office of the State Treasurer

Report on Financial Statements

*For the Year Ended June 30, 2021*



December 13, 2021

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

This report on the audit of the financial statements of the South Carolina Office of the State Treasurer for the fiscal year ended June 30, 2021, was issued by The Hobbs Group, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III, CPA  
State Auditor

GLKIII/trb

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## INDEPENDENT AUDITORS' REPORT

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

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer (the "Office"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Office's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## EMPHASIS OF MATTERS

### *Implementation of New Accounting Standard and Restatement of Net Position*

As discussed in Note 15 to the financial statements, in 2021, the Office implemented GASB Statement No. 84, *Fiduciary Activities*. As a result, net position was restated as of the beginning of the fiscal year. Our opinion is 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, 2021 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. Our opinion is not modified with respect to this matter.

## OTHER MATTERS

### *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 December 13, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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  
December 13, 2021

*The Halle Group, P.A.*

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2021

Management's Discussion and Analysis ("MD&A") of the South Carolina Office of the State Treasurer (the "Office") provides an overview of the Office's financial activities for the fiscal year ended June 30, 2021.

## **FINANCIAL HIGHLIGHTS**

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

These financial statements do not include the transactions or balances from the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the "Related Entities") and all debt service transactions related to obligations of the State of South Carolina (the "State"), its agencies, departments, and political subdivisions. The financial statements of the Related Entities were audited by other auditors as of and for the fiscal year ended June 30, 2021.

As of and for the fiscal year ended June 30, 2021:

- The Office's total net deficit increased by \$1,586,406, and its liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources (net deficit) by \$17,701,457.
- The Office received \$264,841,073 in appropriations from the State, substantially all of which was disbursed for general operations, student loans, and aid to subdivisions.
- The Office held \$2,061,330,674 of cash in a custodial capacity.

## **USING THESE AUDITED FINANCIAL STATEMENTS**

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

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

Government-wide financial statements include a Statement of Net Position and a Statement of Activities. These financial statements display information about the Office as a whole. The government-wide financial statements of the Office are presented on the accrual basis of accounting and provide short-term and long-term information about the Office. The residual measure of the government is net position (deficit) and represents assets and deferred outflows of resources that are greater (less) than liabilities and deferred inflows of resources.

### **Fund Financial Statements:**

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

The Office provides banking and investment services for state agencies. The assets held by the Office on behalf of the State and local governments are reported in the Fiduciary Funds along with amounts held in trust for private purposes. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented on the accrual basis of accounting.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2021

**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, 2021 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, 2021 using the accrual basis of accounting.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
STATEMENT OF NET POSITION

	2021	2020
Current Assets	\$ 2,640,578	\$ 4,872,648
Capital Assets	34,231	79,483
Total Assets	2,674,809	4,952,131
Deferred Outflows of Resources	4,967,322	2,635,854
Current Liabilities	2,062,505	4,109,046
Noncurrent Liabilities	22,551,534	18,714,026
Total Liabilities	24,614,039	22,823,072
Deferred Inflows of Resources	729,549	879,964
Net Investment in Capital Assets	17,240	(4,360)
Restricted Net Position	681,666	912,565
Unrestricted Net Deficit	(18,400,363)	(17,023,256)
Total Net Deficit	\$ (17,701,457)	\$ (16,115,051)

For the fiscal year ended June 30, 2021, current assets decreased by \$2,232,070 and current liabilities decreased by \$2,046,541 primarily due to the disbursement of previously retained cash balances for aid to subdivisions. The funds were being held until State legislation clarified proper distribution of the funds. Noncurrent liabilities increased by \$3,837,508 due to increases in the Office's net pension and OPEB liabilities, which are based on the Office's proportionate share of pension related amounts associated with the State's retirement and health plans.



South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2021

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

SOUTH CAROLINA OFFICE OF THE STATE TREASURER  
STATEMENT OF ACTIVITIES

	2021	2020
Expenses		
Personnel Services	\$ 8,976,534	\$ 8,440,888
Travel	16,376	22,681
Supplies and Materials	547,793	502,751
Contracted Services	1,962,532	1,444,032
Depreciation	65,628	65,667
Student Loans – Student Loan Corporation	6,050,827	5,046,292
Rent	264,370	268,966
Interest Expense	3,570	8,052
Aid to Subdivisions	255,862,928	256,162,337
Total Expenses	273,750,558	271,961,666
General Revenues		
State Appropriations	264,841,073	264,115,124
Fines and Penalties	87,317	89,771
Investment Management Fees	2,500,000	2,500,000
Grant Revenue	48,976	-
Revenue from Other State Agencies	5,502,088	5,566,677
Total General Revenues	272,979,454	272,271,572
Transfers		
Remission to State General Fund	(815,302)	(787,568)
Total General Revenues and Transfers	272,164,152	271,484,004
Change in Net Deficit	(1,586,406)	(477,662)
Net Deficit, July 1	(16,115,051)	(15,637,389)
Net Deficit, June 30	\$ (17,701,457)	\$ (16,115,051)

General revenues of the Office are largely dependent upon appropriations from the State Legislature. For the fiscal year ended June 30, 2021, appropriations to the Office for South Carolina Teacher Loan program were increased by the State Legislature therefore, State Appropriations revenues increased as a result. The Office also added several members to its staff which, along with an increase in pension and postemployment benefits expense, personnel services expense for the fiscal year ended June 30, 2021 increased by \$535,646. Student loan expenditures increased by \$1,004,535 for the fiscal year ended June 30, 2021 due to annual loan limits for the South Carolina Teacher Loan program being increased. Lastly, remissions to the State General Fund increased from the fiscal year ended June 30, 2020 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, 2021, which amounted to \$815,302, which was greater than the amount of unspent appropriations for the year ended June 30, 2020.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2021

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

The Office received \$264,841,073 in appropriations from the State Legislature. These appropriations were spent for three purposes. The amount of \$2,112,016 was spent primarily on the operations of the Office. The amount of \$255,862,928 was disbursed as aid to various governmental subdivisions throughout the State. The amount of \$6,050,827 was spent on student loans. This resulted in \$815,302 of appropriations unspent, which were remitted to the State General Fund.

**Capital Assets:**

There were capital asset additions of \$20,376 during the year ended June 30, 2021. Depreciation expense was \$65,628 for the year ended June 30, 2021.

**Noncurrent Liabilities:**

The Office's noncurrent liabilities consist of capital leases, compensated absences, and its proportionate share of the State of South Carolina's net pension and net OPEB liabilities related to the South Carolina Retirement System ("SCRS"). The Office made principal payments on its capital leases of \$66,852 which reduced the balance outstanding from \$83,843 at June 30, 2020 to \$16,991 at June 30, 2021. The compensated absences liability includes accrued annual leave earned for which employees are entitled to paid time off or payment at termination. Compensated absences used or transferred to another agency during the fiscal year were \$418,545 while another \$458,430 were accrued which caused the balance to increase from \$879,785 at June 30, 2020 to \$919,670 at June 30, 2021.

The Office's net pension liability has been recorded in accordance with GASB Statement No. 68 and represents the Office's share of the State's net pension liability related to the SCRS. The net pension liability as of June 30, 2020 was \$9,697,767 and at June 30, 2021, it had increased to \$11,434,388. The increase is due to a relative increase in participants applicable to the Office. GASB Statement No. 68 does not affect the Office's required contributions to the net pension liability. See Note 9 to the financial statements for additional information regarding the Office's pension plan.

The Office is also required to record its proportionate share of the net OPEB liability in accordance with GASB Statement No. 75 and represents the Office's share of the State's net OPEB liability related to the State's Retiree Health Insurance Trust Fund. The net OPEB liability as of June 30, 2020 was \$8,201,310 and increased to \$10,283,006 at June 30, 2021, also due to a relative increase in participants applicable to the Office. See Note 10 to the financial statements for additional information regarding the Office's OPEB plan.

**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. Due to differences in budgetary cutoff dates and the modified accrual basis of accounting, there was a deficit fund balance of \$1,072 for the General Fund.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2021

**Fund Highlights (Continued):**

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 \$815,302 in State appropriations in the Aid to Subdivisions Fund that were not distributed during the fiscal year ended June 30, 2021. Of this surplus, all was remitted back to the State General Fund after the end of the fiscal year, resulting in no change in fund balance and an ending fund balance of \$0. The State Treasurer's Office Earmarked Fund accounts for revenues and transfers of appropriations earmarked for specific Office operations. As required by the earmark provisions, these amounts can only be spent on specific operational expenditures of the Office, and therefore, the remaining fund balance is considered restricted. Expenditures exceeded revenues by \$230,899 during the fiscal year ended June 30, 2021 resulting in an ending fund balance of \$681,666.

**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 to as *Other Budgeted Funds*.

The Office's budget for E160 General Funds was originally \$2,050,808 for the fiscal year ended June 30, 2021. This compares to a final budgeted amount of \$2,112,016. The increase was primarily due to a budgeted increase in unclassified positions, other personal services, and other operating expenditures offset by budgeted reductions in classified positions. Actual expenditures, on the budgetary basis, totaled \$2,112,016. These actual expenditures were in line with the final budgeted amount.

The Office's budget for E160 Other Budgetary Funds was originally \$7,891,061 for the fiscal year ended June 30, 2021. This compares to a final budgeted amount of \$14,521,887. 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 \$6,050,827. Actual expenditures, on the budgetary basis, totaled \$14,371,854. These actual expenditures were under budget by \$150,033 due to other operating expenditures being less than budgeted.

The Office's budget for X220 General Funds was originally \$254,264,510 for the fiscal year ended June 30, 2021. This compares to a final budgeted amount of \$259,375,146. The primary reason for the increase from the original to final budgeted amount was an increase in amounts budgeted to be distributed as aid to various subdivisions. Actual expenditures, on the budgetary basis, totaled \$258,559,844. These actual expenditures were \$815,302 less than the final budgeted amount. The Office's Aid to Subdivisions Fund only receives General Fund appropriations. Therefore, amounts are not budgeted for X220 Other Budgetary Funds.

South Carolina Office of the State Treasurer  
Management's Discussion and Analysis  
For the Year Ended June 30, 2021

**Current Economic Conditions:**

In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's effect on the Office will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. Should COVID-19 have a significant impact on future appropriations from the State Legislature, it could have a related impact on the Office's revenues, however, at this time the Office is not currently aware of any significant anticipated effects of COVID-19.

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, 2021

**Assets**

Current Assets:

Cash	\$ 2,640,578
Total Current Assets	2,640,578

Capital Assets, Net	34,231
Total Assets	2,674,809

**Deferred Outflows of Resources**

Deferred Outflows of Resources Related to Pensions	2,220,490
Deferred Outflows of Resources Related to OPEB	2,746,832
Total Deferred Outflows of Resources	4,967,322

**Liabilities**

Current Liabilities:

Accounts Payable	1,144,682
Due to State General Fund	815,302
Capital Leases Payable, Current	16,991
Compensated Absences, Current	85,530
Total Current Liabilities	2,062,505

Noncurrent Liabilities:

Net Pension Liability	11,434,388
Net OPEB Liability	10,283,006
Compensated Absences	834,140
Total Noncurrent Liabilities	22,551,534
Total Liabilities	24,614,039

**Deferred Inflows of Resources**

Deferred Inflows of Resources Related to Pensions	61,813
Deferred Inflows of Resources Related to OPEB	667,736
Total Deferred Inflows of Resources	729,549

**Net Deficit**

Net Investment in Capital Assets	17,240
Restricted	681,666
Unrestricted	(18,400,363)
Total Net Deficit	\$ (17,701,457)

*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, 2021

**Expenses**

Personnel Services	\$ 8,976,534
Travel	16,376
Supplies and Materials	547,793
Contracted Services	1,962,532
Student Loans – Student Loan Corporation	6,050,827
Rent	264,370
Interest Expense	3,570
Depreciation	65,628
Aid to Subdivisions	<u>255,862,928</u>
Total Expenses	<u>273,750,558</u>

**General Revenues**

State Appropriations	264,841,073
Fines and Penalties	87,317
Investment Management Fees	2,500,000
Grant Revenue	48,976
Revenue from Other State Agencies	<u>5,502,088</u>
Total General Revenues	<u>272,979,454</u>

**Transfers**

Remission to State General Fund	<u>(815,302)</u>
Total General Revenues and Transfers	<u>272,164,152</u>

Change in Net Deficit	(1,586,406)
Net Deficit, July 1, 2020	<u>(16,115,051)</u>
Net Deficit, June 30, 2021	<u>\$ (17,701,457)</u>

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

South Carolina Office of the State Treasurer  
Balance Sheet  
Governmental Funds  
June 30, 2021

	<u>General Fund</u>	<u>Aid to Subdivisions Fund</u>	<u>State Treasurer's Office Earmarked Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash	\$ 10,810	\$ 1,891,704	\$ 738,064	\$ -	\$ 2,640,578
Due from Other Fund	-	-	6,844	-	6,844
Total Assets	<u>\$ 10,810</u>	<u>\$ 1,891,704</u>	<u>\$ 744,908</u>	<u>\$ -</u>	<u>\$ 2,647,422</u>
<b>Liabilities</b>					
Accounts Payable	\$ 5,038	\$ 1,076,402	\$ 63,242	\$ -	\$ 1,144,682
Due to Other Fund	6,844	-	-	-	6,844
Due to State General Fund	-	815,302	-	-	815,302
Total Liabilities	<u>11,882</u>	<u>1,891,704</u>	<u>63,242</u>	<u>-</u>	<u>1,966,828</u>
<b>Fund Balances</b>					
Restricted:					
State Provisos	-	-	681,666	-	681,666
Unassigned	(1,072)	-	-	-	(1,072)
Total Fund Balances (Deficits)	<u>(1,072)</u>	<u>-</u>	<u>681,666</u>	<u>-</u>	<u>680,594</u>
Total Liabilities and Fund Balances	<u>\$ 10,810</u>	<u>\$ 1,891,704</u>	<u>\$ 744,908</u>	<u>\$ -</u>	<u>\$ 2,647,422</u>

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

South Carolina Office of the State Treasurer  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
 June 30, 2021

Total fund balance, governmental funds \$ 680,594

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net position. This amount reflects gross capital assets of \$217,378 net of accumulated depreciation of \$183,147. 34,231

The net pension and net OPEB liabilities 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	(11,434,388)
Deferred outflows of resources related to pensions	2,220,490
Deferred inflows of resources related to pensions	(61,813)
Net OPEB liability	(10,283,006)
Deferred outflows of resources related to OPEB	2,746,832
Deferred inflows of resources related to OPEB	(667,736)

Capital lease liabilities are not due and payable in the current year and are not included in the fund statements (16,991)

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. (919,670)

Net deficit of governmental activities in the Statement of Net Position \$ (17,701,457)

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



South Carolina Office of the State Treasurer  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2021

	<u>General Fund</u>	<u>Aid to Subdivisions Fund</u>	<u>State Treasurer's Office Earmarked Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
State Appropriations	\$ 2,112,016	\$ 256,678,230	\$ 6,050,827	\$ —	\$ 264,841,073
Fines and Penalties	—	—	87,317	—	87,317
Investment Management Fees	—	—	2,500,000	—	2,500,000
Grant Revenues	—	—	—	48,976	48,976
Revenue from Other State Agencies	18,520	—	5,559,536	—	5,578,056
Total Revenues	<u>2,130,536</u>	<u>256,678,230</u>	<u>14,197,680</u>	<u>48,976</u>	<u>273,055,422</u>
<b>Expenditures</b>					
Personnel Services	1,913,780	—	5,762,403	—	7,676,183
Travel	2,095	—	14,281	—	16,376
Supplies and Materials	19,877	—	485,193	42,723	547,793
Contracted Services	131,695	—	1,824,584	6,253	1,962,532
Capital Outlay	—	—	20,376	—	20,376
Debt Service, Principal	22,512	—	44,340	—	66,852
Debt Service, Interest	1,268	—	2,302	—	3,570
Student Loans – Student Loan Corporation	—	—	6,050,827	—	6,050,827
Rent	40,097	—	224,273	—	264,370
Aid to Subdivisions	—	255,862,928	—	—	255,862,928
Total Expenditures	<u>2,131,324</u>	<u>255,862,928</u>	<u>14,428,579</u>	<u>48,976</u>	<u>272,471,807</u>
Revenues Over (Under) Expenditures	<u>(788)</u>	<u>815,302</u>	<u>(230,899)</u>	<u>—</u>	<u>583,615</u>
<b>Other Financing Sources (Uses)</b>					
Remission to State General Fund	—	(815,302)	—	—	(815,302)
Total Other Financing Sources (Uses)	—	(815,302)	—	—	(815,302)
Net Change In Fund Balance	(788)	—	(230,899)	—	(231,687)
Fund Balance, July 1, 2020	(284)	—	912,565	—	912,281
Fund Balance, June 30, 2021	<u>\$ (1,072)</u>	<u>\$ —</u>	<u>\$ 681,666</u>	<u>\$ —</u>	<u>\$ 680,594</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, 2021

Total change in fund balance, governmental funds	\$	(231,687)
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		816,900
Current year OPEB plan contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities		328,125
Purchases of capital assets are reported as expenditures in the governmental funds		20,376
Repayment of capital lease liabilities are reported as expenditures in the governmental funds while governmental activities reports these payments as reductions in liabilities		66,852
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:		
Depreciation		(65,628)
Increase in pension expense due to changes in the net pension liability and related deferred outflows and inflows of resources		(1,664,650)
Increase in OPEB expense due to changes in the net OPEB liability and related deferred outflows and inflows of resources		(816,809)
Increase in compensated absences		(39,885)
		<hr style="border-top: 1px solid black;"/>
Increase in net deficit, governmental activities	\$	<u><u>(1,586,406)</u></u>

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

South Carolina Office of the State Treasurer  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2021

	<b>Private Purpose Trust Funds</b>	<b>Custodial Funds</b>
<b>Assets</b>		
Current Assets:		
Cash	\$ 20,778,812	\$ 2,061,330,674
Amounts Due from Other State Agencies	245,872	188,616,161
Total Current Assets	21,024,684	2,249,946,835
Noncurrent Assets:		
Capital Assets:		
Land and Land Improvements	3,874,100	-
Buildings and Improvements	1,643,925	-
Equipment	490,520	-
Vehicles	113,222	-
Accumulated Depreciation	(1,802,161)	-
Total Noncurrent Assets	4,319,606	-
Total Assets	\$ 25,344,290	\$ 2,249,946,835
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable	\$ 824,906	\$ -
Amounts Due to Local Governments and State Agencies	-	452,670,787
Unclaimed Property Refunds	-	226,473,563
Total Current Liabilities	824,906	679,144,350
Total Liabilities	824,906	679,144,350
<b>Net Position</b>		
Net Investment in Capital Assets	4,319,606	-
Restricted for:		
Individuals, Organizations, and Other Governments	-	1,570,802,485
Disaster Relief	14,579,270	-
Springdale Fund	1,050,653	-
Aid to Subdivisions	494,831	-
Other Purposes	4,075,024	-
Total Net Position	24,519,384	1,570,802,485
Total Liabilities and Net Position	\$ 25,344,290	\$ 2,249,946,835

*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, 2021

	<b>Private Purpose Trust Funds</b>	<b>Custodial Funds</b>
<b>Additions:</b>		
Fines, Fees, and Settlements	\$ 105,285	\$ 87,869,794
Sales and Use Taxes	2,719,226	1,690,225,773
Contributions	23,048	-
Interest and Investment Income	371,140	6,931,919
Additions from Other State Agencies	829,826	551,361,276
Total Additions	4,048,525	2,336,388,762
<b>Deductions:</b>		
State Allocations	2,716,886	1,614,611,272
Disbursements to Individuals, Organizations, and Other Governments	-	168,135,677
Depreciation	70,118	-
Contracted Services	97,949	1,964,777
Disbursement to Devisee	21,459	-
Other Expenses	2,015	-
Total Deductions	2,908,427	1,784,711,726
Change in Net Position	1,140,098	551,677,036
Net Position, July 1, 2020, as restated for adoption of GASB 84	23,379,286	1,019,125,449
Net Position, June 30, 2021	\$ 24,519,384	\$ 1,570,802,485

*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, 2021

**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, 2021.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

**B. 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 a custodial 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, 2021, the Office received \$1,995,000 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 a custodial fund.

**Fund Financial Statements**

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

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

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

**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 and a major 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 is a major fund that accounts for revenues and transfers of appropriations earmarked for specific Office operations or restricted for student loan expenditures.
- *COVID Grant Fund* – This fund is a nonmajor special revenue fund that accounts for the revenues and expenditures associated with the Office’s COVID Relief grant. It is presented as an other governmental fund.

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.
- *Custodial Funds* – These funds are used to account for assets held by the Office in a custodial 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:

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

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

- 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.

**Capital Assets**

The Office’s capital assets are reported in its governmental activities and fiduciary type activities. The Office’s capital assets reported in its governmental activities consist primarily of equipment for the day to day operations of the Office. The capital assets reported in the fiduciary type activities are managed in trust for the benefit of others are reported in the Statement of Fiduciary Net Position – Fiduciary Funds.

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



South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

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

**Compensated Absences**

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the Office's working days of the month are entitled to accrue and carry forward, at calendar year-end maximums, 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 Local Governments and State Agencies**

Due to Local Governments and State Agencies reported in the Statement of Fiduciary Net Position – Fiduciary Funds represents amounts held by the Office in its Custodial 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. This liability represents amounts held by the Office and the beneficiary has made a demand for the funds or there is no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

**Unclaimed Property Refunds**

The Office holds unclaimed property refunds, or escheated property, in a custodial capacity; unclaimed property refunds are reported in the Custodial 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:

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

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

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

*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 and outstanding liability balances associated with the capital assets. As of June 30, 2021, the Office held \$34,231 of capital assets and reported outstanding capital lease obligations \$16,991, resulting in a net investment in capital assets of \$17,240. The Office also reported net investment in capital assets of \$4,319,606 in the Private Purpose Trust Funds.

Restricted net position

Restricted net position consists 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, 2021, the Office reported \$681,666 of restricted net position in its governmental funds. The Office reported \$24,519,384 of restricted net position in its private purpose trust funds as of June 30, 2021 which is restricted based on the terms of the trust agreement. Finally, the Office reported \$1,570,802,485 of restricted net position in its custodial funds as of June 30, 2021, which is restricted for the individuals, organizations, or other governments that are the beneficiaries for the funds held by the Office.

Unrestricted net position

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

*Fund Balance*

The Office 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:

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

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

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

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, 2021, 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. Nearly 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, 2021, 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, 2021, the Office did not have any assigned fund balance.

Unassigned fund balance

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

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

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

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

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, 2021, the Office reported a deficit unassigned fund balance of \$1,072.

**Deficit Net Position and Fund Balance**

The Office reported unrestricted net deficit of \$18,400,363 which is due primarily to its proportionate share of the net pension and OPEB liabilities of \$21,717,394 (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. The Office also reported deficit fund balance in its General Fund of \$1,072 which will be funded by revenues and State appropriations in the year ending June 30, 2022.

**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.

**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 and Custodial Funds generally consist of payments for the administration and decommissioning of a nuclear plant.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

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

**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. State Allocations expenses in the Custodial Funds generally consist of payments to municipalities or other local governments for their allocated share of various taxes and fees.

**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, 2021.

**C. Recently Issued Accounting Pronouncements**

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of this Statement were extended and are effective for reporting periods beginning after June 15, 2021. Earlier adoption is permitted. The Office is evaluating the effect, if any, this statement will have on its financial statements.

In January 2020, the GASB issued GASB No. 92, Omnibus 2020. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including leases and benefit plans. This statement contains segmented implementation that was extended and is effective for reporting periods beginning after June 15, 2021. The Office is evaluating the effect, if any, this statement will have on its financial statements.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

**2. Budget Policy**

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

Transfers of funds may be approved by the State 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.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

**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, 2021 was \$2,500,000.

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

At June 30, 2021, the Private Purpose Trust Funds and Custodial Funds held receivables due from other State agencies. The following is a summary of the amounts due from other State agencies:

	<b>Private Purpose Trust Funds</b>	<b>Custodial Funds</b>
Selective Sales and Use Taxes	\$ 218,010	\$ 29,490,492
Accommodations Tax / Tourism Fee	—	35,979,936
Local Option Sales Tax	—	71,199,732
Motor Carrier / Road Use Fees	—	6,890,892
Tobacco Products Playing Card Tax	—	10,438,470
Insurance Settlements	—	30,912,798
Unclaimed Property	—	2,038,983
Mini-bottle Tax	—	1,263,195
Miscellaneous Revenue	27,862	401,663
Total Amounts Due from Other State Agencies	\$ 245,872	\$ 188,616,161

**6. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2021 for Governmental Activities was as follows:

	Beginning Balance June 30, 2020	Increases	Decreases	Ending Balance June 30, 2021
<b>Governmental Activities:</b>				
Capital assets being depreciated:				
Office Equipment	\$ 197,002	\$ 20,376	\$ -	\$ 217,378
Less accumulated depreciation for:				
Office Equipment	(117,519)	(65,628)	-	(183,147)
Total capital assets being depreciated, net	\$ 79,483	\$ (45,252)	\$ -	\$ 34,231

Capital asset activity for the fiscal year ended June 30, 2021 for the Private Purpose Trust Funds was as follows:

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**6. Capital Assets (Continued)**

	Beginning Balance June 30, 2020	Increases	Decreases	Ending Balance June 30, 2021
<b>Private purpose trust funds:</b>				
Capital assets not being depreciated:				
Land and land improvements	\$ 3,874,100	\$ -	\$ -	\$ 3,874,100
Total capital assets not being depreciated	3,874,100	-	-	3,874,100
Capital assets being depreciated:				
Buildings and improvements	1,643,925	-	-	1,643,925
Equipment	467,472	23,048	-	490,520
Vehicles	113,222	-	-	113,222
Total capital assets being depreciated	2,224,619	23,048	-	2,247,667
Less accumulated depreciation for:				
Buildings and improvements	(1,214,886)	(53,149)	-	(1,268,035)
Equipment	(403,935)	(16,969)	-	(420,904)
Vehicles	(113,222)	-	-	(113,222)
Total accumulated depreciation	(1,732,043)	(70,118)	-	(1,802,161)
Total capital assets being depreciated, net	492,576	(47,070)	-	445,506
Total capital assets for private purpose trust funds, net	<u>\$ 4,366,676</u>	<u>\$ (47,070)</u>	<u>\$ -</u>	<u>\$ 4,319,606</u>

**7. Amounts Due to Local Governments and State Agencies**

At June 30, 2021, the Custodial Funds held amounts due to local governments. The following is a summary of the amounts due to local governments:

	<u>Custodial Funds</u>
Local Option, Sales, and Accommodation Taxes	\$ 334,251,161
Motor Carrier Fees	8,732,769
Tobacco Products Playing Card Tax	101,535,951
Mini Bottle Tax	1,883,998
Miscellaneous Amounts	6,266,908
Total Amounts Due to Local Governments	<u>\$ 452,670,787</u>



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**8. Long-term Liabilities**

Long-term liabilities consist of compensated absences and capital leases. Long-term liability activity for the year ended June 30, 2021 for the primary government was as follows:

	Beginning Balance June 30, 2020	Increases	Decreases	Ending Balance June 30, 2021	Current Portion
Compensated absences	\$ 879,785	\$ 458,430	\$ (418,545)	\$ 919,670	\$ 85,530
Capital leases	83,843	-	(66,852)	16,991	16,991
	<u>\$ 963,628</u>	<u>\$ 458,430</u>	<u>\$ (485,397)</u>	<u>\$ 936,661</u>	<u>\$ 102,521</u>

The Office entered into several capital leases for the use of office and data processing equipment during the year ended June 30, 2019. The gross balance of the assets purchased under capital leases was \$197,002. Current year and accumulated amortization of those assets was \$65,628 and \$183,147, respectively, for the year ended June 30, 2021. Amortization of these assets is reported as depreciation expense in the Statement of Activities. Interest rates on the capital leases range from 6.29% to 7.29%. Estimated future rental payments under the capital leases are as follows:

Fiscal Year Ending June 30, 2022	\$ 17,035
Less portion of payments representing interest	(44)
Total capital lease principal	<u>\$ 16,991</u>

**9. Pension Plan**

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

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**9. Pension Plan (Continued)**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues an Annual Comprehensive Financial Report (Annual Report) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The Annual Report is publicly available through the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the annual comprehensive financial report of the state.

**Plan Descriptions**

- The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.
- The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts and individuals first elected to the S.C. General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

*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.

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**9. Pension Plan (Continued)**

**Plan Descriptions (Continued)**

*Membership (Continued)*

- State ORP - As an alternative to membership in SCRS, certain newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider 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/current annual salary. A brief summary of the benefit terms for each system is presented below.

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

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**9. Pension Plan (Continued)**

**Plan Descriptions (Continued)**

*Contributions*

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS. The legislation also increased employer contribution rates beginning July 1, 2017 for SCRS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with State statute. However, the General Assembly postponed the one percent increase in the SCRS contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS contribution rates until the funded ratio is at least 85 percent. 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 85 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 85 percent. 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 85 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 85 percent.

Required employee contribution rates<sup>1</sup> are as follows:

	<u>Fiscal Year 2021</u>	<u>Fiscal Year 2020</u>
<b>SCRS</b>		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%
<b>State ORP</b>		
Employee	9.00%	9.00%

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**9. Pension Plan (Continued)**

**Plan Descriptions (Continued)**

*Contributions (Continued)*

Required employer contribution rates<sup>1</sup> are as follows:

	<b>Fiscal Year 2021</b>	<b>Fiscal Year 2020</b>
<b>SCRS</b>		
Employer Class Two	15.41%	15.41%
Employer Class Three	15.41%	15.41%
Employer Incidental Death Benefit	0.15%	0.15%
	<b>Fiscal Year 2021</b>	<b>Fiscal Year 2020</b>
<b>State ORP</b>		
Employer Contribution <sup>2</sup>	15.41%	15.41%
Employer Incidental Death Benefit	0.15%	0.15%

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

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

The Office has contributed \$816,900 and \$806,426 to the SCRS and ORP for the years ended June 30, 2021 and 2020, respectively.

**Actuarial Assumptions and Methods**

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019 for first use in the July 1, 2021 actuarial valuation.

The June 30, 2020, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2019. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2020, using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2020.

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**9. Pension Plan (Continued)**

**Actuarial Assumptions and Methods (Continued)**

	<b>SCRS</b>
Actuarial cost method	Entry age normal
Investment rate of return <sup>1</sup>	7.25%
Projected salary increases <sup>1</sup>	3.0% to 12.5% (varies by service)
Benefit adjustments	lesser of 1% or \$500 annually
<sup>1</sup> 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, 2020, 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%

**Net Pension Liability**

The NPL is calculated separately for each system and represents that particular system’s TPL determined in accordance with GASB No. 67 less that System’s fiduciary net position. NPL totals, as of June 30, 2020, for SCRS is presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers’ Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 51,844,187,763	\$ 26,292,418,682	\$ 25,551,769,081	50.7%

The TPL is calculated by the Systems’ actuary, and each plan’s fiduciary net position is reported in the Systems’ financial statements. The NPL is disclosed in accordance with the requirements of GASB 67 in the Systems’ notes to the financial statements and required supplementary information. Liability calculations performed by the Systems’ actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans’ funding requirements.

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**9. Pension Plan (Continued)**

**Net Pension Liability (Continued)**

The Office's proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the year ending June 30, 2020, the Office's percentage of the SCRS net pension liability was 0.04247%. For the year ending June 30, 2021, the Office's percentage of the SCRS net pension liability was 0.04475%. The Office's proportionate share is determined by its percentage of total contributions to SCRS during the respective fiscal year. The change in percentage resulted in the Office recognizing a change in its proportionate share of the SCRS net pension liability at related deferred outflows and inflows of resources.

*Discount Rate*

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

*Long-term Expected Rate of Return*

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2020 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 below. 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.

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**9. Pension Plan (Continued)**

**Net Pension Liability (Continued)**

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

<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>
<b>Global Equity</b>	<b>51.0%</b>		
Global Public Equity <sup>1,2</sup>	35.0%	7.81%	2.73%
Private Equity <sup>2,3</sup>	9.0%	8.91%	0.80%
Equity Options Strategies <sup>1</sup>	7.0%	5.09%	0.36%
<b>Real Assets</b>	<b>12.0%</b>		
Real Estate (Private) <sup>2,3</sup>	8.0%	5.55%	0.44%
Real Estate (REITs) <sup>2</sup>	1.0%	7.78%	0.08%
Infrastructure (Private) <sup>2,3</sup>	2.0%	4.88%	0.10%
Infrastructure (Public) <sup>2</sup>	1.0%	7.05%	0.07%
<b>Opportunistic</b>	<b>8.0%</b>		
Global Tactical Asset Allocation <sup>1</sup>	7.0%	3.56%	0.25%
Other Opportunistic Strategies	1.0%	4.41%	0.04%
<b>Credit</b>	<b>15.0%</b>		
High Yield Bonds/ Bank Loans <sup>1,2</sup>	4.0%	4.21%	0.17%
Emerging Markets Debt	4.0%	3.44%	0.14%
Private Debt <sup>2,3</sup>	7.0%	5.79%	0.40%
<b>Rate Sensitive</b>	<b>14.0%</b>		
Core Fixed Income <sup>1</sup>	13.0%	1.60%	0.21%
Cash and Short Duration (Net)	1.0%	0.56%	0.01%
Total Expected Real Return <sup>4</sup>	<u>100.0%</u>		<u>5.80%</u>
Inflation for Actuarial			<u>2.25%</u>
Total Expected Nominal			<u>8.05%</u>

<sup>1</sup> Portable Alpha Strategies will be capped at 12% of total assets; Hedge funds (including all hedge funds used in portable alpha implementation) capped at 20% of total assets.

<sup>2</sup> The target weights to Private Equity, Private Debt, Private Infrastructure and Private Real Estate will be equal to their actual weights as of prior month end. Private Equity and Public Equity combine for 44 percent of entire portfolio. Private Debt and High Yield/Bank Loans combine for 11 percent of the entire portfolio. Private Infrastructure and Public Infrastructure combine for 3 percent of the entire portfolio. Private Real Estate and Real Estate (REITs) combine for 9 percent of entire portfolio.

<sup>3</sup> RSIC staff and Consultant will notify the Commission if Private Markets assets exceed 25% of total assets.

<sup>4</sup> The expected return for each of the Portable Alpha asset classes includes the expected return attributed to the Overlay Program. For benchmarking purposes there is a 10% weight assigned to Portable Alpha Hedge Funds in the Policy Benchmark.



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**9. Pension Plan (Continued)**

**Net Pension Liability (Continued)**

*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.

<b>Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate</b>			
<b>System</b>	<b>1.00% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1.00% Increase (8.25%)</b>
SCRS	\$ 14,171,522	\$ 11,434,388	\$ 9,148,848

**Deferred Outflows (Inflows) of Resources**

For the year ended June 30, 2021, the Office recognized pension expense of \$1,664,650 which is included in employer fringe benefits in the accompanying financial statements. At June 30, 2021, 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, 2020 was 3.984 years for SCRS:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 816,900	\$ —
Differences in actual and expected plan experience	131,938	43,238
Change in proportionate share and differences between the Office's contributions and proportionate share of contributions	416,548	18,575
Changes in assumptions	14,009	—
Net differences between projected and actual earnings on plan investments	841,095	—
	<u>\$ 2,220,490</u>	<u>\$ 61,813</u>

<u>Measurement Period Ending June 30,</u>	<u>Fiscal Year Ending June 30,</u>	<u>SCRS</u>
2021	2022	\$ 306,563
2022	2023	402,013
2023	2024	418,570
2024	2025	214,631

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**9. Pension Plan (Continued)**

**Deferred Outflows (Inflows) of Resources (Continued)**

The Office reported \$816,900 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, 2022.

**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 SFAA, 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.

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](http://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 annual comprehensive 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.

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**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 the postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves.

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2020 was 6.25 percent. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF 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. Non-employer contributions include the mandatory transfer of accumulated PEBA – Insurance Benefits’ reserves and the annual appropriation budgeted by the General Assembly. It is also funded through investment income.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trust, and additions to and deductions from the OPEB Trust fiduciary net position have been determined on the same basis as they were reported by the OPEB Trust. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

**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.

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.

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

**Actuarial Assumptions and Methods (continued)**

Additional information as of the latest actuarial valuation for SCRHITF:

<b>Valuation Date:</b>	June 30, 2019
<b>Actuarial Cost Method:</b>	Entry Age Normal
<b>Inflation:</b>	2.25%
<b>Investment Rate of Return:</b>	2.75%, net of OPEB Plan investment expense; including inflation
<b>Single Discount Rate:</b>	2.45% as of June 30, 2020
<b>Demographic Assumptions:</b>	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015
<b>Mortality:</b>	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.
<b>Health Care Trend Rate:</b>	Initial trend starting at 6.40% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
<b>Retiree Participation:</b>	79% for retirees who are eligible for funded premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
<b>Notes:</b>	The discount rate changed from 3.13% as of June 30, 2019 to 2.45% as of June 30, 2020; updates were also made to the healthcare trend rate assumption, including an adjustment to reflect the repeal of the "Cadillac Tax".

**Roll Forward Disclosures**

The actuarial valuation was performed as of June 30, 2019. Update procedures were used to roll forward the total OPEB liability to June 30, 2020, the Office's measurement date for its liability as of June 30, 2021.

**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.

The following table represents the components of the net OPEB liability as of June 30, 2020:

<u>OPEB Trust</u>	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>	<u>Plan Fiduciary Net Position as a % of Total OPEB Liability</u>
SCRHITF	\$ 19,703,745,672	\$ 1,652,299,185	\$ 18,051,446,487	8.39%

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

**Net OPEB Liability (Continued)**

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.

At June 30, 2021, the Office reported a liability of \$10,283,006 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward to June 30, 2020. 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, 2021 and 2020, the Office's proportion was 0.056965% and 0.054236%, respectively.

*Single Discount Rate*

The Single Discount Rate of 2.45% 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 return 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 2018 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. This information is summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long Term 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%	0.60%	0.48%
Cash	20.00%	0.35%	0.07%
Total Expected Real Return	<u>100.0%</u>		<u>0.55%</u>
Expected Inflation			<u>2.25%</u>
Total Return			<u>2.80%</u>
Investment Return Assumption			<u>2.75%</u>

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

*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 2.45%, 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:

<b>Sensitivity of the Proportionate Share of Net OPEB Liability to Changes in the Single Discount Rate</b>			
<b>OPEB Trust</b>	<b>1.00% Decrease (1.45%)</b>	<b>Current Discount Rate (2.45%)</b>	<b>1.00% Increase (3.45%)</b>
SCRHITF	\$ 12,269,691	\$ 10,283,006	\$ 8,695,497

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:

<b>Sensitivity of the Proportionate Share of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate</b>			
<b>OPEB Trust</b>	<b>1.00% Decrease</b>	<b>Current Healthcare Cost Trend Rate</b>	<b>1.00% Increase</b>
SCRHITF	\$ 8,323,107	\$ 10,283,006	\$ 12,856,919

**OPEB Expense and Deferred Outflows and Inflows of Resources**

For the year ended June 30, 2021, the Office recognized OPEB expense of \$816,809. At June 30, 2021, 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	\$ 328,125	\$ —
Differences in actual and expected plan experience	294,103	234,181
Changes in assumptions	1,530,240	409,522
Changes in proportion and differences in contributions	594,364	48
Net differences between projected and actual earnings on plan investments	—	23,985
	\$ 2,746,832	\$ 667,736

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

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

Contributions subsequent to the measurement date of \$328,125 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, 2022. 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, 2020 was 7.139 years for SCRHITF:

<u>Measurement Period</u> <u>Ending June 30,</u>	<u>Fiscal Year Ending</u> <u>June 30,</u>	<u>SCRHITF</u>
2021	2022	\$ 258,162
2022	2023	258,162
2023	2024	254,847
2024	2025	337,631
2025	2026	331,219
Thereafter		310,950

*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, 2021.

**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, 2021, 2020, or 2019.

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

**12. Risk Management (Continued)**

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

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

The IRF is self-insured and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF’s rates are determined actuarially. The Office paid \$40,696 to the IRF for insurance premiums during the fiscal year ended June 30, 2021.

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 \$1,519,603 for the fiscal year ended June 30, 2021. Of the total purchases from State Agencies, payments totaling \$159 for the fiscal year ended June 30, 2021 were also made to another agency for unemployment insurance. Workers’ compensation insurance premiums of \$11,421 were paid to the State Accident Fund during fiscal year 2021.

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 \$8,059,536 for the fiscal year ended June 30, 2021.

The Office provided no material services free of charge to other State agencies during the fiscal year ended June 30, 2021. The Office participates in the statewide dual employment program.

**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.



South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

**14. Unclaimed Property Program (continued)**

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, 2021, the estimated liability was \$226,473,563. The amount of cash held by the UPP was \$224,434,580. 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 \$2,038,983 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 Custodial Funds in the Statement of Fiduciary Net Position – Fiduciary Funds. In addition to the cash held by the UPP, securities are also subject to unclaimed property regulations. The Office does not take control of the securities until those securities are liquidated into cash. As a result, the securities and corresponding liability are not recorded by the Office. As of June 30, 2021, the amount of securities that have been remitted to the UPP, but not controlled by the Office, was \$63,991,120 with an associated actuarial liability of \$38,202,699.

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

The Office implemented GASB Statement No. 84, *Fiduciary Activities*, effective July 1, 2020. The statement establishes criteria for identifying fiduciary activities of all state and local governments and provides guidance on how to report fiduciary activities within the financial statements. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement also describes four fiduciary funds that should be reported if criteria outlined in the statement are met: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The use of agency funds was eliminated. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. As part of implementing the statement, the Office performed a comprehensive review of its fiduciary relationships and applied the criteria within the guidance. As a result, net position was restated as of the beginning of the fiscal year as follows:

	Private Purpose Trust Funds	Custodial Funds
Net position as originally reported at June 30, 2020	\$ 20,634,115	\$ -
Implementation of GASB No. 84	2,745,171	1,019,125,449
Net position as restated at June 30, 2020	\$ 23,379,286	\$ 1,019,125,449
Due to depositors, as originally reported at June 30, 2020	\$ -	\$ 1,104,974,221
Implementation of GASB No. 84	-	(1,019,125,449)
Amounts due to local governments and state agencies at June 30, 2020 (line item renamed from due to depositors)	\$ -	\$ 85,848,772

South Carolina Office of the State Treasurer  
Notes to the Financial Statements  
For the Year Ended June 30, 2021

**16. Subsequent Events**

In preparing these financial statements, management has evaluated events and transactions for potential recognition and disclosure through December 13, 2021, the date these financial statements were available to be issued.

South Carolina Office of the State Treasurer  
 Required Supplementary Information  
 Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis  
 E160 - State Treasurer's Office Budgetary General Funds  
 For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Administration				
Personnel Services				
State Treasurer	\$ 92,007	\$ 92,007	\$ 92,007	\$ -
Classified Positions	66,122	80,000	80,000	-
Other Operating Expenditures	14,115	-	-	-
Total Administration	<u>172,244</u>	<u>172,007</u>	<u>172,007</u>	<u>-</u>
Programs and Services				
Personnel Services				
Classified Positions	1,239,371	959,912	959,912	-
Unclassified Positions	-	180,000	180,000	-
Other Personnel Services	-	68,940	68,940	-
Other Operating Expenditures	77,641	216,756	216,756	-
Total Programs and Services	<u>1,317,012</u>	<u>1,425,608</u>	<u>1,425,608</u>	<u>-</u>
Employee Benefits – Employer Contributions	<u>561,552</u>	<u>514,401</u>	<u>514,401</u>	<u>-</u>
Total Expenditures	<u>\$ 2,050,808</u>	<u>\$ 2,112,016</u>	<u>\$ 2,112,016</u>	<u>\$ -</u>

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

South Carolina Office of the State Treasurer  
Required Supplementary Information  
Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis  
E160 - State Treasurer's Office Budgetary Other Funds  
For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Programs and Services				
Personnel Services				
Classified Positions	\$ 2,644,387	\$ 3,710,217	\$ 3,710,217	\$ -
Unclassified Positions	221,340	290,000	290,000	-
Other Personnel Services	75,000	137,807	137,807	-
Other Operating Expenditures	3,653,339	2,766,107	2,616,074	150,033
Total Programs and Services	6,594,066	6,904,131	6,754,098	150,033
Employee Benefits – Employer Contributions	1,296,995	1,566,929	1,566,929	-
Special Items – Student Loans -				
Student Loan Corporation	-	6,050,827	6,050,827	-
Total Expenditures	<u>\$ 7,891,061</u>	<u>\$ 14,521,887</u>	<u>\$ 14,371,854</u>	<u>\$ 150,033</u>

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

South Carolina Office of the State Treasurer  
 Required Supplementary Information  
 Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis  
 X220 - State Treasurer's Office Budgetary General Funds  
 For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Aid to Subdivisions				
Fire Districts	\$ 16,496,453	\$ 4,018,151	\$ 3,202,849	\$ 815,302
Local Government Fund	233,740,696	231,428,014	231,428,014	-
Planning Districts	556,253	556,253	556,253	-
County Veterans' Offices	271,167	273,851	273,851	-
State Agencies	-	2,312,682	2,312,682	-
Fire Departments – Premium Tax	-	12,430,384	12,430,384	-
Fire Departments – Brokers Premium	-	5,093,973	5,093,973	-
Total Aid to Subdivisions	<u>251,064,569</u>	<u>256,113,308</u>	<u>255,298,006</u>	<u>815,302</u>
Aid to Subdivisions - Grants				
Clerks of Court	72,450	72,450	72,450	-
Probate Judges	72,450	72,450	72,450	-
Sheriffs	72,450	72,450	72,450	-
Register of Deeds	33,075	36,225	36,225	-
Coroners	72,450	72,450	72,450	-
Auditors	1,412,094	986,841	986,841	-
Treasurers	1,412,093	983,810	983,810	-
Coroners - Local Child Fatality Review Team	1	-	-	-
Employer Contributions	52,878	965,162	965,162	-
Total Aid to Subdivisions - Grants	<u>3,199,941</u>	<u>3,261,838</u>	<u>3,261,838</u>	<u>-</u>
Total Expenditures	<u>\$ 254,264,510</u>	<u>\$ 259,375,146</u>	<u>\$ 258,559,844</u>	<u>\$ 815,302</u>

*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, 2021

**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 E160 - State Treasurer's Office Budgetary General Funds, E160 - State Treasurer's Office Budgetary Other Funds, and X220 - 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, 2021

**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, 2021

	General Fund	State Treasurer's Office Earmarked Fund	Aid to Subdivisions Fund
Total expenditures, budgetary basis	\$ 2,112,016	\$ 14,371,854	\$ 258,559,844
Basis of accounting differences:			
Accounts payable considered expenditures of the period the expenditure was incurred	789	(725)	(2,696,916)
Nonemployer OPEB contributions are considered expenditures for GAAP	18,520	57,449	-
Other basis differences	(1)	1	-
Total expenditures, GAAP basis	\$ 2,131,324	\$ 14,428,579	\$ 255,862,928

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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
The Office's proportion of the net pension liability	0.04475%	0.04247%	0.04228%	0.04262%	0.03812%
The Office's proportionate share of the net pension liability	\$ 11,434,388	\$ 9,697,767	\$ 9,473,601	\$ 9,594,898	\$ 8,143,017
The Office's covered employee payroll during the measurement period	\$ 5,182,686	\$ 4,671,216	\$ 4,567,183	\$ 4,659,256	\$ 3,802,026
The Office's proportionate share of the net pension liability as percentage of covered payroll	220.63%	207.61%	207.43%	205.93%	214.18%
Plan fiduciary net position as a percentage of the total pension liability	50.70%	54.40%	54.10%	53.30%	52.91%
	<u>2016</u>	<u>2015</u>	<u>2014</u>		
The Office's proportion of the net pension liability	0.03788%	0.03706%	0.03706%		
The Office's proportionate share of the net pension liability	\$ 7,183,556	\$ 6,380,503	\$ 6,647,242		
The Office's covered employee payroll during the measurement period	\$ 3,628,165	\$ 3,364,584	\$ 3,321,241		
The Office's proportionate share of the net pension liability as percentage of covered payroll	197.99%	189.64%	200.14%		
Plan fiduciary net position as a percentage of the total pension liability	56.99%	59.90%	56.40%		

Note: The amounts presented above were determined as of June 30<sup>th</sup> of the preceding year. This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2012 and 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, 2021

	2021	2020	2019	2018	2017
Contractually required contribution	\$ 816,900	\$ 806,426	\$ 680,129	\$ 619,310	\$ 538,610
Contributions in relation to the contractually required contribution	816,900	806,426	680,129	619,310	538,610
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Office's covered payroll	\$ 5,250,000	\$ 5,182,686	\$ 4,671,216	\$ 4,567,183	\$ 4,659,256
Contributions as a percentage of covered payroll	15.56%	15.56%	14.56%	13.56%	11.56%
	2016	2015	2014	2013	2012
Contractually required contribution	\$ 420,503	\$ 395,470	\$ 356,646	\$ 352,051	\$ 299,385
Contributions in relation to the contractually required contribution	420,503	395,470	356,646	352,051	299,385
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Office's covered payroll	\$ 3,802,026	\$ 3,628,165	\$ 3,364,584	\$ 3,321,241	\$ 3,139,861
Contributions as a percentage of covered-employee payroll	11.06%	10.90%	10.60%	10.60%	9.54%

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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
The Office's proportion of the net OPEB liability	0.05697%	0.05424%	0.05347%	0.05171%	0.05171%
The Office's proportionate share of the net OPEB liability	\$ 10,283,006	\$ 8,201,310	\$ 7,576,870	\$ 7,003,745	\$7,481,295
The Office's covered employee payroll during the measurement period	\$ 5,182,688	\$ 4,671,207	\$ 4,465,964	\$ 3,992,739	\$3,802,026
The Office's proportionate share of the net OPEB liability as percentage of covered payroll	198.41%	175.57%	169.66%	175.41%	196.77%
Plan fiduciary net position as a percentage of the total OPEB liability	8.39%	8.44%	7.91%	7.60%	6.62%

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

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2012 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, 2021

	2021	2020	2019	2018	2017
Contractually required contribution	\$ 328,125	\$ 323,918	\$ 282,608	\$ 245,628	\$ 212,813
Contributions in relation to the contractually required contribution	328,125	323,918	282,608	245,628	212,813
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 The Office's covered payroll	 \$ 5,250,000	 \$ 5,182,688	 \$ 4,671,207	 \$ 4,465,964	 \$3,992,739
Contributions as a percentage of covered payroll	6.25%	6.25%	6.05%	5.50%	5.33%

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2012 through 2016 is not readily available.

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INDEPENDENT AUDITORS' 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer (the "Office") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 13, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

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

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

#### COMPLIANCE AND OTHER MATTERS

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

#### PURPOSE OF THIS REPORT

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

Columbia, South Carolina  
December 13, 2021

*The Hall Group, P.A.*