1. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

State law does not precisely define the budgetary process of accounting. The budget is prepared mostly on the cash basis with several exceptions. Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 20. State law does not require the use of encumbrance accounting. Because the legally prescribed budgetary basis differs materially from GAAP, actual amounts in the accompanying budgetary comparison statements are presented on the budgetary basis. A reconciliation of the differences between the budgetary basis is presented in *Note 2*.

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

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New GASB Pronouncement
June 30, 1999 Governmental Accounting Standards Board (GASB) issued Statement Number 34, "Basic Financial Statements - and Managements Discussion, and Analysis - for State and Local Governments". This statement will change the reporting model of governmental entities.

The requirements of this Statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999.

- Phase 1 governments with total annual revenues of $100 million or more should implement this Statement in financial statements for periods beginning after June 15, 2001.
- Phase 2 governments with total annual revenues of $10 million or more but less than $100 million should implement this Statement in financial statements for periods beginning after June 15, 2002.

- Phase 3 governments with total annual revenues less than $10 million should implement this Statement in financial statements for periods beginning after June 15, 2003.

1. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The State will implement this pronouncement for the fiscal year beginning July 1, 2001. The Office will follow the implementation schedule for the State.

Total Columns (Memorandum Only)
Total columns on the combined statements are captioned "memorandum only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

2. Budgetary Reporting Basis

Financial statements prepared on the legally enacted basis differ from GAAP basis statements. All of the Office's Special Revenue Fund resources are included in the total funds authorized by the General Assembly. The Combined Statement of Expenditures-Budget and Actual-All Budgeted Funds presented on page 5 present all funds for which a legal budget was enacted.

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

The following schedule reconciles the differences:

	Financial Statement Fund Type	Budgetary Fund Category
	Special Revenue	**Other**
Expenditures on GAAP basis	$ 5,294,048	$ -
Fund reclassification:		
Other budgeted funds	(5,294,048)	5,294,048
Expenditures on legal basis	$ -	$ 5,294,048

3. Other Budgeted Funds

The 2000-2001 original appropriations are the base budget amounts for the South Carolina Seniors' Prescription Drug Program budgetary units and are presented in the Total Funds column of Section 63B.IV.D of the Appropriations Act.

Proviso 63B.10 of the 2002 Appropriations Act cites the authority for the Office to carry forward unspent appropriations from fiscal year 2001 to expenditure in fiscal year 2002. The restricted purposes are noted in the captions for the referenced amounts on page 3.

Annual fiscal year 2001 appropriations of $2,705,952 for Seniors' Prescription Drug Program, is approved for carry forward to fiscal year 2002 for expenditure for the same purpose.

4. Investments and Deposits

As prescribed by Statute, the State Treasurer is the custodian and investment manager of all investments and deposits of the Office.

The following table presents the amortized cost and fair values of the long-term investments of the Office at June 30, 2001 and 2000.

	Amortized Cost		Fair Value	
	2001	**2000**	**2001**	**2000**
U. S. Treasury obligations	$ 22,416,409	$ 22,395,092	$ 28,735,327	$ 28,286,800
U. S. Government agencies and government-incurred securities	28,742,316	27,749,485	31,006,971	28,438,030
Corporate bonds	115,722,923	119,210,938	119,821,312	118,111,876
Financial and other	84,392,357	95,480,664	86,095,042	94,700,006
Total	$ 251,274,005	$ 264,836,179	$ 265,658,652	$ 269,536,712

4. Investments and Deposits (Continued)

At June 30, 2001, the amortized cost of the above investments was comprised of the following:

	Par Value	Unamortized Premiums	Unaccreted Discounts	Amortized Cost
U. S. Treasury obligations	$ 23,285,000	$ 27,952	$ 896,543	$ 22,416,409
U. S. Government agencies and government-incurred securities	30,631,906	-	1,889,590	28,742,316
Corporate bonds	119,345,000	467,862	4,089,939	115,722,923
Financial and other	84,700,000	866,384	1,174,027	84,392,357
Total	$ 257,961,906	$ 1,362,198	$ 8,050,099	$ 251,274,005

At June 30, 2000, the amortized cost of the above investments was comprised of the following:

	Par Value	Unamortized Premiums	Unaccreted Discounts	Amortized Cost
U. S. Treasury obligations	$ 23,285,000	$ 28,698	$ 918,606	$ 22,395,092
U. S. Government agencies and government-incurred securities	29,712,910	-	1,963,425	27,749,485
Corporate bonds	122,890,000	545,266	4,224,328	119,210,938
Financial and other	95,975,000	883,490	1,377,826	95,480,664
Total	$ 271,862,910	$ 1,457,454	$ 8,484,185	$ 264,836,179

The accounts classified as investments in the financial statements comprise investments held for the Office and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made. These investments are specific, identifiable investment securities, some of which may be included in one of the State Treasurer's investment pools.

4. Investments and Deposits (Continued)

The investment types listed above include all investment types in which monies were held as long-term investments throughout the fiscal year. For all investment classifications reported above, the balances therein fluctuated minimally in excess of the year-end balances throughout the years ended June 30, 2001 and 2000. As discussed in *Note 1*, GASB Statement Number 31 required investments reported at fair value. Therefore, gains and losses recognized due to market fluctuations are recognized as income on deposits and investments.

In accordance with State Law, the IRF and the HLDIRF may invest in a variety of instruments including obligations of the United States and its agencies and securities fully guaranteed by the United States, certain corporate obligations, certain shares of Federal savings and loan associations and State chartered savings and loan associations, and collateralized repurchase agreements. All investments are required to be insured or registered, or held by the State or its agent in the name of the State Treasurer as custodian.

The Office's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk.

(1) Insured or registered, or securities held by the government or its agent in the government's name.

(2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.

(3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At June 30, 2001 and 2000, all of the Office's long-term investments were in Category (1).

All deposits with financial institutions are required to be insured or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. At June 30, 2001 and 2000, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.